

HIGHLAND FUNDING PLC
(Incorporated in England and Wales with limited liability, registered number 06927392)

Class of Notes	Principal Amount	Issue Price	Interest rate	Ratings (S&P/Moody's)	Final Maturity Date
Class A-1 Notes	£4,485,000,000	100%	0.12% margin above Three-Month Sterling LIBOR	AAA/Aaa	December 2060
Class A-2 Notes	£1,565,000,000	100%	0.12% margin above Three-Month Sterling LIBOR	AAA/Aaa	December 2060

On 28 July 2009 (the **Closing Date**), the Issuer will issue asset backed floating rate notes (the **Notes**) in the classes set out above.

The principal asset from which the Issuer will make payments on the Notes is a pool of residential mortgages originated by Lloyds TSB Scotland plc (**LTSBS**) and secured over properties located in England, Wales and Scotland which will be purchased by the Issuer on the Closing Date and from time to time.

Interest will be payable quarterly in arrear on the 10th day of March, June, September and December in each year for all classes of Notes. See further the definition of Interest Payment Date.

Subject to the detailed description and limitations set out in Credit Structure, the Notes will have the benefit of credit enhancement and liquidity support comprising a general reserve fund, liquidity reserve fund, further advance fund and, in certain circumstances, a set-off reserve fund. The Issuer will enter into the Interest Rate Swap with LTSBS.

The Notes will be issued pursuant to a trust deed dated on or about the Closing Date (the **Trust Deed**) and secured pursuant to a deed of charge (the **Deed of Charge**) dated on or about the Closing Date, between, *inter alios*, the Issuer and Deutsche Trustee Company Limited (the **Security Trustee**).

The Notes will comprise the Class A-1 Notes and the Class A-2 Notes (the **Notes**). The Class A-1 Notes and the Class A-2 Notes will rank *pro rata* and *pari passu* in respect of principal repayments and interest payments at all times.

The Notes will be obligations of the Issuer only. The Notes will not be obligations of Lloyds TSB Bank plc (**Lloyds**), LTSBS or any of their affiliates.

Application has been made to the Financial Services Authority (the **FSA**) in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for the Notes to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market. The London Stock Exchange's Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**). This Prospectus comprises a prospectus for the purposes of EU Directive 2003/71/EC (the **Prospectus Directive**).

The Notes are expected to be assigned the ratings set out above on or about the Closing Date. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Notes are highly structured. Before you purchase any Notes, be sure that you understand the structure and the risks (see, in particular, the section herein entitled "*Risk Factors*").

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the Securities Act) or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States or to U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Notes are being offered, sold or delivered to Persons (other than U.S. Persons) (each as defined in Regulation S) outside the United States in reliance on Regulation S (Regulation S) under the Securities Act.

Arranger

Lloyds TSB Corporate Markets
The date of this Prospectus is 24 July 2009

IMPORTANT NOTICE

THE NOTES WILL BE OBLIGATIONS OF THE ISSUER ONLY. THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY PERSON OTHER THAN THE ISSUER. IN PARTICULAR, THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY OF THE SELLER, THE INTEREST RATE SWAP PROVIDER, THE SWAP GUARANTOR, THE ARRANGER, THE SERVICER, THE CASH MANAGER, THE ACCOUNT BANK, THE PARENT SUPPORT PROVIDER, THE LOAN FACILITY PROVIDER, THE NOTE TRUSTEE, THE SECURITY TRUSTEE (EACH AS DEFINED HEREIN), ANY COMPANY IN THE SAME GROUP OF COMPANIES AS ANY SUCH ENTITIES OR ANY OTHER PARTY TO THE TRANSACTION DOCUMENTS. NO LIABILITY WHATSOEVER IN RESPECT OF ANY FAILURE BY THE ISSUER TO PAY ANY AMOUNT DUE UNDER THE NOTES SHALL BE ACCEPTED BY ANY OF THE SELLER, THE INTEREST RATE SWAP PROVIDER, THE SWAP GUARANTOR, THE ARRANGER, THE SERVICER, THE CASH MANAGER, THE ACCOUNT BANK, THE PARENT SUPPORT PROVIDER, THE LOAN FACILITY PROVIDER, THE NOTE TRUSTEE, THE SECURITY TRUSTEE OR BY ANY PERSON OTHER THAN THE ISSUER.

The Notes of each Class will be represented on issue by a global note in registered form for each such Class of Notes (the **Global Notes**).

The Issuer will maintain a register, to be kept by the Registrar, in which it will register the Global Notes in the name of a nominee for the common depository (the **Common Depository**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**), as owner of the Global Notes. Transfers of all or any portion of the interests in the Global Notes may be made only through the register maintained by the Issuer. Each of Euroclear and Clearstream, Luxembourg will record the beneficial interests in the Global Notes (**Book-Entry Interests**). Book-Entry Interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear or Clearstream, Luxembourg, and their respective participants. Except in the limited circumstances described under "*Description of the Notes — Issuance of Definitive Notes*", the Notes will not be available in definitive form (the **Definitive Notes**). Definitive Notes will be issued in registered form only.

THE DISTRIBUTION OF THIS PROSPECTUS AND THE OFFERING OF THE NOTES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. NO REPRESENTATION IS MADE BY THE ISSUER, THE SELLER, THE NOTE TRUSTEE, THE SECURITY TRUSTEE OR THE ARRANGER THAT THIS PROSPECTUS MAY BE LAWFULLY DISTRIBUTED, OR THAT THE NOTES MAY BE LAWFULLY OFFERED, IN COMPLIANCE WITH ANY APPLICABLE REGISTRATION OR OTHER REQUIREMENTS IN ANY SUCH JURISDICTION, OR PURSUANT TO AN EXEMPTION AVAILABLE THEREUNDER, AND NONE OF THEM ASSUMES ANY RESPONSIBILITY FOR FACILITATING ANY SUCH DISTRIBUTION OR OFFERING. IN PARTICULAR, SAVE FOR OBTAINING THE APPROVAL OF THIS PROSPECTUS AS A PROSPECTUS FOR THE PURPOSES OF THE PROSPECTUS DIRECTIVE BY THE UK LISTING AUTHORITY, NO ACTION HAS BEEN OR WILL BE TAKEN BY THE ISSUER, THE SELLER, THE NOTE TRUSTEE, THE SECURITY TRUSTEE OR THE ARRANGER WHICH WOULD PERMIT A PUBLIC OFFERING OF THE NOTES OR DISTRIBUTION OF THIS PROSPECTUS IN ANY JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED. ACCORDINGLY, THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, AND NEITHER THIS PROSPECTUS NOR ANY ADVERTISEMENT OR OTHER OFFERING MATERIAL MAY BE DISTRIBUTED OR PUBLISHED, IN ANY JURISDICTION, EXCEPT UNDER CIRCUMSTANCES THAT WILL RESULT IN COMPLIANCE WITH ANY APPLICABLE LAWS AND REGULATIONS AND THE ARRANGER HAS REPRESENTED THAT ALL OFFERS AND SALES BY IT WILL BE MADE ON SUCH TERMS. PERSONS INTO WHOSE POSSESSION THIS PROSPECTUS COMES ARE REQUIRED BY THE ISSUER AND THE ARRANGER TO INFORM THEMSELVES ABOUT AND TO OBSERVE ANY SUCH RESTRICTIONS.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY STATE SECURITIES

LAWYERS AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (**REGULATION S**)) (**U.S. PERSONS**) EXCEPT PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON REALES OR TRANSFERS, SEE "*TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS*".

THE INITIAL AND EACH SUBSEQUENT PURCHASER OF THE NOTES WILL BE DEEMED BY ITS ACCEPTANCE OF SUCH NOTES TO HAVE MADE CERTAIN ACKNOWLEDGEMENTS, REPRESENTATIONS AND AGREEMENTS INTENDED TO RESTRICT THE RESALE OR OTHER TRANSFER OF THE NOTES AS SET FORTH THEREIN AND DESCRIBED IN THIS PROSPECTUS AND, IN CONNECTION THEREWITH, MAY BE REQUIRED TO PROVIDE CONFIRMATION OF ITS COMPLIANCE WITH SUCH RESALE AND OTHER TRANSFER RESTRICTIONS IN CERTAIN CASES. SEE "*TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS*".

NONE OF THE ISSUER OR THE ARRANGER MAKES ANY REPRESENTATION TO ANY PROSPECTIVE INVESTOR OR PURCHASER OF THE NOTES REGARDING THE LEGALITY OF INVESTMENT THEREIN BY SUCH PROSPECTIVE INVESTOR OR PURCHASER UNDER APPLICABLE LEGAL INVESTMENT OR SIMILAR LAWS OR REGULATIONS.

THE ISSUER ACCEPTS RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS PROSPECTUS. TO THE BEST OF ITS KNOWLEDGE (HAVING TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE), THE INFORMATION CONTAINED IN THIS PROSPECTUS IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. ANY INFORMATION SOURCED FROM THIRD PARTIES CONTAINED IN THIS PROSPECTUS HAS BEEN ACCURATELY REPRODUCED (AND IS CLEARLY SOURCED WHERE IT APPEARS IN THIS PROSPECTUS) AND, AS FAR AS THE ISSUER IS AWARE AND IS ABLE TO ASCERTAIN FROM INFORMATION PUBLISHED BY THAT THIRD PARTY, NO FACTS HAVE BEEN OMITTED WHICH WOULD RENDER THE REPRODUCED INFORMATION INACCURATE OR MISLEADING.

LLOYDS TSB SCOTLAND PLC ACCEPTS RESPONSIBILITY FOR THE INFORMATION SET OUT IN THE SECTIONS HEADED "LLOYDS TSB SCOTLAND PLC", "THE LOANS", AND "CHARACTERISTICS OF THE PORTFOLIO". TO THE BEST OF THE KNOWLEDGE AND BELIEF OF LLOYDS TSB SCOTLAND PLC (HAVING TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE), THE INFORMATION CONTAINED IN THE SECTIONS REFERRED TO IN THIS PARAGRAPH IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. NO REPRESENTATION, WARRANTY OR UNDERTAKING, EXPRESS OR IMPLIED, IS MADE AND NO RESPONSIBILITY OR LIABILITY IS ACCEPTED BY LLOYDS TSB SCOTLAND PLC AS TO THE ACCURACY OR COMPLETENESS OF ANY INFORMATION CONTAINED IN THIS PROSPECTUS (OTHER THAN IN THE SECTIONS REFERRED TO ABOVE) OR ANY OTHER INFORMATION SUPPLIED IN CONNECTION WITH THE NOTES OR THEIR DISTRIBUTION.

LLOYDS TSB BANK PLC ACCEPTS RESPONSIBILITY FOR THE INFORMATION SET OUT IN THE SECTION HEADED "LLOYDS TSB BANK PLC". TO THE BEST OF THE KNOWLEDGE AND BELIEF OF LLOYDS TSB BANK PLC (HAVING TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE), THE INFORMATION CONTAINED IN THE SECTION REFERRED TO IN THIS PARAGRAPH IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. NO REPRESENTATION, WARRANTY OR UNDERTAKING, EXPRESS OR IMPLIED, IS MADE AND NO RESPONSIBILITY OR LIABILITY IS ACCEPTED BY LLOYDS TSB BANK PLC AS TO THE ACCURACY OR COMPLETENESS OF ANY INFORMATION CONTAINED IN THIS PROSPECTUS (OTHER THAN IN THE SECTION REFERRED TO ABOVE) OR ANY OTHER INFORMATION SUPPLIED IN CONNECTION WITH THE NOTES OR THEIR DISTRIBUTION.

CHELTENHAM & GLOUCESTER PLC ACCEPTS RESPONSIBILITY FOR THE INFORMATION SET OUT IN THE SECTION HEADED "CHELTENHAM & GLOUCESTER PLC". TO THE BEST OF THE

KNOWLEDGE AND BELIEF OF CHELTENHAM & GLOUCESTER PLC (HAVING TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE), THE INFORMATION CONTAINED IN THE SECTION REFERRED TO IN THIS PARAGRAPH IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. NO REPRESENTATION, WARRANTY OR UNDERTAKING, EXPRESS OR IMPLIED, IS MADE AND NO RESPONSIBILITY OR LIABILITY IS ACCEPTED BY CHELTENHAM & GLOUCESTER PLC AS TO THE ACCURACY OR COMPLETENESS OF ANY INFORMATION CONTAINED IN THIS PROSPECTUS (OTHER THAN IN THE SECTION REFERRED TO ABOVE) OR ANY OTHER INFORMATION SUPPLIED IN CONNECTION WITH THE NOTES OR THEIR DISTRIBUTION.

DEUTSCHE TRUSTEE COMPANY LIMITED ACCEPTS RESPONSIBILITY FOR THE INFORMATION SET OUT IN THE SECTION HEADED "THE SECURITY TRUSTEE AND THE NOTE TRUSTEE". TO THE BEST OF THE KNOWLEDGE AND BELIEF OF DEUTSCHE TRUSTEE COMPANY LIMITED (HAVING TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE), THE INFORMATION CONTAINED IN THE SECTION REFERRED TO IN THIS PARAGRAPH IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. NO REPRESENTATION, WARRANTY OR UNDERTAKING, EXPRESS OR IMPLIED, IS MADE AND NO RESPONSIBILITY OR LIABILITY IS ACCEPTED BY DEUTSCHE TRUSTEE COMPANY LIMITED AS TO THE ACCURACY OR COMPLETENESS OF ANY INFORMATION CONTAINED IN THIS PROSPECTUS (OTHER THAN IN THE SECTION REFERRED TO ABOVE) OR ANY OTHER INFORMATION SUPPLIED IN CONNECTION WITH THE NOTES OR THEIR DISTRIBUTION.

NO PERSON IS AUTHORISED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFERING OR SALE OF THE NOTES OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY THE ISSUER, THE SELLER, THE NOTE TRUSTEE OR THE SECURITY TRUSTEE, THE ARRANGER, OR ANY OF THEIR RESPECTIVE AFFILIATES OR ADVISERS. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE OR ALLOTMENT MADE IN CONNECTION WITH THE OFFERING OF THE NOTES SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION OR CONSTITUTE A REPRESENTATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER OR THE SELLER OR IN THE OTHER INFORMATION CONTAINED HEREIN SINCE THE DATE HEREOF. THE INFORMATION CONTAINED IN THIS PROSPECTUS WAS OBTAINED FROM THE ISSUER AND THE OTHER SOURCES IDENTIFIED HEREIN, BUT NO ASSURANCE CAN BE GIVEN BY THE NOTE TRUSTEE, THE SECURITY TRUSTEE OR THE ARRANGER AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. NONE OF THE ARRANGER, THE NOTE TRUSTEE OR THE SECURITY TRUSTEE HAS SEPARATELY VERIFIED THE INFORMATION CONTAINED HEREIN. ACCORDINGLY, NONE OF THE NOTE TRUSTEE OR THE SECURITY TRUSTEE OR THE ARRANGER MAKES ANY REPRESENTATION, EXPRESS OR IMPLIED, OR ACCEPTS ANY RESPONSIBILITY, WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF ANY OF THE INFORMATION IN THIS PROSPECTUS. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THIS OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE CONTENTS OF THIS PROSPECTUS SHOULD NOT BE CONSTRUED AS PROVIDING LEGAL, BUSINESS, ACCOUNTING OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN LEGAL, BUSINESS, ACCOUNTING AND TAX ADVISERS PRIOR TO MAKING A DECISION TO INVEST IN THE NOTES.

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF, OR AN INVITATION BY OR ON BEHALF OF, THE ISSUER, THE SELLER OR THE ARRANGER OR ANY OF THEM TO SUBSCRIBE FOR OR PURCHASE ANY OF THE NOTES IN ANY JURISDICTION WHERE SUCH ACTION WOULD BE UNLAWFUL AND NEITHER THIS PROSPECTUS, NOR ANY PART THEREOF, MAY BE USED FOR OR IN CONNECTION WITH ANY OFFER TO, OR SOLICITATION BY, ANY PERSON IN ANY JURISDICTION OR IN ANY CIRCUMSTANCES IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORISED OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.

PAYMENTS OF INTEREST AND PRINCIPAL IN RESPECT OF THE NOTES WILL BE SUBJECT TO ANY APPLICABLE WITHHOLDING TAXES WITHOUT THE ISSUER OR ANY OTHER PERSON BEING OBLIGED TO PAY ADDITIONAL AMOUNTS THEREFOR.

IN THIS PROSPECTUS ALL REFERENCES TO **POUNDS, STERLING, GBP** AND **£** ARE REFERENCES TO THE LAWFUL CURRENCY FOR THE TIME BEING OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (THE **UNITED KINGDOM** OR **UK**). REFERENCES IN THIS PROSPECTUS TO **€, EUR** AND **EURO** ARE REFERENCES TO THE SINGLE CURRENCY INTRODUCED AT THE THIRD STAGE OF EUROPEAN ECONOMIC AND MONETARY UNION PURSUANT TO THE TREATY ESTABLISHING THE EUROPEAN COMMUNITIES AS AMENDED FROM TIME TO TIME.

Forward-Looking Statements

Certain matters contained herein are forward-looking statements. Such statements appear in a number of places in this Prospectus, including with respect to assumptions on prepayment and certain other characteristics of the Loans, and reflect significant assumptions and subjective judgments by the Issuer that may not prove to be correct. Such statements may be identified by reference to a future period or periods and the use of forward-looking terminology such as "may", "will", "could", "believes", "expects", "anticipates", "continues", "intends", "plans" or similar terms. Consequently, future results may differ from the Issuer's expectations due to a variety of factors, including (but not limited to) the economic environment and regulatory changes in the residential mortgage industry in the United Kingdom. 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. The Arranger has not attempted to verify any such statements, nor does it make any representations, express or implied, with respect thereto. Prospective purchasers should therefore not place undue reliance on any of these forward-looking statements. None of the Issuer nor the Arranger assumes any obligation to update these forward-looking statements or to update the reasons for which actual results could differ materially from those anticipated in the forward-looking statements.

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PARTIES AND PRINCIPAL FEATURES OF THE TRANSACTION

The following is an overview of the parties and the principal features of the Notes, the Loans and their Related Security and the Transaction Documents and is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Prospectus.

You should read the entire Prospectus carefully, especially the risks of investing in the Notes discussed under "Risk Factors".

Capitalised terms used, but not defined, in certain sections of this Prospectus, including this overview, may be found in other sections of this Prospectus, unless otherwise stated. An index of defined terms is set out at the end of this Prospectus.

The Parties

Issuer: Highland Funding plc is a public limited company incorporated under the laws of England and Wales with registered number 06927392 (the **Issuer**). The Issuer is a wholly owned subsidiary of Holdings in respect of its beneficial ownership. The Issuer was established as a special purpose entity for the purpose of, *inter alia*, issuing the Notes and using the gross proceeds of the Notes to acquire the Initial Portfolio from the Seller.

Holdings: Highland Funding (Holdings) Limited is a private limited company incorporated under the laws of England and Wales with registered number 06927383 (**Holdings**). The issued share capital of Holdings is held by SFM Corporate Services Limited as trustee (the **Share Trustee**) under the terms of a discretionary trust for discretionary purposes.

Seller: Lloyds TSB Scotland plc is a public limited company incorporated under the laws of Scotland with registered number SC095237 (**LTSBS**). LTSBS (in such capacity, the **Seller**) or its successors and assigns will enter into a mortgage sale agreement with the Issuer, the Servicer and the Security Trustee on or about the Closing Date (the **Mortgage Sale Agreement**). On the Closing Date, the Seller will sell its Loans comprising the Initial Portfolio to the Issuer pursuant to the terms of the Mortgage Sale Agreement. On any Sale Date occurring during the Revolving Period, the Seller may sell New Portfolios to the Issuer subject to the satisfaction of certain conditions. On the issue of any New Notes or Further Notes, to the extent that the proceeds thereof are not used to redeem any existing Class or Classes of Notes in whole or in part, then the proceeds thereof will be used by the Issuer to acquire New Portfolios from the Seller on the relevant Sale Date subject to the satisfaction of certain conditions.

Servicer: Cheltenham & Gloucester plc is a public limited company incorporated under the laws of England and Wales with registered number 02299428 (**C&G**). C&G (in such capacity, the **Servicer**) will enter into a servicing agreement with, *inter alios*, the Issuer, the Seller and the Security Trustee on or about the Closing Date (the **Servicing Agreement**). Pursuant to the terms of the Servicing Agreement, the Servicer will service the Loans sold by the Seller to the Issuer that comprise the Portfolio on behalf of the Issuer.

Cash Manager: C&G (in such capacity, the **Cash Manager**) will enter into a cash management agreement with the Issuer and the Security Trustee on or about the Closing Date (the **Cash Management Agreement**). The Cash

Manager will act as agent for the Issuer to manage all cash transactions and maintain certain ledgers on behalf of the Issuer.

Parent Support Provider: Lloyds TSB Bank plc (**Lloyds**) (in such capacity, the **Parent Support Provider**) will enter into a parent support deed with the Servicer, the Cash Manager, the Issuer and the Security Trustee (the **Parent Support Deed**) pursuant to which it will undertake to use its best efforts to procure that C&G performs its obligations as Servicer and Cash Manager.

Note Trustee: Deutsche Trustee Company Limited (in such capacity, the **Note Trustee**), will be appointed pursuant to a trust deed (the **Trust Deed**) to be entered into on or about the Closing Date between the Issuer and the Note Trustee to represent the interests of the holders of the Notes (the **Noteholders**).

Security Trustee: Deutsche Trustee Company Limited (in such capacity, the **Security Trustee**), will hold the security to be granted by the Issuer under the Deed of Charge for the benefit of, *inter alios*, the Noteholders and will be entitled to enforce the security granted in its favour under the Deed of Charge.

Interest Rate Swap Provider and Swap Guarantor: On or about the Closing Date, LTSBS (in such capacity, the **Interest Rate Swap Provider**) will enter into an ISDA Master Agreement (including a schedule and a credit support annex thereto and one or more confirmations thereunder) with the Issuer and the Security Trustee (as amended from time to time) (the **Interest Rate Swap Agreement**) pursuant to which the Issuer will hedge against the possible variance between the various rates of interest received on the Loans in the Portfolio and the rate of interest payable on the Notes (the **Interest Rate Swap**).

The payment and delivery obligations of the Interest Rate Swap Provider under the Interest Rate Swap Agreement will be guaranteed by Lloyds (in such capacity, the **Swap Guarantor**) under a guarantee (the **Swap Guarantee**) until (i) the Interest Rate Swap Provider (or its successors, assignees or transferees within the Lloyds Banking Group), obtains the Required Swap Ratings or (ii) the Interest Rate Swap Provider, (or its successors, assignees or transferees within the Lloyds Banking Group), procures another person with the Required Swap Ratings to become co-obligor or guarantor in respect of its payment and delivery obligations under the Interest Rate Swap Agreement or (iii) the payment and delivery obligations of the Interest Rate Swap Provider under Interest Rate Swap Agreement are irrevocably discharged in full or (iv) in certain circumstances, the Interest Rate Swap Provider assigns or novates any of its rights, undertakings or obligations under the Interest Rate Swap Agreement without the express written consent of the Swap Guarantor or (v) the Interest Rate Swap Provider assigning or novating any of its rights, undertakings or obligations under the Interest Rate Swap Agreement to a person with the Required Swap Ratings or procuring another person with the Required Swap Ratings to become co-obligor or guarantor in respect of its payment and delivery obligations under the Interest Rate Swap Agreement.

Account Bank and GIC Provider: Lloyds will be appointed as account bank to the Issuer (in such capacity, the **Account Bank**) pursuant to the terms of a bank account agreement to be entered into by, *inter alios*, the Account Bank, the Issuer and the Security Trustee on or about the Closing Date (the **Bank Account Agreement**). The Issuer will open a guaranteed investment account (the **GIC Account**) and a transaction account (the **Transaction Account** and together with the GIC

Account and any additional accounts to be established by the Issuer pursuant to the Bank Account Agreement collectively (including any swap collateral account), the **Bank Accounts**) with the Account Bank on or about the Closing Date.

The short term unguaranteed, unsubordinated and unsecured debt obligations of the Account Bank are currently rated A-1 by S&P and P-1 by Moody's.

If at any time the short term unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank are downgraded below a rating of A-1 by S&P or P-1 by Moody's, the Issuer will be required (within 30 days) to arrange for the transfer (at its own cost) of the Bank Accounts to an appropriately rated bank or financial institution on substantially similar terms to those set out in the Bank Account Agreement in order to maintain the ratings of the Notes at their then current ratings.

Lloyds, in its capacity as GIC Provider (the **GIC Provider**) will agree to pay interest on the monies standing to the credit of the GIC Account at specified rates determined in accordance with the Bank Account Agreement and the Guaranteed Investment Contract.

Loan Facility Provider:

Lloyds will act as loan facility provider to the Issuer (in such capacity, the **Loan Facility Provider**) pursuant to the loan facility agreement to be entered into on or about the Closing Date between, *inter alios*, the Issuer and the Loan Facility Provider (the **Loan Facility Agreement**).

Corporate Services Provider:

Structured Finance Management Limited, having its registered office at 35 Great St. Helen's London EC3A 6AP, a private limited company incorporated in England and Wales with registered number 03853947 (in such capacity, the **Corporate Services Provider**) will be appointed to provide certain corporate services to the Issuer and Holdings pursuant to a corporate services agreement (the **Corporate Services Agreement**) to be entered into on or about the Closing Date by, *inter alios*, the Issuer, Holdings and the Corporate Services Provider.

Principal Paying Agent and Agent Bank:

Deutsche Bank AG, London Branch, will be appointed to act as principal paying agent and as agent bank (the **Principal Paying Agent** and the **Agent Bank** respectively) pursuant to an agency agreement to be entered into on or about the Closing Date between, *inter alios*, the Issuer, the Principal Paying Agent, the Registrar and the Agent Bank (the **Agency Agreement**).

Registrar:

Deutsche Bank Luxembourg S.A. will be appointed to act as registrar (the **Registrar**) pursuant to the Agency Agreement.

Figure 1 – Ownership Structure

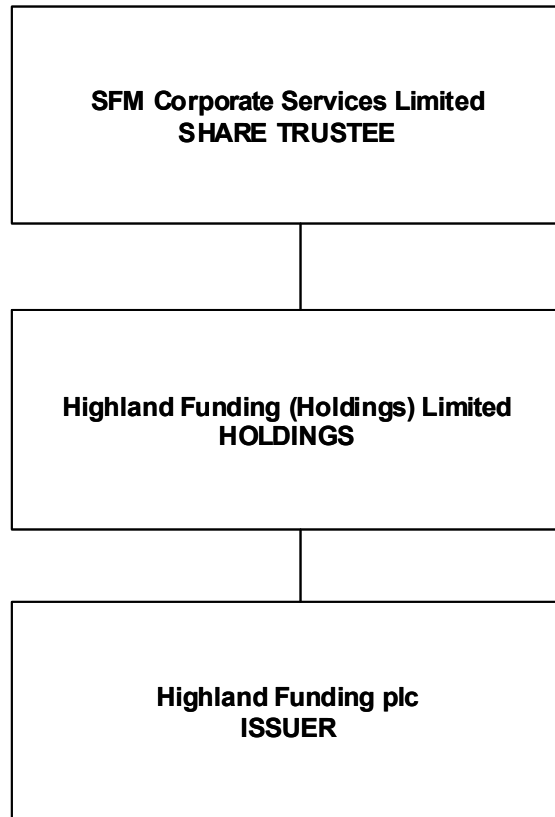


Figure 1 illustrates the ownership structure of the special purpose companies that are parties to the transaction, as follows:

- The Issuer is a wholly owned subsidiary of Holdings in respect of its beneficial ownership.
- The entire issued share capital of Holdings is held on trust by the Share Trustee under the terms of a discretionary trust, the benefit of which is expressed to be for discretionary purposes.
- None of the Issuer, Holdings or the Share Trustee are either owned, controlled, managed, directed or instructed, whether directly or indirectly, by the Seller or any member of the group of companies containing the Seller.

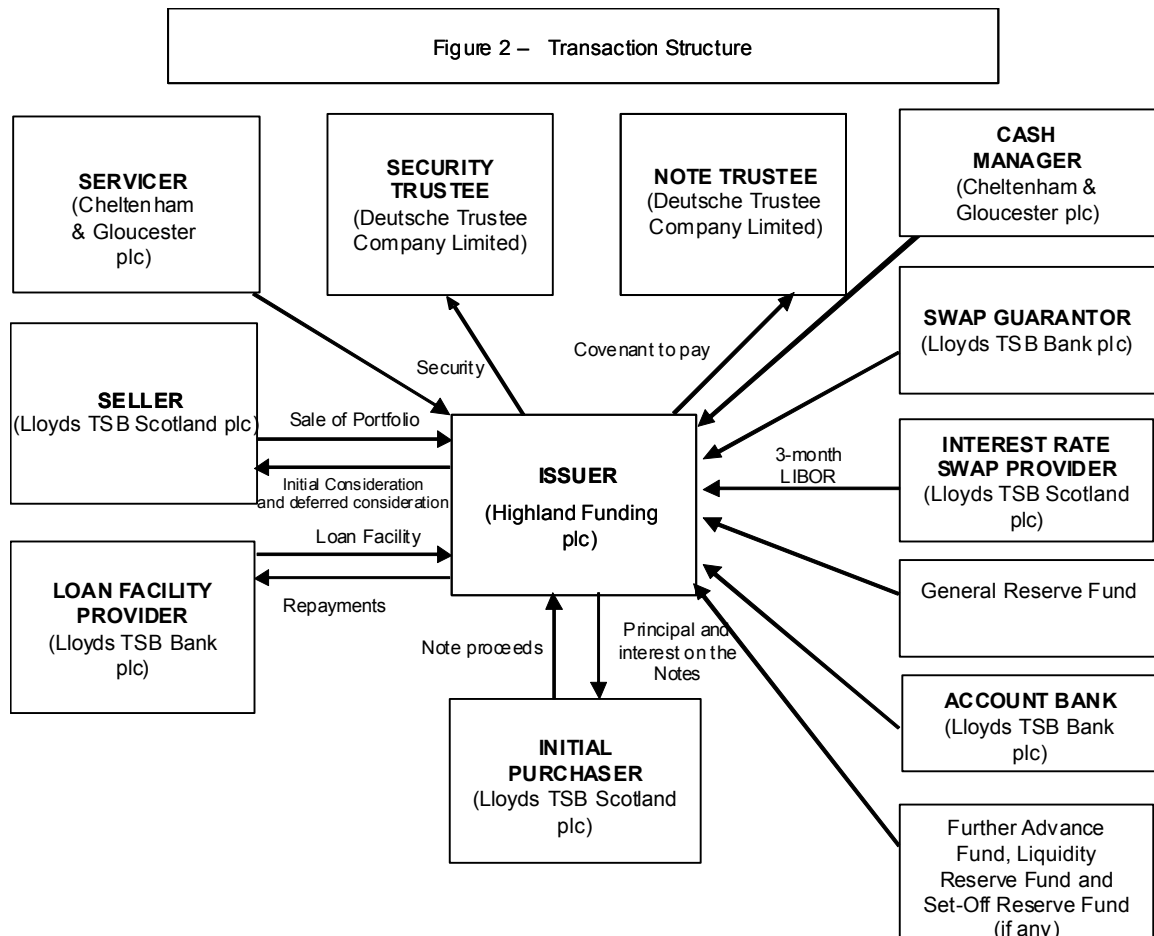


Figure 2 illustrates a brief overview of the transaction, as follows:

The Seller will (subject to the CCA Trust) sell the Initial Portfolio (comprising the Initial Loans, the Initial Related Security and all amounts derived therefrom) to the Issuer on the Closing Date.

The Issuer will use the proceeds of the issue of the Notes to pay the Initial Consideration in an amount equal to the Current Balance of the Loans in the Initial Portfolio on the Closing Date to the Seller. At later dates, the Issuer will pay Deferred Consideration to the Seller from excess Available Revenue Receipts.

The Issuer will use the proceeds of the Closing Date Loan (a) to pay for certain of the Issuer's initial fees and expenses incurred in connection with the issue of the Notes, (b) to establish the General Reserve Fund on the Closing Date, (c) to establish the Further Advance Fund on the Closing Date and (d) to establish the Liquidity Reserve Fund on the Closing Date. On the issue of any Further Notes or New Notes, the Loan Facility Provider may (if applicable) make one or more further advances under the Loan Facility to the Issuer so that the General Reserve Fund is funded to the required amount. In addition, on the Business Day which is no later than 10 Business Days following the earlier of (i) the date on which neither the Seller nor the Loan Facility Provider (or their successors or assigns) has assigned to it a long term unsecured, unsubordinated and unguaranteed debt obligation rating from S&P of at least A- or from Moody's of at least A3 and (ii) the occurrence of a Seller Insolvency Event (a **Set-Off Event**), the Loan Facility Provider will advance a loan to the Issuer in an amount equal to 3.2% of the then Principal Amount Outstanding of the Notes which will be used to fund the Set-Off Reserve Fund.

The Cash Manager, on behalf of the Issuer, will make withdrawals (i) from the Liquidity Reserve Fund to pay senior expenses and interest amounts on the Notes to the extent that there is a shortfall in respect of amounts available to make such payments and (ii) during the Revolving Period, from the Further Advance Fund to pay for any Further Advances on the Business Day after they are acquired by the Issuer to the

extent the Issuer does not have sufficient funds standing to the credit of the Retained Principal Receipts Ledger or, as the case may be, the Principal Ledger.

The Seller will (subject to the CCA Trust, if relevant) sell New Portfolios (comprising New Loans, New Related Security and all amounts derived therefrom) to the Issuer on the Sale Dates occurring during the Revolving Period and the Issuer will first use Principal Receipts standing to the credit of the Retained Principal Receipts Ledger of the GIC Account to pay for such New Portfolios. To the extent not used to redeem any existing Class or Classes of Notes in whole or in part, the Issuer may also use the proceeds of the issue of Further Notes and New Notes (if any), for the purchase of New Portfolios from the Seller or otherwise will hold such funds in the GIC Account pending subsequent purchases of New Portfolios or the redemption of Notes in whole or in part.

In addition, during the Revolving Period the Issuer will use Principal Receipts standing to the credit of the Retained Principal Receipts Ledger or the Principal Ledger of the GIC Account and, to the extent such funds are insufficient, amounts standing to the credit of the Further Advance Ledger, and after the Revolving Period, Principal Receipts standing to the credit of the Principal Ledger of the GIC Account, to purchase Further Advances from the Seller. If the Issuer is unable to fund the purchase of any Further Advance from funds standing to the credit of the Retained Principal Receipts Ledger or, as the case maybe, the Principal Ledger and/or the Further Advance Ledger, the Seller will repurchase the relevant Loan at its Current Balance as at the date of repurchase.

The Issuer will use Revenue Receipts and Principal Receipts received in respect of the Portfolio to meet its obligations to pay, among other items, interest amounts and principal amounts, respectively, to the Noteholders in accordance with, and subject to, the Priority of Payments.

Pursuant to the terms of the Deed of Charge, the Issuer will grant security over all of its assets in favour of the Security Trustee, to secure its obligations to its various creditors, including the Noteholders.

The terms of the Notes will be governed by a Trust Deed made with the Note Trustee.

The Issuer will open the GIC Account and the Transaction Account with the Account Bank.

The Issuer will enter into the Interest Rate Swap with the Interest Rate Swap Provider to hedge against the possible variance between various rates of interest received on the Loans in the Portfolio and a rate calculated by reference to Three-Month Sterling LIBOR.

KEY CHARACTERISTICS OF THE NOTES

	Class A-1	Class A-2
Principal Amount:	£4,485,000,000	£1,565,000,000
Credit enhancement:	General Reserve Fund, excess Available Revenue Receipts and Set-Off Reserve Fund (if any)	General Reserve Fund, excess Available Revenue Receipts and Set-Off Reserve Fund (if any)
Issue Price:	100%	100%
Interest Rate:	Three-Month Sterling LIBOR + Margin	Three-Month Sterling LIBOR + Margin
Margin	0.12% p.a.	0.12% p.a.
Interest Accrual Method:	Actual/365 Fixed	Actual/365 Fixed
Interest Payment Dates:	For all Notes, quarterly in arrear on the Interest Payment Dates falling in March, June, September and December of each year.	
First Interest Payment Date:	10 December 2009	10 December 2009
Final Maturity Date:	The Interest Payment Date falling in December 2060	The Interest Payment Date falling in December 2060
Application for Exchange Listing:	London	London
ISIN:	XS0441875829	XS0441876470
Common Code:	044187582	044187647
Ratings (S&P /Moody's):	AAA/Aaa	AAA/Aaa
Delivery:	Free of payment	Free of payment
Initial Purchaser:	Lloyds TSB Scotland plc (the Initial Purchaser) will subscribe for all the Notes on the Closing Date.	

TRANSACTION OVERVIEW

This transaction overview must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of this Prospectus as a whole.

Status and Form of the Notes:	<p>The Issuer will issue the following classes of the Notes on the Closing Date under the Trust Deed:</p> <ul style="list-style-type: none"> • Class A-1 Asset Backed Floating Rate Notes due 2060 (the Class A-1 Notes); and • Class A-2 Asset Backed Floating Rate Notes due 2060 (the Class A-2 Notes), <p>and the Class A-1 Notes and the Class A-2 Notes, the Notes and the holders thereof, the Noteholders.</p> <p>The Class A-1 Notes and the Class A-2 Notes will rank <i>pari passu</i> and <i>pro rata</i> as to payments of interest at all times.</p> <p>The Class A-1 Notes and the Class A-2 Notes will rank <i>pari passu</i> and <i>pro rata</i> as to repayments of principal at all times.</p> <p>The Notes within each Class will rank <i>pari passu</i> and rateably without any preference or priority among themselves as to payments of principal and interest at all times.</p> <p>Pursuant to the Deed of Charge, the Notes will all share the same Security. Certain other amounts, being the amounts owing to the other Secured Creditors, will also be secured by the Security. Certain amounts due by the Issuer to its other Secured Creditors will rank in priority to the Notes.</p> <p>The Issuer shall be at liberty from time to time, without the consent of the Noteholders, to create and issue Further Notes, Replacement Notes and New Notes subject to and in accordance with the Terms and Conditions of the Notes.</p> <p>The Notes will be issued in registered form and will be issued pursuant to Regulation S and cleared through Euroclear and/or Clearstream, Luxembourg as set out in "<i>Description of the Notes</i>" below.</p> <p>Further Notes means the Notes that the Issuer may issue from time to time in order to raise further funds which have the same terms and conditions as the Notes so that the same shall be consolidated and form a single series and rank <i>pari passu</i> with any class of the Notes.</p> <p>New Notes means the Notes that the Issuer may issue from time to time in order to raise further funds which may have terms and conditions which differ from the Notes and which do not form a single series with the Notes.</p> <p>Replacement Notes means the Notes that the Issuer may issue when there has been a substitution of the Issuer.</p>
Security:	Pursuant to a deed of charge to be entered into between, <i>inter alios</i> , the Issuer

	<p>and the Security Trustee (the Deed of Charge) on or about the Closing Date, the Notes will be secured by, <i>inter alia</i>, the following security (the Security):</p> <ul style="list-style-type: none"> (a) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's right, title, interest and benefit in and to the Transaction Documents; (b) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's interest in the English Loans, the English Mortgages and their other Related Security and other related rights comprised in the Portfolio; (c) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's right, title, interest and benefit to and under insurance policies sold to the Issuer pursuant to the Mortgage Sale Agreement; (d) an assignation in security of the Issuer's beneficial interest in the Scottish Loans and their Related Security (comprising the Issuer's beneficial interest under the trusts declared by the Seller over such Scottish Loans and their Related Security for the benefit of the Issuer pursuant to the Scottish Declarations of Trust); (e) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in its bank accounts maintained with the Account Bank and any sums standing to the credit thereof; (f) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in all Authorised Investments permitted to be made by the Issuer; and (g) a floating charge over all other assets of the Issuer not otherwise subject to a fixed charge but extending over all of the Issuer's property, assets, rights and revenues as are situated in Scotland or governed by Scots law (whether or not the subject of fixed charges as aforesaid). <p>(see "<i>Summary of the Key Transaction Documents - Deed of Charge</i>" below).</p>
<p>Priority of Payments:</p>	<p>On each Interest Payment Date prior to the service of a Note Acceleration Notice on the Issuer, the Cash Manager will apply, or cause to be applied:</p> <ul style="list-style-type: none"> (a) Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments; and (b) Available Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments. <p>See "<i>Cashflows – Application of Available Revenue Receipts prior to the service of a Note Acceleration Notice on the Issuer</i>" and "<i>Cashflows – Application of Available Principal Receipts prior to the service of a Note Acceleration Notice on the Issuer</i>", below.</p>

	<p>Following service of a Note Acceleration Notice on the Issuer, the Security Trustee (or the Cash Manager on its behalf) will apply amounts available for such purpose in accordance with the Post-Acceleration Priority of Payments.</p> <p>See "<i>Cashflows – Distribution of Available Revenue Receipts and Available Principal Receipts following to the service of a Note Acceleration Notice on the Issuer</i>", below.</p>
Interest on the Notes:	<p>The interest rates applicable to the Notes from time to time will be determined by reference to the London Interbank Offered Rate (LIBOR) for three-month Sterling deposits as displayed on Reuters Screen page LIBOR01 (Three-Month Sterling LIBOR) (other than the first Interest Period, which will be determined by reference to a linear interpolation of 4 month and 5 month Sterling LIBOR) plus, in each case, a margin which may differ for each Class of Notes. Sterling LIBOR will be determined on the first day for which the relevant interest rate will apply (the Interest Determination Date).</p> <p>The margins applicable to the Notes, and the Interest Periods for which such margins apply, will be as set out in "<i>Key Characteristics of the Notes</i>" above.</p>
Interest will not be deferred on the Notes:	<p>Failure to pay interest on the Notes within any applicable grace period in accordance with the Conditions shall constitute an Event of Default under the Notes which may result in the Note Trustee serving a Note Acceleration Notice and directing the Security Trustee to enforce the Security.</p> <p>Interest is payable in respect of the Notes in Sterling. In respect of each class of Notes, interest is payable quarterly in arrear on the 10th day of March, June, September and December, in each year, or, if such day is not a Business Day, on the immediately succeeding Business Day (each such date being an Interest Payment Date). Accrued but unpaid interest on the Notes will also be paid on any Optional Redemption Date in respect of such Notes. The first Interest Payment Date will be 10 December 2009.</p> <p>An Interest Period in relation to the Notes is the period from (and including) an Interest Payment Date (except in the case of the first Interest Period, where it shall be the period from (and including) the Closing Date) to (but excluding) the next succeeding (or first) Interest Payment Date.</p>
Events of Default:	<p>Upon the occurrence of any of the events set out in <i>Condition 10.1</i>, the Note Trustee at its absolute discretion may, and if so directed in writing by the holders of not less than 25% in aggregate Principal Amount Outstanding of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders, shall (subject, in each case, to being indemnified and/or secured to its satisfaction), give notice (a Note Acceleration Notice) to the Issuer that all classes of the Notes are immediately due and repayable at their respective Principal Amounts Outstanding, together with accrued interest as provided in the Trust Deed.</p> <p>See "<i>Terms and Conditions of the Notes – Condition 10.1 (Events of Default)</i>" below.</p>
Meetings of Noteholders:	<p>The Trust Deed contains provisions for convening meetings of the Noteholders of each class and, in certain cases, more than one class to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a</p>

	<p>modification of the Conditions or the provisions of any of the Transaction Documents.</p> <p>See "<i>Terms and Conditions of the Notes – Condition 12 (Meetings of Noteholders, Modification and Waiver)</i>" below.</p>
Limited Recourse:	<p>Notwithstanding any other Condition or any provision of any Transaction Document, all obligations of the Issuer to the Noteholders are limited in recourse to the property, assets and undertakings of the Issuer the subject of any security created under the Deed of Charge (the Charged Assets). If:</p> <ul style="list-style-type: none"> (i) there are no Charged Assets remaining which are capable of being realised or otherwise converted into cash; (ii) all amounts available from the Charged Assets have been applied to meet or provide for the relevant obligations specified in, and in accordance with, the provisions of the Deed of Charge; and (iii) there are insufficient amounts available from the Charged Assets to pay in full, in accordance with the provisions of the Deed of Charge, amounts outstanding under the Notes (including payments of principal, premium (if any) and interest), <p>then the Noteholders shall have no further claim against the Issuer in respect of any amounts owing to them which remain unpaid (including, for the avoidance of doubt, payments of principal, premium (if any) and/or interest in respect of the Notes) and such unpaid amounts shall be deemed to be discharged in full and any relevant payment rights shall be deemed to cease.</p>
Final Maturity:	<p>Unless previously redeemed in full, each class of Notes will mature on the Interest Payment Date designated as the Final Maturity Date for that class of Notes in the table titled "<i>Key Characteristics of the Notes</i>".</p>
Mandatory Redemption:	<p>Subject to the terms of the Deed of Charge, on each Interest Payment Date after the Revolving Period and prior to the service of a Note Acceleration Notice, Available Principal Receipts will be applied to repay the Class A-1 Notes and the Class A-2 Notes on a <i>pari passu</i> and <i>pro rata</i> basis until repaid in full.</p>
Optional Redemption in Full or in Part:	<p>Upon giving not more than 60 nor less than 10 days' notice to the Noteholders (such notice to be given in accordance with <i>Condition 15 (Notice to Noteholders)</i> of the terms and conditions of the Notes (the Conditions)), the Note Trustee, the Interest Rate Swap Provider and the Swap Guarantor, and provided that (a) on or prior to the date on which such notice expires, no Note Acceleration Notice has been served, (b) the Issuer has, immediately prior to giving such notice, provided to the Note Trustee a certificate signed by two directors of the Issuer to the effect that the Issuer will have the necessary funds to pay all principal and interest due in respect of the Notes to be redeemed on the relevant Optional Redemption Date and to discharge all other amounts required to be paid in priority to, or <i>pari passu</i> with, such Notes on such Optional Redemption Date and, as the case may be, the immediately following Interest Payment Date, and (c) the Issuer has elected (at its discretion) to accept an offer from the Seller under the Mortgage Sale Agreement to repurchase some or all of the Loans and their Related Security, the Issuer may at its option (or if the Seller has directed the Issuer to use the proceeds of a repurchase of Loans and their Related Security by the Seller to redeem all, or any Class, of the Notes, shall) redeem all or any part of any Class of the Notes on the</p>

	<p>first Interest Payment Date falling in December 2009 and on any Business Day thereafter (the Optional Redemption Date). (See <i>Condition 7.3(a) (Optional Redemption in Full or in Part)</i> of the Notes.)</p> <p>Any Note redeemed pursuant to <i>Condition 7.3(a) (Optional Redemption in Full or in Part)</i> will be redeemed at an amount equal to the Principal Amount Outstanding of the relevant Note to be redeemed together with accrued (and unpaid) interest on the Principal Amount Outstanding of the relevant Note up to (but excluding) the date of redemption.</p>
<p>Optional Redemption for Tax or Other Reasons:</p>	<p>Subject to the Conditions, if by reason of a change in tax law affecting the Notes and/or the Interest Rate Swap Agreement which becomes effective on or after the Closing Date, (a) the Issuer or the Paying Agents would be required (on the next Interest Payment Date) to make a deduction or withholding for or on account of tax from any payment in respect of the Notes and/or (b) either the Issuer or the Interest Rate Swap Provider would be required (on the next Interest Payment Date) to make a withholding or deduction for or on account of tax from any payment it makes under the Interest Rate Swap Agreement, then, subject as provided in <i>Condition 7.4 (Optional Redemption for Taxation or Other Reasons)</i> the Issuer shall use its reasonable endeavours to appoint a Paying Agent in another jurisdiction or arrange the substitution of a company incorporated and/or tax resident in another jurisdiction approved in writing by the Note Trustee as principal debtor under the Notes.</p> <p>If the Issuer satisfies the Note Trustee that taking the actions as described above would not avoid the effect of the relevant events in (a) or (b) or that, having used its reasonable endeavours, the Issuer is unable to effect such appointment or arrange such a substitution, then the Issuer may, on any Interest Payment Date and having given not more than 60 nor less than 30 days' notice in accordance with <i>Condition 7.4 (Optional Redemption for Taxation or Other Reasons)</i> of the Notes redeem all (but not some only) of the Notes at their respective Principal Amount Outstanding together with any interest accrued (and unpaid) thereon. (See <i>Condition 7.4 (Optional Redemption for Taxation or Other Reasons)</i> of the Notes.)</p>
<p>Credit Enhancement and Liquidity:</p>	<p>The Notes will have the benefit of the following credit enhancement:</p> <ul style="list-style-type: none"> (a) availability of excess Available Revenue Receipts (See "<i>Credit Structure – Credit Support for the Notes provided by Available Revenue Receipts</i>"); and (b) the General Reserve Fund (See "<i>Credit Structure – General Reserve Fund</i>"). <p>The Notes will also have the benefit of other support in certain circumstances by way of the Set-Off Reserve Fund (see "<i>Credit Structure – Set-Off Reserve Fund</i>").</p> <p>The Liquidity Reserve Fund will also be available to provide additional liquidity support (but not credit support) in relation to shortfalls of interest payable on the Notes (see "<i>Credit Structure – Liquidity Reserve Fund</i>").</p> <p>The Further Advance Fund will be available during the Revolving Period to fund the Further Advance Purchase Price to the extent that amounts standing to the credit of the Retained Principal Receipts Ledger and the Principal Ledger are insufficient for such purpose (see "<i>Credit Structure – Further Advance Fund</i>").</p>

	<p>Following service of a Note Acceleration Notice on the Issuer which has not been revoked, the Liquidity Reserve Fund and the Further Advance Fund (if such Note Acceleration Notice is served on the Issuer during the Revolving Period) will not be applied in accordance with the Post-Acceleration Priority of Payments and so will not be available to repay the Noteholders but will instead be applied directly towards repayment of the amounts outstanding under Tranche C and Tranche D of the Loan Facility.</p>
Purchase of Notes:	<p>It is intended that Lloyds TSB Scotland plc will subscribe for all of the Notes on the Closing Date. The Issuer is not permitted to purchase any Notes.</p>
Withholding Tax:	<p>Payments of interest and principal with respect to the Notes will be subject to any applicable withholding or deduction for or on account of any taxes and neither the Issuer, nor any Paying Agent or any other person will be obliged to pay additional amounts in respect of any such withholding or deduction. The applicability of any withholding or deduction for or on account of UK taxes is discussed further under "<i>United Kingdom Taxation</i>", below.</p>
Expected Average Lives of the Notes:	<p>The actual average lives of the Notes cannot be stated, as the actual rate of repayment of the Loans and redemption of the Loans and a number of other relevant factors are unknown.</p>
Ratings:	<p>The ratings expected to be assigned to the Notes on or about the Closing Date by Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. (S&P) and Moody's Investor Services Limited (Moody's, and, together with S&P, the Rating Agencies, which term includes any further or replacement rating agency appointed by the Issuer with the approval of the Note Trustee to give a credit rating to the Notes (or any sub class thereof)), are set out in "<i>Key Characteristics of the Notes</i>", above.</p> <p>The issuance of the Notes is conditional on the assignment on the Closing Date of the expected ratings by S&P and Moody's set out above in the table titled "<i>Key Characteristics of the Notes</i>", above.</p> <p>A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation if, in its judgment, circumstances (including without limitation, a reduction in the credit rating of the Account Bank, the Parent Support Provider or the Swap Guarantor) in the future so warrant.</p>
Listing:	<p>Application will be made to the UK Listing Authority to list each class of the Notes on the Official List maintained by the UK Listing Authority and to the London Stock Exchange to admit the Notes to trading on the London Stock Exchange's Regulated Market.</p>
Sale of Initial Portfolio and New Portfolios:	<p>The primary source of funds available to the Issuer to pay interest and principal on the Notes will be the Revenue Receipts and Principal Receipts generated by the Loans in the Portfolio. Pursuant to the Mortgage Sale Agreement, the Seller will (subject to the CCA Trust) sell its interest in the Initial Portfolio to the Issuer on the Closing Date and may on each Sale Date during the period from the Closing Date until (but excluding) the Revolving Period End Date (the Revolving Period) (subject to the CCA Trust, if relevant) sell New Loans comprising the relevant New Portfolio to the Issuer. In addition, on the issue by the Issuer of Further Notes or New Notes, the Seller will (to the extent that the proceeds of the New Notes or</p>

	<p>Further Notes are not applied to redeem any existing Class or Classes of Notes in whole or in part) sell to the Issuer a New Portfolio with an aggregate Current Balance of the New Loans at least equal to the relevant Principal Amount Outstanding of the Further Notes or the New Notes as applicable. The sale by the Seller to the Issuer of each Initial Loan in the Initial Portfolio and of each relevant New Loan in the relevant New Portfolio which is secured by a Mortgage over a Property located in England, Wales or Scotland will be given effect by:</p> <p>(a) prior to the Effective Date, as regards Initial Loans and any New Loans that are secured by a Mortgage over a Property located in England or Wales, a CCA Trust as described below and on and from the Effective Date (as defined below), an equitable assignment; and</p> <p>(b) as regards Initial Loans and New Loans that are secured by a Mortgage over a Property located in Scotland or where such Loans are otherwise governed by Scots law, a Scottish declaration of trust (together with any other Scottish declarations of trust entered into pursuant to the Mortgage Sale Agreement being the Scottish Declarations of Trust and each a Scottish Declaration of Trust).</p> <p>The terms sale, sell and sold when used in this Prospectus in connection with the Loans and their Related Security shall be construed to mean each such creation of an equitable interest and such equitable assignment and the beneficial interest in each such Scottish Declaration of Trust, as applicable. The terms repurchase and repurchased when used in this Prospectus in connection with the Loans and their Related Security shall be construed to include the repurchase of the beneficial interest of the Issuer in respect of such Loans and their Related Security under the CCA Trust or the relevant Scottish Declaration of Trust (as applicable).</p> <p>Until the Issuer has notified the Seller that it has obtained the requisite licence under the Consumer Credit Act 1974, as amended (the CCA), the Seller will hold the English Loans and their Related Security on a bare trust for the Issuer (the CCA Trust) and following receipt of such notification from the Issuer, such Loans and their Related Security will be assigned to the Issuer as described above.</p> <p>Prior to the occurrence of a Perfection Event (which includes the insolvency of the Seller (a Seller Insolvency Event)) or certain other events described in "<i>Summary of the Key Transaction Documents — Mortgage Sale Agreement — Title to the Mortgages, registration and notifications</i>", notice of the sale of the Initial Portfolio and any New Portfolio will not be given to the relevant borrowers (the Borrowers) under those Loans transferred and the Issuer will not apply to the Land Registry to register or record its equitable or beneficial interest in the English Mortgages or take any steps to complete or perfect its title to the Scottish Mortgages.</p>
<p>The Loans:</p>	<p>The Portfolio will consist of the Loans, the Related Security and all monies derived therein from time to time.</p> <p>The term Loans when used in this Prospectus means the residential mortgage loans in the Initial Portfolio to be sold to the Issuer on the Closing Date and in each New Portfolio sold to the Issuer after the Closing Date (either during the Revolving Period or following the issuance of Further Notes or New Notes) together with, where the context so requires, each Further Advance (as defined in "<i>Summary of the Key Transaction Documents — Mortgage Sale Agreement — Further Advances and Product Switches</i>") sold to the Issuer by the Seller after the Closing Date and any alteration to a Loan by the Seller pursuant to a Product Switch but</p>

excluding (for the avoidance of doubt) each Loan and its Related Security which is repurchased by the Seller pursuant to the Mortgage Sale Agreement or otherwise sold by the Issuer in accordance with the terms of the Transaction Documents and no longer beneficially owned by it.

The term **English Loan** when used in this Prospectus means a Loan secured by an English Mortgage (as defined below). The term **Scottish Loan** when used in this Prospectus means a Loan secured by a Scottish Mortgage (as defined below) or any Loan governed by Scottish law which is not secured by a Scottish Mortgage.

When used in this Prospectus:

Calculation Date means the date which occurs four Business Days prior to each Interest Payment Date.

Collection Period means the quarterly period commencing on and including the first day of March, June, September and December and ending on and including the last day of May, August, November and February except that the first Collection Period will commence on the Closing Date and end on the last day of November 2009.

Collection Period End Date means the last day of the calendar quarter immediately preceding the immediately following Calculation Date.

English Mortgage means a first ranking legal charge secured over a freehold or leasehold Property located in England or Wales.

Property means (in England and Wales) a freehold or leasehold property or (in Scotland) a heritable property or property held under a long lease, which is, in each case, subject to a Mortgage.

Related Security means, in relation to a Loan, the security granted for the repayment of that Loan by the relevant Borrower including the relevant Mortgage and all other matters applicable thereto acquired as part of any Portfolio sold to the Issuer pursuant to the Mortgage Sale Agreement.

Revolving Period End Date means the Interest Payment Date falling in December 2010 or such earlier date as may be designated by the Seller by notice in writing to the Issuer and the Security Trustee.

Sale Date means each relevant Business Day on which New Loans are sold to the Issuer.

Scottish Mortgage means a first ranking standard security over a Property located in Scotland.

The **Current Balance** of a Loan means, on any date, the aggregate balance of the Loan at such date (but avoiding double counting) including:

- (i) the Initial Advance;
- (ii) any increase in the principal amount of a Loan due to any Further Advance;

	<p>(iii) capitalised expenses;</p> <p>(iv) capitalised interest; and</p> <p>(v) all expenses, charges, fees, premium or payment due and owing by the Borrower which have not yet been capitalised (including high LTV fees, insurances premiums, booking fees and valuation fees),</p> <p>in each case relating to such Loan less any prepayment, repayment or payment of the foregoing made on or prior to such date.</p> <p>As at the Closing Date, the Loans in the Portfolio each had an original repayment term of up to 35 years (subject to certain limited exceptions). No Loan in the Portfolio will have a final repayment date beyond two years prior to the latest Final Maturity Date for the Notes.</p> <p>As at the Reference Date, the Initial Portfolio consists of 156,853 Loans with an aggregate Current Balance of £6,132,867,387.89.</p> <p>In relation to the Loans comprising the Initial Portfolio, as at the Reference Date, (a) the weighted average indexed loan-to-value of those Loans was 69.45%, (b) the weighted average seasoning of those Loans was 36.22 months and (c) the Loans are secured by Mortgages over properties situated in England, Wales and Scotland.</p> <p>As at the Closing Date, the Initial Loans in the Initial Portfolio will comprise:</p> <p>(a) loans which are subject to variable rates of interest set by the Seller based on general interest rates and competitive forces in the UK mortgage market from time to time;</p> <p>(b) loans which are subject to interest rates set at a margin above or below the Bank of England repo rate from time to time; and</p> <p>(c) loans which are subject to fixed rates of interest or series of rates set for a fixed period or periods.</p> <p>See "<i>The Loans</i>" for a full description of the Loans.</p>
<p>Further Advances:</p>	<p>At any time prior to the redemption in whole of the Notes and subject to satisfaction of certain conditions, if a Borrower requests, or the Seller (or the Servicer on behalf of the Seller) offers, a Further Advance under a Loan, the Seller or the Servicer (on behalf of the Seller) will be solely responsible for offering and documenting that Further Advance and the Seller will be solely responsible for funding that Further Advance. Any Further Advance made to a Borrower and to be purchased by the Issuer will be purchased by the Issuer on the relevant Advance Date (see "<i>Summary of the Key Transaction Documents — Mortgage Sale Agreement — Further Advances and Product Switches</i>").</p> <p>If a Further Advance is made by the Seller, the Further Advance will be transferred to the Issuer on the relevant Advance Date and the Issuer will pay the Seller the Further Advance Purchase Price on the Business Day following the Advance Date (the Further Advance Payment Date) (i) during the Revolving Period to the extent that the Issuer has sufficient amounts standing to the credit of the Retained</p>

	<p>Principal Receipts Ledger and the Principal Ledger or (ii) after the Revolving Period, to the extent that the Issuer has sufficient funds standing to the credit of the Principal Ledger. During the Revolving Period, to the extent amounts standing to the credit of the Retained Principal Receipts Ledger and the Principal Ledger are insufficient to pay such Further Advance Purchase Price, the Issuer will pay the remainder of the Further Advance Purchase Price (the Further Advance Shortfall) by withdrawing an amount equal to the lesser of the Further Advance Shortfall and the amount standing to the credit of the Further Advance Ledger from the Further Advance Fund. Where the Issuer (or the Cash Manager on its behalf) determines that (i) during the Revolving Period, the amount standing to the credit of the Retained Principal Receipts Ledger, the Principal Ledger and, if required, the Further Advance Ledger or (ii) following the Revolving Period, the amount standing to the credit of the Principal Ledger, would not be sufficient to fund such Further Advance Purchase Price, the Issuer may not complete the payment of the Further Advance Purchase Price of the relevant Further Advance and the Seller must promptly repurchase the related Loan and its Related Security at its Current Balance.</p>
<p>Product Switches:</p>	<p>At any time prior to the redemption in whole of the Notes and subject to satisfaction of certain conditions, if a Borrower requests, or the Seller (or the Servicer on behalf of the Seller) offers, a Product Switch under a Loan, the Seller will be solely responsible for offering and documenting that Product Switch. Any Loan which has been subject to a Product Switch will remain in the Portfolio provided that if it is subsequently determined by the Servicer on the Calculation Date immediately succeeding a Switch Date or on any other subsequent date that any Loan Warranty made by the Seller in respect of a Loan which is the subject of a Product Switch and which remains in the Portfolio was materially untrue as at its Switch Date, and that default has not been remedied within 20 Business Days of receipt of notice from the Issuer, then the relevant Loan and its Related Security must be repurchased by the Seller on the next Business Day following receipt by the Seller of a Loan Repurchase Notice.</p> <p>Product Switch means any variation in the financial terms and conditions applicable to a Loan other than any variation:</p> <ul style="list-style-type: none"> (i) agreed with a Borrower to control or manage arrears on the Loan; (ii) in the maturity date of the Loan unless the maturity date would be extended to a date later than two years before the Final Maturity Date of the Notes; (iii) imposed by statute; (iv) in the rate of interest payable; or (v) in the frequency with which the interest payable in respect of the Loan is charged.
<p>Loan Warranties:</p>	<p>The Issuer will have the benefit of the Loan Warranties given by the Seller:</p> <ul style="list-style-type: none"> (i) as at the Closing Date in relation to the Loans and their Related Security in the Initial Portfolio; (ii) on the Sale Date in relation to the New Loans and their New Related Security in any New Portfolio,

	<p>(iii) on the Advance Date in relation to Loans subject to a Further Advance and their Related Security; and</p> <p>(iv) on the Switch Date in relation to Loans subject to a Product Switch and their Related Security,</p> <p>including in each case, warranties in relation to compliance with the Lending Criteria as it applied at the date of origination of the Loans or as at the relevant Advance Date or Switch Date, as the case may be.</p> <p>It should be noted that any Loan Warranties made by the Seller in relation to a New Loan, Further Advance and/or a Product Switch may be amended from time to time without the consent of the Noteholders provided that prior consent has been given by the Security Trustee who, for such purpose, may, but is not obliged to, have regard to whether the Rating Agencies have confirmed that the current ratings of the Notes will not be adversely affected by such variation or waiver (although neither of the Rating Agencies is obliged to give any such confirmation). For the avoidance of doubt, nothing in the preceding sentence is intended to restrict the Seller in varying the Lending Criteria from time to time in accordance with the standards of a reasonably prudent residential mortgage lender lending to borrowers in England, Wales, and/or Scotland (as applicable) who generally satisfy the lending criteria of traditional sources of residential mortgage capital (a Reasonable, Prudent Mortgage Lender). Any amendment to the Loan Warranties will be notified to the Rating Agencies.</p> <p>The Seller will be required to repurchase any Loan (including any Product Switch or Further Advance) sold to the Issuer pursuant to the Mortgage Sale Agreement if any Loan Warranty made by the Seller in relation to that Loan and/or its Related Security is materially breached or proves to be materially untrue as at the Closing Date, Sale Date, the Advance Date or the Switch Date (as applicable) and that default has not been remedied within 20 Business Days of receipt of notice from the Issuer.</p>
<p>Other Repurchase Obligations:</p>	<p>In addition to the repurchase obligations of the Seller set out above under "<i>Further Advances</i>" and "<i>Loan Warranties</i>", the Seller will be required to repurchase any Loan in the Portfolio prior to any Borrower in respect of such Loan being admitted into the Homeowner Mortgage Support Scheme by the Seller.</p>
<p>Principal Deficiency Ledger:</p>	<p>A principal deficiency ledger (the Principal Deficiency Ledger) will be established to record any Losses affecting the Loans in the Portfolio.</p> <p>Any Losses on the Portfolio which are recorded on the Principal Deficiency Ledger may be cured to the extent that amounts are available for that purpose pursuant to paragraph (g) of the Pre-Acceleration Revenue Priority of Payments.</p> <p>Losses means all realised losses in respect of a Loan, including any loss arising as a result of an exercise of any set-off by the relevant Borrower.</p> <p>See "<i>Credit Structure — Principal Deficiency Ledger</i>", below.</p>
<p>Servicing Agreement:</p>	<p>Pursuant to the Servicing Agreement, the Servicer will agree to service the Loans sold to the Issuer and their Related Security on behalf of the Issuer (or whilst the Loans are held subject to the CCA Trust or under any Scottish Declarations of Trust, the Servicer will agree to service such Loans on behalf of the Seller in its</p>

	<p>capacity as trustee thereunder acting upon the instruction of the Issuer in its capacity as beneficiary thereunder) (such services, <i>inter alia</i>, the Services).</p> <p>The Issuer will, on each Interest Payment Date, pay to the Servicer a servicing fee (inclusive of VAT) (the Servicing Fee) totalling 0.08% per annum on the aggregate Current Balance of the Loans in the Portfolio as determined on the preceding Interest Payment Date. The Servicing Fee will rank ahead of all payments on the Notes.</p> <p>See "<i>Summary of Key Transaction Documents — Servicing Agreement</i>", below.</p>
<p>Cash Management Agreement:</p>	<p>Pursuant to the Cash Management Agreement, the Cash Manager will agree to provide certain cash management and other services to the Issuer. The Cash Manager's principal function will be effecting payments to and from the GIC Account and the Transaction Account. In addition, the Cash Manager will:</p> <ul style="list-style-type: none"> (a) provide the Issuer, the Security Trustee, the Seller and the Rating Agencies with a quarterly report in relation to the Portfolio by no later than 10 Business Days following each Interest Payment Date; (b) calculate the Available Revenue Receipts and Available Principal Receipts of the Issuer; (c) apply, or cause to be applied, Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments and Available Principal Receipts in accordance with the applicable Pre-Acceleration Principal Priority of Payments; (d) make withdrawals from the General Reserve Fund, the Retained Principal Receipts Ledger, the Principal Ledger, the Further Advance Ledger, the Liquidity Reserve Ledger and the Set-Off Reserve Ledger as and when required; and (e) make payments of the consideration for a Further Advance and New Loans to the Seller. <p>See "<i>Summary of Key Transaction Documents – Cash Management Agreement</i>", below.</p>
<p>Mortgage Sale Agreement:</p>	<p>Pursuant to the Mortgage Sale Agreement, the Seller will (subject to the CCA Trust) sell its interest in the Initial Portfolio to the Issuer on the Closing Date and may on each Sale Date (subject to the CCA Trust, if relevant) sell New Loans comprising the relevant New Portfolio to the Issuer. See "<i>Sale of Initial Portfolio and New Portfolios</i>", above.</p>
<p>Trust Deed</p>	<p>The terms of the Notes will be governed by a Trust Deed entered into with the Note Trustee. The Trust Deed:</p> <ul style="list-style-type: none"> (a) constitutes the Notes; (b) sets out the covenants of the Issuer in relation to the Notes; (c) sets out the enforcement and post-enforcement procedures relating to the Notes; and

	(d) sets out the appointment, powers and responsibilities of the Note Trustee.
Deed of Charge:	<p>The Issuer will enter into the Deed of Charge on or about the Closing Date with, <i>inter alia</i>, the Security Trustee pursuant to which the Issuer will grant security over all of its assets in favour of the Security Trustee, to secure its obligations to the Secured Creditors, including the Noteholders.</p> <p>See "<i>Summary of Key Transaction Documents – Deed of Charge</i>", below.</p>
Parent Support Deed:	<p>The Parent Support Provider will enter into the Parent Support Deed pursuant to which it will undertake to use its best efforts to procure that C&G (or any successors or assigns within the Lloyds Banking Group) performs its obligations as Servicer and Cash Manager until the earliest of:</p> <ul style="list-style-type: none"> (a) termination of the Servicing Agreement or Cash Management Agreement in accordance with the terms of the Servicing Agreement or Cash Management Agreement, as applicable; (b) the appointment of a suitable substitute servicer or cash manager in accordance with the terms of the Servicing Agreement or Cash Management Agreement, as applicable; and (c) the obtaining by C&G (or its successors or assigns within the Lloyds Banking Group) of a long-term, unguaranteed and unsecured credit rating from each of Moody's and S&P of not less than Baa2 or BBB respectively.
Interest Rate Swap Agreement:	<p>Payments received by the Issuer under the Loans will be subject to variable and fixed rates of interest. The interest amounts payable by the Issuer in respect of the Notes will be calculated by reference to Three-Month Sterling LIBOR. To hedge against the potential variance between the rates of interest received on the Loans in the Portfolio and the rate of interest payable on the Notes, the Issuer will enter into the Interest Rate Swap with the Interest Rate Swap Provider and the Security Trustee under the Interest Rate Swap Agreement.</p> <p>Unless or until (i) the Interest Rate Swap Provider, or any successors, assignees or transferees within the Lloyds Banking Group, acquires the Required Swap Ratings as set out in the Interest Rate Swap Agreement or (ii) the Interest Rate Swap Provider, or its successors, assignees or transferees within the Lloyds Banking Group, procures another person with the Required Swap Ratings to become co-obligor or guarantor in respect of its payment and delivery obligations under the Interest Rate Swap Agreement or (iii) the payment and delivery obligations of the Interest Rate Swap Provider under the Interest Rate Swap Agreement are irrevocably discharged in full or (iv) in certain circumstances, the Interest Rate Swap Provider assigns or novates any of its rights, undertakings or obligations under the Interest Rate Swap Agreement without the express written consent of the Swap Guarantor, the Swap Guarantor will provide a guarantee in respect of the Interest Rate Swap Provider's payment and delivery obligations under the Interest Rate Swap Agreement or (v) the Interest Rate Swap Provider assigning or novating any of its rights, undertakings or obligations under the Interest Rate Swap Agreement to a person with the Required Swap Ratings or procuring another person with the Required Swap Ratings to become co-obligor or guarantor in respect of its payment and delivery obligations under the Interest Rate Swap Agreement.</p>

<p>Loan Facility Agreement:</p>	<p>The Issuer will enter into the Loan Facility Agreement on or about the Closing Date with the Loan Facility Provider, pursuant to which the Loan Facility Provider will advance a loan (the Closing Date Loan) to the Issuer on the Closing Date in the amount of approximately £989,500,000 which will be advanced in four tranches, the proceeds of which will be used as follows:</p> <ul style="list-style-type: none"> (a) Tranche A will be used to meet certain of the Issuer's initial fees and expenses incurred in connection with the issue of the Notes; (b) Tranche B will be used to initially fund the General Reserve Fund up to the General Reserve Required Amount; (c) Tranche C will be used to fund the Liquidity Reserve Fund; and (d) Tranche D will be used to fund the Further Advance Fund. <p>If Further Notes or New Notes are issued, the Loan Facility Provider may make a further advance to the Issuer under any of the tranches of the Loan Facility Agreement described above to fund an increase in the General Reserve Fund, the Liquidity Reserve Fund and/or the Further Advance Fund (if required). In addition on the Business Day which is no later than 10 Business Days following the earlier of (i) the date on which neither the Seller nor the Loan Facility Provider (or their successors or assigns) has assigned to it a long term unsecured, unsubordinated and unguaranteed debt obligation rating from S&P of at least A- or from Moody's of at least A3 and (ii) the occurrence of a Seller Insolvency Event (a Set-Off Event), the Loan Facility Provider will advance a loan to the Issuer in an amount equal to 3.2% of the then Principal Amount Outstanding of the Notes (Tranche E) which will be used to fund the Set-Off Reserve Fund.</p>
<p>Bank Account Agreement:</p>	<p>The Issuer will enter into the Bank Account Agreement with the Account Bank on or about the Closing Date in respect of the Transaction Account and the GIC Account and any additional accounts to be established by the Issuer pursuant to the Bank Account Agreement (including any swap collateral account) (together, the Bank Accounts). On each Interest Payment Date, the Cash Manager will transfer monies from the GIC Account to the Transaction Account to be applied in accordance with the relevant Priority of Payments. Monies may also be transferred from the GIC Account to the Transaction Account (i) on any Sale Date to pay the New Portfolio Purchase Price in respect of any New Loans sold by the Seller to the Issuer and (ii) on any Further Advance Payment Date to pay the Further Advance Purchase Price in respect of any Further Advance sold by the Seller to the Issuer.</p>
<p>Guaranteed Investment Contract:</p>	<p>The Issuer will enter into the Guaranteed Investment Contract with the GIC Provider on or about the Closing Date in respect of the GIC Account. The GIC Provider will agree to pay interest on the GIC Account at a specified rate.</p>

RISK FACTORS

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

Liabilities Under the Notes

The Notes will not be obligations of, or the responsibility of, or guaranteed by, any person other than the Issuer. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by any of the Seller, the Interest Rate Swap Provider, the Swap Guarantor, the Arranger, the Servicer, the Cash Manager, the Account Bank, the Loan Facility Provider, the Note Trustee, the Security Trustee, the Parent Support Provider, any company in the same group of companies as such entities, any other party to the Transaction Documents or by any person other than the Issuer.

Limited Source of Funds

The ability of the Issuer to meet its obligations to pay principal and interest on the Notes and its operating and administrative expenses will be dependent primarily on receipts from the Loans in the Portfolio, interest earned on the Bank Accounts, amounts standing to the credit of the General Reserve Fund, the Liquidity Reserve Fund, the Further Advance Fund, the Set-Off Reserve Fund (if any) and the receipts under the Interest Rate Swap. Other than the foregoing, the Issuer is not expected to have any other funds available to it to meet its obligations under the Notes and/or any other payment obligation ranking in priority to, or *pari passu* with, the Notes under the applicable Priority of Payments. If such funds are insufficient, any such insufficiency will be borne by the Noteholders and the other Secured Creditors, subject to the applicable Priority of Payments. The recourse of the Noteholders to the Charged Assets following service of a Note Acceleration Notice is described below (see further "*English law security and insolvency considerations*").

Considerations Relating to Yield, Prepayments, Mandatory Redemption and Optional Redemption

The yield to maturity of the Notes of each Class will depend on, *inter alia*, the amount and timing of payment of principal and interest on the Loans and the price paid by the holders of the Notes of each Class. Prepayments on the Loans may result from refinancings, sales of properties by Borrowers voluntarily or as a result of enforcement proceedings under the relevant Mortgages, as well as the receipt of proceeds under the insurance policies. In addition, repurchases of Loans required to be made under the Mortgage Sale Agreement will have the same effect as a prepayment of such Loans. The yield to maturity of the Notes of any Class may be adversely affected by, amongst other things, a higher or lower than anticipated rate of prepayments on the Loans.

The rate of prepayment of Loans is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing programmes, local and regional economic conditions and homeowner mobility. Generally, when market interest rates increase, borrowers are less likely to prepay their mortgage loans, while conversely, when market interest rates decrease, borrowers are generally more likely to prepay their mortgage loans. For instance, borrowers may prepay mortgage loans when they refinance their loans or sell their properties (either voluntarily or as a result of enforcement action taken). In addition, if the Seller is required to repurchase a Loan or Loans under a Mortgage Account and their Related Security because, for example, one of the Loans does not comply with the Loan Warranties, then the payment received by the Issuer will have the same effect as a prepayment of all the Loans under that Mortgage Account. Because these and other relevant factors are not within the control of the Issuer, no assurance can be given as to the level of prepayments that the Portfolio will experience.

Payments and prepayments of principal on the Loans will be applied to reduce the Principal Amount Outstanding of the Notes on a pass-through basis on each Interest Payment Date after the Revolving Period in accordance with the Pre-Acceleration Principal Priority of Payments (see "*Cashflows*" below).

During the Revolving Period, payments and prepayments of principal on the Loans will be credited to the Retained Principal Receipts Ledger and will not be applied during the Revolving Period to redeem the Notes. There is no assurance that the Seller will originate sufficient eligible New Loans to fully utilise the payments and prepayments of principal received on the Loans during the Revolving Period. Any unused principal will be kept in the Retained Principal Receipts Ledger of the GIC Account. The Revolving Period may be up to the Interest Payment Date falling in December 2010 although it could be a shorter period as determined by the Seller. After the Revolving Period, payments and prepayments of principal on the Loans will be credited to the Principal Ledger and will be applied in accordance with the Pre-Acceleration Principal Priority of Payments to redeem the Notes.

At any time after the Interest Payment Date falling in December 2009, the Issuer may, subject to certain conditions, redeem all or any part of any Class of the Notes. In addition, the Issuer may, subject to the Conditions, redeem all of the Notes if a change in tax law results in the Issuer or the Interest Rate Swap Provider being required to make a deduction or withholding for or on account of tax. This may adversely affect the yield to maturity on the Notes.

Following the occurrence of an Event of Default, service of a Note Acceleration Notice and enforcement of the Security, there is no guarantee that the Issuer will have sufficient funds to redeem the Notes in full.

Continuing decline in house prices may adversely affect the performance and market value of your Notes

Since 2007, house prices have fallen under different monthly measurements as a result of a combination of economic downturn and uncertainty, reduced affordability, lower availability of credit, subdued earnings growth, greater pressure on household finances and the effect of the continuing global market volatility that began in the summer of 2007.

Should house prices continue to decline, borrowers may have insufficient equity to refinance their mortgage loans with lenders other than the Seller. This could lead to higher delinquency rates and losses.

Characteristics of the Portfolio

The information in the section headed "*Characteristics of the Portfolio*" has been extracted from the systems of the Seller as at 30 April 2009 (the **Reference Date**). The characteristics of the Portfolio as at the Closing Date may vary from those set out in the tables in this Prospectus as a result of, inter alia, repayments, redemptions and originations of new loans which comply with the Loan Warranties prior to the Closing Date. Neither the Seller nor the Servicer has provided any assurance that there has been no material change in the characteristics of the Portfolio between the Reference Date and the Closing Date.

Geographic Concentration Risks

Loans in the Portfolio may also be subject to geographic concentration risks within certain regions of the United Kingdom. The Initial Portfolio has a significant concentration of Loans secured on properties in Scotland relative to the United Kingdom property market generally. There is a corresponding under-representation of Loans secured on properties in other geographic regions. To the extent that specific geographic regions within the United Kingdom have experienced or may experience in the future weaker regional economic conditions and housing markets than other regions in the United Kingdom, a concentration of the Loans in such a region may be expected to exacerbate the risks relating to the Loans described in this section. Certain geographic regions within the United Kingdom rely on different types of industries. Any downturn in a local economy or particular industry may adversely affect the regional employment levels and consequently the repayment ability of the Borrowers in that region or the region that

relies most heavily on that industry. Any natural disasters in a particular region may reduce the value of affected Properties. This may result in a loss being incurred upon sale of the Property. These circumstances could affect receipts on the Loans and ultimately result in losses on the Notes. For an overview of the geographical distribution of the Loans as at the Reference Date, see "*Characteristics of the Portfolio — Geographical Spread Distribution*".

Absence of secondary market

No assurance is provided that there is an active and liquid secondary market for the Notes, and no assurance is provided that a secondary market for the Notes will develop. None of the Notes have been, or will be, registered under the Securities Act or any other applicable securities laws and they are subject to certain restrictions on the resale and other transfer thereof as set forth under Subscription and Sale and Transfer and Selling Restrictions. To the extent that a secondary market exists or develops, it may not continue for the life of the Notes or it may not provide Noteholders with liquidity of investment with the result that a Noteholder may not be able to find a buyer to buy its Notes readily or at prices that will enable the Noteholder to realise a desired yield. Any investor in the Notes must be prepared to hold their Notes until their Final Maturity Date.

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

As at the date of this Prospectus, the secondary market for mortgage-backed securities is experiencing significant disruptions resulting from reduced investor demand for such securities. This has had a material adverse impact on the market value of mortgage-backed securities and resulted in the secondary market for mortgage-backed securities experiencing very limited liquidity. Structured investment vehicles, hedge funds, issuers of collateralised debt obligations and other similar entities that are currently experiencing funding difficulties have been forced to sell mortgage-backed securities into the secondary market. The price of credit protection on mortgage-backed securities through credit derivatives has risen materially.

Limited liquidity in the secondary market may continue to have an adverse effect on the market value of mortgage-backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the requirements of limited categories of investors. Consequently, whilst these market conditions persist, an investor in the Notes may not be able to sell or acquire credit protection on its Notes readily and market values of the Notes are likely to fluctuate. Any of these fluctuations may be significant and could result in significant losses to an investor. It is not known for how long these market conditions will continue or whether they will worsen.

Recent mortgage loan market developments

In late 2006 the sub-prime mortgage loan market in the United States commenced a period characterised by a large number of borrower defaults. Prior to the commencement of such period, a significant volume of sub-prime mortgage loans had been securitised and, in turn, sub-prime mortgage backed securities had been sold to various investment funds. As a result of the deterioration of the U.S. sub-prime mortgage loan market, funds and institutions that invested in U.S. sub-prime mortgage-backed securities began experiencing significant losses which has triggered a series of events that have resulted in a severe liquidity crisis in the global credit markets since the summer of 2007.

There exist significant additional risks for the Issuer and investors as a result of the current liquidity crisis. Those risks include, among others, (i) the likelihood that the Issuer will find it harder to sell any of its assets in the secondary market, (ii) the possibility that, on or after the Closing Date, the price at which assets can be sold by the Issuer will have deteriorated from their effective purchase price and (iii) the increased illiquidity of mortgage-backed securities as there is currently limited liquidity in the secondary markets. These additional risks may affect the returns on the Notes to investors and/or the ability of investors to realise their investment in the Notes prior to their stated maturity.

The impact of the liquidity crisis on the primary market may additionally adversely affect the servicing flexibility of the Servicer in relation to the Portfolio and, ultimately the returns on the Notes to investors.

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

Borrowers seeking to avoid increased monthly payments (caused by, for example, the expiry of an initial fixed rate or low introductory rate, or a rise in the related mortgage interest rates) by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. Any decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Furthermore, the current Standard Variable Mortgage Rate cap at 2 per cent. over the Bank of England Base Rate in the Seller's mortgage terms means that the reversionary rate for Borrowers reaching the end of their fixed or tracker periods is currently lower than prevailing market rates. This means that it is less likely that they will refinance. These events, alone or in combination, may contribute to higher delinquency rates, slower prepayment spreads and higher losses.

Risks relating to the Banking Act 2009

Under the Banking Act 2009 (the **Banking Act**), substantial powers have been granted to HM Treasury, the Bank of England and the UK Financial Services Authority (the **FSA** and, together with HM Treasury and the Bank of England, the **Authorities**) as part of the special resolution regime (the **SRR**). These powers enable the Authorities to deal with and stabilise UK-incorporated institutions with permission to accept deposits pursuant to Part IV of the Financial Services and Markets Act 2000 (the **FSMA**) (such as the Seller, Interest Rate Swap Provider, Swap Guarantor, Account Bank, GIC Provider, Loan Facility Provider etc) (each a **relevant entity**) that are failing or are likely to fail to satisfy the threshold conditions (within the meaning of section 41 of the FSMA). The SRR consists of three stabilisation options: (i) transfer of all or part of the business of the relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a "bridge bank" wholly-owned by the Bank of England; and (iii) temporary public ownership of the relevant entity. HM Treasury may also take a parent company of a relevant entity into temporary public ownership where certain conditions are met. The Banking Act also provides for two new insolvency and administration procedures for relevant entities. Certain ancillary powers include the power to modify certain contractual arrangements in certain circumstances. It is possible that one of the stabilisation options could be exercised prior to the point at which any application for an insolvency or administration order with respect to the relevant entity could be made.

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

If an instrument or order were to be made under the Banking Act in respect of a relevant entity, such instrument or order may (amongst other things) affect the ability of such entities to satisfy their obligations under the Transaction Documents and/or result in modifications to such documents. In particular, modifications may be made pursuant to powers permitting certain trust arrangements to be removed or modified (such as e.g. the CCA Trust or any Scottish Trust) and/or via powers which permit provision to be included in an instrument or order such that the relevant instrument or order (and certain related events) is required to be disregarded in determining whether certain widely defined "default events" have occurred (which events would include certain trigger events included in the Transaction Documents in respect of the relevant entity, including termination events and (in the case of the Seller) trigger events in respect of perfection of legal title to the Mortgage Loans). As a result, the making of an instrument or order in respect of a relevant entity may affect the ability of the Issuer to meet its obligations in respect of the Notes. While

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

At present, the UK authorities have not made an instrument or order under the Banking Act in respect of the relevant entities referred to above and there has been no indication that it will make any such instrument or order, but there can be no assurance that this will not change and/or that Noteholders will not be adversely affected by any such instrument or order if made.

Homeowner Mortgage Support Scheme

On 3 December 2008, the UK Government released a preliminary announcement on the Homeowner Mortgage Support Scheme (the **Homeowner Mortgage Support Scheme** or **HMSS**). Further details on the HMSS were published on 10 December 2008. The final scheme documentation was published on 21 April 2009 at which time, the Seller announced its intention to participate in the HMSS. The terms of the HMSS provide that, subject to certain conditions, eligible mortgage borrowers experiencing a temporary loss of income will be allowed to defer up to 70% of interest payments for up to two years, with a percentage of the deferred interest payments being guaranteed by the UK Government in certain circumstances should the borrower default. The Seller has undertaken to repurchase any Loans in the Portfolio prior to any Borrower in respect of such Loan being admitted into the HMSS by the Seller. However, the participation by the Seller in the HMSS may have an adverse effect on the collection of interest on the Seller's loans, the timing of enforcement of the mortgages and accordingly on the Seller's financial condition.

Ratings of the Notes

The ratings address the likelihood of full and timely payment to the Noteholders of all payments of interest on each Interest Payment Date and ultimate payment of principal on the Final Maturity Date of each Class of Notes.

The expected ratings of the Notes assigned on the Closing Date are set out in "Ratings", below. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation if, in its judgement, circumstances (including without limitation, a reduction in the credit rating of the Interest Rate Swap Provider, Swap Guarantor and/or the Account Bank) in the future so warrant. See also "Change of Counterparties" below.

Conflict between Noteholders

There may be circumstances where the interests of the Class A1 Noteholders and the Class A2 Noteholders conflict.

Unless expressly provided otherwise, the Trust Deed and the Conditions of the Notes will provide that where, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, there is such a conflict, then the Note Trustee shall not be obliged to take any action unless and until directed by the Noteholders of each Class, but on the basis that a resolution directing the Note Trustee to take any action must be passed at separate meetings of the holders of each such Class of the Notes then outstanding. A resolution may only be passed at a single meeting of the Noteholders of each Class of the Notes if the Note Trustee is, in its absolute discretion, satisfied that there is no conflict between them.

Similar provisions will apply in relation to requests in writing or directions from holders of a specified percentage of the principal amount outstanding of the Notes of each Class of Notes.

Conflict Between Noteholders and other Secured Creditors

So long as any of the Notes are outstanding, neither the Security Trustee nor the Note Trustee shall have regard to the interests of the other Secured Creditors, subject to the provisions of *Condition 12.5*.

LTSBS as Initial Purchaser will purchase all of the Notes on the Closing Date (see "*Subscription and Sale*" below). While LTSBS remains the beneficial owner of any whole class of Notes, it will be entitled to vote in respect of them. Entities within the Lloyds Banking Group act in various capacities in the transaction, including as Seller, Servicer, Cash Manager, Interest Rate Swap Provider, Loan Facility Provider, Initial Note Purchaser and Arranger. Actual or potential conflicts may arise between the interests of such entities and the interests of the Issuer and the Noteholders.

Meetings of Noteholders, Modification and Waivers

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

The Conditions also provide that the Note Trustee or, as the case may be, the Security Trustee, may agree, without the consent of the Noteholders or the other Secured Creditors (but, in the case of the Security Trustee only, with the written consent of the Secured Creditors which are a party to the relevant Transaction Document), to (i) any modification of, or the waiver or authorisation of, any breach or proposed breach of, the Conditions of the Notes or any of the Transaction Documents which is not, in the opinion of the Note Trustee, or as the case may be, the Security Trustee, materially prejudicial to the interests of the Noteholders or (ii) any modification which, in the Note Trustee's or, as the case may be, the Security Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, proven. The Note Trustee may also, without the consent of the Noteholders, if it is of the opinion that such determination will not be materially prejudicial to the interests of the Noteholders, determine that an Event of Default shall not, or shall not subject to specified conditions, be treated as such. See "*Terms and Conditions of the Notes – Condition 12 (Meetings of Noteholders, Modification and Waiver)*" below.

The Note Trustee and the Security Trustee are not obliged to act in certain circumstances

Upon the occurrence of an Event of Default, the Note Trustee may, in its absolute discretion, give a Note Acceleration Notice. The Note Trustee will only be obliged to give a Note Acceleration Notice if it is directed in writing by the holders of not less than 25% in aggregate Principal Amount Outstanding of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders and, in each case, provided that it is indemnified and/or secured to its satisfaction. See "*Terms and Conditions of the Notes – Condition 10.1 (Events of Default)*" below.

Each of the Note Trustee and the Security Trustee may, at any time, at their discretion and without notice, take such proceedings against the Issuer or any other party to any of the Transaction Documents as it may think fit to enforce the provisions of any of the Transaction Documents and at any time after the service of a Note Acceleration Notice, the Security Trustee may, at its discretion and without notice, take such steps as it may think fit to enforce the Security. However, neither of the Note Trustee nor the Security Trustee shall be bound to take any such proceedings or steps unless:

- (a) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so directed in writing by the holders of at least 25% in aggregate Principal Amount Outstanding of the Notes then outstanding; and
- (b) it shall have been indemnified and/or secured to its satisfaction.

See further "*Terms and Conditions of the Notes – Condition 11 (Enforcement)*" below.

In addition, each of the Note Trustee and the Security Trustee benefit from indemnities given to them by the Issuer pursuant to the Transaction Documents.

Further Notes, New Notes and Replacement Notes

The Issuer may, without the consent of the Noteholders issue Further Notes, New Notes or Replacement Notes, as applicable, in accordance with the Conditions, provided that certain conditions are met (including confirmation from S&P that the then current rating of the Notes will not be downgraded, withdrawn or qualified as a result of the issuance of such Notes and notification of such further issuance to Moody's). The total value of the Further Notes, together with any New Notes or Replacement Notes to be issued on the same date must be at least £10 million. Any such New Notes may rank *pari passu* with or in priority or subordinate to any existing Notes then outstanding. In addition, upon issuance of such Further Notes, New Notes or Replacement Notes, the Transaction Documents may be amended and further Transaction Documents may be entered into, in connection with the issue of such Further Notes, Replacement Notes or New Notes and the claims of any of the parties to any amended Transaction Documents or any further Transaction Documents may rank ahead of, *pari passu* with, or behind, any class or classes of the Notes, provided, in each case, that *Condition 16* is satisfied.

Book-Entry Interests

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

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

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

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

procedures to be implemented by Euroclear and Clearstream, Luxembourg under such circumstances will be adequate to ensure the timely exercise of remedies under the Trust Deed.

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

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

Interest Rate Risk

The Loans in the Portfolio are subject to variable and fixed interest rates while the Issuer's liabilities under the Notes are based on Three-Month Sterling LIBOR.

To hedge its interest rate exposure, the Issuer will enter into the Interest Rate Swap on or about the Closing Date with the Interest Rate Swap Provider (see "*Credit Structure — Interest Rate Risk for the Notes*" below). The payment and delivery obligations of the Interest Rate Swap Provider under the Interest Rate Swap Agreement will be guaranteed by the Swap Guarantor.

A failure by the Interest Rate Swap Provider or Swap Guarantor to make timely payments of amounts due under the Interest Rate Swap Agreement will constitute a default thereunder. The Interest Rate Swap Provider is obliged to make payments under the Interest Rate Swap Agreement only to the extent that the Issuer makes payments under the Interest Rate Swap Agreement to it. To the extent that the Interest Rate Swap Provider defaults in its obligations under the Interest Rate Swap Agreement to make payments to the Issuer in Sterling calculated by reference to Three-Month Sterling LIBOR, on any payment date under the Interest Rate Swap (which corresponds to an Interest Payment Date) and such payment is not made by the Swap Guarantor, the Issuer will be exposed to the possible variance between various fixed and variable rates payable on the Loans in the Portfolio and Three-Month Sterling LIBOR. Unless one or more comparable replacement interest rate swaps are entered into, the Issuer may have insufficient funds to make payments due on the Notes.

The Interest Rate Swap Agreement will provide that, upon the occurrence of certain events, the Interest Rate Swap may terminate and a termination payment by either the Issuer or the Interest Rate Swap Provider will be payable based on the cost of a replacement transaction. Any termination payment due by the Issuer (other than an Interest Rate Swap Excluded Termination Amount and to the extent not satisfied by any applicable Replacement Swap Premium, which shall be paid directly by the Issuer to the Interest Rate Swap Provider) will rank prior to payments in respect of the Notes. In each case, payment of such termination amounts may affect amounts available to pay interest and principal on all the Notes.

Any additional amounts required to be paid by the Issuer following termination of the Interest Rate Swap (including any extra costs incurred in entering into replacement interest rate swaps) will also rank prior to payments in respect of the Notes. This may affect amounts available to pay interest on the Notes and, following service of a Note Acceleration Notice on the Issuer (which has not been revoked), interest and principal on the Notes.

No assurance can be given as to the ability of the Issuer to enter into one or more replacement transactions, or if one or more replacement transactions are entered into, as to the credit rating of the interest rate swap provider for the replacement transactions.

Issuer Reliance on Other Third Parties

The Issuer is also party to contracts with a number of other third parties who have agreed to perform services in relation to the Notes. In particular, but without limitation, the Corporate Services Provider has agreed to provide certain corporate services to the Issuer pursuant to the Corporate Services Agreement, the Account Bank has agreed to provide the GIC Account and the Transaction Account to the Issuer pursuant to the Bank Account Agreement, the Servicer has agreed to service the Portfolio pursuant to the Servicing Agreement, the Cash Manager has agreed to provide cash management services pursuant to the Cash Management Agreement, the Parent Support Provider has agreed to use its best efforts to procure that the Servicer and Cash Manager (or another company within the Lloyds Banking Group) perform their respective obligations under the relevant agreements pursuant to the Parent Support Deed and the Paying Agents, the Registrar and the Agent Bank have all agreed to provide services with respect to the Notes pursuant to the Agency Agreement. In the event that any of the above parties were to fail to perform their obligations under the respective agreements to which they are a party, Noteholders may be adversely affected.

The Servicer

If the Servicer is removed, there is no guarantee that a substitute servicer would be found, which could delay collection of payments on the Loans and ultimately could adversely affect payments on the Notes.

C&G has been appointed by the Issuer as Servicer to service the Loans. If the Servicer breaches the terms of the Servicing Agreement, then (prior to the delivery of a Note Acceleration Notice and with the prior written consent of the Security Trustee) the Issuer or (after delivery of a Note Acceleration Notice) the Security Trustee will be entitled to terminate the appointment of the Servicer and the Issuer and the Seller shall use their reasonable endeavours to appoint a new servicer in its place whose appointment is approved by the Security Trustee.

Under the terms of the Parent Support Deed, the Parent Support Provider has undertaken to use its best efforts to procure that the Servicer (or another company within the Lloyds Banking Group) shall perform its obligations under the Servicing Agreement.

There can be no assurance that a substitute servicer with sufficient experience of servicing the Loans would be found who would be willing and able to service the Loans on the terms of the Servicing Agreement. In addition, as described below, any substitute servicer will be required, *inter alia*, to be authorised under the FSMA in order to service Loans that constitute regulated mortgage contracts. The ability of a substitute servicer to fully perform the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect payments on the Loans and hence the Issuer's ability to make payments when due on the Notes.

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

Withholding Tax Under the Notes

In the event that any withholding or deduction for or on account of any taxes is imposed in respect of payments to Noteholders of any amounts due under the Notes, neither the Issuer nor any other person is obliged to gross up or otherwise compensate Noteholders for the lesser amounts the Noteholders will receive as a result of such withholding or deduction. However, in such circumstances, the Issuer will, in accordance with *Condition 7.4 (Optional Redemption for Taxation or Other Reasons)* of the Notes, use reasonable endeavours to prevent such an imposition.

As of the date of this Prospectus, no withholding or deduction for or on account of UK tax will be required on interest payments to any holders of the Notes provided that the Notes carry a right to interest and are and

continue to be listed on a recognised stock exchange. The London Stock Exchange is a recognised stock exchange for such purposes and the Notes will be treated as listed on the London Stock Exchange if the Notes are included in the Official List (within the meaning of and in accordance with the provisions of Part VI of the FSMA) and admitted to trading on the London Stock Exchange.

Searches, Investigations and Warranties in Relation to the Loans

The Seller will give certain warranties to each of the Issuer and the Security Trustee regarding the Initial Loans and their Initial Related Security sold to the Issuer on the Closing Date and will give similar warranties to each of the Issuer and the Security Trustee regarding any New Loans and their New Related Security sold to the Issuer on any Sale Date or in relation to any Further Advances and Product Switches at the relevant Advance Date or Switch Date, as applicable (see "*Summary of Key Transaction Documents — Mortgage Sale Agreement*" below for a summary of these).

Neither the Security Trustee nor the Issuer has undertaken, or will undertake, any investigations, searches or other actions of any nature whatsoever in respect of any Loan or its Related Security in the Portfolio and each relies instead on the warranties given in the Mortgage Sale Agreement by the Seller. The primary remedy of the Issuer against the Seller if any of the warranties made by the Seller is materially breached or proves to be materially untrue as at the Closing Date, the Sale Date, the Advance Date or the Switch Date (as applicable), which breach is not remedied within 20 Business Days of receipt by the Seller of a notice from the Issuer, shall be to require the Seller to repurchase any relevant Loan and its Related Security. There can be no assurance that the Seller will have the financial resources to honour such obligations under the Mortgage Sale Agreement. This may affect the quality of the Loans and their Related Security in the Portfolio and accordingly the ability of the Issuer to make payments due on the Notes.

It should also be noted that any warranties made by the Seller in relation to a New Portfolio, Further Advances and/or Product Switches may be amended from time to time and differ from the warranties made by the Seller at the Closing Date without the consent of the Noteholders provided that the Security Trustee has given its consent to such amendments (and for such purpose, the Security Trustee may, but is not obliged to, have regard to whether the Rating Agencies have confirmed that they will not downgrade, withdraw or qualify the ratings of the Notes as a result of those amendments (and, for the avoidance of doubt, the Rating Agencies will not be required to provide such confirmation)). Changes to the warranties may affect the quality of Loans in the Portfolio and accordingly the ability of the Issuer to make payments due on the Notes.

Interest Only Loans

Each Loan in the Portfolio may be repayable either on a capital repayment basis, an interest-only basis or a combination capital repayment/interest payment basis (see "*The Loans — Repayment Terms*" below). Where the Borrower is only required to pay interest during the term of the Loan, with the capital being repaid in a lump sum at the end of the term, the Borrower is recommended to ensure that some repayment mechanism such as an investment policy is put in place to ensure that funds will be available to repay the capital at the end of the term. However, the Seller does not require proof of any such repayment mechanism and does not take security over any investment policies taken out by Borrowers. The Seller also strongly recommends that the Borrower take out a life insurance policy in relation to the Loan but, as with any of the repayment mechanisms, the Seller does not have the benefit of security over life policies.

Borrowers may not have been making payment in full or on time of the premiums due on any relevant investment or life policy, which may therefore have lapsed and/or no further benefits may be accruing thereunder. In certain cases, the policy may have been surrendered but not necessarily in return for a cash payment and any cash received by the Borrower may not have been applied in paying amounts due under the Loan. Thus the ability of such a Borrower to repay an Interest-Only Loan (as defined in "*The Loans — Repayment Terms*" below) at maturity without resorting to the sale of the underlying property depends on such Borrower's responsibility in ensuring that sufficient funds are available from a given source such as pension policies, PEPs, ISA or endowment policies, as well as the financial condition of the Borrower, tax

laws and general economic conditions at the time. If a Borrower cannot repay an Interest-Only Loan and a Loss occurs, this may affect repayments on the Notes if the resulting Principal Deficiency Ledger entry cannot be cured.

Seller to Initially Retain Legal Title to the Loans

The sale by the Seller to the Issuer of the English Loans and their Related Security (until legal title is conveyed) takes effect in equity only. The sale by the Seller to the Issuer of the Scottish Loans and their Related Security is given effect to by one or more Scottish Declarations of Trust by the Seller by which the beneficial interest in such Scottish Loans and their Related Security is held in trust by the Seller for the benefit of the Issuer. In each case, this means that legal title to the Loans and their Related Security in the Portfolio will remain with the Seller until certain trigger events occur under the terms of the Mortgage Sale Agreement (see "*Summary of the Key Transaction Documents — Mortgage Sale Agreement*", below). Until such time, the assignment by the Seller to the Issuer of the English Loans and their Related Security takes effect in equity only and the beneficial interest of the Scottish Loans and their Related Security from the Seller to the Issuer is by way of one or more Scottish Declarations of Trust declared by the Seller in favour of the Issuer. The Issuer has not and will not apply to the Land Registry to register or record its equitable interest in the English Mortgages and may not in any event apply to the General Register of Sasines or Land Register of Scotland (as appropriate) (together the **Registers of Scotland**) to register or record its beneficial interest in the Scottish Mortgages pursuant to the Scottish Declarations of Trust.

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

Further, prior to the insolvency of the Seller, unless (i) notice of the assignment was given to a Borrower who is a creditor of the Seller in the context of English Loans and their Related Security and (ii) an assignation of the Scottish Loans and their Related Security is effected by the Seller to the Issuer and notice thereof is then given to a Borrower who is a creditor of the Seller, equitable or independent set-off rights may accrue in favour of the Borrower against his or her obligation to make payments to the Seller under the relevant Loan. These rights may result in the Issuer receiving reduced payments on the Loans. The transfer of the benefit of any Loans to the Issuer will continue to be subject to any prior rights the Borrower may become entitled to after the transfer. Where notice of the assignment is given to the Borrower or an assignation is effected and notice thereof is given, however, some rights of set-off may not arise after the date notice is given.

Until notice of the assignment is given to Borrowers or an assignation is effected and notice thereof is given, the Issuer would not be able to enforce any Borrower's obligations under a Loan or Related Security itself but would have to join the Seller as a party to any legal proceedings. Borrowers will also have the right to redeem their Mortgages by repaying the relevant Loan directly to the Seller. However, the Seller will undertake, pursuant to the Mortgage Sale Agreement, to hold any money repaid to it in respect of relevant Loans to the order of the Issuer.

If any of the risks described above were to occur then the realisable value of the Portfolio or any part thereof may be affected.

Once notice has been given to the Borrowers of the assignment or assignation (as appropriate) of the Loans and their Related Security to the Issuer, independent set-off rights which a Borrower has against the Seller (such as, for example, set-off rights associated with Borrowers holding deposits with the Seller) will crystallise and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under "transaction set-off"

(which are set-off claims arising out of a transaction connected with the Loan) will not be affected by that notice and will continue to exist.

For so long as the Issuer does not have legal title, the Seller will undertake for the benefit of the Issuer that it will lend its name to, and take such other steps as may reasonably be required by the Issuer in relation to, any legal proceedings in respect of the relevant Loans and their Related Security.

Notwithstanding the above, until the Issuer has confirmed that it has obtained the requisite licence under the CCA, the Seller will hold the English Loans on a bare trust absolutely for the Issuer. Following receipt by the Seller of such confirmation from the Issuer that it has obtained the requisite licence, such Loans and their Related Security will be automatically assigned to the Issuer. In the event of the occurrence of a perfection event prior to the Issuer obtaining its licence under the CCA, the Issuer will not make any of the notifications or registrations required pursuant to the Mortgage Sale Agreement to perfect its title to the Loans. However it shall instead send written notice to each Borrower, informing such Borrower of the interests of the Issuer in respect of such Borrower's Loan and its Related Security pursuant to the CCA Trust or any Scottish Declaration of Trust (as applicable) and will only perfect its title to the Loans once it has obtained its CCA licence. The Issuer is currently in the process of obtaining a CCA licence.

Product Switches and Further Advances

The Seller or the Servicer (on behalf of the Seller) may offer a Borrower, or a Borrower may request, a Further Advance or a Product Switch from time to time. Any Loan which has been the subject of a Further Advance or a Product Switch following an application by the Borrower will remain in the Portfolio unless the Issuer subsequently determines that any Loan Warranty made with respect to a Loan which is subject to a Further Advance or a Product Switch was materially untrue as at the relevant Advance Date or Switch Date (as applicable), and such default is not remedied within 20 Business Days of the Seller (or the Servicer on its behalf) receiving notice from the Issuer. In these circumstances, the Seller will be required to repurchase the relevant Loan and its Related Security (see further "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Repurchase by the Seller*".)

The Seller or the Servicer (on behalf of the Seller) having proposed making a Further Advance or Product Switch (as applicable) may, despite the circumstances set out in "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Further Advances and Product Switches*", as alternatives to selling the Further Advance to the Issuer or keeping the Loan which is the subject of the Product Switch remaining in the Portfolio (as applicable), elect to repurchase the Loan and its Related Security as set out in "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Repurchase by the Seller*".

It should be noted that any warranties made by the Seller in relation to a Further Advance and/or a Product Switch may be amended from time to time and such changes will be notified to the Rating Agencies. The consent of the Noteholders in relation to such amendments will not be obtained if the Security Trustee has given its prior consent to such amendment (and for such purpose, the Security Trustee may, but is not obliged to, have regard to any confirmation from each of the Rating Agencies that it will not downgrade, withdraw or qualify the ratings of the Notes as a result of those amendments). Where the Seller is required to repurchase because the warranties are not true, there can be no assurance that the Seller will have the financial resources to honour its repurchase obligations under the Mortgage Sale Agreement. Either of these circumstances may affect the quality of the Loans and their Related Security in the Portfolio and accordingly the ability of the Issuer to make payments on the Notes.

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

Further, there may be circumstances in which a Borrower might seek to argue that any Loan, Further Advance or Product Switch is wholly or partly unenforceable by virtue of non-compliance with the FSMA or the CCA as further discussed below.

If this were to occur, then this could adversely affect the Issuer's ability to make payments due on the Notes or to redeem the Notes.

Delinquencies or Default by Borrowers in paying amounts due on their Loans

Borrowers may default on their obligations under the Loans in the Portfolio. Defaults may occur for a variety of reasons. The Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Although interest rates are currently at a historical low, this may change in the future and an increase in interest rates may adversely affect Borrowers' ability to pay interest or repay principal on their Loans. Other factors in Borrowers' individual, personal or financial circumstances may affect the ability of Borrowers to repay the Loans. Unemployment, loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by and bankruptcies of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay the Loans. In addition, the ability of a Borrower to sell a property given as security for a Loan at a price sufficient to repay the amounts outstanding under that Loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time.

Default risks relating to buy-to-let Properties in the Portfolio

Buy-to-let loans are included in the Portfolio. Buy-to-let loans are loans where the relevant Properties are not owner-occupied and may be let by the relevant Borrower to tenants. The Borrower's ability to service payment obligations in respect of such Loans is likely to depend on the Borrower's ability to lease the relevant Properties on appropriate terms. However, there can be no guarantee that each such Property will be the subject of an existing tenancy when the relevant Loan is acquired by the Issuer or that any tenancy which is granted will subsist throughout the life of the Loan and/or that the rental income achievable from such tenancy will be sufficient (or that there will not be any default of payment in rent) to provide the Borrower with sufficient income to meet the Borrower's interest obligations in respect of the Loan. This dependency on leasing income may increase the likelihood during difficult market conditions that the rate of delinquencies and losses on buy-to let mortgages will be higher than for owner-occupied mortgages.

Upon enforcement of a Mortgage in respect of a Property which is the subject of an existing tenancy, the Servicer may not be able to obtain vacant possession of the Property in which case the Servicer will only be able to sell the Property as an investment property with one or more sitting tenants. This may affect the amount which the Servicer could realise upon enforcement of the Mortgage and a sale of the Property.

However, enforcement procedures in relation to such Mortgages (excluding any Scottish Mortgage) include appointing a receiver of rent in which case such a receiver must collect any rents payable in respect of the Property and apply them accordingly in payment of any interest and arrears accruing under the Mortgage. Under Scots law, a receiver cannot be appointed under a fixed charge (such as a Scottish Mortgage) and accordingly all enforcement procedures, including collection of rents, must be undertaken by the holder of the standard security (termed under Scots law the "heritable creditor") in its own name and thereafter (as in England and Wales) applied in payment of sums due under the relevant Scottish Mortgage.

Change of counterparties

The parties to the Transaction Documents who receive and hold monies or provide support to the transaction pursuant to the terms of such documents (such as the Account Bank and the Interest Rate Swap Provider

(or the Swap Guarantor)) are required to satisfy certain criteria in order that they can continue to be a counterparty to the Issuer.

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

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

Insurance Policies

The policies of the Seller in relation to buildings insurance are described under "*The Loans — Buildings Insurance Policies*", below. No assurance can be given that the Issuer will always receive the benefit of any claims made under any applicable buildings insurance contracts. This could adversely affect the Issuer's ability to redeem the Notes.

Notes where denominations involve integral multiples

The Notes have a denomination consisting of a minimum authorised denomination of £100,000 plus higher integral multiples of £1,000 thereafter. Accordingly, it is possible that Notes may be traded in amounts in excess of the minimum authorised denomination that are not integral multiples of such denomination. In such a case, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum authorised denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to the minimum authorised denomination (or another relevant denomination amount).

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 authorised denomination may be illiquid and difficult to trade.

Fixed charges may take effect under English law as floating charges

Pursuant to the terms of the Deed of Charge, the Issuer has purported to grant fixed charges over, amongst other things, its interests in the English Loans and their Related Security, its rights and benefits in the Accounts and all Authorised Investments purchased from time to time.

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the Issuer (other than by way of assignment in security) may take effect under English law as floating charges only, if, for example, it is determined that the Security Trustee does not exert sufficient control over the Charged Assets. If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Security Trustee in respect of the floating charge assets. In particular, the expenses of any winding up or administration, and the claims of any preferential creditors, would rank ahead of the claims of the Security Trustee in this regard. The Enterprise Act 2002 abolished the preferential status of certain Crown debts (including the claims of the UK tax authorities). However, certain employee claims (in respect of contributions to pension schemes and wages) still have preferential status. In this regard, it should be noted that the Issuer has agreed in the Transaction Documents not to have any employees.

The interest of the Secured Creditors in property and assets over which there is a floating charge will rank behind the expenses of any administration or liquidator and the claims of certain preferential creditors on enforcement of the Security. Section 250 of the Enterprise Act 2002 abolishes Crown Preference in relation to all insolvencies (and thus reduces the categories of preferential debts that are to be paid in priority to debts due to the holder of a floating charge) but a new Section 176A of the Insolvency Act 1986 (as inserted by Section 251 of the Enterprise Act 2002) requires a "prescribed part" (up to a maximum amount of £600,000) of the floating charge realisations available for distribution to be set aside to satisfy the claims of unsecured creditors. This means that the expenses of any administration, the claims of preferential creditors and the beneficiaries of the prescribed part will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to Noteholders. The prescribed part will not be relevant to property subject to a valid fixed security interest or to a situation in which there are no unsecured creditors.

In addition, any administrative receiver, administrator or liquidator appointed in respect of the Issuer will be required to set aside the prescribed percentage or percentages of the floating charge realisations in respect of the floating charges contained in the Deed of Charge.

Legal considerations may restrict certain investments

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

UK Government Credit Guarantee Scheme, ABS Guarantee Scheme and Financial Services Compensation Scheme not applicable

On 8 October 2008, the UK Government announced the introduction of a new credit guarantee scheme pursuant to which the Government will make available to eligible institutions for an interim period a guarantee of new short and medium term debt issuance to assist in refinancing maturing, wholesale funding obligations as they fall due. The UK Government has indicated that certain debt instruments including the Notes are not covered by the guarantee provided under the scheme and, as such, for the avoidance of doubt, the obligations of the Issuer in respect of the Notes are not guaranteed by the UK Government under the above credit guarantee scheme. In addition, on 19 January 2009, the UK government announced the introduction of the asset backed securities guarantee scheme. The Notes are not guaranteed by the UK Government under the asset backed securities guarantee scheme. Also, any investment in the Notes does not have the status of a bank deposit in England and Wales and is not within the scope of the UK Financial Services Compensation Scheme.

Change of Law

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

Certain Regulatory Considerations

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

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

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

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

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

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

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

Consumer Credit Act

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

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

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

An alternative dispute resolution scheme for consumer credit matters was established on 6 April 2007. The scheme is mandatory for all businesses licensed under the CCA. The OFT is given far broader powers under the CCA 2006 from 6 April 2008. For example, it can apply civil penalties, has far greater powers of investigation and can issue indefinite standard licences. For appeals against such decisions by the OFT, the CCA 2006 introduced an independent Consumer Credit Appeals Tribunal whose functions are expected to be transferred to the General Regulatory Chamber on 1 September 2009.

The financial limit of £25,000 for CCA regulation has been removed for credit agreements made on or after 6 April 2008, except for certain changes to credit agreements, and except for certain buy-to-let loans made before 31 October 2008. Buy-to-let loans made on or after 31 October 2008 are, irrespective of amount, exempt agreements under the CCA. Regulations define buy-to-let loans for these purposes as being credit agreements secured on land where less than 40 per cent. of the floor area of the secured property is used, or is intended to be used, as or in connection with a dwelling by the borrower or by a connected person. A court order under section 126 of the CCA is, however, necessary to enforce a land mortgage (including, in Scotland, a standard security) securing a buy-to-let loan to the extent that the credit agreement would, apart from this exemption, be regulated by the CCA or treated as such.

To the extent that the credit agreement is regulated by the CCA or treated as such, it is unenforceable for any period when the lender fails to comply with requirements as to default notices. From 1 October 2008, (a) the credit agreement is also unenforceable for any period when the lender fails to comply with further requirements as to annual statements and arrears notices, (b) the borrower will not be liable to pay interest or, in certain cases, default fees for any period when the lender fails to comply with further requirements as to post-contract disclosure, and (c) interest upon default fees will be restricted to nil until the 29th day after the day on which a prescribed notice is given and then to simple interest. Charges payable for early repayment in full are restricted by a formula under the CCA, which applies to the extent that the credit agreement is regulated by the CCA or treated as such. A more restrictive formula applies to credit agreements made on or after 31 May 2005 and applies retrospectively to existing credit agreements from 31 May 2007 or 31 May 2010, depending on their term. These changes to the CCA may result in adverse effects on the Issuer's ability to make payment in full on the Notes when due.

The Seller has interpreted certain technical rules under the CCA in a way common with many other lenders in the mortgage market. If such interpretation were held to be incorrect by a court or the Financial Ombudsman Service (as defined below), then a Loan, to the extent that it is regulated by the CCA or treated as such, would be unenforceable as described above. If such interpretation were challenged by a significant number of Borrowers, then this could lead to significant disruption and shortfall in the income of the Issuer. Court decisions have been made on technical rules under the CCA against certain mortgage lenders, but such decisions are very few and are generally county court decisions which are not binding on other courts.

The Seller has given or, as applicable, will give warranties to the Issuer in the Mortgage Sale Agreement that, among other things, each Loan and its Related Security is enforceable (subject to exceptions). If a Loan or its Related Security does not comply with these warranties, and if the default (if capable of remedy)

cannot be or is not cured within 20 Business Days, then the Seller will, upon receipt of notice from the Issuer, be required to repurchase all of the relevant Loans secured on the same Property (together, forming one **Mortgage Account**) and their Related Security from the Issuer.

FSA Regulation of Mortgage Business

In the United Kingdom, regulation of residential mortgage business by the FSA under the FSMA came into force on 31 October 2004 (**N(M)**).

Since N(M), the following activities: (i) entering into as lender; (ii) servicing (in this context, meaning notifying borrowers of changes in mortgage payments and/or collecting payments due under a mortgage loan); (iii) arranging in respect of; and (iv) advising in respect of regulated mortgage contracts as well as (v) agreeing to do any of those activities, are (subject to exemptions) regulated activities under the FSMA.

A credit agreement is a **Regulated Mortgage Contract** under the FSMA if it is originated on or after N(M) and at the time it is entered into: (i) the credit agreement is one under which the lender provides credit to an individual or trustee; (ii) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage (or the Scottish equivalent) on land (other than timeshare accommodation) in the United Kingdom and (iii) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to a trustee) by an individual who is a beneficiary of the trust or by a related person.

The main effects are that, on and after N(M), unless an exclusion or exemption applies (a) each entity carrying on a regulated mortgage activity by way of business has to hold authorisation and permission from the FSA to carry on that activity and (b) each financial promotion in respect of an agreement relating to qualifying credit has to be issued or approved by a person holding authorisation and permission from the FSA. It should be noted that the definition of "qualifying credit" is broader than that of "regulated mortgage contract" and may include mortgage loans that are regulated by the CCA or treated as such or unregulated and under which the lender is a person (such as the Seller) who carries on the regulated activity of entering into a regulated mortgage contract. If requirements as to authorisation and permission of lenders and brokers or as to the issue and approval of financial promotions are not complied with, a Regulated Mortgage Contract (or, in the case of requirements as to approval and issue of financial promotions, the relevant mortgage loan that is "qualifying credit" or other secured credit in question) will be unenforceable against the borrower except with the approval of a court. An unauthorised person who services a Regulated Mortgage Contract entered into on or after N(M) may commit a criminal offence, but this will not render the contract unenforceable against the borrower.

The Seller holds authorisation and permission to enter into and to service and, where applicable, to advise in respect of Regulated Mortgage Contracts. Subject to any exemption, brokers will be required to hold authorisation and permission to arrange and, where applicable, to advise in respect of Regulated Mortgage Contracts.

However, a person who is not an authorised person does not carry on the activity of servicing a Regulated Mortgage Contract where he arranges for another person, being an authorised person with permission to carry on that activity, to service the contract or services the contract himself for a period of not more than one month beginning with the day on which any such arrangement comes to an end. Accordingly, a special purpose vehicle (such as the Issuer) will not carry on the regulated activity of servicing Regulated Mortgage Contracts by having them serviced pursuant to a servicing agreement by an entity having the required authorisation and permission. If such a servicing agreement were to terminate, however, that vehicle would have a period of not more than one month to arrange for mortgage servicing to be carried out by a replacement servicer having the required permission.

Credit agreements that were entered into before N(M) but are subsequently changed such that a new contract is entered into on or after N(M), are regulated under the FSMA where they fall within the definition of "Regulated Mortgage Contract". However, on and after N(M), no variation has been or will be made to a

Loan and no Product Switch or Further Advance has been or will be made in relation to a Loan, where it would result in the Issuer advising or arranging in respect of, servicing or entering into a Regulated Mortgage Contract or agreeing to carry on any of these activities, if the Issuer would be required to be authorised under the FSMA to do so.

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

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

A borrower who is a private person may be entitled to claim damages for loss suffered as a result of any contravention by an authorised person of an FSA rule, and may set off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken (or exercise analogous rights in Scotland). Any such set-off may adversely affect the Issuer's ability to make payments in full on the Notes when due.

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

As some of the Loans to be included in the Portfolio were offered on or after N(M), the FSMA regime as set out above is intended to apply to such Loans, except generally buy-to-let Loans. By virtue of the definition in the FSMA of Regulated Mortgage Contracts, buy-to-let loans would not normally be construed as Regulated Mortgage Contracts, and it is not believed that any of the buy-to-let Loans included in the Portfolio would fall into that category subject to the risk of re-characterisation referred to four paragraphs above. Also, although other Loans to be included in the Portfolio were offered prior to N(M), as subsequent Product Switches relating to such Loans were documented as variations to the existing agreements, it is possible that a court could hold that such variations create a Regulated Mortgage Contract. The Seller has given or, as applicable, will give warranties to the Issuer and the Security Trustee in the Mortgage Sale Agreement that, among other things, each relevant Loan and its Related Security is enforceable (subject to exceptions). If a Loan or its Related Security does not comply with these warranties, and if the default cannot be remedied, the Seller will be required to repurchase or procure the repurchase of such Loan and its Related Security from the Issuer.

Prior to N(M), in the United Kingdom, self-regulation of mortgage business existed under the Mortgage Code (the **CML Code**) issued by the Council of Mortgage Lenders (the **CML**). The Seller subscribed to the CML Code and on and from N(M), as an authorised person, has been subject to the FSA requirements in MCOB. Membership of the CML and compliance with the CML Code were voluntary. The CML Code set out minimum standards of good mortgage business practice, from marketing to lending procedures and dealing with borrowers experiencing financial difficulties. Since 30 April 1998 lender-subscribers to the CML Code could not accept mortgage business introduced by intermediaries who were not registered with (before 1

November 2000) the Mortgage Code Register of Intermediaries or (on and after 1 November 2000 until 31 October 2004) the Mortgage Code Compliance Board. Complaints relating to breach of the CML Code were dealt with by the relevant scheme, such as the Banking Ombudsman Scheme or the Mortgage Code Arbitration Scheme.

European Directive on Consumer Credit

In April 2008, the European Parliament and the Council adopted a second directive on consumer credit, Directive 2008/48/EC of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC (the **Consumer Credit Directive**), which provides that, subject to exemptions, loans of at least €200 and not exceeding €75,000 between credit providers and consumers will be regulated. This directive requires member states to implement the directive by measures coming into force from 11 June 2010.

Loans secured by a land mortgage (including, in Scotland, a standard security) are, however, exempted from the Consumer Credit Directive and from the first consumer credit directive. The European Commission published a White Paper on mortgage credit in December 2007, setting out its tasks for 2008 and 2010 including, amongst other things, an assessment of the regulation of early repayment charges and 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 is 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 implemented in respect of mortgage credit would have on the Loans, the Seller, the Issuer, the Servicer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full on the Notes when due.

Distance Marketing

The Financial Services (Distance Marketing) Regulations 2004 apply to, *inter alia*, credit agreements entered into on or after 31 October 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator and the borrower). A Regulated Mortgage Contract under the FSMA, if originated by a UK lender from an establishment in the UK, will not be cancellable under these regulations but will be subject to related pre-contract disclosure requirements in MCOB. Certain other credit agreements will be cancellable under these regulations if the borrower does not receive the prescribed information at the prescribed time, or in any event for certain unsecured lending. Where the credit agreement is cancellable under these regulations, the borrower may send notice of cancellation at any time before the end of the 14th day after the day on which the cancellable agreement is made, where all the prescribed information has been received, or, if later, the borrower receives the last of the prescribed information.

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

- (i) the borrower is liable to repay the principal and any other sums paid by the originator to the borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the borrower sending the notice of cancellation or, if later, the originator receiving notice of cancellation;
- (ii) the borrower is liable to pay interest, or any early repayment charge or other charge for credit under the cancelled agreement, only if the borrower received certain prescribed information at the prescribed time and if other conditions are met; and
- (iii) any security is treated as never having had effect for the cancelled agreement.

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

Unfair Terms in Consumer Contracts Regulations 1994 and 1999

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

- a consumer may challenge a standard term in an agreement on the basis that it is "unfair" within the UTCCR and therefore not binding on the consumer (although the agreement itself continues to bind the parties if it is capable of continuing in existence without the unfair term); and
- the OFT and any "qualifying body" within the 1999 Regulations (such as the FSA) may seek to enjoin (or in Scotland interdict) a business from relying on unfair terms.

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

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

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

Under concordats agreed between the FSA and the OFT in 2001, 2006 and 2008, the division of responsibility for the enforcement of the UTCCR in mortgage loan agreements was agreed to be allocated by them, generally, to the FSA in relation to Regulated Mortgage Contracts under the FSMA originated by lenders authorised by the FSA and to the OFT in relation to other mortgages.

In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts, which is relevant to firms authorised and regulated by the FSA in relation to products and services within the FSA's regulatory scope. This statement provides that, for locked-in borrowers, a lender may consider drafting the contract to permit a change in the contract to be made only where any lock-in clause is not exercised.

In the context of the OFT's investigation into credit card default charges, the OFT on 5 April 2006 publicly announced that the principles the OFT considers should be applied in assessing the fairness of credit card

default charges shall apply (or are likely to apply) also to analogous default charges in other agreements, including those for mortgages.

In January 2007, the FSA issued a statement of good practice on mortgage exit administration fees. This statement provides that the lender should ensure that the fee represents in fact the cost of the administration services that the lender provides when a borrower exits the mortgage. The FSA issued a follow-up communication in November 2007 emphasising that this statement should not be interpreted narrowly and, where appropriate, firms should consider applying its principles to other charges. In August 2007, the FSA's Unfair Contract Terms Regulatory Guide came into force. This guide is designed to explain the FSA's policy on how it will use its powers under the 1999 Regulations.

The broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a court would find a term to be unfair. It is therefore possible that any Loans which have been made or may be made to Borrowers covered by the UTCCR may contain unfair terms, which may result in the possible unenforceability of the terms of such Loans.

In August 2002, the Law Commission for England and Wales and the Scottish Law Commission published a joint consultation on proposals to rationalise the UK Unfair Contract Terms Act 1977 and the 1999 Regulations into a single piece of legislation and a final report, together with a draft bill on unfair terms, was published in February 2005. The proposals are primarily to simplify the legislation on unfair terms. It is not proposed that there should be any significant increase in the extent of controls over terms in consumer contracts. Some changes are proposed, however, such as that (a) a consumer may also challenge a negotiated term in an agreement on the basis that it is "unfair" and "unreasonable" within the legislation and therefore not binding on the consumer and (b) in any challenge by a consumer (but not by the OFT or a qualifying body) of a standard term or a negotiated term, the burden of proof lies on the business to show that the term is fair and reasonable. It is too early to tell how the proposals, if enacted, would affect the Loans.

No assurance can be given that changes in the 1999 Regulations, if enacted, or any changes adopted in guidance on interest variation terms or otherwise, would not have a material adverse effect on the Loans, the Seller, the Issuer, the Servicer and their respective businesses and operations. This may adversely affect the ability of the Issuer to make payments in full on the Notes when due.

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

Under the FSMA, the Financial Ombudsman Service (the **Ombudsman**) is required to make decisions on, among other things, complaints relating to activities and transactions under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all circumstances of the case, taking into account, among other things, law and guidance. By transitional provisions, the Ombudsman is required to deal with certain complaints relating to breach of the CML Code. 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 an ombudsman.

As the Financial Ombudsman Service is required to make decisions on the basis of, among other things, the principles of fairness, and may order a money award to the borrower, it is not possible to predict how any future decision of the Financial Ombudsman Service would affect the ability of the Issuer to make payments to Noteholders.

Unfair Commercial Practices Directive 2005

In May 2005, the European Parliament and the Council adopted a Directive on unfair business-to-consumer commercial practices, Directive 2005/29/EC of 11 May 2005 on unfair business-to-consumer commercial

practices and amending Council Directive 84/450/EEC and others (the **Unfair Practices Directive**). Generally, the Unfair Practices Directive applies full harmonisation, which means that member states may not impose more stringent provisions in the fields to which full harmonisation applies. By way of exception, the Unfair Practices Directive permits member states to impose more stringent provisions in the fields of financial services and immovable property, such as mortgage loans.

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

The Unfair Practices Directive required member states to implement the Directive by measures coming into force by 12 December 2007. The United Kingdom has implemented the Directive by the Consumer Protection from Unfair Trading Regulations 2008 which came into force on 26 May 2008. In addition, the FSA has taken the Directive into account in reviewing its relevant rules, such as MCOB, and the OFT addresses commercial practices in administering licences under the CCA. The Unfair Practices Directive provides a transitional period until 12 June 2013 for applying full harmonisation in the fields to which it applies.

No assurance can be given that the United Kingdom implementation of the Unfair Practices Directive, including full harmonisation in the fields to which it applies, will not have a material adverse effect on the Loans and accordingly on the ability of the Issuer to make payments to Noteholders.

General

No assurance can be given that additional regulatory changes by the OFT, the FSA or any other regulatory authority will not arise with regard to the mortgage market in the United Kingdom generally, the Seller's particular sector in that market or specifically in relation to the Seller. Any such action or developments or compliance costs may have a material adverse effect on the Seller, the Issuer, the Servicer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full on the Notes when due.

UK Taxation Position of the Issuer

The Issuer has been advised that it should fall within the UK Securitisation Company regime (as introduced by the Taxation of Securitisation Companies Regulations 2006 (the **Securitisation Regulations**)), and as such should be taxed only on the amount of its retained profit, for so long as it satisfies the conditions of the Securitisation Regulations. However, if the Issuer does not satisfy the conditions to be taxed in accordance with the Securitisation Regulations (or subsequently does not), then profits or losses could arise in the Issuer which could have tax effects not contemplated in the cashflows for the transaction described in this prospectus and as such adversely affect the tax treatment of the Issuer and consequently payment on the Notes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State of the European Economic Area is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain other persons in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria may instead operate 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 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 territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland) with effect from the same date.

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. 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, or through another country that has adopted similar measures, and an amount of or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note 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.

Basel Committee changes to the framework applied to risk weighted assets may result in changes to the risk-weighting of the Notes

Following the issue of proposals from the Basel Committee on Banking Supervision for reform of the 1988 Capital Accord, a framework has been developed by the Basel Committee on Banking Supervision which places enhanced emphasis on market discipline and sensitivity to risk. A comprehensive version of the text of the framework was published in June 2006 under the title "International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)" (the **Framework**). The Framework is not self-implementing and, accordingly, the implementation measures and dates in participating countries are dependant on the relevant national implementation process in those countries.

In July 2009, the Basel Committee finalised certain revisions to the Framework, including changes intended to enhance certain securitisation requirements (e.g. increased risk weights for "resecuritisation" exposures). In addition, the European Parliament has approved certain amendments to the Capital Requirements Directive (the **CRD**) (including investment restrictions and due diligence requirements in respect of securitisation exposures) and the European Commission has put forward further securitisation related amendments to the European Parliament and the Council of Ministers for consideration (including increased capital charges for relevant trading book exposures and for resecuritisation exposures). As and when implemented, the Framework (and any relevant changes to it or to any relevant implementing measures) may affect the risk-weighting of the Notes for investors who are subject to capital adequacy requirements that follow the Framework. Consequently, investors should consult their own advisers as to the implications for them of the application of the Framework and any relevant implementing measures.

European Monetary Union

If the United Kingdom joins the European Monetary Union prior to the maturity of the Notes, there is no assurance that this would not adversely affect investors in the Notes.

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

English law security and insolvency considerations

The Issuer will enter into the Deed of Charge pursuant to which it will grant the Security in respect of certain of its obligations, including its obligations under the Notes (as to which, see "*Summary of Key Transaction Documents — Deed of Charge*"). If certain insolvency proceedings are commenced in respect of the Issuer, the ability to realise the Security may be delayed and/or the value of the Security impaired.

In particular, the ability to realise the security granted by the Issuer may be delayed if an administrator is appointed or in the context of a company voluntary arrangement in respect of the Issuer. In this regard, it should be noted that:

- (a) in general, an administrator may not be appointed in respect of a company if an administrative receiver is in office. Amendments were made to the Insolvency Act 1986 in September 2003 which restrict the right of the holder of a floating charge to appoint an administrative receiver, unless an exception applies. Significantly, one of the exceptions allows for the appointment of an administrative receiver in relation to certain transactions in the capital market. While it is anticipated that the requirements of this exception will be met in respect of the Deed of Charge, it should be noted that the Secretary of State for Business, Innovation & Skills may by regulation modify the capital market exception and/or provide that the exception shall cease to have effect; and
- (b) under the Insolvency Act 1986 (as amended by the Insolvency Act 2002), certain "small" companies (which are defined by reference to certain financial and other tests) are entitled to seek protection from their creditors for a limited period for the purposes of putting together a company voluntary arrangement. The position as to whether or not a company is a small company may change from time to time and consequently no assurance can be given that the Issuer will not, at any given time, be determined to be a small company. However, certain companies are excluded from the optional moratorium provisions, including a company which is party to certain transactions in the capital market and/or which has a liability in excess of a certain amount. While the Issuer should fall within the current exceptions, it should be noted that the Secretary of State for Business, Innovation & Skills may by regulation modify these exceptions.

In addition, it should be noted that, to the extent that the assets of the Issuer are subject only to a floating charge (including any fixed charge recharacterised by the courts as a floating charge), in certain circumstances under the provisions of section 176A of the Insolvency Act 1986, certain floating charge realisations which would otherwise be available to satisfy the claims of secured creditors under the Deed of Charge may be used to satisfy any claims of unsecured creditors. While certain of the covenants given by the Issuer in the Transaction Documents are intended to ensure it has no significant creditors other than the secured creditors under the Deed of Charge, it will be a matter of fact as to whether the Issuer has any other such creditors at any time. There can be no assurance that the Noteholders will not be adversely affected by any such reduction in floating charge realisations upon the enforcement of the Security.

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

Liquidation expenses

Prior to the House of Lords' decision in the case of *Re Leyland Daf* in 2004, the general position was that, in a liquidation of a company, the liquidation expenses ranked ahead of unsecured debts and floating chargees' claims. *Re Leyland Daf* reversed this position so that liquidation expenses could no longer be recouped out of assets subject to a floating charge. However, section 176ZA of the Insolvency Act 1986, and article 150ZA of the Insolvency (Northern Ireland) Order 1989, which came into force on 6 April 2008, effectively reversed by statute the House of Lords' decision in *Re Leyland Daf*. As a result, it is now the case that the costs and expenses of a liquidation will be payable out of floating charge assets in priority to the claims of

the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to the approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to rules 4.218A to 4.218E of the Insolvency Rules 1986 and rules 4.228A to 4.228E of the Insolvency Rules (Northern Ireland) 1991. In general, the reversal of *Leyland Daf* applies in respect of all liquidations commenced on or after 6 April 2008.

Therefore, floating charge realisations upon the enforcement of the floating charge security to be granted by the Issuer would be reduced by the amount of all, or a significant proportion of, any liquidation expenses.

Limited recourse

The Notes will be limited recourse obligations of the Issuer. The ability of the Issuer to meet its obligations under the Notes will be dependent upon the receipt by it in full of (a) principal and interest from the Borrowers under the Loans and their Related Security in the Portfolio (b) payments (if any) due from the Interest Rate Swap Provider, (c) interest income on the Bank Accounts, (d) funds available (if available to be withdrawn) in the Liquidity Reserve Fund (other than following service of a Note Acceleration Notice which has not been revoked), (e) funds available in the Further Advance Fund (other than following service of a Note Acceleration Notice during the Revolving Period which has not been revoked), (f) funds available in the General Reserve Fund and (g) funds available in the Set-Off Reserve Fund (if any). Other than the foregoing, the Issuer is not expected to have any other funds available to it to meet its obligations under the Notes. Upon enforcement of the Security by the Security Trustee, if:

- (a) there are no Charged Assets remaining which are capable of being realised or otherwise converted into cash;
- (b) all amounts available from the Charged Assets have been applied to meet or provide for the relevant obligations specified in, and in accordance with, the provisions of the Deed of Charge; and
- (c) there are insufficient amounts available from the Charged Assets to pay in full, in accordance with the provisions of the Deed of Charge, amounts outstanding under the Notes (including payments of principal premium (if any) and interest),

then the Secured Creditors (which include the Noteholders) shall have no further claim against the Issuer in respect of any amounts owing to them which remain unpaid (including, for the avoidance of doubt, payments of principal, premium (if any) and/or interest in respect of the Notes) and such unpaid amounts shall be deemed to be discharged in full and any relevant payment rights shall be deemed to cease.

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

In addition, it should be noted that if the amount debited to the Principal Deficiency Ledger on a Calculation Date is equal to or greater than 50 per cent of the then Principal Amount Outstanding of the Notes, or if a Note Acceleration Notice has been served on the Issuer (and not revoked), the Issuer will not be able to make any withdrawals from the Liquidity Reserve Fund (other than to repay Tranche C of the Loan Facility to the Loan Facility Provider when the same shall become due and payable in accordance with the terms of the Loan Facility Agreement). In addition, following the expiry of the Revolving Period or service of a Note Acceleration Notice (which has not been revoked) the Issuer will not be able to make any withdrawals from the Further Advance Fund other than to repay the Loan Facility Provider.

Pensions Act 2004

Under the Pensions Act 2004 a person that is 'connected with' or an 'associate' of an employer under an occupational pension scheme can be subject to either a contribution notice or a financial support direction. As a Director of the Issuer is an employee of Lloyds TSB Bank plc, the Issuer may be treated as 'connected to' an employer under an occupational pension scheme which is within the Lloyds Banking Group.

A contribution notice could be served on the Issuer if it was party to an act, or a deliberate failure to act, the main purpose or one of the main purposes of which was either (i) to prevent the recovery of the whole or any part of a debt which was, or might become, due from the employer under Section 75 of the Pensions Act 1995 or (ii) otherwise than in good faith, to prevent such a debt becoming due, to compromise or otherwise settle such a debt, or to reduce the amount of such a debt which would otherwise become due. A contribution notice can only be served where the Pensions Regulator considers it is reasonable to do so, having regard to a number of factors.

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

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

SUMMARY OF THE KEY TRANSACTION DOCUMENTS

Mortgage Sale Agreement

Initial Portfolio

Under the Mortgage Sale Agreement, on the Closing Date:

- (a) a portfolio of English and Welsh residential mortgage loans and their associated mortgages and other Related Security (together, the **English Loans**) will become subject to a bare trust (the **CCA Trust**) declared by the Seller in favour of the Issuer, and will be held by the Seller on bare trust for the Issuer until such time as the Issuer notifies the Seller that the Issuer has obtained the requisite licence under the CCA (the **Effective Date**). Upon the occurrence of the Effective Date, those residential mortgage loans and their associated mortgages and other Related Security will be assigned by way of equitable assignment to the Issuer; and
- (b) the Seller will hold on trust under the initial Scottish Declaration of Trust a portfolio of Scottish residential mortgage loans for the benefit of the Issuer (together with the above portfolio of English and Welsh residential mortgage loans, the **Initial Loans**) and associated first ranking standard securities (together with the above associated mortgages, the **Initial Mortgages** and, together with the other security for the Initial Loans, the **Initial Related Security**),

in each case referred to as the **sale** by the Seller to the Issuer of the Initial Loans and Initial Related Security. The Initial Loans and Initial Related Security and all monies derived therefrom from time to time are referred to herein as the **Initial Portfolio**.

Any sale of English Loans after the Closing Date and until the Effective Date will be given effect by their becoming subject to the CCA Trust (together with their Related Security). Upon the occurrence of the Effective Date all such English Loans (together with their Related Security) will be assigned by way of equitable assignment to the Issuer. Any sale of English Loans after the Effective Date will be given effect by further equitable assignments.

Any sale of Scottish Loans after the Closing Date will be given effect by further Scottish Declarations of Trust under which the beneficial interest in the relevant Scottish Loans and their Related Security will be held by the Issuer.

The consideration due to the Seller in respect of the sale of the Initial Portfolio is the aggregate of:

- (a) an amount equal to the Current Balance of the Loans in the Initial Portfolio on the Closing Date (the **Initial Consideration**); and
- (b) a covenant by the Issuer to pay the Deferred Consideration in respect of the sale of the Initial Portfolio.

The Deferred Consideration will be paid in accordance with the priority of payments set out in the section headed "*Cashflows — Application of Available Revenue Receipts Prior to the Service of a Note Acceleration Notice on the Issuer,*" below.

The terms **sale**, **sell** and **sold** when used in the Mortgage Sale Agreement and the other Transaction Documents in connection with the Loans and their Related Security are construed to mean in the case of the English Loans and their Related Security subject to the CCA Trust, such Loans and Related Security being held on such trust and in the case of the Scottish Loans, such Loans and Related Security being held on trust under the relevant Scottish Declaration of Trust.

The terms **repurchase** and **repurchased** when used in the Mortgage Sale Agreement and the other Transaction Documents in connection with the Loans and their Related Security are construed to include the repurchase of the beneficial interest of the Issuer in respect of such Loan and Related Security under the CCA Trust or the relevant Scottish Declaration of Trust (as applicable).

New Loans

After the Closing Date and until (but excluding) the Revolving Period End Date (such period, the **Revolving Period**), the Issuer may apply amounts standing to the credit of the Retained Principal Receipts Ledger to purchase from the Seller new residential mortgage loans (the **New Loans**) together with their associated mortgages or (in the case of Scottish Loans) first ranking standard securities (if appropriate in relation to such Scottish Loans) (the **New Mortgages** and together with the **Initial Mortgages**, as the context requires, the **Mortgages**, and together with the other security for the New Loans (the **New Related Security** and, together with the Initial Related Security, as the context requires, the **Related Security**). The Loans and the Related Security and all monies derived therefrom from time to time are referred to herein as the **Portfolio**. The "Loans" and "Related Security" are further defined in "*Transaction Overview*". In addition, on any date that the Issuer issues New Notes or Further Notes, the Issuer shall, to the extent the proceeds thereof are not used to redeem any Class or Classes of Notes in whole or in part, use the proceeds thereof to acquire New Loans and their New Related Security.

The consideration for the sale of such New Loans and their New Related Security to the Issuer will consist of:

- (a) the Issuer paying to the Seller an amount equal to the aggregate of the Current Balance of the New Loans (the **New Portfolio Purchase Price**); and
- (b) a covenant by the Issuer to pay the Deferred Consideration in respect of the sale of the New Loans.

The Seller will select the New Loans to be offered to the Issuer during the Revolving Period or as applicable, on any date on which the Issuer issues Further Notes or New Notes, using a system containing defined data on each of the qualifying New Loans in the Seller's overall portfolio of loans available for selection. This system allows the setting of exclusion criteria, among others, corresponding to relevant representations and warranties that the Seller makes in the Mortgage Sale Agreement in relation to the Loans (see "*Summary of the Transaction Documents — Mortgage Sale Agreement — Representations and Warranties*" below). Once the criteria have been determined, the system identifies all loans owned by the Seller that are consistent with the criteria. From this subset, New Loans are selected at random until the target balance for New Loans has been reached or the subset has been exhausted. After a portfolio of New Loans is selected in this way, the constituent New Loans are monitored so that they continue to comply with the relevant criteria on the date of transfer. Please see further "*The Loans*" below.

The sale of New Loans and the New Related Security to the Issuer will in all cases also be subject to certain conditions as at the relevant date the New Loans are sold (in respect of any Loan, its **Sale Date** or **relevant Sale Date**). The conditions are that:

- (a) there has been no failure by the Seller of its obligations to repurchase any Loan pursuant to the Mortgage Sale Agreement at any time prior to the Sale Date;
- (b) there is no Event of Default occurring;
- (c) there is no Seller Insolvency Event; and
- (d) in respect of a Sale Date falling in the Revolving Period there are sufficient amounts standing to the credit of the Retained Principal Receipts Ledger and the Principal Ledger or, in respect of a Sale Date occurring on the issuance of New Notes or Further Notes, the proceeds of such issuance will,

after taking into account any proceeds of issuances applied in redemption of any existing Notes, be sufficient to finance the New Portfolio Purchase Price.

For the avoidance of doubt, the Seller shall not be obliged to sell New Portfolios if, in the Seller's opinion, it would adversely affect the business of the Seller.

It is not intended that the Seller will sell New Portfolios to the Issuer after the end of the Revolving Period other than in relation to the issue of Further Notes or New Notes.

Title to the Mortgages, registration and notifications

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

The transfers or assignments to the Issuer will be completed on or before the twentieth Business Day after the later to occur of the Effective Date and the earliest to occur of the following:

- (a) the Seller being required to perfect the Issuer's legal title to the Loans, or procure any notifications or registrations required to perfect the Issuer's legal title to the Loans are made, by an order of a court of competent jurisdiction or by any regulatory authority of which the Seller is a member or any organisation whose members comprise (but are not necessarily limited to) mortgage lenders and with whose instructions it is customary for the Seller to comply; or
- (b) it becoming necessary by law to do any or all of the acts referred to in paragraph (a) above; or
- (c) the Security Trustee certifying that, in its reasonable opinion, the property, assets and rights of the Issuer comprised in the security constituted by the Deed of Charge or any material part thereof is/are in jeopardy and that the doing of any or all of the acts referred to in paragraph (a) above is necessary in order materially to reduce such jeopardy; or
- (d) the Seller calling for perfection by serving notice in writing to that effect on the Issuer and the Security Trustee; or
- (e) the date on which neither the Seller nor its parent company (or any successors to their banking business) has assigned to it a long term unsecured, unsubordinated debt obligation rating from S&P of at least BBB or from Moody's of at least Baa3 (a **Downgrade Event**) (unless Moody's and/or S&P (as applicable) confirm in writing to the Security Trustee and the Issuer that the then current ratings of the Notes will not be downgraded, withdrawn or qualified solely as a result of such Downgrade Event); or
- (f) a Seller Insolvency Event,

(each of the events set out in paragraphs (a) to (f) inclusive being a **Perfection Event**).

A **Seller Insolvency Event** will occur in the following circumstances:

- (a) an order is made or an effective resolution passed for the winding up of the Seller; or
- (b) the Seller ceases or threatens to cease to carry on the whole or substantially the whole of its business (other than pursuant to an order made under Part VII of the FSMA or for the purposes of amalgamation or reconstruction (i) with or by Lloyds Banking Group plc or any of its subsidiaries (together, the **Lloyds Banking Group**) or (ii) the terms of which have previously been approved by

the Security Trustee in writing acting on an Extraordinary Resolution of Noteholders) or stops payment or threatens to stop payment of its debts or is deemed unable to pay its debts within the meaning of Section 123(1)(a) of the Insolvency Act 1986 (on the basis that the reference in such section to £750 was read as a reference to £10 million), Section 123(1)(b), (d) and (e), 123(1)(c) (on the basis that the words "for a sum exceeding £10 million" were inserted after the words "extract registered bond" and "extract registered protest") and 123(2) of the Insolvency Act 1986 (as that Section may be amended) or the value of its assets falls to less than the amounts of its liabilities (taking into account, for both these purposes, contingent and prospective liabilities) or otherwise becomes insolvent; or

- (c) proceedings (including, but not limited to, presentation of an application for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) are initiated against the Seller under any applicable liquidation, administration, reorganisation (other than a reorganisation where the relevant entity is solvent) or other similar laws, save where such proceedings are being contested in good faith; or an administrative or other receiver, administrator or other similar official is appointed in relation to the whole or the substantial part of the undertaking or assets of the Seller or the appointment of an administrator takes effect; or a distress, execution or diligence or other process is enforced upon the whole or the substantial part of the undertaking or assets of the Seller and in any of the foregoing cases it is not discharged within 15 Business Days; or if the Seller initiates or consents to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, reorganisation or other similar laws (other than under Part VII of the FSMA) or makes a conveyance or assignment for the benefit of its creditors generally or takes steps with a view to obtaining a moratorium in respect of any indebtedness.

If any of the events described above occurs prior to the Effective Date, it shall send written notice to each Borrower in respect of an English Loan informing such Borrower of, *inter alia*, the interests of the Issuer in such English Loan and its Related Security pursuant to the CCA Trust and, in respect of a Scottish Loan, informing such Borrower of, *inter alia*, the interests of the Issuer in such Scottish Loan and its Related Security under the relevant Scottish Declaration of Trust. The Issuer is currently in the process of obtaining a CCA licence.

The title deeds and customer files relating to the Portfolio are currently held by or to the order of the Seller. The Seller has undertaken that all the title deeds and customer files relating to the Portfolio which are at any time in its possession or under its control or held to its order will be held to the order of the Issuer or as the Issuer directs.

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

Representations and Warranties

The Seller has represented and warranted (or, as the case may be, will represent and warrant) to the Issuer and the Security Trustee in the Mortgage Sale Agreement the Loan Warranties (as defined below):

- (a) in respect of each Loan and its Related Security in the Initial Portfolio as at the Closing Date (including the Loan Warranties set out in section 1 below but excluding the Loan Warranties set out in section 2 (*New Loans*) and section 3 (*Further Advances and Product Switches*));
- (b) in respect of each New Loan and its Related Security in the New Portfolio, as at the relevant Sale Date (as if references in section 1 of the Loan Warranties to the "Loan" include the relevant New Loan without prejudice to any of those Loan Warranties explicitly stated to not apply to New Loans) (including the Loan Warranties set out in section 2 (*New Loans*) but excluding the Loan Warranties set out in section 3 (*Further Advances and Product Switches*));

- (c) in relation to any Further Advance as at the relevant Advance Date (as if references in section 1 of the Loan Warranties to the "Loan" include the relevant Loan subject to a Further Advance (each such Loan together with the Further Advance the **Increased Loan**), and as if references in the Loan Warranties to "New Loans" in section 2 (*New Loans*) include the relevant Increased Loan and as if references to "Sale Date" are to the Advance Date without prejudice to the matters stated not to apply to Further Advances in section 1 (*General*)) (including the Loan Warranties set out in section 3 (*Further Advances and Product Switches*) as applicable); and
- (d) in relation to each Loan which is subject to a Product Switch as at the relevant Switch Date (as if references in section 1 of the Loan Warranties to the "Loan" are to the relevant Loan subject to a Product Switch, and as if references to "New Loans" in section 2 (*New Loans*) include the relevant Loan subject to a Product Switch and as if references to "Sale Date" are to the Switch Date) (including the Loan Warranties set out in section 3 (*Further Advances and Product Switches*) as applicable).

The **Loan Warranties** to be given by the Seller will include, *inter alia*, the following warranties:

1. General

- (a) Each Loan was originated by the Seller (or its successors or assigns) in pounds Sterling and is denominated in pounds Sterling (or was originated and is denominated in Euro if the Euro has been adopted as the lawful currency for the time being of the United Kingdom);
- (b) no Loan was originated earlier than 1 January 1989;
- (c) prior to the making of each advance under a Loan, the Lending Criteria in effect at the time such advance was offered and all preconditions to the making of that advance were satisfied in all material respects subject only to exceptions as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- (d) so far as the Seller is aware, other than with respect to Monthly Payments, no Borrower is or has, since the date of the execution of the relevant Mortgage, been in material breach of any obligation owed in respect of the relevant Loan or its Related Security and accordingly no steps have been taken by the Seller to enforce any Related Security;
- (e) all of the Borrowers are natural legal persons and were aged 18 years or older at the date of execution of the Mortgage;
- (f) at least one Monthly Payment has been made in respect of each Loan or, for the avoidance of doubt, in case of a Product Switch or Further Advance, the original advance;
- (g) the whole of the Current Balance on each Loan is secured by a Mortgage;
- (h) no Loan was originated under a Staff Scheme;
- (i) each Loan is secured by a Mortgage in respect of a residential property;
- (j) no Borrower has an adverse credit history subject only to exceptions as would be acceptable to a Reasonable Prudent Mortgage Lender;
- (k) save in relation to any Right to Buy Loan where (if there is one year or less to run of the statutory repayment period) a statutory charge may take priority, each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage or (in Scotland) first ranking standard security over the relevant Property, and subject only in certain appropriate cases to applications for registrations or recordings at the Land Registry of England and Wales or in the Registers of Scotland which,

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

- (l) each Loan and its Related Security is, save in relation to any term in any Loan or its Related Security which is not binding by virtue of the Unfair Terms in Consumer Contracts Regulations 1994 or (as the case may be) the Unfair Terms in Consumer Contracts Regulations 1999, valid and binding and enforceable in accordance with its terms and is non-cancellable. To the best of the Seller's knowledge, none of the terms in any Loan or their Related Security, save for any term which relates to Early Repayment Charges, the power to vary closing administration charges and the power to recover indemnity costs is unfair within the meaning of the Unfair Terms in Consumer Contracts Regulations 1994 or (as the case may be) the Unfair Terms in Consumer Contracts Regulations 1999;
- (m) all of the Properties are located in England, Wales or Scotland;
- (n) each Property constitutes a separate completed dwelling unit (subject to such limited case by case exceptions as would be acceptable to a Reasonable, Prudent Mortgage Lender) and is (in England and Wales) either freehold or leasehold or (in Scotland) heritable or held under a long lease;
- (o) no Loan has a maturity date which is later than two years earlier than the Final Maturity Date of the Notes;
- (p) in respect of Loans originated from applications received for purchases and remortgages, not more than twelve months prior to the execution of such Mortgage (or such longer period as may be acceptable to a Reasonable, Prudent Mortgage Lender) the Seller or another member of the Lloyds Banking Group has received a valuation report from a valuer on the relevant Property. In respect of Loans originated from applications received in respect of Further Advances the Seller will either have obtained a valuation report or other evidence of value, the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- (q) the benefit of all valuation reports and certificates of title which were provided to the Seller or another member of the Lloyds Banking Group not more than two years prior to the date of the Mortgage Sale Agreement can be validly assigned to the Issuer without obtaining the consent of the relevant valuer, solicitor or licensed conveyancer or (in Scotland) qualified conveyancer;
- (r) prior to the taking of each Mortgage (other than a remortgage), the Seller or another member of the Lloyds Banking Group instructed its solicitor or licensed conveyancer or (in Scotland) qualified conveyancer to carry out an investigation of title to the relevant Property (other than where Loans were originated pursuant to the "Absolute Title Remortgage Scheme") and to undertake such other searches, investigations, enquiries and other actions on behalf of the Seller in accordance with the instructions which the Seller or another member of the Lloyds Banking Group issued to the relevant solicitor or licensed conveyancer or (in Scotland) qualified conveyancer as are set out in the CML's Lenders' Handbook or the Seller's internal lending policy) or such other comparable, predecessor or successor instructions and/or guidelines as may for the time being be in place, subject only to such variations made on a case by case basis as would have been acceptable to a Reasonable, Prudent Mortgage Lender at the relevant time;
- (s) so far as the Seller is aware buildings insurance cover for such Property is available under a policy arranged by the Borrower or by or on behalf of the Seller or a buildings insurance policy arranged by the relevant landlord or the Properties in Possession Cover;
- (t) no act, event or circumstance has occurred which would adversely affect the Properties in Possession Cover or entitle the insurers to refuse to make payment thereunder or to reduce the amount payable in respect of any claim thereunder;

- (u) the Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits agreed to be sold by it to the Issuer pursuant to the Mortgage Sale Agreement free and clear of all security interests, claims and equities (subject to the Borrower's right of redemption and other rights under or arising from the Loans and Related Security, including any rights of set off and counterclaim) and the Seller is not in breach of any covenant implied by reason of its selling the relevant Portfolio with full title guarantee or with absolute warrandice, as the case may be;
- (v) either the Seller or any other member of the Lloyds Banking Group has, since the making of or acquisition of each Loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all variations in the relevant financial terms and conditions, transactions, payments, payment holidays, receipts, proceedings and notices relating to such Loan;
- (w) there are no authorisations, approvals, licences or consents required as appropriate for the Seller to enter into or to perform its obligations under the Mortgage Sale Agreement or to make the Mortgage Sale Agreement legal, valid, binding, enforceable and admissible in evidence;
- (x) each Loan was made and its Related Security taken or received substantially on the terms of the Standard Documentation without any material variation thereto and nothing has been done subsequently to add to, lessen, modify or otherwise vary the express provisions of any of the same in any material respect;
- (y) in relation to Loans secured on Properties where the dwelling was not complete as at the date of the Initial Advance, the dwelling has been signed off as complete by a valuer and all advances have been made and are properly secured under the relevant Mortgage in respect of the Loan;
- (z) interest on each Loan is charged in accordance with the Standard Documentation;
- (aa) as far as the Seller is aware, there is no fraud in relation to any Loan or its Related Security;
- (bb) no agreement for any Loan is in whole or in part a regulated agreement or consumer credit agreement (as defined in section 8 of the CCA or treated as such) or, to the extent that any Loan is in whole or in part a regulated agreement or consumer credit agreement or treated as such, the procedures and requirements set out in the CCA have been complied with in all material respects;
- (cc) no Loan is documented under Loan Conditions which give the Borrower an express right to exercise any set off, other than an "Airmiles Mortgage" Loan;
- (dd) all steps necessary to perfect the Seller's title to the Loans and the Related Security were duly taken at the appropriate time or are in the process of being taken, in each case (where relevant) within any applicable priority periods or time limits for registration with all due diligence and without undue delay;
- (ee) neither the Seller nor C&G nor any other member of the Lloyds Banking Group has knowingly waived or acquiesced in any breach of any of its rights in respect of a Loan or its Related Security, other than waivers and acquiescence such as a Reasonable, Prudent Mortgage Lender might make on a case by case basis;
- (ff) neither the entry by the Seller into the Mortgage Sale Agreement nor any transfer, assignment, assignation or creation of trust contemplated by the Mortgage Sale Agreement adversely affects or will adversely affect any of the Loans and their Related Security (including, without limitation, the Insurance Policies) and the Seller may freely assign and enter into trust arrangements in respect of all its rights, title, interests and benefits therein as contemplated in the Mortgage Sale Agreement without breaching any term or condition applying to any of them;

- (gg) save for lessees, children of Borrowers and lessees and children of someone living with the Borrowers or lessees, every person who, at the date upon which an English Mortgage was granted, had attained the age of 18 is either named as a Borrower or has signed a Deed of Consent in the form of the pro forma contained in the Standard Documentation which was applicable at the time the Mortgage was executed. In respect of a Mortgage over Property situated in Scotland, all necessary Documentation in terms of the Matrimonial Homes (Family Protection)(Scotland) Act 1981 and/or (where applicable) the Civil Partnership Act 2004 in connection with a Mortgage has been obtained so as to ensure that neither the relevant Property nor the relevant Mortgage is subject to or affected by any statutory right of occupancy; and
- (hh) all approvals, consents and other steps necessary to permit a legal or equitable or beneficial transfer, or a transfer of servicing or other disposal as and in the manner contemplated by the Transaction Documents away from the Seller of the Loans and their related Mortgages to be sold under the Mortgage Sale Agreement, have been obtained or taken and there is no requirement in order for the transfer to be effective to obtain the consent of the Borrower before, on or after any equitable or beneficial transfer or before any legal transfer of the Loans and their related Mortgages and such transfer or disposal shall not give rise to any claim by the Borrower against the Issuer, the Security Trustee or any of their successors in title, assigns or assignees.

2. **New Loans**

- (a) Each New Loan has been less than one month in arrears for the last three months;
- (b) no New Loan has a Current Balance of greater than £1,000,000 (excluding Further Advances made in relation to an existing Loan);
- (c) if any of the New Loans do not correspond to a type of loan product offered by the Seller on the Closing Date (a **New Loan Product**) and such New Loan Product does not form part of the Portfolio, the Rating Agencies have confirmed that the then current ratings of the Notes would not be adversely affected by such New Loan Product;
- (d) no Seller Insolvency Event shall have occurred which is continuing;
- (e) there has been no failure by the Seller of its obligations to repurchase any Loan pursuant to the Mortgage Sale Agreement;
- (f) the Principal Deficiency Ledger shall not have a debit balance outstanding at the most recent Interest Payment Date;
- (g) the yield on the Loans in the Portfolio together with the yield of the New Loans to be sold to the Issuer on the relevant Sale Date is not less than LIBOR for three-month Sterling deposits plus 0.45 per cent. as at the relevant Sale Date, after taking into account the weighted average yield on the Loans (including the New Loans) and the margin on the Interest Rate Swap, in each case as at the relevant Sale Date;
- (h) the inclusion of the New Loans in the Portfolio will not result in the product of the weighted average foreclosure frequency (**WAFF**) and the weighted average loss severity (**WALS**) for the Loans in the Portfolio (including, for the avoidance of doubt, the New Portfolio) calculated on the Sale Date (in the same manner as for the Loans in the Portfolio as at the Closing Date (or as otherwise determined by the Servicer with S&P's confirmation that the then current rating of the Notes will not be adversely affected, from time to time)) exceeding the product of the WALS and WAFF for the Loans in the Portfolio calculated on the Closing Date plus 0.25 per cent.;
- (i) the inclusion of the New Loans in the Portfolio will not result in the Moody's portfolio variation test value for the Loans in the Portfolio (including, for the avoidance of doubt, the New Portfolio)

calculated by applying the Moody's portfolio variation test to such New Loans on the Sale Date exceeding the Moody's portfolio variation test value as calculated in relation to the Loans in the Portfolio as at the most recent date on which Moody's performed a full pool analysis on the Portfolio plus 0.3 per cent.;

- (j) the cumulative Losses on the Loans as at the Sale Date do not exceed 0.5 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date;
- (k) on the Calculation Date following the relevant Sale Date, the amounts standing to the credit of the General Reserve Ledger will be equal to the General Reserve Required Amount;
- (l) the total Current Balance of Loans constituting the Portfolio, in respect of which the aggregate amount in arrears is more than three times the monthly payment then due, is less than 6% of the aggregate Current Balance of Loans constituting the Portfolio;
- (m) the inclusion of the New Loans in the Portfolio will not result in the weighted average ratio of the Current Balance of the Loan as at origination to the value of the Property securing the Loan as at origination of the Loans in the Portfolio (including, for the avoidance of doubt, the New Loans) exceeding 80 per cent.;
- (n) the inclusion of the New Loans in the Portfolio does not result in Interest-Only Loans accounting for more than 55 per cent. of the aggregate Current Balance of Loans constituting the Portfolio (including, for the avoidance of doubt, the New Loans);
- (o) the inclusion of the New Loans in the Portfolio does not result in buy-to-let Loans accounting for more than 10 per cent. of the aggregate Current Balance of Loans constituting the Portfolio (including, for the avoidance of doubt, the New Loans); and
- (p) no New Loan is granted to a Borrower who is not required to state his or her income.

3. Further Advances and Product Switches

- (a) The Further Advance is secured by a Mortgage constituting a valid and subsisting first charge by way of legal mortgage or (in Scotland) first ranking standard security over the relevant Property, subject only (in appropriate cases) to registration or recording at the Land Registry or Registers of Scotland;
- (b) the Product Switch will be effected by such means as would be adopted by the Seller, for the purpose of ensuring the validity and priority of the Loan, were such switch in respect of a loan advanced by the Seller which is not part of the Portfolio;
- (c) the Product Switch will be similar to switches offered to the Seller's mortgage borrowers whose mortgages do not form part of the Portfolio; and
- (d) there is no Seller Insolvency Event occurring as at the relevant Advance Date or Switch Date.

Advance Date means the date that the relevant Further Advance is advanced to the relevant Borrowers by the Seller;

Monthly Payment means the amount which the relevant Loan Conditions require a Borrower to pay on each monthly payment date in respect of that Borrower's Loan;

Right To Buy Loan means a Loan made to a Borrower in connection with the purchase by such Borrower of properties from local authorities or certain other landlords under right-to-buy schemes;

Staff Scheme means an arrangement where Loans are advanced to an employee of the Seller;

Standard Documentation means the standard documentation, a list of which is set out in Part 2 of the Appendix to the Mortgage Sale Agreement, or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender; and

Switch Date means the date that the Product Switch is made.

Further Advances and Product Switches

The Seller shall be solely responsible for funding all future Further Advances in respect of Loans constituting the Portfolio. As used in this Prospectus, **Initial Advance** means all amounts advanced by the Seller to a Borrower under a Loan other than a Further Advance. Subject to the satisfaction of certain conditions described generally below, the Issuer will acquire Further Advances.

Further Advances: The Issuer shall purchase Further Advances from the Seller on the date that the relevant Further Advance is advanced to the relevant Borrowers by the Seller (the **Advance Date**). The Issuer will pay the Seller an amount equal to the principal amount of the relevant Further Advance (the **Further Advance Purchase Price**) on the Business Day following the Advance Date (the **Further Advance Payment Date**) to the extent that the Issuer has sufficient amounts standing to the credit of the Retained Principal Receipts Ledger and the Principal Ledger (during the Revolving Period) and the Principal Ledger (after the Revolving Period) to make such payment. During the Revolving Period, to the extent amounts standing to the credit of the Retained Principal Receipts Ledger and the Principal Ledger are insufficient, the Issuer will pay the remainder of the Further Advance Purchase Price by withdrawing an amount equal to the Further Advance Shortfall from the Further Advance Fund. Where the Issuer (or the Cash Manager on its behalf) determines that (i) during the Revolving Period, the amount standing to the credit of the Further Advance Ledger (when aggregated with the amounts available from the Retained Principal Receipts Ledger and the Principal Ledger) or (ii) following the Revolving Period, the amount standing to the credit of the Principal Ledger, would not be sufficient to fund such Further Advance Purchase Price, the Issuer may not complete the purchase of the relevant Further Advance and the Seller must promptly repurchase the related Loan and its Related Security at its Current Balance.

Neither the Seller nor the Servicer (as applicable) shall be permitted to issue any offer for a Further Advance to any Borrower with a Loan which is delinquent or which is in default unless the Seller intends to, and subsequently offers to, repurchase that Further Advance and the original Loan. Neither the Servicer nor the Seller shall make an offer to a Borrower for a Further Advance if it would result in the Issuer arranging or advising in respect of, administering (servicing) or entering into a regulated mortgage contract or agreeing to carry on any of these activities, if the Issuer would be required to be authorised under the FSMA to do so.

Product Switches: The Seller (or the Servicer on behalf of the Seller) may offer a Borrower (and the Borrower may accept), or a Borrower may request, a Product Switch. Any Loan which has been subject to a Product Switch will remain in the Portfolio on the date that the Product Switch is made (the **Switch Date**) provided that if it is subsequently determined by the Servicer on the Calculation Date immediately succeeding a Switch Date or on any other subsequent date that any Loan Warranty made by the Seller in respect of a Loan which is the subject of a Product Switch and which remains in the Portfolio was materially untrue as at its Switch Date, and that default has not been remedied within 20 Business Days of receipt of notice from the Issuer, then the relevant Loan and its Related Security must be repurchased by the Seller on the next Business Day following receipt by the Seller of a Loan Repurchase Notice.

The Seller (or the Servicer on its behalf) will be solely responsible for offering and documenting any Product Switch. Neither the Servicer nor the Seller shall make an offer to a Borrower for a Product Switch if it would result in the Issuer arranging or advising in respect of, administering (servicing) or entering into a regulated mortgage contract or agreeing to carry on any of these activities, if the Issuer would be required to be authorised under the FSMA to do so.

Product Switch means any variation in the financial terms and conditions applicable to a Loan other than any variation:

- (i) agreed with a Borrower to control or manage arrears on the Loan;
- (ii) in the maturity date of the Loan unless the maturity date would be extended to a date later than two years before the Final Maturity Date of the Notes;
- (iii) imposed by statute;
- (iv) in the rate of interest payable; or
- (v) in the frequency with which the interest payable in respect of the Loan is charged.

Repurchase by the Seller

The Seller will be required to repurchase any Loan, Further Advance or Product Switch sold pursuant to the Mortgage Sale Agreement if any Loan Warranty made by the Seller in relation to that Loan, Further Advance or Product Switch (as applicable) and/or its Related Security proves on any date after the Closing Date, Sale Date, Advance Date or Switch Date (as applicable) to be materially untrue as at the Closing Date, Sale Date, Advance Date or Switch Date (as applicable), and that default has not been remedied within 20 Business Days of receipt of notice from the Issuer, then the relevant Loan, Further Advance or Product Switch (as applicable), its related Loan (in the case of a Further Advance) and its Related Security must be repurchased by the Seller on the next Business Day following receipt by the Seller of a Loan Repurchase Notice.

If a Further Advance Shortfall Drawing has been made by or on behalf of the Issuer during a Collection Period and the Issuer (or the Cash Manager on its behalf) determines on the Calculation Date before the following Interest Payment Date that it will be unable to repay all or part of such drawing on the Interest Payment Date in accordance with the Pre-Acceleration Principal Priority of Payments, the Seller shall be required to repurchase the Loan and the Related Security relating to the Further Advance in respect to which the Further Advance Shortfall Drawing was made on such Interest Payment Date.

Prior to the occurrence of a Seller Insolvency Event, the Seller may at any time offer to repurchase a Loan and its Related Security from the Issuer at its Current Balance as at the date of repurchase. The Issuer (or the Servicer acting on its behalf) may at its absolute discretion accept such offer, however, if the Seller has specified in the notice of offer to repurchase the Loans that the Issuer is required to use the proceeds of such a sale of Loans and their Related Security to redeem all, or any Class, of the Notes, then the Issuer's (or the Servicer acting on its behalf) acceptance of such an offer shall be subject to its compliance with *Condition 7.3(a)* of the Conditions.

Prior to the occurrence of a Seller Insolvency Event, the Seller may at any time offer to repurchase a Defaulted Loan and its Related Security from the Issuer at its Current Balance. The Issuer (or the Servicer acting on its behalf) may at its absolute discretion accept such offer.

The Seller has undertaken to repurchase any Loans in the Portfolio prior to any Borrower in respect of such Loan being admitted into the HMSS by the Seller.

Defaulted Loan means a Loan where the amount in arrears is equal to or greater than three times the current Monthly Payment.

Governing Law

The Mortgage Sale Agreement is governed by English law (other than certain aspects relating to the Scottish Loans and their Related Security which are governed by Scots law).

Servicing Agreement

Introduction

On the Closing Date, the Servicer will be appointed by each of the Issuer and (a) in the case of English Loans for so long as they are subject to the CCA Trust, the Seller in its capacity as trustee of the CCA Trust on the instructions of the Issuer or beneficiary; and (b) in the case of Scottish Loans for so long as they are subject to a trust created by a Scottish Declaration of Trust (a **Scottish Trust**), the Seller in its capacity as trustee in respect of each Scottish Trust to be its agent to service the Loans and their Related Security. The Servicer must comply with any proper directions and instructions that the Issuer or, following service of a Note Acceleration Notice, the Security Trustee may from time to time give to it in accordance with the provisions of the Servicing Agreement. The Servicer is required to service the Loans:

- (a) in accordance with the Servicing Agreement;
- (b) as if the Loans and their Related Security had not been sold to (or otherwise held on trust under the CCA Trust for the benefit of) the Issuer but remained with the Seller; and
- (c) in accordance with the Seller's servicing, arrears and enforcement policies and procedures forming part of the Seller's policy from time to time as they apply to those Loans (the **Seller's Policy**).

The Servicer's actions in servicing the Loans and their Related Security in accordance with its procedures are binding on the Issuer. The Servicer may, in some circumstances, delegate or sub-contract some or all of its responsibilities and obligations under the Servicing Agreement. However, the Servicer remains liable at all times for servicing the Loans and their Related Security and for the acts or omissions of any delegate or sub-contractor.

Powers

Subject to the guidelines for servicing set forth in the preceding section, the Servicer has the power, among other things:

- (a) to exercise the rights, powers and discretions of the Issuer in relation to the Loans and their Related Security and to perform its duties in relation to the Loans and their Related Security; and
- (b) to do or cause to be done any and all other things which it reasonably considers necessary or convenient or incidental to the servicing of the Loans and their Related Security or the exercise of such rights, powers and discretions.

Undertakings by the Servicer

The Servicer has undertaken, among other things, to:

- (a) service the Loans and their Related Security sold by the Seller to the Issuer as if the same had not been sold to the Issuer (or, in respect of the English Loans, held on trust under the CCA Trust by the Seller for the Issuer and in respect of the Scottish Loans, held on trust under the Scottish Trust) but had remained with the Seller in accordance with the Seller's Policy as they apply to those Loans from time to time;
- (b) provide the Services in such manner and with the same level of skill, care and diligence as would a Reasonable, Prudent Mortgage Lender;
- (c) comply with any proper directions, orders and instructions which the Issuer may from time to time give to it in accordance with the provisions of the Servicing Agreement;

- (d) keep in force all approvals, authorisations, permissions, consents and licences required in order properly to service the Loans and their Related Security and to perform or comply with its obligations under the Servicing Agreement, and to prepare and submit all necessary applications and requests for any further approvals, authorisations, permissions, registrations, consents and licences required in connection with the performance of the Services under the Servicing Agreement and in particular any necessary notification under the Data Protection Act 1998, licence under the CCA and any authorisation and permissions under the FSMA;
- (e) save as otherwise agreed with the Issuer, provide upon written request free of charge to the Issuer, office space, facilities, equipment and staff sufficient to enable the Issuer to perform its obligations under the Servicing Agreement;
- (f) not knowingly fail to comply with any legal requirements in the performance of the Services;
- (g) make all payments required to be made by it pursuant to the Servicing Agreement on the due date for payment thereof in Sterling (or as otherwise required under the Transaction Documents) in immediately available funds for value on such day without set-off (including, without limitation, in respect of any fees owed to it) or counterclaim but subject to any deductions by law;
- (h) not without the prior written consent of the Security Trustee amend or terminate any of the Transaction Documents save in accordance with their terms;
- (i) as soon as reasonably practicable upon becoming aware of any event which may reasonably give rise to an obligation of the Seller to repurchase any Loan sold by the Seller to the Issuer (or, in respect of the Loans subject to the CCA Trust, release such Loans from the CCA Trust) pursuant to the Mortgage Sale Agreement, notify the Issuer in writing of such event;
- (j) within 60 days of the date on which neither the Servicer nor the Parent Support Provider (or their successors or assigns) is assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 or by S&P of at least BBB- or is assigned a short-term unsecured, unguaranteed and unsubordinated debt obligation rating by S&P of at least A-2, use reasonable endeavours to procure that a suitable substitute servicer enters into a servicing agreement in such form as the Issuer and the Security Trustee shall reasonably require; and
- (k) deliver to the Issuer and the Security Trustee as soon as reasonably practicable but in any event within seven Business Days of becoming aware thereof a notice of any Servicer Termination Event or any event which with the giving of notice or lapse of time or certification would constitute the same.

Setting of Interest Rates on the Loans

In addition to the undertakings described above, the Servicer has also undertaken in the Servicing Agreement to determine and set, in relation to the Loans in the Portfolio, the Issuer Standard Variable Rate and any other discretionary rates or margins applicable in relation to the Loans comprising the Portfolio from time to time, except in the limited circumstances described below when the Issuer will be entitled to do so. The Servicer will not (except in limited circumstances) at any time set or maintain:

- (a) the Issuer Standard Variable Rate applicable to any Standard Variable Rate Loan in the Portfolio at a rate which is higher than (although it may be lower than or equal to) the then prevailing Seller Standard Variable Rate which applies to Loans beneficially owned by the Seller outside the Portfolio (the **Seller Standard Variable Rate** and together with the Issuer Standard Variable Rate, the **Standard Variable Rates**); or

- (b) any other discretionary rate or margin in respect of any other Loan in the Portfolio which is higher than (although it may be lower than or equal to) the interest rate or margin of the Seller, which applies to that type of Loan beneficially owned by the Seller outside the Portfolio.

In particular, the Servicer shall determine on each Calculation Date immediately preceding each Interest Payment Date, having regard to the aggregate of:

- (a) the revenue which the Issuer would expect to receive during the next succeeding Interest Period;
- (b) the Standard Variable Rate and any other discretionary rates or margins applicable in respect of the Loans which the Servicer proposes to set under the Servicing Agreement; and
- (c) the other resources available to the Issuer, including the Interest Rate Swap Agreement, the General Reserve Fund and the Set-Off Reserve Fund (if any),

whether the Issuer would receive an amount of revenue during the relevant Interest Period which is less than the amount which is the aggregate of the amount of interest which would be payable in respect of the Notes on the Interest Payment Date falling at the end of that Interest Period and amounts which rank in priority thereto under the Priority of Payments.

If the Servicer determines that there would be a shortfall in the foregoing amounts, it will give written notice to the Issuer and the Security Trustee, within one Business Day of such determination of the amount of the shortfall and the Standard Variable Rate and any variable margins which would (taking into account the applicable Loan Conditions), in the Servicer's reasonable opinion, need to be set in order for no shortfalls to arise, having regard to the date(s) on which the change to the Standard Variable Rate and any variable margins would take effect and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender. However, as at the date of this Prospectus, the Servicer is not permitted, due to the terms and conditions of the mortgage lending policy of the Seller, to increase such rate above 2 per cent. over the then rate as advised from time to time by the Monetary Policy Committee of the Bank of England (the **Bank of England Base Rate**).

If the Issuer notifies the Servicer (with a copy to the Security Trustee) that, having regard to the obligations of the Issuer, the Standard Variable Rate should be increased, then the Servicer will take all steps which are necessary to increase the Standard Variable Rate, including publishing any notice which is required in accordance with the applicable mortgage terms.

The Issuer (prior to the delivery of a Note Acceleration Notice) with the prior written consent of the Security Trustee and (following delivery of a Note Acceleration Notice), the Security Trustee may terminate the authority of the Servicer under the Servicing Agreement to determine and set the Standard Variable Rate on or after the occurrence of a Servicer Termination Event as defined under “– *Removal or Resignation of the Servicer*” below, in which case the Issuer shall set the Standard Variable Rate itself with the prior written consent of the Security Trustee in accordance with the above provisions.

Reasonable, Prudent Mortgage Lender

For the avoidance of doubt, any action taken by the Servicer to set Standard Variable Rates which are lower than that of the competitors of the Seller will be deemed to be in accordance with the standards of a Reasonable, Prudent Mortgage Lender.

Compensation of the Servicer

The Servicer receives a fee for servicing the Loans and their Related Security. The Issuer pays to the Servicer a servicing fee (inclusive of VAT, if any) of 0.08 per cent. per annum, on the Current Balance of all Loans in the Portfolio as at the opening of business on the preceding Interest Payment Date (or, as applicable, the Closing Date) as adjusted, as applicable to reflect the purchase of New Portfolios following

the issue of New Notes or Further Notes. The fee is payable quarterly in arrear on each Interest Payment Date in the manner contemplated by and in accordance with the Pre-Acceleration Revenue Priority of Payments or, as the case may be, the Post-Acceleration Priority of Payments.

Removal or Resignation of the Servicer

The Issuer (subject to the prior written notice of the Security Trustee) may, upon written notice to the Servicer, terminate the Servicer's appointment under the Servicing Agreement if any of the following events (each a **Servicer Termination Event**) occurs and while such event continues:

- the Servicer defaults in the payment on the due date of any payment due and payable by it under the Servicing Agreement and such default continues unremedied for a period of seven Business Days after the earlier of the Servicer becoming aware of such default and receipt by the Servicer of written notice from the Issuer, the Seller or the Security Trustee, as the case may be, requiring the same to be remedied;
- the Servicer defaults in the performance or observance of any of its other covenants and obligations under the Servicing Agreement, which failure in the reasonable opinion of the Issuer (prior to the delivery of a Note Acceleration Note) or the Security Trustee (after the delivery of a Note Acceleration Notice) is materially prejudicial to the interests of the Noteholders, and the Servicer does not remedy that failure within 20 Business Days after the earlier of the Servicer becoming aware of the failure or of receipt by the Servicer of written notice from the Issuer, the Seller or the Security Trustee requiring the Servicer's non-compliance to be remedied;
- an insolvency event occurs in relation to the Servicer; or
- the Issuer resolves, after due consideration and acting reasonably, that the appointment of the Servicer should be terminated.

Subject to the fulfilment of a number of conditions, the Servicer may voluntarily resign by giving not less than 12 months' written notice to the Security Trustee and the Issuer (or such shorter time as may be agreed between the Servicer, the Issuer and the Security Trustee) provided that a substitute servicer qualified to act as such under the FSMA and the CCA and with a management team with experience of servicing residential mortgages in the United Kingdom has been appointed and enters into a servicing agreement with the Issuer substantially on the same terms as the Servicing Agreement. The resignation of the Servicer is conditional on the resignation having no adverse effect on the then current ratings of the Notes unless the Noteholders agree otherwise by Extraordinary Resolution.

For the avoidance of doubt, the Servicer may be replaced at any time, without the consent of any party (including the Noteholders), by another entity within the Lloyds Banking Group which the Parent Support Provider considers has the necessary experience in servicing mortgage loans and the new servicer enters into a replacement servicing agreement on similar terms to the existing Servicing Agreement.

If the appointment of the Servicer is terminated or the Servicer resigns, the Servicer must deliver the title deeds and customer files relating to the Loans comprised in the Portfolio in its possession to, or at the direction of, the Issuer. The Servicing Agreement will terminate at such time as the Issuer has no further interest in any of the Loans or their Related Security serviced under the Servicing Agreement that have been comprised in the Portfolio.

Neither the Note Trustee nor the Security Trustee is obliged to act as servicer in any circumstances.

Liability of the Servicer

The Servicer will indemnify each of the Issuer and the Security Trustee on demand on an after-tax basis for any loss, liability, claim, expense or damage suffered or incurred by it in respect of the negligence, fraud or

wilful default of the Servicer or any of its sub-contractors or delegates in carrying out its functions as Servicer under, or as a result of a breach by the Servicer of, the terms and provisions of the Servicing Agreement or such other Transaction Documents to which the Servicer is a party (in its capacity as such) in relation to such functions.

The Servicing Agreement is governed by English law and will be made by way of deed.

Deed of Charge

On or about the Closing Date, the Issuer will enter into a deed of charge (the **Deed of Charge**) with, *inter alia*, the Security Trustee.

Security

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

- (a) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's right, title, interest and benefit in and to the Transaction Documents;
- (b) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's interest in the English Loans, the English Mortgages and their other Related Security and other related rights comprised in the Portfolio;
- (c) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's right, title, interest and benefit to and under insurance policies sold to the Issuer pursuant to the Mortgage Sale Agreement;
- (d) an assignment in security of the Issuer's interest in the Scottish Loans and their Related Security (comprising the Issuer's beneficial interest under the trusts declared by the Seller over such Scottish Loans and their Related Security for the benefit of the Issuer pursuant to the Scottish Declarations of Trust) (the **Initial Scottish Charge**);
- (e) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in its bank accounts maintained with the Account Bank and any sums standing to the credit thereof;
- (f) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in all Authorised Investments permitted to be made by the Issuer; and
- (g) a floating charge over all other assets of the Issuer not otherwise subject to a fixed charge but extending over all of the Issuer's property, assets, rights and revenues as are situated in Scotland or governed by Scots law (whether or not the subject of fixed charges as aforesaid).

In respect of the property, rights and assets referred to in paragraph (d) above, fixed security will be created over such property, rights and assets sold to the Issuer after the Closing Date by means of Scottish supplemental charges granted pursuant to the Deed of Charge (each a **Scottish Supplemental Charge**).

Authorised Investments means:

- (a) Sterling gilt-edged securities; and

- (b) Sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper),

provided that in all cases such investments will only be made such there is no withholding or deduction for or on account of taxes applicable thereto and either:

- (A) such investments (i) have a maturity date of 60 days or less and mature on or before the Interest Payment Date or within 60 days, whichever is sooner, (ii) may be broken or demanded by the Issuer (at no cost to the Issuer) on or before the next following Interest Payment Date or within 60 days, whichever is sooner, and (iii) are rated at least A-1 by S&P and P-1 by Moody's (and AA- (long-term) by S&P and Aa3 by Moody's if the investments have a long-term rating); or
- (B) such investments (i) have a maturity date of 90 days or less and mature on or before the Interest Payment Date or within 90 days, whichever is sooner, (ii) may be broken or demanded by the Issuer (at no cost to the Issuer) on or before the next following Interest Payment Date or within 90 days, whichever is sooner, and (iii) are rated at least A-1+ by S&P and P-1 by Moody's (and AA- (long-term) by S&P and Aa3 by Moody's if the investments have a long-term rating).

Transaction Documents means the Servicing Agreement, the Agency Agreement, the Bank Account Agreement, the Guaranteed Investment Contract, the Cash Management Agreement, the Corporate Services Agreement, the Deed of Charge (and any documents entered into pursuant to the Deed of Charge), the Interest Rate Swap Agreement, the Swap Guarantee, the Parent Support Deed, the Holdings Declaration of Trust, the Issuer Nominee Declaration of Trust, the Issuer Power of Attorney, the Master Definitions and Construction Schedule, the Mortgage Sale Agreement, each Scottish Declaration of Trust, the Seller Power of Attorney, the Loan Facility Agreement, the Note Purchase Agreement, the Trust Deed and such other related documents which are referred to in the terms of the above documents or which relate to the issue of the Notes.

As at the date of this Prospectus whether a fixed security interest expressed to be created by the Deed of Charge will be upheld as a fixed security interest rather than floating security will depend, among other things, on whether the Security Trustee has the requisite degree of control under the Transaction Documents over the chargor's ability to deal in the relevant assets and the proceeds thereof, and if so, whether such control is exercised by the Security Trustee in practice.

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

As at the date of this Prospectus the floating charge created by the Deed of Charge allows the Security Trustee to appoint an administrative receiver of the Issuer and thereby prevent the appointment of an administrator of the Issuer by one of the Issuer's other creditors. An appointment of an administrative receiver by the Security Trustee under the Deed of Charge will not be prohibited by Section 72A of the Insolvency Act 1986 as the appointment will fall within the exception set out under Section 72B of the Insolvency Act 1986 (First Exception: Capital Markets). Therefore, in the event that enforcement proceedings are commenced in respect of amounts due and owing by the Issuer, the Security Trustee will be entitled to control those proceedings in the best interests of the Noteholders. However, see "*Risk factors — Change of law*" relating to the appointment of administrative receivers.

Secured Creditors means the Security Trustee, the Note Trustee, the Noteholders, the Seller, the Servicer, the Cash Manager, the Interest Rate Swap Provider, the Swap Guarantor, the Account Bank, the GIC Provider, the Loan Facility Provider, the Parent Support Provider, the Corporate Services Provider, the Paying Agent, the Registrar, the Agent Bank and any other person who is expressed in any deed supplemental to the Deed of Charge to be a secured creditor.

The floating charge created by the Deed of Charge may "crystallise" and become a fixed charge over the relevant class of assets owned by the Issuer at the time of crystallisation. Crystallisation will occur automatically following the occurrence of specific events set out in the Deed of Charge, including, among other events, when an Event of Default occurs. 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 administration or liquidator, the claims of preferential creditors and the beneficiaries of the prescribed part on enforcement of the Security.

Pre-Acceleration Revenue Priority of Payments and Pre-Acceleration Principal Priority of Payments

Prior to the Note Trustee serving a Note Acceleration Notice on the Issuer pursuant to *Condition 10 (Events of Default)* of the Notes, declaring the Notes to be immediately due and payable, the Cash Manager (on behalf of the Issuer) shall apply monies standing to the credit of the Transaction Account as described in "*Cashflows — Application of Available Revenue Receipts prior to service of a Note Acceleration Notice on the Issuer*" and "*Application of Available Principal Receipts prior to the service of a Note Acceleration Notice on the Issuer*" below.

Post-Acceleration Priority of Payments

After the Note Trustee has served a Note Acceleration Notice (which has not been withdrawn) on the Issuer pursuant to *Condition 10 (Events of Default)* of the Notes, declaring the Notes to be immediately due and payable, the Security Trustee (or the Cash Manager on its behalf) shall apply the monies available in accordance with the Post-Acceleration Priority of Payments defined in "*Cashflows — Distribution of Available Principal Receipts and Available Revenue Receipts following the service of a Note Acceleration Notice on the Issuer*" below.

The Security will become enforceable following the service of a Note Acceleration Notice on the Issuer pursuant to *Condition 10 (Events of Default)* of the Notes provided that, if the Security has become enforceable otherwise than by reason of a default in payment of any amount due on the Notes, the Security Trustee will not be entitled to dispose of the assets comprised in the Security or any part thereof unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Noteholders (and all persons ranking in priority to the Noteholders as set out in the order of priority of payment below) or the Security Trustee is of the 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 in due course all amounts owing to the Noteholders (and all persons ranking in priority to the Noteholders as set out in the order of priority below), which opinion shall be binding on the Secured Creditors and reached after considering at anytime and from time to time the advice of any financial adviser (or such other professional adviser selected by the Security Trustee for the purpose of giving such advice).

The fees and expenses of the aforementioned financial adviser or other professional adviser selected by the Security Trustee shall be paid by the Issuer.

Governing Law

The Deed of Charge will be governed by English law. The Initial Scottish Charge and each Scottish Supplemental Charge granted pursuant and supplemental to the Deed of Charge, will be governed by Scots law.

Cash Management Agreement

On or about the Closing Date, the Cash Manager, the Issuer, and the Security Trustee will enter into the Cash Management Agreement.

Cash Management Services to be Provided to the Issuer

Pursuant to the Cash Management Agreement, the Cash Manager will agree to provide certain cash management and other services to the Issuer. The Cash Manager's principal function will be effecting payments to and from the GIC Account and the Transaction Account. In addition, the Cash Manager will:

- (a) apply, or cause to be applied Available Revenue Receipts, in accordance with the Pre-Acceleration Revenue Priority of Payments and Available Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments;
- (b) make withdrawals from the General Reserve Fund, the Retained Principal Receipts Ledger, the Principal Ledger, the Liquidity Reserve Ledger, the Further Advance Ledger and the Set-Off Reserve Ledger as and when required;
- (c) request a drawing under Tranche E of the Loan Facility Agreement following the occurrence of a Set-Off Event; and
- (d) make payments of the consideration for a Further Advance and New Loans to the Seller.

In addition, the Cash Manager will:

- (a) maintain the following ledgers (the **Ledgers**) on behalf of the Issuer:
 - (i) the **Principal Ledger**, which shall record all Principal Receipts received by the Issuer and the distribution of the Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments or the Post-Acceleration Priority of Payments (as applicable) and the amounts used to fund the purchase of any Further Advances;
 - (ii) the **Revenue Ledger**, which records all amounts under items (a), (b), (c), (g) and (i) of Available Revenue Receipts received by the Issuer and distribution of the same in accordance with the Pre-Acceleration Revenue Priority of Payments or the Post-Acceleration Priority of Payments (as applicable);
 - (iii) the **General Reserve Ledger** which shall record amounts credited to the general reserve fund (the **General Reserve Fund**) from the advances made under Tranche B of the Loan Facility Agreement on the Closing Date and thereafter from Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments and withdrawals from the General Reserve Fund on each Interest Payment Date (see "*Credit Structure — General Reserve Fund*" below);
 - (iv) the **Retained Principal Receipts Ledger** which shall record amounts credited to such ledger from Available Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments on each Interest Payment Date during the Revolving Period and withdrawals from such ledger on any Sale Date or Advance Date (as applicable) during the Revolving Period (see "*Credit Structure — Retained Principal Receipts Ledger*" and "*Cashflows – Definition of Available Principal Receipts*" below);
 - (v) the **Principal Deficiency Ledger** which shall record as a debit deficiencies arising from Losses on the Portfolio and records as a credit Available Revenue Receipts applied

pursuant to item (g) of the Pre-Acceleration Revenue Priority of Payments (if any) (which amounts shall, for the avoidance of doubt, thereupon become Available Principal Receipts);

- (vi) the **Liquidity Reserve Ledger** which shall record amounts credited to the Liquidity Reserve Fund from the advance made under Tranche C of the Loan Facility Agreement on the Closing Date and thereafter shall record as a debit drawings by way of an Interest Shortfall Drawing and as a credit the amount of all repayments of an Interest Shortfall Drawing in accordance with the Pre-Acceleration Revenue Priority of Payments;
 - (vii) the **Further Advance Ledger** which shall record amounts credited to the Further Advance Fund from the advance made under Tranche D of the Loan Facility Agreement on the Closing Date and thereafter shall record as a debit drawings by way of a Further Advance Shortfall Drawing and as a credit the amount of all repayments of a Further Advance Shortfall Drawing in accordance with the Pre-Acceleration Principal Priority of Payments; and
 - (viii) the **Set-Off Reserve Ledger** which shall record amounts credited to the Set-Off Reserve Fund from the advance made under Tranche E of the Loan Facility Agreement following the occurrence of a Set-Off Event and thereafter shall record as a debit withdrawals from the Set-Off Reserve Fund applied to repay Tranche E of the Loan Facility on each Interest Payment Date and withdrawals from the Set-Off Reserve Fund which form part of Available Revenue Receipts;
- (b) calculate on each Calculation Date the amount of Available Revenue Receipts and Available Principal Receipts to be applied on the relevant Interest Payment Date;
 - (c) provide the Issuer, the Seller, the Security Trustee and the Rating Agencies with a quarterly report in relation to the Portfolio by no later than 10 Business Days following each Interest Payment Date; and
 - (d) invest monies standing from time to time to the credit of a Bank Account in Authorised Investments as determined by the Issuer or by the Cash Manager subject to the following provisions:
 - (i) any such Authorised Investment shall be made in the name of the Issuer;
 - (ii) any costs properly and reasonably incurred in making and changing Authorised Investments will be reimbursed to the Cash Manager by the Issuer; and
 - (iii) all income and other distributions arising on, or proceeds following the disposal or maturity of, Authorised Investments shall be credited to the relevant Bank Account.

Remuneration of Cash Manager

The Cash Manager shall be paid a fee (inclusive of VAT, if any) for its cash management services under the Cash Management Agreement quarterly in arrear on each Interest Payment Date. The Issuer pays to the Cash Manager a cash management fee (inclusive of VAT, if any) of 0.01 per cent. per annum on the Current Balance of all Loans in the Portfolio as determined on the preceding Interest Payment Date (or, as applicable, the Closing Date). The fee is payable quarterly in arrear on each Interest Payment Date in the manner contemplated by and in accordance with the Pre-Acceleration Revenue Priority of Payments or, as the case may be, the Post-Acceleration Priority of Payments.

Termination of Appointment of Cash Manager

In certain circumstances the Issuer and the Security Trustee will each have the right to terminate the appointment of the Cash Manager and to appoint a substitute (the identity of which will be subject to the

Security Trustee's written approval). Any substitute cash manager will have substantially the same rights and obligations as the Cash Manager (although the fee payable to the substitute cash manager may be higher).

Liability of the Cash Manager

The Cash Manager will indemnify each of the Issuer and the Security Trustee on an after-tax basis for any loss, liability, claim, expense or damage suffered or incurred by it in respect of the negligence, fraud or wilful default of the Cash Manager in carrying out its functions as Cash Manager under, or as a result of a breach by the Cash Manager of, the terms and provisions of the Cash Management Agreement or such other Transaction Documents to which the Cash Manager is a party (in its capacity as such) in relation to such functions.

Governing Law

The Cash Management Agreement will be governed by English law.

Bank Account Agreement

Pursuant to the terms of the Bank Account Agreement entered into on the Closing Date between the Issuer, the Account Bank, the Cash Manager, the GIC Provider and the Security Trustee, the Issuer will maintain with the GIC Provider the GIC Account and with the Account Bank a Transaction Account and (where appropriate) any swap collateral account(s), which will be operated in accordance with the Cash Management Agreement, the Deed of Charge and the Interest Rate Swap Agreements.

All amounts received from Borrowers in respect of Loans in the Portfolio will be paid into the GIC Account and credited to the Revenue Ledger or the Principal Ledger, as the case may be, and as set out in the Cash Management Agreement. On each Interest Payment Date, amounts will be transferred from the GIC Account to the Transaction Account and applied by the Cash Manager pursuant to the Cash Management Agreement and in accordance with the Priorities of Payments described below under "*Cashflows*".

If at any time the short term unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank are downgraded below a rating of A-1 by S&P or P-1 by Moody's, the Issuer will be required (within 30 days) to arrange for the transfer (at its own cost) of the Bank Accounts to an appropriately rated bank or financial institution on substantially similar terms to those set out in the Bank Account Agreement in order to maintain the ratings of the Notes at their then current ratings.

The Bank Account Agreement may be terminated in other circumstances by the Cash Manager or the Issuer (in each case with the consent of the Security Trustee) including the occurrence of an insolvency event in respect of the Account Bank or default by the Account Bank in the performance of its obligations under the Bank Account Agreement which continues unremedied for a period of 20 Business Days after receiving notice or becoming aware of such default.

The Bank Account Agreement is governed by English law.

Guaranteed Investment Contract

Pursuant to the terms of the Guaranteed Investment Contract entered into on the Closing Date between the Issuer, the Account Bank, the Cash Manager, the GIC Provider and the Security Trustee, the GIC Provider has agreed to pay interest on the monies standing to the credit of the GIC Account at specified rates determined in accordance with the Bank Account Agreement and the Guaranteed Investment Contract.

The Guaranteed Investment Contract will terminate upon termination of the Bank Account Agreement or when the GIC Account is closed pursuant to the Bank Account Agreement. The Guaranteed Investment Contract is governed by English law.

Parent Support Deed

Pursuant to a support deed (the **Parent Support Deed**), the Parent Support Provider has undertaken to use its best efforts to procure that, for so long as C&G (or another company within the Lloyds Banking Group) is the Servicer or Cash Manager, C&G (or another company within the Lloyds Banking Group) shall perform its obligations under the Servicing Agreement and Cash Management Agreement (as applicable) until:

- (a) termination of the Servicing Agreement or Cash Management Agreement in accordance with the provisions thereof;
- (b) the appointment of a suitable substitute servicer or cash manager in accordance with the terms of the Servicing Agreement or the Cash Management Agreement, as applicable; or
- (c) the obtaining by C&G (or its successors or assigns within the Lloyds Banking Group) of long term, unguaranteed and unsecured credit ratings from each of S&P and Moody's of not less than BBB and Baa2 respectively.

Other Agreements

For a description of the Interest Rate Swap Agreement, the Swap Guarantee and the Loan Facility Agreement, see "*Credit Structure*" below.

CREDIT STRUCTURE

The Notes are obligations of the Issuer only. The Notes are not obligations of, or the responsibility of, or guaranteed by, any person other than the Issuer. In particular, the Notes are not obligations of, or the responsibility of, or guaranteed by, any of the Seller, the Interest Rate Swap Provider, the Swap Guarantor, the Arranger, the Servicer, the Cash Manager, the Account Bank, the Parent Support Provider, the Loan Facility Provider, the Note Trustee, the Security Trustee, any company in the same group of companies as any such entities or any other party to the Transaction Documents. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by any of the Seller, the Interest Rate Swap Provider, the Swap Guarantor, the Arranger, the Servicer, the Cash Manager, the Account Bank, the Parent Support Provider, the Loan Facility Provider, the Note Trustee, the Security Trustee or by any other person other than the Issuer.

The structure of the credit support arrangements may be summarised as follows:

1. Credit Support for the Notes provided by Available Revenue Receipts

It is anticipated that, during the life of the Notes, the interest payable by Borrowers on the Loans will, assuming that all of the Loans are fully performing, be sufficient so that the Available Revenue Receipts will be sufficient to pay the amounts payable under items (a) to (n) (inclusive) of the Pre-Acceleration Revenue Priority of Payments. The actual amount of any excess will vary during the life of the Notes. Two of the key factors determining such variation are the interest rates applicable to the Loans in the Portfolio (as to which, see "*Interest Rate Risk for the Notes*" below) and the performance of the Portfolio.

Performance of the Portfolio

Available Revenue Receipts may be applied (after making payments or provisions ranking higher in the Pre-Acceleration Revenue Priority of Payments) on each Interest Payment Date towards reducing any Principal Deficiency Ledger entries in accordance with item (g) of the Pre-Acceleration Revenue Priority of Payments which may arise from Losses on the Portfolio.

To the extent that the amount of Available Revenue Receipts on each Interest Payment Date exceeds the aggregate of the payments and provisions required to be met under items (a) to (g) (inclusive) of the Pre-Acceleration Revenue Priority of Payments, such excess is available to replenish and increase the General Reserve Fund up to and including an amount equal to the General Reserve Required Amount.

2. General Reserve Fund

On the Closing Date, the Issuer will establish a fund called the **General Reserve Fund**. The General Reserve Required Amount on the Closing Date will be £786,500,000 (being an amount equal to 13% of the Principal Amount Outstanding of the Notes as at the Closing Date) and will be funded from the advances made under Tranche B of the Loan Facility. The General Reserve Fund will be deposited in the GIC Account (with a corresponding credit to the General Reserve Ledger). The Issuer may invest the amounts standing to the credit of the GIC Account in Authorised Investments.

The Cash Manager will maintain the General Reserve Ledger pursuant to the Cash Management Agreement to record the balance from time to time of the General Reserve Fund.

After the Closing Date, the General Reserve Fund will be funded up to the General Reserve Required Amount from Available Revenue Receipts and will be replenished from Available Revenue Receipts in accordance with the provisions of the Pre-Acceleration Revenue Priority of Payments.

The **General Reserve Required Amount** will be an amount equal to £786,500,000 (being an amount equal to 13% of the Principal Amount Outstanding of the Notes as at the Closing Date) or following the issue of any

New Notes or Further Notes, an amount required to ensure that the then current ratings of the Notes will not be downgraded, withdrawn or qualified as a result of the issue of such Further Notes or New Notes. On any Interest Payment Date on which the Notes are fully repaid or provided for, the General Reserve Required Amount will be reduced to zero.

On or prior to the issue of any Further Notes or New Notes, the Loan Facility Provider may make a further advance to the Issuer under Tranche B of the Loan Facility Agreement to fund an increase in the General Reserve Fund (if required).

On any Interest Payment Date on which the Notes are fully repaid or provided for, the Issuer will not be required to maintain the General Reserve Fund and any amounts held in the General Reserve Fund will form part of Available Revenue Receipts and will be applied in accordance with the Pre-Acceleration Revenue Priority of Payments.

3. Liquidity Reserve Fund

On the Closing Date, the Issuer will establish a fund called the **Liquidity Reserve Fund**. The Liquidity Reserve Fund will be funded from the advances made under Tranche C of the Loan Facility. The Liquidity Reserve Fund will be deposited into the GIC Account (with a corresponding credit to the Liquidity Reserve Ledger). If the Cash Manager determines on the Calculation Date immediately preceding an Interest Payment Date (the **Interest Shortfall Date**) that there will be insufficient Available Revenue Receipts to pay or provide for payment of the items described in (a) to (f) (inclusive) of the Pre-Acceleration Revenue Priority of Payments (the extent of such deficiency being the **Interest Shortfall**), then, subject as provided below, the Issuer (or the Cash Manager on its behalf) shall withdraw an amount from the Liquidity Reserve Fund in an amount equal to the lesser of the relevant Interest Shortfall and the amount standing to the credit of the Liquidity Reserve Ledger (such drawing, an **Interest Shortfall Drawing**) to be transferred from the GIC Account to the Transaction Account on the relevant Interest Payment Date.

No withdrawal may be made from the Liquidity Reserve Fund if the amount debited to the Principal Deficiency Ledger on the relevant Calculation Date is equal to or greater than 50 per cent of the then Principal Amount Outstanding of the Notes other than to repay Tranche C of the Loan Facility to the Loan Facility Provider on the Final Maturity Date or on the date on which the Notes are fully repaid or provided for. Further, no withdrawal may be made from the Liquidity Reserve Fund following service of a Note Acceleration Notice on the Issuer which has not been revoked other than to repay Tranche C of the Loan Facility to the Loan Facility Provider.

If required, an additional advance will be made pursuant to Tranche C of the Loan Facility following the issue of any New Notes or Further Notes, to fund an increase in the Liquidity Reserve Fund (if required).

Amounts withdrawn from the Liquidity Reserve Ledger in respect of an Interest Shortfall will form part of the Available Revenue Receipts of the Issuer to be applied on the relevant Interest Payment Date in accordance with the Pre-Acceleration Revenue Priority of Payments.

If an Interest Shortfall Drawing has been made, then an amount equal to that Interest Shortfall Drawing will be credited to the Liquidity Reserve Ledger on the following Interest Payment Date from Available Revenue Receipts in accordance with the provisions of the Pre-Acceleration Revenue Priority of Payments.

On the earlier of the Final Maturity Date and the date on which the Notes are fully repaid or provided for, the Issuer will not be required to maintain the Liquidity Reserve Fund and any amounts standing to the credit of the Liquidity Reserve Ledger will be paid directly to the Loan Facility Provider towards repayment of the principal amount outstanding under Tranche C of the Loan Facility. Prior to service of a Note Acceleration Notice on the Issuer, no principal under Tranche C of the Loan Facility will be due and payable until the earlier of the Final Maturity Date and the date on which the Notes are fully repaid or provided for. Upon the service of a Note Acceleration Notice on the Issuer which has not been revoked, any amounts standing to

the credit of the Liquidity Reserve Ledger will be paid directly to the Loan Facility Provider towards repayment of the principal amount outstanding under Tranche C of the Loan Facility.

4. Further Advance Fund

On the Closing Date, the Issuer will establish a fund called the **Further Advance Fund**. The Further Advance Fund will be funded from the advances made under Tranche D of the Loan Facility. The Further Advance Fund will be deposited into the GIC Account (with a corresponding credit to the Further Advance Ledger). During the Revolving Period, if the Cash Manager determines on the date one Business Day after an Advance Date (the **Further Advance Shortfall Date**) that there are insufficient funds standing to the credit of the Retained Principal Receipts Ledger and the Principal Ledger to pay the relevant Further Advance Purchase Price on the relevant Further Advance Payment Date (the extent of such deficiency being the **Further Advance Shortfall**), then, subject as provided below, the Issuer (or the Cash Manager on its behalf) shall withdraw an amount from the Further Advance Fund in an amount equal to the lesser of the relevant Further Advance Shortfall and the amount standing to the credit of the Further Advance Ledger (such drawing, a **Further Advance Shortfall Drawing**).

No withdrawal may be made from the Further Advance Fund following the expiry of the Revolving Period or following the service of a Note Acceleration Notice on the Issuer which has not been revoked other than to repay the Loan Facility Provider. If required, an additional advance will be made pursuant to Tranche D of the Loan Facility following the issue of any New Notes or Further Notes, to fund an increase in the Further Advance Fund (if required).

If a Further Advance Shortfall Drawing has been made, then an amount equal to the relevant Further Advance Shortfall Drawing will be credited to the Further Advance Ledger on the following Interest Payment Date from Available Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments. If the Issuer determines on the Calculation Date prior to the Interest Payment Date immediately following a Further Advance Payment Date that it will not have sufficient Available Principal Receipts on the Interest Payment Date to repay any Further Advance Shortfall Drawing then the Seller will repurchase the Loan relating to such Further Advance on such Interest Payment Date for an amount equal to the then Current Balance of the Loan (including any amount in respect of the Further Advance Purchase Price).

On the earliest of the Revolving Period End Date, the date on which the Notes have been repaid or provided for in full and the service of a Note Acceleration Notice on the Issuer which has not been revoked, any amounts standing to the credit of the Further Advance Ledger will be paid directly to the Loan Facility Provider towards repayment of the principal amount outstanding under Tranche D of the Loan Facility.

5. Retained Principal Receipts Ledger

The Cash Manager will maintain a ledger pursuant to the Cash Management Agreement called the Retained Principal Receipts Ledger (the **Retained Principal Receipts Ledger**). The Retained Principal Receipts Ledger may be funded from the first Business day following the Closing Date and on each subsequent Business Day during the Revolving Period with Available Principal Receipts (the **Retained Principal Receipts**). The Retained Principal Receipts will be credited to the Retained Principal Receipts Ledger of the GIC Account. The Issuer may invest the amounts standing to the credit of the Retained Principal Receipts Ledger in Authorised Investments.

During the Revolving Period, amounts standing to the credit of the Retained Principal Receipts Ledger may be applied by the Issuer first, towards Further Advance Purchase Price payable to the Seller in respect of the sale of Further Advances to the Issuer during such period, and second towards the New Portfolio Purchase Price payable to the Seller in respect of a sale of any New Portfolio to the Issuer during such period (and for this purpose, any amounts standing to the credit of the Retained Principal Receipts Ledger will be applied in the order in which such amounts were credited to the Retained Principal Receipts Ledger (i.e. on a 'first in, first out' basis)). If not so applied, any such amounts that remain standing to the credit of the Retained Principal Receipts Ledger on the Interest Payment Date immediately following the end of the Revolving

Period will comprise Available Principal Receipts in respect of such Interest Payment Date to be applied by the Issuer in accordance with the Pre Acceleration Principal Priority of Payments on such Interest Payment Date.

After the end of the Revolving Period, amounts standing to the credit of the Principal Ledger may be applied by the Issuer on any Further Advance Payment Date to pay the Further Advance Purchase Price in respect of any Further Advance. Any amounts standing to the credit of the Principal Ledger on any Interest Payment Date will be transferred to the Transaction Account and will be applied by the Issuer (or the Cash Manager on its behalf) on such Interest Payment Date as Available Principal Receipts in accordance with the Pre Acceleration Principal Priority of Payments.

6. Set-Off Reserve Fund

If at any time (i) neither the Seller nor the Loan Facility Provider (or their successors or assigns) has a long term unsecured, unsubordinated and unguaranteed debt obligation rating from S&P of at least A- or from Moody's of at least A3 or (ii) a Seller Insolvency Event has occurred (a **Set-Off Event**), the Issuer will establish a fund called the set-off reserve fund (**Set-Off Reserve Fund**). The Loan Facility Provider will advance to the Issuer, on the Business Day following not more than 10 Business Days after the occurrence of Set-Off Event an amount equal to the Set-Off Reserve Required Amount. Any amount standing to the credit of the Set-Off Reserve Ledger on each Interest Payment Date in excess of the Set-Off Reserve Required Amount, to the extent not utilised to cover any Losses arising as a result of a Borrower exercising a right of set-off, will be used to repay Tranche E of the Loan Facility and will thereafter, once Tranche E of the Loan Facility has been repaid in full, be applied as Available Revenue Receipts. Following the occurrence of a Set-Off Event, if amounts standing to the credit of the Set-Off Reserve Ledger have been applied as Available Revenue Receipts as a result of a Loss arising as a result of a Borrower exercising a right of set-off, there is no obligation on the Loan Facility Provider or the Issuer to top up the Set-Off Reserve Fund to the Set-Off Reserve Required Amount at that time.

Set-Off Reserve Required Amount means:

- (a) at any time after a Set-Off Event has occurred and is continuing, an amount equal to 3.2% of the then Principal Amount Outstanding of the Notes; or
- (b) at all other times, zero,

provided that the Set-Off Reserve Required Amount shall in no case fall below zero.

For the avoidance of doubt, on the date on which the Notes are fully repaid or provided for, the Set-Off Reserve Required Amount will be zero.

7. Principal Deficiency Ledger

The Principal Deficiency Ledger will be established on the Closing Date in order to record any Losses on the Portfolio.

On each Interest Payment Date, Available Revenue Receipts shall, after making the payments or provisions required to be met in items (a) to (f) (inclusive) of the Pre-Acceleration Revenue Priority of Payments, be applied in an amount necessary to reduce the debit balance on the Principal Deficiency Ledger to zero.

8. Available Funds

To the extent that the Available Revenue Receipts and Available Principal Receipts are sufficient on any Calculation Date, they shall be paid on the immediately following Interest Payment Date to the persons entitled thereto (or a relevant provision made) in accordance with the Pre-Acceleration Revenue Priority of Payments or the Pre-Acceleration Principal Priority of Payments, as applicable. It is not intended that any

surplus will be accumulated in the Issuer, which for the avoidance of doubt does not include the £5,000 which the Issuer expects to generate annually as its profit in respect of the business of the Issuer, amounts standing to the credit of the General Reserve Ledger, the Further Advance Ledger, the Liquidity Reserve Ledger or the Retained Principal Receipts Ledger.

Failure to pay interest on the Notes within any applicable grace period in accordance with the Conditions shall constitute an Event of Default under the Notes which may result in the Security Trustee enforcing the Security.

9. GIC Account

Pursuant to the Bank Account Agreement and the Guaranteed Investment Contract, the GIC Provider will pay interest on funds in the GIC Account at a guaranteed rate per annum equal to LIBOR for Three-Month Sterling deposits less a margin. The Issuer may invest amounts standing to the credit of the GIC Account in Authorised Investments.

If, at any time the short term unsecured, unsubordinated and unguaranteed debt obligations of the GIC Provider are downgraded below a rating of A-1 by S&P or P-1 by Moody's, the Issuer will be required (within 30 days) to transfer (at its own cost) the GIC Account to an appropriately rated bank or financial institution on substantially similar terms to those set out in the Bank Account Agreement, in order to maintain the ratings of the Notes at their then current ratings.

10. Loan Facility

The Loan Facility Provider will make a loan facility (the **Loan Facility**) to the Issuer on the Closing Date pursuant to the Loan Facility Agreement consisting of five tranches of loan facilities.

The first tranche of the Loan Facility (**Tranche A**) will be in an amount up to £1,500,000 and will be used for meeting the costs and expenses of the Issuer arising in connection with the sale of the Initial Portfolio to the Issuer and other closing expenses. Any amounts not applied in paying such costs and expenses on the Closing Date will be deposited in the GIC Account and may be applied by the Cash Manager on behalf of the Issuer in paying any other such expenses during the first Interest Period. Any amounts not applied during the first Interest Period will form part of Available Revenue Receipts and be applied by the Issuer on the first Interest Payment Date in accordance with the Pre-Acceleration Revenue Priority of Payments.

The second tranche of the Loan Facility (**Tranche B**) will be in an amount of £786,500,000 and will be used to initially fund the General Reserve Fund and will be deposited into the GIC Account (with a corresponding credit to the General Reserve Ledger).

The third tranche of the Loan Facility (**Tranche C**) will be an amount up to £181,500,000 and will be used for the purposes of funding the Liquidity Reserve Fund and will be deposited into the GIC Account (with a corresponding credit to the Liquidity Reserve Ledger).

The fourth Tranche of the Loan Facility (**Tranche D**) will be an amount up to £20,000,000 and will be used for the purposes of funding the Further Advance Fund and will be deposited into the GIC Account (with a corresponding credit to the Further Advance Ledger).

The fifth Tranche of the Loan Facility (**Tranche E**) will be advanced on a Business Day which is no later than 10 Business Days following the occurrence of a Set-Off Event, in an amount equal to 3.2% of the then Principal Amount Outstanding of the Notes which will be used to fund the Set-Off Reserve Fund and will be deposited into the GIC Account (with a corresponding credit to the Set-Off Reserve Ledger).

Any interest accrued on any tranche of the Loan Facility in respect of an Interest Period but not paid on the Interest Payment Date relating thereto shall be capitalised forthwith.

On or prior to the issue of any Further Notes or New Notes, the Loan Facility Provider may (if applicable) make further advances to the Issuer under the Loan Facility Agreement. Such additional advances may be used to pay for additional expenses of the Issuer in relation to the issue of Further Notes or New Notes and/or to make a further deposit to the General Reserve Fund and/or the Liquidity Reserve Fund and/or the Further Advance Fund and/or the Set-Off Reserve Fund.

The Loan Facility Provider will have the right to assign or novate without the consent of any party (including the Noteholders) its rights and/or obligations under the Loan Facility to a third party at any time.

The Loan Facility Agreement is governed by English law.

11. Interest Rate Risk for the Notes

Some of the Loans in the Portfolio pay a variable rate of interest for a period of time which may be linked to the variable rate set by (or on behalf of) the Issuer applicable to any Standard Variable Rate Loan in the Portfolio (the **Issuer Standard Variable Rate**) or a variable interest rate other than the Issuer Standard Variable Rate, such as a rate set by the Bank of England. Other loans pay a fixed rate of interest for a period of time. However, the interest rate payable by the Issuer with respect to the Notes is an amount calculated by reference to Three-Month Sterling LIBOR.

To provide a hedge against the possible variance between:

- (a) the Issuer Standard Variable Rate payable on the Standard Variable Rate Loans, the rates of interest payable on the Tracker Loans and the fixed rates of interest payable on the Fixed Rate Loans; and
- (b) a rate of interest calculated by reference to Three-Month Sterling LIBOR,

the Issuer will enter into the Interest Rate Swap under the Interest Rate Swap Agreement on or about the Closing Date.

Under the Interest Rate Swap, for each Interest Period, the following amounts will be calculated:

- (a) the amount produced by applying Three-Month Sterling LIBOR plus or minus a spread for the relevant Interest Period to the Swap Provider Notional Amount of the Interest Rate Swap for such Interest Period (known as the **Interest Period Swap Provider Amount**); and
- (b) in respect of each Calculation Period relating to such Interest Period, the amount produced by applying a rate equal to the weighted average of:
 - (i) the lower of (A) the Bank of England Base Rate plus 2 per cent. per annum and (B) the average of the standard variable mortgage rates or their equivalent charged to existing borrowers on residential mortgage loans as published from time to time, after excluding the highest and the lowest rate, of Abbey National plc, Alliance and Leicester plc, Bristol and West plc, Halifax plc, National Westminster Bank plc, Northern Rock plc and Woolwich plc (and, where those banks have more than one standard variable rate, the highest of those rates);
 - (ii) the Bank of England repo rate in respect of the Tracker Loans; and
 - (iii) the weighted average of the rates of interest payable on the Fixed Rate Loans,

for the relevant Calculation Period to the notional amount of the Interest Rate Swap for such Calculation Period (in each case, known as the **Calculation Period Issuer Amount**).

On each Calculation Date relating to an Interest Payment Date, the following amounts will be calculated:

- (a) the Interest Period Swap Provider Amount calculated for the Interest Period ending on (but excluding) such Interest Payment Date; and
- (b) the sum of the Calculation Period Issuer Amounts calculated for each Calculation Period relating to the Interest Period ending on (but excluding) such Interest Payment Date (known as the **Interest Period Issuer Amount**).

After these two amounts are calculated in relation to an Interest Payment Date, the following payments will be made on that Interest Payment Date:

- (a) if the Interest Period Swap Provider Amount for that Interest Payment Date is greater than the Interest Period Issuer Amount for that Interest Payment Date, then the Interest Rate Swap Provider will pay the difference to the Issuer;
- (b) if the Interest Period Issuer Amount for that Interest Payment Date is greater than the Interest Period Swap Provider Amount for that Interest Payment Date, then the Issuer will pay the difference to the Interest Rate Swap Provider; and
- (c) if the two amounts are equal, neither party will make a payment to the other.

If a payment is to be made by the Interest Rate Swap Provider, that payment will be included in the Available Revenue Receipts and will be applied on the relevant Interest Payment Date according to the relevant Priority of Payments. If a payment is to be made by the Issuer, it will be made according to the relevant Priority of Payments of the Issuer.

For the purposes of calculating the Calculation Period Issuer Amount in respect of a Calculation Period, the notional amount (the **Notional Amount**) of the Interest Rate Swap in respect of such Calculation Period will be an amount in Sterling equal to the sum of:

- (a) the average of the daily aggregate of the Current Balance of the Fixed Rate Loans during the relevant Calculation Period;
- (b) the average of the daily aggregate of the Current Balance of the Tracker Loans during the relevant Calculation Period; and
- (c) the average of the daily aggregate of the Current Balance of the Standard Variable Rate Loans during the relevant Calculation Period.

For the purposes of calculating the Interest Period Swap Provider Amount in respect of an Interest Period, the notional amount of the Interest Rate Swap in respect of such Interest Period will be an amount in Sterling equal to the weighted average (by number of days) of the Notional Amounts of the Interest Rate Swap for each Calculation Period relating to such Interest Period (the **Swap Provider Notional Amount**).

For the purposes of the above, **Calculation Period** shall mean each period running from (and including) the first day of the month (or, in the case of the first such period, the Closing Date) to (but excluding) the first day of the next following month (or, in case of the last such period, the date on which the aggregate Principal Amount Outstanding of the Notes is reduced to zero). Each reference to a Calculation Period relating to an Interest Period shall be construed so as to refer to each Calculation Period ending on a day that falls in that Interest Period or that ends on the same day as that Interest Period ends.

Unless an Early Termination Event (as defined below) occurs, the Interest Rate Swap will terminate on the date on which the aggregate Principal Amount Outstanding of the Notes is reduced to zero. In the event that the Interest Rate Swap is terminated prior to the service of a Note Acceleration Notice or the date on which

the aggregate Principal Amount Outstanding of the Notes is reduced to zero, the Issuer shall enter into a replacement interest rate swap on terms acceptable to the Issuer and the Security Trustee and which are in accordance with the then current ratings criteria of the relevant Rating Agencies, and with a swap provider whom the Issuer shall have notified to the Rating Agencies and each Rating Agency has acknowledged receipt of such notification. If the Issuer is unable to enter into a replacement interest rate swap on terms which are in accordance with the then current ratings criteria of the relevant Rating Agencies, this may affect amounts available to pay interest on the Notes.

Under the terms of the Interest Rate Swap Agreement, in the event that the relevant rating(s) of the Interest Rate Swap Provider or, where applicable, the Swap Guarantor, is or are, as applicable, downgraded by a Rating Agency below the rating specified in the Interest Rate Swap Agreement (in accordance with the requirements of the Rating Agencies) (the **Required Swap Rating**), the Interest Rate Swap Provider or, where applicable, the Swap Guarantor, will, in accordance with the Interest Rate Swap Agreement, be required to elect to take certain remedial measures within the timeframe stipulated in the Interest Rate Swap Agreement and at its own cost which may include providing collateral for its obligations under the Interest Rate Swap Agreement, arranging for its obligations under the Interest Rate Swap Agreement to be transferred to an entity with the Required Swap Ratings, procuring another entity with the Required Swap Ratings to become co-obligor or guarantor, as applicable, in respect of its obligations under the Interest Rate Swap Agreement or taking such other action that would result in the rating of the Notes being maintained at, or restored to, the level it would have been at prior to such downgrade by the relevant Rating Agency.

The Interest Rate Swap may be terminated in certain circumstances, including the following, each as more specifically defined in the Interest Rate Swap Agreement (an **Early Termination Event**):

- (a) if there is a failure by a party to pay amounts due under the Interest Rate Swap Agreement and any applicable grace period has expired;
- (b) if certain insolvency events occur with respect to a party;
- (c) if a breach of a provision of the Interest Rate Swap Agreement by the Interest Rate Swap Provider is not remedied within the applicable grace period;
- (d) if a change of law results in the obligations of one of the parties becoming illegal;
- (e) in certain circumstances, if a deduction or withholding for or on account of taxes is imposed on payments under an Interest Rate Swap due to change in law or if certain tax representations made by the Interest Rate Swap Provider prove to have been incorrect or misleading in any material respect;
- (f) if the Interest Rate Swap Provider or, where applicable, the Swap Guarantor, is downgraded and fails to comply with the requirements of the downgrade provisions contained in the Interest Rate Swap Agreement and described above;
- (g) if the Note Trustee serves a Note Acceleration Notice on the Issuer pursuant to *Condition 10 (Events of Default)* of the Notes;
- (h) if there is a redemption of the Notes pursuant to *Condition 7.3 (Optional Redemption in Full or in Part)* (and if redeemed in part, any swap termination will also be in part);
- (i) if there is a redemption of the Notes pursuant to *Condition 7.4 (Optional Redemption for Taxation or Other Reasons)*;
- (j) if any of the Priority of Payments is amended (other than in accordance with the Deed of Charge or with the prior written consent of the Interest Rate Swap Provider) such that the Issuer's obligations to

the Interest Rate Swap Provider under the Interest Rate Swap Agreement are further contractually subordinated to the Issuer's obligations to any other Secured Creditor; and

- (k) if any of the Transaction Documents is amended (other than with the prior written consent of the Interest Rate Swap Provider) such that the Interest Rate Swap Provider is required to pay more or receive less under the Interest Rate Swap Agreement on the immediately following payment date under the Interest Rate Swap (which corresponds to an Interest Payment Date) than would otherwise have been the case immediately prior to such amendment.

Upon an early termination of an Interest Rate Swap, the Issuer or the Interest 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 based on the market value of the terminated swap as determined on the basis of quotations sought from leading dealers as to the costs of entering into a transaction with the same terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (or based upon a good faith determination of total losses and costs (or gains) if an insufficient number of quotations can be obtained or if basing the valuation on quotations would not produce a commercially reasonable result) and will include any unpaid amounts that became due and payable prior to the date of termination. Any such termination payment could be substantial and may affect the funds available to pay amounts due to the Noteholders.

The Interest Rate Swap Provider may, subject to certain conditions specified in the Interest Rate Swap Agreement including (without limitation) the satisfaction of certain requirements of the Rating Agencies and prior written consent of the Issuer, transfer its obligations under the Interest Rate Swap Agreement to another entity with the ratings as specified in the Interest Rate Swap Agreement.

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

The Interest Rate Swap Provider will generally be obliged to gross up payments made by it to the Issuer if a withholding or deduction for or on account of tax is imposed on payments made by it under the Interest Rate Swap. However, if the Interest Rate Swap Provider is required to gross up a payment under the Interest Rate Swap due to a change in the law, the Interest Rate Swap Provider may terminate the Interest Rate Swap.

Under a guarantee forming part of the Interest Rate Swap Agreement, the Swap Guarantor will provide a guarantee in favour of the Issuer (the **Swap Guarantee**) in respect of the payment and delivery obligations of the initial Interest Rate Swap Provider under the Interest Rate Swap Agreement. The Swap Guarantee will terminate upon (i) the Interest Rate Swap Provider, or its successors, assignees or transferees within the Lloyds Banking Group, acquiring the Required Swap Ratings as set out in the Interest Rate Swap Agreement or (ii) the Interest Rate Swap Provider, or its successors, assignees or transferees within the Lloyds Banking Group, procuring another person with the Required Swap Ratings to become co-obligor or guarantor in respect of its payment and delivery obligations under the Interest Rate Swap Agreement or (iii) the obligations of the Interest Rate Swap Provider under the Interest Rate Agreement being irrevocably discharged in full or (iv) in certain circumstances, the Interest Rate Swap Provider assigning or novating any of its rights, undertakings or obligations under the Interest Rate Swap Agreement without the express written consent of the Swap Guarantor or (v) the Interest Rate Swap Provider assigning or novating any of its rights, undertakings or obligations under the Interest Rate Swap Agreement to a person with the Required Swap Ratings or procuring another person with the Required Swap Ratings to become co-obligor or guarantor in respect of its payment and delivery obligations under the Interest Rate Swap Agreement.

The Interest Rate Swap Agreement and the Swap Guarantee are governed by English law.

CASHFLOWS

Definition of Revenue Receipts

Revenue Receipts means any payment received in respect of any Loan, or any payment received from the Seller in respect of interest amounts on a Loan (otherwise than in respect of a Loan that has been repurchased by the Seller), whether as all or part of a monthly payment in respect of such Loan, on redemption (including partial redemption) of such Loan, on enforcement of such Loan (including the proceeds of sale of the relevant Property) or on the disposal of such Loan or otherwise, which in any such case is not recorded as a Principal Receipt in respect of such Loan.

Definition of Available Revenue Receipts

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

- (a) Revenue Receipts received during the immediately preceding Collection Period;
- (b) interest payable to the Issuer on the Bank Accounts and income from any Authorised Investments in each case received during the immediately preceding Collection Period;
- (c) amounts received by the Issuer under the Interest Rate Swap Agreement (other than (i) any early termination amount received by the Issuer under the Interest Rate Swap Agreement which is to be applied in acquiring a replacement swap, (ii) Excess Swap Collateral or Swap Collateral, except to the extent that the value of such Swap Collateral has been applied, pursuant to the provisions of the Interest Rate Swap Agreement, to reduce the amount that would otherwise be payable by the Interest Rate Swap Provider to the Issuer on early termination of the Interest Rate Swap under the Interest Rate Swap Agreement and, to the extent so applied in reduction of the amount otherwise payable by the Interest Rate Swap Provider, such Swap Collateral is not to be applied in acquiring a replacement swap and (iii) any Replacement Swap Premium but only to the extent applied directly to pay any termination payment due and payable by the Issuer to the Interest Rate Swap Provider and (iv) amounts in respect of Swap Tax Credits) on such Interest Payment Date;
- (d) the amounts standing to the credit of the General Reserve Ledger as at the immediately preceding Collection Period End Date;
- (e) the amounts (if any) of any Interest Shortfall Drawings to be withdrawn from the Liquidity Reserve Fund on such Interest Payment Date in respect of any Interest Shortfall arising in the immediately preceding Collection Period;
- (f) following the occurrence of a Set-Off Event, the amounts credited to the Set-Off Reserve Fund in an amount equal to the sum of (A) the lower of (i) the amounts standing to the credit of the Set-Off Reserve Fund as at the immediately preceding Collection Period End Date and (ii) any Losses arising during the immediately preceding Collection Period as a result of a Borrower exercising a right of set-off under the relevant Loan and (B) the excess of the amount standing to the credit of the Set-Off Reserve Ledger over the Set-Off Reserve Required Amount to the extent that such amounts have not been utilised in repaying the outstanding principal balance of Tranche E of the Loan Facility in full;
- (g) other net income of the Issuer received during the immediately preceding Collection Period, excluding any Principal Receipts (except for amounts deemed to be Available Revenue Receipts in accordance with paragraph (f) of the Pre-Acceleration Principal Priority of Payments);

- (h) amounts deemed to be Available Revenue Receipts in accordance with paragraph (f) of the Pre-Acceleration Principal Priority of Payments;
- (i) in the case of the first Interest Payment Date only, amounts standing to the credit of the GIC Account in respect of amounts advanced under Tranche A of the Loan Facility to the extent such amounts have not been applied to pay the closing costs and expenses of the Issuer;

less:

- (j) amounts applied from time to time during the immediately preceding Collection Period in making payment of certain monies which properly belong to third parties (including the Seller) such as (but not limited to):
 - (i) any fees received as a consequence of the early repayment of a Loan (**Early Repayment Charges**), and certain other fees charged by the Servicer in respect of its servicing of the Loans (together, the **Servicing Related Fees**);
 - (ii) payments of certain insurance premiums;
 - (iii) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup such amount itself from its customer's account; and
 - (iv) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service to that Borrower or the Seller,

(items within (j) being collectively referred to herein as **Third Party Amounts**). Third Party Amounts may be deducted by the Cash Manager on a daily basis from the GIC Account to make payment to the persons entitled thereto except where such payments have already been provided for elsewhere.

Application of Monies Released from the General Reserve Fund

Prior to service of a Note Acceleration Notice on the Issuer, monies standing to the credit of the General Reserve Ledger as at the end of the immediately preceding Collection Period will be applied on each Interest Payment Date as Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments.

Following service of a Note Acceleration Notice on the Issuer, monies standing to the credit of the General Reserve Ledger will be applied in accordance with the Post-Acceleration Priority of Payments.

Application of Monies Released from the Liquidity Reserve Fund

On the earliest of the Final Maturity Date, the date on which the Notes are fully repaid or provided for and the service of a Note Acceleration Notice on the Issuer which has not been revoked, monies standing to the credit of the Liquidity Reserve Ledger on such date shall be paid directly to the Loan Facility Provider towards repayment of the principal amount outstanding under Tranche C of the Loan Facility.

Application of Monies Released from the Further Advance Fund

On the earliest of the Revolving Period End Date, the date on which the Notes are fully repaid or provided for and the service of a Note Acceleration Notice on the Issuer which has not been revoked, monies standing to the credit of the Further Advance Ledger on such date shall be paid directly to the Loan Facility Provider towards repayment of the principal amount outstanding under Tranche D of the Loan Facility.

Application of Monies Released from the Set-Off Reserve Fund

Prior to the service of a Note Acceleration Notice on the Issuer which has not been revoked, money standing to the credit of the Set-Off Reserve Fund (if any) in an amount equal to the sum of (A) the lower of (i) the amounts standing to the credit of the Set-Off Reserve Fund as at the immediately preceding Collection Period End Date and (ii) any Losses arising during the immediately preceding Collection Period as a result of a Borrower exercising a right of set-off under the relevant Loan, and (B) the excess of the amount standing to the credit of the Set-Off Reserve Ledger over the Set-Off Reserve Required Amount to the extent that such amounts have not been utilised in repaying the outstanding principal balance of Tranche E of the Loan Facility in full will be applied on each Interest Payment Date as Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments.

After taking into account any amounts to be applied as Available Revenue Receipts under paragraph (A) above on the relevant Interest Payment Date, amounts standing to the credit of the Set-Off Reserve Fund in excess of the Set-Off Reserve Required Amount shall be paid directly to the Loan Facility Provider on such Interest Payment Date to repay Tranche E of the Loan Facility (in whole or in part). If there are still amounts standing to the credit of the Set-Off Reserve Ledger in excess of the Set-Off Reserve Required Amount following the repayment in full of Tranche E of the Loan Facility such amounts will form part of the Available Revenue Receipts.

Following service of a Note Acceleration Notice on the Issuer which has not been revoked, an amount equal to the lower of (i) the amounts standing to the credit of the Set-Off Reserve Ledger and (ii) any Losses arising between the Collection Period End Date immediately preceding the last Interest Payment Date prior to the service of the Note Acceleration Notice and such date as the Notes have been repaid or provided for in full as a result of a Borrower exercising a right of set-off under the relevant Loan will be applied in accordance with the Post-Acceleration Priority of Payments. Any other amounts standing to the credit of the Set-Off Reserve Ledger (if any) after all such Losses have been provided for shall be paid directly to the Loan Facility Provider towards repayment of the principal amount outstanding under Tranche E of the Loan Facility.

Application of Monies following redemption of the Notes in full

On any Optional Redemption Date (which is not an Interest Payment Date) on which the Notes are repaid or provided for in full, the Issuer (or the Cash Manager on its behalf) may, or if directed by the Seller, shall, apply all amounts standing to the credit of any Bank Account of the Issuer to repay any liabilities of the Issuer and to discharge all other amounts required to be paid by the Issuer in accordance with the order of priority set out in the Post-Acceleration Priority of Payments.

Application of Available Revenue Receipts Prior to the Service of a Note Acceleration Notice on the Issuer

On each Interest Payment Date prior to the service of a Note Acceleration Notice by the Note Trustee on the Issuer, the Cash Manager, on behalf of the Issuer, shall apply or provide for the application of the Available Revenue Receipts in the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full) (the **Pre-Acceleration Revenue Priority of Payments**):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) any fees, costs, charges, liabilities, expenses and all other amounts then due or to become due and payable in the immediately succeeding Interest Period to the Note Trustee or any Appointee under the provisions of the Trust Deed and the other Transaction Documents together with (if payable) value added tax (**VAT**) thereon as provided therein; and
 - (ii) any fees, costs, charges, liabilities, expenses and all other amounts then due or to become due and payable in the immediately succeeding Interest Period to the Security Trustee or any Appointee under the provisions of the Deed of Charge and the other Transaction Documents together with (if payable) VAT thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) any remuneration then due and payable to the Agent Bank, the Registrar and the Paying Agents and any fees, costs, charges, liabilities and expenses then due or to become due and payable in the immediately succeeding Interest Period to them under the provisions of the Agency Agreement, together with (if payable) VAT thereon as provided therein;
 - (ii) any amounts due and payable by the Issuer to third parties and incurred without breach by the Issuer of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and any amounts necessary to provide for any such amounts expected to become due and payable by the Issuer in the immediately succeeding Interest Period and any amounts required to pay or discharge any liability of the Issuer for corporation tax on any income or chargeable gain of the Issuer (but only to the extent not capable of being satisfied out of amounts retained by the Issuer under item (j) below)); and
 - (iii) any amounts then due and payable to the Corporate Services Provider and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Corporate Services Provider in the immediately succeeding Interest Period under the provisions of the Corporate Services Agreement, together with (if payable) VAT thereon as provided therein;
- (c) *third*, *pro rata* and *pari passu* according to the respective amounts thereof:
 - (i) prior to the earlier of the Final Maturity Date and the date on which the Principal Amount Outstanding of the Notes is reduced to zero, towards a credit to the Liquidity Reserve

Ledger in an amount equal to the difference (if any) between the amount standing to the credit of the Liquidity Reserve Ledger on the immediately preceding Calculation Date and the amount advanced by the Loan Facility Provider pursuant to Tranche C of the Loan Facility on the Closing Date;

- (ii) on the earlier of the Final Maturity Date and the date on which the Principal Amount Outstanding of the Notes is reduced to zero, to pay an amount equal to the difference (if any) between the amount standing to the credit of the Liquidity Reserve Ledger on the immediately preceding Interest Payment Date (after taking into account all debits and credits to the Liquidity Reserve Ledger on such date) and the amount advanced by the Loan Facility Provider pursuant to Tranche C of the Loan Facility on the Closing Date towards repayment of the principal amounts outstanding under Tranche C of the Loan Facility;
 - (iii) to pay all amounts of interest due or accrued (if any) but unpaid and any capitalised interest due to the Loan Facility Provider under Tranche C of the Loan Facility; and
 - (iv) to pay all amounts of interest due or accrued (if any) but unpaid and any capitalised interest due to the Loan Facility Provider under Tranche D of the Loan Facility;
- (d) *fourth*, to provide for amounts due on the relevant Interest Payment Date, to pay, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) any amounts then due and payable to the Servicer and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the immediately succeeding Interest Period under the provisions of the Servicing Agreement, together with VAT (if payable) thereon as provided therein;
 - (ii) any amounts then due and payable to the Cash Manager and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding Interest Period under the provisions of the Cash Management Agreement, together with VAT (if payable) thereon as provided therein; and
 - (iii) any amounts then due and payable to the Account Bank and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Account Bank in the immediately succeeding Interest Period under the provisions of the Bank Account Agreement, together with VAT (if payable) thereon as provided therein;
- (e) *fifth*, to pay amounts due to the Interest Rate Swap Provider in respect of the Interest Rate Swap Agreement (including any termination payment due and payable by the Issuer to the extent it is not satisfied by the payment by the Issuer to the Interest Rate Swap Provider of any Replacement Swap Premium but excluding any related Interest Rate Swap Excluded Termination Amount);
- (f) *sixth*, to provide for amounts due on the relevant Interest Payment Date, to pay, *pro rata* and *pari passu* according to the respective Principal Amount Outstanding thereof:
- (i) interest due and payable on the Class A-1 Notes; and
 - (ii) interest due and payable on the Class A-2 Notes;
- (g) *seventh*, (so long as the Notes will remain outstanding following such Interest Payment Date) to credit the Principal Deficiency Ledger in an amount sufficient to eliminate any debit thereon;
- (h) *eighth*, to credit the General Reserve Ledger up to the General Reserve Required Amount;

- (i) *ninth*, to pay to the Interest Rate Swap Provider in respect of an Interest Rate Swap Excluded Termination Amount (to the extent not satisfied by payment to the Interest Rate Swap Provider by the Issuer of any Replacement Swap Premium);
- (j) *tenth*, to pay the Issuer an amount equal to £5,000 per annum to be retained by the Issuer as profit in respect of the business of the Issuer;
- (k) *eleventh*, to pay all amounts of interest due or accrued (if any) but unpaid and any capitalised interest due to the Loan Facility Provider under Tranche A, Tranche B and Tranche E of the Loan Facility;
- (l) *twelfth*, to repay the principal amounts outstanding to the Loan Facility Provider under Tranche A, Tranche B and Tranche E of the Loan Facility ;
- (m) *thirteenth*, to pay any deferred consideration due and payable under the Mortgage Sale Agreement to the Seller (the **Deferred Consideration**); and
- (n) *fourteenth*, the excess (if any) to the Issuer to be retained by the Issuer as profit in respect of the business of the Issuer.

As used in this Prospectus:

Appointee means any attorney, manager, agent, delegate, nominee, receiver, custodian or other person properly appointed by the Note Trustee under the Trust Deed or the Security Trustee under the Deed of Charge (as applicable) to discharge any of its functions;

Excess Swap Collateral means, in respect of the Interest Rate Swap Agreement, an amount (which will be transferred directly to the Interest Rate Swap Provider in accordance with the Interest Rate Swap Agreement) equal to the amount by which the value of the collateral (or the applicable part of any collateral) provided by an Interest Rate Swap Provider to the Issuer pursuant to the Interest Rate Swap Agreement exceeds the Interest Rate Swap Provider's liability under the Interest Rate Swap Agreement as at the date of termination of the Interest Rate Swap Agreement or which it is otherwise entitled to have returned to it under the terms of the Interest Rate Swap Agreement;

Interest Period means the period from and including one Interest Payment Date (or, in the case of the first Interest Period, the Closing Date) to but excluding the next Interest Payment Date.

Interest Rate Swap Excluded Termination Amount means, in relation to the Interest Rate Swap Agreement, the amount of any termination payment due and payable to the Interest Rate Swap Provider as a result of an Interest Rate Swap Provider Default or Interest Rate Swap Provider Downgrade Event;

Interest Rate Swap Provider Default means the occurrence of an Event of Default (as defined in the Interest Rate Swap Agreement) where the Interest Rate Swap Provider is the Defaulting Party (as defined in the Interest Rate Swap Agreement);

Interest Rate Swap Provider Downgrade Event means the occurrence of an Additional Termination Event (as defined in the Interest Rate Swap Agreement) following the failure by the Interest Rate Swap Provider or Swap Guarantor to comply with the requirements of the ratings downgrade provisions set out in the Interest Rate Swap Agreement;

Replacement Swap Premium means an amount received by the Issuer from a replacement interest rate swap provider upon entry by the Issuer into an agreement with such replacement interest rate swap provider to replace the Interest Rate Swap;

Swap Collateral means an amount equal to the value of collateral (other than Excess Swap Collateral) provided by an Interest Rate Swap Provider to the Issuer under the Interest Rate Swap Agreement, and includes any interest and distributions in respect thereof; and

Swap Tax Credits means any credit, allowance, set-off or repayment received by the Issuer in respect of tax from the tax authorities of any jurisdiction relating to any deduction or withholding giving rise to an increased payment by the Interest Rate Swap Provider to the Issuer.

Definition of Principal Receipts

Principal Receipts means any amount received and recorded as being received in respect of principal in respect of any Loan (including payments pursuant to any Insurance Policies), whether as all or part of a monthly payment in respect of such Loan, on redemption (including partial redemption) of such Loan, on enforcement of such Loan (including the proceeds of sale of the relevant Property) or on the disposal of such Loan or otherwise (without double counting but including principal received or treated as received after completion of the enforcement procedures).

Definition of Available Principal Receipts

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

- (a) all Principal Receipts (i) received by the Issuer during the immediately preceding Collection Period or retained in the Principal Ledger on the last Interest Payment Date (less an amount equal to the aggregate of all Further Advance Purchase Prices payable by the Issuer in such Collection Period but not exceeding such Principal Receipts), (ii) received by the Issuer from the Seller during the immediately preceding Collection Period in respect of any repurchases of Loans and their Related Security that were repurchased by the Seller pursuant to the Mortgage Sale Agreement and (iii) received by the Issuer from the Seller on such Interest Payment Date in respect of any repurchases of Loans and their Related Security subject to Further Advances prior to such Interest Payment Date that were repurchased by the Seller pursuant to the Mortgage Sale Agreement due to the Issuer having insufficient funds to fully repay any Further Advance Shortfall Drawing on such Interest Payment Date;
- (b) (in respect of the first Interest Payment Date only) the amount paid into the GIC Account on the Closing Date from the excess of the Notes proceeds over the Initial Consideration; and
- (c) (in respect of the Interest Payment Date immediately following the end of the Revolving Period) all amounts standing to the credit of the Retained Principal Receipts Ledger.

Application of Available Principal Receipts Prior to the service of a Note Acceleration Notice on the Issuer

Prior to the service of a Note Acceleration Notice on the Issuer, the Issuer is required pursuant to the terms of the Cash Management Agreement to apply Available Principal Receipts on each Interest Payment Date (except in the case of amounts applied pursuant to item (a) below which may be applied on any Business Day during the Interest Period) in the following order of priority (the **Pre-Acceleration Principal Priority of Payments**) (in each case only if and to the extent that payments or provisions of higher priority have been paid in full):

- (a) *first*, during the Revolving Period, towards a credit to the Further Advance Ledger in an amount equal to the difference (if any) between the amount standing to the credit of the Further Advance Ledger on such Interest Payment Date and the amount advanced by the Loan Facility Provider pursuant to Tranche D of the Loan Facility on the Closing Date;

- (b) *second*, during the Revolving Period, towards a credit to the Retained Principal Receipts Ledger in an amount equal to all remaining Available Principal Receipts;
- (c) *third*, following the Revolving Period, towards a credit to the Principal Ledger of an amount equal to the amount estimated by the Cash Manager which would be required to fund any Further Advances during the next Interest Period, up to a maximum amount of £20,000,000 on any Interest Payment Date;
- (d) *fourth*, to pay an amount equal to the difference (if any) between the amount standing to the credit of the Further Advance Ledger on the Business Day immediately preceding the Revolving Period End Date (after taking into account all debits and credits to the Further Advance Ledger on such date) and the amount advanced by the Loan Facility Provider pursuant to Tranche D of the Loan Facility on the Closing Date towards repayment of the principal amounts outstanding under Tranche D of the Loan Facility;;
- (e) *fifth*, in or towards repayment *pro rata* and *pari passu* of the principal amounts outstanding on:
 - (i) the Class A-1 Notes; and
 - (ii) the Class A-2 Notes,
 in each case until the Principal Amount Outstanding on the Notes has been reduced to zero; and
- (f) *sixth*, the excess (if any) to be applied as Available Revenue Receipts.

Distribution of Available Principal Receipts and Available Revenue Receipts Following the Service of a Note Acceleration Notice on the Issuer

Following the service of a Note Acceleration Notice (which has not been revoked) on the Issuer, the Security Trustee (or the Cash Manager on its behalf) will apply amounts received or recovered following the service of a Note Acceleration Notice on the Issuer (including, for the avoidance of doubt, on enforcement of the Security) other than:

- (i) amounts representing any Excess Swap Collateral which shall be returned directly to the Interest Rate Swap Provider under the Interest Rate Swap Agreement;
- (ii) any Swap Collateral, except to the extent that the value of such Swap Collateral has been applied, pursuant to the provisions of the Interest Rate Swap Agreement, to reduce the amount that would otherwise be payable by the Interest Rate Swap Provider to the Issuer on early termination of the Interest Rate Swap under the Interest Rate Swap Agreement which shall be returned directly to the Interest Rate Swap Provider;
- (iii) any Swap Tax Credits which shall be returned directly to the Interest Rate Swap Provider;
- (iv) Replacement Swap Premium (only to the extent it is applied directly to pay a termination payment due and payable by the Issuer to the Interest Rate Swap Provider) which shall be paid directly to the Interest Rate Swap Provider;
- (v) amounts standing to the credit of the Liquidity Reserve Ledger and the Further Advance Ledger which shall be paid directly to the Loan Facility Provider towards repayment of the advances made under Tranche C and Tranche D of the Loan Facility Agreement; and
- (vi) an amount equal to the amount standing to the credit of the Set-Off Reserve Ledger less the amount of Losses arising between the Collection Period End Date immediately preceding the last Interest Payment Date and the date on which the Notes are repaid or provided for in full as a result of a

Borrower exercising a right of set-off under the relevant Loan, provided that such amount may not be less than zero,

in the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full) (the **Post-Acceleration Priority of Payments** and, together with the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments, the **Priority of Payments**):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) any fees, costs, charges, liabilities, expenses and all other amounts then due and payable to the Note Trustee or any Appointee under the provisions of the Trust Deed and the other Transaction Documents, together with (if payable) VAT thereon as provided therein; and
 - (ii) any fees, costs, charges, liabilities, expenses and all other amounts then due and payable to the Security Trustee, any Receiver appointed by the Security Trustee or any Appointee under the provisions of the Deed of Charge and the other Transaction Documents, together with (if payable) VAT thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) any remuneration then due and payable to the Agent Bank, the Registrar and the Paying Agents and any costs, charges, liabilities and expenses then due and payable to them under the provisions of the Agency Agreement, together with (if payable) VAT thereon as provided therein; and
 - (ii) any amounts then due and payable to the Corporate Services Provider and any fees, costs, charges, liabilities and expenses then due and payable to the Corporate Services Provider under the provisions of the Corporate Services Agreement together with (if payable) VAT thereon as provided therein;
- (c) *third*, to pay, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) any amounts due and payable to the Servicer and any fees, costs, charges, liabilities and expenses then due and payable to the Servicer under the provisions of the Servicing Agreement, together with (if payable) VAT thereon as provided therein;
 - (ii) any amounts then due and payable to the Cash Manager and any fees, costs, charges, liabilities and expenses then due and payable to the Cash Manager under the provisions of the Cash Management Agreement, together with (if payable) VAT thereon as provided therein; and
 - (iii) any amounts then due and payable to the Account Bank and any fees, costs, charges, liabilities and expenses then due and payable to the Account Bank under the provisions of the Bank Account Agreement, together with (if payable) VAT thereon as provided therein;
- (d) *fourth*, to pay *pro rata* and *pari passu* all amounts of interest due and payable or accrued (if any) but unpaid and any capitalised interest and amounts of principal due and unpaid to the Loan Facility Provider under Tranche C and Tranche D of the Loan Facility until the Loan Facility Provider has been repaid in full in respect of such tranches;

- (e) *fifth*, to pay amounts due and payable to the Interest Rate Swap Provider in respect of the Interest Rate Swap Agreement (including any termination payment due and payable by the Issuer but excluding any related Interest Rate Swap Excluded Termination Amount);
- (f) *sixth*, to pay *pro rata* and *pari passu* according to the respective outstanding amounts thereof:
 - (i) interest and principal due and payable on the Class A-1 Notes; and
 - (ii) interest and principal due and payable on the Class A-2 Notes,
 in each case until the Principal Amount Outstanding on the Notes has been reduced to zero;
- (g) *seventh*, to pay the Interest Rate Swap Provider in respect of an Interest Rate Swap Excluded Termination Amount;
- (h) *eighth*, to pay *pro rata* and *pari passu* all amounts of interest due and payable or accrued (if any) but unpaid and any capitalised interest and amounts of principal due to the Loan Facility Provider under Tranche A, Tranche B and Tranche E of the Loan Facility until the Loan Facility Provider has been repaid in full in respect of such tranches;
- (i) *ninth*, to pay any Deferred Consideration due and payable under the Mortgage Sale Agreement to the Seller; and
- (j) *tenth*, the excess (if any) to the Issuer.

Application of Amounts standing to the credit of the Liquidity Reserve Ledger, the Further Advance Ledger and the Set-Off Reserve Ledger following the service of a Note Acceleration Notice on the Issuer

Upon the service of a Note Acceleration Notice on the Issuer which has not been revoked, amounts standing to the credit of the Liquidity Reserve Ledger shall be paid directly to the Loan Facility Provider towards repayment of the principal amount outstanding under Tranche C of the Loan Facility without regard to the Post-Acceleration Priority of Payments. Upon the service of a Note Acceleration Notice on the Issuer which has not been revoked, amounts standing to the credit of the Further Advance Ledger shall be paid directly to the Loan Facility Provider towards repayment of the principal amount outstanding under Tranche D of the Loan Facility without regard to the Post-Acceleration Priority of Payments. To the extent that such amounts standing to the credit of the Liquidity Reserve Ledger or the Further Advance Ledger are not sufficient to repay Tranche C or Tranche D (as the case may be) of the Loan Facility in full, any shortfall will be paid to the Loan Facility Provider in accordance with item (d) of the Post-Acceleration Principal Priority of Payments.

Upon the service of a Note Acceleration Notice on the Issuer which has not been revoked, an amount equal to the lower of (i) the amounts standing to the credit of the Set-Off Reserve Ledger and (ii) any Losses arising since the Collection Period End Date immediately preceding the last Interest Payment Date prior to the service of the Note Acceleration Notice as a result of a Borrower exercising a right of set-off under the relevant Loan will be applied in accordance with the Post-Acceleration Priority of Payments. Any other amounts standing to the credit of the Set-Off Reserve Ledger (if any) after all such Losses have been provided for shall be paid directly to the Loan Facility Provider towards repayment of the principal amount outstanding under Tranche E of the Loan Facility without regard to the Post-Acceleration Priority of Payments.

Application of proceeds of issuance of Further Notes, New Notes or Replacement Notes

The proceeds of any issue of Further Notes and/or New Notes will be utilised by the Issuer:

- (i) to redeem an existing Class of Notes in whole or in part; or

(ii) to purchase a New Portfolio from the Seller in accordance with the Mortgage Sale Agreement.

The proceeds of any issue of Replacement Notes will be utilised by the Issuer to fund the redemption of the Class of Notes which such Replacement Notes are replacing.

Application of Amounts in Respect of Swap Collateral, Excess Swap Collateral, Swap Tax Credits and Replacement Swap Premium

Amounts received by the Issuer in respect of Excess Swap Collateral, Swap Collateral (except to the extent that the value of such Swap Collateral has been applied, pursuant to the provisions of the Interest Rate Swap Agreement, to reduce the amount that would otherwise be payable by the Interest Rate Swap Provider to the Issuer on early termination of the Interest Rate Swap under the Interest Rate Swap Agreement and, to the extent so applied in reduction of the amount otherwise payable by the Interest Rate Swap Provider, such Swap Collateral is not to be applied in acquiring a replacement swap), Swap Tax Credits and Replacement Swap Premium (only to the extent it is applied directly to pay a termination payment due and payable by the Issuer to the Interest Rate Swap Provider) shall, to the extent due and payable under the terms of the Interest Rate Swap Agreement, be paid directly to the Interest Rate Swap Provider without regard to the Priority of Payments and in accordance with the terms of the Deed of Charge.

DESCRIPTION OF THE NOTES

General

Each Class of Notes, as at the Closing Date, will be represented by a Global Note. All capitalised terms not defined in this paragraph shall be as defined in the Conditions of the Notes.

The Global Notes will be deposited on or about the Closing Date with a common depository for both Euroclear and Clearstream, Luxembourg (the **Common Depository**).

The Global Notes will be registered in the name of the nominee for the Common Depository for both Euroclear and Clearstream, Luxembourg. The Registrar will maintain a register in which it will register the nominee for the Common Depository as the owner of the Global Notes.

Upon confirmation by the Common Depository that it has custody of the Global Notes, Euroclear or Clearstream, Luxembourg, as the case may be, will record Book-Entry Interests representing beneficial interests in the Global Notes attributable thereto.

Book-Entry Interests in respect of Global Notes will be recorded in denominations of £100,000 and integral multiples of £1,000 in excess thereof (an **Authorised Denomination**). Ownership of Book-Entry Interests is limited to persons that have accounts with Euroclear or Clearstream, Luxembourg (**Participants**) or persons that hold interests in the Book-Entry Interests through Participants (**Indirect Participants**), including, as applicable, banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with Euroclear or Clearstream, Luxembourg, either directly or indirectly. Indirect Participants shall also include persons that hold beneficial interests through such Indirect Participants. Book-Entry Interests will not be held in definitive form. Instead, Euroclear and Clearstream, Luxembourg, as applicable, will credit the Participants' accounts with the respective Book-Entry Interests beneficially owned by such Participants on each of their respective book-entry registration and transfer systems. The accounts initially credited will be designated by the Arranger. Ownership of Book-Entry Interests will be shown on, and transfers of Book-Entry Interests or the interests therein will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg (with respect to the interests of their Participants) and on the records of Participants or Indirect Participants (with respect to the interests of Indirect Participants). The laws of some jurisdictions or other applicable rules may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may therefore impair the ability to own, transfer or pledge Book-Entry Interests.

So long as a nominee for the Common Depository is the registered holder of the Global Notes underlying the Book-Entry Interests, the nominee for the Common Depository will be considered the sole Noteholder of the Global Notes for all purposes under the Trust Deed. Except as set forth under "*Issuance of Definitive Notes*", below, Participants or Indirect Participants will not be entitled to have Notes registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive registered form and will not be considered the holders thereof under the Trust Deed. Accordingly, each person holding a Book-Entry Interest must rely on the rules and procedures of Euroclear or Clearstream, Luxembourg, as the case may be, and Indirect Participants must rely on the procedures of the Participants or Indirect Participants through which such person owns its interest in the relevant Book-Entry Interests, to exercise any rights and obligations of a holder of Notes under the Trust Deed. See — "*Action in Respect of the Global Notes and the Book-Entry Interests*", below.

Unlike legal owners or holders of the Notes, holders of the Book-Entry Interests will not have the right under the Trust Deed to act upon solicitations by the Issuer or consents or requests by the Issuer for waivers or other actions from Noteholders. Instead, a holder of Book-Entry Interests will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear or Clearstream, Luxembourg, as the case may be, and, if applicable, their Participants. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable holders of Book-Entry Interests to vote on any

requested actions on a timely basis. Similarly, upon the occurrence of an Event of Default under the Global Notes, holders of Book-Entry Interests will be restricted to acting through Euroclear or Clearstream, Luxembourg unless and until Definitive Notes are issued in accordance with the Conditions. There can be no assurance that the procedures to be implemented by Euroclear and Clearstream, Luxembourg under such circumstances will be adequate to ensure the timely exercise of remedies under the Trust Deed.

In the case of the Global Notes, unless and until Book-Entry Interests are exchanged for Definitive Notes, the Global Notes held by the Common Depository may not be transferred except as a whole by the Common Depository to a successor of the Common Depository.

Purchasers of Book-Entry Interests in a Global Note will hold Book-Entry Interests in the Global Notes relating thereto. Investors may hold their Book-Entry Interests in respect of a Global Note directly through Euroclear or Clearstream, Luxembourg (in accordance with the provisions set forth under "*Transfers and Transfer Restrictions*", below), if they are account holders in such systems, or indirectly through organisations which are account holders in such systems. Euroclear and Clearstream, Luxembourg will hold Book-Entry Interests in each Global Note on behalf of their account holders through securities accounts in the respective account holders' names on Euroclear's and Clearstream, Luxembourg's respective book-entry registration and transfer systems.

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

Payments on Global Notes

Payment of principal and interest on, and any other amount due in respect of, the Global Notes will be made in Sterling by or to the order of Deutsche Bank AG, London Branch (the **Principal Paying Agent**) on behalf of the Issuer to the Common Depository or its nominee as the registered holder thereof with respect to the Global Notes. Each holder of Book-Entry Interests must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of any amounts paid by or on behalf of the Issuer to the Common Depository or their nominees in respect of those Book-Entry Interests. All such payments will be distributed without deduction or withholding for or on account of any taxes, duties, assessments or other governmental charges of whatever nature except as may be required by law. If any such deduction or withholding is required to be made, then neither the Issuer, the Paying Agents nor any other person will be obliged to pay additional amounts in respect thereof.

In accordance with the rules and procedures for the time being of Euroclear or, as the case may be, Clearstream, Luxembourg, after receipt of any payment from the Principal Paying Agent to the Common Depository, the respective systems will promptly credit their Participants' accounts with payments in amounts proportionate to their respective ownership of Book-Entry Interests as shown in the records of Euroclear or Clearstream, Luxembourg. The Issuer expects that payments by Participants to owners of interests in Book-Entry Interests held through such Participants or Indirect Participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants or Indirect Participants. None of the Issuer, any agent of the Issuer, the Arranger, the Note Trustee or the Security Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of a Participant's ownership of Book-Entry Interests or for maintaining, supervising or reviewing any records relating to a Participant's ownership of Book-Entry Interests.

Information Regarding Euroclear and Clearstream, Luxembourg

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

Euroclear and Clearstream, Luxembourg each hold securities for their account holders and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders, thereby eliminating the need for physical movements of certificates and any risk from lack of simultaneous transfers of securities.

Euroclear and Clearstream, Luxembourg each provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg each also deal with domestic securities markets in several countries through established depository and custodial relationships. The respective systems of Euroclear and of Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective account holders may settle trades with each other.

Account holders in both Euroclear and Clearstream, Luxembourg are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to both Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

An account holder's overall contractual relations with either Euroclear or Clearstream, Luxembourg are governed by the respective rules and operating procedures of Euroclear or Clearstream, Luxembourg and any applicable laws. Both Euroclear and Clearstream, Luxembourg act under such rules and operating procedures only on behalf of their respective account holders, and have no record of or relationship with persons holding through their respective account holders.

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

Redemption

In the event that any Global Note (or portion thereof) is redeemed, the Principal Paying Agent will deliver all amounts received by it in respect of the redemption of such Global Note to the nominee of the Common Depository and, upon final payment, will surrender such Global Note (or portion thereof) to or to the order of the Principal Paying Agent for cancellation. Appropriate entries will be made in the Register. The redemption price payable in connection with the redemption of Book-Entry Interests will be equal to the amount received by the Principal Paying Agent in connection with the redemption of the Global Note (or portion thereof) relating thereto. For any redemptions of a Global Note in part, selection of the relevant Book-Entry Interest relating thereto to be redeemed will be made by Euroclear or Clearstream, Luxembourg, as the case may be, on a *pro rata* basis (or on such basis as Euroclear or Clearstream, Luxembourg, as the case may be, deems fair and appropriate). Upon any redemption in part, the Principal Paying Agent will mark down the schedule to such Global Note by the principal amount so redeemed.

Cancellation

Cancellation of any Note represented by a Global Note and required by the Conditions to be cancelled following its redemption will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant schedule thereto and the corresponding entry on the Register.

Transfers and Transfer Restrictions

All transfers of Book-Entry Interests will be recorded in accordance with the book-entry systems maintained by Euroclear or Clearstream, Luxembourg, as applicable, pursuant to customary procedures established by each respective system and its Participants. See " — *General*", above.

Issuance of Definitive Notes

Holders of Book-Entry Interests in a Global Note will be entitled to receive Definitive Notes in registered form (**Registered Definitive Notes**) in exchange for their respective holdings of Book-Entry Interests if (a) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business and do so cease to do business and no alternative clearing system satisfactory to the Note Trustee is available or (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration by a revenue authority or a court or in the administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required were the Notes in definitive registered form. Any Registered Definitive Notes issued in exchange for Book-Entry Interests in a Global Note will be registered by the Registrar in such name or names as the Issuer shall instruct the Principal Paying Agent based on the instructions of Euroclear or Clearstream, Luxembourg, as the case may be. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, Luxembourg from their Participants with respect to ownership of the relevant Book-Entry Interests. Holders of Registered Definitive Notes issued in exchange for Book-Entry Interests in Global Notes will not be entitled to exchange such Registered Definitive Note for Book-Entry Interests in a Global Note. Any Notes issued in definitive form will be issued in registered form only and will be subject to the provisions set forth under "*Transfers and Transfer Restrictions*" above and provided that no transfer shall be registered for a period of 15 days immediately preceding any due date for payment in respect of the Note or, as the case may be, the due date for redemption. Definitive Notes will not be issued in a denomination that is not an integral multiple of the minimum authorised denomination or for any amount in excess thereof, in integral multiples of £1,000. (See "*Risk Factors — Denominations*" above).

Action in Respect of the Global Notes and the Book-Entry Interests

Not later than 10 days after receipt by the Issuer of any notices in respect of the Global Notes or any notice of solicitation of consents or requests for a waiver or other action by the holder of the Global Notes, the Issuer will deliver to Euroclear and Clearstream, Luxembourg a notice containing (a) such information as is contained in such notice, (b) a statement that at the close of business on a specified record date Euroclear and Clearstream, Luxembourg will be entitled to instruct the Issuer as to the consent, waiver or other action, if any, pertaining to the Book-Entry Interests or the Global Notes and (c) a statement as to the manner in which such instructions may be given. Upon the written request of Euroclear or Clearstream, Luxembourg, as applicable, the Issuer shall endeavour insofar as practicable to take such action regarding the requested consent, waiver or other action in respect of the Book-Entry Interests or the Global Notes in accordance with any instructions set forth in such request. Euroclear or Clearstream, Luxembourg are expected to follow the procedures described under "*General*" above, with respect to soliciting instructions from their respective Participants. The Registrar will not exercise any discretion in the granting of consents or waivers or the taking of any other action in respect of the Book-Entry Interests or the Global Notes.

Reports

The Issuer will send to Euroclear and Clearstream, Luxembourg a copy of any notices, reports and other communications received relating to the Issuer, the Global Notes or the Book-Entry Interests. In addition, notices regarding the Notes will be published in a leading newspaper having a general circulation in London (which so long as the Notes are listed on the London Stock Exchange and the rules of such Stock Exchange shall so require, is expected to be the *Financial Times*); provided that if, at any time, the Issuer procures that

the information contained in such notice shall appear on a page of the Reuters screen, the Bloomberg screen or any other medium for electronic display of data as may be previously approved in writing by the Note Trustee, publication in the *Financial Times* shall not be required with respect to such information so long as the rules of the London Stock Exchange allow. See also *Condition 15 (Notice to Noteholders)* of the Notes.

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions (the **Conditions** and any reference to a **Condition** shall be construed accordingly) of the Notes in the form (subject to amendment) in which they will be set out in the Trust Deed (as defined below).

1. GENERAL

The £4,485,000,000 class A-1 asset backed floating rate Notes due 2060 and any Further Notes which are to be consolidated and form a single class with such Notes (the **Class A-1 Notes**) and the £1,565,000,000 class A-2 asset backed floating rate Notes due 2060 and any Further Notes which are to be consolidated and form a single class with such Notes (the **Class A-2 Notes** and together with the Class A-1 Notes, the **Notes**), in each case of Highland Funding plc (the **Issuer**) are constituted by a trust deed the **Trust Deed** dated on or about 28 July 2009 (the **Closing Date**) and made between the Issuer and Deutsche Trustee Company Limited as trustee for the Noteholders (in such capacity, the **Note Trustee**). Any reference in these terms and conditions (the **Conditions**) to a **Class** of Notes or of Noteholders shall be a reference to the Class A-1 Notes or the Class A-2 Notes, as the case may be, or to the respective holders thereof. Any reference in these Conditions to the Noteholders means the registered holders for the time being of the Notes, or if preceded by a particular Class designation of Notes, the registered holders for the time being of such Class of Notes. The security for the Notes is constituted by a deed of charge and assignment (the **Deed of Charge**) dated the Closing Date and made between, among others, the Issuer and Deutsche Trustee Company Limited as trustee for the secured creditors (in such capacity, the **Security Trustee**).

Pursuant to an agency agreement (the **Agency Agreement**) dated on or about the Closing Date and made between the Issuer, the Note Trustee, Deutsche Bank AG, London Branch as principal paying agent (in such capacity, the **Principal Paying Agent** and, together with any further or other paying agent appointed under the Agency Agreement, the **Paying Agents**), Deutsche Bank Luxembourg S.A. as registrar (in such capacity, the **Registrar**) and Deutsche Bank AG, London Branch as agent bank (in such capacity, the **Agent Bank**), provision is made for, *inter alia*, the payment of principal and interest in respect of the Notes.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Deed of Charge, the Agency Agreement and the Master Definitions and Construction Schedule (the **Master Definitions and Construction Schedule**) entered into by, *inter alios*, the Issuer, the Note Trustee and the Security Trustee on or about the Closing Date and the other Transaction Documents (as defined therein).

Copies of the Trust Deed, the Deed of Charge, the Agency Agreement, the Master Definitions and Construction Schedule and the other Transaction Documents are available for inspection during normal business hours at the specified office for the time being of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

Capitalised terms not otherwise defined in these Conditions shall bear the meanings given to them in the Master Definitions and Construction Schedule available as described above. These Conditions shall be construed in accordance with the principles of construction set out in the Master Definitions and Construction Schedule.

2. FORM, DENOMINATION AND TITLE

2.1 *Form and Denomination*

Each Class of Notes will initially be represented by a separate global note in registered form for each such Class (each a **Global Note**).

For so long as any Notes are represented by a Global Note, transfers and exchanges of beneficial interests in Global Notes and entitlement to payments thereunder will be effected subject to and in accordance with the rules and procedures from time to time of Euroclear Bank S.A./N.V. (**Euroclear**) or Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**), as appropriate.

For so long as the Notes are represented by a Global Note and Euroclear and Clearstream, Luxembourg so permit, the Notes shall be tradeable only in minimum nominal amounts of £100,000 and integral multiples of £1,000 thereafter.

A Global Note will be exchanged for Notes of the relevant Class in definitive registered form (such exchanged Global Notes, the **Definitive Notes**) only if any of the following applies:

- (a) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business and do so cease to do business and no alternative clearing system satisfactory to the Note Trustee is available; or
- (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political subdivision thereof) or of any authority therein or thereof having power to tax, or in the interpretation or administration by a revenue authority or a court or in the application of such laws or regulations, which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding for or on account of tax from any payment in respect of the Notes which would not be required were the Notes in definitive registered form.

If Definitive Notes are issued in respect of Notes originally represented by the Global Notes, the beneficial interests represented by the Global Note of each Class shall be exchanged by the Issuer for Notes of such Classes in definitive form (the **Definitive Notes**). The aggregate principal amount of the Definitive Notes of each Class shall be equal to the Principal Amount Outstanding at the date on which notice of exchange is given of the Global Note of the corresponding Class, subject to and in accordance with the detailed provisions of these Conditions, the Agency Agreement, the Trust Deed and the relevant Global Note.

Definitive Notes of each Class (which, if issued, will be in the denominations set out below) will be serially numbered and will be issued in registered form only.

The minimum denominations of the Notes in global and (if issued) definitive form will be £100,000 and, for so long as Euroclear and Clearstream, Luxembourg so permit, any amount in excess thereof in integral multiples of £1,000. Notes in definitive form, if issued, will be printed and issued in minimum denominations of £100,000 and any amount in excess thereof in integral multiples of £1,000.

References to **Notes** in these Conditions shall include the Global Notes and the Definitive Notes.

2.2 Title

Title to the Global Notes shall pass by and upon registration in the register (the **Register**) which the Issuer shall procure to be kept by the Registrar. The registered holder of any Global Note may (to the fullest extent permitted by applicable laws) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments), as the absolute owner of such Global Note regardless of any notice of ownership, theft or loss or any trust or other interest therein or of any writing thereon (other than the endorsed form of transfer).

Title to a Definitive Note shall only pass by and upon registration in the Register. Such Definitive Notes may be transferred in whole (but not in part) upon the surrender of the relevant Definitive Note, with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar. All transfers of such Definitive Notes are subject to any restrictions on transfer set forth on such Definitive Notes and the detailed regulations concerning transfers in the Agency Agreement.

Each new Definitive Note to be issued upon transfer of such Definitive Note will, within five Business Days of receipt and surrender of such Definitive Note (duly completed and executed) for transfer, be available for delivery at the specified office of the Registrar or be mailed at the risk of the transferee entitled to such Definitive Note to such address as may be specified in the relevant form of transfer.

Registration of a Definitive Note on transfer will be effected without charge by the Registrar, but subject to payment of (or the giving of such indemnity as the Registrar may require for) any tax, stamp duty or other government charges which may be imposed in relation to it.

The Notes are not issuable in bearer form.

3. STATUS AND RELATIONSHIP BETWEEN THE NOTES AND SECURITY

3.1 *Status and relationship between the Notes*

- (a) The Notes constitute direct, secured and subject to the limited recourse provision in *Condition 11 (Enforcement)*, unconditional obligations of the Issuer. The Notes within each Class rank *pari passu* without preference or priority amongst themselves.
- (b) The Trust Deed and the Deed of Charge contain provisions requiring the Note Trustee and the Security Trustee, respectively, to have regard to the interests of the Noteholders equally as regards all rights, powers, trusts, authorities, duties and discretions of the Note Trustee and the Security Trustee (except where expressly provided otherwise). As long as the Notes are outstanding but subject to *Condition 12.5*, the Security Trustee shall not have regard to the interests of the other Secured Creditors.
- (c) In the event of an issue of Further Notes (as defined in *Condition 16.1 (Further Notes)*), Replacement Notes (as defined in *Condition 16.2 (Replacement Notes)*) or New Notes (as defined in *Condition 16.3 (New Notes)*), the provisions of these Conditions, the Trust Deed, the Deed of Charge and the other Transaction Documents, including (in the case of Replacement Notes or New Notes) those concerning:
 - (i) the basis on which the Note Trustee will be required to exercise or perform its rights, powers, trusts, authorities, duties and discretions (including in circumstances where, in the opinion of the Note Trustee, there is a conflict between the interests of any class of the Noteholders and the holders of such Replacement Notes or New Notes);
 - (ii) the circumstances in which the Note Trustee will become bound to take action, as referred to in *Condition 10 (Events of Default)* and *Condition 11 (Enforcement)*;
 - (iii) meetings of Noteholders and the passing of effective Extraordinary Resolutions; and
 - (iv) the order of priority of payments (including the order which applies prior to the acceleration of the Notes, (both prior to, and upon, enforcement of the security constituted by the Deed of Charge) and the order which applies upon acceleration of the Notes),

will be modified in such manner as the Issuer certifies is necessary to reflect the issue of such Further Notes, Replacement Notes or, as the case may be, New Notes and any new Transaction Documents entered into in connection with such Further Notes, Replacement Notes or, as the case may be, New Notes and the ranking thereof and of the claims of any party to any of such new Transaction Documents in relation to each class of the Notes, provided that the Issuer certifies to the Note Trustee and the Security Trustee, as applicable, that:

- (i) no Event of Default is outstanding or could arise as a result of the issuance of such New Notes, Further Notes or Replacement Notes;

- (ii) the conditions for the issuance of such New Notes, Further Notes or Replacement Notes as set out in *Condition 16 (Further Notes, Replacement Notes and New Notes)* have been or will be satisfied on or prior to the date of such issuance;
- (iii) the modifications proposed by the Issuer are necessary for the proposed issuance of such New Notes, Further Notes or Replacement Notes.

If any New Notes, Further Notes or Replacement Notes are issued, the Issuer will immediately advise the UK Listing Authority and the London Stock Exchange accordingly, procure the publication of a notice of the issue in accordance with *Condition 15 (Notice to Noteholders)*, file a new prospectus in respect of the issue of the New Notes, Further Notes or Replacement Notes with the UK Listing Authority and the London Stock Exchange and make such prospectus and any related agreements available in London at the specified office of the relevant Paying Agent.

3.2 **Security**

- (a) The security constituted by or pursuant to the Deed of Charge is granted to the Security Trustee, on trust for the Noteholders and the other Secured Creditors, upon and subject to the terms and conditions of the Deed of Charge.
- (b) The Noteholders and the other Secured Creditors will share in the benefit of the security constituted by or pursuant to the Deed of Charge, upon and subject to the terms and conditions of the Deed of Charge.

4. **COVENANTS**

Save with the prior written consent of the Note Trustee or unless otherwise permitted under any of the Transaction Documents, the Issuer shall not, so long as any Note remains outstanding:

- (a) **Negative pledge:** create or permit to subsist any encumbrance (unless arising by operation of law) or other security interest whatsoever over any of its assets or undertaking;
- (b) **Restrictions on activities:** (i) engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities of which the Transaction Documents provide or envisage that the Issuer will engage or (ii) have any subsidiaries, any subsidiary undertaking (as defined in the Companies Act 1985 and the Companies Act 2006 (as applicable)) or any employees (but shall procure that, at all times, it shall retain at least one independent director) or premises;
- (c) **Disposal of assets:** transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein;
- (d) **Equitable Interest:** permit any person, other than itself and the Security Trustee, to have any equitable or beneficial interest in any of its assets or undertakings or any interest, estate, right, title or benefit therein;
- (e) **Dividends or distributions:** pay any dividend or make any other distribution to its shareholders or issue any further shares;
- (f) **Indebtedness:** incur any financial indebtedness or give any guarantee in respect of any financial indebtedness or of any other obligation of any person;
- (g) **Merger:** consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;

- (h) **No modification or waiver:** permit any of the Transaction Documents to which it is a party to become invalid or ineffective or permit the priority of the security interests created or evidenced thereby or pursuant thereto to be varied or agree to any modification of, or grant any consent, approval, authorisation or waiver pursuant to, or in connection with, any of the Transaction Documents to which it is a party or permit any party to any of the Transaction Documents to which it is a party to be released from its obligations or exercise any right to terminate any of the Transaction Documents to which it is a party;
- (i) **Bank accounts:** have an interest in any bank account other than the Bank Accounts, unless such account or interest therein is charged to the Security Trustee on terms acceptable to the Security Trustee; or
- (j) **US activities:** engage in any activities in the United States (directly or through agents), or derive any income from United States sources as determined under United States income tax principles, or hold any property if doing so would cause it to be engaged in a trade or business within the United States as determined under United States income tax principles.

5. INTEREST

5.1 *Interest Accrual*

Each Note bears interest on its Principal Amount Outstanding from (and including) the Closing Date. Each Note (or, in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest from and including the due date for redemption unless, upon due presentation in accordance with *Condition 6 (Payments)*, payment of the principal in respect of the Note is improperly withheld or refused or default is otherwise made in respect of the payment, in which event interest shall continue to accrue as provided in the Trust Deed.

5.2 *Interest Payment Dates*

Interest on the Notes is payable quarterly in arrear on the 10th day of March, June, September and December in each year (or, if such day is not a Business Day, the next succeeding Business Day) (each such day an **Interest Payment Date**).

The first Interest Payment Date will be the Interest Payment Date falling in December 2009.

In these Conditions, **Interest Period** shall mean in respect of interest payments made in respect of the Notes, the period from (and including) an Interest Payment Date (or, in respect of the first Interest Period, the Closing Date) to (but excluding) the next following (or first) Interest Payment Date.

5.3 *Rate of Interest*

The rate of interest payable from time to time in respect of each Class of the Notes (each a **Rate of Interest** and together the **Rates of Interest**) will be determined on the basis of the following provisions:

- (a) the rate of interest payable shall be a floating rate of interest calculated in accordance with paragraphs (i), (ii) and (iii) below:
 - (i) on the initial Determination Date (as defined below), the Agent Bank will determine the Initial Relevant Screen Rate in respect of each Class of the Notes as at or about 11.00 a.m. (London time) on that date. If the Initial Relevant Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks for 4-month and 5-month Sterling deposits of £10,000,000 in the London interbank market as at or about 11.00 a.m. (London time) on such initial Determination Date and the Rates of Interest for the first Interest Period

shall be the aggregate of (A) the Relevant Margin and (B) the Initial Relevant Screen Rate, or, if the Initial Relevant Screen Rate is unavailable, the linear interpolation of the arithmetic mean of such offered quotations for 4-month and 5-month Sterling deposits (rounded upwards, if necessary, to five decimal places);

- (ii) on each subsequent Determination Date, the Agent Bank will determine the Relevant Screen Rate as at or about 11.00 a.m. (London time) on the Determination Date in question. If the Relevant Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks for three-month Sterling deposits of £10,000,000 in the London interbank market as at or about 11.00 a.m. (London time) on the relevant Determination Date and the Rates of Interest for the relevant Interest Period shall be the aggregate of (A) the Relevant Margin and (B) the Relevant Screen Rate or, if the Relevant Screen Rate is unavailable, the arithmetic mean of such offered quotations for three-month Sterling deposits (rounded upwards, if necessary, to five decimal places); and
- (iii) if, on any Determination Date, the Relevant Screen Rate is unavailable and only two or three of the Reference Banks provide offered quotations, the Rates of Interest for the relevant Interest Period shall be determined in accordance with the provisions of subparagraphs (i) and (ii) above on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Determination Date, only one or none of the Reference Banks provides the Agent Bank with such an offered quotation, the Agent Bank shall forthwith consult with the Note Trustee and the Issuer for the purposes of agreeing two banks (or, where one only of the Reference Banks provided such a quotation, one additional bank) to provide such a quotation or quotations to the Agent Bank and the Rates of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does or do not provide such a quotation or quotations, then the Rates of Interest for the relevant Interest Period shall be the Rates of Interest in effect for the last preceding Interest Period to which subparagraph (i) or (ii), as the case may be, shall have applied but, taking account of any change in the Relevant Margin.

There will be no minimum or maximum Rate of Interest;

- (b) in these Conditions (except where otherwise defined), the expression:
 - (i) **Business Day** means a day (other than a Saturday or a Sunday) on which banks are generally open for business in London;
 - (ii) **Initial Relevant Screen Rate** means the linear interpolation of the arithmetic mean of the offered quotations to leading banks for 4-month Sterling deposits and the arithmetic mean of the offered quotations to leading banks for 5-month Sterling deposits (in each case) (rounded upwards, if necessary, to five decimal places), displayed on the Reuters Screen page LIBOR01 (or such replacement page on that service which displays the information) or, if that service ceases to display the information, such other screen service as may be determined by the Issuer with the approval of the Note Trustee;
 - (iii) **Relevant Margin** means in respect of each Class of the Notes the following per cent. per annum:

Class	Margin
Class A-1 Notes	0.12%
Class A-2 Notes	0.12%

- (iv) Relevant Screen Rate means:
 - (A) in respect of the first Interest Period, the Initial Relevant Screen Rate, if any; and
 - (B) in respect of subsequent Interest Periods, the arithmetic mean of offered quotations for three-month Sterling deposits in the London interbank market displayed on the Reuters Screen page LIBOR01.
- (v) **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, provided that, once a Reference Bank has been selected by the Agent Bank, that Reference Bank shall not be changed unless and until it ceases to be capable of acting as such; and
- (vi) **Determination Date** means the first day of the Interest Period for which the rate will apply.

5.4 Determination of Rate of Interest and Interest Amounts

The Agent Bank shall, as soon as practicable after 11.00 a.m. (London time) on each Determination Date but in no event later than the third Business Day thereafter, determine the Sterling amount (the **Interest Amounts**) payable in respect of interest on the Principal Amount Outstanding of each Class of the Notes for the relevant Interest Period. The Interest Amounts shall be determined by applying the relevant Rate of Interest to such Principal Amount Outstanding, multiplying the sum by the actual number of days in the Interest Period concerned divided by 365 and rounding the resulting figure downwards to the nearest penny.

5.5 Publication of Rate of Interest and Interest Amounts

The Agent Bank shall cause the Rates of Interest and the Interest Amounts for each Interest Period and each Interest Payment Date to be notified to the Issuer, the Cash Manager, the Note Trustee, the Registrar and the Paying Agents (as applicable) and to any stock exchange or other relevant authority on which the Notes are at the relevant time listed and to be published in accordance with *Condition 15 (Notice to Noteholders)* as soon as possible after their determination and in no event later than the second Business Day thereafter. The Interest Amounts and Interest Payment Date may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period.

5.6 Determination by the Note Trustee

The Note Trustee may, without liability therefor, if the Agent Bank defaults at any time in its obligation to determine the Rates of Interest and Interest Amounts in accordance with the above provisions, determine the Rates of Interest and Interest Amounts, the former at such rates as, in its absolute discretion (having such regard as it shall think fit to the procedure described above), it shall deem fair and reasonable in all the circumstances and the latter in the manner provided in *Condition 5.4 (Determination of Rate of Interest and Interest Amounts)* (or, in each case, the Note Trustee may, at the expense of the Issuer, employ an expert to do so) and any such determination shall be deemed to be determinations made by the Agent Bank.

5.7 Notifications, etc. to be Final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this *Condition 5*, whether by the Reference Banks (or any of them), the Agent Bank, the Cash Manager or the Note Trustee, will (in the absence of wilful default, gross negligence, bad faith or manifest error) be binding on the Issuer, the Cash Manager, the Note Trustee, the Agent Bank, the Registrar, the Paying Agents and all Noteholders and (in the absence of wilful default, gross negligence, bad faith or manifest error) no liability to the Issuer or the Noteholders shall attach to the Reference Banks (or any of them), the Cash Manager, the Agent Bank, the

Registrar or, if applicable, the Note Trustee in connection with the exercise or non-exercise by any of them of their powers, duties and discretions under this *Condition 5*.

5.8 Agent Bank

The Issuer shall procure that, so long as any of the Notes remains outstanding, there is at all times an Agent Bank for the purposes of the Notes and the Issuer may, subject to the prior written approval of the Note Trustee, terminate the appointment of the Agent Bank. In the event of the appointed office of any bank being unable or unwilling to continue to act as the Agent Bank or failing duly to determine the Rates of Interest and the Interest Amounts for any Interest Period, the Issuer shall, subject to the prior written approval of the Note Trustee, appoint another major bank engaged in the relevant interbank market to act in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed.

6. PAYMENTS

6.1 Payment of Interest and Principal

Payments of principal and interest shall be made by Sterling cheque or upon application by the relevant Noteholder to the specified office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a Sterling account maintained by the payee with a bank in London and (in the case of final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Global Notes or Definitive Notes (as the case may be) at the specified office of any Paying Agent.

6.2 Laws and Regulations

Payments of principal and interest in respect of the Notes are subject, in all cases, to any fiscal or other laws and regulations applicable thereto. Noteholders will not be charged commissions or expenses on payments.

6.3 Payment of Interest following a Failure to pay Principal

If payment of principal is improperly withheld or refused on or in respect of any Note or part thereof, the interest which continues to accrue in respect of such Note in accordance with *Condition 5.1 (Interest Accrual)* will be paid, in respect of a Global Note, as described in *Condition 6.1 (Payment of Interest and Principal)* above and, in respect of any Definitive Note, in accordance with this *Condition 6*.

6.4 Change of Paying Agents

The Issuer reserves the right, subject to the prior written approval of the Note Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent or the Registrar and to appoint additional or other Agents provided that:

- (a) there will at all times be a person appointed to perform the obligations of the Principal Paying Agent with a specified office in London and the Registrar with a specified office in Luxembourg or in London; and
- (b) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a member state of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Except where otherwise provided in the Trust Deed, the Issuer will cause at least 30 days' notice of any change in or addition to the Paying Agents or the Registrar or their specified offices to be given in accordance with *Condition 15 (Notice to Noteholders)* and will notify the Rating Agencies of such change or addition.

6.5 No Payment on non-Business Day

If the date for payment of any amount in respect of a Note is not a Business Day, Noteholders shall not be entitled to payment until the next following Business Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. In this *Condition 6.5*, the expression **Business Day** means a day which is (a) a Business Day and (b) a day on which banks are generally open for business in the relevant place.

6.6 Partial Payment

If a Paying Agent makes a partial payment in respect of any Note, the Registrar will, in respect of the relevant Note, annotate the Register, indicating the amount and date of such payment.

6.7 Payment of Interest

If interest is not paid in respect of a Note of any Class on the date when due and payable (other than because the due date is not a Business Day (as defined in *Condition 6.5 (No Payment on non-Business Day)*) or by reason of non-compliance with *Condition 6.1 (Payment of Interest and Principal)*), then such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to such Note until such interest and interest thereon are available for payment and notice thereof has been duly given in accordance with *Condition 15 (Notice to Noteholders)*.

7. REDEMPTION

7.1 Redemption at Maturity

Unless previously redeemed in full or purchased and cancelled as provided below, the Issuer will redeem the Notes at their respective Principal Amounts Outstanding on the Interest Payment Date falling in December 2060.

7.2 Mandatory Redemption

Each Note shall, subject to *Condition 7.3 (Optional Redemption in Full or in Part)* and *7.4 (Optional Redemption for Taxation or Other Reasons)*, be redeemed on each Interest Payment Date following the end of the Revolving Period and prior to the service of a Note Acceleration Notice in an amount equal to the Available Principal Receipts available for such purpose in accordance with the Pre-Acceleration Principal Priority of Payments.

7.3 Optional Redemption in Full or in Part

- (a) On giving not more than 60 nor less than 10 days' notice to the Noteholders in accordance with *Condition 15 (Notice to Noteholders)*, the Note Trustee, the Interest Rate Swap Provider and the Swap Guarantor, and provided that:
- (i) on or prior to the Business Day on which such notice expires (the **Optional Redemption Date**), no Note Acceleration Notice has been served; and
 - (ii) the Issuer has, immediately prior to giving such notice, certified to the Note Trustee that it will have the necessary funds to pay all principal and interest due in respect of the Notes on the relevant Optional Redemption Date and to discharge all other amounts required to be paid in priority to or *pari passu* with the Notes on such Optional Redemption Date and, as the case may be, on the immediately following Interest Payment Date (such certification to be provided by way of certificate signed by two directors of the Issuer) (and for the avoidance of doubt, the order of priority shall be as set out in the Post-Acceleration Priority of Payments); and

- (iii) the Optional Redemption Date will be the first Interest Payment Date falling in December 2009 or any Business Day thereafter, if the Issuer elects (at its absolute discretion) to accept an offer from the Seller under the Mortgage Sale Agreement to repurchase some or all the relevant Loans and their Related Security,

the Issuer may, or if the Seller has directed the Issuer to use the proceeds of a repurchase of Loans and their Related Security by the Seller to redeem all, or any Class, of the Notes, must, redeem on any Optional Redemption Date all, or any part of any Class, of the Notes.

- (b) Any Note redeemed pursuant to *Condition 7.3(a)* will be redeemed at an amount equal to the Principal Amount Outstanding of the relevant Note to be redeemed together with accrued (and unpaid) interest on the Principal Amount Outstanding of the relevant Note up to but excluding the Optional Redemption Date.

7.4 *Optional Redemption for Taxation or Other Reasons*

If:

- (a) by reason of a change in tax law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, on the next Interest Payment Date, the Issuer or the Paying Agents would be required to deduct or withhold from any payment of principal or interest on any Class of the Notes (other than because the relevant holder has some connection with the United Kingdom other than the holding of Notes of such Class) any amount for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision thereof or any authority thereof or therein having power to tax; or
- (b) by reason of a change in law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, on the next Interest Payment Date, the Issuer or the Interest Rate Swap Provider would be required to deduct or withhold from any payment under the Interest Rate Swap Agreement any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature,

then the Issuer shall, if the same would avoid the effect of such relevant event described in subparagraph (a) or (b) above, appoint a Paying Agent in another jurisdiction or use its reasonable endeavours to arrange the substitution of a company incorporated and/or tax resident in another jurisdiction approved in writing by the Note Trustee as principal debtor under the Notes and the Trust Deed, provided that (i) the Note Trustee is satisfied that such substitution will not be materially prejudicial to the Noteholders (and in making such determination, the Note Trustee may rely, without further investigation or inquiry, on any confirmation from each of the Rating Agencies that the then current ratings of the Notes would not be adversely affected by such substitution) and (ii) such substitution would not require registration of any new security under US securities laws or materially increase the disclosure requirements under US law.

If the Issuer satisfies the Note Trustee immediately before giving the notice referred to below that one or more of the events described in subparagraph (a) or (b) above is continuing and that the appointment of a Paying Agent or a substitution as referred to above would not avoid the effect of the relevant event or that, having used its reasonable endeavours, the Issuer is unable to arrange such a substitution, then the Issuer may, on any Interest Payment Date and having given not more than 60 nor less than 30 days' notice to the Note Trustee, the Interest Rate Swap Provider and Noteholders in accordance with *Condition 15 (Notice to Noteholders)* redeem all (but not some only) of the Notes on the next following Interest Payment Date at their respective Principal Amount Outstanding together with any interest accrued (and unpaid) thereon up to (but excluding) the date of redemption provided that (in either case), prior to giving any such notice, the Issuer shall have provided to the Note Trustee (a) a certificate signed by two directors of the Issuer stating that one or more of the circumstances referred to in subparagraph (a) or (b) above prevail(s) and setting out details of such circumstances and (b) an opinion in form and substance satisfactory to the Note Trustee of

independent legal advisers of recognised standing to the effect that the Issuer, the Paying Agents or the Interest Rate Swap Provider (as the case may be) has or will become obliged to deduct or withhold amounts as a result of such change or amendment. The Note Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstance set out in the paragraph immediately above, in which event they shall be conclusive and binding on the Noteholders.

The Issuer may only redeem the Notes as described above if the Issuer has certified to the Note Trustee that it will have the necessary funds, not subject to the interest of any other person, required to redeem the Notes as aforesaid and any amounts required under the Pre-Acceleration Revenue Priority of Payments to be paid in priority to or *pari passu* with the Notes outstanding in accordance with the terms and conditions thereof, such certification to be provided by way of a certificate signed by 2 directors of the Issuer.

7.5 Principal Amount Outstanding

The **Principal Amount Outstanding** of the Notes on any date shall be their original principal amount of:

- (a) in respect of Class A-1 Notes, £4,485,000,000; and
- (b) in respect of Class A-2 Notes, £1,565,000,000,

less the aggregate amount of all principal payments in respect of such Notes which have been made since the Closing Date.

7.6 Notice of Redemption

Any such notice as is referred to in *Condition 7.3 (Optional Redemption in Full or in Part)* and *Condition 7.4 (Optional Redemption for Taxation or Other Reasons)* above shall be irrevocable and, upon the expiry of such notice, the Issuer shall be bound to redeem the relevant Notes at the applicable amounts specified above. Any certificate or legal opinion given by or on behalf of the Issuer pursuant to *Condition 7.3 (Optional Redemption in Full or in Part)* or *Condition 7.4 (Optional Redemption for Taxation or Other Reasons)* may be relied on by the Note Trustee without further investigation and shall be conclusive and binding on the Noteholders.

7.7 No Purchase by the Issuer

The Issuer will not be permitted to purchase any of the Notes.

7.8 Cancellation

All Notes redeemed in full will be cancelled upon redemption and may not be resold or re-issued.

8. TAXATION

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**), unless the withholding or deduction of the Taxes is required by applicable law. In that event, the Issuer or, as the case may be, the relevant Paying Agent shall make such payment after the withholding or deduction has been made and shall account to the relevant authorities for the amount required to be withheld or deducted. Neither the Issuer nor any Paying Agent nor any other person shall be obliged to make any additional payments to Noteholders in respect of such withholding or deduction.

9. PRESCRIPTION

Claims in respect of principal and interest on the Notes will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the relevant payment.

In this *Condition 9*, the **Relevant Date**, in respect of a payment, is the date on which such payment first becomes due or (if the full amount of the monies payable on that date has not been duly received by the Principal Paying Agent or the Note Trustee on or prior to such date) the date on which, the full amount of such monies having been received, notice to that effect is duly given to the relevant Noteholders in accordance with *Condition 15 (Notice to Noteholders)*.

10. EVENTS OF DEFAULT

10.1 Notes

The Note Trustee at its absolute discretion may, and if so directed in writing by the holders of not less than 25% in aggregate Principal Amount Outstanding of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders, shall (subject, in each case, to being indemnified and/or secured to its satisfaction), give notice (a **Note Acceleration Notice**) to the Issuer that all classes of the Notes are immediately due and repayable at their respective Principal Amounts Outstanding, together with accrued interest as provided in the Trust Deed, in any of the following events (each, an **Event of Default**):

- (a) if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of three days in the case of principal or five days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these Conditions or any Transaction Document to which it is a party and (except in any case where the Note Trustee considers the failure to be incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for a period of 30 days (or such longer period as the Note Trustee may permit) following the service by the Note Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) if any order is made by any competent court or any resolution is passed for the winding up or dissolution of the Issuer, save for the purposes of reorganisation on terms approved in writing by the Note Trustee or by Extraordinary Resolutions of the Noteholders; or
- (d) if the Issuer ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms approved in writing by the Note Trustee or by Extraordinary Resolutions of the Noteholders, or the Issuer stops or threatens to stop payment of, or is unable to, or admits inability to, pay its debts (or any class of its debts) as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account its contingent and prospective liabilities) or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law or is adjudicated or found bankrupt or insolvent; or
- (e) if (i) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, application to the court for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) or an administration order is granted or the appointment of an administrator takes effect or an administrative or other receiver, manager or other similar official is appointed, in relation to the Issuer or in relation to the whole or any part of the undertaking or assets of the Issuer or an encumbrancer takes possession of the whole or any part of the undertaking or assets of the Issuer, or a distress, diligence, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of the Issuer and (ii) in the case of any such possession or any such last-mentioned process, unless initiated by the Issuer, is not discharged or otherwise ceases to apply within 14 days; or
- (f) if the Issuer (or its directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws

or makes a conveyance, assignment or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or takes steps with a view to obtaining a moratorium in respect of any of its indebtedness or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors).

10.2 **General**

Upon the service of a Note Acceleration Notice by the Note Trustee in accordance with *Condition 10.1 (Notes)* above, all the Notes then outstanding shall thereby immediately become due and repayable at their respective Principal Amounts Outstanding, together with accrued interest as provided in the Trust Deed.

11. **ENFORCEMENT**

Each of the Note Trustee and the Security Trustee may, at any time, at its discretion and without notice, take such proceedings against the Issuer or any other party to any of the Transaction Documents as it may think fit to enforce the provisions of (in the case of the Note Trustee) the Notes or the Trust Deed (including these Conditions) or (in the case of the Security Trustee) the Deed of Charge or (in either case) any of the other Transaction Documents to which it is a party and at any time after the service of a Note Acceleration Notice, the Security Trustee may, at its discretion and without notice, take such steps as it may think fit to enforce the Security, but neither of them shall be bound to take any such proceedings or steps unless:

- (a) the Note Trustee or the Security Trustee, as the case may be, shall have been so directed by an Extraordinary Resolution of the Noteholders or so directed in writing by the holders of at least 25% in aggregate Principal Amount Outstanding of the Notes then outstanding;
- (b) in all cases, it shall have been indemnified and/or secured to its satisfaction.

No Noteholder shall be entitled to proceed directly against the Issuer unless the Note Trustee having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing.

Amounts available for distribution after enforcement of the Security shall be distributed in accordance with the terms of the Deed of Charge.

Notwithstanding any other Condition or any provision of any Transaction Document, all obligations of the Issuer to the Noteholders are limited in recourse to the property, assets and undertakings of the Issuer the subject of any security created under the Deed of Charge (the **Charged Assets**). If:

- (i) there are no Charged Assets remaining which are capable of being realised or otherwise converted into cash;
- (ii) all amounts available from the Charged Assets have been applied to meet or provide for the relevant obligations specified in, and in accordance with, the provisions of the Deed of Charge; and
- (iii) there are insufficient amounts available from the Charged Assets to pay in full, in accordance with the provisions of the Deed of Charge, amounts outstanding under the Notes (including payments of principal, premium (if any) and interest),

then the Noteholders shall have no further claim against the Issuer in respect of any amounts owing to them which remain unpaid (including, for the avoidance of doubt, payments of principal, premium (if any) and/or interest in respect of the Notes) and such unpaid amounts shall be deemed to be discharged in full and any relevant payment rights shall be deemed to cease.

12. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

- 12.1** The Trust Deed contains provisions for convening meetings of the Noteholders of each class and, in certain cases, more than one class to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of these Conditions or the provisions of any of the Transaction Documents.
- 12.2** Subject as provided below, the quorum at any meeting of Noteholders of any Class for passing an Extraordinary Resolution will be one or more persons holding or representing not less than 50% of the aggregate Principal Amount Outstanding of such Class of Notes, or, at any adjourned meeting, one or more persons being or representing a Noteholder of the relevant Class, whatever the aggregate Principal Amount Outstanding of the Notes of such Class held or represented by it or them.
- 12.3** The quorum at any meeting of Noteholders of any Class for passing an Extraordinary Resolution to sanction a modification of the date of maturity of any Notes or which would have the effect of postponing any day for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of such Notes, altering the currency of payment of such Notes or altering the quorum or majority required in relation to this exception (each, a **Basic Terms Modification**) shall be one or more persons holding or representing not less than three-quarters or, at any adjourned meeting, not less than one-quarter of the aggregate Principal Amount Outstanding of the Notes of such Class. Any Extraordinary Resolution in respect of a Basic Terms Modification shall only be effective if duly passed at separate meetings of the Noteholders) provided that any modification relating to or consequential on the issue of Further Notes, Replacement Notes and/or New Notes pursuant to *Condition 16* shall not constitute a Basic Terms Modification.
- 12.4** The Trust Deed and the Deed of Charge provide that:
- (a) a resolution which, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, affects the interests of the holders of one Class only of the Notes shall be deemed to have been duly passed if passed at a separate meeting of the holders of the Notes of that Class so affected;
 - (b) a resolution which, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, affects the interests of the holders of more than one Class of the Notes but does not give rise to a conflict of interest between the holders of any Classes of the Notes so affected, shall be deemed to have been duly passed if passed at a single meeting of the holders of the Notes of all Classes so affected; and
 - (c) a resolution which, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, affects the interests of the holders of more than one Class of the Notes, and gives or may give rise to a conflict of interest between the holders of one Class of the Notes so affected and the holders of another Class of the Notes so affected, shall be deemed to have been duly passed only if in lieu of being passed at a single meeting of the holders of the Notes of all Classes so affected, it shall be duly passed at separate meetings of the holders of each Class of the Notes so affected.

The Trust Deed and the Deed of Charge contain similar provisions in relation to directions in writing from the Noteholders upon which the Note Trustee or, as the case may be, the Security Trustee is bound to act.

12.5 Other than in respect of a Basic Terms Modification or a modification of the proviso to paragraph 7 of Schedule 3 to the Trust Deed, the Note Trustee or, as the case may be, the Security Trustee, may agree with the Issuer and any other parties but without the consent of the Noteholders or the other Secured Creditors (but, in the case of the Security Trustee only, with the written consent of the Secured Creditors which are a party to the relevant Transaction Document):

- (a) to any modification, or to any waiver or authorisation of any breach or proposed breach, of these Conditions or any of the Transaction Documents which, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, is not materially prejudicial to the interests of the Noteholders; or
- (b) to any modification to these Conditions or any of the Transaction Documents which, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, proven,

provided that the Note Trustee or, as the case may be, the Security Trustee, shall agree to any modification proposed by the Issuer of these Conditions or any of the Transaction Documents which the Issuer certifies is necessary or desirable as a result of the issuance or proposed issuance of any Further Notes, New Notes or Replacement Notes provided further that the conditions to any such issuance are or will be satisfied on or prior to the date of such issuance, as further set out in *Condition 3.1*.

12.6 The Note Trustee may also, without the consent of the Noteholders, if it is of the opinion that such determination will not be materially prejudicial to the interests of the Noteholders, determine that an Event of Default shall not, or shall not subject to specified conditions, be treated as such.

12.7 Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Note Trustee or, as the case may be, the Security Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with *Condition 15 (Notice to Noteholders)*.

12.8 Any modification to the Transaction Documents shall be notified by the Issuer in writing to the Rating Agencies.

12.9 In connection with any such substitution of principal debtor referred to in *Condition 7.4 (Optional Redemption for Taxation or Other Reasons)*, the Note Trustee and the Security Trustee may also agree, without the consent of the Noteholders or the other Secured Creditors, to a change of the laws governing the Notes, these Conditions and/or any of the Transaction Documents, provided that such change would not, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, be materially prejudicial to the interests of the Noteholders.

12.10 In determining whether a proposed action will not be materially prejudicial to the Noteholders, the Note Trustee and the Security Trustee may, among other things, have regard to whether the Rating Agencies have confirmed to the Issuer or any other party to the Transaction Documents that any proposed action will not result in the withdrawal or reduction of, or entail any other adverse action with respect to, the then current rating of the Notes. It is agreed and acknowledged by the Note Trustee and the Security Trustee that, notwithstanding the foregoing, a credit rating is an assessment of credit and does not address other matters that may be of relevance to the Noteholders. In being entitled to take into account that each of the Rating Agencies have confirmed that the then current rating of the Notes (or any Class thereof) would not be adversely affected, it is agreed and acknowledged by the Note Trustee and the Security Trustee this does not impose or extend any actual or contingent liability for each of the Rating Agencies to the Security Trustee, the Note Trustee, the Noteholders or any other person or create any legal relations between each of the Rating Agencies and the Security Trustee, the Note Trustee, the Noteholders or any other person

whether by way of contract or otherwise.

12.11 Where, in connection with the exercise or performance by each of them of any right, power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Transaction Documents (including, without limitation, in relation to any modification, waiver, authorisation, determination, substitution or change of laws as referred to above), the Note Trustee or the Security Trustee is required to have regard to the interests of the Noteholders of any Class, it shall have regard to the general interests of the Noteholders of such Class as a Class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise or performance for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Note Trustee or, as the case may be, the Security Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim from the Issuer, the Note Trustee or the Security Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

12.12 Extraordinary Resolution means:

- (a) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed and these Conditions by a majority consisting of not less than two thirds of persons eligible to attend and vote at such meeting and voting at such meeting upon a show of hands or, if a poll is duly demanded, by a majority consisting of not less than three-fourths of the votes cast on such poll; or
- (b) a resolution in writing signed by or on behalf of the Noteholders of not less than three-fourths in aggregate Principal Amount Outstanding of the Notes which resolution may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Noteholders.

13. INDEMNIFICATION AND EXONERATION OF THE NOTE TRUSTEE AND THE SECURITY TRUSTEE

The Trust Deed and the Deed of Charge contain provisions governing the responsibility (and relief from responsibility) of the Note Trustee and the Security Trustee respectively and providing for their indemnification in certain circumstances, including provisions relieving them from taking action or, in the case of the Security Trustee, enforcing the Security unless indemnified and/or secured to their satisfaction.

The Trust Deed and the Deed of Charge also contain provisions pursuant to which the Note Trustee and the Security Trustee are entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any other party to any of the Transaction Documents and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any other party to any of the Transaction Documents, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, individual Noteholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

14. REPLACEMENT OF NOTES

If any Note is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office of the Registrar. Replacement of any mutilated, defaced, lost, stolen or destroyed Note will only be made on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. A mutilated or defaced Note must be surrendered before a new one will be issued.

15. NOTICE TO NOTEHOLDERS

15.1 *Publication of Notice*

Any notice to Noteholders shall be validly given if published in the *Financial Times*, or, if such newspaper shall cease to be published or, if timely publication therein is not practicable, in such other English newspaper or newspapers as the Note Trustee shall approve in advance having a general circulation in the United Kingdom, provided that if, at any time, the Issuer procures that the information concerned in such notice shall appear on a page of the Reuters screen, the Bloomberg screen or any other medium for electronic display of data as may be previously approved in writing by the Note Trustee and notified to Noteholders (in each case a **Relevant Screen**), publication in the newspaper set out above or such other newspaper or newspapers shall not be required with respect to such information. 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 shall have been made in the newspaper or newspapers in which (or on the Relevant Screen) publication is required.

In respect of Notes in definitive form, notices to Noteholders will be sent to them by first class post (or its equivalent) or (if posted to an address outside the United Kingdom) by airmail at the respective addresses on the Register. Any such notice will be deemed to have been given on the fourth day after the date of posting.

Whilst the Notes are represented by Global Notes, notices to Noteholders will be valid if published as described above, or, at the option of the Issuer, if submitted to Euroclear and/or Clearstream, Luxembourg for communication by them to Noteholders. Any notice delivered to Euroclear and/or Clearstream, Luxembourg, as aforesaid shall be deemed to have been given on the day of such delivery.

15.2 *Note Trustee's Discretion to Select Alternative Method*

The Note Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or 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 exchanges, competent listing authorities and/or quotation systems on or by which the Notes are then listed, quoted and/or traded and provided that notice of such other method is given to the Noteholders in such manner as the Note Trustee shall require.

16. FURTHER NOTES, REPLACEMENT NOTES AND NEW NOTES

16.1 *Further Notes*

The Issuer may, without the consent of the Noteholders, raise further funds, from time to time, on any date by the creation and issue of further notes (**Further Notes**) carrying the same terms and conditions in all respects (or in all respects except for the first Interest Period) as, and so that the same shall be consolidated and form a single series and rank *pari passu* with any Class of the Notes provided that:

- (a) the total value of the Further Notes, together with any New Notes or Replacement Notes to be issued on the same date must be at least £10,000,000;
- (b) any Further Notes are assigned the same ratings as are then applicable to the Class of Notes with which they are to be consolidated and form a single series;
- (c) the ratings of each Class of Notes at that time outstanding are not downgraded, withdrawn or qualified as a result of such issue of Further Notes and none of such ratings is lower than it was upon the date of issue of any of the Notes;
- (d) an amount equal to the aggregate principal amount of such Further Notes will be used by the Issuer to purchase New Loans from the Seller pursuant to the terms of the Mortgage Sale Agreement and/or, if applicable, to redeem any existing Notes; and

- (e) application will be made, in respect of the Further Notes, for such notes to be admitted to trading on the London Stock Exchange's regulated market and listed on the official list of the UK Listing Authority or, if the Notes then issued are no longer admitted to trading on that exchange, such exchange, if any, on which the Notes then issued are then admitted to trading on.

16.2 Replacement Notes

- (a) If the **Issuer Substitution Condition** (the terms and conditions to the substitution of the Issuer as principal debtor as set out in the Trust Deed) is satisfied, the Issuer may, without the consent of the Noteholders, issue one or more classes of replacement notes (**Replacement Notes**) to replace one or more classes of the Notes, each class of which shall have terms and conditions which may differ from the terms and conditions of the class of Notes which it replaces and which may on issue be in an aggregate principal amount which is different from the aggregate Principal Amount Outstanding of the class of Notes which it replaces, provided that the class or classes of Notes to be replaced are redeemed in full in accordance with *Condition 7.3 (Optional Redemption in Full or in Part)* and the conditions to the issue of Further Notes as set out in *Condition 16.1(a), (c) and (e)* are satisfied, *mutatis mutandis*, in respect of such issue of Replacement Notes.
- (b) If the Issuer Substitution Condition (the terms and conditions to the substitution of the Issuer as principal debtor as set out in the Trust Deed) is not satisfied, the Issuer may, without the consent of the Noteholders, issue one or more classes of Replacement Notes to replace one or more classes of the Notes, each class of which shall have the same terms and conditions in all respects as the class of Notes which is replaced (except for the rate of interest applicable to such Replacement Notes which, if not the same, must be lower than the rate of interest applicable to the class of Notes being replaced and except that such Replacement Notes may have the benefit of a financial guarantee or similar arrangement (a **Financial Guarantee**) and which may on issue be in an aggregate principal amount which is different from the aggregate Principal Amount Outstanding of the class of Notes which it replaces, provided that the class or classes of Notes to be replaced are redeemed in full in accordance with *Condition 7.3 (Optional Redemption in Full or in Part)* and the conditions to the issue of Further Notes as set out in *Condition 16.1(a), (c) and (e)* are satisfied, *mutatis mutandis*, in respect of such issue of Replacement Notes and provided further that, for the purposes of this *Condition 16.2(b)*, where interest in respect of the Replacement Notes or the class of Notes being replaced is payable on a floating rate basis, the rate of interest applicable to the Replacement Notes or, as the case may be, the class of Notes being replaced shall be deemed to be the fixed rate payable by the Issuer under the interest rate exchange agreement entered into by the Issuer in relation to the Replacement Notes or, as the case may be, the class of Notes being replaced.

16.3 New Notes

The Issuer may, without the consent of the Noteholders, raise further funds, from time to time and on any date, by the creation and issue of new notes (**New Notes**) which may rank in priority to *pari passu* with or subordinate to any Class of the Notes and which may have terms and conditions which differ from the Notes and which do not form a single series with the Notes provided that the conditions to the issue of Further Notes as set out in *Condition 16.1(a), (c), (d) and (e)* are satisfied, *mutatis mutandis*, in respect of such issue of New Notes.

16.4 Supplemental Trust Deeds and Security

Any such Further Notes, Replacement Notes or New Notes will be constituted by a further deed or deeds supplemental to the Trust Deed and have the benefit of the security constituted by the Deed of Charge. Any of the Transaction Documents may be amended as provided in *Condition 3.1(c) (Status and relationship between the Notes)* or otherwise, and further Transaction Documents may be entered into, in connection with the issue of such Further Notes, Replacement Notes or New Notes and the claims of any of the parties to any amended Transaction Document or any further Transaction Document may rank ahead of, *pari passu*

with, or behind, any class or classes of the Notes, provided, in each case, that the condition set out in *Condition 16.1(c)* is satisfied, *mutatis mutandis*.

17. GOVERNING LAW

The Trust Deed, the Deed of Charge, the Notes and these Conditions (and any non-contractual obligations arising out of or in connection with them) (other than each Scottish Declaration of Trust and certain documents to be granted pursuant to the Deed of Charge) are governed by, and shall be construed in accordance with, English law, save for certain aspects of the same which are stated to be governed by Scots law. Each Scottish Declaration of Trust is governed by, and shall be construed in accordance with, Scots law. Certain documents to be granted pursuant to the Deed of Charge will be governed by, and construed in accordance with, Scots law.

18. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Notes or these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

USE OF PROCEEDS

The Issuer will use the gross proceeds of the Notes principally to pay the Initial Consideration payable by the Issuer for the Initial Portfolio to be acquired from the Seller on the Closing Date. The remaining proceeds (if any) of the issue of the Notes will be deposited into the GIC Account to form part of the Available Principal Receipts in respect of the first Interest Payment Date.

FEES

The following table sets out the on-going fees to be paid by the Issuer to the transaction parties.

Type of Fee	Amount of Fee	Priority in Cashflow	Frequency
Servicing Fees	0.08% each year (inclusive of VAT) on the aggregate amount of the Portfolio as determined on the preceding Interest Payment Date	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Cash management fee	0.01% each year (inclusive of VAT) on the aggregate amount of the Portfolio as determined on the preceding Interest Payment Date	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Other fees and expenses of the Issuer	estimated at £35,000 each year (exclusive of VAT)	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date

VAT is currently chargeable at 15%

EXPENSE OF THE ADMISSION TO TRADING

The estimated total expenses related to the admission to trading of the Notes will be £3,475 (exclusive of VAT).

RATINGS

The Notes, on issue, were assigned the following ratings by S&P and Moody's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation if, in its judgment, circumstances (including, without limitation, a reduction in the credit rating of the Interest Rate Swap Provider, the Swap Guarantor and/or the Account Bank in the future) so warrant.

Class of Notes	S&P	Moody's
Class A-1 Notes	AAA	Aaa
Class A-2 Notes	AAA	Aaa

THE ISSUER

Introduction

The Issuer was incorporated in England and Wales on 8 June 2009 (registered number 06927392) as a public limited company under the Companies Act 1985 (as amended). The registered office of the Issuer is 35 Great St. Helen's, London EC3A 6AP. The telephone number of the Issuer's registered office is +44 (0)20 7398 6300. The authorised share capital of the Issuer comprises 50,000 ordinary shares of £1 each. The issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, 49,998 shares of £1 each, partly-paid up in cash of 25p each and 2 fully paid shares of £1 each all of which are beneficially owned by Holdings (see "*Holdings*" below).

The Issuer has no subsidiaries. The Seller does not own directly or indirectly any of the share capital of Holdings or the Issuer.

The principal objects of the Issuer are set out in its Memorandum of Association and are, *inter alia*, to carry on business as a general commercial company. The Issuer was established solely for the purpose of issuing the Notes. The activities of the Issuer will be restricted by its Memorandum and Articles of Association and the Transaction Documents and will be limited to the issues of the Notes, the exercise of related rights and powers and other activities referred to herein or reasonably incidental thereto.

Under the Companies Act 1985 (as amended), the Issuer's governing documents, including its principal objects, may be altered by a special resolution of shareholders.

In accordance with the Corporate Services Agreement, the Corporate Services Provider will provide to the Issuer certain directors, a registered and administrative office, the arrangement of meetings of directors and shareholders and procure the service of a company secretary. No other remuneration is paid by the Issuer to or in respect of any director or officer of the Issuer for acting as such.

The Issuer has not engaged, since its incorporation, in any material activities other than those incidental to its registration as a public company under the Companies Act 1985 (as amended) and to the proposed issues of the Notes and the authorisation of the other Transaction Documents referred to in this Prospectus to which it is or will be a party and other matters which are incidental or ancillary to the foregoing. The Issuer, as necessary, intends to make a notification under the Data Protection Act 1998 and is in the process of applying for a consumer credit licence under the CCA. As at the date of this Prospectus, no statutory accounts have been prepared or delivered to the Registrar of Companies on behalf of the Issuer. The accounting reference date of the Issuer is 31 December and the first statutory accounts of the Issuer will be drawn up to 31 December 2009.

There is no intention to accumulate surpluses in the Issuer (other than amounts standing to the credit of the Retained Principal Receipts Ledger during the Revolving Period, the General Reserve Ledger, the Liquidity Reserve Ledger, the Further Advance Ledger and the Set-Off Reserve Ledger and any Issuer profit).

Directors

The directors of the Issuer and their respective business addresses and occupations are:

Name	Business Address	Business Occupation
SFM Directors Limited	35 Great St. Helen's, London EC3A 6AP	Director of special purpose companies
SFM Directors (No. 2) Limited	35 Great St. Helen's, London EC3A 6AP	Director of special purpose companies
Gary Staines	Lloyds TSB Bank plc, 10 Gresham Street, London EC2V 7AE	Banker

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

Name	Business Address	Principal Activities
Jonathan Eden Keighley	35 Great St. Helen's, London EC3A 6AP	Company Director of SFM Directors Limited and SFM Directors (No.2) Limited
James Garner Smith Macdonald	35 Great St. Helen's, London EC3A 6AP	Company Director of SFM Directors Limited and SFM Directors (No.2) Limited
Robert William Berry	35 Great St. Helen's, London EC3A 6AP	Company Director of SFM Directors Limited and SFM Directors (No.2) Limited
Cane Valentine Pickersgill	35 Great St. Helen's, London EC3A 6AP	Alternate Director of SFM Directors Limited and SFM Directors (No.2) Limited to Jonathan Eden Keighley, James Garner Smith Macdonald and Robert Berry
JP Nowacki	35 Great St. Helen's, London EC3A 6AP	Company Director of SFM Directors Limited and SFM Directors (No.2) Limited
Claudia Wallace	35 Great St. Helen's, London EC3A 6AP	Company Director of SFM Directors Limited and SFM Directors (No.2) Limited
Helena Whittaker	35 Great St. Helen's, London EC3A 6AP	Company Director of SFM Directors Limited and SFM Directors (No.2) Limited
Debra Parsall	35 Great St. Helen's, London EC3A 6AP	Alternate Director of SFM Directors Limited and SFM Directors (No.2) Limited to Jonathan Eden Keighley, James Garner Smith Macdonald and Robert Berry

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

The Issuer has no loan capital, borrowings or material contingent liabilities (including guarantees) as at the date of this Prospectus.

HOLDINGS

Introduction

Holdings was incorporated in England and Wales on 8 June 2009 (registered number 06927383) as a private limited company under the Companies Act 1985 (as amended). The registered office of Holdings is 35 Great St. Helen's, London EC3A 6AP. The authorised share capital of Holdings comprises 100 ordinary shares of £1 each. The issued share capital of Holdings comprises 1 ordinary share of £1. SFM Corporate Services Limited (the **Share Trustee**) holds the entire beneficial interest in the issued share under a discretionary trust for discretionary purposes. Holdings holds the entire beneficial interest in the issued share capital of the Issuer.

The principal objects of Holdings are set out in its Memorandum of Association and are, *inter alia*, to carry on business as a general commercial company.

Holdings has not engaged since its incorporation in any material activities other than those activities incidental to the authorisation and implementation of the Transaction Documents referred to in this Prospectus to which it is or will be a party and other matters which are incidental or ancillary to the foregoing.

Directors

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

Name	Business Address	Business Occupation
SFM Directors Limited	35 Great St. Helen's, London EC3A 6AP	Director of special purpose companies
SFM Directors (No. 2) Limited	35 Great St. Helen's, London EC3A 6AP	Director of special purpose companies
Gary Staines	Lloyds TSB Bank plc, 10 Gresham Street, London EC2V 7AE	Banker

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

Name	Business Address	Principal Activities
Jonathan Eden Keighley	35 Great St. Helen's, London EC3A 6AP	Company Director of SFM Directors Limited and SFM Directors (No.2) Limited
James Garner Smith Macdonald	35 Great St. Helen's, London EC3A 6AP	Company Director of SFM Directors Limited and SFM Directors (No.2) Limited
Robert William Berry	35 Great St. Helen's, London EC3A 6AP	Company Director of SFM Directors Limited and SFM Directors (No.2) Limited

Name	Business Address	Principal Activities
Cane Valentine Pickersgill	35 Great St. Helen's, London EC3A 6AP	Alternate Director of SFM Directors Limited and SFM Directors (No.2) Limited to Jonathan Eden Keighley, James Garner Smith Macdonald and Robert Berry
JP Nowacki	35 Great St. Helen's, London EC3A 6AP	Company Director of SFM Directors Limited and SFM Directors (No.2) Limited
Claudia Wallace	35 Great St. Helen's, London EC3A 6AP	Company Director of SFM Directors Limited and SFM Directors (No.2) Limited
Helena Whittaker	35 Great St. Helen's, London EC3A 6AP	Company Director of SFM Directors Limited and SFM Directors (No.2) Limited
Debra Parsall	35 Great St. Helen's, London EC3A 6AP	Alternate Director of SFM Directors Limited and SFM Directors (No.2) Limited to Jonathan Eden Keighley, James Garner Smith Macdonald and Robert Berry

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

The accounting reference date of Holdings is 31 December and the first statutory accounts of Holdings will be drawn up to 31 December 2009.

Holdings has no employees.

LLOYDS TSB SCOTLAND PLC

As at the date of this Prospectus, Lloyds TSB Scotland plc is the Seller and the Interest Rate Swap Provider under the Transaction.

Introduction

Lloyds TSB Scotland plc (**Lloyds TSB Scotland**) was incorporated in Scotland on 24 September 1985 (registration number SC095237). The principal legislation under which Lloyds TSB Scotland operates is the Companies Act 1985 (as amended from time to time) and the Companies Act 2006. Lloyds TSB Scotland's registered office is at Henry Duncan House, 120 George Street, Edinburgh EH2 4LH. Its telephone number is +44 (0)131 225 4555. Lloyds TSB Scotland is authorised and regulated by the Financial Services Authority.

Clause 4(2) of the memorandum of association of Lloyds TSB Scotland provides that its objects include the carrying on of the business of banking in all its aspects.

History

The history of Lloyds TSB Scotland can be traced back to 1810 and the foundation of the first savings bank by Reverend Henry Duncan in Ruthwell, Dumfriesshire. This was the forerunner of a network of local, independent Trustee Savings Banks throughout Scotland. By the 1970s through a process of amalgamation, these had consolidated to four regional savings banks which combined to form TSB Scotland in 1983.

TSB Scotland was part of the TSB Group flotation in 1986 when, following UK government legislation, the operations of four Trustee Savings Banks were transferred to TSB Group plc and its new banking subsidiaries. At this time TSB Scotland's name was changed to TSB Bank Scotland plc.

TSB Bank Scotland plc continued within the new group as a separately registered and managed bank. By the mid-1990's, the TSB Group had, either through organic growth or acquisition, developed life and general insurance operations, investment management activities, and a motor vehicle hire purchase and leasing operation to supplement its retail banking activities.

In 1995, TSB Group plc merged with Lloyds Bank plc. Under the terms of the merger, the TSB and Lloyds Bank groups were combined under TSB Group plc, which was re-named Lloyds TSB Group plc. TSB Bank Scotland plc was renamed Lloyds TSB Scotland plc although there were no material changes to the composition of the business as a result of the merger.

In January 2009, Lloyds TSB Group plc acquired HBOS plc to form the Lloyds Banking Group.

LLOYDS TSB BANK PLC

Lloyds TSB Bank plc is the Account Bank, GIC Provider, Parent Support Provider, Loan Facility Provider and Swap Guarantor under the Transaction.

Lloyds TSB Bank plc (the **Bank** or **Lloyds TSB Bank**) and its subsidiary undertakings (**Lloyds TSB Bank Group**) is a leading UK-based financial services group providing a wide range of banking and financial services, primarily in the UK, to personal and corporate customers. Its main business activities are retail, commercial and corporate banking, general insurance, and life, pensions and investment provision.

The history of Lloyds TSB Bank Group can be traced back to the 18th century when the banking partnership of Taylors and Lloyds was established in Birmingham, England. Lloyds Bank Plc was incorporated in 1865 and during the late 19th and early 20th centuries entered into a number of acquisitions and mergers, significantly increasing the number of banking offices in the UK. In 1995, Lloyds TSB Bank Group continued to expand with the acquisition of Cheltenham and Gloucester Building Society (**C&G**).

TSB Group plc became operational in 1986 when, following UK Government legislation, the operations of four Trustee Savings Banks and other related companies were transferred to TSB Group plc and its new banking subsidiaries. By 1995, the TSB Group had, either through organic growth or acquisition, developed life and general insurance operations, investment management activities, and a motor vehicle hire purchase and leasing operation to supplement its retail banking activities.

In 1995, TSB Group plc merged with Lloyds Bank Plc. Under the terms of the merger, the TSB and Lloyds Bank groups were combined under TSB Group plc, which was renamed Lloyds TSB Group plc and with Lloyds Bank Plc, which was subsequently re-named Lloyds TSB Bank plc, the principal subsidiary. In 1999, the businesses, assets and liabilities of TSB Bank plc, the principal banking subsidiary of TSB Group prior to the merger, and its subsidiary Hill Samuel Bank Limited were vested in the Bank, and in 2000, the Bank acquired Scottish Widows. In addition to already being one of the leading providers of banking services in the UK, this transaction also positioned Lloyds TSB Bank Group as one of the leading providers of long-term savings and protection products in the UK.

On 18 September 2008, with the support of the UK Government, the boards of Lloyds TSB Group plc and HBOS plc announced that they had reached agreement on the terms of a recommended acquisition by Lloyds TSB Group plc of HBOS plc. The shareholders of Lloyds TSB Group plc approved the acquisition at the company's general meeting on 19 November 2008 and the acquisition was completed on 16 January 2009. Following the acquisition, Lloyds TSB Group plc changed its name to Lloyds Banking Group plc and operates its business through the Lloyds TSB Bank Group and the HBOS plc group of companies.

Lloyds TSB Bank Group now comprises the Lloyds TSB brand along with C&G, a major mortgage brand in the UK, and Scottish Widows, one of the UK's largest providers of life, pensions and investment products.

The Bank's registered office is at 25 Gresham Street, London EC2V 7HN. The Bank, together with HBOS plc and Bank of Scotland plc are wholly owned subsidiaries of Lloyds Banking Group plc.

The short term senior unsecured and unguaranteed obligations of the Bank are currently rated P-1 by Moody's, A-1 by S&P and F1+ by Fitch and the long-term senior, unsecured and unguaranteed obligations of the Bank are currently rated Aa3 by Moody's, A+ by S&P and AA- by Fitch.

Following a placing and open offer by Lloyds TSB Group plc and a placing and open offer by HBOS plc, both in November 2008, Her Majesty's Treasury (**HM Treasury**) owns 43.4 per cent. of the ordinary share capital of Lloyds Banking Group plc. In January 2009, Lloyds Banking Group plc issued preference shares to HM Treasury (**Preference Shares**). In June 2009, following completion of a successful placing and open offer by Lloyds Banking Group plc in May 2009, the Preference Shares were redeemed in accordance with their terms.

On 7 March 2009, Lloyds Banking Group announced its intention to participate in the Government Asset Protection Scheme (**Scheme**). Lloyds Banking Group's participation remains subject to further due diligence by HM Treasury and agreement with regard to the detailed operation of the Scheme. Lloyds Banking Group's implementation of, and ongoing participation in, the Scheme remains subject to obtaining regulatory and European Commission state aid clearances, as well as shareholder approval.

THE NOTE TRUSTEE AND SECURITY TRUSTEE

Deutsche Trustee Company Limited will be appointed pursuant to the Trust Deed as Note Trustee for the Noteholders. It will also be appointed pursuant to the Deed of Charge as Security Trustee for the Secured Creditors.

Deutsche Trustee Company Limited's principal place of business is at Winchester House, 1 Great Winchester Street, London EC2N 2DB.

Deutsche Trustee Company Limited will not be responsible for (a) supervising the performance by the Issuer or any other party to the Transaction Documents of their respective obligations under the Transaction Documents and will be entitled to assume, until it has written notice to the contrary, that all such persons are properly performing their duties thereunder or (b) considering the basis on which approvals or consents are granted by the Issuer or any other party to the Transaction Documents under the Transaction Documents. Deutsche Trustee Company Limited will not be liable to any Noteholder or other Secured Creditor for any failure to make or to cause to be made on its behalf the searches, investigations and enquiries which would normally be made by a prudent chargee in relation to the Charged Assets and has no responsibility in relation to the legality, validity, sufficiency and enforceability of the Security and the Transaction Documents.

THE CORPORATE SERVICES PROVIDER

Structured Finance Management Limited (registered number 03853947), having a place of business at 35 Great St. Helen's London EC3A 6AP will be appointed to provide corporate services to the Issuer and Holdings pursuant to the Corporate Services Agreement.

Structured Finance Management Limited has served and is currently serving as corporate service provider for numerous securitisation transactions and programmes involving pools of mortgage loans.

The Corporate Services Provider will be entitled to terminate its respective appointment under the Corporate Services Agreement on 30 days' written notice to the Issuer, the Security Trustee and each other party to the Corporate Services Agreement, provided that a substitute corporate services provider has been appointed on substantially the same terms as those set out in the Corporate Services Agreement.

The Security Trustee can terminate the appointment of the Corporate Services Provider on 30 days' written notice so long as a substitute corporate services provider has been appointed on substantially the same terms as those set out in the Corporate Services Agreement.

In addition, the appointment of the Corporate Services Provider may be terminated immediately upon notice in writing given by the Security Trustee, if the Corporate Services Provider breaches its obligations under the terms of the Corporate Services Agreement and/or certain insolvency related events occur in relation to the Corporate Services Provider.

CHELTENHAM & GLOUCESTER PLC

Cheltenham & Gloucester plc is the Servicer and the Cash Manager under the Transaction.

The Cheltenham & Gloucestershire Permanent Mutual Benefit Building and Investment Association was founded in 1850 in Cheltenham. In 1995, it shed its mutual status and became Cheltenham & Gloucester plc, a wholly-owned subsidiary of the Lloyds Bank Group. When Lloyds Bank Plc merged with TSB Group plc in 1995, C&G became the main mortgage lending arm of Lloyds TSB Group. As well as C&G branded mortgages, C&G also originated mortgages sold under the "Lloyds TSB" brand through Lloyds TSB Bank branches.

On 1 October 2007 pursuant to a banking scheme under Part VII of the FSMA 2000, the banking business of C&G, including the savings and mortgage balances of C&G, together with related rights and liabilities, was transferred to Lloyds TSB Bank.

C&G administers those mortgages originated through the C&G and Lloyds TSB Scotland branded intermediary channels, the telephony and internet based operation Mortgage Direct, and also those originated through the C&G, Lloyds TSB Bank and Lloyds TSB Scotland branch networks, one of the largest of any UK mortgage distributor.

The value of the mortgage assets administered by C&G on behalf of Lloyds TSB Bank plc and Lloyds TSB Scotland plc as at 31 December 2008 totalled £104.4 billion.

C&G manages approximately 3,500 staff based at its head office in Barnett Way in Gloucester and at branches and administration sites elsewhere in the UK (as at December 2008). It has also outsourced certain back office administration activities to India. Employee numbers may be subject to change as a result of the restructuring of the Lloyds Banking Group following the acquisition of HBOS plc in January 2009.

On 9 June 2009 C&G announced plans to close all of its retail branches by 6 November 2009. This is not expected to have a material impact on its ability to act as Servicer or Cash Manager as part of this transaction.

Cheltenham & Gloucester plc is incorporated as a public company with limited liability in England and Wales with registered number 2299428. It is authorised and regulated by the Financial Services Authority.

THE LOANS

The Portfolio

Introduction

The following is a description of some of the characteristics of the Loans originated by the Seller including details of loan types, the underwriting process, lending criteria and selected statistical information.

The Seller selects the Loans for transfer into the Portfolio using a system containing defined data on each of the qualifying loans in the Seller's overall portfolio of loans available for selection. This system allows the setting of exclusion criteria among others corresponding to relevant Loan Warranties that the Seller makes in the Mortgage Sale Agreement in relation to the Loans (see "*Mortgage Sale Agreement – Warranties and Repurchase by the Seller*"). This system also allows a limit to be set on some criteria. Once the criteria have been determined, the system identifies all loans owned by the Seller that are consistent with the criteria. From this subset, loans are selected at random until the target balance for Loans has been reached, or the subset has been exhausted. After a pool of Loans is selected in this way, the constituent Loans are monitored so that they continue to comply with the Loan Warranties on the Closing Date or Sale Date, as applicable.

Unless otherwise indicated, the description that follows relates to types of loans that have been or could be sold to the Issuer, either as part of the Initial Portfolio as at the Closing Date or as a New Loan sold to the Issuer at a later date.

The Seller may sell New Loans and their Related Security to the Issuer from time to time. The Seller reserves the right to amend its Lending Criteria and to sell to the Issuer New Loans which are based upon mortgage terms which may be different from those upon which Loans forming the Initial Portfolio are based. Those New Loans may include loans which are currently being offered to Borrowers which may or may not have some of the characteristics described here, but may also include loans with other characteristics that are not currently being offered to Borrowers or that have not yet been developed. All New Loans will be required to comply with the Loan Warranties set out in the Mortgage Sale Agreement on the applicable Sale Date. The material warranties in the Mortgage Sale Agreement to be given as at the Closing Date and on each Sale Date are described in this Prospectus. See "*Summary of Key Transaction Documents – Mortgage Sale Agreement*", above.

References in this section to the Seller performing any obligations or taking any steps in relation to the administration of Loans will include circumstances in which C&G performs such obligations or takes such steps, on behalf of the Seller.

Characteristics of the Loans

Repayment terms

Loans may combine one or more of the features listed in this section. Other customer incentives may be offered with the product including free valuations and payment of legal fees. Additional features such as payment holidays (temporary suspension of monthly payments) and the ability to make overpayments or underpayments are also available to most borrowers under certain circumstances. See "*– Overpayments and underpayments*" and "*– Payment holidays*" below.

Loans are typically repayable on one of the following bases:

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

- **"Interest-only Loan"**: the Borrower makes monthly payments of interest but not of principal; when the Loan matures, the entire principal amount of the Loan is still outstanding and is payable in one lump sum; and
- a combination of both these options.

In the case of either Repayment Loans or Interest-only Loans, the required monthly payment may alter from month to month for various reasons, including changes in interest rates.

For Interest-only Loans, because the principal is repaid in a lump sum at the maturity of the loan, the borrower is recommended to have some repayment mechanism (such as an investment plan) which is intended to provide sufficient funds to repay the principal at the end of the term.

Principal prepayments may be made in whole or in part at any time during the term of a Loan, subject to the payment of any Early Repayment Charges (as described in "*The Loans– Early repayment charges*" below). A prepayment of the entire outstanding balance of a loan discharges the mortgage. Any prepayment in full must be made together with all accrued interest, arrears of interest, any unpaid expenses and any applicable repayment fee(s).

Various methods are available to Borrowers for making payments on the Loans, including:

- direct debit instruction from a bank or building society account,
- standing order from a bank or building society account, and
- payments made at Lloyds TSB Scotland or Lloyds TSB Bank branches.

Interest payments and interest rate setting

The Seller has responded to the competitive mortgage market by developing a range of products with special features that are used to attract new borrowers and retain existing customers. Interest on the Loans is charged on one of the following bases and the Seller is able to combine these to suit the requirements of the Borrower:

- **"Standard Variable Rate Loans"** are loans subject to the seller's standard variable rate (the **Seller Standard Variable Rate** or **SVR**) (or, at any time that a Loan is beneficially owned by the Issuer, the Issuer Standard Variable Rate) for the life of the mortgage loan. This product is not currently open to new business and customers can only access this product at the end of the contractual term of a fixed or tracker mortgage.
- **"Fixed Rate Loans"** are loans which are subject to a fixed rate of interest for a specified period of time, usually for 2, 3, 5 or 7 years or in some cases, 10 years.
- **"Tracker Loans"** are loans which are subject to a variable interest rate linked to the Bank of England Base Rate plus or minus a margin, either for an initial fixed period or for the life of the loan. The percentage margin may be fixed for the entire tracker rate period or it may vary.
- **"Discounted Variable Rate Loans"** are loans which allow the borrower to pay interest at a specified discount to the Seller Standard Variable Rate.

The Seller Standard Variable Rate and some tracker rates may apply for the life of the Loan. Otherwise, each of the above rates is offered for a predetermined period, usually between 2 and 7 years (or in some cases, 10 years), at the commencement of the Loan (the **Product Period**). At the end of the Product Period the rate of interest charged will either (a) move to some other interest rate type for a predetermined period or (b) revert to, or remain at, the SVR. The SVR is capped at 2% above the Bank of England Base Rate but

otherwise administered, at the discretion of the Seller, by reference to the general level of interest rates and competitive forces in the UK mortgage market. In certain instances, early repayment charges are payable by the Borrower if the Loan is redeemed within the Product Period. See "*The Loans – Early repayment charges*" below.

All loans originated by Lloyds TSB Scotland since 2003 have featured interest calculated on a daily basis rather than on an annual basis. Any payment by the Borrower will immediately reduce the Borrower's balance on which interest will be calculated the following day. Prior to this date, all Lloyds TSB Scotland branded mortgage products had carried interest calculated on an annual basis. Borrowers with existing loans on which interest is calculated on an annual basis are able to change and have their interest calculated on a daily basis, subject to the terms and conditions of their existing loan and to the borrower entering into an agreement. If a Borrower with a loan on which annual interest is calculated wishes to take a further advance, the interest on the existing loan must be switched to a daily interest basis. Lloyds TSB Scotland does not normally permit a mix of daily and annual interest calculation on loans.

Except in limited circumstances as set out in "*The Servicing Agreement – Covenants of the Servicer*", the Servicer is responsible for setting the Standard Variable Rate on the Loans in the Portfolio as well as on any New Loans that are sold to the Issuer. Under the general loan conditions applicable to the Loans (the **Loan Conditions**), the Seller may change the interest rate at any time at its discretion. If the Seller wishes to increase the interest rate it must first give notice to the Borrower of the increase. The Borrower may then repay the Loan without paying interest at the increased rate if the Borrower provides at least seven days' notice of the intention to repay and no later than three months after the Seller gives the notice of the increase the Borrower repays the Loan (or the part of it which is affected by the increase) together with any Early Repayment Charge and any unpaid interest and expenses. Under the post 2000 Mortgage Conditions, for so long as the loan agreement requires the Borrower to pay an Early Repayment Charge the Seller can only change the interest rate in accordance with the Loan Conditions.

During the course of its mortgage origination business, the Seller has originated mortgage loans under a number of standard conditions which have been sequentially superseded by the **2004 Loan Conditions**. The 2004 Loan Conditions represent the current origination policy of the Seller and dictate the specified reasons to change the interest rate. The 2004 Loan Conditions set out the current policy of the Seller in this regard, such policy applying equally to all mortgage loans of the Seller, regardless of the date of origination except where the interest rate provisions are more onerous in the 2004 version.

If applicable, the Servicer will also be responsible for setting any variable margins in respect of new Tracker Loans that are sold to the Issuer in the future. However, in maintaining, determining or setting these variable margins, except in the limited circumstances as set out in "*The Servicing Agreement – Covenants of the Servicer*", the Servicer has undertaken to maintain, determine or set the variable margins at a level which is not higher than the variable margins set in accordance with the Seller's Policy from time to time. The Seller has a standard variable rate cap whereby it has limited its SVR to no more than 2% above the Bank of England Base Rate at any time. The Seller can change this policy in the future but it cannot increase the 2% limit on existing contracts.

Early Repayment Charges

The Borrower may be required to pay an Early Repayment Charge if certain events occur during the predetermined Product Period and the loan agreement states that the Borrower is liable for Early Repayment Charges and the Seller has not waived or revised its policy with regards the payment of Early Repayment Charges. These events include a full or partial unscheduled repayment of principal, or an agreement between the Seller and the Borrower to switch to a different mortgage product. If all or part of the principal owed by the Borrower, other than the scheduled monthly payments, is repaid before the end of the Product Period, the Borrower will be liable to pay to the Seller a repayment fee based on a percentage of the amount repaid or switched to another product. If the Borrower has more than one product attached to the mortgage, the Borrower may choose under which product the principal should be allocated.

The Seller currently permits Borrowers to repay up to 10% of the loan balance each year (using the loan balance as at 1 January of the year in which the repayment is made) without having to pay an Early Repayment Charge. If the mortgage is made up of more than one loan or part, each is treated separately so that if one or more of them has an early repayment, the Borrower can repay up to 10% on each. For example, if the total mortgage is £60,000 made up of two loans of £30,000 and one of them carried an Early Repayment Charge, then the Borrower can repay up to £3,000 of that loan (i.e. 10%) without charge. If the Borrower repays £7,000 of it (more than 10%) then the Early Repayment Charge will apply but only to the amount the Borrower repays above 10%. However, if the Borrower pays up to 10% and then repays the remainder of the loan within six months the Early Repayment Charge will also be charged on the 10% initially repaid by the Borrower. The Seller currently has a policy not to charge the Early Repayment Charge in certain circumstances, for example if the repayment is due to the death of the Borrower.

If the Borrower repays its mortgage during an Early Redemption Charge period to move house, the Borrower may not have to pay the charge if the Borrower takes out a new loan for the new home with the Seller, subject to certain qualifying criteria.

The Seller is currently reviewing its policy in relation to the payment of Early Repayment Charges.

Some mortgage products do not include any provisions for the payment of an Early Repayment Charge by the Borrower.

Overpayments and underpayments

All loans are subject to a range of options, selected by the Borrower, that give the Borrower greater flexibility in the timing and amount of payments under each loan. The Loans may offer one or more of the features described below, subject to certain conditions and financial limits:

Overpayments – Borrowers may either increase their regular monthly payments above the normal monthly payment then applicable or make lump sum payments at any time.

Underpayments – where Borrowers have previously overpaid, they may reduce their monthly payments below the amount of the applicable monthly payment or make an irregular underpayment. Borrowers are not permitted to make Underpayments that exceed the total of previous Overpayments less the total of previous Underpayments.

Payment Holidays – Borrowers may apply for a break from making monthly payments, normally up to 6 months; approval of such application and the determination of such period are at the discretion of the Seller who makes such a decision or approval based on, amongst other things, the relevant Borrower's credit score and a maximum LTV of 80%.

Borrowers with interest calculated annually who make an Overpayment may choose whether such Overpayment is to be treated as a repayment of principal or as a credit to be carried forward against future scheduled instalments. If the Borrower elects for such Overpayment to be applied as a principal repayment then interest on the remaining principal outstanding balance of the loan is recalculated as from the date of receipt of such repayment. If the customer elects to apply such Overpayment towards scheduled instalments, interest is not recalculated. In cases where a customer does not specify how any repayment they may make is to be applied, Overpayments of an amount of less than £1,000 are generally treated as credits towards scheduled instalments. Borrowers may repay up to 10% of their loan each year without incurring an Early Repayment Charge.

If Borrowers with daily calculations of interest pay more than the scheduled monthly payment, the balance on their mortgage loan will be reduced. The Seller will charge interest on the reduced balance, which reduces the amount of interest the Borrower must pay.

Any Overpayments may be applied by the Borrowers either towards repayment of principal or towards the repayment of their monthly repayment, as they may decide in line with the policies of the Seller described above. The Seller may charge an administration fee in connection with Borrowers wishing to make Overpayments.

Further Advances

If a Borrower wishes to take out a further loan secured by the same mortgage or standard security, the Borrower will need to make a further advance application and the Seller will use the lending criteria applicable to further advances at that time in determining whether to approve the application. The original mortgage deed or standard security is expressed to cover all amounts due under the relevant loan which would cover any further advances. All Further Advances require the postponement of any second charge or standard security.

Some Loans in the Initial Portfolio may have Further Advances made on them prior to their being sold to the Issuer on the Closing Date and New Loans added to the Portfolio in the future may have had Further Advances made on them prior to their being sold to the Issuer on the applicable Sale Date.

If a Loan is subject to a Further Advance after being sold to the Issuer, the Seller will be required to repurchase the Loan and its Related Security from the Issuer to the extent that the Issuer does not have sufficient funds from the Retained Principal Receipts Ledger, the Principal Ledger and the Further Advance Ledger (during the Revolving Period) or from the Principal Ledger (following the Revolving Period) to fund the purchase of such Further Advance, or, having purchased such Further Advance from a Further Advance Shortfall Drawing, the Issuer does not have sufficient funds to repay such Further Advance Shortfall Drawing.

Product Switches

From time to time, Borrowers may request or the Servicer may send an offer of a variation in the financial terms and conditions applicable to the Borrower's loan. In limited circumstances, if a Loan is subject to a Product Switch as a result of a variation, then the Seller may be required to repurchase the Loan or Loans and their Related Security from the Issuer.

In certain circumstances, if the Seller is notified that a Borrower, following the making of the Loan, intends to let or sub-let their property, the Seller would note the fact on its records but this would not constitute a Product Switch.

Origination channels

The Seller currently derives its mortgage-lending business from the following sources: through the Lloyds TSB Scotland branch networks throughout Scotland, through intermediaries and from internet and telephone sales. For a breakdown of this in the Portfolio see "*Characteristics of the Portfolio*".

Once an application for a mortgage loan is received from a prospective new customer (through whichever origination channel) it is processed by the channel staff and the servicer's New Business Department. The details of the application are entered into the Servicer's relevant computer system, and arrangements are made to obtain such references and/or other proof of income, valuation, survey or other evidence of value (if any and as appropriate) that may be required by the Seller under its lending policy. A mortgage offer may then be issued to the prospective new customer and instructions are despatched to the relevant solicitor or licensed conveyancer to investigate title and issue a report on the same to the Seller. Once a satisfactory report on title has been received (if appropriate) and no other matters in relation to the application are outstanding, mortgage funds can be released to the solicitor or licensed conveyancer.

The Seller is subject to the FSMA, MCOB (and other FSA rules) and the Financial Ombudsman Service, which is a statutory scheme under the FSMA.

Right to buy loans

The Portfolio may include right to buy loans (**Right To Buy Loans**), each being a loan entered into by the relevant Borrower as a means to purchase, refinance or improve a residential property from a local authority or certain other social landlords (each a **Landlord**) under the "right to buy schemes" governed by the **Right To Buy Legislation** (being the Housing Act 1985 and the Housing Act 1996 (each as amended and updated from time to time) (in the case of English Mortgages) and the Housing (Scotland) Act 1987 (as amended by the Housing (Scotland) Act 2001 (in the case of Scottish Mortgages)).

Properties sold under the Right To Buy Legislation are sold by the relevant seller at a discount to market value calculated in accordance with the Right To Buy Legislation. A purchaser must repay a proportion of the discount received or the resale price (the **Resale Share**) if he or she sells the property within three years (or in cases where the right to buy was exercised in relation to properties in England and Wales after 18 January 2005, 5 years) (the **RTB Disposal Period**). Under the Right To Buy Legislation the Landlord as Seller obtains a statutory charge (or, in the case of a property in Scotland, a standard security) over the property in respect of the contingent liability of the purchaser under the scheme to repay the Resale Share.

In Scotland, under the provisions of the Housing (Scotland) Act 1987 (the **1987 Act**), a standard security granted in respect of the Resale Share ranks immediately after (1) a standard security granted in security of a loan for the purchase of the property or sums advanced for the purpose of improvements to that property and (2) a standard security over the property granted in security of any other loan where the Landlord has consented. The 1987 Act does not contain specific provisions obliging the Landlord to agree to the postponement of the standard security granted in respect of the Resale Share, but the point is specifically addressed and ranking established by the legislation which as noted specifically ranks any standard security granted in respect of the Resale Share behind any standard security which is given in respect of a loan for the purchase or improvement of the property. In respect of loans given for any other purpose(s), it is necessary to approach the Landlord for consent to the standard security ranking prior to the standard security granted in respect of the Resale Share, although it should be noted that the 1987 Act does not oblige the Landlord to grant such consent.

In England and Wales, the statutory charge ranks senior to other charges including that of any mortgage lender unless (i) the mortgage lender has extended the mortgage loan to the purchaser for the purpose of enabling him to exercise the right to buy or for "approved purposes" under the scheme (including refinancing loans made for the purpose of enabling the exercise of the right to buy and repair works to the property) and is an approved lending institution for the purposes of the Housing Act 1985 and the Housing Act 1996 or (ii) the relevant local authority issues a deed of postponement postponing its statutory charge to that of a mortgage lender. In the case of loans made for approved purposes, the statutory charge is only postponed if the relevant Landlord agrees to the postponement but the relevant legislation obliges the Landlord to agree to the postponement. However, in practice the lender will need to provide evidence to the relevant Landlord as to whether the loan was made for approved purposes.

The Seller is an approved lending institution under the Housing Act 1985 and the Housing Act 1996. The Seller as a matter of policy does not lend during the RTB Disposal Period above the amount required to purchase such properties unless wholly for an approved purpose under the applicable Right To Buy Legislation. The Seller insists that the relevant Landlord's approval for loans for "approved purposes" is in place before making the loan since, until that approval is given, the relevant advance ranks behind the statutory charge. In the case of remortgages, Borrowers may in the future be offered the option of paying for insurance cover to benefit the Seller in relation to the risk that a remortgage loan does not have full priority to the statutory charge rather than paying the administrative costs of obtaining the relevant Landlord's approval for the postponement of the statutory charge to the remortgage.

Amendments to the Housing Act 1985 introduced by the Housing Act 2004 give the relevant Landlord a right of first refusal should the relevant property be disposed of within the first ten years following the exercise of the right to buy (when the right to buy is exercised after 18 January 2005). The consideration payable by the relevant Landlord is the value of the property determined, in the absence of agreement between the

Landlord and the owner, by the district valuer. This right of first refusal may add to the time it takes to dispose of a property where the seller enforces its security, and the district valuer may determine that the value of the property is lower than that the Seller believes is available in the market.

Underwriting

The Seller's underwriting approach has changed over time. Loans in the Portfolio may have been originated in accordance with different underwriting criteria from those set out here, depending on their date of origination. The Seller currently adopts a system based approach to lending assessment. This assessment is made with reference to three independent components:

- (a) Credit score: calculation of propensity to default based on a combination of customer supplied, internal performance and credit bureau data;
- (b) Affordability: calculation of an individualised lending amount that reflects the applicant's income net of tax, credit commitments and assumed living expenses, which vary according to income, number of applicants and dependants; and
- (c) Policy rules: a range of automated rules to decline applications outside lending criteria.

The lending system returns a decision categorised into "accept", "refer" and "decline". For each decision type, the system also specifies the level of status required. For example, on low risk cases (where risk is defined in terms of score) income verification requirements may be waived.

The lending system is supported by a Delegated Lending Authority (**DLA**) structure, with authority limits varying according to seniority. The DLA structure is split between those at point of sale and those in the central underwriting team. Point of sale DLA can only approve system accept and refer cases. Override of system decline decisions is limited to central DLA. All levels of DLA may downward override "accept" and "refer" decisions to a "decline" decision.

Mortgage underwriting decisions, whether completed at the point of sale or by the Seller's underwriting department, are subject to internal monitoring by the Seller, using a risk-based model, in order to ensure the Seller's procedures and policies regarding underwriting are being followed by staff.

Lending criteria

On the Closing Date and on each Sale Date, the Seller shall represent that each Loan being sold to the Issuer was originated according to the lending criteria of the Seller at the time the Loan was offered (the **Lending Criteria**), which included some or all of the criteria set out in this section, in all material respects, subject only to exceptions made on a case-by-case basis as would be acceptable to a Reasonable, Prudent Mortgage Lender. New Loans may only be included in the Portfolio and sold to the Issuer if they are originated in accordance with the lending criteria applicable at the time the loan is offered and if the conditions set out in "*Mortgage Sale Agreement - Sale and Purchase of Portfolio*" and "*Mortgage Sale Agreement – Sale and Purchase of New Portfolios*" have been satisfied. However, the Seller retains the right to revise its lending criteria from time to time, so the criteria applicable to New Loans may not be the same as those currently used. Some of the factors currently used in making a lending decision are as follows:

1. Type of property

Properties may be either freehold or the Scottish equivalent or leasehold or commonhold. In the case of leasehold properties, there must be at least 25 years left on the lease at the end of the mortgage term and a minimum of 60 years remaining on inception of the mortgage. This can be overridden with relevant underwriting approval. The property must be used solely as a single residential dwelling, although second homes and holiday homes are considered. Properties must be of good quality, in sound structural condition

and in a reasonable state of repair. House boats, mobile homes, and any property on which buildings insurance cannot be arranged are not acceptable. All persons who are to be legal owners of the property on completion must be named as borrowers under the mortgage.

All Properties have either been valued by a valuer approved by the Seller or assessed using automated valuation models or other evidence, including the relevant Borrower's estimate of value, to the standards of a Reasonable, Prudent Mortgage Lender (as referred to under "*Servicing Agreement – Covenants of the Servicer*"). The valuations are made at the date of origination of the relevant Loan.

2. Term of loan

The minimum term on home purchase loans is 1 year and the maximum term is generally 35 years (although longer terms have been granted on a case by case basis) for all Loans (although this is permitted in exceptional cases only). A repayment period for a Further Advance that would extend beyond the term of the original advance may also be accepted at the Seller's discretion, subject to the Loan Warranties to be given on the relevant Advance Date.

If the customer requests to increase the term of the existing loan, again the maximum term for a repayment loan is generally 35 years from the start date of the account (or less if the Borrower will be 75 before the end of such extended term).

3. Age of applicant

All Borrowers must be aged 18 or over and the mortgage term must normally end before the Borrower reaches 75. If the Borrower is 60 or over or within 5 years of planned retirement or the Borrower will be aged 75 or over at the end of the term of the mortgage, the Seller will consider the Borrower's income in retirement only. If the Seller determines the Borrower will not be able to afford the mortgage into retirement, the application will be declined.

4. Loan-to-value (or LTV) ratio

Normally, the maximum original Loan to Value Ratio of Loans in the Portfolio would be 95%. However, some "negative equity" products were written in the 1990s. These had maximum Loan to Value Ratios of 120%. All of these products have since been converted into other mortgage products, and those conversions in the Portfolio have a current Loan to Value Ratio of less than or equal to 98%. The Seller has also offered a specific mortgage loan product which permitted borrowing of up to 100% of the valuation of a property. Where fees were added to the loan, they may have taken the total lending over the specified LTV limit.

When the Seller makes a loan on a property which requires repairs, the property is either valued on a "when done" basis and the loan retained until works have been completed, or if the property is acceptable security in its existing condition, it may be valued on that basis and the loan released prior to works commencing.

5. Status of applicant(s)

Lending assessment is made using the lending system outlined in the underwriting section.

Employed applicant(s)

The lending is assessed on current Total Employed Income, Other Income and Future Retirement Income (where applicable). (Applicants who have more than a 30% shareholding in their employer or joint applicants with more than 30% combined are treated as if self employed).

Total Employed Income consists of gross basic pay, large town allowance, London weighting/cost of living supplement, mortgage subsidy, private pension, housing/clothing allowance, bonuses (weekly, monthly or

quarterly), commission, flexible benefits, overtime/shift allowance and piece work (permanent employment only). 100% of these items is used.

Other Income consists of annual or half yearly bonuses, Disability Living Allowance, Maintenance payments/Foster income, investment/annuity/trust income, rental income on other properties (where the application is not for a buy-to-let), Working Tax Credits, Child Tax credits, Child Benefit. As a general rule, no more than 75% of these items may be used.

Self Employed Applicant(s)

Normally such applicants must have been self-employed for at least two years. Underwriters may accept less within their discretion.

Underwriters have discretion to accept other income.

6. Credit history

Credit search

A credit search is carried out in respect of all new applicants (including further advances to existing Lloyds TSB Scotland borrowers). Applications may be declined where an adverse credit history (for example, county court judgment, Scottish court decree for payment, default, or bankruptcy notice) is revealed or the score does not meet the required risk/reward trade-off.

First time buyers/applicants in rented accommodation

Where applicants currently reside in rented accommodation, the Seller may seek sight of a bank statement or rent record book. In addition, if considered appropriate, a further reference may be taken in connection with any other property rented by the applicant(s) within the preceding 18 months.

7. Proof of income

Based upon the applicant's credit score, the Seller might require applicants to produce pay slips or similar documentation to prove income received – alternatively, a formal reference will be requested from the applicant's employer. If the applicant is self-employed, normally a reference from a qualified accountant will be obtained.

The applicant may also be required to provide bank statements in support of his or her application.

8. Scorecard

The Seller uses some of the criteria described here and various other criteria to produce an overall score for the application that reflects a statistical analysis of the risk of advancing the loan. The lending policies and processes are determined centrally to ensure consistency in the management and monitoring of credit risk exposure. Full use is made of software technology in credit scoring new applications. Credit scoring applies statistical analysis to publicly available data and customer-provided data to assess the likelihood of an account going into arrears.

The Seller reserves the right to decline an application that has received a passing score. The Seller does have an appeals process if a potential borrower believes his or her application has been unfairly denied. It is the Seller's policy to allow only authorised individuals to exercise discretion in granting variances from the scorecard.

Changes to the underwriting policies and the Lending Criteria

The Seller's underwriting policies and Lending Criteria are subject to change within the Seller's sole discretion. New Loans and Further Advances that are originated under Lending Criteria that are different from the criteria set out here may be sold to the Issuer.

Insurance policies

Insurance on the property

Each mortgaged property is required to be insured with buildings insurance. The insurance may be purchased by the Borrower or landlord or property management company (in the case of a leasehold property). If the Seller becomes aware that no adequate insurance is in place, it has the power to arrange insurance on the property and charge the premiums for this to the Borrower's mortgage account.

Subject as set out above, the Seller only insures a property once it has repossessed the property from a defaulting Borrower. See "*Properties in possession cover*" below.

Borrower-arranged buildings insurance

Lloyds TSB Scotland currently sells home insurance policies of a third party provider (Lloyds TSB General Insurance Limited). A Borrower may elect not to take up such an insurance policy, or a Borrower who originally had such a policy may elect to insure the property with an independent insurer. The Seller requires that any borrower-arranged insurance policy be drawn in the joint names of the Seller and all of the applicants and be maintained in their joint names for the duration of the mortgage. If this is not possible, for example because the property is leasehold and the lease provides for the landlord to insure, the Borrower must arrange for the Seller's interest to be noted on the landlord's policy. The Seller also requires that the sum insured be for an amount not less than the full reinstatement value of the property, that the Borrower inform the Seller of any damage to the property that occurs and that the Borrower make a claim under the insurance for any damages covered by it unless the Borrower makes good the damage.

Mortgage protection plans

The Seller currently offers Borrowers the option to purchase Mortgage Payment Protection Insurance (**MPPI**) from Lloyds TSB General Insurance Limited. MPPI can protect the Borrower's monthly mortgage payments in the event of unemployment, accident, sickness, or the Borrower leaving work to become a full time carer for a relative. The Borrower takes cover up to a maximum of £350,000 subject to acceptance. Lloyds TSB Scotland also offers Borrowers the ability to purchase Scottish Widows plc critical illness cover and term assurance. The Borrower's premiums are paid monthly in advance by direct debit separate from the monthly mortgage payments. Both Lloyds TSB General Insurance Limited and Scottish Widows plc are members of the Lloyds Banking Group of companies. These products are not offered by the Seller in respect of intermediary sales.

Properties in possession cover

When a mortgaged property is taken into possession by the Seller, the Seller takes the necessary actions to ensure that the property is placed on to its block properties in possession insurance policy so that appropriate insurance cover is provided on the property. The Seller may claim under this policy for any damage occurring to the property while in the Seller's possession.

The Seller has procured the agreement of Lloyds TSB General Insurance Limited to the inclusion of the Issuer as insured under the properties in possession cover from the Closing Date. To the extent that any insurance proceeds are received by the Servicer, it will agree to pay these into the GIC Account. C&G, acting in its capacity as Servicer, will make claims in accordance with the Seller's Policy and pay insurance proceeds relating to the Loans into the GIC Account.

In the Mortgage Sale Agreement, the Seller agrees to make and enforce claims under the relevant policies and to hold the proceeds of claims on trust for the Issuer or as the Issuer may direct.

Title insurance

The Seller currently only accepts title insurance in respect of certain limited title defects (e.g. restrictive covenants) and not *in lieu* of an investigation of title. This policy may change from time to time. There will be no Loans in the Portfolio in respect of which no investigation of title has been undertaken (other than where Loans were originated pursuant to the "Absolute Title Remortgage Scheme"), whether or not title insurance has been obtained. Inclusion of New Loans in the Portfolio having the benefit of a title insurance policy but without an investigation of title will be subject to the approval of the Security Trustee, notification to Moody's and confirmation from S&P that inclusion of these Loans will not cause the downgrade or withdrawal of the rating of any Note. Relevant representations and warranties will be given in relation to any title insurance policy each time that such New Loans are sold to the Issuer.

Arrears policy

The Seller identifies a Loan as being in arrears where an amount equal to or greater than a full month's contractual payment is past its due date and has not been paid by the Borrower. If a Borrower has not made a contractual payment within a month and a day of the date on which it became due and payable, that Borrower will receive an initial arrears letter from the Seller.

The Seller will attempt to contact the relevant Borrower by telephone and/or letter if such payments remain unpaid with a view to establishing the Borrower's circumstances and agreeing an arrangement to return the account to order, where possible. Arrears counselling may also be offered. Where a satisfactory arrangement cannot be reached or maintained, possession proceedings may be instigated to enable the Seller to enforce its security.

Governing law

Each of the Scottish Loans is governed by Scots law and each of the English Loans is governed by English law.

Material Legal Aspects of the Scottish Loans

General

As at the Reference Date, 88.12% of the Loans comprised in the Initial Portfolio are secured by a Scottish Mortgage.

A standard security is the only means of creating a fixed charge over heritable or long leasehold property in Scotland. Its form must comply with the requirements of the Conveyancing and Feudal Reform (Scotland) Act 1970 (the **1970 Act**). The standard security is granted by the grantor, who is usually the borrower and home-owner, over their property and is granted in favour of the heritable creditor who is usually the lender. Each Scottish Loan in relation to a Property located in Scotland will be secured by a standard security which has a first ranking priority over all other standard securities secured on the property and over all unsecured creditors of the borrower. If a Borrower of such a Scottish Loan (a **Scottish Borrower**) creates a subsequent standard security over the relevant Property in favour of a third party, upon intimation of that subsequent standard security to the Seller (in its capacity as trustee for the Issuer pursuant to the relevant Scottish Declaration of Trust granted by the Seller in favour of the Issuer), the prior ranking of the Seller's standard security would be restricted to security for advances made prior to such intimation, plus advances made subsequent to such intimation which the Seller is obliged to advance under the terms of the relevant Scottish Loan, plus interest and expenses in respect thereof.

The 1970 Act automatically imports a statutory set of “Standard Conditions” into all standard securities, although the majority of these may be varied by agreement between the parties. The Seller, along with most major lenders in the residential mortgage market in Scotland, has elected to vary the Standard Conditions by means of its own set of Scottish mortgage conditions, the terms of which are in turn imported into each standard security. The main provisions of the Standard Conditions which cannot be varied by agreement relate to enforcement, and in particular the notice and other procedures that require to be carried out as a preliminary to the exercise of the heritable creditor’s rights on a default by the borrower.

Nature of property as security

While title to all land in Scotland is registered there are currently two possible forms of registration, namely the Land Register of Scotland and General Register of Sasines. Both systems of registration can include both heritable (the Scottish equivalent to freehold) and long leasehold land.

Land Register of Scotland

This system of registration was established by the Land Registration (Scotland) Act 1979 and now applies to the whole of Scotland. Any sale of land (including a long leasehold interest in land) the title to which has not been registered in the Land Register of Scotland or the occurrence of certain other events in relation thereto (but not the granting of a standard security alone) triggers its registration in the Land Register of Scotland, when it is given a unique title number. Title to the land and the existence of any standard security over it are established by the entries on the Land Register of Scotland relating to that land. Prior to 22 January 2007 the holder of the title received a land certificate containing official copies of the relevant entries on the Land Register of Scotland. Similarly, the holder of any standard security over the land in question received a charge certificate containing official copies of the entries relating to that security. However, in terms of the Automated Registration of Title to Land (Electronic Communications) (Scotland) Order 2006 and the Land Registration (Scotland), Rules 2006, with effect from 22 January 2007 such land and charge certificates are only issued to the relevant title or security holder if so requested at the time of the relevant registration and otherwise are available in electronic form only. A person registered in the Land Register of Scotland owns the land free from all interests other than those entered on the Register, those classified as overriding interests and any other interests implied by law.

The relevant Land Register of Scotland entries and land certificate (whether in paper or electronic form) will reveal the present owners of land, together with any standard securities and other interests (other than certain overriding interests and any other interests implied by law) affecting the land. They 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 indemnity has been expressly excluded in the relevant Register entries and land certificate.

General Register of Sasines

Title to all land in Scotland where no event has yet occurred to trigger registration in the Land Register of Scotland is recorded in the General Register of Sasines. Title to such land is proved by establishing a chain of documentary evidence of title going back at least ten years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However, other rights (including standard securities) would have to be recorded in the Sasine Register in order to be effective against a subsequent purchaser of the land.

Taking security over land

A heritable creditor must register its standard security in the Land Register of Scotland or the General Register of Sasines (as applicable) in order to perfect its security and secure priority over any subsequent standard security. Until such registration occurs, a standard security will not be effective against a

subsequent purchaser or the heritable creditor under another standard security over the property. Priority of standard securities is (subject to express agreement to the contrary between the security holders) governed by the date of registration 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 Loans by the Seller to the Issuer will be given effect by the Scottish Declarations of Trust by which the beneficial interest in the Scottish Loans is held in trust by the Seller for the benefit of the Issuer. Such beneficial interest (as opposed to the legal title) cannot be registered with the Registers of Scotland. The consequences of this are explained in the section "*Risk factors – Seller to initially retain legal title to the Loans*".

Enforcement of mortgages

If a Scottish Borrower defaults under a Scottish Loan, the Scottish Loan mortgage conditions provide that all monies under the loan will become immediately due and payable. The Seller or its successors or assignees would then be entitled to recover all outstanding principal, interest and fees under the obligation of the borrower contained in the Scottish mortgage conditions to pay or repay those amounts. In addition, the Seller or its successors or assignees may enforce its standard security in relation to the defaulted loan. Enforcement may occur in a number of ways, including the following (all of which arise under the 1970 Act):

- The heritable creditor may enter into possession of the property. If it does so, it does so in its own right and not as agent of the borrower, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property.
- The heritable creditor may grant a lease over the property of up to seven years (or longer with the courts' permission) to third parties.
- The heritable creditor may sell the property, subject to various duties to ensure that the sale price is the best that can reasonably be obtained. The purchaser of the property sold pursuant to a heritable creditor's power of sale becomes the owner of the property.
- The heritable creditor may, in the event that a sale cannot be achieved, foreclose on the property. Under foreclosure procedures the borrower's title to the property is extinguished so that the heritable creditor becomes the owner of the property. 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.

There is a requirement for a court order to enforce a standard security securing a loan to the extent that the credit agreement is regulated by the CCA or treated as such or, on and form N(M), is a regulated mortgage contract that would otherwise be regulated by the CCA or treated as such. See further "*Risk factors – Certain Regulatory Considerations*".

Borrower's right of redemption

Under Section 11 of the Land Tenure Reform (Scotland) Act 1974 the grantor of any standard security over residential property has an absolute right, on giving appropriate notice, to redeem that standard security once it has subsisted for a period of 20 years, subject only to the payment of certain sums specified in Section 11 of that Act. These specified sums consist essentially of the principal monies advanced by the lender, interest thereon and expenses incurred by the lender in relation to that standard security.

CHARACTERISTICS OF THE PORTFOLIO

The statistical and other information contained in this Prospectus has been compiled by reference to the Loans in the Initial Portfolio as at 30 April 2009 (the **Reference Date**). Columns may not add up to 100% due to rounding. A Loan will be removed from the Portfolio if in the period from (and including) the Reference Date up to (but excluding) the Closing Date such Loan is repaid in full or if such Loan does not comply with the Loan Warranties on the Closing Date. Except as otherwise indicated, these tables have been prepared using the Current Balance as at the Reference Date, which includes all principal and accrued interest for the Loans in the Initial Portfolio.

The Initial Portfolio as at the Reference Date consisted of 156,853 Loans originated by Lloyds TSB Scotland and transferred to the Issuer and secured over properties located in England, Wales and Scotland, having an aggregate Current Balance of £6,132,867,387.89. The loans in the portfolio at the Reference Date were originated by Lloyds TSB Scotland between 1 January 1989 and 30 April 2009.

A small proportion of the Loans in the Initial Portfolio as at the Reference Date were extended to the relevant Borrowers in connection with the purchase by those Borrowers of properties from local authorities or certain other landlords under the **right-to-buy** schemes governed by the Housing Act 1985 (as amended by the Housing Act 2004) or (as applicable) the Housing (Scotland) Act 1987 (as amended by the Housing (Scotland) Act 2001).

Current Balances as at the Reference Date

The following table shows the range of Mortgage Account Current Balances (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the Reference Date.

Range of Current Balances*	Aggregate Current Balance as at the Reference Date (£)	% of Total	Number of Mortgage Accounts	% of Total	Number of Loans	% of Total
> £0.00 — < £15,000.00.....	33,643,333.64	0.55%	3,666	5.44%	6,705	4.27%
£15,000.00 — < £20,000.00.....	39,972,912.03	0.65%	2,283	3.39%	4,489	2.86%
£20,000.00 — < £30,000.00.....	149,407,272.92	2.44%	5,921	8.79%	12,183	7.77%
£30,000.00 — < £40,000.00.....	222,540,655.94	3.63%	6,361	9.45%	13,873	8.84%
£40,000.00 — < £50,000.00.....	273,067,519.02	4.45%	6,055	8.99%	13,998	8.92%
£50,000.00 — < £60,000.00.....	312,596,874.05	5.10%	5,693	8.46%	13,569	8.65%
£60,000.00 — < £70,000.00.....	343,478,397.22	5.60%	5,285	7.85%	12,783	8.15%
£70,000.00 — < £80,000.00.....	352,983,515.12	5.76%	4,714	7.00%	11,561	7.37%
£80,000.00 — < £90,000.00.....	339,835,303.24	5.54%	4,004	5.95%	9,888	6.30%
£90,000.00 — < £100,000.00.....	321,011,552.88	5.23%	3,383	5.02%	8,202	5.23%
£100,000.00 — < £110,000.00.....	302,190,754.00	4.93%	2,884	4.28%	7,052	4.50%
£110,000.00 — < £120,000.00.....	291,005,231.17	4.75%	2,533	3.76%	6,200	3.95%
£120,000.00 — < £130,000.00.....	261,732,404.84	4.27%	2,096	3.11%	5,249	3.35%
£130,000.00 — < £140,000.00.....	230,981,027.28	3.77%	1,731	2.54%	4,350	2.77%
£140,000.00 — < £150,000.00.....	213,469,311.72	3.48%	1,474	2.19%	3,694	2.36%
£150,000.00 — < £250,000.00.....	1,189,714,499.58	19.40%	6,374	9.47%	16,183	10.32%
£250,000.00 — < £350,000.00.....	440,159,725.22	7.18%	1,522	2.26%	3,743	2.39%
≥£350,000.00.....	815,077,098.02	13.29%	1,369	2.03%	3,131	2.00%
Totals	6,132,867,387.89	100.00%	67,330	100.00%	156,853	100.00%

* Includes capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees.

The maximum, minimum and average Current Balance of the Loans as of the Reference Date were £5,807,635.59, £996.75 and £91,086.70, respectively.

Loan to Value Ratios at origination

The following table shows the range of **LTV Ratios**, which express the outstanding balance of the aggregate of Loans in the Mortgage Accounts (which incorporate all Loans secured on the same Property) as at the Reference Date based on the original amount advanced on the date of origination of the Loan divided by the value of the Property securing the Loans in the Mortgage Account as at that date. Where the Seller has revalued any of the Properties after the date of origination of the original Loan, the revised valuation will be used in formulating the indexed LTV stratifications.

Range of LTV Ratios at origination*	Aggregate Current Balance as at the Reference Date (£)	% of Total	Number of Mortgage Accounts	% of Total
0.00% — 25.00%.....	131,370,487.44	2.14%	2,688	3.99%
25.01% — 50.00%.....	902,192,807.03	14.71%	13,329	19.80%
50.01% — 70.00%.....	1,485,904,324.34	24.23%	15,755	23.40%
70.01% — 80.00%.....	1,202,844,124.96	19.61%	10,394	15.44%
80.01% — 85.00%.....	513,550,195.81	8.37%	4,622	6.86%
85.01% — 90.00%.....	856,530,687.75	13.97%	7,393	10.98%
90.01% — 95.00%.....	858,002,735.69	13.99%	9,244	13.73%
95.01% — < 100.00%.....	154,456,847.58	2.52%	3,185	4.73%
100.01%+.....	28,015,177.29	0.45%	720	1.07%
Totals	6,132,867,387.89	100.00%	67,330	100.00%

* Excluding capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees.

The maximum, minimum and weighted average Loan to Value Ratio as at the Reference Date of the Loans in the Initial Portfolio were 125 per cent., 0 per cent. and 71.41 per cent., respectively.

The Loans in the above table with a Loan to Value Ratio greater than 100 per cent. are Loans which relate to a negative equity lending scheme introduced by Lloyds TSB Scotland from 1995 on a highly restrictive basis, in order to assist certain mainstream customers who were caught in negative equity as a result of house price falls in the 1990s to either move house or remortgage.

Reference Date indexed Loan to Value Ratios

The following table shows the range of Loan to Value Ratios, which are calculated by dividing the Current Balance of a Loan as at the Reference Date by the indexed valuation of the Property securing that Loan at the same date.

Range of LTV Ratios as at the Reference Date*	Aggregate Current Balance as at the Reference Date (£)	% of Total	Number of Mortgage Accounts	% of Total
0% – 25.00%.....	245,514,572.79	4.00%	9,313	13.83%
25.01% – 50.00%.....	1,220,326,798.99	19.90%	20,392	30.29%
50.01% – 70.00%.....	1,504,958,062.59	24.54%	15,165	22.52%
70.01% – 80.00%.....	877,533,405.86	14.31%	7,172	10.65%
80.01% – 85.00%.....	457,031,160.63	7.45%	3,383	5.02%
85.01% – 90.00%.....	409,850,737.73	6.68%	2,930	4.35%
90.01% – 95.00%.....	363,354,004.23	5.92%	2,556	3.80%
95.01% – 100.00%.....	372,426,130.94	6.07%	2,468	3.67%
100.01%+.....	681,872,514.13	11.12%	3,951	5.87%
Totals	6,132,867,387.89	100.00%	67,330	100.00%

* Including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees.

The maximum, minimum and weighted average Loan to Value Ratio as at the Reference Date of all the Loans (including any capitalised interest, capitalised high LTV fees, insurance fees, valuation fees and booking fees) were 210.99%, 0.29% and 69.45%, respectively.

Arrears Analysis of Non Repossessed Mortgage Accounts

Month(s) in Arrears*	Number of Mortgage Accounts	By Number (%)	Aggregate Current Balance as at the Reference Date (£)	By Aggregate Current Balance (%)	Arrears (£)
≤ 2.....	819	1.22%	68,500,208.28	1.12%	499,940.99
>2 <3.....	303	0.45%	25,933,959.56	0.42%	339,798.81
>3 <6.....	507	0.75%	45,252,564.23	0.74%	935,633.17
>6 <9.....	210	0.31%	19,085,577.06	0.31%	699,393.41
>9 <12.....	94	0.14%	8,752,857.52	0.14%	445,328.05
12+.....	164	0.24%	16,827,856.31	0.27%	946,260.83
Totals	2,097	3.11%	184,353,022.96	3.01%	3,866,355.26

* Arrears are calculated in accordance with standard market practice in the UK. A mortgage is identified 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 arrears determination, the servicer calculates as of the date of determination the difference between the sum of all monthly payments that were due and payable by a borrower on any due date up to that date of determination (less the aggregate amount of all authorised underpayments made by such borrower up to such date of determination) and the sum of all payments actually made by that borrower up to that date of determination. If the result arrived at by dividing that difference (if any) by the amount of the required monthly payment equals or exceeds 1 the loan is deemed to be in arrears. Arrears classification is determined based on the number of full monthly payments that have been missed. A borrower that has missed payments that in the aggregate equal or exceeding 2 monthly payments (but for which the aggregate of missed payments is less than 3 monthly payments) would be classified as being between 2 - 3 months in arrears, and so on.

Geographical Distribution

The following table shows the distribution of Properties securing the Loans throughout England, Wales and Scotland as at the Reference Date. No such properties are situated outside England, Wales or Scotland.

Region	Aggregate Current Balance as at the Reference Date (£)	% of Total	Number of Mortgage Accounts	% of Total
East Anglia	59,960,692.55	0.98%	350	0.52%
East Midlands	57,665,660.92	0.94%	440	0.65%
Greater London	693,791,166.09	11.31%	2,175	3.23%
Northern	42,777,746.68	0.70%	400	0.59%
North West	94,402,050.37	1.54%	713	1.06%
Scotland	4,502,288,994.23	73.41%	59,334	88.12%
South East	379,281,002.28	6.18%	1,742	2.59%
South West	109,048,682.26	1.78%	653	0.97%
Wales	40,175,155.96	0.66%	342	0.51%
West Midlands	80,324,653.15	1.31%	304	0.75%
Yorkshire & Humberside	73,151,583.40	1.19%	677	1.01%
Totals	6,132,867,387.89	100.00%	67,330	100.00%

House Price to Earnings Ratio

House prices and incomes vary throughout England, Scotland and Wales. The table below summarises the average house price and the average income for each region for the period ended March 2009 in order to produce a house price to earnings ratio for each region.

Regions	Average earnings (£ per annum)*	House price (£)**	Price/earnings ratio
North	43,304	161,325	3.73
North West	46,030	175,054	3.80
Yorkshire and Humberside	45,051	173,158	3.84
East Midlands	45,610	177,025	3.88
West Midlands	46,125	185,260	4.02
East Anglia	49,845	210,971	4.23
London	81,681	351,494	4.30
South East	62,238	279,730	4.49
South West	52,201	230,085	4.41
Wales	44,385	169,948	3.83
Scotland	45,088	168,593	3.74

* Average recorded income of borrowers

** Simple average house prices

Source: Department for Communities and Local Government

Seasoning of Loans

The following table shows the number of months since the date of origination of the initial Loan. The ages of the Loans in this table have been taken as at the Reference Date.

Forecasted age of Loans in months as at expected Closing Date	Aggregate Current Balance as at the Reference Date (£)	% of Total	Number of Loans	% of Total
< 6 months	471,767,892.10	7.69%	8,085	5.15%
6 months — 11 months	788,996,404.36	12.87%	13,082	8.34%
12 months — 17 months	807,456,223.13	13.17%	15,453	9.85%
18 months — 23 months	692,863,070.71	11.30%	13,362	8.52%
24 months — 29 months	627,290,612.32	10.23%	12,501	7.97%
30 months — 35 months	532,396,219.39	8.68%	11,347	7.23%
36 months — 41 months	410,094,926.88	6.69%	9,229	5.88%
42 months — 47 months	414,866,642.59	6.76%	9,639	6.15%
48 months — 53 months	257,570,405.50	4.20%	6,938	4.42%
54 months — 59 months	236,315,479.13	3.85%	7,490	4.78%
60 months — 65 months	159,044,119.72	2.59%	5,541	3.53%
66 months — 71 months	133,951,061.47	2.18%	5,497	3.50%
72 months+	600,254,330.59	9.79%	38,689	24.67%
Totals	6,132,867,387.89	100.00%	156,853	100.00%

The maximum, minimum and weighted average seasoning of Loans in the Initial Portfolio as at the Reference Date was 244, 0 and 36.22 months, respectively.

Years to Maturity of Loans

The following table shows the number of remaining years of the term of the initial Loan in a Mortgage Account as at the Reference Date.

Years to Maturity	Aggregate Current Balance as at the Reference Date (£)	% of Total	Number of Loans	% of Total
0 years — 4 years	239,300,638.30	3.90%	15,043	9.59%
5 years — 9 years	747,901,314.82	12.19%	29,814	19.01%
10 years — 14 years	1,046,919,233.30	17.07%	31,961	20.38%
15 years — 19 years	1,664,743,935.99	27.14%	37,771	24.08%
20 years — 24 years	2,142,579,944.11	34.94%	37,178	23.70%
25 years — 29 years	233,263,482.25	3.80%	4,076	2.60%
30 years — 34 years	56,495,217.26	0.92%	982	0.63%
35 years+	1,663,621.86	0.03%	28	0.02%
	6,132,867,387.89	100.00%	156,853	100.00%

The maximum, minimum and weighted average remaining term of the Loans in the Initial Portfolio as at the Reference Date was 37, 0 and 16.80 years, respectively.

Purpose of Loan

The following table shows whether the purpose of the initial Loan in a Mortgage Account on origination was to finance the purchase of a new Property or to remortgage a Property already owned by the borrower.

Use of proceeds	Aggregate Current Balance as at the Reference Date (£)	% of Total	Number of Loans	% of Total
Purchase.....	3,490,474,918.16	56.91%	102,091	65.09%
Remortgage.....	2,642,392,469.73	43.09%	54,762	34.91%
Totals	6,132,867,387.89	100.00%	156,853	100.00%

As at the Reference Date, the weighted average balance of Loans used to finance the purchase of a new Property was £34,189.84 and the weighted average balance of Loans used to remortgage a Property already owned by the borrower was £48,252.30.

Occupancy status

The following table shows whether the Property is owner occupied or was originated as a buy to let mortgage or was owner occupied and is now let with the consent of the Seller.

Occupancy status	Aggregate Current Balance as at the Reference Date (£)	% of Total	Number of Mortgage Accounts	% of Total
Owner occupied.....	5,863,056,191.99	95.60%	64,942	96.45%
Buy to let and consent to let	269,811,195.90	4.40%	2,388	3.55%
Totals	6,132,867,387.89	100.00%	67,330	100.00%

Origination Channel

The following table shows the origination channel for the initial Loan in a Mortgage Account.

Origination Channel	Aggregate Current Balance as at the Reference Date (£)	% of Total	Number of Loans	% of Total
Direct origination by LTSBS.....	2,520,339,089.12	41.10%	92,736	59.12%
Intermediaries.....	3,612,528,298.77	58.90%	64,117	40.88%
Totals	6,132,867,387.89	100.00%	156,853	100.00%

The direct origination by LTSBS includes LTSBS branches, direct internet applications and telephone sales.

As at the Reference Date, the weighted average balance of Loans originated through direct origination was £27,177.57 and intermediaries was £56,342.75.

Repayment Terms

The following table shows the repayment terms for the Loans in the Mortgage Accounts as at the Reference Date. Where any Loan in a Mortgage Account is interest-only, then that entire Mortgage Account is classified as interest-only.

Repayment Terms	Aggregate Current Balance as at the Reference Date (£)	% of Total	Number of Loans	% of Total
Interest Only	2,530,803,314.49	41.27%	43,913	28.00%
Repayment.....	3,602,064,073.40	58.73%	112,940	72.00%
Totals	6,132,867,387.89	100.00%	156,853	100.00%

As at the Reference Date, the weighted average balance of repayment Loans and interest-only Loans in the Initial Portfolio was £31,893.61 and £57,632.21, respectively.

Product groups

The following table shows the distribution of special rate loans as at the Reference date.

Product Type	Aggregate Current Balance as at the Reference Date (£)	% of Total	Number of Loans	% of Total
Cashgift.....	9,044,029.94	0.15%	391	0.25%
Discounted	12,582,106.52	0.21%	569	0.36%
Fixed	2,601,075,828.20	42.41%	75,287	48.00%
Tracker.....	1,988,341,512.60	32.42%	31,906	20.34%
Variable.....	1,521,823,910.63	24.81%	48,700	31.05%
Totals	6,132,867,387.89	100.00%	156,853	100.00%

Payment methods

The following table shows the payment methods for the Mortgage Accounts as at the Reference Date.

Payment methods	Aggregate Current Balance as at the Reference Date (£)	% of Total	Number of Mortgage Accounts	% of Total
Direct Debit.....	6,011,029,543.72	98.01%	65,858	97.81%
Other	121,837,844.17	1.99%	1,472	2.19%
Totals	6,132,867,387.89	100.00%	67,330	100.00%

Distribution of Fixed Rate Loans

As at the Reference Date, approximately 42.41% per cent. of the Loans in the Initial Portfolio were Fixed Rate Loans. The following tables shows the distribution of Fixed Rate Loans by their fixed rate of interest as at such date, and the year in which the Loans cease to bear a fixed rate of interest and instead bear a floating rate of interest. Unlike the prior tables in this section, the figures in these tables have been calculated on the basis of Loan product holdings rather than Mortgage Accounts.

Fixed Rate Loans remain at the relevant fixed rate for a period of time as specified in the offer conditions, after which they move to a variable base rate or some other rate as specified in the offer conditions.

Fixed Rate Interest Rates	Aggregate Current Balance as at the Reference Date (£)	% of Total	Number of Loans	% of Total
<3.00%.....	402,523.42	0.02%	17	0.02%
3.00% — 3.99%.....	4,259,630.75	0.16%	74	0.10%
4.00% — 4.99%.....	361,106,598.63	13.88%	11,542	15.33%
5.00% — 5.99%.....	1,526,109,394.12	58.67%	41,636	55.30%
6.00% — 6.99%.....	668,456,033.81	25.70%	20,092	26.69%
7.00% — 7.99%.....	40,741,647.47	1.57%	1,926	2.56%
Totals	2,601,075,828.20	100.00%	75,287	100.00%

Year in which current fixed rate period ends	Aggregate Current Balance as at the Reference Date (£)	% of Total	Number of Loans	% of Total
2009.....	580,022,024.57	22.30%	17,472	23.21%
2010.....	641,400,187.60	24.66%	18,496	24.57%
2011.....	535,703,448.71	20.60%	14,150	18.79%
2012.....	456,044,458.18	17.53%	13,295	17.66%
2013.....	291,391,617.93	11.20%	9,026	11.99%
2014.....	63,662,061.88	2.45%	1,792	2.38%
2015 and greater	32,852,029.33	1.25%	1,056	1.39%
Totals	2,601,075,828.20	100.00%	75,287	100.00%

CHARACTERISTICS OF THE UNITED KINGDOM RESIDENTIAL MORTGAGE MARKET

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

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

Industry CPR rates

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

<u>Quarter</u>	<u>Industry CPR rate for the quarter (%)</u>	<u>12-month rolling average (%)</u>	<u>Quarter</u>	<u>Industry CPR rate for the quarter (%)</u>	<u>12-month rolling average (%)</u>
March 1999	11.14	11.14	June 1999.....	14.39	14.39
September 1999.....	15.59	13.37	December 1999.....	14.94	14.67
March 2000	13.82	14.71	June 2000.....	13.86	14.40
September 2000.....	14.89	14.35	December 2000.....	15.55	14.71
March 2001	15.47	15.18	June 2001.....	17.36	16.45
September 2001.....	19.12	17.29	December 2001.....	19.01	18.18
March 2002	18.68	18.90	June 2002.....	19.88	19.44
September 2002.....	22.40	20.54	December 2002.....	22.16	21.02
March 2003	19.51	20.96	June 2003.....	20.18	21.17
September 2003.....	21.65	20.58	December 2003.....	21.33	20.76
March 2004	19.90	20.78	June 2004.....	21.42	21.37
September 2004.....	21.41	20.65	December 2004.....	18.71	20.06
March 2005	17.76	19.59	June 2005.....	17.75	18.23
September 2005.....	20.24	19.00	December 2005.....	20.36	19.06
March 2006	19.65	19.94	June 2006.....	19.37	19.87
September 2006.....	21.25	20.45	December 2006.....	21.07	20.22
March 2007	19.57	20.41	June 2007.....	19.25	20.16
September 2007.....	21.22	20.39	December 2007.....	18.63	18.94
March 2008	14.99	18.10	June 2008.....	16.79	17.71
September 2008.....	15.63	15.31	December 2008.....	12.26	14.52
March 2009	11.66	13.64			

Source of repayment and outstanding mortgage information: Council of Mortgage Lenders and Bank of England

You should note that the CPR table above presents the historical CPR experience only of building societies in the United Kingdom. During the late 1990s, a number of former building societies converted stock to form UK banks and the CPR experience of these banks is therefore not included in the foregoing building society CPR data.

Repossession rate

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

<u>Year</u>	<u>Repossessions (%)</u>	<u>Year</u>	<u>Repossessions (%)</u>	<u>Year</u>	<u>Repossessions (%)</u>
1985.....	0.25	1993.....	0.58	2001.....	0.16
1986.....	0.30	1994.....	0.47	2002.....	0.11
1987.....	0.32	1995.....	0.47	2003.....	0.07
1988.....	0.22	1996.....	0.40	2004.....	0.07
1989.....	0.17	1997.....	0.31	2005.....	0.12
1990.....	0.47	1998.....	0.31	2006.....	0.18

Repossessions		Repossessions		Repossessions	
Year	(%)	Year	(%)	Year	(%)
1991.....	0.77	1999.....	0.27	2007.....	0.22
1992.....	0.69	2000.....	0.20	2008.....	0.34

Source: Council of Mortgage Lenders

House price to earnings ratio

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

Year	House Price to Earnings Ratio	Year	House Price to Earnings Ratio
1994.....	4.56	2002.....	6.78
1995.....	4.48	2003.....	7.26
1996.....	4.53	2004.....	7.72
1997.....	4.82	2005.....	7.89
1998.....	5.14	2006.....	7.95
1999.....	5.44	2007.....	8.59
2000.....	5.91	2008.....	8.26
2001.....	6.00		

Source: Council of Mortgage Lenders

House price index

UK residential property prices, as measured by the Nationwide House Price Index and Halifax House Price Index (collectively the **Housing Indices**), have generally followed the UK Retail Price Index over an extended period. (Nationwide is a UK building society and Halifax is a division of Bank of Scotland plc which is part of the Lloyds Banking Group.)

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

Quarter	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
March 1988.....	104.1	3.42	90.0	9.80	164.9	15.94
June 1988.....	106.6	4.51	97.6	12.89	180.2	20.16
September 1988.....	108.4	5.69	108.4	20.17	198.9	26.50
December 1988.....	110.3	6.56	114.2	25.49	212.0	29.27
March 1989.....	112.3	7.58	118.8	27.76	217.8	27.82
June 1989.....	115.4	7.93	124.2	24.10	226.8	23.00
September 1989.....	116.6	7.29	125.2	14.41	227.3	13.35
December 1989.....	118.8	7.42	122.7	7.18	222.8	4.97
March 1990.....	121.4	7.79	118.9	0.08	220.7	1.32
June 1990.....	126.7	9.34	117.7	(5.38)	224.3	(1.11)
September 1990.....	129.3	10.34	114.2	(9.20)	224.2	(1.37)
December 1990.....	129.9	8.93	109.6	(11.29)	222.9	0.04
March 1991.....	131.4	7.92	108.8	(8.88)	220.2	(0.23)
June 1991.....	134.1	5.68	110.6	(6.22)	223.2	(0.49)
September 1991.....	134.6	4.02	109.5	(4.20)	220.8	(1.53)
December 1991.....	135.7	4.37	107.0	(2.40)	217.5	(2.45)
March 1992.....	136.7	3.95	104.1	(4.42)	210.6	(4.46)

Quarter	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual	Index	% annual	Index	% annual
		change		change		change
June 1992	139.3	3.80	105.1	(5.10)	210.4	(5.91)
September 1992	139.4	3.50	104.2	(4.96)	208.4	(5.78)
December 1992	139.2	2.55	100.1	(6.67)	199.3	(8.74)
March 1993	139.3	1.88	100.0	(4.02)	196.9	(6.73)
June 1993	141.0	1.21	103.6	(1.47)	203.2	(3.48)
September 1993	141.9	1.78	103.2	(0.94)	204.2	(2.04)
December 1993	141.9	1.92	101.8	1.72	202.5	1.59
March 1994	142.5	2.27	102.4	2.36	202.3	2.71
June 1994	144.7	2.59	102.5	(1.08)	204.3	0.54
September 1994	145.0	2.16	103.2	(0.03)	204.3	0.05
December 1994	146.0	2.85	104.0	2.06	200.9	(0.79)
March 1995	147.5	3.45	101.9	(0.47)	200.3	(0.99)
June 1995	149.8	3.46	103.0	0.53	201.0	(1.63)
September 1995	150.6	3.79	102.4	(0.77)	199.0	(2.63)
December 1995	150.7	3.17	101.6	(2.30)	197.8	(1.56)
March 1996	151.5	2.68	102.5	0.55	200.9	0.30
June 1996	153.0	2.11	105.8	2.67	208.6	3.71
September 1996	153.8	2.10	107.7	5.08	209.8	5.28
December 1996	154.4	2.43	110.1	8.00	212.6	7.22
March 1997	155.4	2.54	111.3	8.30	215.3	6.92
June 1997	157.5	2.90	116.5	9.65	222.6	6.50
September 1997	159.3	3.51	121.2	11.77	223.6	6.37
December 1997	160.0	3.56	123.3	11.40	224.0	5.22
March 1998	160.8	3.42	125.5	11.96	226.4	5.03
June 1998	163.4	3.68	130.1	11.04	234.9	5.38
September 1998	164.4	3.15	132.4	8.84	236.1	5.44
December 1998	164.4	2.71	132.3	7.00	236.3	5.35
March 1999	164.1	2.03	134.6	7.02	236.3	4.28
June 1999	165.6	1.34	139.7	7.09	247.7	5.31
September 1999	166.2	1.09	144.4	8.65	256.7	8.37
December 1999	167.3	1.75	148.9	11.83	263.4	10.86
March 2000	168.4	2.59	155.0	14.10	270.5	13.52
June 2000	171.1	3.27	162.0	14.83	275.6	10.67
September 2000	171.7	3.26	161.5	11.20	277.6	7.83
December 2000	172.2	2.89	162.8	8.95	278.3	5.50
March 2001	172.2	2.23	167.5	7.77	279.0	3.09
June 2001	174.4	1.91	174.8	7.63	297.0	7.48
September 2001	174.6	1.67	181.6	11.77	305.0	9.41
December 2001	173.4	0.69	184.6	12.54	310.9	11.08
March 2002	174.5	1.33	190.2	12.71	324.3	15.05
June 2002	176.2	1.03	206.5	16.64	346.6	15.44
September 2002	177.6	1.70	221.1	19.66	369.1	19.08
December 2002	178.5	2.90	231.3	22.55	393.0	23.43
March 2003	179.9	3.05	239.3	22.94	400.1	21.00
June 2003	181.3	2.85	250.1	19.18	422.5	19.80
September 2003	182.5	2.72	258.9	15.77	437.6	17.02
December 2003	183.5	2.76	267.1	14.40	453.5	14.32
March 2004	184.6	2.58	277.3	14.77	474.0	16.95
June 2004	186.8	2.99	296.2	16.90	513.2	19.45
September 2004	188.1	3.02	306.2	16.79	527.2	18.63
December 2004	189.9	3.43	304.1	12.98	522.0	14.07
March 2005	190.5	3.15	304.8	9.44	520.2	9.30
June 2005	192.2	2.85	314.2	5.91	532.1	3.62
September 2005	193.1	2.62	314.4	2.67	543.1	2.97
December 2005	194.1	2.19	314.0	3.18	548.4	4.93
March 2006	195.0	2.33	319.8	4.81	552.6	6.04
June 2006	198.5	3.23	329.2	4.68	582.1	8.98
September 2006	200.1	3.56	336.1	6.65	586.7	7.72
December 2006	202.7	4.34	343.2	8.92	602.8	9.46
March 2007	204.4	4.71	350.2	9.08	613.9	10.52
June 2007	207.3	4.34	362.7	9.68	644.1	10.12
September 2007	208.0	3.87	367.3	8.89	649.3	10.14
December 2007	210.9	3.97	367.0	6.68	634.4	5.11

Quarter	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual	Index	% annual	Index	% annual
		change		change		change
March 2008	212.1	3.70	357.8	2.15	620.9	1.13
June 2008	216.8	4.48	348.1	(4.11)	605.1	(6.25)
September 2008	218.4	4.88	329.5	(10.87)	568.9	(13.22)
December 2008	212.9	0.94	312.9	(15.94)	531.5	(17.70)
March 2009	211.3	(0.38)	298.7	(18.06)	512.5	(19.19)
June 2009	213.4	(1.58)				

Source: Office for National Statistics, Nationwide Building Society and HBOS plc, respectively.

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

$\text{LN}(x/y)$ where x is equal to the current quarter's index value and y is equal to the index value of the previous year's corresponding quarter.

All information contained in this Prospectus in respect of the Nationwide House Price Index has been reproduced from information published by Nationwide Building Society, which is available on their website, <http://www.nationwide.co.uk/hpi/>. All information contained in this Prospectus in respect of the Halifax House Price Index has been reproduced from information published by HBOS, which is available on their website, <http://www.hbosplc.com/economy/>. The Issuer confirms that all information in this Prospectus in respect of the Nationwide House Price Index and the Halifax House Price Index has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by Nationwide Building Society and HBOS, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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

UNITED KINGDOM TAXATION

The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and HM Revenue & Customs (HMRC) practice in the United Kingdom relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Each prospective purchaser is urged to consult its own tax advisers about the tax consequences under its circumstances of purchasing, holding and selling the Notes under the laws of the United Kingdom, its political subdivisions and any other jurisdiction in which the prospective purchaser may be subject to tax.

Interest on the Notes

Payment of Interest on the Notes

Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the **Act**). The London Stock Exchange is a recognised stock exchange for such purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part VI of the FSMA) and admitted to trading on the regulated market of the London Stock Exchange. Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom income tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20%). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Noteholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State of the European Economic Area is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain other persons in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria may instead operate 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 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 territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland) with effect from the same date.

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. 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, or through another country that has adopted similar measures, and an amount of or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note 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.

Further United Kingdom Income Tax Issues

Interest on the Notes constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom income tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable (and where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Notes are attributable) in which case tax may be levied on the United Kingdom branch, agency or permanent establishment. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Noteholders.

United Kingdom Corporation Tax Payers

In general, Noteholders which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Notes (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

Other United Kingdom Tax Payers

Taxation of Chargeable Gains

A disposal of Notes by an individual Noteholder who is resident or ordinarily resident in the United Kingdom, or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency in connection with which the income is received or to which the Notes are attributable, may give rise to a chargeable gain or an allowable loss for the purposes of the taxation of chargeable gains.

Accrued Income Scheme

On a disposal of Notes by an individual Noteholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Act, if that Noteholder is resident or ordinarily resident in the United Kingdom or carries on a

trade, profession or vocation in the United Kingdom through a branch or agency in connection with which the income is received or to which the Notes are attributable.

Stamp Duty and Stamp Duty Reserve Tax (SDRT)

No United Kingdom stamp duty or SDRT is payable on the issue or transfer of the Notes (whether in global or definitive form).

SUBSCRIPTION AND SALE

Lloyds TSB Scotland plc (as **Initial Purchaser**) will, pursuant to a note purchase agreement to be dated on or about 24 July 2009 amongst itself, the Seller and the Issuer (the **Note Purchase Agreement**), agree with the Issuer (subject to certain conditions) to subscribe and pay for (a) the Class A-1 Notes at the issue price of 100% of the aggregate principal amount of the Class A-1 Notes and (b) the Class A-2 Notes at the issue price of 100% of the aggregate principal amount of the Class A-2 Notes.

The Issuer has agreed to indemnify the Initial Purchaser against certain liabilities and to pay certain costs and expenses in connection with the issue of the Notes.

Other than admission of the Notes to the Official List and the admission to trading on the London Stock Exchange's Regulated Market, no action has been taken by the Issuer or the Initial Purchaser, which would or is intended to permit a public offering of the Notes, or possession or distribution of this Prospectus or other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

The Initial Purchaser will undertake not to offer or sell, directly or indirectly, Notes, or to distribute or publish this Prospectus or any other material relating to the Notes, in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations.

This Prospectus does not constitute, and may not be used for the purpose of, an offer or a solicitation by anyone to subscribe for or purchase any of the Notes in or from any country or jurisdiction where such an offer or solicitation is not authorised or is unlawful.

United States

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to an exemption from registration requirements. Accordingly, the Notes are being offered and sold in offshore transactions in reliance on Regulation S.

The Initial Purchaser will agree that, except as permitted by the Note Purchase Agreement, it will not offer or sell the Notes as part of its distribution at any time or otherwise until 40 days after the later of the commencement of the offering and the closing date within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each affiliate or other dealer (if any) to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. See "*Transfer Restrictions and Investor Representations*", below.

United Kingdom

The Initial Purchaser will represent, warrant and agree with the Issuer, *inter alia*, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

General

The Initial Purchaser will undertake that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in respect of the Notes in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS

Offers and Sales by the Initial Purchasers

The Notes (including interests therein represented by a Global Note, a Definitive Note or a Book-Entry Interest) have not been and will not be registered under the Securities Act or any state securities laws, and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to such registration requirements. Accordingly, the Notes are being, offered and sold in offshore transactions pursuant to Regulation S.

Investor Representations and Restrictions on Resale

Each purchaser of the Notes (which term for the purposes of this section will be deemed to include any interests in the Notes, including Book-Entry Interests) will be deemed to have represented and agreed as follows:

- (a) the Notes have not been and will not be registered under the Securities Act and such Notes are being offered only in a transaction that does not require registration under the Securities Act and, if such purchaser decides to resell or otherwise transfer such Notes, then it agrees that it will offer, resell, pledge or transfer such Notes only (i) to a purchaser who is not a U.S. person (as defined in Regulation S) or an affiliate of the Issuer or a person acting on behalf of such an affiliate, and who is not acquiring the Notes for the account or benefit of a U.S. person and who is acquiring the Notes in an offshore transaction pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S or (ii) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States; provided, that the agreement of such purchaser is subject to any requirement of law that the disposition of the purchaser's property shall at all times be and remain within its control;
- (b) unless the relevant legend set out below has been removed from the Notes such purchaser shall notify each transferee of Notes (as applicable) from it that (i) such Notes have not been registered under the Securities Act, (ii) the holder of such Notes is subject to the restrictions on the resale or other transfer thereof described in paragraph (a) above, (iii) such transferee shall be deemed to have represented that such transferee is acquiring the Notes in an offshore transaction and that such transfer is made pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S and (iv) such transferee shall be deemed to have agreed to notify its subsequent transferees as to the foregoing;
- (c) the Issuer, the Registrar, the Arranger and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

The Notes bear a legend to the following effect:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, AS A MATTER OF U.S. LAW, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) (1) AS PART OF THEIR DISTRIBUTION AT ANY TIME OR (2) OTHERWISE PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES AND THE CLOSING OF THE OFFERING OF THE NOTES, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES."

Because of the foregoing restrictions, purchasers of Notes are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such securities offered and sold.

GENERAL INFORMATION

1. It is expected that the admission of the Notes to the Official List and the admission of the Notes to trading on the London Stock Exchange's Regulated Market will be granted on or around 28 July 2009. Prior to listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in Sterling and for delivery on the third working day after the date of the transaction.
2. None of the Issuer or Holdings is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or Holdings respectively is aware), since 8 June 2009 (being the date of incorporation of the Issuer and Holdings) which may have, or have had in the recent past, significant effects upon the financial position or profitability of the Issuer or Holdings (as the case may be).
3. No statutory or non-statutory accounts within the meaning of Section 240(5) of the Companies Act 1985 (as amended) in respect of any financial year of the Issuer have been prepared. So long as the Notes are admitted to trading on the London Stock Exchange's Regulated Market, the most recently published audited annual accounts of the Issuer from time to time shall be available at the specified office of the Principal Paying Agent in London. The Issuer does not publish interim accounts.
4. For so long as the Notes are admitted to the Official List and to trading on The London Stock Exchange's Regulated Market, the Issuer shall maintain a Paying Agent in the United Kingdom.
5. Since the date of its incorporation, the Issuer has not entered into any contracts or arrangements not being in the ordinary course of business.
6. Since 8 June 2009 (being the date of incorporation of the Issuer and Holdings), there has been (a) no material adverse change in the financial position or prospects of the Issuer or Holdings and (b) no significant change in the financial or trading position of the Issuer or Holdings.
7. The issue of the Notes was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 20 July 2009.
8. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following ISIN Numbers and Common Codes:

Class of Notes	ISIN	Common Code
Class A-1	XS0441875829	044187582
Class A-2	XS0441876470	044187647

9. From the date of this Prospectus and for so long as the Notes are listed on the London Stock Exchange's Regulated Market, copies of the following documents may be inspected at the registered office of the Issuer during usual business hours, on any weekday (public holidays excepted):
 - (a) the Memorandum and Articles of Association of each of the Issuer and Holdings;
 - (b) copies of the following documents:
 - (i) the Agency Agreement;
 - (ii) the Deed of Charge;
 - (iii) the Cash Management Agreement;

(iv) the Master Definitions and Construction Schedule; and

(v) the Trust Deed.

10. Other than the quarterly report to be published by the Cash Manager after each Interest Payment Date, the Issuer does not intend to provide post-issuance transaction information regarding the Notes or the Loans.
11. The Issuer confirms that the Loans backing the issue of the Notes have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. However, investors are advised that this confirmation is based on the information available to the Issuer at the date of this Prospectus and may be affected by the future performance of such assets backing the issue of the Notes. Consequently investors are advised to review carefully any disclosure in the Prospectus together with any amendments or supplements thereto.

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