

E L E C T R O N I C P R O O F

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**PERMANENT FINANCING (NO. 9) PLC**  
(incorporated in England and Wales with limited liability, registered number 5711074)

Issuing entity  
**PERMANENT FUNDING (NO. 1) LIMITED**  
Depositor  
**HALIFAX plc**

Sponsor, seller, servicer and cash manager

Class of Financing notes	Interest rate*	Principal amount	Price to public per note	Initial purchasers' discounts and commissions**	Scheduled redemption dates	Final maturity date	
Series 1 class A notes	0.03 per cent. margin below one-month USD-LIBOR	\$1,500,000,000	100%	0.090%	March 2007	March 2007	13.4.1
Series 1 class B notes	0.08 per cent. margin above three-month USD-LIBOR	\$63,400,000	100%	0.360%	—	June 2042	13.4.2
Series 1 class C notes	0.30 per cent. margin above three-month USD-LIBOR	\$66,600,000	100%	0.600%	—	June 2042	13.4.5
Series 2 class A notes	0.04 per cent. margin above three-month USD-LIBOR	\$1,750,000,000	100%	0.105%	March 2009	March 2015	13.4.10
Series 2 class B notes	0.13 per cent. margin above three-month USD-LIBOR	\$67,800,000	100%	0.480%	—	June 2042	
Series 2 class C notes	0.38 per cent. margin above three-month USD-LIBOR	\$72,800,000	100%	0.720%	—	June 2042	
Series 3 class A notes	0.10 per cent. margin above three-month USD-LIBOR	\$1,000,000,000	100%	0.120%	December 2010 and March 2011	June 2033	
Series 3 class B notes	0.17 per cent. margin above three-month USD-LIBOR	\$38,000,000	100%	0.540%	—	June 2042	
Series 3 class C notes	0.50 per cent. margin above three-month USD-LIBOR	\$41,900,000	100%	0.840%	—	June 2042	
Aggregate amount		\$4,600,500,000					

\*One-month and three-month USD-LIBOR will be determined as described in "Summary of offering circular — Summary of the Financing notes".

\*\*As initial purchasers' discounts and commissions are paid from the proceeds of the Financing start-up loan, the net proceeds to Financing are equal to the initial principal amount of the Financing notes.

- The principal asset from which Permanent Financing (No. 9) PLC (Financing) will make payments on the Financing notes is an intercompany loan to an affiliated company called Permanent Funding (No. 1) Limited.
- The principal asset from which Permanent Funding (No. 1) Limited will make payments on the intercompany loan is its interest in a master trust over a pool of residential mortgage loans held by Permanent Mortgages Trustee Limited. The residential mortgage loans were originated by Halifax plc and are secured over properties located in England, Wales and Scotland.
- Eight previous issuing entities issued the previous notes referred to in this document. The previous issuing entities have also made intercompany loans to Permanent Funding (No. 1) Limited and will share the security granted by Permanent Funding (No. 1) Limited to secure its obligations under the respective intercompany loans.
- Interest on each class of Financing notes will be payable quarterly in arrear on the relevant interest payment dates falling in March, June, September and December in each year. The first interest payment date will fall in June 2006 or April 2006 in the case of the series 1 class A Financing notes.
- Subject to the detailed description and limitations set out in "Credit Structure", the Financing notes will have the benefit of the following credit enhancement or support: availability of excess portions of Funding 1 available revenue receipts and of Funding 1's principal receipts; a general reserve fund; a liquidity reserve fund, if established following a seller rating downgrade; subordination of junior classes of Financing notes; and a liquidity facility made available to Funding 1 by JPMorgan Chase Bank, National Association, the Funding 1 liquidity facility provider. The Financing notes will also have the benefit of derivatives instruments, namely the Funding 1 swap provided by Halifax plc and the Financing currency and interest rate swaps provided by Danske Bank A/S London Branch, IXIS Corporate & Investment Bank and Citibank, N.A., London Branch.

Please consider carefully the risk factors beginning on page 50 in this offering circular.

The Financing notes offered by this offering circular will be obligations of Financing only. The Financing notes will not be obligations of the sponsor, the depositor or any of their affiliates.

Application will be made to the UK Listing Authority for each class of Financing notes to be admitted to the official list maintained by the UK Listing Authority and to the London Stock Exchange plc (the London Stock Exchange) for each class of Financing notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market.

**Initial Purchasers of the Series 1 Class A Financing notes, Series 2 Class A Financing notes and Series 3 Class A Financing notes**

**Banc of America Securities, LLC**

**Credit Suisse**

**JPMorgan**

**Co-Purchasers for the Series 1 Class A Financing Notes, Series 2 Class A Financing Notes and Series 3 Class A Financing Notes**

**ABN AMRO**

**IXIS Corporate and Investment Bank**

**UBS Investment Bank**

**Initial Purchasers of the Series 1 Class B and Class C Financing notes, Series 2 Class B and**

**Class C Financing notes and Series 3 Class B and Class C Financing notes**

**Credit Suisse**

**JPMorgan**

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THE OFFERED FINANCING 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 LAWS AND UNLESS SO REGISTERED 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**)) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND THE APPLICABLE STATE SECURITIES LAWS. ACCORDINGLY, THE OFFERED FINANCING NOTES ARE BEING OFFERED AND SOLD (A) IN THE UNITED STATES ONLY TO QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED IN AND IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT (**RULE 144A**)) AND (B) OUTSIDE THE UNITED STATES TO PERSONS OTHER THAN U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S. FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON REALES OR TRANSFERS OF THE OFFERED FINANCING NOTES, SEE *TRANSFER RESTRICTIONS*.

**THE OFFERED FINANCING NOTES WILL BE OBLIGATIONS OF FINANCING ONLY. THE OFFERED FINANCING NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY PERSON OTHER THAN FINANCING. IN PARTICULAR, THE OFFERED FINANCING NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, HALIFAX PLC (HALIFAX), HBOS TREASURY SERVICES PLC, THE FINANCING SWAP PROVIDERS, THE ARRANGER, THE INITIAL PURCHASERS, THE MORTGAGES TRUSTEE, THE NOTE TRUSTEE, THE SECURITY TRUSTEE, THE PREVIOUS ISSUING ENTITIES (EACH AS DEFINED HEREIN), ANY COMPANY IN THE SAME GROUP OF COMPANIES AS HALIFAX, HBOS TREASURY SERVICES PLC OR THE INITIAL PURCHASERS OR ANY OTHER PARTY TO THE TRANSACTION DOCUMENTS. NO LIABILITY WHATSOEVER IN RESPECT OF ANY FAILURE BY FINANCING TO PAY ANY AMOUNT DUE UNDER THE OFFERED FINANCING NOTES SHALL BE ACCEPTED BY ANY PERSON OTHER THAN FINANCING (BUT WITHOUT PREJUDICE TO THE OBLIGATIONS OF FUNDING 1 TO FINANCING UNDER THE FINANCING INTERCOMPANY LOAN AGREEMENT).**

## IMPORTANT NOTICE

Each class of offered Financing Notes sold in reliance on Rule 144A (**Rule 144A**) under the Securities Act will be represented on issue by a global note in registered form for each such class (the **Rule 144A global Financing notes**). Each class of offered Financing Notes sold in reliance on Regulation S under the Securities Act (**Regulation S**) will be represented on issue by a global note in registered form for each such class (the **Reg S global Financing notes** and, together with the Rule 144A global Financing notes, the **global Financing notes**).

Financing will maintain a register, to be kept by the registrar, in which it will register in the name of (i) Citivic Nominees Limited as a nominee of Citibank, N.A., as common depository (the **common depository**) for Euroclear Bank S.A./N.V., as operator of the Euroclear System (**Euroclear**), and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), as owner of the Reg S global Financing notes and (ii) Cede & Co, as nominee for The Depository Trust Company (**DTC**) as owner of the Rule 144A global Financing notes. Transfers of all or any portion of the interests in the global Financing notes may be made only through the register maintained by Financing. Each of DTC, Euroclear and Clearstream, Luxembourg will record the beneficial interests in the global Financing notes (**Book-Entry Interests**). Book-Entry Interests in the global Financing notes will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by DTC, Euroclear or Clearstream, Luxembourg, and their respective participants. Except in the limited circumstances described under *The Financing notes and the global Financing notes – Definitive Financing notes*, the Financing notes will not be available in definitive form (the **definitive Financing notes**). Definitive Financing notes will be issued in registered form only.

THE DISTRIBUTION OF THIS OFFERING CIRCULAR AND THE OFFERING OF THE OFFERED FINANCING NOTES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. NO REPRESENTATION IS MADE BY FINANCING, THE SELLER, THE NOTE TRUSTEE, THE SECURITY TRUSTEE, THE MORTGAGES TRUSTEE, FUNDING, THE ARRANGER OR ANY OF THE INITIAL PURCHASERS THAT THIS OFFERING CIRCULAR MAY BE LAWFULLY DISTRIBUTED, OR THAT THE OFFERED FINANCING 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, NO ACTION HAS BEEN TAKEN BY FINANCING, THE SELLER, THE ARRANGER, THE NOTE TRUSTEE, THE SECURITY TRUSTEE, THE MORTGAGES TRUSTEE, FUNDING OR ANY OF THE INITIAL PURCHASERS WHICH WOULD PERMIT A PUBLIC OFFERING OF THE OFFERED FINANCING NOTES OR DISTRIBUTION OF THIS OFFERING CIRCULAR IN ANY JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED. ACCORDINGLY, THE OFFERED FINANCING NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, AND NEITHER THIS OFFERING CIRCULAR 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 EACH INITIAL PURCHASER HAS REPRESENTED THAT ALL OFFERS AND SALES BY IT WILL BE MADE ON SUCH TERMS. PERSONS INTO WHOSE POSSESSION THIS OFFERING CIRCULAR COMES ARE REQUIRED BY FINANCING AND THE INITIAL PURCHASERS TO INFORM THEMSELVES ABOUT AND TO OBSERVE ANY SUCH RESTRICTIONS.

THE OFFERED FINANCING NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE **SEC**), ANY STATE SECURITIES COMMISSION OR ANY OTHER REGULATORY AUTHORITY WITHIN THE UNITED STATES, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

THE OFFERED FINANCING NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT. THE OFFERED FINANCING NOTES WILL BE OFFERED AND SOLD IN THE UNITED STATES ONLY TO A LIMITED NUMBER OF QUALIFIED INSTITUTIONAL

BUYERS IN RELIANCE ON RULE 144A AND IN ACCORDANCE WITH ANY APPLICABLE LAWS OF ANY STATE. THE OFFERED FINANCING NOTES WILL ALSO BE CONTEMPORANEOUSLY OFFERED AND SOLD OUTSIDE THE UNITED STATES TO PERSONS OTHER THAN U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S. THERE IS NO UNDERTAKING TO REGISTER THE OFFERED FINANCING NOTES UNDER U.S. STATE OR FEDERAL SECURITIES LAW. UNTIL 40 DAYS AFTER THE COMMENCEMENT OF THE OFFERING, AN OFFER OR SALE OF THE OFFERED FINANCING NOTES WITHIN THE UNITED STATES BY ANY DEALER (WHETHER OR NOT PARTICIPATING IN THE OFFERING) MAY VIOLATE THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IF SUCH OFFER OR SALE IS MADE OTHERWISE THAN IN COMPLIANCE WITH RULE 144A OR PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THE OFFERED FINANCING NOTES CANNOT BE RESOLD IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS UNLESS THEY ARE REGISTERED UNDER THE SECURITIES ACT OR AN EXEMPTION FROM REGISTRATION IS AVAILABLE. FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON REALES AND TRANSFERS OF OFFERED FINANCING NOTES, SEE *TRANSFER RESTRICTIONS*.

EACH INITIAL AND SUBSEQUENT PURCHASER OF THE OFFERED FINANCING 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 OFFERED FINANCING NOTES AS SET FORTH THEREIN AND DESCRIBED IN THIS OFFERING CIRCULAR 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*.

FINANCING, THE ARRANGER AND THE INITIAL PURCHASERS MAKE NO REPRESENTATION TO ANY PROSPECTIVE INVESTOR OR PURCHASER OF THE OFFERED FINANCING NOTES REGARDING THE LEGALITY OF INVESTMENT THEREIN BY SUCH PROSPECTIVE INVESTOR OR PURCHASE UNDER APPLICABLE LEGAL INVESTMENT OR SIMILAR LAWS OR REGULATIONS. SEE *UNITED STATES LEGAL INVESTMENT CONSIDERATIONS*.

FINANCING ACCEPTS RESPONSIBILITY FOR ALL THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR. TO THE BEST OF ITS KNOWLEDGE (HAVING TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE), THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. THE INFORMATION IN THIS OFFERING CIRCULAR IS ACCURATE ONLY AS OF THE DATE OF THIS OFFERING CIRCULAR, REGARDLESS OF THE TIME OF DELIVERY OF THIS OFFERING CIRCULAR OR ANY SALE OF OFFERED FINANCING NOTES. YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR.

13.1.1  
13.1.2  
7.1.1  
7.1.2

THE EURO FINANCING SWAP PROVIDER ACCEPTS RESPONSIBILITY FOR THE INFORMATION CONTAINED ON PAGES 97 TO 98 IN RESPECT OF ITSELF AND TO THE BEST OF ITS KNOWLEDGE (HAVING TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE) THE INFORMATION CONTAINED ON PAGES 97 TO 98 IN RESPECT OF ITSELF IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION.

EACH DOLLAR FINANCING SWAP PROVIDER ACCEPTS RESPONSIBILITY FOR THE INFORMATION CONTAINED ON PAGES 95 TO 97 IN RESPECT OF ITSELF AND TO THE BEST OF ITS KNOWLEDGE (HAVING TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE) THE INFORMATION CONTAINED ON PAGES 95 TO 97 IN RESPECT OF ITSELF IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION.

THE FUNDING 1 LIQUIDITY FACILITY PROVIDER ACCEPTS RESPONSIBILITY FOR THE INFORMATION CONTAINED ON PAGE 99 IN RESPECT OF ITSELF AND TO THE BEST OF ITS KNOWLEDGE (HAVING TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE) THE INFORMATION CONTAINED ON PAGE 99 IN RESPECT OF ITSELF IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION.

NO PERSON IS AUTHORISED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFERING OR SALE OF THE OFFERED FINANCING NOTES OTHER THAN THOSE CONTAINED IN THIS OFFERING CIRCULAR AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY FINANCING, HALIFAX, HBOS TREASURY SERVICES PLC, THE NOTE TRUSTEE, THE SECURITY TRUSTEE, THE MORTGAGES TRUSTEE, FUNDING, THE ARRANGER, ANY OF THE INITIAL PURCHASERS OR ANY OF THEIR RESPECTIVE AFFILIATES OR ADVISERS. NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE OR ALLOTMENT MADE IN CONNECTION WITH THE OFFERING OF THE OFFERED FINANCING NOTES SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION OR CONSTITUTE A REPRESENTATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF FINANCING, HALIFAX, HBOS TREASURY SERVICES PLC, THE ARRANGER, THE MORTGAGES TRUSTEE OR FUNDING OR IN THE OTHER INFORMATION CONTAINED HEREIN SINCE THE DATE HEREOF. THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR WAS OBTAINED FROM FINANCING AND OTHER SOURCES, BUT NO ASSURANCE CAN BE GIVEN BY THE INITIAL PURCHASERS AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. NONE OF THE NOTE TRUSTEE, THE SECURITY TRUSTEE, OR THE INITIAL PURCHASERS MAKES ANY REPRESENTATION, EXPRESS OR IMPLIED, OR ACCEPTS ANY RESPONSIBILITY, WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF ANY OF THE INFORMATION IN THIS OFFERING CIRCULAR. 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 OFFERING CIRCULAR 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 OFFERED FINANCING NOTES.

THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER OF, OR AN INVITATION BY OR ON BEHALF OF, FINANCING, THE SELLER, THE MORTGAGES TRUSTEE, FUNDING, THE ARRANGER OR THE INITIAL PURCHASERS OR ANY OF THEM TO SUBSCRIBE FOR OR PURCHASE ANY OF THE OFFERED FINANCING NOTES IN ANY JURISDICTION WHERE SUCH ACTION WOULD BE UNLAWFUL AND NEITHER THIS OFFERING CIRCULAR, 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 OFFERED FINANCING NOTES WILL BE SUBJECT TO ANY APPLICABLE WITHHOLDING TAXES WITHOUT FINANCING BEING OBLIGED TO PAY ADDITIONAL AMOUNTS THEREFOR.

**IN CONNECTION WITH THE ISSUE OF THE CLASS A OFFERED FINANCING NOTES, BANC OF AMERICA SECURITIES, LLC, CREDIT SUISSE SECURITIES (EUROPE) LIMITED AND J.P. MORGAN SECURITIES INC. (OR PERSONS ACTING ON BEHALF OF THEM) MAY OVER-ALLOT THE CLASS A OFFERED FINANCING NOTES (PROVIDED THAT THE AGGREGATE PRINCIPAL AMOUNT OF THE CLASS A OFFERED FINANCING NOTES ALLOTTED DOES NOT EXCEED 105 PER CENT. OF THE AGGREGATE PRINCIPAL AMOUNT OF THE CLASS A OFFERED FINANCING NOTES) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CLASS A OFFERED FINANCING NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS**

**NO ASSURANCE THAT BANC OF AMERICA SECURITIES, LLC, CREDIT SUISSE SECURITIES (EUROPE) LIMITED AND J.P. MORGAN SECURITIES INC. (OR PERSONS ACTING ON BEHALF OF THEM) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE CLASS A OFFERED FINANCING NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE CLASS A OFFERED FINANCING NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE CLASS A OFFERED FINANCING NOTES.**

**IN CONNECTION WITH THE ISSUE OF THE CLASS B/C OFFERED FINANCING NOTES, CREDIT SUISSE SECURITIES (EUROPE) LIMITED AND J.P. MORGAN SECURITIES INC. (OR PERSONS ACTING ON BEHALF OF THEM) MAY OVER-ALLOT THE CLASS B/C OFFERED FINANCING NOTES (PROVIDED THAT THE AGGREGATE PRINCIPAL AMOUNT OF THE CLASS B/C OFFERED FINANCING NOTES ALLOTTED DOES NOT EXCEED 105 PER CENT. OF THE AGGREGATE PRINCIPAL AMOUNT OF THE CLASS B/C OFFERED FINANCING NOTES) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CLASS B/C OFFERED FINANCING NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT CREDIT SUISSE SECURITIES (EUROPE) LIMITED AND J.P. MORGAN SECURITIES INC. (OR PERSONS ACTING ON BEHALF OF THEM) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE CLASS B/C OFFERED FINANCING NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE CLASS B/C OFFERED FINANCING NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE CLASS B/C OFFERED FINANCING NOTES.**

Notwithstanding anything herein to the contrary, from the commencement of discussions with respect to the transaction contemplated by this Offering Circular, all persons may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transaction described herein and all materials of any kind (including opinions and other tax analyses) that are provided to such persons relating to such tax treatment and tax structure, except to the extent that any such disclosure could reasonably be expected to cause this offering not to be in compliance with securities laws. For purposes of this paragraph, the tax treatment of this transaction is the purported or claimed U.S. federal income tax treatment of this transaction and the tax structure of this transaction is any fact that may be relevant to understanding the purported or claimed U.S. federal income tax treatment of this transaction.

## **AVAILABLE INFORMATION**

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



## ENFORCEABILITY OF JUDGEMENTS

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

### NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

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

Subject to conditions described further in this offering circular, Permanent Holdings Limited may establish new issuing entities which will issue new notes that are secured ultimately over the same property as the Financing notes and may rank equally or ahead of the offered Financing notes issued by Financing.

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

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

### Forward-looking statements

This offering circular includes forward-looking statements including, but not limited to, statements made under the captions "**Risk factors**", "**The loans**", "**The servicer**", "**The servicing agreement**" and "**Maturity and prepayment considerations**". These forward-looking statements can be identified by the use of forward-looking terminology, such as the words "believes", "expects", "may", "intends", "should" or "anticipates", or the negative or other variations of those terms. These statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results and performance of the Financing notes, Halifax plc or the UK residential mortgage industry to differ materially from any future results or performance expressed or implied in the forward-looking statements. These risks, uncertainties and other factors include, among others: general economic and business conditions in the United Kingdom; currency exchange and interest rate fluctuations; government, statutory, regulatory or administrative initiatives affecting Halifax plc; changes in business strategy, lending practices or customer relationships; and other factors that may be referred to in this offering circular. Some of the most significant of these risks, uncertainties and other factors are discussed under the caption "**Risk factors**", and you are encouraged to carefully consider those factors prior to making an investment decision.

## Defined terms and conventions

We define terms used in this offering circular in the Glossary. Where terms first appear in the text, we also define them there or refer you to a definition elsewhere.

References in this document to **we** or **us** mean Funding 1 and references to **you** mean potential investors in the Financing notes.

References in this offering circular to **£**, **pounds** or **sterling** are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland. References in this offering circular to **US\$, \$**, **US dollars** or **dollars** are to the lawful currency of the United States of America.

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

As this transaction is connected, by virtue of its structure, with previous transactions and may be connected with future transactions, it is necessary in this offering circular to refer to some or all of these transactions. In respect of notes, term advances, intercompany loans or other terms derived from or related to them we use the word **previous** when referring to the previous transactions, the word **Financing** when referring to the present transaction, the word **current** when referring to the previous transactions and the present transaction, the word **new** when referring to future transactions and **any** or **all** when referring to any or all of the current transactions and future transactions. For example:

- the **Financing notes** are all of the notes issued by Permanent Financing (No. 9) PLC,
- the **previous notes** are the notes issued by each previous issuing entity, namely Permanent Financing (No. 1) PLC, Permanent Financing (No. 2) PLC, Permanent Financing (No. 3) PLC, Permanent Financing (No. 4) PLC, Permanent Financing (No. 5) PLC, Permanent Financing (No. 6) PLC, Permanent Financing (No. 7) PLC and Permanent Financing (No. 8) PLC,
- the **current notes** are the previous notes together with the notes issued by Permanent Financing (No. 9) PLC,
- the **new notes** are notes which may be issued in future transactions, and
- the **notes** are the previous notes, the Financing notes and any new notes.

The **offered Financing notes** are the Financing notes offered by this offering circular, namely the series 1 Financing notes, the series 2 Financing notes and the series 3 Financing notes.

In addition to the offered Financing notes, the Financing notes include the series 4 Financing notes and the series 5 Financing notes which are not being offered by this offering circular. Instead, they will be offered to investors outside the United States in reliance on Regulation S.

Each term advance carries a rating designation, which is the rating assigned on issuance by the rating agencies (Moody's Investors Service Limited, Standard & Poor's Rating Services and Fitch Ratings Ltd.) to the corresponding notes used to fund that term advance. These rating designations, from highest to lowest, are AAA, AA, A and BBB. References to higher or lower term advance rating designations should be construed accordingly.

Each note has a class designation, ranging from highest to lowest, of A, B, M or C. References to higher or lower class designations of notes should be construed accordingly.

As noted above, each class of notes corresponds to a particular term advance. In the case of Financing, the relationship between the Financing notes and the Financing term advances is set out in a table under "**The Financing intercompany loan agreement**".

## Summary of offering circular

*The information in this section is a summary of the principal features of the Financing notes, including the Financing transaction documents and the loans that will generate the income for Financing to make payments on the Financing notes. This summary does not contain all of the information that you should consider before investing in the Financing notes. You should read the entire offering circular carefully, especially the risks of investing in the Financing notes discussed under “Risk factors”.*

7.5.2

### Overview of the transaction

The following is a brief overview of the transaction and is further illustrated by the following *Structural diagram of the securitisation*. The numbers in the diagram refer to the numbered paragraphs below.

13.3

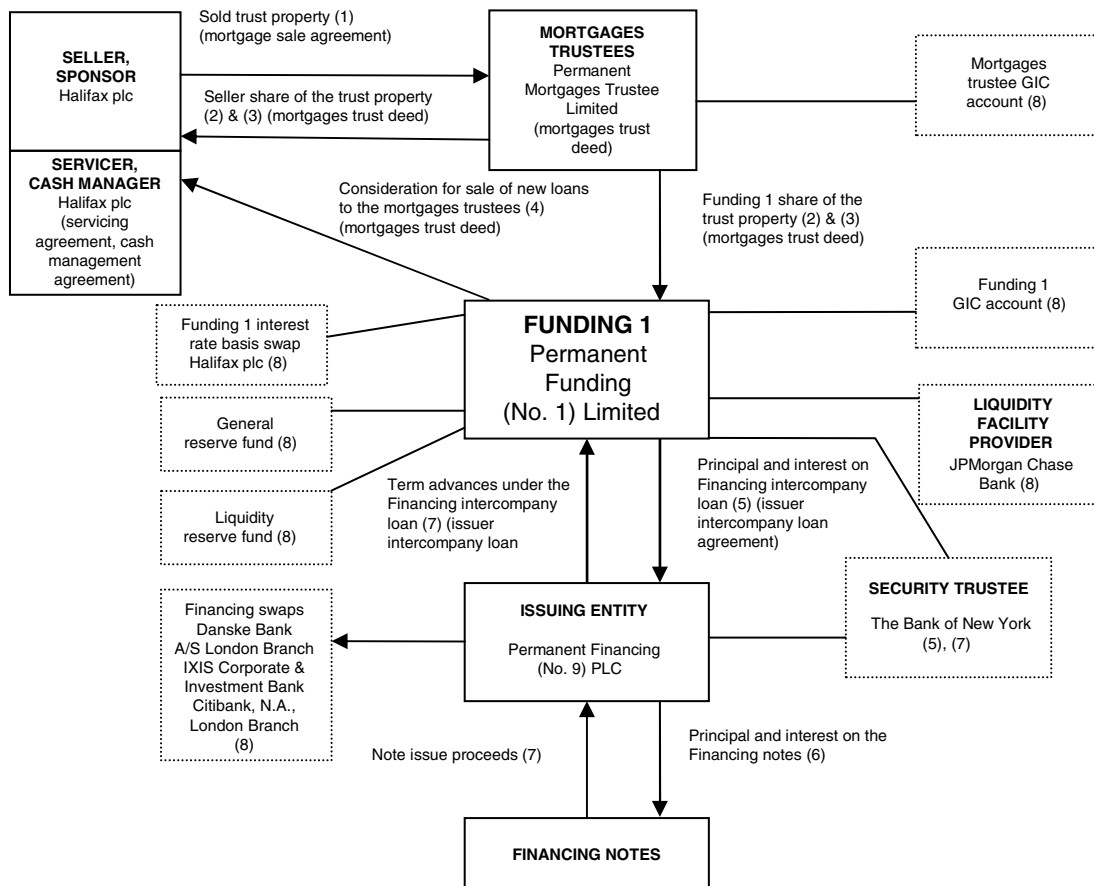
- (1) Prior to this transaction, on 14 June 2002 and on several subsequent dates (in connection with transactions by some of the previous issuing entities but also on other dates selected by the seller subject to satisfaction of the conditions to sale in “**Sale of the loans and their related security – Sale of new loans and their related security to the mortgages trustee**”), the seller, Halifax plc, sold loans and their **related security** (which is the security for the repayment of a loan, including the relevant mortgage) to the mortgages trustee pursuant to a mortgage sale agreement. These sales are further described in “**Sale of the loans and their related security**”. The dates of the transactions by the previous issuing entities are set out in the definition of “previous closing date” in the Glossary. The **loans** are residential mortgage loans originated by Halifax plc and secured over residential properties located in England, Wales and Scotland.
- (2) The mortgages trustee holds the loans and other property (the **trust property**) on trust for the benefit of the seller and Funding 1 pursuant to a mortgages trust deed. On the closing date, the trust property will include the **portfolio**, which will consist of the loans, their related security, any accrued interest on the loans and other amounts derived from the loans and their related security. Each of the seller and Funding 1 has a joint and undivided interest in the trust property, but their entitlement to the proceeds from the trust property is in proportion to their respective shares of the trust property.
- (3) The mortgages trustee distributes interest receipts on the loans to Funding 1 based on the percentage share that Funding 1 has in the trust property (or if less, the amount that Funding 1 needs to meet its obligations to pay interest on the intercompany loans and other amounts on the date of distribution). The mortgages trustee distributes the remaining interest receipts on the loans to the seller. The mortgages trustee allocates losses on the loans to the seller and Funding 1 in accordance with the percentage share that each of them has in the trust property. These percentages may fluctuate as described in “**The mortgages trust**”. The mortgages trustee allocates principal receipts on the loans between the seller and Funding 1 in amounts depending on whether Funding 1 is required to pay amounts on an intercompany loan on the next Funding 1 interest payment date or Funding 1 is accumulating cash to repay a bullet term advance or a scheduled amortisation instalment. A term advance is a tranche of the intercompany loan made by Financing to Funding 1, from the proceeds of the Financing notes (see “– **Relationship between the Financing notes and the Financing intercompany loan**” below). The types of term advances (namely, bullet term advances, scheduled amortisation term advances and pass-through term advances) are described below under “– **The Financing intercompany loan**”. See “**The mortgages trust**”.
- (4) Funding 1 will use the proceeds of the Financing intercompany loan on the closing date to pay the seller part of the consideration for loans (together with their related security) sold to the mortgages trustee on the closing date, which will increase the Funding 1 share of the trust property. Subsequently, on Funding 1 interest payment dates, if the

cash manager determines that Funding 1 has any excess income remaining after paying all amounts that it is required to pay under the terms of the transaction, then, subject to applicable rules, that extra income will be allocated to Funding 1.

- (5) Funding 1 will use a portion of the amounts received from its share in the trust property to meet its obligations to pay interest and principal due to Financing under the Financing intercompany loan. Funding 1's obligations to Financing under the Financing intercompany loan will be secured under the Funding 1 deed of charge entered into with, among others, the security trustee, The Bank of New York, by, among other things, Funding 1's share of the trust property.
- (6) Financing's obligations to pay principal and interest on the Financing notes will be funded primarily from the payments of principal and interest received by it from Funding 1 under the Financing intercompany loan. Financing's primary asset will be the Financing intercompany loan agreement. Neither Financing nor the noteholders will have any direct interest in the trust property, although Financing will have a shared security interest under the Funding 1 deed of charge in Funding 1's share of the trust property.
- (7) Financing will sell the Financing notes to investors and then lend the proceeds to Funding 1 under the Financing intercompany loan agreement on the closing date. Financing's obligations under, among other things, the Financing notes will be secured under the Financing deed of charge entered into with, among others, the security trustee, by, among other things, Financing's rights under the Financing intercompany loan agreement.
- (8) These items and their function in the transaction structure are described later in this offering circular. They are included in the first diagram below so that investors can refer back to see where they fit into the structure.

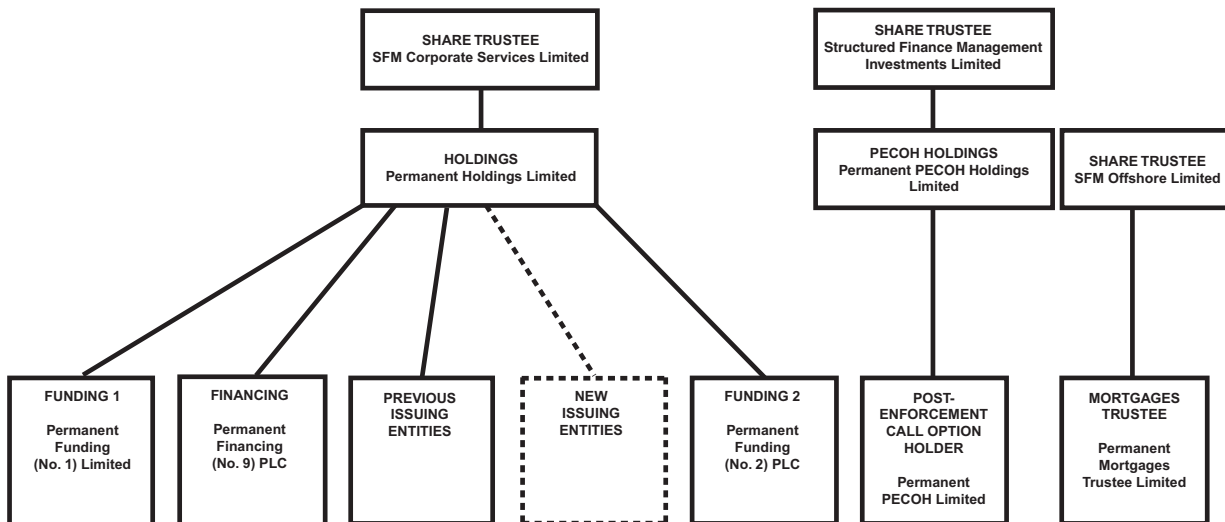
### Structural diagram of the securitisation

8.3.1



## Diagram of ownership structure of special purpose vehicles

7.7.1



This diagram illustrates the ownership structure of the principal special purpose entities that are parties to the transaction, as follows:

- Each of Funding 1, Funding 2, Financing and the previous issuing entities is, and each new issuing entity will be, a wholly-owned subsidiary of Permanent Holdings Limited.
- The entire issued share capital of Holdings is held on trust by a corporate services provider, not affiliated with the seller, under the terms of a discretionary trust for the benefit of one or more charities. See “**Holdings**”.
- The entire issued share capital of the mortgages trustee is held beneficially on trust by SFM Offshore Limited, a corporate services provider, not affiliated with the seller, under the terms of a discretionary trust for the benefit of one or more charities. See “**The mortgages trustee**”.
- The post-enforcement call option holder is a subsidiary of Permanent PECO Holdings Limited. See “**Permanent PECO Limited**”.
- The entire issued share capital of PECO Holdings is held on trust by a corporate services provider, not affiliated with the seller, under the terms of a discretionary trust for the benefit of one or more charities. See “**PECOH Holdings**”.
- Halifax plc, who as the sponsor organises and initiates this transaction (and was the sponsor for the transactions by the previous issuing entities), has no ownership interest in any of the entities in the diagrams above. As a result, the transaction is not directly linked to the credit of Halifax plc, and Halifax plc has no obligation to support the transaction financially, although Halifax plc may still have a connection with the transaction for other reasons (such as acting as servicer of the loans and as a beneficiary under the **mortgages trust**, which is the bare trust of the trust property held by the mortgages trustee).
- The previous issuing entities issued the previous notes to investors and loaned the proceeds to Funding 1 pursuant to separate intercompany loan agreements on each previous closing date. See “**Description of the previous issuing entities, the previous notes and the previous intercompany loans**”.

9.6.1  
9.6.2  
8.3.2  
8.3.4.1

- The Financing notes rank behind, equally or ahead of the previous notes and any new notes, as described under “– **The previous issuing entities, new issuing entities, new intercompany loans, new start-up loans and Funding 2**”. Financing, the previous issuing entities and any new issuing entities will share in the security granted by Funding 1 for its obligations to them under their respective intercompany loans.
- Funding 2 is a wholly-owned subsidiary of Holdings and may in the future issue (directly or indirectly) new notes from time to time and use most of the proceeds to pay either the seller or Funding 1 to acquire a direct interest in the trust property. See “**Risk Factors – Holdings has established another company, Funding 2, which may become an additional beneficiary under the mortgages trust**”.
- In certain circumstances (including when new issuing entities are established or Funding 2 becomes a beneficiary of the mortgages trust), the security trustee will consent to modifications to be made to some of the Financing transaction documents. Your consent will not be obtained in relation to those modifications (see “**Risk factors – The security trustee may agree modifications to the Financing transaction documents without your prior consent, which may adversely affect your interests**”).

### **Summary of the Financing notes**

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

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

## Series of Financing notes

13.4.1  
13.4.2  
13.4.5  
13.4.8  
13.7.5  
8.1.1

	<b>series 1 class A</b>	<b>series 1 class B</b>	<b>series 1 class C</b>
Principal amount:	\$1,500,000,000	\$63,400,000	\$66,600,000
Credit enhancement	Subordination of the class B Financing notes and the class C Financing notes, and the reserve funds	Subordination of the class C Financing notes and the reserve funds	The reserve funds
Interest rate:	One-month USD-LIBOR – margin	Three-month USD-LIBOR + margin	Three-month USD-LIBOR + margin
Margin:	0.03% p.a.	0.08% p.a.	0.30% p.a.
Until interest payment date falling in:	N/A	September 2012	September 2012
And thereafter:	N/A	0.16% p.a.	0.60% p.a.
Scheduled redemption date(s) and amounts:	One payment on March 2007	N/A	N/A
Designation of corresponding term advance:	Bullet	Pass-through	Pass-through
	See “ – <b>Scheduled redemption</b> ” and “ – <b>The Financing intercompany loan</b> ” for a description of the timing of principal payments on the Financing notes and cash accumulation periods relating to bullet term advances and scheduled amortisation instalments.		
Interest accrual method:	Actual/360	Actual/360	Actual/360
Interest payment dates:	For the series 1 class A Financing notes, monthly in arrear on the interest payment date falling in each consecutive month. For the other series 1 Financing notes, quarterly in arrear on the interest payment dates falling in March, June, September and December of each year. If a trigger event occurs or the Financing security is enforced prior to the interest payment date falling in March 2007, interest and principal due and payable on the series 1 class A Financing notes will be payable quarterly in arrear on the interest payment dates falling in March, June, September and December of each year.		
First interest payment date:	April 2006	June 2006	June 2006
Final maturity date:	March 2007	June 2042	June 2042
Tax treatment:	Debt for United States federal income tax purposes, subject to the considerations contained in “ <b>United States federal income taxation</b> ”	Debt for United States federal income tax purposes, subject to the considerations contained in “ <b>United States federal income taxation</b> ”	Debt for United States federal income tax purposes, subject to the considerations contained in “ <b>United States federal income taxation</b> ”
ERISA eligible:	Yes, subject to the considerations in “ <b>ERISA considerations</b> ”	Yes, subject to the considerations in “ <b>ERISA considerations</b> ”	Yes, subject to the considerations in “ <b>ERISA considerations</b> ”



### Series of Financing notes

	<b>series 1 class A</b>	<b>series 1 class B</b>	<b>series 1 class C</b>
Listing:	UK Listing Authority and London Stock Exchange's Gilt Edged and Fixed Interest Market	UK Listing Authority and London Stock Exchange's Gilt Edged and Fixed Interest Market	UK Listing Authority and London Stock Exchange's Gilt Edged and Fixed Interest Market
Regulation S notes ISIN:	XS0248346388	XS0248348673	XS0248349218
Rule 144A notes ISIN:	US71419XAA19	US71419XAB91	US71419XAC74
Regulation S notes Common code:	<u>024834638</u>	024834867	024834921
Rule 144A notes Common code:	24851974	24852008	24852016
CUSIP number:	71419XAA1	71419XAB9	71419XAC7
Expected ratings (S&P/Moody's/Fitch):	A-1+/P-1/F1+	AA/Aa3/AA	BBB/Baa2/BBB

## Series of Financing notes

	<b>series 2 class A</b>	<b>series 2 class B</b>	<b>series 2 class C</b>
Principal amount:	\$1,750,000,000	\$67,800,000	\$72,800,000
Credit enhancement	Subordination of the class B Financing notes and the class C Financing notes, and the reserve funds	Subordination of the class C Financing notes and the reserve funds	The reserve funds
Interest rate:	Three-month USD-LIBOR + margin	Three-month USD-LIBOR + margin	Three-month USD-LIBOR + margin
Margin:	0.04% p.a.	0.13% p.a.	0.38% p.a.
Until interest payment date falling in:	September 2012	September 2012	September 2012
And thereafter:	0.08% p.a.	0.26% p.a.	0.76% p.a.
Scheduled redemption date(s) and amounts:	One payment on March 2009	N/A	N/A
Designation of corresponding term advance:	Bullet	Pass-through	Pass-through
	See “ – <b>Scheduled redemption</b> ” and “ – <b>The Financing intercompany loan</b> ” for a description of the timing of principal payments on the Financing notes and cash accumulation periods relating to bullet term advances and scheduled amortisation instalments.		
Interest accrual method:	Actual/360	Actual/360	Actual/360
Interest payment dates:	Quarterly in arrear on the interest payment dates falling in March, June, September and December of each year.		
First interest payment date:	June 2006	June 2006	June 2006
Final maturity date:	March 2015	June 2042	June 2042
Tax treatment:	Debt for United States federal income tax purposes, subject to the considerations contained in “ <b>United States federal income taxation</b> ”	Debt for United States federal income tax purposes, subject to the considerations contained in “ <b>United States federal income taxation</b> ”	Debt for United States federal income tax purposes, subject to the considerations contained in “ <b>United States federal income taxation</b> ”
ERISA eligible:	Yes, subject to the considerations in “ <b>ERISA considerations</b> ”	Yes, subject to the considerations in “ <b>ERISA considerations</b> ”	Yes, subject to the considerations in “ <b>ERISA considerations</b> ”
Listing:	UK Listing Authority and London Stock Exchange’s Gilt Edged and Fixed Interest Market	UK Listing Authority and London Stock Exchange’s Gilt Edged and Fixed Interest Market	UK Listing Authority and London Stock Exchange’s Gilt Edged and Fixed Interest Market
Regulation S notes ISIN:	XS0248346974	XS0248349648	XS0248350570
Rule 144A notes ISIN:	US71419XAD57	US71419XAE31	US71419XAF06

**Series of Financing notes**

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	<b>series 2 class A</b>	<b>series 2 class B</b>	<b>series 2 class C</b>
Regulation S notes Common code:	024834697	024834964	024835057
Rule 144A notes Common code:	24852059	24852075	24852091
CUSIP number:	71419XAD5	71419XAE3	71419XAF0
Expected ratings (S&P/Moody's/Fitch):	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB

### Series of Financing notes

	<b>series 3 class A</b>	<b>series 3 class B</b>	<b>series 3 class C</b>
Principal amount:	\$1,000,000,000	\$38,000,000	\$41,900,000
Credit enhancement	Subordination of the class B Financing notes and the class C Financing notes, and the reserve funds	Subordination of the class C Financing notes and the reserve funds	The reserve funds
Interest rate:	Three-month USD-LIBOR + margin	Three-month USD-LIBOR + margin	Three-month USD-LIBOR + margin
Margin:	0.10% p.a.	0.17% p.a.	0.50% p.a.
Until interest payment date falling in:	September 2012	September 2012	September 2012
And thereafter:	0.20% p.a.	0.34% p.a.	1.00% p.a.
Scheduled redemption date(s) and amounts:	2 equal instalments on each of December 2010 and March 2011	N/A	N/A
Designation of corresponding term advance:	Scheduled amortisation	Pass-through	Pass-through
	See “ – <b>Scheduled redemption</b> ” and “ – <b>The Financing intercompany loan</b> ” for a description of the timing of principal payments on the Financing notes and cash accumulation periods relating to bullet term advances and scheduled amortisation instalments.		
Interest accrual method:	Actual/360	Actual/360	Actual/360
Interest payment dates:	Quarterly in arrear on the interest payment dates falling in March, June, September and December of each year.		
First interest payment date:	June 2006	June 2006	June 2006
Final maturity date:	June 2033	June 2042	June 2042
Tax treatment:	Debt for United States federal income tax purposes, subject to the considerations contained in “ <b>United States federal income taxation</b> ”	Debt for United States federal income tax purposes, subject to the considerations contained in “ <b>United States federal income taxation</b> ”	Debt for United States federal income tax purposes, subject to the considerations contained in “ <b>United States federal income taxation</b> ”
ERISA eligible:	Yes, subject to the considerations in “ <b>ERISA considerations</b> ”	Yes, subject to the considerations in “ <b>ERISA considerations</b> ”	Yes, subject to the considerations in “ <b>ERISA considerations</b> ”

### Series of Financing notes

	<b>series 3 class A</b>	<b>series 3 class B</b>	<b>series 3 class C</b>
Listing:	UK Listing Authority and London Stock Exchange's Gilt Edged and Fixed Interest Market	UK Listing Authority and London Stock Exchange's Gilt Edged and Fixed Interest Market	UK Listing Authority and London Stock Exchange's Gilt Edged and Fixed Interest Market
Regulation S notes ISIN:	XS0248347600	XS0248350901	XS0248351461
Rule 144A notes ISIN:	US71419XAG88	US71419XAH61	US71419XAJ28
Regulation S notes Common code:	024834760	024835090	024835146
Rule 144A notes Common Code:	24852121	24852148	24852229
CUSIP number:	71419XAG8	71419XAH6	71419XAJ2
Expected ratings (S&P/Moody's/Fitch):	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB

## Series of Financing notes

	series 4 class A	series 4 class B	series 4 class C
Principal amount:	€1,600,000,000	€61,200,000	€64,600,000
Credit enhancement	Subordination of the class B Financing notes and the class C Financing notes, and the reserve funds	Subordination of the class C Financing notes and the reserve funds	The reserve funds
Interest rate:	Three-month EURIBOR + margin	Three-month EURIBOR + margin	Three-month EURIBOR + margin
Margin:	0.11% p.a.	0.15% p.a.	0.50% p.a.
Until interest payment date falling in:	September 2012	September 2012	September 2012
And thereafter:	0.22% p.a.	0.30% p.a.	1.00% p.a.
Scheduled redemption date(s) and amounts:	2 equal instalments on each of June 2011 and September 2011	N/A	N/A
Designation of corresponding term advance:	Scheduled amortisation	Pass-through	Pass-through
	See “ – <b>Scheduled redemption</b> ” and “ – <b>The Financing intercompany loan</b> ” for a description of the timing of principal payments on the Financing notes and cash accumulation periods relating to bullet term advances and scheduled amortisation instalments.		
Interest accrual method:	Actual/360	Actual/360	Actual/360
Interest payment dates:	Quarterly in arrear on the interest payment dates falling in March, June, September and December of each year.		
First interest payment date:	June 2006	June 2006	June 2006
Final maturity date:	June 2033	June 2042	June 2042
Tax treatment:	N/A (These Financing notes are not being offered or sold in the United States)	N/A (These Financing notes are not being offered or sold in the United States)	N/A (These Financing notes are not being offered or sold in the United States)

### Series of Financing notes

	<b>series 4 class A</b>	<b>series 4 class B</b>	<b>series 4 class C</b>
ERISA eligible:	N/A (These Financing notes are not being offered or sold in the United States)	N/A (These Financing notes are not being offered or sold in the United States)	N/A (These Financing notes are not being offered or sold in the United States)
Listing:	UK Listing Authority and London Stock Exchange's Gilt Edged and Fixed Interest Market	UK Listing Authority and London Stock Exchange's Gilt Edged and Fixed Interest Market	UK Listing Authority and London Stock Exchange's Gilt Edged and Fixed Interest Market
ISIN:	XS0248264060	XS0248265117	XS0248266511
Common code:	024826406	024826511	024826651
CUSIP number:	N/A	N/A	N/A
Expected ratings (S&P/Moody's/Fitch):	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB

## Series of Financing notes

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### series 5 class A

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Principal amount:	£750,000,000
Credit enhancement	Subordination of the class B Financing notes and the class C Financing notes, and the reserve funds
Interest rate:	Three-month sterling LIBOR + margin
Margin:	0.11% p.a.
Until interest payment date falling in:	September 2012
And thereafter:	0.22% p.a.
Scheduled redemption date(s) and amounts:	N/A
Designation of corresponding term advance:	Pass-through
	See “ – <b>Scheduled redemption</b> ” and “ – <b>The Financing intercompany loan</b> ” for a description of the timing of principal payments on the Financing notes and cash accumulation periods relating to bullet term advances and scheduled amortisation instalments.
Interest accrual method:	Actual/365
Interest payment dates:	Quarterly in arrear on the interest payment dates falling in March, June, September and December of each year.
First interest payment date:	June 2006
Final maturity date:	June 2042
Tax treatment:	N/A (These Financing notes are not being offered or sold in the United States)
ERISA eligible:	N/A (These Financing notes are not being offered or sold in the United States)
Listing:	UK Listing Authority and London Stock Exchange's Gilt Edged and Fixed Interest Market
ISIN:	XS0248268137
Common code:	024826813
CUSIP number:	N/A
Expected ratings (S&P/Moody's/Fitch):	AAA/Aaa/AAA



USD-LIBOR, EURIBOR and sterling LIBOR and will be determined as described in the definitions of USD-LIBOR, EURIBOR and LIBOR, respectively, in the Glossary.

For a summary of characteristics of the previous notes, see “**Description of the previous issuing entities, the previous notes and the previous intercompany loans**”.

## Financing

Permanent Financing (No. 9) PLC is a public limited company incorporated in England and Wales. Its registered office is 35 Great St. Helen’s, London EC3A 6AP. Its telephone number is (+44) 20 7398 6300. Financing is a new special purpose company created at the direction of the sponsor. Financing will issue the Financing notes and lend the net proceeds to Funding 1. See “**Permanent Financing (No. 9) PLC**”.

13.3  
7.4.1  
7.4.2  
7.4.5  
7.4.3  
7.5.1

## Funding 1

Permanent Funding (No. 1) Limited is a private limited company incorporated in England and Wales. Its registered office is 35 Great St. Helen’s, London EC3A 6AP. Its telephone number is (+44) 20 7398 6300. Funding 1 will borrow money from Financing pursuant to the terms of the Financing intercompany loan agreement and use it to pay part of the consideration payable to the seller for loans (together with their related security) sold to the mortgages trustee on the closing date, which will increase Funding 1’s share of the trust property. See “**Permanent Funding (No. 1) Limited**”.

## Funding 2

Permanent Funding (No. 2) Limited is a private limited company incorporated in England and Wales. Funding 2 is currently inactive but may in the future issue (directly or indirectly) notes from time to time and use the proceeds to pay either the seller or Funding 1 to acquire a direct share of the trust property.

## The mortgages trustee

Permanent Mortgages Trustee Limited is a private limited company incorporated in Jersey, Channel Islands. See “**The mortgages trustee**”. The mortgages trustee holds the trust property on trust for the seller and Funding 1 and, if applicable, Funding 2, under the terms of the mortgages trust deed. See “**The mortgages trust**”.

## The seller, the sponsor, the servicer, the cash manager and the Financing cash manager

Halifax plc is a bank incorporated in England and Wales as a public limited company. See “**Halifax plc**”.

Halifax plc originated all of the loans in the portfolio and has sold those loans to the mortgages trustee under the mortgage sale agreement. Halifax plc will sell additional loans to the mortgages trustee on the closing date. See “**Sale of the loans and their related security**”.

Although Halifax plc has sold or will sell the loans to the mortgages trustee, Halifax plc continues to have an interest in the loans as one of the beneficiaries of the mortgages trust under the mortgages trust deed. See “**The mortgages trust – Seller share of trust property**”.

Halifax plc is the sponsor of the asset-backed securities transaction in connection with which Financing is issuing its notes.

Halifax plc as the servicer performs administration and servicing functions in respect of the loans on behalf of the mortgages trustee and the beneficiaries, including collecting payments under the loans and taking steps to recover arrears. Halifax plc may not resign as servicer unless a successor servicer has been appointed. In addition, Halifax plc may be replaced by a successor servicer if it defaults in its obligations under the servicing agreement. See “**The servicer**” and “**The servicing agreement**”.

Halifax plc has also been appointed as the cash manager for the mortgages trustee and Funding 1 to manage their bank accounts, determine the amounts of and arrange payments of

monies to be made by them and keep certain records on their behalf. See “**Cash management for the mortgages trustee and Funding 1**”.

Halifax plc will also be appointed as the Financing cash manager to manage Financing’s bank accounts, determine the amounts of and arrange payments of monies to be made by Financing and keep certain records on Financing’s behalf. See “**Cash management for Financing**”.

Halifax plc will also provide a start-up loan to Funding 1 to be used to increase the general reserve fund and pay certain costs and expenses incurred by Funding 1 in connection with this transaction. See “**Credit structure – start-up loan**”.

### **The account bank and the Financing account bank**

Bank of Scotland will be appointed as the Financing account bank to provide banking services to Financing, and has been appointed as the account bank to Funding 1 and the mortgages trustee. See “**Cash management for the mortgages trustee and Funding 1 – Funding 1’s bank accounts**” and “**Cash management for Financing – Financing’s bank accounts**”.

### **The Financing notes**

#### ***Classes of Financing notes***

The series 1 class A Financing notes, the series 1 class B Financing notes and the series 1 class C Financing notes are collectively referred to as the series 1 Financing notes and references to the series 2 Financing notes, the series 3 Financing notes, the series 4 Financing notes and the series 5 Financing notes are to be construed in an analogous manner.

The series 1 class A Financing notes, the series 2 class A Financing notes, the series 3 class A Financing notes, the series 4 class A Financing notes and the series 5 class A Financing notes are also collectively referred to as the class A Financing notes and references to the class B Financing notes and the class C Financing notes are to be construed in an analogous manner.

The series 1 Financing notes, the series 2 Financing notes, the series 3 Financing notes, the series 4 Financing notes and the series 5 Financing notes together represent Financing’s asset-backed obligations.

#### ***Denominations of the offered Financing notes***

The offered Financing notes (in either global or definitive form) will be in denominations of \$75,000 plus integral multiples of \$1,000, and such other denominations greater than \$75,000 as the note trustee may determine.

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

On the closing date Financing will make a Financing intercompany loan to Funding 1 from the net proceeds of the issue of the Financing notes (after making appropriate currency exchanges under the relevant swaps). The Financing intercompany loan will consist of 13 separate term advances, each with a series and rating designation. The proceeds of each of the 13 classes of Financing notes will be used to make the corresponding Financing term advances to Funding 1. Each class of Financing notes corresponds to a particular Financing term advance; the relationship between the Financing notes and the Financing term advances is set out in a table under “**The Financing intercompany loan agreement**”. For more information on the Financing intercompany loan, see “– **The Financing intercompany loan**”.

Financing will repay each class of Financing notes from payments made by Funding 1 under the corresponding Financing term advance (in each case where the relevant class of Financing notes is denominated in US dollars or euro, after making appropriate currency exchanges under the relevant Financing currency swaps). The ability of Funding 1 to make payments on the Financing intercompany loan will depend to a large extent on (a) Funding 1 receiving its share of collections on the trust property, which will in turn depend principally on the collections the mortgages trustee receives on the loans and the related security and (b) the allocation of monies among the previous intercompany loans, the Financing intercompany loan and any new intercompany loans. See “– **The Financing intercompany loan**”.

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

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

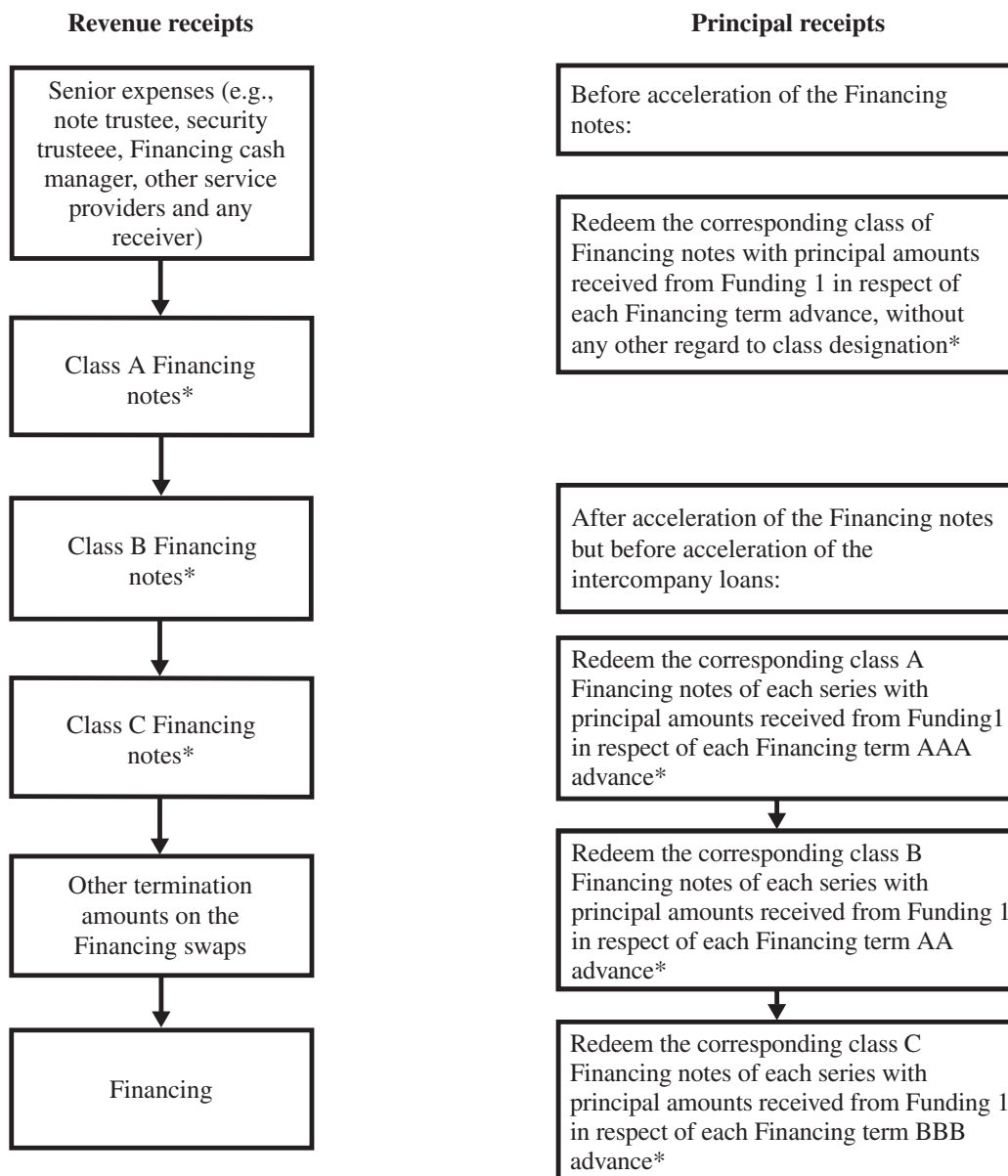
### ***Payment and ranking of the Financing notes***

On any interest payment date, payments of interest and principal on the class A Financing notes of each series will rank ahead of payments of interest and principal on the class B Financing notes of any series and the class C Financing notes of any series. Payments of interest and principal on the class B Financing notes of each series will rank ahead of payments of interest and principal on the class C Financing notes of any series. For more information on the priority of payments, see "**Cashflows**" and see also "**Risk factors – There is no assurance that the subordination rules will protect the holders of class A Financing notes or the holders of class B Financing notes from all risk of loss**".

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

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

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



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

### **Scheduled redemption**

The redemption of each class of Financing notes depends primarily on the repayment of the corresponding Financing term advance. The timing and amount of the repayment of the Financing term advances is summarised in “ – **The Financing intercompany loan**”.

Unless an asset trigger event or a non-asset trigger event (each as described in “**The mortgages trust**”) has occurred or the Financing security or the Funding 1 security has been enforced (see “– **Security granted by Funding 1 and Financing**”), the Financing notes will be redeemed as follows:

- the series 1 class A Financing notes will be redeemed in full on the interest payment date falling in March 2007;

- Financing will seek to redeem the series 2 class A Financing notes in full on their scheduled redemption date, which is the interest payment date falling in March 2009 *provided* that if there are insufficient funds on the scheduled redemption date to repay the scheduled amount on that date, then the shortfall will be payable on the following interest payment date;
- Financing will seek to redeem \$500,000,000 of the series 3 class A Financing notes on each of their scheduled redemption dates, which are the interest payment dates falling in December 2010 and March 2011, *provided* that if there are insufficient funds on a scheduled redemption date to repay the scheduled amount on that date, then the shortfall will be payable on the following interest payment date;
- Financing will seek to redeem €800,000,000 of the series 4 class A Financing notes on each of their scheduled redemption dates, which are the interest payment dates falling in June 2011 and September 2011, *provided* that if there are insufficient funds on a scheduled redemption date to repay the scheduled amount on that date, then the shortfall will be payable on the following interest payment date;
- Financing will seek to redeem the series 5 class A Financing notes in full or in part on each interest payment date falling on or after the interest payment date falling in September 2012; and
- each other class of Financing notes with a given series designation will be redeemed in full or in part on each interest payment date falling on or after the interest payment date on which all the Financing notes with that same series designation but a higher class designation have been redeemed in full.

If not redeemed earlier, Financing will redeem the Financing notes on the final maturity date of each Financing note.

Investors should note that the principal repayment schedule outlined above could result in Financing notes with lower class designations being repaid before Financing notes with higher class designations. For example, the series 1 class B Financing notes and the series 1 class C Financing notes could be repaid in full prior to principal payments being made on the series 2 class A Financing notes.

For more information on the redemption of the Financing notes, including a description of asset trigger events and non-asset trigger events, see “**The mortgages trust – Cash management of trust property – principal receipts**” and “**Cashflows**”.

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

Financing may redeem all, but not a portion, of the Financing notes of the relevant classes at Financing’s option by giving notice in accordance with the terms and conditions of the Financing notes, subject to the Financing notes not having been accelerated and the availability of sufficient funds, as described in detail in number 5 under “**Terms and conditions of the offered Financing notes**”.

If Financing exercises this option, then it may redeem or repurchase the Financing notes at their principal amount outstanding (together with any accrued and unpaid interest thereon) on the following occasions, subject to certain conditions set out in the referenced sections:

- if at any time it would become unlawful for Financing to make, fund or to allow to remain outstanding a term advance made by it under the Financing intercompany loan agreement and Financing requires Funding 1 to repay the Financing term advances (see number 5(E) under “**Terms and conditions of the offered Financing notes**”);
- in the case of all the Financing notes, on any interest payment date in the event of particular tax changes affecting Financing or the Financing notes or the Financing intercompany loan (see number 5(E) under “**Terms and conditions of the offered Financing notes**”);

- in the case of all of the Financing notes (other than the series 1 class A Financing notes), on any interest payment date falling on or after the interest payment date in September 2012 (the **Financing step-up date**), on which date the interest rate on the relevant Financing notes increases by a pre-determined amount (see number 5(D) under “**Terms and conditions of the offered Financing notes**”);
- on any interest payment date on which the aggregate principal amount of the Financing notes then outstanding is less than 10 per cent. of the aggregate principal amount outstanding of the Financing notes on the closing date (see number 5(D) under “**Terms and conditions of the offered Financing notes**”); or
- in the case of all of one or more classes of the class B Financing notes or the class C Financing notes, on any interest payment date on or after the interest payment date falling in March 2009 if the new regulatory capital framework known as the Basel II Framework has been implemented in the United Kingdom (through the implementation of the EU Capital Requirements Directive) and if each rating agency has confirmed that its then current ratings of the previous notes and the Financing notes would not be adversely affected by such sale or redemption (see number 5(F) under “**Terms and conditions of the offered Financing notes**”).

### **Withholding tax**

Payments of interest and principal with respect to the Financing notes will be subject to any applicable withholding taxes and Financing will not be obliged to pay additional amounts in relation thereto. The applicability of any UK withholding tax is discussed under “**United Kingdom taxation**”.

### **The closing date**

The Financing notes will be issued on or about 22 March 2006.

13.4.13

### **Credit enhancement**

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

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

The Financing notes will also have the benefit of derivatives instruments, namely the Funding 1 swap provided by Halifax plc and the Financing currency and interest rate swaps provided by Danske Bank A/S London Branch, IXIS Corporate & Investment Bank and Citibank, N.A., London Branch.

### **Trigger events**

If an asset trigger event or non-asset trigger event should occur, then distributions on the Financing notes may be altered, as described in “**Cashflows**”. An **asset trigger event** will occur when principal losses on the loans in the portfolio (or application of Funding 1 available principal receipts to meet deficiencies in Funding 1 available revenue receipts or to fund the liquidity reserve

fund) reach a level causing an amount to be debited to the AAA principal deficiency sub-ledger (unless such debit is made when (a) the aggregate principal amount outstanding of each of the term AA advances, the term A advances and the term BBB advances is equal to zero and (b) the sum of (i) the amount standing to the credit of the general reserve ledger and (ii) the amount standing to the credit of the Funding 1 revenue ledger together with amounts determined and due to be credited to the Funding 1 revenue ledger prior to the immediately following Funding 1 interest payment date after such debit is made, is greater than the amount necessary to pay the items in paragraphs (A) to (G) in the Funding 1 pre-enforcement revenue priority of payments on the immediately following Funding 1 interest payment date after such debit is made). A **non-asset trigger event** will occur in connection with an insolvency event in relation to the seller, termination of the seller's role as servicer under the servicing agreement without a replacement, the seller share of the trust property falling below a specified minimum seller share or the aggregate outstanding principal balance of loans comprising the portfolio falling below a specified minimum. See "**The mortgages trust – Cash management of trust property – principal receipts**".

### **Principal deficiency ledger**

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

The principal deficiency ledger has four sub-ledgers, each corresponding to term advances with the same rating designation, namely the AAA principal deficiency sub-ledger, the AA principal deficiency sub-ledger, the A principal deficiency sub-ledger and the BBB principal deficiency sub-ledger. See "**Credit structure – Principal deficiency ledger**".

### **The note trustee**

The Bank of New York will be appointed as the note trustee on the closing date. The note trustee will act as trustee for the noteholders under the trust deed.

### **The paying agents, agent bank, registrar and transfer agent**

13.5.2

Citibank, N.A. is the principal paying agent, the US paying agent, the agent bank, the registrar and the transfer agent. The paying agents will make payments on the Financing notes to noteholders, the agent bank will calculate the interest rate on the Financing notes and the registrar will maintain a register in respect of the Financing notes.

### **The loans**

The loans in the portfolio as at the closing date will comprise:

- loans which are subject to variable rates of interest set by reference to a variable base rate of interest, which the servicer determines based on general interest rates and competitive forces in the UK mortgage market from time to time;
- loans which track a variable rate of interest other than a variable rate set by the seller or the servicer (currently this rate is the Bank of England repo rate); and
- loans which are subject to fixed rates of interest.

Additional features of the loans in the portfolio are described in "**The loans – Characteristics of the loans**".

The expected portfolio as at 19 January 2006 (referred to herein as the **reference date**) consisted of 662,214 mortgage accounts, comprising mortgage loans originated by Halifax plc and secured over properties located in England, Wales and Scotland, and having an aggregate outstanding principal balance of £49,274,796,437.98 as at that date. See "**The loans – statistical information on the expected portfolio**".

In addition to the loans in the portfolio as at the closing date, the trust property may also include new loans sold by the seller to the mortgages trustee after the closing date. The new loans may include new types of loan products.

New loans sold to the mortgages trustee will be required to comply with specified criteria (see **“Sale of the loans and their related security – Sale of new loans and their related security to the mortgages trustee”**). Any new loans sold to the mortgages trustee will increase the total size of the trust property, and will increase the Funding 1 share of the trust property to the extent only that Funding 1 has paid consideration to the seller for the sale of new loans. To the extent that Funding 1 does not pay for an increased interest, the seller share of the trust property will increase by a corresponding amount.

The loans in the portfolio as at the closing date and any new loans or drawings under flexible loans, if any, added to the trust property thereafter will be secured by either first legal charges over freehold or leasehold properties located in England or Wales or first ranking standard securities over heritable or long leasehold properties located in Scotland.

The loans have been or will be originated according to the seller’s lending criteria for mortgage loans applicable at the time of origination. The seller’s current lending criteria are described further in **“The loans – Lending criteria”**. The seller has given or, as applicable, will give warranties to the mortgages trustee in the mortgage sale agreement in relation to the loans. If a loan or its related security does not comply with these warranties, then the seller will have 20 London business days in which to cure the default, failing which it will be required to repurchase the loan or loans under the relevant mortgage account and their related security from the mortgages trustee. See **“Sale of the loans and their related security – Repurchase of loans under a mortgage account”**.

### **Sale of the loans**

On the initial closing date, the seller sold the initial loans and on subsequent dates has sold further loans, together with their related security, to the mortgages trustee, subject to the terms of the mortgage sale agreement. On the closing date, the seller will sell new loans and their related security to the mortgages trustee. After the closing date, the seller may sell new loans and their related security to the mortgages trustee in order to increase or maintain the size of the trust property. The seller may increase the size of the trust property from time to time in relation to an issue of new notes by a new issuing entity, the proceeds of which may be applied to fund the sale of the new loans and their related security to the mortgages trustee, or to comply with the seller’s obligations under the mortgage sale agreement as described under **“Sale of the loans and their related security – Sale of new loans and their related security to the mortgages trustee”**.

The seller may, from time to time, change its lending criteria and any other terms applicable to the new loans or their related security sold to the mortgages trustee after the closing date so that all new loans originated after the date of that change will be subject to the new lending criteria. Notwithstanding any change to the lending criteria or other terms applicable to new loans, those new loans and their related security may only be sold to the mortgages trustee if those new loans comply with the warranties set out in the mortgage sale agreement from time to time.

When new loans are sold to the mortgages trustee, the amount of the trust property will increase. Depending on the circumstances, the increase in the trust property may result in an increase in either the seller’s share of the trust property or Funding 1’s share of the trust property. For a description of how adjustments are made to the seller’s share and Funding 1’s share of the trust property, see **“The mortgages trust”**.

Some fees payable by the mortgage borrowers, such as early repayment fees, will be given back to the seller and not allocated in the same manner as the other receipts arising from the portfolio comprised in the trust property. For more information on the mortgage sale agreement, see **“Sale of the loans and their related security”**.

### **The mortgages trust**

The mortgages trustee holds the trust property for both Funding 1 and the seller. Funding 1 and the seller each has a joint and undivided beneficial interest in the trust property. However, payments of interest and principal arising from the loans in the portfolio are allocated to Funding 1 and the seller according to Funding 1’s share of the trust property and the seller’s share of the



trust property, calculated periodically as described later in this section. As at the date of this offering circular, the beneficiaries of the mortgages trust are Funding 1 and the seller only.

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

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

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

At the closing date:

- Funding 1's share of the trust property will be approximately £31,458,089,935, representing approximately 67.80 per cent. of the trust property; and
- the seller's share of the trust property will be approximately £14,941,910,065, representing approximately 32.20 per cent. of the trust property.

The actual amounts of Funding 1's share and the seller's share of the trust property as at the closing date will not be determined until the day before the closing date which will be after the date of this offering circular.

Income from the trust property is distributed at least monthly to Funding 1 and the seller on each distribution date. A **distribution date** is the date which is two London business days after each **calculation date** (being the first day of each month or, if not a London business day, the next succeeding London business day or any other day during a month that Funding 1 acquires a further interest in the trust property). On each calculation date, Funding 1's share and the seller's share of the trust property are recalculated based on the aggregate outstanding principal balance of the loans constituting the trust property on the London business day immediately before that calculation date. See "**The mortgages trust – Funding 1 share of trust property**" for details of this recalculation.

Adjustments to the trust property may also occur if borrowers make overpayments or underpayments or take payment holidays or if borrowers do not pay premiums due on their insurance policies.

On each distribution date, income (but not principal) from the trust property is allocated to Funding 1 (after paying amounts due to the mortgages trustee or third parties) in an amount equal to the lesser of:

- what Funding 1 needs on that distribution date in order to pay interest due on the Financing term advances and to meet its other obligations as described in the Funding 1 pre-enforcement revenue priority of payments (which is the priority in which, prior to enforcement of the Funding 1 security, the cash manager will apply Funding 1 available revenue receipts on each Funding 1 interest payment date, as set out in detail in "**Security for Funding 1's obligations**" and "**Cashflows – Distribution of Funding 1 available revenue receipts before intercompany loan acceleration**") or, as applicable, the Funding 1 post-enforcement priority of payments (which is the priority in which, following the enforcement of the Funding 1 security, the security trustee will apply the amounts received following enforcement of the Funding 1 security, as set out in

“**Security for Funding 1’s obligations**” and “**Cashflows – Distribution of Funding 1 principal receipts and Funding 1 revenue receipts following intercompany loan acceleration**”) and

- Funding 1’s percentage share of the revenue receipts.

Any remaining revenue receipts are allocated to the seller.

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

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

- when, in relation to any term advance, Funding 1 is either accumulating principal during a cash accumulation period (as described below under “ – **The Financing intercompany loan**”) or is scheduled to make principal repayments on those term advances (in which case principal receipts will be paid to Funding 1 based on its cash accumulation requirements or repayment requirements in relation to those term advances);
- when a non-asset trigger event has occurred (in which case all principal receipts on the loans will be paid to Funding 1 until the Funding 1 share of the trust property is zero); or
- when an asset trigger event has occurred or the security granted by Funding 1 to the security trustee is being enforced (in which case principal receipts on the loans will be paid to Funding 1 in proportion to its share of the trust property until the Funding 1 share of the trust property is zero).

For more information on the mortgages trust, cash accumulation periods and the distribution of principal receipts on the loans, including a description of when a non-asset trigger event or an asset trigger event will occur, see “**The mortgages trust**”.

### **The Financing intercompany loan**

On the closing date, Financing will lend the sterling equivalent net issue proceeds of the issue of the Financing notes to Funding 1. Funding 1 will use the proceeds of this Financing intercompany loan to pay part of the consideration payable to the seller for loans (together with their related security) sold to the mortgages trustee on the closing date.

As described above, the Financing intercompany loan will be divided into separate term advances, each corresponding to a series and class of Financing notes. Together these advances are referred to in this offering circular as the **Financing term advances**. The Financing term AAA advances, Financing term AA advances and Financing term BBB advances reflect the ratings expected to be assigned to the class A Financing notes, class B Financing notes and class C Financing notes, respectively, by the rating agencies on the closing date. These ratings are set out in “– **Summary of the Financing notes**”.

A term advance may be a bullet term advance, scheduled amortisation term advance or pass-through term advance. A **bullet term advance** is a term advance that is scheduled to be repaid in full on one Funding 1 interest payment date. A **scheduled amortisation term advance** is a term advance that is scheduled to be repaid in instalments on more than one Funding 1 interest payment date. Such instalment amounts and repayment dates are referred to as **scheduled amortisation instalments**. A **pass-through term advance** is a term advance that has no scheduled repayment date other than its final repayment date. The repayment schedule for the Financing term advances, and their correspondence with Financing notes, is set out below.

Financing term advance	Type of term advance	Corresponding Financing notes	Scheduled repayment date(s)	Amount on each date
Series 1 term AAA advance	bullet term advance	series 1 class A Financing notes	March 2007	\$1,500,000,000
Series 2 term AAA advance	bullet term advance	series 2 class A Financing notes	March 2009	\$1,750,000,000
Series 3 term AAA advance	scheduled amortisation term advance	series 3 class A Financing notes	December 2010 and March 2011	\$500,000,000
Series 4 term AAA advance	scheduled amortisation term advance	series 4 class A Financing notes	June 2011 and September 2011	€800,000,000
All other Financing term advances	pass-through term advance			N/A

Funding 1 will repay the Financing intercompany loan primarily from payments received from Funding 1's share of the trust property. Financing will make payments of interest and principal on the Financing notes from payments of interest and principal made by Funding 1 under the Financing intercompany loan. As further described in "**Cashflows – Distribution of Funding 1 available principal receipts – Due and payable dates of Financing term advances**", under the terms of the Financing intercompany loan agreement, Funding 1 is required, prior to the occurrence of a trigger event or enforcement of the security granted by Funding 1 or Financing, to:

- repay each Financing term advance which is a bullet term advance on the Funding 1 interest payment date specified in the table above;
- repay each Financing term advance which is a scheduled amortisation term advance in the scheduled amortisation instalments and on the Funding 1 interest payment dates specified in the table above, provided that to the extent there are insufficient funds to repay a scheduled amortisation instalment on the relevant Funding 1 interest payment date, the shortfall will be repaid on subsequent Funding 1 interest payment dates to the extent of principal receipts available to Funding 1 for that purpose, until that scheduled amortisation term advance is fully repaid;
- repay each other Financing term advance (which will be pass-through term advances) to the extent of principal receipts available to Funding 1 for that purpose on each Funding 1 interest payment date on or after the Funding 1 interest payment date on which the Financing term advances with the same series designation and a higher rating designation have been fully repaid;

Funding 1 will seek to accumulate funds for principal repayments on Financing term advances which are bullet term advances or scheduled amortisation instalments over a period of time (called a cash accumulation period) in order to repay such Financing term advances to Financing:

- as a lump sum payment in the case of bullet term advances, on the interest payment dates specified above or
- in instalments in the case of scheduled amortisation instalments, in the amounts and on the interest payment dates specified above.

A **cash accumulation period** for a term advance is the estimated number of months prior to the relevant scheduled repayment date necessary for Funding 1 to accumulate enough principal receipts on the loans to make the scheduled repayment on that term advance on that date. The formulas for determination and extension of cash accumulation periods are described under "**The mortgages trust – Cash management of trust property – principal receipts**" and "**Cashflows – Distribution of Funding 1 available principal receipts – Repayment of all term advances before a trigger event and before intercompany loan acceleration or acceleration of all notes**".

During the cash accumulation period for any bullet term advance or scheduled amortisation instalment, Funding 1 will continue to make principal repayments on any other term advances that are then due and payable, subject to having sufficient monies therefor after meeting its obligations with a higher priority. See **“Cashflows – Distribution of Funding 1 available principal receipts – Repayment of all term advances before a trigger event and before intercompany loan acceleration or acceleration of all notes”**.

The transaction has been structured in the expectation that Funding 1 will receive sufficient funds under the mortgages trust on or before each scheduled repayment date of the bullet term advances and scheduled amortisation instalments in order to repay to Financing those Financing term advances, so that Financing can redeem the corresponding Financing notes on their scheduled redemption dates. **No assurance can be given that Funding 1 will accumulate sufficient funds during the cash accumulation period relating to any bullet term advance or any scheduled amortisation instalment owed to Financing to enable it to repay the relevant term advance to Financing so that the corresponding Financing notes will be redeemed in their scheduled amounts and on their scheduled redemption dates.**

Whether Funding 1 will have sufficient funds to repay the Financing term advances, on the dates described in this section, will depend on a number of factors. See **“Risk factors – The yield to maturity of the Financing notes may be adversely affected by prepayments or redemptions on the loans”**, **“Risk factors – Financing’s ability to redeem the Financing notes is affected by the rate of prepayment on the loans”** and **“Risk factors – Financing’s ability to redeem the class A Financing notes of a series on their scheduled redemption dates is particularly sensitive to the rate of prepayment on the loans”**.

In certain circumstances, payment on the scheduled amortisation term advances will be deferred. This will occur if, on a Funding 1 interest payment date, one or more bullet term advances are within a cash accumulation period at that time (irrespective of whether any scheduled amortisation instalments are then in a cash accumulation period) and either:

- the quarterly CPR (which is a measure of the annualised principal payment rate on the loans in the portfolio and is defined in the Glossary) is less than 10 per cent.; or
- both:
  - (i) the quarterly CPR is equal to or greater than 10 per cent., but less than 15 per cent.; and
  - (ii) the annualised CPR is less than 10 per cent.

In these circumstances, the scheduled amortisation term advances will be entitled to receive principal repayments only to the extent permitted under the scheduled amortisation repayment restrictions (see **“Cashflows – Distribution of Funding 1 available principal receipts – Repayment of all term advances before a trigger event and before intercompany loan acceleration or acceleration of all notes”**).

Prior to the occurrence of a trigger event or the acceleration of the intercompany loans or of the notes of each and every issuing entity, Funding 1 is generally required to repay principal on the term advances (after repaying amounts owed to the Funding 1 liquidity facility provider and after replenishing the reserve funds) based on their respective rating designations. This means that the term AAA advances are repaid before the term AA advances, which in turn are repaid before the term A advances, which in turn are repaid before the term BBB advances. There are a number of exceptions to this priority of payments. Some of these exceptions are summarised below, but for further information you should read **“Cashflows”**.

In certain circumstances, payment on the term BBB advances, the term A advances and the term AA advances will be deferred. Those circumstances are that as at the relevant Funding 1 interest payment date:

- there is (as a consequence of principal losses on the loans or application of Funding 1 available principal receipts to meet deficiencies in Funding 1 available revenue receipts or to fund the liquidity reserve fund) a debit balance on a sub-ledger of the principal

deficiency ledger after application of the Funding 1 available revenue receipts on the relevant Funding 1 interest payment date (see “**Credit structure – Principal deficiency ledger**”); or

- the adjusted general reserve fund level is less than the general reserve fund threshold, as those terms are defined in the Glossary; or
- the aggregate outstanding principal balance of loans in the mortgages trust, in respect of which the aggregate amount in arrears is more than three times the monthly payment then due, is more than five per cent. of the aggregate outstanding principal balance of loans in the mortgages trust,

and, as at that date, there are any term AAA advances outstanding or, in respect of the term BBB advances, any term A advances are outstanding or, in respect of the term A advances, any term AA advances are outstanding (whether or not any such term advances are then due and payable). Any deferral of the principal amounts due on the term BBB advances, the term A advances or the term AA advances will result in deferral of principal amounts due on the corresponding classes of notes.

Furthermore, if, on a Funding 1 interest payment date:

- one or more bullet term advances and/or scheduled amortisation instalments are then in a cash accumulation period; and
- the quarterly CPR is less than 15 per cent.; and
- there is a shortfall in the amount of cash accumulated at that time (called a **cash accumulation shortfall**; see “**Cashflows – Distribution of Funding 1 available principal receipts – Rule (1) – Repayment deferrals for pass-through term advances and/or scheduled amortisation instalments**”),

then, on or before their step-up dates, the Financing term AA advances and the Financing term BBB advances will be entitled to principal repayments only to the extent permitted under the pass-through repayment restrictions (see “**Cashflows – Distribution of Funding 1 available principal receipts – Repayment of all term advances before a trigger event and before intercompany loan acceleration or acceleration of all notes**”).

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

If the Financing intercompany loan is not repaid on the Financing step-up date, then the amount of principal receipts that Funding 1 can allocate to repay the outstanding Financing term advances (other than bullet term advances or scheduled amortisation instalments owed to Financing) on a Funding 1 interest payment date may not exceed the proportion that the Financing intercompany loan bears to the aggregate outstanding principal balance of all of the intercompany loans.

If the Financing notes (but not the notes of every other issuing entity) are accelerated, then the Financing term advances will be immediately due and payable, but the Funding 1 security will not be automatically enforced unless Funding 1 is also in default under the Financing intercompany loan agreement, and Funding 1 will allocate its principal receipts to repay the outstanding Financing term advances based on the proportion that the Financing intercompany loans bear to the aggregate outstanding principal balance of all of the intercompany loans.

If the Financing notes (and the notes of every other issuing entity) are or have been accelerated, then the Financing term advances will be immediately due and payable, but the Funding 1 security will not be automatically enforced unless Funding 1 is also in default under any of the relevant intercompany loan agreements, and Funding 1 will allocate its principal receipts to repay the various term advances in order of rating designation, from highest to lowest.

If a trigger event occurs or the intercompany loans are accelerated, then principal receipts will be allocated as described in “**Cashflows**”.

### **The security trustee**

The Bank of New York was appointed security trustee in respect of the security created under the Funding 1 deed of charge pursuant to a deed of appointment dated 25 July 2003. The Bank of New York will also be appointed to act as the security trustee for the Financing secured creditors under the Financing deed of charge on the closing date. See “**Security for Financing’s obligations**”.

### **Security granted by Funding 1 and Financing**

On the initial closing date, Funding 1 entered into a deed of charge to secure its obligations to its then existing secured creditors. Funding 1 subsequently entered into several deeds of accession to the Funding 1 deed of charge pursuant to which the previous issuing entities, among others, acceded to the Funding 1 deed of charge as Funding 1 secured creditors. To secure its obligations to Financing under the Financing intercompany loan and to Halifax plc as start-up loan provider, Funding 1 will on the closing date enter into a deed of accession to the Funding 1 deed of charge with Financing, the start-up loan provider and Funding 1’s other secured creditors.

In addition, on 12 March 2004 Funding 1 granted additional fixed and floating security in favour of the security trustee, to secure the same obligations as under the Funding 1 deed of charge (the **second supplemental Funding 1 deed of charge**). The second supplemental Funding 1 deed of charge is principally governed by English law but contains certain Scots law provisions. By their execution of the Financing deed of accession, the parties thereto will accede to the second supplemental Funding 1 deed of charge.

Together, the deed of charge, the deeds of accession and the second supplemental Funding 1 deed of charge (except where the context otherwise requires) are referred to as the Funding 1 deed of charge.

Besides Financing, Funding 1’s secured creditors on the closing date will be the previous issuing entities (in relation to their respective previous intercompany loans), the Funding 1 swap provider, the Funding 1 GIC provider, the cash manager, the Funding 1 liquidity facility provider, the account bank, the corporate services provider, the security trustee, the start-up loan provider (in respect of each of the start-up loans) and the seller.

Pursuant to the terms of the Funding 1 deed of charge, Funding 1 has granted security over all of its assets in favour of the security trustee. On the closing date, the security trustee will continue to hold that security and the additional security created by the second supplemental Funding 1 deed of charge for the benefit of the secured creditors of Funding 1 (which from the closing date will include Financing). This means that Funding 1’s obligations to Financing under the Financing intercompany loan and to the other secured creditors will be secured over the same assets. Except in very limited circumstances, only the security trustee will be entitled to enforce the security granted by Funding 1. For more information on the security granted by Funding 1, see “**Security for Funding 1’s obligations**”. For details of post-enforcement priority of payments, see “**Cashflows**”.

To secure Financing’s obligations to the noteholders and to Financing’s other secured creditors, Financing will grant security over all of Financing’s assets in favour of the security trustee. The security trustee will hold that security for the benefit of Financing’s secured creditors, which will be the noteholders, the security trustee, the note trustee, the agent bank, the Financing cash manager, the Financing account bank, the paying agents, the Financing swap providers and the corporate services provider. Except in very limited circumstances, only the security trustee will be entitled to enforce the security granted by Financing. For more information on the security granted by Financing, see “**Security for Financing’s obligations**”. For details of the post-enforcement priority of payments, see “**Cashflows**”.

## Swap providers

The Funding 1 swap provider is Halifax plc. The **Financing swap providers** are:

- for the series 1 Financing notes, Danske Bank A/S London Branch
- for the series 2 Financing notes, Danske Bank A/S London Branch
- for the series 3 Financing notes, IXIS Corporate & Investment Bank and
- for the series 4 Financing notes, Citibank, N.A., London Branch.

For more information about the Funding 1 swap provider and the Financing swap providers, see **“The swap providers”**.

The Funding 1 swap provider has entered into the Funding 1 swap agreement, which is an ISDA master agreement (including a schedule and a confirmation) with Funding 1 and the security trustee. The Funding 1 swap agreement will be amended and restated on the closing date. The Financing dollar currency swap providers and Financing euro currency swap provider will enter into the Financing dollar currency swap agreements and the Financing euro currency swap agreements, respectively, which are ISDA master agreements (each including a schedule and a confirmation), with Financing and the security trustee.

## Swap agreements

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

In relation to the previous issue by the first issuing entity, Funding 1 entered into the Funding 1 swap under the Funding 1 swap agreement. On subsequent dates the swap agreement was amended and restated in relation to the previous issues by the other previous issuing entities.

In relation to this issue, in order to provide a hedge against the possible variance between:

- the mortgages trustee variable base rate payable on the variable rate loans, the rates of interest payable on the tracker rate loans and the fixed rates of interest payable on the fixed rate loans; and
- a LIBOR-based rate for three-month sterling deposits,

the Funding 1 swap agreement may be amended and restated on the closing date in order to adjust the margins that will be applied to the three-month LIBOR rate by reference to which amounts payable by the Funding 1 swap provider (if any) will be calculated.

Borrowers will make payments under the loans in sterling. Payments made by the mortgages trustee to Funding 1 under the mortgages trust deed and payments made by Funding 1 to Financing under the Financing intercompany loan will be made in sterling. To enable Financing to make payments on the dollar-denominated and euro-denominated Financing notes in their respective currencies, Financing will enter into the Financing dollar currency swap agreements and the Financing euro currency swap agreements. The terms of the swaps are described in greater detail in **“The swap agreements”**.

## Post-enforcement call option agreement

Pursuant to the terms of an option granted to Permanent PECO Limited under a post-enforcement call option agreement, following the enforcement of the security granted by Financing pursuant to the Financing deed of charge, the option grantee can require the transfer to it of all of the class B Financing notes and/or all of the class C Financing notes, as the case may be. The class B noteholders and the class C noteholders will be bound to transfer the Financing notes to Permanent PECO Limited in these circumstances and will be paid a nominal amount only for that transfer. See **“Permanent PECO Limited”**.

## Rating of the Financing notes

The issuance of the Financing notes is conditioned on the assignment of the following minimum ratings by Standard & Poor's, Moody's and Fitch on the closing date.

Class of Financing notes	Moody's	Standard & Poor's	Fitch
series 1 class A.....	P-1	A-1+	F1+
series 2 class A.....	Aaa	AAA	AAA
series 3 class A.....	Aaa	AAA	AAA
series 4 class A.....	Aaa	AAA	AAA
series 5 class A.....	Aaa	AAA	AAA
series 1 class B.....	Aa3	AA	AA
series 2 class B.....	Aa3	AA	AA
series 3 class B.....	Aa3	AA	AA
series 4 class B.....	Aa3	AA	AA
series 1 class C.....	Baa2	BBB	BBB
series 2 class C.....	Baa2	BBB	BBB
series 3 class C.....	Baa2	BBB	BBB
series 4 class C.....	Baa2	BBB	BBB

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 in the future so warrant.

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

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

## Listing

Application will be made to the UK Listing Authority for each class of the Financing notes to be admitted to the official list maintained by the UK Listing Authority. Application has also been made to the London Stock Exchange for each class of the Financing notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market.

### **The previous issuing entities, new issuing entities, new intercompany loans, new start-up loans and Funding 2**

Each of the previous issuing entities is a wholly-owned subsidiary of Holdings, issued its respective previous notes and used the sterling equivalent of the net issue proceeds to make the respective previous intercompany loans to Funding 1 on its respective previous closing dates.

It is not necessary to obtain your approval for any issuance of new notes, nor is it necessary to provide you notice of any such issuance.

Funding 1's obligations under the previous intercompany loans are secured by the same security that secures the Financing intercompany loan. In addition, it is expected that in the future, subject to satisfaction of certain conditions, including no downgrade of the Financing notes by the rating agencies as a result of such establishment, Holdings will establish additional wholly-owned subsidiary companies to issue new notes to investors. Any new issuing entities will loan the proceeds of any issue of new notes to Funding 1 pursuant to the terms of a new intercompany loan agreement. As set forth in detail in "**The Financing intercompany loan agreement – New intercompany loan agreements**", Funding 1 will use the proceeds of a new intercompany loan to do one or more of the following:

- pay the seller for new loans and their related security to be sold to the mortgages trustee;



- pay the seller for a portion of the seller's share of the trust property;
- refinance an intercompany loan or intercompany loans outstanding at that time; and/or
- make a deposit in the general reserve fund.

Regardless of which of these uses of proceeds is selected, all notes issued (including your Financing notes) will be secured ultimately over Funding 1's share of the trust property and will be subject to the ranking described in the following paragraphs.

Funding 1 will apply amounts it receives from the trust property to pay amounts it owes under the term advances (including the Financing term advances) without distinguishing when the interest in the trust property was acquired or when the relevant term advance was made. Funding 1's obligations to pay interest and principal to Financing on the Financing term advances and to the previous issuing entities or new issuing entities on their respective term advances will rank either equally with, ahead of or after each other, primarily depending on the relative rating designation of each such term advance. Funding 1 will pay interest and (subject to their respective scheduled repayment dates and the rules for application of principal receipts described in "**Cashflows – Distribution of Funding 1 available principal receipts – Repayment of all term advances before a trigger event and before intercompany loan acceleration or acceleration of all notes**") principal on the term advances in order of rating designation, from highest to lowest. Accordingly, any term advance in relation to previous notes or new notes that has an AAA rating designation will rank equally with Funding 1's payments of interest and (subject to their respective scheduled repayment dates and the rules referred to in this section) principal on the Financing term AAA advances and will rank ahead of Funding 1's payments of interest and principal on the Financing term AA advances and the Financing term BBB advances.

It should be noted however, that although a Financing term advance, a previous term advance and any new term advance may rank equally in terms of rating designation, principal payments may be made earlier on the previous term advances or the new term advances or the Financing term advances, as the case may be, depending on their scheduled repayment dates and final maturity dates.

You should also note that during a cash accumulation period for any bullet term advance or scheduled amortisation instalment under an intercompany loan (for example, the Financing intercompany loan), Funding 1 will continue to make principal repayments in respect of amounts due and payable in respect of pass-through term advances under any intercompany loan, including the Financing intercompany loan, provided that the quarterly CPR is greater than 15 per cent. and there is no cash accumulation shortfall at that time.

If Funding 1 enters into a new intercompany loan agreement, it will also, if required, enter into a new Funding 1 swap to address the potential interest rate mismatches between the loans and the new intercompany loan. Each new Funding 1 swap and the Funding 1 swap will rank without any priority among themselves, but in proportion to the amounts due and, in each case, ahead of payments on the term AAA advances, as described further in "**The swap agreements**". The various margins on the fixed, floating and tracker elements of the Funding 1 swap may be varied from time to time by agreement between Funding 1 and the Funding 1 swap provider.

As Funding 1 enters into new intercompany loan agreements, it will, if required, simultaneously enter into new start-up loan agreements with a new start-up loan provider to provide for the costs of the new issue and for extra amounts to be credited to the general reserve fund.

Pursuant to the obligations under the Listing Rules of the UK Listing Authority, if a new issuing entity is established to issue new notes, then Financing will notify or procure that notice is given of that new issue.

Funding 2 may in the future issue (directly or indirectly) new notes from time to time and use the proceeds to pay either the seller or Funding 1 for a direct share of the trust property. See "**Risk Factors – Holdings has established another company, Funding 2, which may become an additional beneficiary under the mortgages trust**".

### **United Kingdom tax status**

You are referred to “**United Kingdom taxation**” for a discussion of certain UK tax matters, including UK withholding tax on interest payments to noteholders, liability of US resident noteholders to UK tax in respect of principal, interest and disposal of the Financing notes, UK stamp duty or stamp duty reserve tax and liability of Funding 1, Financing and the mortgages trustee to UK tax.

### **United States tax status**

Although there is no authority on the treatment of instruments substantially similar to the offered Financing notes, Financing intends to take the position that the offered class A and class B Financing notes will be treated as debt for US federal income tax purposes and the offered class C Financing notes should be treated as debt for US federal income tax purposes. In this regard, Financing will obtain an opinion from its US tax advisers. This opinion will be based upon, among other things, certain representations and assumptions authorised by Financing. The US tax advisers will also provide in their opinion that, assuming compliance with the transaction documents, the mortgages trustee acting in its capacity as trustee of the mortgages trust, Funding 1 and Financing will not be subject to US federal income tax. See “**United States federal income taxation**” for the relevant limitations relating to the foregoing and a complete discussion of the characterisation of (and the consequences of owning) the offered Financing notes for US federal income tax purposes and the tax status of the mortgages trustee, Funding 1 and Financing as just described.

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

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

### **ERISA considerations for investors**

The offered Financing notes are eligible for purchase by employee benefit and other plans subject to Section 406 of ERISA or Section 4975 of the Code and by governmental plans that are subject to any state, local or other federal law of the United States that is substantially similar to Section 406 of ERISA or Section 4975 of the Code, subject to consideration of the issues described herein under “**ERISA considerations**”. See “**ERISA considerations**”.

### **Fees**

The following table sets out the on-going fees to be paid by Financing, the eight previous issuing entities, Funding 1 and the mortgages trustee to transaction parties. These fees are to be paid from the mortgages trustee’s receipts on the loans in the portfolio or by the previous issuing entities and Financing from their receipts on the previous term advances or the Financing term advances, as applicable, in each case in accordance with the applicable priority of payments. Each of these fees is subject to change at any time without your notification or approval, including upon the appointment of any successor service provider pursuant to the applicable transaction document.

<b>Type of fee</b>	<b>Amount of fee</b>	<b>Priority in cashflow</b>	<b>Frequency</b>
Servicing fee	0.05 per cent. per year of the aggregate outstanding principal amount of the trust property	Ahead of all revenue amounts payable to Funding 1 by the mortgages trustee	Each distribution date
Mortgages trustee fee	£1,000 each year	Ahead of all revenue amounts payable to Funding 1 by the mortgages trustee	On each anniversary of the initial closing date
Funding 1 cash management fee	0.025 per cent. per year of principal amount outstanding of the notes	Ahead of all term advances	Each Funding 1 interest payment date
Cash management fee of each previous issuing entity	Estimated 0.025 per cent. per year of the principal amount outstanding of the applicable previous intercompany loan	Ahead of all outstanding previous notes of such previous issuing entity	Each interest payment date
Corporate expenses of each previous issuing entity	Estimated £5,200 each year	Ahead of all outstanding previous notes of such previous issuing entity	Each interest payment date
Financing cash management fee	Estimated 0.025 per cent. per year of the principal amount outstanding of the Financing intercompany loan	Ahead of all outstanding Financing notes	Each interest payment date
Corporate expenses of mortgages trustee	Estimated £1,750 each year	Ahead of all revenue amounts payable to Funding 1 by the mortgages trustee	Each distribution date
Corporate expenses of Funding 1	Estimated £1,200 each year	Ahead of all Financing term advances	Each Funding 1 interest payment date
Corporate expenses of Financing	Estimated £5,200 each year	Ahead of all outstanding Financing notes	Each interest payment date
Commitment fee under Funding 1 liquidity facility	0.08 per cent. of undrawn amount under Funding 1 liquidity facility from time to time	Ahead of all Financing term advances	Each Funding 1 interest payment date
Fee payable by Funding 1 to security trustee (including paying agents)	£2,500 each year	Ahead of all Financing term advances	Each Funding 1 interest payment date

Subject to the following, the fees set out in the preceding table are, where applicable, inclusive of value added tax, which is currently assessed at 17.5 per cent. The fees will be subject to adjustment if the applicable rate of value added tax changes. The commitment fee under the Funding 1 liquidity facility is exclusive of value added tax, if any, chargeable thereon.

## Risk factors

*This section describes the principal risk factors associated with an investment in the Financing notes. These risk factors are material to an investment in the Financing notes and in Financing. If you are considering purchasing Financing notes, you should carefully read and think about all the information contained in this document, including the risk factors set out here, prior to making any investment decision.*

9.3.1  
7.3.1  
13.2

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

The Financing notes will not represent an obligation or be the responsibility of Halifax plc or any of its affiliates, the initial purchasers, the managers of the offering outside the United States of the Financing notes that are not offered by this offering circular, the mortgages trustee, the note trustee or any other party to the transaction other than Financing.

### **Restrictions on transfers of the Financing notes; Lack of liquidity**

The offered Financing notes will not be registered under the Securities Act or the securities laws of any jurisdiction. Consequently, the offered Financing notes are not transferable other than pursuant to an exemption under the Securities Act and in accordance with the laws of each applicable jurisdiction and subject to the restrictions described herein. See *Transfer Restrictions* below.

The Financing notes are a new issue of securities for which there is currently no market. Neither the issuing entity nor the managers intend to create a market for the Financing notes. Accordingly, no assurance can be given as to the development or liquidity of any market for the Financing notes. Because of the restrictions on transfers of the Financing notes, investors must be able to bear the risks of their investment in the Financing notes for an indefinite period of time.

### **Financing has a limited set of resources available to make payments on the Financing notes**

Financing's ability to make payments of principal and interest on the Financing notes and to pay its operating and administrative expenses will depend primarily on the funds being received under the Financing intercompany loan. In addition, Financing will rely on the Financing dollar currency swaps and the Financing euro currency swaps to provide payments on the Financing notes denominated in US dollars and euro, respectively.

Funding 1 has entered into the Funding 1 liquidity facility, which is available (subject to satisfying certain conditions precedent) to pay certain amounts due and payable on the term advances made by Financing and the previous issuing entities. In the event that the seller suffers certain ratings downgrades, Funding 1 will be required to fund the liquidity reserve fund, though there can be no assurance that Funding 1 will have sufficient resources to do so at such time, and Funding 1 may draw money from the liquidity reserve fund (see "**Credit Structure – Liquidity reserve fund**"), to the extent it has been funded, to pay amounts due to Financing.

Financing will not have any other significant sources of funds available to meet its obligations under the Financing notes and/or any other payments ranking in priority to the Financing notes.

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

Funding 1's ability to pay amounts due on the Financing term advances will depend upon:

- Funding 1 receiving enough funds from its entitlement to the trust property on or before each Funding 1 interest payment date;
- Funding 1 receiving the required funds from the Funding 1 swap provider;
- the amount of funds credited to the general reserve fund (as described in "**Credit structure – General reserve fund**");
- the amount of funds credited to the liquidity reserve fund (as described in "**Credit structure – Liquidity reserve fund**"); and

- the allocation of funds between the Financing term advances, the previous term advances and any new term advances (as described in “**Cashflows**”).

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

Funding 1 will be obliged to pay revenue receipts due to Financing under the Financing intercompany loan only to the extent that it has revenue receipts left over after making payments ranking in priority to Financing, such as payments of certain fees and expenses of Funding 1 and payments on certain term advances (under any intercompany loan agreement) with higher rating designations.

Funding 1 will be obliged to pay principal receipts due to Financing under the Financing intercompany loan only to the extent that it has principal receipts available for that purpose after repaying amounts ranking in priority to Financing (including repaying any previous term advances or new term advances with higher rating designations), as described in “**Cashflows – Distribution of Funding 1 available principal receipts – Repayment of all term advances before a trigger event and before intercompany loan acceleration or acceleration of all notes**”.

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

**Failure by Funding 1 to meet its obligations under the Financing intercompany loan agreement would adversely affect payments on the Financing notes**

If Funding 1 does not make payments due and payable on the Financing intercompany loan, then Financing may not have enough money to make payments on the Financing notes, and in addition Financing will have only limited recourse to the assets of Funding 1. If Funding 1 does not pay amounts under the Financing intercompany loan because it does not have enough money available, those amounts will be deemed not to be due and payable, so there will not be an event of default under the Financing intercompany loan, and Financing will not have recourse to the assets of Funding 1 in that instance.

**On the final repayment date of the Financing intercompany loan any outstanding amounts in respect of the Financing term AA advances and the Financing term BBB advances will be extinguished, which would cause a loss on any class B Financing notes and any class C Financing notes still outstanding**

The transaction has been structured in the expectation that on the final repayment date of the Financing intercompany loan in June 2042, the interest and principal due and payable on the Financing term AA advances and the Financing term BBB advances will be in an amount equal to the sum available to pay all outstanding interest and/or principal (including interest and/or principal deferred and unpaid) on the Financing term AA advances and the Financing term BBB advances (after paying amounts of a higher priority as required by the Funding 1 priority of payments).

If there is a shortfall between the amount available to pay such interest and/or principal and the amount required to pay all outstanding interest and/or principal on the Financing term AA advances and the Financing term BBB advances, then the shortfall will be deemed to be not due and payable under the Financing intercompany loan agreement and Financing will not have any claim against Funding 1 for the shortfall.

If there is such a shortfall in interest and/or principal payments under the Financing intercompany loan agreement, you may not receive the full amount of interest and/or principal which would otherwise be due and payable on the class B Financing notes or the class C Financing notes outstanding.

**Enforcement of the Financing security is the only remedy for a default in Financing’s obligations, and the proceeds of that enforcement may not be enough to make payments on the Financing notes**

The only remedy for recovering amounts on the Financing notes is through the enforcement of the Financing security. Financing has no recourse to the assets of Funding 1 unless Funding 1 has also defaulted on its obligations under the Financing intercompany loan and the Funding 1 security has been enforced.

If the security created as required by the Financing deed of charge is enforced, the proceeds of enforcement may be insufficient to pay all principal and interest due on the Financing notes.

**There is no assurance that the subordination rules will protect the holders of class A Financing notes or the holders of class B Financing notes from all risk of loss**

13.4.6

The transaction has been structured in the expectation that each series of Financing notes will be redeemed in full prior to the redemption of the series of Financing notes with a higher numerical designation, e.g., that the series 1 Financing notes will be redeemed in full prior to the redemption of any other series of Financing notes.

This means, for example, that the class B notes and class C notes of series 1 are expected to be redeemed before the class A notes of the other series, even though the latter notes have a higher class designation than the former notes.

However, there is no assurance that a given series of Financing notes will be redeemed in full before all the series of Financing notes with a numerically higher series designation. In each case, redemption of the Financing notes is ultimately dependent on, among other things, repayment and redemptions on the loans and on the rating designation of the related Financing term advances. Further, if on any interest payment date, amounts are due and payable in respect of the class A Financing notes of any series and amounts are due and payable in respect of the class B Financing notes of any series and/or the class C Financing notes of any series, then payments of principal will be made on the class A Financing notes in priority to payments of principal on the class B Financing notes and the class C Financing notes. Similarly, if on any interest payment date, amounts are payable in respect of the class B Financing notes of any series and the class C Financing notes of any series, then payments of principal will be made on the class B Financing notes in priority to payments of principal on the class C Financing notes. See “**Maturity and prepayment considerations**”.

**There may be conflicts between your interests and the interests of any of Financing’s other secured creditors (including more senior noteholders), and the interests of those secured creditors may prevail over your interests**

The Financing deed of charge requires the security trustee to consider the interests of each of the Financing secured creditors in the exercise of all of its powers, trusts, authorities, duties and discretions, but requires the security trustee, in the event of a conflict between the interests of holders of notes with a higher class designation and the interests of holders of notes with a lower class designation or any of the other Financing secured creditors, to consider only the interests of holders of notes with a higher class designation.

**The security trustee may agree modifications to the Financing transaction documents without your prior consent, which may adversely affect your interests**

Pursuant to the terms of the Funding 1 deed of charge and the Financing deed of charge, the security trustee may, without the consent or sanction of Funding 1’s secured creditors or Financing’s secured creditors, concur with any person in making or sanctioning any modifications to the transaction documents:

- which in the opinion of the security trustee it may be expedient to make, provided that the security trustee is of the opinion that such modification will not be materially prejudicial to the interests of the secured creditors or, if it is not of that opinion in relation to any secured creditor, such secured creditor has given its written consent to such modification; or

- which in the opinion of the security trustee is made to correct a manifest error or an error established as such to the satisfaction of the security trustee or is of a formal, minor or technical nature.

The security trustee will be entitled to assume that the exercise of its discretions will not be materially prejudicial to your interests if each of the rating agencies has confirmed that the then current rating by it of the notes would not be adversely affected by such exercise.

In addition, as described in “**Security for Funding 1’s obligations – Appointment, powers, responsibilities and liabilities of the security trustee**”, the security trustee will give its consent to any modifications to the principal transaction documents to which it is a party that are requested by Funding 1 or the cash manager, provided that Funding 1 or the cash manager certifies to the security trustee in writing that such modifications are required in order to accommodate, among other things: new intercompany loan agreements, issue of new types of notes by new issuing entities, addition of relevant creditors, inclusion of Funding 2 as a mortgages trust beneficiary, issue (directly or indirectly) of notes by Funding 2, sale of new types of loans to the mortgages trustee, changes to the general reserve fund or liquidity reserve fund required amounts or funding, changes to the asset trigger events and non-asset trigger events or inclusion of an additional Funding 1 liquidity facility, subject to applicable conditions.

The modifications required to give effect to the matters listed above may include, among other matters, amendments to the provisions of the Funding 1 deed of charge relating to the application of monies. Accordingly, there can be no assurance that the effect of the modifications to the transaction documents will not ultimately adversely affect your interests. Any modifications to the transaction documents will require the actual consent of the Funding 1 liquidity facility provider, the Funding 1 swap provider and each of the Financing swap providers (in respect of each document to which they are a party), as applicable, such consent not to be unreasonably withheld and to be deemed given if no written response (affirmative or negative) is given within 10 business days after the written request for consent is sent to each such party.

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

13.4.6

The trust deed and the terms of the Financing notes will provide that the note trustee is to have regard to the interests of the holders of all the classes of Financing notes. There may be circumstances, however, where the interests of one class of the noteholders conflict with the interests of another class or classes of the noteholders. The trust deed and the terms of the Financing notes will provide that where, in the sole opinion of the note trustee there is such a conflict, then:

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

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

There may also be circumstances where the interests of the class A noteholders of one series of the Financing notes conflicts with the interests of the class A noteholders of another series of the Financing notes. Similarly, there may be circumstances where the interests of the class B noteholders of one series of the Financing notes conflicts with the interests of the class B noteholders of another series of the Financing notes or the interests of the class C noteholders of one series of the Financing notes conflicts with the interests of the class C noteholders of another series of the Financing notes.

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

Similar provisions will apply in relation to requests in writing from holders of a specified percentage of the principal amount outstanding of the Financing notes of each class within each series (the principal amount outstanding being converted into sterling for the purposes of making the calculation). You should note that as a result of repayments of principal first to the series 1 Financing notes, then to the series 2 Financing notes, then to the series 3 Financing notes, then to the series 4 Financing notes and then to the series 5 Financing notes, the principal amount outstanding of each series of the Financing notes will change after the closing date.

### **Holdings has established another company, Funding 2, which may become an additional beneficiary under the mortgages trust**

Holdings has established a separate entity, Funding 2, which may issue (directly or indirectly) notes from time to time and use the proceeds to pay for a direct interest in the trust property rather than lending the proceeds to Funding 1. Simultaneously with the acquisition by Funding 2 of an interest in the trust property, the seller and Funding 1, as existing beneficiaries of the mortgages trust, would be required to agree to a decrease in their beneficial interests in the trust property (which would require a partial release of security by Funding 1 over its share in the trust property).

The seller, Funding 1 and Funding 2 would each have a joint and undivided interest in the trust property but their entitlement to the proceeds from the trust property would be in proportion to their respective shares of the trust property. On each distribution date the mortgages trustee would distribute interest and principal receipts to one, two or all three beneficiaries, depending on the terms of the mortgages trust.

It is anticipated that Funding 2 will issue notes directly or indirectly to investors from time to time backed by its share of the trust property. You would not have a direct or indirect interest in Funding 2's share of the trust property.

Amendments would be made to a number of the Financing transaction documents as a result of the inclusion of Funding 2 as a beneficiary of the mortgages trust. In particular (but without limitation), amendments would be made to:

- the mortgage sale agreement to enable the purchase by Funding 2 of interests in the trust property;
- the mortgages trust deed (i) to establish Funding 2 as a beneficiary of the mortgages trust, (ii) to enable the acquisition by Funding 2 of an interest in the trust property from time to time and (iii) to regulate the distribution of interest and principal receipts in the trust property to Funding 2 and the other beneficiaries;
- the cash management agreement to regulate the application of monies to Funding 2;
- the servicing agreement, to ensure that Funding 2 receives the benefit of the servicer's duties under that agreement; and
- the master definitions and construction schedule.

In addition, Funding 1, Funding 2 and the seller may enter into new agreements to regulate the making of decisions between them.

There may be conflicts of interest between Funding 1 and Funding 2, in which case it is expected that the mortgages trustee will follow the directions given by the relevant beneficiary (excluding the seller) that has the largest share of the trust property at that time. The interests of Funding 1 may not prevail, which may adversely affect your interests.

Your prior consent to the inclusion of Funding 2 as a beneficiary of the mortgages trust and the subsequent amendments to the documents and/or release of security by Funding 1 will not be



required. See “ – **The security trustee may agree modifications to the Financing transaction documents without your prior consent, which may adversely affect your interests**”. Before becoming a beneficiary of the mortgages trust, however, Funding 2 will be required to satisfy a number of conditions, including:

- obtaining a written confirmation from each of the rating agencies that the then current ratings of the notes outstanding at that time will not be adversely affected as a result of Funding 2 becoming a beneficiary of the mortgages trust;
- providing written certification to the security trustee that no event of default under any of Funding 1’s intercompany loan agreements outstanding at that time has occurred which has not been remedied or waived and no event of default will occur as a result of Funding 2 becoming a beneficiary of the mortgages trust; and
- providing written certification to the security trustee that no principal deficiency is recorded on the principal deficiency ledger in relation to Funding 1’s term advances that are outstanding at that time.

There can be no assurance that the inclusion of Funding 2 as a beneficiary of the mortgages trust would not affect cashflows available to pay amounts due on your Financing notes and therefore adversely affect your interests.

**If Funding 1 enters into new intercompany loan agreements, then the new term advances may rank ahead of Financing term advances as to payment, and accordingly new notes may rank ahead of Financing notes as to payment**

It is possible that Holdings will establish new issuing entities to issue new notes to investors. The proceeds of each new issue will be used by the new issuing entity to make a new intercompany loan to Funding 1. Funding 1 will use the proceeds of the new intercompany loan to:

- pay the seller in relation to the consideration for new loans and their related security to be sold to the mortgages trustee;
- pay the seller for a portion of the seller share of the trust property, which will result in an increase in Funding 1’s share of the trust property;
- refinance in whole or in part an intercompany loan or intercompany loans outstanding at that time (and if our Financing intercompany loan to Funding 1 is refinanced, you could be repaid early); and/or
- deposit some of those proceeds in the general reserve fund.

The payment and security priorities of the Financing notes relative to each other as set out in the Financing deed of charge and the Financing cash management agreement will not be affected as a result of an issue of new notes by a new issuing entity, because the new issue will be constituted by separate documents which do not affect the Financing deed of charge or the Financing cash management agreement. However, Funding 1 may be required to pay to a new issuing entity amounts owing under a new term advance ahead of or in the same priority as amounts owing to Financing on the Financing term advances, depending on the rating designation and scheduled repayment date of that new term advance and other rules regarding the payment of interest and the repayment of principal by Funding 1, as described in “**Summary of offering circular – The previous issuing entities, new issuing entities, new intercompany loans, new start-up loans and Funding 2**”. If this is the case, then the relevant new noteholders will be paid before you.

If Holdings establishes new issuing entities to make new intercompany loans to Funding 1, you will not have any right of prior review or consent with respect to those new intercompany loans or the corresponding issuance by new issuing entities of new notes. Similarly, the terms of the Funding 1 transaction documents (including the mortgage sale agreement, the mortgages trust deed, the Funding 1 deed of charge, the definitions of the trigger events, the criteria for the sale of new loans to the mortgages trustee and the amount available to be drawn under the Funding 1 liquidity facility) may be amended to reflect the new issue. Your consent to these changes will not be required. There can be no assurance that these changes will not affect the cashflows available to pay amounts due on your notes. See “– **The security trustee may agree modifications to the**

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

However, before issuing new notes, a new issuing entity will be required to satisfy a number of conditions, including:

- obtaining a written confirmation from each of the rating agencies that the then current ratings of the notes outstanding at that time will not be adversely affected because of the new issue;
- providing written certification to the security trustee that no event of default under any of the intercompany loan agreements outstanding at that time has occurred which has not been remedied or waived and no event of default will occur as a result of the issue of the new notes; and
- providing written certification to the security trustee that no principal deficiency is recorded on the principal deficiency ledger in relation to the term advances outstanding at that time.

**Funding 1 has entered into the previous intercompany loan agreements with the previous issuing entities, and some of the previous term advances in the previous intercompany loans rank ahead of some of the Financing term advances in the Financing intercompany loan as to payment, and accordingly some of the notes issued by the previous issuing entities rank ahead of some of the Financing notes as to payment**

The previous issuing entities issued the previous notes to investors, the sterling equivalent of the net issue proceeds of which were used by the previous issuing entities to make the previous intercompany loans to Funding 1. Funding 1 used most of the proceeds of the previous intercompany loan from Permanent Financing (No. 1) PLC to pay the seller for the initial loans (together with their related security) sold to the mortgages trustee on the initial closing date which comprised Funding 1’s original share of the trust property. Funding 1 used most of the proceeds of each other previous intercompany loan to pay the seller for loans (together with their related security) sold to the mortgages trustee or to pay consideration to the seller for an increase in Funding 1’s share in the mortgages trust.

The payment and security priorities of the Financing notes relative to each other as set out in the Financing deed of charge and the Financing cash management agreement are not affected by the issue of the previous notes by the previous issuing entities, because the previous issues were constituted by separate documents which do not affect the Financing deed of charge or the Financing cash management agreement. However, Funding 1 may be required to pay to the previous issuing entities amounts which are owing under one or more previous term advances ahead of or in the same priority as amounts owing to Financing on the Financing term advances, depending on the rating designation and scheduled repayment date of that previous term advance and other rules regarding the payment of interest and the repayment of principal by Funding 1, as described in “**Summary of offering circular – The previous issuing entities, new issuing entities, new intercompany loans, new start-up loans and Funding 2**”. If this is the case, then the relevant previous noteholders will be paid before you.

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

If Funding 1 enters into a new intercompany loan agreement, then if required it will also enter into a new start-up loan agreement with a new start-up loan provider and the security trustee.

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

Any new issuing entity, any new start-up loan provider and any new Funding 1 swap provider will become party to the Funding 1 deed of charge and will be entitled to share in the security granted by Funding 1 for Financing’s benefit (and the benefit of the other Funding 1 secured creditors) under the Funding 1 deed of charge. In addition, the liabilities owed to the Funding 1

liquidity facility provider and the Funding 1 swap provider which are secured by the Funding 1 deed of charge may increase each time that Funding 1 enters into a new intercompany loan agreement. These factors could ultimately cause a reduction in the payments you receive on your Financing notes. Your consent to the requisite changes to the transaction documents will not be required (see “– **The security trustee may agree modifications to the Financing transaction documents without your consent, which may adversely affect your interests**” above).

**There may be conflicts between Financing and any new issuing entities, and Financing’s interests may not prevail, which may adversely affect payments on the Financing notes.**

The security trustee will exercise its rights under the Funding 1 deed of charge only in accordance with directions given by the issuing entity or issuing entities (which could be Financing, any previous issuing entity or, if Funding 1 enters into new intercompany loans, any new issuing entity) that has (or have) the outstanding term advances with the highest rating designation at that time, provided that the security trustee is indemnified and/or secured to its satisfaction.

If the security trustee receives conflicting directions as to a matter, it will follow the directions given by those issuing entities representing the largest principal amount outstanding of the term advances with the highest designated term advance rating. If Financing is not in the group representing that largest principal amount, then Financing’s interests may not prevail. This could ultimately cause a reduction in the payments you receive on your Financing notes. For example, if the term advances with the highest designated term advance rating at the time of a direction are the term AAA advances, then in the event of conflicting directions being given by issuing entities with outstanding term AAA advances, the security trustee will follow the direction given by those issuing entities holding the largest principal amount outstanding of term AAA advances.

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

There is no guarantee that any new loans sold to the mortgages trustee will have the same characteristics as the loans in the portfolio as at the closing date. In particular, new loans may have different payment characteristics from the loans in the portfolio as at the closing date. The ultimate effect of this could be to delay or reduce the payments you receive on the Financing notes. However, any new loans will be required to meet the conditions described in “**Sale of the loans and their related security – Sale of new loans and their related security to the mortgages trustee**”.

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

The yield to maturity of the Financing notes of each class will depend mostly on (a) the amount and timing of payment of principal on the loans and (b) the price paid by the noteholders of each class of Financing notes.

The yield to maturity of the Financing notes of each class may be adversely affected by a higher or lower than anticipated rate of prepayments on the loans. The factors affecting the rate of prepayment on the loans are described in “– **Financing’s ability to redeem the Financing notes is affected by the rate of prepayment on the loans**”.

No assurance can be given that Funding 1 will accumulate sufficient funds during the cash accumulation periods relating to bullet term advances or scheduled amortisation instalments owed to Financing to enable it to repay these Financing term advances to Financing so that the corresponding classes of Financing notes will be redeemed in accordance with their scheduled redemption dates. During the cash accumulation period for the bullet term advances and scheduled amortisation instalments owed to Financing, repayments of principal will only be made on the pass-through term advances that are due and payable if the quarterly CPR of the loans in the portfolio is greater than 15 per cent. and other conditions are met as described in “ **Cashflows – Distribution of Funding 1 available principal receipts – Rule (1) (C) Deferral of original pass-through term advances when CPR is below a certain threshold prior to step-up date**” below. This means that there may be no corresponding repayments of principal on the series 5 class A Financing notes, the class B Financing notes or the class C Financing notes.

The extent to which sufficient funds are saved by Funding 1 during a cash accumulation period or received by it from its share in the mortgages trust for application on a scheduled repayment date will depend on whether the actual principal prepayment rate of the loans is the same as the assumed principal prepayment rate. If Funding 1 is not able to save enough money during a cash accumulation period or does not receive enough money from its share in the mortgages trust for application on a scheduled repayment date to repay the relevant Financing term AAA advance (and, if in respect of the bullet term advances or, where applicable, scheduled amortisation instalments owed to Financing) it is unable to make a drawing on the reserve funds to make good the shortfall) so that Financing can redeem the class A Financing notes of the corresponding series on their respective scheduled redemption date(s), then Funding 1 will be required to pay to Financing on those scheduled redemption dates only the amount that it has actually saved or received. Any shortfall will be deferred and paid on subsequent Funding 1 interest payment dates when Funding 1 has money available to make the payment. In these circumstances, there will be a variation in the yield to maturity of the relevant class of Financing notes.

**Financing's ability to redeem the Financing notes is affected by the rate of prepayment on the loans**

The rate of prepayment of loans is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing programs, local and regional economic conditions and homeowner mobility. For instance, prepayments on the loans may be due to borrowers refinancing their loans and sales of properties by borrowers (either voluntarily or as a result of enforcement action taken). In addition, if the seller is required to repurchase a loan or loans under a mortgage account and their related security because, for example, one of the loans does not comply with the representations and warranties in the mortgage sale agreement, then the payment received by the mortgages trustee will have the same effect as a prepayment of all of the loans under that mortgage account. Because these factors are not within Financing's control or the control of Funding 1 or the mortgages trustee, we cannot give any assurances as to the level of prepayments that the portfolio may experience.

Variation in the rate of prepayments of principal on the loans may affect each class of Financing notes differently depending upon amounts already repaid by Funding 1 to Financing under the Financing intercompany loan and whether a trigger event has occurred, or a loan is subject to a product switch or a further advance or the security granted by Financing under the Financing deed of charge has been enforced.

The class A Financing notes of each series (other than the series 5 class A Financing notes) have scheduled redemption dates, while the other classes of Financing notes are repaid on a pass-through basis. Because it is anticipated that, unless an asset trigger event or a non-asset trigger event occurs or the Financing security or the Funding 1 security is enforced, the class A Financing notes of a series (other than the series 5 class A Financing notes) will be redeemed prior to the other classes of Financing notes of that series, then Financing's ability to redeem the class A Financing notes of any series (other than the series 5 class A Financing notes) on their scheduled redemption dates is dependent on the receipt of prepayments on the loans at anticipated levels. If prepayments on the loans occur less frequently than anticipated, there may be insufficient funds available to Financing to redeem the class A Financing notes of any series (other than the series 5 class A Financing notes) in full on their respective scheduled redemption dates.

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

Each of the loans was originated in accordance with the seller's lending criteria at the time of origination. The current lending criteria are set out in the section "**The loans – Characteristics of the loans – Lending criteria**". These lending criteria consider a variety of factors such as a potential borrower's credit history, employment history and status and repayment ability, as well as the value of the property to be mortgaged. In the event of the sale of any new loans and new related security to the mortgages trustee, the seller will warrant that those new loans and new related security were originated in accordance with the seller's lending criteria at the time of their origination. However, the seller retains the right to revise its lending criteria as determined from

time to time, and so the lending criteria applicable to any loan at the time of its origination may not be or have been the same as those set out in the section “**The loans – Characteristics of the loans – Lending criteria**”.

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

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

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

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

The loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in borrowers’ individual, personal or financial circumstances may affect the ability of borrowers to repay loans. 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 loans.

If a borrower fails to repay its loan and the related property is repossessed, the likelihood of there being a net loss on disposition of the property is adversely affected by a higher debt-to-value ratio. 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 the 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. As of the reference date, 2.91 per cent. of the loans had a loan-to-value ratio of at least 90 per cent. For information on the distribution of the LTV ratios of the loans, see “**Characteristics of the loans – Reference date LTV ratios**”.

The portfolio may also be subject to geographic concentration risks. To the extent that specific geographic regions within the United Kingdom have experienced or may experience in the future weaker regional economic conditions and housing markets than other regions, a concentration of the loans in such a region may be expected to exacerbate all of the risks relating to the loans described in this section. The economy of each geographic region within the United Kingdom is dependant on different mixtures of industries. 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 mortgaged properties. This may result in a loss being incurred upon sale of the mortgaged property. These circumstances could affect receipts on the loans and ultimately result in losses on the Financing notes. For an overview of the geographical distribution of the loans, see “**Characteristics of the loans – Geographical distribution**”.

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

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

**The occurrence of trigger events and enforcement of the Financing security may adversely affect the scheduled redemption dates of the class A Financing notes of any series**

If no trigger event has occurred and the Financing security has not been enforced in accordance with the terms of the Financing deed of charge, then payments of principal will not occur on the class A Financing notes of any series before their respective scheduled redemption dates.

If a trigger event occurs or the Financing security is enforced in accordance with the Financing deed of charge prior to the scheduled redemption dates for the class A Financing notes of any series, then the relevant classes of Financing notes outstanding will not be repaid on their scheduled redemption dates but will be repaid on each interest payment date from monies received from Funding 1 on the Financing term AAA advances of the corresponding series as described in the following three risk factors.

**If an asset trigger event occurs, any class A Financing notes of any series then outstanding will not be repaid on their scheduled redemption dates**

When an asset trigger event has occurred, the mortgages trustee will distribute principal receipts on the loans to Funding 1 and the seller proportionally and equally based on their percentage shares of the trust property (that is, the Funding 1 share percentage and the seller share percentage). When an asset trigger event has occurred, after making requisite payments to the Funding 1 liquidity facility provider and replenishing the reserve funds, Funding 1 will repay, in priority, first, the term AAA advances; then, the term AA advances; then, the term A advances; and finally, the term BBB advances. See "**Cashflows – Distribution of Funding 1 available principal receipts – Repayment of all term advances after an asset trigger event but before intercompany loan acceleration notice or acceleration of all notes**".

If an asset trigger event occurs, any class A Financing notes that have scheduled redemption dates and are then outstanding will not be repaid on their scheduled redemption dates, and there is also a risk that they will not be repaid by their final maturity dates.

**If a non-asset trigger event occurs, any class A Financing notes then outstanding will not be repaid on their scheduled redemption dates**

If a non-asset trigger event has occurred but an asset trigger event has not occurred, the mortgages trustee will distribute all principal receipts to Funding 1 until the Funding 1 share percentage of the trust property is zero. When a non-asset trigger event has occurred, after making requisite payments to the Funding 1 liquidity facility provider and to credit the reserve funds, Funding 1 will repay, in priority, first, the term AAA advances in order of final repayment date from earliest to latest; then, the term AA advances; then, the term A advances; and finally, the term BBB advances. See "**Cashflows – Distribution of Funding 1 available principal receipts – Repayment of all term advances after a non-asset trigger event but before intercompany loan acceleration notice or acceleration of all notes**".

If a non-asset trigger event occurs, any class A Financing notes that have scheduled redemption dates and are then outstanding will not be repaid on their scheduled redemption dates.

**If the Financing security is enforced, any class A Financing notes then outstanding will not be repaid on their scheduled redemption dates**

If the Financing security is enforced, then the mortgages trustee will distribute funds in the manner described in "**Cashflows**". In these circumstances, any class A Financing notes that have

scheduled redemption dates and are then outstanding, will not be repaid on their scheduled redemption dates and there is also a risk that those class A Financing notes may not be repaid by their final maturity dates.

**Loans subject to further advances will be repurchased by the seller from the mortgages trustee, which will affect the prepayment rate of the loans, and this may affect the yield to maturity of the Financing notes**

If the seller at its discretion decides to grant a borrower a further advance under a loan which has been sold to the mortgages trustee, then the seller will be required to repurchase that loan under the relevant mortgage account and its related security from the mortgages trustee save for any loan in arrears at a price equal to the outstanding principal balance of those loans together with any accrued and unpaid interest and expenses to the date of purchase. The yield to maturity of the Financing notes may be affected by the repurchase of loans subject to further advances.

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

A loan will be subject to a product switch if the borrower and the seller agree on, or the servicer sends an offer of, a variation in the financial terms and conditions applicable to the relevant borrower's loan, other than those variations set out in "**Sale of the loans and their related security – Product switches**".

Loans subject to product switches will not be repurchased unless on any distribution date, the seller is in breach of the conditions precedent to the sale of new loans to the mortgages trustee set out in "**Sale of the loans and their related security – Sale of new loans and their related security to the mortgages trustee**". From and including that date to but excluding the date when those conditions precedent have been satisfied, the seller will be required to repurchase any loans and their related security that are subject to product switches. The seller will be required to repurchase the relevant loan or loans under the relevant mortgage account and their related security from the mortgages trustee at a price equal to the outstanding principal balance of those loans together with accrued and unpaid interest and expenses to the date of purchase.

The yield to maturity of the Financing notes may be affected by the repurchase of loans subject to product switches.

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

The ratings assigned to each class of Financing notes address the likelihood of full and timely payment to you of all payments of interest on each interest payment date under those classes of Financing notes. The ratings also address the likelihood of "ultimate" payment of principal on the final maturity date of each class of Financing notes. The expected ratings of each class of Financing notes on the closing date are set out in "**Ratings of the Financing notes**". Any rating agency may lower its rating or withdraw its rating if, in the sole judgment of the rating agency, the credit quality of the Financing notes has declined or is in question. If any rating assigned to the Financing notes is lowered or withdrawn, the market value of the Financing notes may be reduced. A change to the ratings assigned to a class of Financing notes will not affect the rating designation of the any Financing term advance.

**Principal payments on the original pass-through term advances will be deferred in some circumstances**

Principal repayments on the Financing term AA advances and/or the Financing term BBB advances will be deferred in the following circumstances:

If on a Funding 1 interest payment date:

- there is a debit balance on the BBB principal deficiency sub-ledger, the A principal deficiency sub-ledger or the AA principal deficiency sub-ledger, after application of the Funding 1 available revenue receipts on that Funding 1 interest payment date; or

- the adjusted general reserve fund level is less than the general reserve fund threshold; or
- the aggregate outstanding principal balance of loans in the mortgages trust, in respect to which the aggregate amount in arrears is more than three times the monthly payment then due, is more than five per cent. of the aggregate outstanding principal balance of loans in the mortgages trust,

then to the extent that any term AAA advance remains outstanding (whether or not such term AAA advance is then due and payable) after the allocation of principal on that Funding 1 interest payment date to those term advances, the Financing term AA advances and Financing term BBB advances will not be entitled to principal repayments until the relevant circumstance as described above has been remedied or otherwise ceases to exist. In addition, if any term AA advance remains outstanding (whether or not such term AA advance is then due and payable) after the allocation of principal on that Funding 1 interest payment date to those term advances, the Financing term BBB advances will not be entitled to principal repayments until the relevant circumstances as described above have been remedied or otherwise cease to exist and if any term A advance remains outstanding (whether or not such term A advance is then due and payable) after the allocation of principal on that Funding 1 interest payment date to those term advances, the Funding term BBB advance will not be entitled to principal repayments until the relevant circumstances as described above have been remedied or otherwise cease to exist. This means that payments of principal on the class C Financing notes of all series and, as applicable, the class B Financing notes of all series will be deferred until the earlier of the time when the relevant circumstance described in this risk factor has been remedied (if ever) and the final maturity date of the relevant Financing notes.

Furthermore, if, on a Funding 1 interest payment date prior to the Financing step-up date:

- one or more bullet term advances and/or scheduled amortisation instalments are then in a cash accumulation period; and
- the quarterly CPR is less than 15 per cent.; and
- there is a cash accumulation shortfall at that time,

then, on or before their step-up dates, the Financing term advances which are original pass-through term advances will be entitled to principal repayments only to the extent permitted under the pass-through repayment restrictions see “**Cashflows – Distribution of Funding 1 available principal receipts – Repayment of all term advances before a trigger event and before intercompany loan acceleration or acceleration of all notes**”.

**Series 2 Financing notes, series 3 Financing notes, series 4 Financing notes and series 5 Financing notes may be subject to risk if the trust property deteriorates after repayment of previous series of the Financing notes**

If the loans comprising the trust property do not perform as expected at any time after the repayment of previous series of Financing notes, then the unpaid series of Financing notes will be adversely affected.

**You may not be able to sell the Financing notes**

There currently is no secondary market for the Financing notes. The relevant initial purchasers expect, but are not obliged, to make a market in the Financing notes. If no secondary market develops, you may not be able to sell the Financing notes prior to maturity. We cannot offer any assurance that a secondary market will develop or, if one does develop, its effectiveness that it will continue.

**You may be subject to risks relating to exchange rates on the Financing notes**

Investors will pay for the offered Financing notes in US dollars and the series 4 Financing notes in euro, but the Financing term advances to be made by Financing to Funding 1 and repayments of principal and payments of interest by Funding 1 to Financing under the Financing intercompany loan will be in sterling.



To hedge Financing's currency exchange rate exposure, including the interest rate exposure connected with that currency exposure, Financing will enter into the Financing dollar currency swaps for the offered Financing notes with the Financing dollar currency swap providers and the Financing euro currency swaps for the series 4 Financing notes with the Financing euro currency swap provider (see "**The swap agreements – The Financing currency swaps**").

If Financing fails to make timely payments of amounts due or certain other events occur in relation to Financing under a Financing swap and any applicable grace period has expired then Financing will have defaulted under that Financing swap. If Financing defaults under a Financing swap due to non-payment or otherwise, the relevant Financing swap provider will not be obliged to make further payments under that Financing swap and may terminate that Financing swap. If a Financing swap provider is not obliged to make payments, or if it exercises any right to terminate that it may have under the relevant Financing swap, or if it defaults in its obligations to make payments of amounts in US dollars or euro, as applicable, equal to the full amount to be paid by it on the payment dates under the relevant Financing swap (which are the same dates as the interest payment dates in respect of the Financing notes), Financing will be exposed to changes in US dollar/sterling or euro/sterling currency exchange rates and in the associated interest rates on these currencies. Unless a replacement Financing swap is entered into, as a result of any adverse movements in the relevant spot exchange rates, Financing may have insufficient funds to make payments due on the Financing notes of any class and any series that are then outstanding.

Each Financing swap provider will be obliged to gross up payments made by it to Financing if withholding taxes are imposed on payments under the relevant Financing swap due to a change in law. However, if such a gross up is required, the relevant Financing swap provider may, subject to obtaining the consent of the security trustee (which, if certain conditions are satisfied, will not be withheld), terminate the relevant Financing swap. If it does terminate the relevant Financing swap, Financing will be exposed to changes in currency exchange rates and in the associated interest rates on these currencies. Unless a replacement Financing swap is entered into, Financing may have insufficient funds to make payments due on the Financing notes of any class and any series that are then outstanding.

**There may be a delay in payment of interest on series 1 class A Financing notes on the occurrence of a trigger event or enforcement of the Financing security**

After the occurrence of a trigger event or enforcement of the Financing security, the interest payments on the series 1 class A Financing notes will no longer be payable monthly, but will be payable quarterly. In these circumstances a noteholder will not receive interest under the series 1 class A Financing notes on the expected payment dates.

**The mortgages trustee GIC provider or the Funding 1 GIC provider may cease to satisfy certain criteria to provide the mortgages trustee GIC account or the Funding 1 GIC account**

The mortgages trustee GIC provider and the Funding 1 GIC provider are required to satisfy certain criteria (including certain criteria and/or permissions set or required by the FSA from time to time) in order to continue to receive deposits in the mortgages trustee GIC account and the Funding 1 GIC account respectively. If either the mortgages trustee GIC provider or the Funding 1 GIC provider ceases to satisfy those criteria then the relevant account may be transferred to another entity which does satisfy those criteria. In these circumstances the new GIC provider may not offer a GIC on terms as favourable as those provided by the mortgages trustee GIC provider or the Funding 1 GIC provider.

The criteria referred to above include a requirement that the short-term, unguaranteed and unsecured debt ratings of the mortgages trustee GIC provider or the Funding 1 GIC provider, as the case may be, are at least A-1+ by Standard & Poor's, F1+ by Fitch and P-1 by Moody's, unless each rating agency confirms that its then current rating of the notes would not be adversely affected as a result of such ratings falling below these minimum ratings.

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

If any of the Financing swaps terminates, Financing may as a result be obliged to make a termination payment to the relevant Financing swap provider. The amount of the termination

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

We cannot give you any assurance that Funding 1 will have the funds available to make that payment or that Financing will have sufficient funds available to make any termination payment under any of the Financing swaps or to make subsequent payments to you in respect of the relevant series and class of Financing notes. Nor can we give you any assurance that Financing will be able to enter into a replacement Financing swap or, if one is entered into, that the credit rating of the replacement Financing swap provider will be sufficiently high to prevent a downgrading of the then current ratings of the Financing notes by the rating agencies.

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

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

To provide a hedge against (a) the mortgages trustee variable base rate payable on the variable rate loans, the rates of interest payable on the tracker rate loans and the fixed rates of interest payable on the fixed rate loans; and (b) the rate of interest payable by Funding 1 on the intercompany loans, Funding 1 has entered into the Funding 1 swap agreement. If Funding 1 fails to make timely payments under the Funding 1 swap, it will have defaulted under the Funding 1 swap. The Funding 1 swap provider is obliged only to make payments under the Funding 1 swap if and for so long as Funding 1 makes payments under the same. If the Funding 1 swap provider is not obliged to make payments, or if it exercises any right to terminate that it may have under the Funding 1 swap, or if it defaults in its obligation to make payments under the Funding 1 swap, Funding 1 will be exposed to the variance between the rates of interest payable on the loans and the rate of interest payable by it under the intercompany loans unless a replacement Funding 1 swap is entered into. If the Funding 1 swap terminates, Funding 1 may as a result be obliged to make a termination payment to the Funding 1 swap provider. Any variance between the rates of interest payable on the loans and the rate of interest payable by Funding 1 under the intercompany loans and any termination payment payable by it to the Funding 1 swap provider may adversely affect the ability of Funding 1 to meet its obligations under the Financing intercompany loan agreement (see also “– **Failure by Funding 1 to meet its obligations under the Financing intercompany loan agreement would adversely affect payments on the Financing notes**” above).

Funding 1 will receive interest receipts on the loans on one basis but will pay amounts under the Funding 1 swap on another basis, thereby exposing it to some basis risk. On the one hand, Funding 1 will receive interest on the variable rate loans based on HVR 1 (which is the variable mortgage rate set by the seller applicable to certain loans beneficially owned by the seller on the seller's residential mortgage book), or HVR 2 (which is the second variable base rate that was made available to borrowers between 1 March 2001 and 1 February 2002) or the Halifax flexible variable rate (which is the variable rate applicable to flexible loans). On the other hand, the payment obligations of Funding 1 under the Funding 1 swap will, among other things, be based on 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, HSBC Bank plc, Cheltenham & Gloucester plc, Nationwide Building Society, Northern Rock plc, National Westminster Bank Plc, and Woolwich plc (and where those banks have more than one standard variable rate, the highest of those rates). While it is anticipated that this average rate will broadly track HVR 1, HVR 2 and the Halifax flexible variable rate, the variance between this average rate and HVR 1, HVR 2 and the Halifax flexible variable rate may affect the ability of Funding 1 to meet its payment obligations under the Funding 1 swap agreement.

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

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

**Financing may be unable to pay, in full or at all, interest due on the Financing notes if there is an income or principal deficiency**

If, on any Funding 1 interest payment date, revenue receipts available to Funding 1 (including the reserve funds) are insufficient to enable Funding 1 to pay interest on Financing term advances, previous term advances and any new term advances and other expenses of Funding 1 ranking higher in seniority to interest due on these term advances, then Funding 1 may use principal receipts on the loans received by it in the mortgages trust to make up the shortfall.

Funding 1 will use principal receipts that would have been applied to repay the term advances with the lowest rating designation to pay interest on those other term advances and senior expenses described in the preceding paragraph where there is a shortfall of monies to pay those amounts. At the closing date, the term advances with the lowest rating designation include the Financing term BBB advances. If Funding 1 uses principal to repay interest and senior expenses in this manner, there will be less principal available to repay the Financing term BBB advances and the corresponding classes of Financing notes.

Funding 1 will be obliged to keep a ledger that records any principal applied to pay interest and senior expenses (as well as any losses on the loans causing a principal deficiency). When the amount recorded on the ledger is equal to the principal amount outstanding of the term BBB advances, then Funding 1 will use principal receipts that would have been applied to repay the term advance with the next lowest rating designation to pay interest on the term advances and senior expenses where there is a shortfall of money to pay those amounts. When the amount recorded on the principal deficiency ledger exceeds the principal amount outstanding on the term A advances, Funding 1 will use principal receipts that would have been applied to repay the term AA advances to pay those amounts. When the amount recorded on the principal deficiency ledger exceeds the principal amount outstanding on the term AA advances, Funding 1 will use principal receipts that would have been applied to repay the term AAA advances to pay those amounts.

During the term of the transaction, however, it is expected that any principal deficiencies of this sort will be recouped from subsequent excess revenue receipts and amounts standing to the

credit of the reserve funds. The revenue receipts will be applied first to cover any principal deficiency in respect of the term advances with the highest rating designation (at the closing date, these include the Financing term AAA advances), and then the term advances with the next highest rating designation (at the closing date, these include the Financing term AA advances), and so on down to the term advances with the lowest rating designation.

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

- the interest and other net income of Funding 1 may not be sufficient, after making the payments to be made in priority, to pay, in full or at all, interest due on the Financing term BBB advances and the Financing term AA advances;
- there may be insufficient funds to repay the principal due and payable on any of the Financing term BBB advances and the Financing term AA advances prior to their final repayment dates unless the other net income of Funding 1 is sufficient, after making other prior ranking payments, to reduce any principal deficiency in respect of the term BBB advances, term A advances and term AA advances;
- if the amount of principal deficiencies exceeds the principal amount outstanding of any of the term advances (and the principal deficiencies cannot be covered by the other income of Funding 1), then Financing may not receive the full principal amount of any or all of the Financing term advances and, accordingly, you may not receive the full face value of the class C Financing notes, the class B Financing notes and the class A Financing notes, as the case may be; and/or
- Financing may be unable to pay, in full or at all, interest due on your Financing notes.

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

**The seller share of the trust property does not provide credit enhancement for the Financing notes**

Any losses from loans included in the trust property will be allocated to Funding 1 and the seller proportionally on each distribution date in accordance with the Funding 1 share percentage and the seller share percentage of the trust property. The seller's share of the trust property therefore does not provide credit enhancement for the Funding 1 share of the trust property or the Financing notes. Losses on the loans in the portfolio are allocated proportionately between the seller and Funding 1 depending on their respective shares in the trust property.

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

After an intercompany loan acceleration notice is given (as described in “**Security for Funding 1's obligations**”), the security trustee may, but shall not be obliged to, sell the Funding 1 share of the trust property. There is no assurance that a buyer would be found or that such a sale would realise enough money to repay amounts due and payable under the Financing intercompany loan agreement.

Financing will not, and Funding 1 and the mortgages trustee will not, have any recourse to the seller of the loans, other than in respect of a breach of warranty under the mortgage sale agreement.

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

If any of the warranties made by the seller (a) in the case of each loan in the portfolio, was materially untrue on the date that loan was sold to the mortgages trustee or (b) in the case of each new loan, is materially untrue on the date that new loan is sold to the mortgages trustee, then the seller will be required to remedy the breach, failing which it will be required to repurchase the loan or loans under the relevant mortgage account and their related security at their outstanding

principal balance as of the date of repurchase together with any arrears of interest and accrued and unpaid interest and expenses. There can be no assurance that the seller will have the financial resources to repurchase the loan or loans under the relevant mortgage account and their related security. However, if the seller does not repurchase those loans and their related security when required, then the seller's share of the trust property will be deemed to be reduced by an amount equal to the principal amount outstanding of those loans together with any arrears of interest and accrued and unpaid interest and expenses. See **"Sale of the loans and their related security – Repurchase of loans under a mortgage account"**.

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

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

Each loan in the portfolio is repayable either on a principal repayment basis or an interest-only basis. Of the loans in the expected portfolio as at the reference date, approximately 39.53 per cent. are interest-only loans. 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) in place which is intended to provide sufficient funds to repay the principal at the end of the term. However, the seller does not ensure that a repayment mechanism is in place in all cases and does not take security over these repayment mechanisms. The borrower is also recommended to take out a life insurance policy in relation to the loan but, as with repayment mechanisms, the seller does not take security over these life insurance policies.

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

There can be no assurance that the borrower will have the funds required to repay the principal at the end of the term. If a borrower cannot repay the loan and a loss occurs on the loan, then this may affect repayments of principal on the Financing notes if that loss cannot be cured by application of excess Funding 1 available revenue receipts.

**Set-off risks in relation to flexible loans and delayed cashbacks may adversely affect the funds available to Financing to repay the Financing notes**

As described in **"– There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on the Financing notes"**, the seller has made, and in the future may make, an equitable assignment of the relevant loans and their related security, or in the case of Scottish loans a transfer of the beneficial interest in the relevant loans and their related security, to the mortgages trustee, with legal title being retained by the seller. Therefore, the rights of the mortgages trustee may be subject to the direct rights of the borrowers against the seller, including rights of set-off existing prior to notification to the borrowers of the sale of the mortgages. The mortgages trust includes flexible loans and delayed cashbacks. Set-off rights (including analogous rights in Scotland) may occur if the seller fails to advance to a borrower a drawing or permit the borrower to make an underpayment or take a payment holiday under a flexible loan when the borrower is entitled to draw additional amounts or make an underpayment or take a payment holiday under a flexible loan or if the seller fails to pay to a borrower any delayed cashback which the seller had agreed to pay to that borrower after completion of the relevant loan.

If the seller fails to advance the drawing or permit the borrower to make an underpayment or take a payment holiday or pay the delayed cashback, then the relevant borrower may set off any damages claim (or exercise analogous rights in Scotland) arising from the seller's breach of contract against the seller's (and, as assignee or holder of the beneficial interest in the loans and their related security, the mortgages trustee's) claim for payment of principal and/or interest under the loan as and when it becomes due. These set-off claims will constitute transaction set-off as described in the immediately following risk factor.

The amount of the claim in respect of a drawing will, in many cases, be the cost to the borrower of finding an alternative source of finance although, in the case of flexible loans or delayed cashbacks which are Scottish, it is possible that the borrower's rights of set-off could extend to the full amount of the relevant drawing: the borrower may obtain a loan elsewhere in which case the damages would be equal to any difference in the borrowing costs together with any consequential losses, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees). If the borrower is unable to obtain an alternative loan, he or she may have a claim in respect of other losses arising from the seller's breach of contract where there are special circumstances communicated by the borrower to the seller at the time the mortgage was taken out or which otherwise were reasonably foreseeable. In either case, the damages claim will be limited by general legal principles concerning remoteness of loss and mitigation. These include (i) the principle that something, which is a real possibility but would only occur in a small minority of cases, will not usually fall within the contractual measure of damages, and (ii) the borrower's duty to mitigate his loss.

In respect of a delayed cashback, underpayment or payment holiday the claim is likely to be in an amount equal to the amount due under the delayed cashback together with interest and expenses and consequential losses (if any).

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

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

Further there may be circumstances in which certain drawings may rank behind security created by a borrower after the date upon which the borrower entered into its mortgage with the seller.

The minimum seller share has been sized in an amount expected to cover this risk, although there is no assurance that it will. If the minimum seller share is not sufficient in this respect then there is a risk that you may not receive all amounts due on the Financing notes or that payments may not be made when due.

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

The sale by the seller to the mortgages trustee of the English mortgages will take effect in equity only. The sale by the seller to the mortgages trustee of the Scottish mortgages has been given effect by a Scottish declaration of trust by the seller (and any sale of Scottish mortgages on the closing date and in the future will be given effect by further Scottish declarations of trust) by which the beneficial interest in the Scottish mortgages has been or will be transferred to the mortgages trustee. In each case this means that legal title to the loans in the portfolio remains with the seller, but the mortgages trustee has all the other rights and benefits relating to ownership of each loan and its related security (which rights and benefits are subject to the trust in favour of the beneficiaries). The mortgages trustee has the right to demand that the seller give it legal title to the loans and the related security in the circumstances described in "**Sale of the loans and their related security – Legal assignment of the loans to the mortgages trustee**" and until then the mortgages trustee will not give notice of the sale of the English mortgages to any borrower or apply to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the English mortgages or take any steps to complete or perfect its title to the Scottish mortgages. For more information on the Scottish mortgages see "**The loans – Scottish loans**" and "**Material legal aspects of the loans – Scottish loans**".

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

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

However, if a borrower exercises any set-off rights, then an amount equal to the amount set off will reduce the total amount of the seller share of the trust property only, and the minimum seller share has been sized in an amount expected to cover this risk, although there is no assurance that it will. If the minimum seller share is exhausted, then the amount of any set-offs would be applied to reduce the Funding 1 share of the trust property.

**Independent set-off risks which a borrower has against the seller may adversely affect the funds available to Financing to repay the Financing notes.**

Once notice has been given to borrowers of the transfer of the loans and their related security to the mortgages trustee, independent set-off rights which a borrower has against the seller will crystallise (such as, for example, set-off rights associated with borrowers holding deposits with the seller) and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under transaction set-off (which are set-off claims arising out of a transaction connected with the loan) will not be affected by that notice. These set-off rights if exercised could reduce the loan receipts available to the mortgages trustee to distribute to Funding 1, and could ultimately affect the amounts available to Financing for payments on the Financing notes.

**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 Financing notes**

The seller has been appointed by the mortgages trustee and the beneficiaries as servicer to service the loans. If the servicer breaches the terms of the servicing agreement, then the mortgages trustee, Funding 1 and/or the security trustee will be entitled to terminate the appointment of the servicer and appoint a new servicer in its place.

There can be no assurance that a substitute servicer with sufficient experience of administering mortgages of residential properties would be found who would be willing and able to service the loans on the terms of the servicing agreement. In addition, as described below, any substitute servicer will be required to be authorised under the FSMA (as defined below) in order to administer loans that constitute regulated mortgage contracts. The ability of a substitute servicer fully to perform the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect payments on the loans and hence Financing’s ability to make payments when due on the Financing notes.

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

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

The practice of the seller in relation to buildings insurance is described under “**The loans – Insurance policies**”. As described in that section, no assurance can be given that Funding 1 will always receive the benefit of any claims made under any applicable insurance contracts. This could reduce the principal receipts received by Funding 1 according to the Funding 1 share percentage and could adversely affect Financing’s ability to redeem the Financing notes. You should note that buildings insurance is renewed annually.

**If our interpretation of certain technical rules under the CCA were held to be incorrect by a court or the Ombudsman or was challenged by a significant number of borrowers, or borrowers exercise rights of set-off insofar as available under the CCA, there could be material disruption in the income from the mortgages trust**

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 the enforcement of, the CCA, related consumer credit regulations and other consumer protection legislation. The OFT may review businesses and operations, provide guidelines to follow and take actions when necessary with regard to the mortgage market in the United Kingdom.

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

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

Any credit agreement intended to be a regulated mortgage contract under the FSMA (as defined below) 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 the 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 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 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: (a) the lender is liable to the borrower in relation to misrepresentation and breach of contract by a supplier in a transaction financed by the lender, where the related credit agreement is or is treated as entered into under pre-existing arrangements, or in contemplation of future arrangements, between the lender and the supplier; and (b) the lender has a statutory indemnity from the supplier against such liability, subject to any agreement between the lender and the supplier.

The borrower may set off the amount of the claim against the lender against the amount owing by the borrower under the loan or under any other loan that the borrower has taken. Any such set-off may adversely affect Financing’s ability to make payments on the Financing notes.

In December 2003, the DTI published a White Paper proposing amendments to the CCA and to secondary legislation made under it.



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

In December 2004, the UK Parliament published a Consumer Credit Bill proposing to amend the CCA by, among other things: (a) removing the financial limit for consumer lending and (b) repealing the rule that, to the extent that a credit agreement is regulated by the CCA or treated as such, it may be unenforceable totally. If these changes are enacted, then any credit agreement made or changed such that a new contract is entered into after this time, other than a regulated mortgage contract under the FSMA or other exempt agreement under the CCA, will be regulated by the CCA. Such credit agreement will have to comply with requirements as described above and, if it does not comply, it will be unenforceable without an order of the OFT or without a court order, as described above.

This Consumer Credit Bill also proposed to amend the CCA by: (a) strengthening the licensing regime; (b) changing the grounds for challenging a credit agreement from “extortionate credit bargain” to “unfair relationship” between the lender and the borrower, with retrospective effect on existing agreements; and (c) extending the jurisdiction of the Ombudsman (as described below) to licence holders under the CCA. The Consumer Credit Bill lapsed with the dissolution of Parliament on 11 April 2005 but was re-introduced in Parliament on 18 May 2005. The Consumer Credit Bill could be enacted as soon as early in 2006, although the resulting amendments to the CCA would come into force on such days as the Secretary of State for Trade and Industry may appoint. Further proposals to amend the CCA and secondary legislation made under it are expected at an unspecified time.

The seller has interpreted certain technical rules under the CCA in a way common with many other lenders in the mortgage market. If such interpretation were held to be incorrect by a court or the Ombudsman, then a credit agreement, to the extent that it is regulated by the CCA or treated as such, would be unenforceable as described above. If such interpretation were challenged by a significant number of borrowers, then this could lead to significant disruption and shortfall in income of the mortgages trustee. 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 not binding on other courts.

The seller has given or, as applicable, will give warranties to the mortgages trustee in the mortgage sale agreement that, among other things, each loan and its related security is enforceable (subject to certain exceptions). If a loan or its related security does not comply with these warranties, and if the default cannot be or is not cured within 20 London business days, then the seller will be required to repurchase the loans under the relevant mortgage account and their related security from the mortgages trustee.

**Failure by the seller or any servicer to hold relevant authorisations and permissions under FSMA in relation to regulated mortgage contracts may have an adverse effect on enforceability of mortgage contracts**

In the United Kingdom, regulation of residential mortgage business by the FSA under the Financial Services and Markets Act 2000 (the **FSMA**) came into force on 31 October 2004, the date known as **N(M)**. Entering into, arranging or advising in respect of, and administering, regulated mortgage contracts, and agreeing to do any of these things, are (subject to applicable exemptions) regulated activities under the FSMA.

A credit agreement is a regulated mortgage contract under the FSMA if, at the time it is entered into on or after N(M): (a) the borrower is an individual or trustee; (b) the contract provides for the obligation of the borrower to repay to be secured by a first legal mortgage or, in Scotland, a first ranking standard security on land (other than timeshare accommodation) in the United

Kingdom; and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

The main effects are that, unless an exclusion or exemption applies: (a) each entity carrying on a regulated mortgage activity has to hold authorisation and permission from the FSA to carry on that activity; and (b) generally, 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. If requirements as to authorisation and permission of lenders and brokers or as to issue and approval of financial promotions are not complied with, a regulated mortgage contract would be unenforceable against the borrower except with the approval of a court. An unauthorised person who administers a regulated mortgage contract entered into on or after N(M) may commit a criminal offence, but this would not render the contract unenforceable against the borrower.

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

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

Financing and the mortgages trustee are not and do not propose to be authorised persons under the FSMA. Financing and the mortgages trustee do not require authorisation in order to acquire legal or beneficial title to a regulated mortgage contract. Financing and the mortgages trustee do not carry on the regulated activity of administering (servicing) mortgage contracts, because the loans are serviced pursuant to the servicing agreement by the servicer, which has the required FSA authorisation and permission. If the servicing agreement terminates, however, Financing and the mortgages trustee will have a period of not more than one month in which to arrange for mortgage servicing to be carried out by a replacement servicer having the required FSA authorisation and permission. In addition, on and after N(M) no variation has been or will be made to the loans, and no further advance or product switch has been or will be made in relation to a loan, where it would result in Financing, Funding 1, Funding 2 or the mortgages trustee 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 Financing, Funding 1, Funding 2 or the mortgages trustee would be required to be authorised under the FSMA to do so.

**If a significant number of borrowers attempt to set off claims for damages based on contravention of an FSA rule against the amount owing by the borrower under a loan, there could be a material decrease in receipts to Financing from the mortgages trust**

The FSA *Mortgages: Conduct of Business Sourcebook (MCOB)*, which sets out its rules for regulated mortgage activities, came into force on 31 October 2004. These rules cover, among other things, 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 insurance intermediaries, and for extending the appointed representatives regime, came into force on 31 October 2004 for mortgages and on 14 January 2005 for general insurance.

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

So as to avoid dual regulation, it is intended that regulated mortgage contracts will not be regulated by the CCA, and relevant regulations under 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 regulated mortgage contract. A court order under section 126 of the CCA is, however, necessary to enforce a land mortgage securing a regulated mortgage contract to the extent that it would, apart from this exemption, be regulated by the CCA or be treated as such.

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, Financing, the servicer, the mortgages trustee, Funding 1, Funding 2 and their respective businesses and operations. This may adversely affect Financing's ability to make payments in full on the Financing notes when due.

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**). Halifax 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.

**A new European Commission directive concerning consumer credit may, if adopted and implemented, have an adverse effect on enforceability of the loans**

In September 2002, the European Commission published a proposal for a directive of the European Parliament and of the Council on consumer credit.

This proposal applied to certain mortgage loan products, and it, together with an amended proposal published in October 2004, met with significant opposition. In July 2005, the European Commission published a Green Paper on mortgage credit in which it announced its intention that loans secured by a land mortgage would be excluded from the proposed directive on consumer credit, but will be addressed by the Green Paper process.

In October 2005, the European Commission published a further amended proposal for a directive on consumer credit, which applies to loans not exceeding €50,000 (subject to certain exceptions) but does not apply to loans secured by a land mortgage.

Until the final text of the directive is decided and the details of the United Kingdom implementing legislation are published, it is not certain what effect the adoption and implementation of the directive would have on the seller, Financing, the servicer, the mortgages trustee, Funding 1, Funding 2 and their respective businesses and operations. This may adversely affect Financing's ability to make payments in full on the Financing notes when due.

**Under new distance marketing regulations, some of the loans may be cancellable, which may have an adverse effect on Financing's ability to make payments on the Financing notes**

The Financial Services (Distance Marketing) Regulations 2004 apply to, among other things, 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 United Kingdom, will not be cancellable under these regulations. Certain other credit agreements will be cancellable under these regulations if the borrower does not receive prescribed information at the prescribed time. Where the credit agreement is cancellable under these regulations, the borrower may send notice of cancellation at any time before the end of the fourteenth day after the day on which the cancellable agreement is made, where all the prescribed

information has been received, or, if later, the borrower receives the last of the prescribed information.

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

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

If a significant portion of the loans in the mortgages trust are characterised as being cancellable under these regulations, then there could be an adverse effect on Financing's receipts in respect of the loans, affecting Financing's ability to make payments on the Financing notes.

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

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

- a consumer may challenge a standard term in an agreement on the basis that it is "unfair" within the UTCCR and therefore not binding on the consumer; and
- the OFT and any "**qualifying body**" within the 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 generally affect **core terms** which define the main subject matter of the contract, such as the borrower's obligation to repay the principal, but may affect terms that are not considered to be core terms, such as the lender's power to vary the interest rate.

For example, if a term permitting the lender to vary the interest rate (as the seller is permitted to do) is found to be unfair, the borrower would not be liable to pay interest at the increased rate or, to the extent that the borrower has paid it, would be able, as against the lender, or any assignee such as the mortgages trustee, to claim repayment of the extra interest amounts paid or to set off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken. Any such non-recovery, claim or set-off may adversely affect Financing's ability to make payments on the Financing 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 (i) notifies the affected borrower in writing at least 30 days before the rate change and (ii) permits the affected borrower to repay the whole loan during the next three months after the rate change, without paying the early repayment charge. The seller has reviewed the guidance note and has concluded that its compliance with it will have no material adverse effect on the loans or its business. The guidance note has been withdrawn from the OFT website and is currently under review by the OFT and FSA, but may remain in effect as the OFT's view and as a factor that the FSA may take into account.

The FSA has agreed with the OFT to take responsibility for the enforcement of the UTCCR in mortgage agreements. 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. The 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 August 2002, the Law Commission for England and Wales and the Scottish Law Commission issued a joint consultation LCCP No. 166/SLCDP 119 on proposals to rationalise the UK 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. 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.

No assurance can be given that any changes enacted in the 1999 Regulations, or any changes adopted in guidance on interest variation terms, would not have a material adverse effect on the seller, Financing, the servicer, the mortgages trustee, Funding 1, Funding 2 and their respective businesses and operations. This may adversely affect Financing’s ability to make payments in full on the Financing notes when due.

### **Implementation of the Unfair Commercial Practices Directive**

In May 2005, the European Parliament and the Council adopted a directive on unfair business-to-consumer commercial practices (the **Unfair Practices Directive**). Generally, this directive applies full harmonisation, which means that member states may not impose more stringent provisions in the fields to which full harmonisation applies. By way of exception, this directive permits member states to impose more stringent provisions in the fields of financial services and immovable property, such as mortgage loans.

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

In December 2005, the DTI published a consultation paper on implementing the Unfair Commercial Practices Directive and amending existing consumer legislation. The Directive must be transposed into UK law by 12 June 2007, and those laws must come into force in December 2007 in the UK and other member states. The implementing legislation will be subject to a transitional period until 12 June, 2013 for applying full harmonisation in the fields to which it applies. It is too early to predict what effect the implementation of the Unfair Practices Directive would have on the loans.

### **Decisions of the Ombudsman could lead to some terms of the loans being varied, which may adversely affect payments on the Financing notes**

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

In January 2002, the Ombudsman made a determination on the seller’s appeal from an earlier decision by an adjudicator at the Financial Ombudsman Service concerning a case involving HVR 1 and HVR 2. In March 2001, two joint borrowers with a capped rate loan originated when Halifax offered only a single standard variable base rate contacted Halifax and requested that their loan be linked to HVR 2. Halifax informed the borrowers that, because they were still in their product

period, they could either transfer to HVR 2 when their product period expired or transfer to HVR 2 immediately and pay the applicable early repayment fee. The borrowers complained to the Financial Ombudsman Service and, on 29 January 2002, on appeal by Halifax, the Ombudsman determined in the borrowers' favour and recommended that Halifax recalculate the borrowers' mortgage by reference to HVR 2 from the date when Halifax should have granted their request in March 2001, refund any overpayments and pay £150 for any inconvenience caused. HVR 2 was withdrawn and ceased to be available to new borrowers with effect from 1 February 2002.

The Ombudsman's decision only applies to the two borrowers and their particular circumstances, though other borrowers may also complain to the Ombudsman. In March 2002, Halifax announced that borrowers under loans who were in similar circumstances and who had asked to be transferred to HVR 2 when it was available would be invited to make a product switch to HVR 2 and to obtain a refund for all overpayments of interest since the date they had asked to be transferred. For each of those loans, the borrowers would also receive £150 for any inconvenience caused. The borrowers under loans who requested to be transferred after HVR 2 was withdrawn and before the announcement in March 2002 were not offered a switch or a refund, though Halifax has given or will give each of these customers an ex gratia payment of £100.

Since then, further decisions by the Ombudsman in similar cases have confirmed that affected borrowers were only entitled to a refund of overpayments of interest from the date when they asked to be transferred to HVR 2 and not from the date when HVR 2 first became available, and also that affected borrowers were not entitled to apply to be transferred to HVR 2 after it was withdrawn.

The seller does not believe that any Ombudsman's decision to date or any other decision by any competent authority in the future (in respect of the seller's two variable base rates, HVR 1 and HVR 2) would affect the yield on the loans in such a way as to have a material adverse effect on Financing's ability to meet its obligations on the Financing notes.

As regards other borrowers, in the event that a decision (in respect of the seller's variable base rate) by the Ombudsman or any other competent authority finds that a borrower's loan should be linked to HVR 2, then that borrower may set off the overpaid sum against the amount owing under his or her loan if the seller does not reimburse that borrower. Any such non-recovery, claim or set-off ultimately may adversely affect Financing's ability to make payments on the Financing notes, as described in “– **Set-off risks in relation to flexible loans and delayed cashbacks may adversely affect the funds available to Financing to repay the Financing notes**” above.

As the Financial Ombudsman Service is required to make decisions on the basis of, among other things, the principles of fairness, it is not possible to predict how any future decision of the Financial Ombudsman Service would affect the ability of Financing to repay the Financing notes.

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

As explained in “**United Kingdom taxation**”, Funding 1 and Financing will generally be subject to UK corporation tax, currently at a rate of 30 per cent., on the profit reflected in their respective profit and loss accounts as increased by the amount of any non-deductible expenses or losses. If the tax payable by Funding 1 or Financing is greater than expected because, for example, non-deductible expenses or losses are greater than expected, the funds available to make payments on your Financing notes will be reduced and this may adversely affect Financing's ability to make payments on the Financing notes.

The UK corporation tax position of Financing and Funding 1, however, also depends to a significant extent on the accounting treatment applicable to it. From 1 January 2005, the accounts of Financing are required to comply with new UK Financial Reporting Standards reflecting International Financial Reporting Standards (**new UK GAAP**) or may be required to comply with International Financial Reporting Standards (**IFRS**) where Financing chooses to adopt IFRS. Funding 1 may also choose to comply with new UK GAAP or IFRS. There is a concern that companies such as Financing and Funding 1, might, under either IFRS or new UK GAAP, suffer timing differences that could result in profits or losses for accounting purposes (unless tax legislation provides otherwise), and accordingly for tax purposes, which bear little or no relationship to the company's cash position. However, the Finance Act 2005 requires “securitisation companies”

to prepare tax computations for accounting periods beginning on or after 1 January 2005 and ending before 1 January 2007 on the basis of UK GAAP as applicable up to 31 December 2004, notwithstanding the requirement to prepare statutory accounts under IFRS or new UK GAAP. The UK Government has announced, in the Pre-Budget Report on 5 December 2005, that the interim regime is to be extended for a further year to 31 December 2007. Financing and Funding 1 should each be a “securitisation company” for these purposes.

The stated policy of H.M. Revenue & Customs is that the tax neutrality of securitisation special purpose companies in general should not be disrupted as a result of the transition to IFRS or new UK GAAP and that they are working with participants in the securitisation industry to identify appropriate means of preventing any such disruption. The Finance Act 2005 enables regulations to be made to establish such a regime. However, if (for whatever reason) measures are not introduced to deal with the corporate tax position of such companies in respect of accounting periods ending after 31 December 2007, then profits or losses could arise in Financing and/or Funding 1 as a result of the application of IFRS or new UK GAAP which could have tax effects not contemplated in the cashflows for the transaction and as such adversely affect Financing and/or Funding 1 and consequently payments on the Financing notes.

#### **Risks related to alternative characterisation of the Financing notes as an equity interest in Financing for US federal income tax purposes**

Financing is a special purpose company and will be passive (see “**Permanent Financing (No. 9) PLC**”). Under current US federal income tax law, Financing is treated as an association that is taxable as a corporation for US federal income tax purposes. The characterisation of the Financing notes as debt or equity for US federal income tax purposes depends on many factors, including the form of such notes, the terms of the Financing notes and the debt-to-equity ratio of Financing. Because Financing may not have substantial equity, there is a risk that the United States Internal Revenue Service (**IRS**) could assert that the lowest subordinated class of notes or any other class of notes should be treated as an equity interest in Financing rather as debt for US federal income tax purposes (see “**United States federal income taxation – Alternative Characterisation of the offered Financing notes**”). The issuing entity intends to treat the Financing notes as debt of the issuing entity for all purposes, including for US federal income tax purposes.

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

In the event that amounts due under the Financing notes are subject to withholding tax, Financing will not be obliged to pay additional amounts in relation thereto. Financing may, in certain circumstances, redeem the Financing notes (as described in paragraph 5(E) (Optional redemption for tax and other reasons) in the section “**Terms and conditions of the offered Financing notes**”). The applicability of any UK withholding tax under current English law is discussed under “**United Kingdom taxation – Withholding tax**”.

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

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

It is possible that prior to the maturity of the Financing 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, (a) all amounts payable in respect of any Financing notes denominated in sterling may become payable in euro; (b) applicable provisions of law may allow or require Financing to re-denominate such Financing notes into euro and take additional measures in respect of such Financing notes; and (c) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in pounds sterling used to determine the rates of interest on such Financing 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. It cannot be said with certainty what effect, if any, adoption of the euro by the United Kingdom will have on investors in the Financing notes.

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

The structure of the issue of the Financing notes and the ratings which are to be assigned to them are based on English law and (in relation to the Scottish loans) Scots law in effect as at the date of this offering circular. We cannot provide assurance as to the impact of any possible change to English or Scots law or administrative practice in the United Kingdom after the date of this offering circular.

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

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

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

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

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

On 15 September 2003, the corporate insolvency provisions of the Enterprise Act 2002 came into force, amending certain provisions of the Insolvency Act 1986 (as amended, the **Insolvency Act**). These provisions introduced significant reforms to corporate insolvency law. In particular the reforms restrict the right of the holder of a floating charge created after 15 September 2003 to appoint an administrative receiver (unless an exception applies) and instead gives primacy to collective insolvency procedures (in particular, administration).

The holder of a floating charge created before 15 September 2003 over the whole or substantially the whole of the assets of a company (such as the security trustee under the Funding 1 deed of charge) retains the ability to block the appointment of an administrator by appointing an administrative receiver, who will primarily act in the interests of the floating charge holder.



The Insolvency Act contains provisions which continue to allow for the appointment of an administrative receiver in relation to certain transactions in the capital markets. The relevant exception provides that the right to appoint an administrative receiver is retained for certain types of security (such as the Financing security) that form part of a capital markets arrangement (as defined in the Insolvency Act) that involves indebtedness of at least £50,000,000 (or, when the relevant security document was entered into (being in respect of the transactions described in this offering circular, the Financing deed of charge), a party to the relevant transaction (such as Financing) was expected to incur a debt of at least £50,000,000) and the issue of a capital markets investment (also defined but generally a rated, listed or traded bond). The Secretary of State for Trade and Industry may, by secondary legislation, modify the capital market exception and/or provide that the exception shall cease to have effect. No assurance can be given that any such modification or provision in respect of the capital market exception, or its ceasing to be applicable to the transactions described in this document will not adversely affect payments on the Financing notes. In addition, as the provisions of the Enterprise Act have never been considered judicially, no assurance can be given as to whether the Enterprise Act could have a detrimental effect on the transaction described in this offering circular or on the interests of noteholders.

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

The new administration provisions of the Insolvency Act give primary emphasis to the rescue of the company as a going concern. The purpose of realising property to make a distribution to one or more secured creditors is subordinated to the primary purposes of rescuing the company as a going concern or achieving a better result for the creditors as a whole than would be likely if the company were wound up. No assurance can be given that the primary purposes of the new provisions will not conflict with the interests of noteholders were Financing ever subject to administration.

In addition to the introduction of a prohibition on the appointment of an administrative receiver as set out above, section 176A of the Insolvency Act provides that in relation to floating charges created after 15 September 2003 any receiver (including an administrative receiver), liquidator or administrator of a company is required to make a "prescribed part" of the company's "net property" available for the satisfaction of unsecured debts in priority to the claims of the floating charge holder. The company's "net property" is defined as the amount of the chargor's property which would be available for satisfaction of debts due to the holder(s) of any debentures secured by a floating charge and so refers to any floating charge realisations less any amounts payable to the preferential creditors or in respect of the expenses of the liquidation or administration. The "prescribed part" is defined in The Insolvency Act 1986 (Prescribed Part) Order 2003 (SI 2003/2097) to be an amount equal to 50 per cent. of the first £10,000 of floating charge realisations plus 20 per cent. of the floating charge realisations thereafter, provided that such amount may not exceed £600,000.

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

Floating charge realisations upon the enforcement of the Financing security and the security created by the second supplemental Funding 1 deed of charge may be reduced by the operation of these “ring fencing” provisions.

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

Unless the global Financing notes are exchanged for definitive Financing notes, which will only occur under a limited set of circumstances, beneficial ownership of the Financing notes will only be recorded in book-entry form with DTC, Euroclear or Clearstream, Luxembourg. The lack of Financing notes in physical form could, among other things:

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

**If you have a claim against Financing or us it may be necessary for you to bring suit against Financing or us in England to enforce your rights**

We and Financing have agreed to submit to the non-exclusive jurisdiction of the courts of England, and it may be necessary for you to bring a suit in England to enforce your rights against Financing or us.

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

The Basel Committee on Banking Supervision published the text of a new framework on 26 June 2004 under the title “Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework”. This new framework (the **Basel II Framework**), which places enhanced emphasis on market discipline and sensitivity to risk, is the basis for national rule-making and approval processes to continue and for banking organisations to complete their preparations for implementation of the Basel II Framework. The committee has suggested that the various approaches under the Basel II Framework should be implemented in stages, some from year-end 2006, the most advanced at year-end 2007. National implementation dates may differ depending on the relevant implementation process. As and when implemented (including, in respect of EU financial institutional investors, through the proposed EU Capital Requirements Directive), the Basel II Framework could affect the risk-weighting of the notes in respect of certain investors if those investors are subject to the Basel II Framework following its implementation. Consequently, investors should consult their own advisers as to the consequences to and effect on them of the proposed implementation of the Basel II Framework. No predictions can be made as to the precise effects of potential changes which might result upon the implementation of the Basel II Framework.

Financing may, under certain circumstances relating to the statutory implementation of the Basel II Framework in the United Kingdom, as described in number 5(F) (Redemption or purchase following a regulatory event) in the section “**Terms and conditions of the offered Financing notes**”, require you to sell your Financing notes to it or redeem your Financing notes.

## US dollar presentation

Unless otherwise stated in this offering circular, any translations of pounds sterling into US dollars have been made at the rate of £0.57231 = US\$1.00, which was the closing buying rate in the City of New York for cable transfers in sterling per US\$1.00 as certified for customs purposes by the Federal Reserve Bank of New York on 1 March 2006. Use of this rate does not mean that sterling amounts actually represent those US dollar amounts or could be converted into US dollars at that rate at any particular time.

### Sterling/US dollar exchange rate history

	Period ended 1 March	Years ended 31 December				
		2006	2005	2004	2003	2002
Last <sup>(1)</sup> .....	1.7500	1.7230	1.9181	1.7858	1.6100	1.4546
Average <sup>(2)</sup> .....	1.7576	1.8196	1.8334	1.6358	1.5038	1.4407
High .....	1.7875	1.9291	1.9467	1.7858	1.6100	1.5038
Low .....	1.7199	1.7142	1.7559	1.5541	1.4082	1.3727

Notes:

(1) The closing exchange rate on the last operating business day of each of the periods indicated, years commencing from 1 January or the next operating business day.

(2) Average daily exchange rate during the period.

Source: Bloomberg – Close of Business Mid Price

## Permanent Financing (No. 9) PLC

### Introduction

Financing was incorporated in England and Wales on 15 February 2006 (registered number 5711074) and is a public limited company under the Companies Act 1985. The authorised share capital of Financing comprises 50,000 ordinary shares of £1 each. The issued share capital of Financing comprises 50,000 ordinary shares of £1 each, 49,998 of which are partly paid to £0.25 each and 2 of which are fully paid and all of which are beneficially owned by Holdings (see “**Holdings**”). Under the corporate services agreement, Holdings has agreed to comply with all requests of the security trustee in relation to the appointment and/or removal by Holdings of any of the directors of Financing.

13.3  
7.4.1  
7.4.4  
7.4.3  
7.4.5  
7.4.6  
7.6.1  
7.7.1  
7.5.1

Halifax plc has contributed to Holdings the funds required by Holdings to subscribe for the shares in Financing.

Financing is organised as a special purpose company. Financing has no subsidiaries. The seller does not own directly or indirectly any of the share capital of Holdings or Financing.

Financing was established as a special purpose vehicle for the purposes of issuing the Financing notes and making the Financing term advances to Funding 1. The activities of Financing are limited to passively owing or holding the Financing intercompany loan, issuing the Financing notes supported by the Financing intercompany loan and other activities reasonably incidental thereto. The principal objects of Financing are set out in its memorandum of association and include:

- lending money and giving credit, with or without security;
- borrowing or raising money and obtaining credit or finance; and
- securing payment or repayment of money credit or finance by any security over Financing’s property; and
- acquiring or entering into financial instruments including derivative instruments.

Under the Companies Act 1985, Financing’s governing documents, including the principal objects of Financing, may be altered by a special resolution of the shareholders.

The activities of Financing will be further restricted by the terms and conditions of the Financing notes and will be limited to the issue of the Financing notes, the making of the Financing term advances to Funding 1, the exercise of related rights and powers, and other activities referred to in this offering circular or incidental to those activities.

Since its incorporation, Financing has not commenced operations and has not engaged, in any material activities other than those incidental to its incorporation as a public company under the Companies Act 1985 and to the proposed issue of the Financing notes and to the authorisation of the other Financing transaction documents referred to in this offering circular.

7.8.1

There is no intention to accumulate surplus cash in Financing except in the circumstances set out in “**Security for Financing’s obligations**”.

The accounting reference date (i.e., the last day of the fiscal year) of Financing is the last day of December. As at 17 March 2006, no statutory accounts have been prepared or delivered to the Registrar of Companies on behalf of Financing.

## Directors and secretary

The following table sets out the directors of Financing and their respective business addresses and occupations. Each director has served in office since the incorporation of Financing.

<b>Name</b>	<b>Business address</b>	<b>Principal activities/ business occupation</b>	<b>Age</b>
SFM Directors Limited .....	35 Great St. Helen's London EC3A 6AP	Director of special purpose companies	—
SFM Directors (No. 2) Limited .....	35 Great St. Helen's London EC3A 6AP	Director of special purpose companies	—
David Balai .....	HBOS Treasury Services plc 33 Old Broad Street London EC2N 1HZ	Senior Director	49

The sponsor has caused David Balai, Senior Director of HBOS Treasury Services plc, the arranger and an affiliate of the seller, to be a director of Financing. David Balai does not receive any compensation for acting as director.

The sponsor has caused SFM Directors Limited and SFM Directors (No. 2) Limited, companies specialising in acting as directors of special purpose companies, to be directors of Financing.

The directors of each of SFM Directors Limited and SFM Directors (No. 2) Limited are Jonathan Eden Keighley, James Macdonald and Robert Berry. Their principal activities include the provision of directors and corporate management services to structured finance transactions as directors on the boards of SFM Directors Limited and SFM Directors (No. 2) Limited. The business address of each of the directors of SFM Directors Limited and SFM Directors (No. 2) Limited is 35 Great St. Helen's, London EC3A 6AP.

The company secretary of Financing is: SFM Corporate Services Limited, 35 Great St. Helen's, London EC3A 6AP.

In accordance with the Financing corporate services agreement, the corporate services provider will provide to Financing directors, a registered and administrative office, the service of a company secretary, the arrangement of meetings of directors and shareholders and procure book-keeping services and preparation of accounts by Halifax. No other remuneration is paid by Financing to or in respect of any director or officer of Financing for acting as such.

## Capitalisation statement

The following table shows the capitalisation of Financing as at 16 March 2006:

	<b>£</b>
<b>Authorised share capital</b>	
Ordinary shares of £1 each .....	50,000.00
<b>Issued share capital</b>	
2 ordinary shares of £1 each fully paid.....	2.00
49,998 ordinary shares each one quarter paid .....	12,499.50
	<u>12,501.50</u>

Financing has no loan capital, term loans, other borrowings or indebtedness or contingent liabilities or guarantees as at such date. On the closing date, Financing will advance a loan of £4,572,690,000 to Funding 1 with the proceeds of the offered Financing notes pursuant to the Financing intercompany loan agreement.

There has been no material change in the capitalisation, indebtedness, guarantees or contingent liabilities of Financing since such date.

It is not intended that there be any further payment of the issued share capital.

## Use of proceeds

The net proceeds of the issuance of the offered Financing notes will equal approximately \$4,600,500,000 and together with the net proceeds of the series 4 Financing notes and the series 5 Financing notes (in each case where the relevant class of Financing notes is denominated in US dollars or euro after making appropriate currency exchanges under the Financing swaps) will be applied in accordance with the Financing intercompany loan, to make the Financing term advances to Funding 1. The net proceeds of the issuance of the offered Financing notes will equal the gross proceeds of the offered Financing notes as (1) the management and underwriting fees and selling commissions otherwise payable by Financing and (2) the additional offering expenses otherwise payable by Financing in connection with the issuance of the offered Financing notes, will be paid to the initial purchasers on behalf of Financing by Funding 1 from part of the proceeds of the Financing start-up loan. See “**Method of Distribution**”.

13.4.1  
8.3.3

## Introduction

Halifax Building Society was founded in 1853 as the Halifax Permanent Benefit Building and Investment Society. In 1928, it merged with Halifax Equitable Building Society to form Halifax Building Society. Halifax was incorporated in England and Wales with registered number 02367076 on 31 March 1989. On 2 June 1997 Halifax Building Society, at that time the United Kingdom's largest building society, transferred its business to Halifax, which on that date became authorised under the UK Banking Act 1987. Upon completion of the transfer, Halifax Building Society ceased to exist. On 4 December 1996 Halifax took its current name and re-registered as a public limited company. Its registered office is Trinity Road, Halifax, West Yorkshire HX1 2RG. Its telephone number is (+44) 113 235 2176. The UK Banking Act 1987 was repealed when section 19 of the FSMA was brought into force on 1 December 2001. Halifax is now authorised as required under the FSMA. On 1 June 1999, through a scheme of arrangement, Halifax Group plc acquired and became the holding company of Halifax. On 1 July 2002 Halifax plc became a directly held subsidiary undertaking of HBOS plc having formerly been a subsidiary undertaking of Halifax Group plc. On 10 September 2001 Halifax Group plc and The Governor and Company of the Bank of Scotland were acquired by a new holding company, HBOS plc (**HBOS**). HBOS is the fourth largest banking group in the United Kingdom in terms of assets and is the United Kingdom's largest savings banking group. HBOS was incorporated in Scotland on 3 May 2001.

HBOS had total consolidated assets of £540,873 million at 31 December 2005. HBOS's consolidated profit before tax for the year ended 31 December 2005 was £4,808 million.

Halifax had total consolidated assets of £254,918 million at 31 December 2005. Halifax's consolidated profit before tax for the year ended 31 December 2005 was £1,188 million.

Halifax is primarily engaged in providing financial services to customers through the broadest distribution base of any UK retail bank, ranging from branches to direct mail, telephone and internet banking. Its range of multi-branded products includes personal and business banking, savings and long-term investments, mortgages, personal loans and credit cards. Halifax is the United Kingdom's leading provider of mortgages through various brands. It is also the United Kingdom's largest liquid savings provider.

Halifax is the sponsor of the asset-backed securities transaction in connection with which the Financing notes are being issued. Halifax is also the seller, the servicer, the cash manager, the Financing cash manager and the Funding 1 swap provider in the transaction.

## Mortgage business

Halifax has been making and servicing residential mortgage loans since its founding, and for over 75 years has been the largest provider of mortgage loans in the United Kingdom. Statistical information regarding the recent size and growth of the portfolio of residential mortgage loans serviced by Halifax (all of which were originated by Halifax) may be found under "**The servicer – Halifax plc residential mortgage loans**".

The total consolidated value of Halifax's mortgage loans and advances secured on residential properties as at 31 December 2005 was approximately £167.7 billion, compared with £155.7 billion as at 31 December 2004.

## Securitisation

Halifax has been engaged in the securitisation of residential mortgage loans since June 2002. To date, it has completed eight residential mortgage securitisation transactions in which an aggregate initial principal amount of £35.3 billion (equivalent) of notes has been issued. Halifax's residential mortgage loans also form the collateral for the covered bond issuance program of HBOS Treasury Services plc (**HBOSTS**). Since July 2003, HBOSTS has issued 15 series of covered bonds with an aggregate initial principal amount of £11.5 billion (equivalent) backed by residential mortgage loans originated by Halifax. No prior securitisation organised by Halifax has experienced an event of default to date.



Both Halifax and its affiliate, HBOSTS, are involved in Halifax's mortgage loan securitisation program. In general, Halifax is responsible for the selection of the pool of loans to be securitised and for ongoing servicing, reporting and cash management in accordance with the transaction documents. HBOSTS acts as arranger of these securitisations and is responsible for structuring of the transaction, cash flow modelling, arranging distribution and marketing of the securities, and arranging currency, interest rate and other hedge providers. Both Halifax and HBOSTS are responsible for liaison with rating agencies, engaging various third party service providers and advisors, as well as overall transaction management. From time to time, HBOSTS may also underwrite particular classes of asset backed securities issued in Halifax's securitisation program.

#### **Halifax General Insurance Services Ltd**

Halifax General Insurance Services Ltd was incorporated in England and Wales on 19 February 1993 as a private limited company. Halifax General Insurance Services Ltd is a wholly and indirectly owned subsidiary of Halifax Group plc and its registered office is at Trinity Road, Halifax, West Yorkshire HX1 2RG. The principal business activity of Halifax General Insurance Services Ltd is that of general insurance.

#### **HBOS Insurance (PCC) Guernsey Ltd**

HBOS Insurance (PCC) Guernsey Ltd was incorporated in Guernsey on 14 December 2001 as a protected cell company in accordance with the provisions of the Guernsey Protected Cell Companies Ordinance 1997. HBOS Insurance (PCC) Guernsey Limited is a wholly owned subsidiary of Halifax plc and its registered office is at Maison Trinity, Trinity Square, St. Peter Port, Guernsey GY1 4AT. The principal business activity of HBOS Insurance (PCC) Guernsey Ltd, an indirect subsidiary of HBOS, is insurance. The company commenced insurance business on 19 December 2001, when it acquired by portfolio transfer the insurance businesses of Halifax Mortgage Re Limited and Halifax Guarantee Insurance Company Limited. HBOS Insurance (PCC) Guernsey Ltd is the current owner of the mortgage indemnity insurance policies contracted between Halifax Mortgage Re Limited and Halifax plc.

#### **Halifax Insurance Ireland Limited**

Halifax Insurance Ireland Limited was incorporated in Ireland on 29 March 2000 and was registered as company number 323923. Halifax Insurance Ireland Limited is a wholly owned subsidiary of Halifax Jersey Holdings Limited and its registered office is at Dromore House, East Park, Shannon. The principal business activity of Halifax Insurance Ireland Limited is that of general insurance. On 2 January 2001 the company began providing underwriting for mortgage repayment insurance offered by Halifax to borrowers. In March 2001 Halifax introduced the Total Mortgage Protection Policy, of which the mortgage repayment cover element is underwritten by Halifax Insurance Ireland Limited. In a few instances, Halifax still offers mortgage repayment insurance. In these instances, the insurance continues to be underwritten by Halifax Insurance Ireland Limited.

## Permanent Funding (No. 1) Limited

Funding 1 was incorporated in England and Wales on 9 August 2001 (registered number 4267660) as a private limited company under the Companies Act 1985. The authorised share capital of Funding 1 comprises 100 ordinary shares of £1 each. The issued share capital of Funding 1 comprises one ordinary share of £1, which is beneficially owned by Holdings (see “**Holdings**”).

13.3  
9.4.1.1  
9.4.1.2  
9.4.1.3  
9.4.1.4  
9.10.1

Funding 1 was organised as a special purpose company to act as a depositor for the securitisation of residential mortgages originated by Halifax plc, and it has acted as such for each securitisation by the previous issuing entities. Funding 1 has no subsidiaries. The seller does not own directly or indirectly any of the share capital of Holdings or Funding 1.

9.5.1.1

The principal objects of Funding 1 are set out in its memorandum of association and are, among other things, to:

- carry on business as a property investment company and an investment holding company;
- acquire trust property and enter into loan arrangements;
- invest, buy, sell and otherwise acquire and dispose of mortgage loans, advances and other investments and all forms of security;
- carry on business as a money lender, financier and investor;
- acquire and enter into financial instruments including derivative instruments; and
- undertake and carry on all kinds of loan, financial and other operations.

To date, Funding 1 has not failed to meet its payment obligations under any intercompany loan agreement.

Since its incorporation, Funding 1 has not engaged in any material activities, other than those relating to the issue of the previous notes by the previous issuing entities, those incidental to the authorisation of the Financing transaction documents referred to in this offering circular to which it is or will be a party, applying for a standard licence under the Consumer Credit Act 1974 and other matters which are incidental to those activities. Funding 1 has no employees.

9.11.6

After the issuance of the Financing notes, Funding 1 will have no continuing duties with respect to the Financing notes but will receive payments in respect of the Funding 1 share of the trust property and distribute such receipts as payments on the intercompany loans in accordance with the priorities of payments set out under “**Cashflows**”.

The accounting reference date of Funding 1 is the last day of December.

The registered office of Funding 1 is 35 Great St. Helen's, London EC3A 6AP. The telephone number of Funding 1's registered office is +44 (0)20 7398 6300.

9.4.1.4

**Directors and secretary**

The following table sets out the directors of Funding 1 and their respective business addresses and occupations.

<b>Name</b>	<b>Business address</b>	<b>Business occupation</b>
SFM Directors Limited.....	35 Great St. Helen's London EC3A 6AP	Director of special purpose companies
SFM Directors (No. 2) Limited .....	35 Great St. Helen's London EC3A 6AP	Director of special purpose companies
David Balai .....	HBOS Treasury Services plc 33 Old Broad Street London EC2N 1HZ	Senior Director

David Balai is an employee of a company in the same group of companies as the seller.

The directors of SFM Directors Limited and SFM Directors (No. 2) Limited are set out in the section "**Holdings**".

The company secretary of Funding 1 is: SFM Corporate Services Limited, 35 Great St. Helen's, London EC3A 6AP.

The directors and secretary of Funding 1 have no conflicts of interest in relation to any of the transactions described in this offering circular.

In accordance with the Funding corporate services agreement, the corporate services provider will provide to Funding 1 directors, a registered and administrative office, the service of a company secretary, the arrangement of meetings of directors and shareholders and procure book-keeping services and preparation of accounts by Halifax. No other remuneration is paid by Funding 1 to or in respect of any director or officer of Funding 1 for acting as such.

## The mortgages trustee

The mortgages trustee was incorporated in Jersey, Channel Islands on 13 May 2002 (registered number 83116) as a private company with limited liability under the Companies (Jersey) Law 1991, for a period of unlimited duration. The authorised share capital of the mortgages trustee is £2 divided into 2 ordinary shares of £1 each. Two ordinary shares have been issued and fully paid and are held in trust for charitable purposes by SFM Offshore Limited pursuant to an instrument of trust dated 7 May 2002. Any profits received by the mortgages trustee, after payment of the costs and expenses of the mortgages trustee, will be paid for the benefit of charities and charitable purposes selected at the discretion of SFM Offshore Limited. The payments on the Financing notes will not be affected by this arrangement. The registered office of the mortgages trustee is at 47 Esplanade, St. Helier, Jersey JE1 0BD, Channel Islands. Its telephone number is +44 1534 510 924.

The mortgages trustee was organised as a special purpose company to act as trustee of the mortgages trust, and it has acted as such in connection with each securitisation by the previous issuing entities. The mortgages trustee has no subsidiaries. The seller does not own directly or indirectly any of the share capital of the mortgages trustee.

The principal activities of the mortgages trustee are, among other things, to:

- invest and deal in mortgage loans secured on residential or other properties within England, Wales and Scotland;
- invest in, buy, sell and otherwise acquire and dispose of mortgage loans, advances, other similar investments and all forms of security;
- carry on business as a money lender, financier and investor;
- undertake and carry on all kinds of loan, financial and other operations; and
- act as trustee in respect of carrying on any of these activities.

The mortgages trustee has not engaged, since its incorporation, in any material activities other than those incidental to its incorporation, the settlement of the trust property on the mortgages trustee, acting as trustee of the mortgages trust since the initial closing date, the issue of the previous notes by the previous issuing entities, the authorisation of the Financing transaction documents referred to in this offering circular to which it is or will be a party, obtaining a standard licence under the Consumer Credit Act 1974, filing a notification under the Data Protection Act 1998, registering as a data user under the Data Protection (Jersey) Law 1987, as amended and other matters which are incidental or ancillary to the foregoing. The mortgages trustee has no employees.

The accounting reference date of the mortgages trustee is the last day of December.

In accordance with the mortgages trustee corporate services agreement, the corporate services provider will provide to the mortgages trustee directors, a registered and administrative office, the service of a company secretary, the arrangement of meetings of directors and shareholders, book-keeping services and preparation of accounts. No other remuneration is paid by the mortgages trustee to or in respect of any director or officer of the mortgages trustee for acting as such.

## Holdings

Holdings was incorporated in England and Wales on 9 August 2001 (registered number 4267664) as a private limited company under the Companies Act 1985. The registered office of Holdings is 35 Great St. Helen's, London EC3A 6AP.

Holdings has an authorised share capital of £100 divided into 100 ordinary shares of £1 each, of which two shares have been issued, one share at par value and one share at a premium, and are beneficially owned by SFM Corporate Services Limited on a discretionary trust for the benefit of The National Society for the Prevention of Cruelty to Children (registered charity number 216401) in the United Kingdom and for charitable purposes. Any profits received by Holdings from its shareholdings, after payment of the corporate administration costs and expenses of Holdings, will be paid for the benefit of this charity and for other charitable purposes selected at the discretion of the corporate services provider. The payments on the Financing notes will not be affected by this arrangement.

Holdings is organised as a special purpose company. The seller does not own directly or indirectly any of the share capital of Holdings.

The principal objects of Holdings are set out in its memorandum of association and are, among other things, to:

- acquire and hold, by way of investments or otherwise; and
- deal in or exploit in such manner as may from time to time be considered expedient,

all or any part of any securities or other interests of or in any company (including the previous issuing entities, Financing, the mortgages trustee, Funding 1, and the post-enforcement call option holder).

Holdings has acquired all of the issued share capital of Financing, the previous issuing entities, Funding 1 and Funding 2, and Holdings has not engaged in any other activities since its incorporation other than changing its name from Alnery No. 2224 Limited on 21 March 2002 and those incidental to the authorising of the previous transaction documents and the Financing transaction documents and other matters which are incidental to those activities. Holdings has no employees.

The accounting reference date of Holdings is the last day of December.

## Permanent PECO Limited

The post-enforcement call option holder was incorporated in England and Wales on 9 August 2001 (registered number 4267666) as a private limited company under the Companies Act 1985. The registered office of the post-enforcement call option holder is 35 Great St. Helen's, London EC3A 6AP.

The authorised share capital of the post-enforcement call option holder comprises 100 ordinary shares of £1 each. The issued share capital of the post-enforcement call option holder comprises one ordinary share of £1, which is beneficially owned by PECO Holdings (see "**PECO Holdings**").

The post-enforcement call option holder is organised as a special purpose company. The post-enforcement call option holder has no subsidiaries. The seller does not own directly or indirectly any of the share capital of PECO Holdings or the post-enforcement call option holder.

The principal objects of the post-enforcement call option holder are as set out in its memorandum of association and are, among others, to hold bonds, notes, obligations and securities issued or guaranteed by any company and any options or rights in respect of them. The post-enforcement call option holder has not engaged since its incorporation in any material activities other than changing its name from Alnery No. 2223 Limited on 21 March 2002, those activities relating to the issue of the previous notes by the previous issuing entities and those incidental to the authorising of the Financing transaction documents referred to in this offering circular and other matters which are incidental to those activities. The post-enforcement call option holder has no employees.

The accounting reference date of the post-enforcement call option holder is the last day of December.

Pursuant to the terms of an option granted to Permanent PECO Limited under the post-enforcement call option agreement, following the enforcement of the security granted by Financing pursuant to the Financing deed of charge, Permanent PECO Limited can require the transfer to it of all of the class B Financing notes and/or all of the class C Financing notes, as the case may be, for a nominal amount.

As the post-enforcement call option granted pursuant to the post-enforcement call option agreement can be exercised only after the security trustee has enforced the security granted by Financing under the Financing deed of charge and has determined that there are no further assets available to pay amounts due and owing to the class B noteholders and/or the class C noteholders, as the case may be, the exercise of the post-enforcement call option and delivery by the class B noteholders and/or the class C noteholders of the class B Financing notes and/or the class C Financing notes to Permanent PECO Limited will not extinguish any other rights or claims other than the rights to payment of interest and repayment of principal under the class B Financing notes and/or the class C Financing notes that such class B noteholders and/or class C noteholders, as the case may be, may have against Financing.

## PECOH Holdings

PECOH Holdings was incorporated in England and Wales on 1 June 2005 (registered number 5468381) as a private limited company under the Companies Act 1985. The registered office of PECO Holdings is 35 Great St Helen's, London EC3A 6AP.

PECO Holdings has an authorised share capital of £100, divided into 100 ordinary shares of £1 each. The issued share capital of PECO Holdings comprises one ordinary share of £1, which is beneficially owned by Structured Finance Management Investments Limited on a discretionary trust for the benefit of Barnardo's (registered charity number 216250) in the United Kingdom and for charitable purposes. Any profits received by PECO Holdings, after payment of the costs and expenses of PECO Holdings, will be paid for the benefit of this charity and for other charitable purposes selected at the discretion of the corporate services provider. The payments on the Financing notes will not be affected by this arrangement.

PECO Holdings is organised as a special purpose company. The seller does not own directly or indirectly any of the share capital of PECO Holdings.

The principal objects of PECO Holdings are set out in its memorandum of association and are, among other things, to acquire, hold and deal in securities of any company, including the post-enforcement call option holder.

PECO Holdings has acquired all of the issued share capital of Permanent PECO Limited and PECO Holdings has not engaged in any other activities since its incorporation other than those incidental to the authorising of Financing transaction documents and other matters which are incidental to those activities. PECO Holdings has no employees.

The accounting reference date of PECO Holdings is the last day of December.

## The note trustee and the security trustee

The note trustee and the security trustee, The Bank of New York, is a New York banking corporation. Its address is One Canada Square, London E14 5AL.

The Bank of New York has served and currently is serving as indenture trustee and trustee for numerous securitisation transactions and programs involving pools of mortgage loans.

Pursuant to the trust deed, the note trustee is required to take certain actions as described in **“Description of the trust deed”** and **“Terms and conditions of the offered Financing notes.”** Pursuant to the trust deed and the Financing deed of charge, the security trustee is required to take certain actions as described in **“Security for Financing’s obligations – Appointment, powers, responsibilities and liabilities of the security trustee”** and **“Terms and conditions of the offered Financing notes.”**

The limitations on liability of the note trustee are described in **“Terms and conditions of the offered Financing notes.”** The limitations on the liability of the security trustee are described in **“Security for Financing’s obligations – Appointment, powers, responsibilities and liabilities of the security trustee”** and **“Security for Financing’s obligations – Additional provisions of the Financing deed of charge.”**

The indemnifications available to the note trustee and the security trustee are described in Condition 12 under **“Terms and conditions of the offered Financing notes”**.

Provisions for the removal of the security trustee are described in **“Security for Financing’s obligations – Appointment, powers, responsibilities and liabilities of the security trustee – Retirement and removal”**.



## The swap providers

### Funding 1 swap provider

The Funding 1 swap provider is Halifax. See “**Halifax plc**”.

### Financing swap providers

8.3.8

The Financing swap provider in respect of the series 1 Financing notes is Danske Bank A/S London Branch.

The Financing swap provider in respect of the series 2 Financing notes is Danske Bank A/S London Branch.

The Financing swap provider in respect of the series 3 Financing notes is IXIS Corporate & Investment Bank.

The Financing swap provider in respect of the series 4 Financing notes is Citibank, N.A., London Branch.

### Danske Bank A/S

Danske Bank A/S London Branch is the Financing swap provider in respect of the series 1 Financing notes and the series 2 Financing notes. Danske Bank A/S is a public limited company organised under the laws of the Kingdom of Denmark under number 61126228. It has its registered and head office at Holmens Kanal 2-12, DK-1092 København K, Denmark. It is regulated in Denmark by Finanstilsynet, the Danish Financial Supervisory Authority, and by the Financial Services Authority for the conduct of investment business in the UK.

The Danske Bank Group (**Danske Group**), which comprises Danske Bank A/S, the parent company, and a number of subsidiaries, offers its customers a wide range of banking, insurance, mortgage finance, asset management, capital markets, investment banking and leasing services. Danske Group is the largest bank in Denmark in terms of equity, deposits and assets. Danske Group also ranks among the largest financial institutions in the Nordic countries.

As of 31 December 2005, the Danske Group had total assets of DKr 2,432 billion, total loans and advances of DKr 1,398 billion, total deposits of DKr 1,107 billion and equity shareholder funds of DKr 75 billion.

Danske Bank A/S current credit ratings are as follows: Moody's: P-1 (short-term) and Aa1 (long-term), S&P: A-1+ (short-term) and AA- (long-term), Fitch: F1+ (short-term) and AA- (long-term).

The information in the preceding four paragraphs relates to and has been obtained from Danske Bank A/S. The information provided by Danske Bank A/S has been accurately reproduced and as far as Financing is aware and able to ascertain from the information provided by Danske Bank A/S, no facts have been omitted which would render the information in the preceding four paragraphs inaccurate or misleading. Except for the foregoing four paragraphs, Danske Bank A/S, in its capacity as a Financing dollar currency swap provider, and its affiliates have not been involved in the preparation of and do not accept responsibility for this offering circular.

13.7.4

### IXIS Corporate & Investment Bank

IXIS Corporate & Investment Bank (**IXIS CIB**) is the Financing swap provider in respect of the series 3 Financing notes. IXIS CIB is a French law limited liability company (*société anonyme à Directoire et Conseil de Surveillance*), which was incorporated on 31 March 1987 and originally licensed as a finance company (*société financière*), a type of credit institution, on 31 May 1996 by the *Comité des établissements de crédit et des entreprises d'investissement (CECEI)*. By decision of the CECEI of 29 June 2004 with effect on 1 November 2004, its licence was extended to enable it to conduct business as a bank (as defined under Article L.511-9 of the French Monetary and Financial Code) (excluding management of means of payment – *gestion des moyens de paiement*) and investment services (including custodian-accountholder on own account and clearing broker – *teneur de compte conservateur pour compte propre et compensateur*). Consequently, it is subject to French and European Union laws and regulations applicable to credit institutions and is regulated

by *Livre V* of the French Monetary and Financial Code. Its registered office is at 47, Quai d'Austerlitz 75648 Paris Cedex 13, France. For the purpose of the Financing dollar currency swaps in respect of the series 3 Financing notes, IXIS CIB is acting through its London branch, registered in England as a branch under No.BR004413 and regulated by the FSA for investment business conducted in the United Kingdom. The name of IXIS CIB was changed from CDC IXIS Capital Markets to IXIS Corporate & Investment Bank on 1 November 2004. IXIS CIB has a 99-year term, expiring on 31 March 2086, except in the event of extension or dissolution.

On 30 June 2004, Caisse des dépôts et consignations (**CDC**) transferred its direct and indirect interests in IXIS CIB's parent company, CDC Finance – CDC Ixis (**CDC IXIS**), to Caisse Nationale des Caisses d'Épargne et de Prévoyance (**CNCEP**). Pursuant to a partial transfer of assets (the **Transfer**), IXIS CIB has taken over as of 1 November 2004, *inter alia*, CDC IXIS's banking and financial operations, back office and spreadbooks as well as its US capital market affiliates and its interest in Nexgen. IXIS CIB now forms the basis of the Caisse d'Épargne Group's investment banking arm.

By letter dated 12 October 2004 confirming its undertakings under a guarantee in the form of a joint and several obligation (*cautionnement solidaire*) dated 28 May 2003 (the **CDC Guarantee**), CDC, with effect from the date of the Transfer, directly guarantees Transactions (as defined in and in accordance with the CDC Guarantee) entered into by IXIS CIB. The CDC Guarantee extends both to all on-balance sheet and off-balance sheet transactions (subject to the terms of the CDC Guarantee) if entered into before midnight (Paris time) on 23 January 2007 and where their respective maturity dates fall before 24 January 2017, other than (i) payment obligations arising from any subordinated securities or debts subject to a subordination provision which is intended for or which results in the assimilation of the securities or debts to its own funds as defined by banking regulations or (ii) any payment obligations arising under any transaction which are specifically excluded from the benefit of the CDC Guarantee.

Transactions (as such term is defined in the CNCEP Guarantee (as defined below)) entered into by IXIS CIB (a) on or after 24 January 2004 and which have maturity dates falling on or after 24 January 2017, or (b) on or after 24 January 2007, irrespective of the maturity date of such transaction, are guaranteed by an additional guarantee in the form of a joint and several obligation (*cautionnement solidaire*) dated 1 October 2004 and with effect from (and including) 1 October 2004 granted to the counterparties of IXIS CIB by CNCEP (the **CNCEP Guarantee**), unless such transaction is a payment obligation arising under any transaction for which the legal documentation specifically excludes the benefit of the CNCEP Guarantee. For the avoidance of doubt, it is indicated that the undertakings of CNCEP under the CNCEP Guarantee are not guaranteed by CDC.

Before claiming under the CDC Guarantee or the CNCEP Guarantee (as the case may be), a beneficiary of either of these guarantees must first deliver a written payment request to IXIS CIB for amounts due but unpaid. If the amount claimed remains unpaid by IXIS CIB 2 business days (under the terms of the CDC Guarantee) or 3 business days (under the terms of the CNCEP Guarantee) after receipt by the relevant guarantor of the payment request, the beneficiary of a guarantee may issue a written demand on CDC in accordance with the terms of the CDC Guarantee or on CNCEP in accordance with the terms of the CNCEP Guarantee (as the case may be), and CDC or CNCEP (as the case may be) will be obliged to pay amounts due to the counterparty within 3 business days of receipt of such written demand subject to and in accordance with the terms of the relevant guarantee.

The CDC Guarantee and CNCEP Guarantee (as the case may be) may be terminated at any time on or prior to 23 January 2007, by CDC for the CDC Guarantee and at any time by CNCEP for the CNCEP Guarantee. If the CDC Guarantee is terminated before 23 January 2007, IXIS CIB, and if the CNCEP Guarantee is terminated at any time, CNCEP, must inform the relevant beneficiaries of the relevant guarantee by publishing a public announcement in at least one financial newspaper in each of Paris, London, Frankfurt, New York and Tokyo, at least six months before the effective date of the intended termination. Notwithstanding termination of either of the CDC Guarantee or the CNCEP Guarantee (as the case may be), relevant financial instruments issued or entered into by IXIS CIB from (and including) 24 January 2004 to the respective date of termination

of either the CDC Guarantee or the CNCEP Guarantee (as the case may be) will continue to benefit from the respective undertakings given by CDC under the CDC Guarantee or CNCEP under the CNCEP Guarantee (as the case may be) until the respective maturity dates of such financial instruments.

The long term senior commitments of IXIS CIB are currently rated “Aaa” by Moody’s Investors Services Ltd and “AAA” by Standard & Poor’s and Fitch when guaranteed by CDC and “Aa2” by Moody’s Investors Services Ltd and “AA” by Standard & Poor’s and Fitch when guaranteed by CNCEP. The counterparty rating of IXIS CIB is currently rated “AAA/negative” by Standard & Poor’s when guaranteed by CDC, and “AA” when guaranteed by CNCEP. The short term guaranteed senior commitments of IXIS CIB are currently rated “F-1+” by Fitch. The guaranteed senior short term deposits of IXIS CIB are currently rated “P-1” by Moody’s Investors Services Ltd. The short term counterparty rating of IXIS CIB is currently “A-1+” by Standard & Poor’s.

The information in the preceding seven paragraphs relates to and has been obtained from IXIS CIB. The information provided by IXIS CIB has been accurately reproduced and as far as Financing is aware and able to ascertain from the information provided by IXIS CIB, no facts have been omitted which would render the information in the preceding seven paragraphs inaccurate or misleading. Except for the foregoing seven paragraphs, IXIS CIB, in its capacity as a Financing dollar currency swap provider, and its affiliates have not been involved in the preparation of and do not accept responsibility for this offering circular.

13.7.4

### **Citibank, N.A.**

Citibank, N.A., London Branch is the Financing swap provider in respect of the series 4 Financing notes. Citibank, N.A. (**Citibank**) was originally organised on 16 June 1812, and Citibank now is a national banking association organised under the National Bank Act of 1864 of the United States. Citibank is an indirect wholly-owned subsidiary of Citigroup Inc. (**Citigroup**), a diversified global financial services holding company incorporated in Delaware. As of 31 December 2005, the total assets of Citibank and its consolidated subsidiaries represented approximately 47 per cent. of the total assets of Citigroup and its consolidated subsidiaries.

Citibank is a commercial bank that, along with its subsidiaries and affiliates, offers a wide range of banking and trust services to its customers throughout the United States and the world.

Citibank, N.A., London Branch was registered in the United Kingdom as a foreign company in July 1920. The principal offices of the London Branch are located at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, England. The London Branch is primarily regulated by The Financial Services Authority and operated in the United Kingdom as a fully authorised commercial banking institution offering a wide range of corporate banking products.

Citibank does not publish audited financial statements. However, Citigroup publishes audited financial statements that include data relevant to Citibank and its consolidated subsidiaries, including an audited balance sheet of Citibank and its consolidated subsidiaries. The Consolidated Balance Sheets of Citibank as of 31 December 2005 and as of 31 December 2004 are set forth on page 121 of the Annual Report on Form 10-K of Citicorp and its subsidiaries for the year ended 31 December 2005. Consolidated Balance Sheets of Citibank subsequent to 31 December 2005 will be included in the Form 10-Q’s (quarterly) and Form 10-K’s (annually) filed by Citigroup with the SEC, which will be filed not later than 40 days after the end of the calendar quarter or 60 days after the end of the calendar year to which the report relates, or on Form 8-K with respect to certain interim events. Copies of such material may be obtained, upon payment of a duplicating fee, by writing to the SEC at 100 F Street, N.E., Washington, D.C. 20549. In addition, such reports are available at the SEC website (<http://www.sec.gov>).

In addition, Citibank submits quarterly to the U.S. Office of the Comptroller of the Currency (the **Comptroller**) certain reports called “Consolidated Reports of Condition and Income for a Bank With Domestic and Foreign Offices” (**Call Reports**). The Call Reports are on file with and publicly available at the Comptroller’s offices at 250 E Street, S.W., Washington, D.C. 20219 and are also available on the website of the U.S. Federal Deposit Insurance Corporation of the United States (<http://www.fdic.gov>). Each Call Report consists of a Balance Sheet, Income Statement, Changes in

Equity Capital and other supporting schedules at the end of and for the period to which the report relates. The Call Reports are prepared in accordance with the regulatory instructions issued by the U.S. Federal Financial Institutions Examination Council in the United States. While the Call Reports are supervisory and regulatory documents, not primarily accounting documents, and do not provide a complete range of financial disclosure about Citibank, the reports nevertheless provide further information concerning the financial condition and results of operations at Citibank.

The obligations of Citibank, N.A., London Branch under the Financing euro currency swap agreements will not be guaranteed by Citigroup or by any other affiliate.

The information in the preceding six paragraphs relates to and has been obtained from Citibank. The information provided by Citibank has been accurately reproduced and as far as Financing is aware and able to ascertain from the information provided by Citibank, no facts have been omitted which would render the information in the preceding six paragraphs inaccurate or misleading. Except for the foregoing six paragraphs, Citibank, in its capacity as Financing euro currency swap provider, and its affiliates have not been involved in the preparation of and do not accept responsibility for this offering circular.

13.7.4

## The Funding 1 liquidity facility provider

JPMorgan Chase Bank, National Association (**JPMCB**) is a wholly owned bank subsidiary of JPMorgan Chase & Co. (**JPMorgan Chase**), a Delaware corporation whose principal office is located in New York, New York. JPMCB is a commercial bank offering a wide range of banking services to its customers both domestically and internationally. It is chartered, and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of 31 December, 2005, JPMCB had total assets of \$1,014.0 billion, total net loans of \$390.9 billion, total deposits of \$552.6 billion, and total stockholder's equity of \$86.4 billion. These figures are extracted from JPMCB's unaudited Consolidated Reports of Condition and Income as at 31 December, 2005, which are filed with the Federal Deposit Insurance Corporation.

Additional information, including the most recent Form 10-K for the year ended 31 December, 2005, of JPMorgan Chase, the 2005 Annual Report of JPMorgan Chase and additional annual, quarterly and current reports filed or furnished with the SEC by JPMorgan Chase, as they become available, may be obtained without charge by each person to whom this offering circular is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017.

The long-term unsecured, unsubordinated and unguaranteed obligations of JPMCB are currently rated "Aa2" by Moody's, "AA-" by Standard & Poor's and "A+ (with positive outlook)" by Fitch.

The information in the preceding four paragraphs relates to and has been obtained from JPMCB. The information provided by JPMCB has been accurately reproduced and as far as Financing is aware and able to ascertain from the information provided by JPMCB, no facts have been omitted which would render the information in the preceding four paragraphs inaccurate or misleading. The delivery of this offering circular shall not create any implication that there has been no change in the affairs of JPMCB since the date hereof, or that the information contained or referred to above is correct as of any time subsequent to its date.

13.7.4

## **Description of the previous issuing entities, the previous notes and the previous intercompany loans**

The previous issuing entities are each public limited companies incorporated in England and Wales. The registered office of each previous issuing entity is 35 Great St. Helen's, London EC3A 6AP. The telephone number of each previous issuing entity is (+44) 20 7398 6300. Each previous issuing entity is a special purpose company whose purpose is to have issued the previous notes that represent their respective asset-backed obligations and to have lent an amount equal to the proceeds of their respective previous notes to Funding 1 under their respective previous intercompany loans. Each previous issuing entity does not engage in any activities that are unrelated to these purposes.

The following tables summarise the principal features of the previous notes that remain outstanding. In each table, references to "**previous notes**" are references to the notes issued by the relevant previous issuing entity, the notes of which previous issuing entity are described in that table. In the tables, the alternative interest periods indicate the length of interest periods which apply to the relevant class of previous notes upon the earlier of the occurrence of a trigger event, the enforcement of the security given by that previous issuing entity and the relevant scheduled redemption date relating to that class of previous notes.

## Series of previous notes issued by Permanent Financing (No. 1) PLC

	Series 1* class A	Series 1* class B	Series 1* class C	Series 2* class A	Series 2* class B	Series 2* class C	Series 3* class A	Series 3* class B	Series 3* class C	Series 4 class A1	Series 4 class A2	Series 4 class B	Series 4 class C
Initial principal amount:	\$750,000,000	\$26,000,000	\$26,000,000	\$750,000,000	\$26,000,000	\$26,000,000	\$1,100,000,000	\$38,500,000	\$38,500,000	€750,000,000	€1,000,000,000	\$52,000,000	\$52,000,000
Interest rate:	0.02% p.a.	0.27% p.a.	1.05% p.a.	4.20% p.a.	0.28% p.a.	1.18% p.a.	0.125% p.a.	0.30% p.a.	0.30% p.a.	5.10% p.a.	0.18% p.a.	0.30% p.a.	1.20% p.a.
Margin:													
Until interest payment date falling in:	June 2003	June 2007	June 2007	June 2005	June 2007	June 2007	N/A	June 2007	June 2007	June 2007	June 2007	June 2007	June 2007
And thereafter:	N/A	0.54% p.a.	2.05% p.a.	USD-LIBOR	0.56% p.a.	2.18% p.a.	N/A	0.60% p.a.	2.20% p.a.	0.20% p.a.	0.36% p.a.	0.60% p.a.	2.20% p.a.
Initial interest periods:	Monthly	Quarterly	Quarterly	Semi-annually	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Annually	Quarterly	Quarterly	Quarterly
Alternative interest periods:	Quarterly	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Quarterly	N/A	N/A	N/A
Issue date:	June 2002	June 2002	June 2002	June 2002	June 2002	June 2002	June 2002	June 2002	June 2002	June 2002	June 2002	June 2002	June 2002
Scheduled redemption date(s):	June 2003	June 2004	June 2004	June 2005	June 2005	June 2005	December 2005	N/A	N/A	June 2007	N/A	June 2002	June 2002
Final maturity date:	June 2003	June 2004	June 2004	June 2007	June 2007	June 2007	December 2007	June 2004	June 2004	June 2009	June 2042	June 2042	June 2042
Ratings as at 14 June 2002 (S&P)	A-1+/P-1/F1+	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB
Ratings as at 16 March 2006 (S&P)	N/A	N/A	N/A	AAA/Aaa/AAA	N/A	N/A	N/A	N/A	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB
Moody's/Fitch:													
Moody's/Fitch:													

\* previously redeemed

## Series of previous notes issued by Permanent Financing (No. 2) PLC

	Series 1* class A	Series 1* class B	Series 1* class C	Series 2* class A	Series 2* class B	Series 2* class C	Series 3 class A	Series 3 class B	Series 3 class C	Series 4 class A	Series 4 class B	Series 4 class C	Series 5 class A	Series 5 class B	Series 5 class C
Initial principal amount:	\$1,000,000,000	\$34,000,000	\$34,000,000	\$1,750,000,000	\$61,000,000	\$61,000,000	€1,250,000,000	€43,500,000	\$1,750,000,000	€56,500,000	€750,000,000	€56,500,000	€750,000,000	\$26,000,000	€26,000,000
Interest rate:	0.04%	0.23% p.a.	1.25% p.a.	0.15% p.a.	0.33% p.a.	1.45% p.a.	0.23% p.a.	1.45% p.a.	0.22% p.a.	0.45% p.a.	0.45% p.a.	1.45% p.a.	0.25% p.a.	0.45% p.a.	1.45% p.a.
Margin:															
Until interest payment date falling in:	December 2008	December 2008	December 2008	December 2008	December 2008	December 2008	December 2008	December 2008	December 2008	December 2008	December 2008	December 2008	December 2008	December 2008	December 2008
And thereafter:	N/A	0.46% p.a.	2.25% p.a.	0.66% p.a.	0.66% p.a.	2.45% p.a.	0.46% p.a.	2.45% p.a.	2.45% p.a.	0.90% p.a.	0.50% p.a.	2.45% p.a.	0.50% p.a.	0.90% p.a.	2.45% p.a.
Initial interest periods:	Monthly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Alternative interest periods:	Quarterly	N/A	N/A	March 2003	March 2003	March 2003	March 2003	March 2003	March 2003	March 2003	March 2003	March 2003	March 2003	March 2003	March 2003
Issue date:	March 2003	March 2003	March 2003	September 2005	September 2005	September 2005	March 2006 and June 2006	March 2006	March 2003	March 2003	March 2003	March 2003	March 2003	March 2003	March 2003
Scheduled redemption date(s):	March 2004	June 2042	June 2042	September 2007	September 2007	September 2007	December 2003	December 2003	December 2009	December 2009	December 2009	December 2009	December 2009	June 2042	June 2042
Final maturity date:	March 2004	June 2042	June 2042	September 2007	September 2007	September 2007	December 2003	December 2003	December 2009	December 2009	December 2009	December 2009	December 2009	June 2042	June 2042
Ratings as at 6 March 2003 (S&P/Moody's/Fitch):	AA/Aa3/AA	BBB/Baa2/BBB	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	BBB/Baa2/BBB	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB
Ratings as at 16 March 2006 (S&P/Moody's/Fitch):	N/A	N/A	N/A	N/A	N/A	N/A	AAA/Aaa/AAA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	BBB/Baa2/BBB	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB
Moody's/Fitch:															
Moody's/Fitch:															

\* previously redeemed

## Series of previous notes issued by Permanent Financing (No. 3) PLC

	Series 1* class A	Series 1* class B	Series 1* class C	Series 2 class A	Series 2 class B	Series 2 class C	Series 3 class A	Series 3 class B	Series 3 class C	Series 4 class A1	Series 4 class A2	Series 4 class B	Series 4 class C	Series 5 class A	Series 5 class B	Series 5 class C
Initial principal amount:	\$38,000,000	\$38,000,000	\$38,000,000	\$1,700,000,000	\$59,000,000	\$59,000,000	\$59,000,000	\$52,000,000	\$700,000,000	\$750,000,000	€62,000,000	€62,000,000	€62,000,000	€40,000,000	€20,000,000	€20,000,000
Interest rate:	0.04% p.a.	0.18% p.a.	0.95% p.a.	0.11% p.a.	0.25% p.a.	1.05% p.a.	0.18% p.a.	0.35% p.a.	1.15% p.a.	0.19% p.a.	0.39% p.a.	0.39% p.a.	1.18% p.a.	5.521% p.a.	0.45% p.a.	1.23% p.a.
Until interest payment date falling in:	N/A	December 2010	December 2010	N/A	December 2010	December 2010	December 2010	December 2010	December 2010	December 2010	December 2010	December 2010	December 2010	December 2010	December 2010	December 2010
And thereafter:	N/A	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Annually	Quarterly	Quarterly
Initial interest periods:	Monthly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Annually	Quarterly	Quarterly
Alternative interest periods:	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Annually	Quarterly	Quarterly
Issuance date:	November 2003	November 2003	November 2003	November 2003	November 2003	November 2003	November 2003	November 2003	November 2003	November 2003	November 2003	November 2003	November 2003	November 2003	November 2003	November 2003
Scheduled redemption date(s):	December 2004	N/A	N/A	September 2006	N/A	N/A	September 2008	N/A	N/A	March 2009 and June 2009	September 2009	N/A	N/A	N/A	N/A	N/A
Final maturity date:	December 2004	June 2042	June 2042	September 2010	June 2042	June 2042	September 2033	June 2042	June 2042	September 2033	September 2033	June 2042	June 2042	June 2042	June 2042	June 2042
Ratings as at 25 November 2003 (S&P/ Moody's/ Fitch):	AAA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA
Ratings as at 16 March 2006 (S&P/ Moody's/ Fitch):	N/A	N/A	N/A	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA

\* previously redeemed

## Series of previous notes issued by Permanent Financing (No. 4) PLC

	Series 1* class A	Series 1* class B	Series 1* class C	Series 2 class A	Series 2 class B	Series 2 class C	Series 3 class A	Series 3 class B	Series 3 class C	Series 4 class A	Series 4 class B	Series 4 class C	Series 5 class A	Series 5 class B	Series 5 class C
Initial principal amount:	\$1,500,000,000	\$56,500,000	\$2,400,000,000	\$100,700,000	\$59,900,000	\$82,200,000	\$1,700,000,000	\$75,800,000	\$40,400,000	\$55,400,000	\$65,000,000	€62,500,000	€750,000,000	€43,000,000	€32,000,000
Interest rate:	0.05% p.a.	0.14% p.a.	0.07% p.a.	0.18% p.a.	0.33% p.a.	0.72% p.a.	0.14% p.a.	0.23% p.a.	0.37% p.a.	0.80% p.a.	0.15% p.a.	0.45% p.a.	3.9515% p.a.	0.33% p.a.	0.50% p.a.
Until interest payment date falling in:	N/A	March 2011	N/A	March 2011	March 2011	March 2011	March 2011	March 2011	March 2011	March 2011	March 2011	March 2011	March 2011	March 2011	March 2011
And thereafter:	Monthly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Initial interest periods:	Monthly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Alternative interest periods:	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Issuance date:	March 2004	March 2004	March 2004	March 2004	March 2004	March 2004	March 2004	March 2004	March 2004	March 2004	March 2004	March 2004	March 2004	March 2004	March 2004
Scheduled redemption date(s):	March 2005	N/A	March 2007	N/A	N/A	N/A	December 2009	March 2009	March 2009	September 2009	September 2009	N/A	N/A	March 2004	March 2004
Final maturity date:	March 2005	June 2042	March 2009	June 2042	June 2042	June 2042	March 2024	June 2042	June 2042	March 2034	March 2034	June 2042	June 2042	June 2042	June 2042
Ratings as at 12 March 2004 (S&P/ Moody's/ Fitch):	AAA/Aa3/AA	AA/2A	AAA/Aaa/AAA	AAA/Aa3/AA	AA/2A	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA
Ratings as at 16 March 2006 (S&P/ Moody's/ Fitch):	N/A	N/A	AAA/Aaa/AAA	AAA/Aa3/AA	AA/2A	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA

\* previously redeemed



## Series of previous notes issued by Permanent Financing (No. 5) PLC

	Series 1* class A	Series 1* class B	Series 1* class C	Series 2 class A	Series 2 class B	Series 2 class C	Series 3 class A	Series 3 class B	Series 3 class C	Series 4 class A	Series 4 class B	Series 4 class C	Series 5 class A1	Series 5 class A2	Series 5 class B	Series 5 class C
Initial principal amount:	\$1,250,000,000	\$53,000,000	\$44,400,000	\$1,300,000,000	\$56,400,000	\$46,200,000	\$750,000,000	\$32,500,000	\$27,000,000	€1,000,000,000	€48,500,000	€36,000,000	£500,000,000	£750,000,000	£47,000,000	£39,000,000
Interest rate:	One-month USD-LIBOR - 0.02%	Three-month USD-LIBOR + 0.14%	Three-month USD-LIBOR + 1.00%	Three-month USD-LIBOR + 0.11%	Three-month USD-LIBOR + 0.18%	Three-month USD-LIBOR + 0.65%	Three-month USD-LIBOR + 0.16%	Three-month USD-LIBOR + 0.26%	Three-month USD-LIBOR + 0.82%	Three-month EURIBOR + 0.17%	Three-month EURIBOR + 0.33%	Three-month EURIBOR + 0.78%	Three-month sterling LIBOR + 0.32% after the interest payment date falling in June 2009	Three-month sterling LIBOR + 0.19%	Three-month sterling LIBOR + 0.35%	Three-month sterling LIBOR + 0.85%
Margin:																
Until interest payment date falling in:			June 2011		June 2011	June 2011	June 2011	June 2011	June 2011	June 2011	June 2011	June 2011	June 2011	June 2011	June 2011	June 2011
And thereafter:			Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Initial interest periods			Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Alternative interest periods			Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Issuance date:	July 2004	July 2004	July 2004	June 2007 and December 2007	July 2004	July 2004	July 2004	July 2004	July 2004	July 2004	July 2004	July 2004	July 2004	July 2004	July 2004	July 2004
Scheduled redemption date(s)	June 2005	N/A	N/A	June 2007 and September 2007	June 2004	June 2004	June 2004	June 2004	June 2004	June 2004	June 2004	June 2004	June 2004	June 2004	June 2004	June 2004
Final maturity date:	June 2005	June 2042	June 2042	June 2011	June 2042	June 2042	June 2034	June 2042	June 2042	June 2042	June 2042	June 2042	June 2042	June 2042	June 2042	June 2042
Ratings as at 19 July 2004 (S&P/Moody's/Fitch)	A-1+/P-1/F1+	AAA/Aaa/3AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB
Ratings as at 16 March 2006 (S&P/Moody's/Fitch)	N/A	N/A	N/A	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB

\* previously redeemed

## Series of previous notes issued by Permanent Financing (No. 6) PLC

	Series 1* class A	Series 1* class B	Series 1* class C	Series 2 class A	Series 2 class B	Series 3 class A	Series 3 class B	Series 3 class C	Series 4 class A	Series 4 class B	Series 4 class C	Series 5 class A1	Series 5 class A2	Series 5 class B	Series 5 class C
Initial principal amount:	\$1,000,000,000	\$35,800,000	\$34,700,000	\$1,000,000,000	\$35,800,000	\$1,000,000,000	\$35,300,000	\$34,200,000	€750,000,000	€26,100,000	€25,300,000	€500,000,000	€500,000,000	€34,800,000	£33,700,000
One-month USD-LIBOR + margin	0.08% p.a.	0.10% p.a.	0.35% p.a.	0.09% p.a.	0.14% p.a.	0.125% p.a.	0.23% p.a.	0.68% p.a.	0.14% p.a.	0.23%	0.68% p.a.	0.15% p.a.	0.16% p.a.	0.31% p.a.	0.80% p.a.
Three-month USD-LIBOR + margin	0.09% p.a.	0.14% p.a.	0.35% p.a.	0.125% p.a.	0.23% p.a.	0.125% p.a.	0.23% p.a.	0.68% p.a.	0.14% p.a.	0.23%	0.68% p.a.	0.15% p.a.	0.16% p.a.	0.31% p.a.	0.80% p.a.
Interest rate:	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Margin:	0.09% p.a.	0.14% p.a.	0.35% p.a.	0.09% p.a.	0.14% p.a.	0.125% p.a.	0.23% p.a.	0.68% p.a.	0.14% p.a.	0.23%	0.68% p.a.	0.15% p.a.	0.16% p.a.	0.31% p.a.	0.80% p.a.
Until interest payment date falling in:	September 2011	September 2011	September 2011	September 2011	September 2011	September 2011	September 2011	September 2011	September 2011	September 2011	September 2011	September 2011	September 2011	September 2011	September 2011
And thereafter:	0.20% p.a.	0.20% p.a.	0.70% p.a.	0.18% p.a.	0.28% p.a.	0.25% p.a.	0.46% p.a.	1.36% p.a.	0.28% p.a.	0.46% p.a.	1.36% p.a.	0.30% p.a.	0.32% p.a.	0.62% p.a.	1.60% p.a.
Initial interest periods	Monthly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Alternative interest periods															
Issuance date:	November 2004	November 2004	November 2004	November 2004	November 2004	November 2004	November 2004	November 2004	November 2004	November 2004	November 2004	November 2004	November 2004	November 2004	November 2004
Scheduled redemption date(s):	September 2005	March, June, September and December 2007	September 2005	September 2007	September 2007	September 2007	September 2007	September 2007	September 2007	September 2007	September 2007	September 2007	September 2007	September 2007	September 2007
Final maturity date:	September 2005	June 2042	June 2042	June 2042	June 2042	June 2042	June 2042	June 2042	June 2042	June 2042	June 2042	June 2042	June 2042	June 2042	June 2042
Ratings as at 5 November 2004	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	BBB/Baa2/BBB	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB
Ratings as at 16 March 2006 (S&P/ Moody's/Fitch):	N/A	N/A	N/A	AAA/Aaa/AAA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	BBB/Baa2/BBB	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB

\* previously redeemed

## Series of previous notes issued by Permanent Financing (No. 7) PLC

	Series 1* class A	Series 1* class B	Series 1* class C	Series 2 class A	Series 2 class B	Series 2 class C	Series 3 class A	Series 3 class B	Series 3 class C	Series 4 class A	Series 4 class B	Series 4 class C	Series 5 class A	Series 5 class B	Series 5 class C
Initial principal amount:	\$1,000,000,000	\$43,400,000	\$42,200,000	\$1,400,000,000	\$1,400,000,000	\$42,200,000	\$42,200,000	\$42,200,000	\$42,200,000	\$42,200,000	\$42,200,000	\$42,200,000	\$42,200,000	\$42,200,000	\$42,200,000
One-month USD-LIBOR + margin	0.04% p.a.	0.09% p.a.	0.28% p.a.	0.04% p.a.	0.04% p.a.	0.11% p.a.	0.33% p.a.	0.07% p.a.	0.12% p.a.	0.43% p.a.	0.49% p.a.	0.13% p.a.	0.13% p.a.	0.45% p.a.	0.10% p.a.
Three-month USD-LIBOR + margin	0.04% p.a.	0.09% p.a.	0.28% p.a.	0.04% p.a.	0.04% p.a.	0.11% p.a.	0.33% p.a.	0.07% p.a.	0.12% p.a.	0.43% p.a.	0.49% p.a.	0.13% p.a.	0.13% p.a.	0.45% p.a.	0.10% p.a.
Interest rate:	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Margin:	0.04% p.a.	0.09% p.a.	0.28% p.a.	0.04% p.a.	0.04% p.a.	0.11% p.a.	0.33% p.a.	0.07% p.a.	0.12% p.a.	0.43% p.a.	0.49% p.a.	0.13% p.a.	0.13% p.a.	0.45% p.a.	0.10% p.a.
Until interest payment date falling in:	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011
And thereafter:	0.18% p.a.	0.18% p.a.	0.56% p.a.	0.08% p.a.	0.08% p.a.	0.22% p.a.	0.66% p.a.	0.14% p.a.	0.24% p.a.	0.86% p.a.	0.86% p.a.	0.26% p.a.	0.26% p.a.	0.90% p.a.	0.20% p.a.
Initial interest periods	Monthly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Alternative interest periods															
Issuance date:	March 2005	March 2005	March 2005	March 2005	March 2005	March 2005	March 2005	March 2005	March 2005	March 2005	March 2005	March 2005	March 2005	March 2005	March 2005
Scheduled redemption date(s):	March 2006	March 2006	March 2006	September 2007	September 2007	September 2007	September 2007	September 2007	September 2007	September 2007	September 2007	September 2007	September 2007	September 2007	September 2007
Final maturity date:	March 2006	March 2006	March 2006	September 2014	September 2014	September 2014	September 2014	September 2014	September 2014	September 2014	September 2014	September 2014	September 2014	September 2014	September 2014
Ratings as at 23 March 2005 (S&P/ Moody's/Fitch):	A-1+/P-1/F1+	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	BBB/Baa2/BBB	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB
Ratings as at 16 March 2006 (S&P/ Moody's/Fitch):	A-1+/P-1/F1+	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	BBB/Baa2/BBB	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB

\* previously redeemed

## Series of previous notes issued by Permanent Financing (No. 8) PLC

	Series 1 Class A	Series 1 class B	Series 1 class C	Series 2 class A	Series 2 class B	Series 2 class C	Series 3 class A	Series 3 class B	Series 3 class C	Series 4 class A	Series 4 class B	Series 4 class C	Series 5 class A1	Series 5 class A2	Series 5 class A3
Initial principal amount:...	\$1,400,000,000	\$72,700,000	\$82,900,000	\$1,400,000,000	\$69,800,000	\$82,900,000	\$1,000,000,000	\$52,000,000	\$40,400,000	€1,000,000,000	€47,200,000	€65,700,000	£400,000,000	£600,000,000	£500,000,000
Interest rate:.....	One-month USD-LIBOR - margin 0.04% p.a.	Three-month USD-LIBOR + margin 0.10% p.a.	Three-month USD-LIBOR + margin 0.33% p.a.	Three-month USD-LIBOR + margin 0.07% p.a.	Three-month USD-LIBOR + margin 0.15% p.a.	Three-month USD-LIBOR + margin 0.40% p.a.	Three-month USD-LIBOR + margin 0.12% p.a.	Three-month USD-LIBOR + margin 0.20% p.a.	Three-month USD-LIBOR + margin 0.52% p.a.	Three-month EUR LIBOR + margin 0.13% p.a.	Three-month EUR LIBOR + margin 0.20% p.a.	Three-month EUR LIBOR + margin 0.52% p.a.	Three-month sterling LIBOR + margin 0.15% p.a.	Three-month sterling LIBOR + margin 0.15% p.a.	Three-month sterling LIBOR + margin 0.15% p.a.
Until interest payment date	N/A	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011	December 2011
And thereafter:.....	N/A	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Initial interest periods	Monthly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Alternative interest periods	Quarterly	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Issuance date:.....	June 2005	June 2005	June 2005	June 2005	June 2005	June 2005	June 2005	June 2005	June 2005	June 2005	June 2005	June 2005	June 2005	June 2005	June 2005
Scheduled redemption date(s):.....	June 2006	N/A	N/A	June 2008	N/A	N/A	March 2010 and June 2010	N/A	N/A	September 2010 and December 2010	N/A	N/A	N/A	September 2011 and December 2011	N/A
Final maturity date:.....	June 2006	June 2042	June 2042	June 2014	June 2042	June 2042	September 2032	June 2042	June 2042	September 2032	June 2042	June 2042	June 2042	September 2032	June 2042
Ratings as at 23 March 2005 (S&P/Moody's/ Fitch):.....	A-1+/P-1/F1+	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA
Rating as at 16 March 2006 (S&P/Moody's/ Fitch):.....	A-1+/P-1/F1+	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AA/Aa3/AA	BBB/Baa2/BBB	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA

Each previous issuing entity issued its previous notes to the previous noteholders and entered into a previous intercompany loan with Funding 1. Funding 1 used most of the proceeds of the previous intercompany loans to pay the seller for the initial loans and additional loans (and their related security) sold by the seller to the mortgages trustee or to pay consideration to the seller for an increase in Funding 1's share in the mortgages trust.

Each of the previous issuing entities' obligations to pay principal and interest on its previous notes are funded primarily from the payments of principal and interest received by it from Funding 1 under its previous intercompany loan. Each previous issuing entity's primary asset is its previous intercompany loan. Neither of the previous issuing entities nor the previous noteholders have any direct interest in the trust property, although the previous issuing entities share the security interest under the Funding 1 deed of charge in Funding 1's share of the trust property.

Each of the previous intercompany loans is split into separate previous term advances to match the underlying series and classes of the previous notes to which it relates, which are set out in the following tables. Together these advances are referred to in this offering circular as the previous term advances:

**Previous term advances of Permanent Financing (No. 1) PLC**

Series name	Rating designation	Initial annual interest rate: LIBOR plus/minus	Step-up date	Stepped-up annual interest rate: LIBOR plus/minus	Scheduled repayment date	Final repayment date	Principal amount outstanding as at 16 March 2006
Series 1 .....	AAA	-0.04030%	N/A	N/A	June 2003	June 2003	£0*
Series 1 .....	AA	+0.28760%	June 2007	+0.81760%	N/A	June 2042	£0*
Series 1 .....	BBB	+1.13060%	June 2007	+2.39060%	N/A	June 2042	£0*
Series 2 .....	AAA	+0.16834%	N/A	N/A	June 2005	June 2007	£0*
Series 2 .....	AA	+0.29420%	June 2007	+0.83420%	N/A	June 2042	£0*
Series 2 .....	BBB	+1.26850%	June 2007	+2.52850%	N/A	June 2042	£0*
Series 3 .....	AAA	+0.12810%	N/A	N/A	December 2005	December 2007	£0*
Series 3 .....	AA	+0.33100%	June 2007	+0.89100%	N/A	June 2042	£0*
Series 3 .....	BBB	+1.27940%	June 2007	+2.53940%	N/A	June 2042	£0*
Series 4A1 .....	AAA	+0.22000%	N/A	N/A	June 2007	June 2009	£484,000,000
Series 4A2 .....	AAA	+0.18000%	June 2007	+0.36000%	N/A	June 2042	£1,000,000,000
Series 4 .....	AA	+0.30000%	June 2007	+0.60000%	N/A	June 2042	£52,000,000
Series 4 .....	BBB	+1.20000%	June 2007	+2.20000%	N/A	June 2042	£52,000,000
Total.....							<u>£1,588,000,000</u>

\* previously repaid

## Previous term advances of Permanent Financing (No. 2) PLC

Series name	Rating designation	Initial annual interest rate: LIBOR plus/minus	Step-up date	Stepped-up annual interest rate: LIBOR plus/minus	Scheduled repayment date	Final repayment date	Principal amount outstanding as at 16 March 2006
Series 1 .....	AAA	-0.04930%	N/A	N/A	March 2004	March 2004	£0*
Series 1 .....	AA	+0.25050%	December 2008	+0.76100%	N/A	June 2042	£0*
Series 1 .....	BBB	+1.136080%	December 2008	+2.62080%	N/A	June 2042	£0*
					September	September	
Series 2 .....	AAA	+0.15830%	N/A	N/A	2005	2007	£0*
Series 2 .....	AA	+0.35660%	December 2008	+0.97320%	N/A	June 2042	£0*
Series 2 .....	BBB	1.55060%	December 2008	+2.81060%	N/A	June 2042	£0*
					March 2006 and		
Series 3 .....	AAA	+0.23310%	December 2008	+0.72620%	June 2006	December 2032	£427,187,500
Series 3 .....	AA	+0.44595%	December 2008	+1.15190%	N/A	June 2042	£29,732,000
Series 3 .....	BBB	+1.55880%	December 2008	+2.81880%	N/A	June 2042	£29,732,000
Series 4 .....	AAA	+0.22360%	N/A	N/A	December 2007	December 2009	£1,107,250,000
Series 4 .....	AA	+0.48380%	December 2008	+1.22760%	N/A	June 2042	£38,644,000
Series 4 .....	BBB	+1.53690%	December 2008	+2.79690%	N/A	June 2042	£38,644,000
Series 5 .....	AAA	+0.25%	December 2008	+0.50%	N/A	June 2042	£750,000,000
Series 5 .....	AA	+0.45%	December 2008	+0.90%	N/A	June 2042	£26,000,000
Series 5 .....	BBB	+1.45%	December 2008	+2.45%	N/A	June 2042	£26,000,000
Total .....							£2,473,189,500

\* previously repaid

## Previous term advances of Permanent Financing (No. 3) PLC

Series name	Rating designation	Initial annual interest rate: LIBOR plus/minus	Step-up date	Stepped-up annual interest rate: LIBOR plus/minus	Scheduled repayment date	Final repayment date	Principal amount outstanding as at 16 March 2006
Series 1 .....	AAA	- 0.04100%	N/A	N/A	December 2004	December 2004	£0*
Series 1 .....	AA	+0.20700%	December 2010	+0.66400%	N/A	June 2042	£0*
Series 1 .....	BBB	+1.09000%	December 2010	+2.09000%	N/A	June 2042	£0*
					September	September	
Series 2 .....	AAA	+0.12800%	N/A	N/A	2006	2010	£1,018,000,000
Series 2 .....	AA	+0.28500%	December 2010	+0.82000%	N/A	June 2042	£35,400,000
Series 2 .....	BBB	+1.21500%	December 2010	+2.21500%	N/A	June 2042	£35,400,000
					June 2008 and		
					September	September	
Series 3 .....	AAA	+0.20613%	December 2010	+0.66226%	2008	2033	£898,250,000
Series 3 .....	AA	+0.41184%	December 2010	+1.07368%	N/A	June 2042	£31,200,000
Series 3 .....	BBB	+1.27224%	December 2010	+2.27224%	N/A	June 2042	£31,200,000
					March 2009 and	September	
Series 4A1 .....	AAA	+0.21200%	December 2010	+0.67400%	June 2009	2033	£482,750,000
					March 2009 and	September	
Series 4A2 .....	AAA	+0.19000%	December 2010	+0.38000%	June 2009	2033	£750,000,000
Series 4 .....	AA	+0.43450%	December 2010	+1.11900%	N/A	June 2042	£42,850,000
Series 4 .....	BBB	+1.30400%	December 2010	+2.30400%	N/A	June 2042	£42,850,000
Series 5 .....	AAA	+0.21700%	December 2010	+0.43400%	N/A	June 2042	£400,000,000
Series 5 .....	AA	+0.51022%	December 2010	+1.27044%	N/A	June 2042	£13,900,000
Series 5 .....	BBB	+1.35876%	December 2010	+2.35876%	N/A	June 2042	£13,900,000
Total .....							£3,795,700,000

\* previously repaid

## Previous term advances of Permanent Financing (No. 4) PLC

Series name	Rating designation	Initial annual interest rate: LIBOR plus/minus	Step-up date	Stepped-up annual interest rate: LIBOR plus/minus	Scheduled repayment date	Final repayment date	Principal amount outstanding as at 16 March 2006
Series 1 .....	AAA	+0.002725%	N/A	N/A	March 2005	March 2005	£0*
Series 1 .....	AA	+0.214900%	March 2011	+0.679800%	N/A	June 2042	£0*
Series 1 .....	A	+0.318050%	March 2011	+0.886100%	N/A	June 2042	£0*
Series 2 .....	AAA	+0.143000%	N/A	N/A	March 2007	March 2009	£1,286,174,000
Series 2 .....	AA	+0.259000%	March 2011	+0.768000%	N/A	June 2042	£53,966,000
Series 2 .....	A	+0.418000%	March 2011	+1.086000%	N/A	June 2042	£32,101,000
Series 2 .....	BBB	+0.831000%	March 2011	+1.662000%	N/A	June 2042	£44,052,000
					December 2008 and March 2009		
Series 3 .....	AAA	+0.221470%	March 2011	+0.692940%	March 2024	March 2024	£911,040,000
Series 3 .....	AA	+0.340540%	March 2011	+0.931080%	N/A	June 2042	£40,622,000
Series 3 .....	A	+0.495760%	March 2011	+1.241520%	N/A	June 2042	£21,651,000
Series 3 .....	BBB	+0.962150%	March 2011	+1.924300%	N/A	June 2042	£29,690,000
					September 2009 and December 2009		
Series 4 .....	AAA	+0.213000%	March 2011	+0.676000%	March 2034	March 2034	£999,751,000
Series 4 .....	AA	+0.352000%	March 2011	+0.998000%	N/A	June 2042	£56,653,000
Series 4 .....	A	+0.534000%	March 2011	+1.426000%	N/A	June 2042	£41,657,000
Series 5A1 .....	AAA	+0.276953%	March 2011	+0.803906%	N/A	June 2042	£499,725,000
Series 5A2 .....	AAA	+0.170000%	March 2011	+0.590000%	N/A	June 2042	£1,100,000,000
Series 5 .....	AA	+0.330000%	March 2011	+0.910000%	N/A	June 2042	£43,000,000
Series 5 .....	A	+0.500000%	March 2011	+1.250000%	N/A	June 2042	£32,000,000
Series 5 .....	BBB	+0.900000%	March 2011	+1.800000%	N/A	June 2042	£54,000,000
Total .....							£5,246,082,000

\* previously repaid

## Previous term advances of Permanent Financing (No. 5) PLC

Series name	Rating designation	Initial annual interest rate: LIBOR plus/minus	Step-up date	Stepped-up annual interest rate: LIBOR plus/minus	Scheduled repayment date	Final repayment date	Principal amount outstanding as at 16 March 2006
Series 1 .....	AAA	-0.00980%	N/A	N/A	June 2005	June 2005	£0*
Series 1 .....	AA	+0.16730%	June 2011	+0.58460%	N/A	June 2042	£0*
Series 1 .....	BBB	+0.55000%	June 2011	+1.35000%	N/A	June 2042	£0*
					December 2006, March 2007, June 2007 and September 2007		
Series 2 .....	AAA	+0.15370%	N/A	N/A	September 2007	June 2011	£694,445,000
Series 2 .....	AA	+0.23170%	June 2011	+0.71340%	N/A	June 2042	£30,129,000
Series 2 .....	BBB	+0.74150%	June 2011	+1.73300%	N/A	June 2042	£24,680,000
					March 2009 and June 2009		
Series 3 .....	AAA	+0.20984%	June 2011	+0.66968%	June 2034	June 2034	£400,642,000
Series 3 .....	AA	+0.33875%	June 2011	+0.92750%	N/A	June 2042	£17,362,000
Series 3 .....	BBB	+0.94156%	June 2011	+1.94156%	N/A	June 2042	£14,424,000
					September 2009 and December 2009		
Series 4 .....	AAA	+0.21300%	June 2011	+0.67600%	June 2042	June 2042	£666,000,000
Series 4 .....	AA	+0.39990%	June 2011	+1.04980%	N/A	June 2042	£29,000,000
Series 4 .....	BBB	+0.93440%	June 2011	+1.93440%	N/A	June 2042	£24,000,000
Series 5A1 .....	AAA	+0.17500%	June 2009	+0.60000%	N/A	June 2042	£500,000,000
Series 5A2 .....	AAA	+0.19000%	June 2011	+0.63000%	N/A	June 2042	£750,000,000
Series 5 .....	AA	+0.35000%	June 2011	+0.95000%	N/A	June 2042	£47,000,000
Series 5 .....	BBB	+0.85000%	June 2011	+1.85000%	N/A	June 2042	£39,000,000
Total .....							£3,236,682,000

\* previously repaid

## Previous term advances of Permanent Financing (No. 6) PLC

Series name	Rating designation	Initial annual interest rate: LIBOR plus/minus	Step-up date	Stepped-up annual interest rate: LIBOR plus/minus	Scheduled repayment date	Final repayment date	Principal amount outstanding as at 16 March 2006
Series 1 .....	AAA	-0.02310%	N/A	N/A	September 2005	September 2005	£0*
Series 1 .....	AA	+0.12250%	September 2011	+0.49500%	N/A	June 2042	£0*
Series 1 .....	BBB	+0.40710%	September 2011	+1.06420%	N/A	June 2042	£0*
					March 2007, June 2007, September 2007 and December 2007	December 2011	£541,712,000
Series 2 .....	AAA	+0.11610%	September 2011	+0.48220%	N/A	June 2042	£19,394,000
Series 2 .....	AA	+0.19190%	September 2011	+0.63380%	N/A	June 2042	£18,798,000
Series 2 .....	BBB	+0.52670%	September 2011	+1.30340%	N/A	June 2042	
					December 2007, March 2008, June 2008 and September	September 2032	£1,000,000,000
Series 3 .....	AAA	+0.12500%	September 2011	+0.25000%	N/A	June 2042	£35,300,000
Series 3 .....	AA	+0.23000%	September 2011	+0.46000%	N/A	June 2042	£34,200,000
Series 3 .....	BBB	+0.68000%	September 2011	+1.36000%	N/A	June 2042	
					December 2009 and March 2010	June 2042	£519,600,000
Series 4 .....	AAA	+0.16290%	September 2011	+0.57580%	N/A	June 2042	£18,082,000
Series 4 .....	AA	+0.26020%	September 2011	+0.77040%	N/A	June 2042	£17,528,000
Series 4 .....	BBB	+0.74260%	September 2011	+1.73520%	N/A	June 2042	£500,000,000
Series 5A1 .....	AAA	+0.15000%	September 2009	+0.30000%	N/A	June 2042	£500,000,000
Series 5A2 .....	AAA	+0.16000%	September 2011	+0.32000%	N/A	June 2042	£34,800,000
Series 5 .....	AA	+0.31000%	September 2011	+0.62000%	N/A	June 2042	£33,700,000
Series 5 .....	BBB	+0.80000%	September 2011	+1.60000%	N/A	June 2042	
Total .....							£3,273,114,000

\* previously repaid

## Previous term advances of Permanent Financing (No. 7) PLC

Series name	Rating designation	Initial annual interest rate: LIBOR plus/minus	Step-up date	Stepped-up annual interest rate: LIBOR plus/minus	Scheduled repayment date	Final repayment date	Principal amount outstanding as at 16 March 2006
Series 1 .....	AAA	-0.0462%	N/A	N/A	March 2006	March 2006	£0*
Series 1 .....	AA	+0.1146%	December 2011	+0.4792%	N/A	June 2042	£0*
Series 1 .....	BBB	+0.3886%	December 2011	+1.0272%	N/A	June 2042	£0*
Series 2 .....	AAA	+0.0504%	December 2011	+0.3508%	September 2007	September 2014	£732,218,000
Series 2 .....	AA	+0.1275%	December 2011	+0.5050%	N/A	June 2042	£31,747,000
Series 2 .....	BBB	+0.3818%	December 2011	+1.0136%	N/A	June 2042	£30,963,000
					September 2009, December 2009, March 2010 and June 2010	September 2032	£1,183,200,000
Series 3 .....	AAA	+0.07662%	December 2011	+0.40324%	N/A	June 2042	£51,296,000
Series 3 .....	AA	+0.13178%	December 2011	+0.51356%	N/A	June 2042	£49,973,000
Series 3 .....	BBB	+0.4649%	December 2011	+1.1798%	N/A	June 2042	
					June 2010 and September 2010	September 2032	£850,000,000
Series 4 .....	AAA	+0.0800%	December 2011	+0.1600%	N/A	June 2042	£36,800,000
Series 4 .....	AA	+0.1300%	December 2011	+0.2600%	N/A	June 2042	£35,900,000
Series 4 .....	BBB	+0.4500%	December 2011	+0.9000%	N/A	June 2042	
Series 5 .....	AAA	+0.1000%	December 2011	+0.2000%	June 2011 and December 2011	September 2032	£500,000,000
Total .....							£3,502,079,000

\* previously redeemed

## Previous term advances of Permanent Financing (No. 8) PLC

Series name	Rating designation	Initial annual interest rate: LIBOR plus/minus	Step-up date	Stepped-up annual interest rate: LIBOR plus/minus	Scheduled repayment date	Final repayment date	Principal amount outstanding as at 16 March 2006
Series 1 .....	AAA	- 0.0464%	N/A	N/A	June 2006	June 2006	£761,700,000
Series 1 .....	AA	+0.1064%	December 2011	+0.46280%	N/A	June 2042	£39,560,000
Series 1 .....	BBB	+0.3507%	December 2011	+0.95140%	N/A	June 2042	£45,110,000
Series 2 .....	AAA	+0.0895%	December 2011	+0.42900%	June 2008	June 2014	£761,700,000
Series 2 .....	AA	+0.1715%	December 2011	+0.59300%	N/A	June 2042	£37,980,000
Series 2 .....	BBB	+0.4277%	December 2011	+1.10540%	N/A	June 2042	£45,110,000
		+0.1443%	December 2011	+0.53860%	March and June		
Series 3 .....	AAA				2010	September 2032	£544,070,000
Series 3 .....	AA	+0.2294%	December 2011	+0.70880%	N/A	June 2042	£28,300,000
Series 3 .....	BBB	+0.5709%	December 2011	+1.39180%	N/A	June 2042	£21,990,000
		+0.1404%	December 2011	+0.53080%	September and		
Series 4 .....	AAA				December 2010	September 2032	£671,000,000
Series 4 .....	AA	+0.2173%	December 2011	+0.68460%	N/A	June 2042	£31,680,000
Series 4 .....	BBB	+0.5610%	December 2011	+1.37200%	N/A	June 2042	£44,090,000
		+0.15%	December 2011	+0.30000%	N/A		
Series 5A1 .....	AAA	+0.15%	December 2011	+0.30000%	September and	June 2042	£400,000,000
Series 5A2 .....	AAA				December 2011	September 2032	£600,000,000
Series 5A3 .....	AAA	+0.15%	December 2011	+0.30000%	N/A	June 2042	£500,000,000
Total: .....							£4,532,290,000

The previous term AAA advances, previous term AA advances, previous term A advances and previous term BBB advances reflect the ratings assigned by the rating agencies to the class A previous notes, class B previous notes, class M previous notes and class C previous notes, respectively, by the rating agencies at their time of issue. These ratings are set out above in the tables for each series of previous notes issued by a previous issuing entity.

The interest rates applicable to the previous term advances from time to time are determined by reference to LIBOR for three-month sterling deposits plus or minus, in each case, a margin which will differ for each separate advance (as outlined in the tables above). LIBOR for an interest period is determined on the relevant Funding 1 interest determination date. The table above sets out details relating to the payment of interest on the previous term advances.

The initial interest rate indicated in relation to a previous term advance in the above tables applies to that previous term advance for each interest period relating to that previous term advance to and including the interest period which ends on the relevant step-up date indicated in that table in relation to that previous term advance.

The stepped-up interest rate indicated in relation to a previous term advance in the above tables applies to that previous term advance for each interest period relating to that previous term advance from and including the interest period which starts on the relevant step-up date indicated in that table in relation to that previous term advance.

The previous term advances will be repaid on the dates and in the priorities described in “**Cashflows – Distribution of Funding 1 available principal receipts**”.



## The loans

8.2.1  
8.2.2.3  
8.2.2.7  
8.2.2.13

### Introduction

The following is a description of some of the characteristics of the loans currently or previously originated by the seller including details of loan types, the underwriting process, lending criteria and selected statistical information. We believe the loans have characteristics that demonstrate the capacity to produce funds to service any payments due and payable on the securities.

On the initial closing date the seller sold the initial loans and, on subsequent dates, the seller has sold further loans, in each case together with their related security to the mortgages trustee pursuant to the mortgage sale agreement. On the closing date, Funding 1 will pay the seller in consideration for loans (together with their related security) sold to the mortgages trustee on the closing date pursuant to the terms of the mortgage sale agreement. The loans making up the trust property after such addition, together with their related security, accrued interest and other amounts derived from the loans, will make up the trust property on the closing date.

The seller selects the new loans in the expected portfolio, and any loans to be substituted into the portfolio, using an internally developed 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 representations and warranties that the seller makes in the mortgage sale agreement in relation to the loans (see "**Sale of the loans and their related security – Representations and warranties**"), for instance, the representation relating to a maximum outstanding principal balance of £500,000. This system also allows a limit to be set on some criteria, for example a percentage restriction within a geographical region. 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 new loans has been reached, or the subset has been exhausted. After a pool of new loans is selected in this way, the constituent loans are monitored so that they continue to comply with the relevant criteria on the date of transfer.

The statistics presented later in this section describe (i) the portfolio of loans making up the trust property and (ii) the pool of loans, each as at 19 January 2006 (which is referred to as the **reference date**), in each case together with their related security, accrued interest and other amounts derived from such loans. This ensemble described by the statistical information set out later in this section is called the expected portfolio.

The expected portfolio as at the reference date, for which statistics are presented later in this section, and the expected portfolio as at the closing date may differ due to, among other things, amortisation of loans in the expected portfolio.

Unless otherwise indicated, the description that follows relates to types of loans that have been or could be sold to the mortgages trustee, either as part of the portfolio as at the closing date or as a new loan sold to the mortgages trustee at a later date.

The expected portfolio as at the reference date comprised 662,214 mortgage accounts having an aggregate outstanding principal balance of £49,274,796,437.98 as at that date. The loans in the expected portfolio at that date were originated by the seller between 1 February 1996 and 30 September 2005. No loan in the portfolio at that date was delinquent or non-performing at the time it was sold to the mortgages trustee.

8.2.2.5

After the closing date, the seller may sell new loans and their related security to the mortgages trustee. The seller reserves the right to amend its lending criteria and to sell to the mortgages trustee new loans which are based upon mortgage terms (as defined in the Glossary) different from those upon which loans forming the expected portfolio as at the reference date 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 warranties set out in the mortgage sale agreement from time to time and all the material warranties in the mortgage sale agreement

as at the closing date are described in this offering circular. See “**Sale of the loans and their related security**”.

## **Characteristics of the loans**

### ***Repayment terms***

Loans are typically repayable on one of the following bases:

- “repayment”: the borrower makes monthly payments of both interest and principal so that, when the loan matures, the full amount of the principal of the loan will have been repaid;
- “interest-only”: 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.

See “– **Statistical information on the expected portfolio – Repayment terms**”.

For interest-only loans (other than products offered by the seller which are known as Retirement Home Plan 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 repayment fees (as described in “– **Repayment Fees**” below). A prepayment of the entire outstanding balance of all loans under a mortgage account 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).

### ***Payment methods***

Various methods are available to borrowers for making payments on the loans, including:

- Halifax Payment Plan, where the borrower pays the monthly payments using an internal transfer from a Halifax current account or other account the borrower may have with the seller,
- direct debit instruction from another bank or building society account,
- external standing order from another bank or building society account,
- internal standing order from an account at Halifax and
- payments made at a Halifax branch.

See “– **Statistical information on the expected portfolio – Payment methods**”.

### ***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. The seller currently offers the following special rate loans and is able to combine these to suit the requirements of the borrower:

- “discounted variable rate loans”, which allow the borrower to pay interest at a specified discount to one of the variable base rates;
- “fixed rate loans”, which are subject to a fixed rate of interest;
- “capped rate loans”, where the borrower pays interest equal to the seller’s variable base rate (or, as the case may be, the tracker rate), but where the interest rate cannot exceed a predetermined level, or cap; and

- “tracker rate loans”, which are subject to a variable interest rate other than the variable base rate; for example the rate may be set at a fixed margin above or below rates set by the Bank of England.

Each of the above special rates is offered for a predetermined period, usually between one and five 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, a variable base rate of interest (the **variable base rate**), which is 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 fees are payable by the borrower if the loan is redeemed within the product period. See “– **Repayment Fees**” below.

No capped rate loans will form part of the portfolio as at the closing date. In addition, the seller has in the past offered “added rate loans”, where the borrower pays interest at a margin above the variable base rate. Although these products are not currently offered by the seller, some added rate loans may be included in the portfolio as at the closing date.

Loans may combine one or more of the features listed in this section. Other customer incentives may be offered with the product including cashback, free valuations and payment of legal fees. Some product types require the borrower to deposit a cash amount into a deposit account held with Halifax and to charge that deposit account in favour of Halifax. 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. See “– **Overpayments and underpayments**” and “– **Payment holidays**” below. In respect of the tracker rate loans where the tracker rate feature lasts for a specified period of time, after the expiration of that period interest on the tracker rate loan will be charged at the variable base rate that applies to the mortgage account unless the seller agrees to continue the tracker rate mortgage or to allow the borrower to switch to a different product. On tracker rate loans originated after November 2002, Halifax may vary the tracker rate margin at any time where such variation would be to the borrower’s advantage. Halifax may also vary the margin payable on such loans to the borrower’s disadvantage but only if the tracker base rate (as calculated by reference to the Bank of England repo rate) is below 3 per cent. per annum. The changes that the seller may make to the tracker rate margin may be more or less than the amount by which the Bank of England repo rate has fallen. All relevant borrowers are given advance notification of any such variation. A borrower with a tracker rate loan which is subject to a repayment fee may, within three months of a variation which is disadvantageous, repay that loan without having to pay an early repayment fee. If the seller makes a change in the tracker rate margin to the borrower’s disadvantage while the repo rate is below 3 per cent. and it subsequently increases to 3 per cent. or above, the changed margin will continue to apply (unless the tracker rate margin is changed again). The features that apply to a particular loan are specified in the mortgage conditions (as varied from time to time) and loan agreement.

From 1 March 2001 until 31 January 2002, all new mortgage loans sold under the Halifax brand were subject to a second variable base rate (HVR 2) instead of the existing variable base rate (HVR 1) at the end of the predetermined product period. Existing Halifax borrowers were in some circumstances able to transfer to HVR 2, subject to the terms and conditions of their existing loan and to the borrower entering a deed of variation to vary the terms of the existing loan.

Following the Ombudsman’s determination referred to in “**Risk factors – Decisions of the Ombudsman could lead to some terms of the loans being unenforceable, which may adversely affect payments on the Financing notes**”, Halifax announced that from 1 February 2002 all new Halifax mortgage products would be priced by reference to or revert to HVR 1. HVR 2 continues to apply to existing mortgages that are linked to HVR 2. The mortgages trust includes flexible loans, which are priced by reference to another variable interest rate, the Halifax flexible variable rate.

As at 26 February 2006, HVR 1 was 6.50 per cent. per annum, HVR 2 was 5.75 per cent. per annum and the Halifax flexible variable rate was 5.65 per cent..

As noted elsewhere in this offering circular, no capped rate loans will be included in the portfolio as at the closing date, although such loans may be sold to the mortgages trustee in the future provided that each of the rating agencies has confirmed that the then current ratings of the notes would not be adversely affected.

In addition, from 1 March 2001, all new Halifax branded mortgages have featured interest calculated on a daily basis rather than on an annual basis. Any payment by the borrower will reduce the borrower's balance on which interest will be calculated the following day. Prior to this date, most but not all Halifax 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 in some circumstances 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 a deed of variation to vary the terms of the existing loan.

The seller may change the interest rate, by giving the borrowers notice, on any part of the loan, unless otherwise agreed in the loan agreement and subject to certain restrictions set forth in the loan agreement. The seller may change the interest rate by altering the base rate or, if permitted in the loan agreement, altering the tracker rate margin (as described above) or charging an added rate. An added rate of not more than 2 per cent. may be charged if the borrower has let the property, changed the use of the property, or it has become more difficult for the seller to exercise its powers over the property. The seller may also change the borrower's monthly payments, the repayment period, and the accounting period by giving the borrower's notice. In the case of special rate loans, the seller may cancel the special rate under certain circumstances specified in the loan agreement.

Except in limited circumstances as set out in "**The servicing agreement – Undertakings by the servicer**", the servicer is responsible for setting the mortgages trustee variable base rate on the loans in the portfolio as well as on any new loans that are sold to the mortgages trustee. The mortgage conditions applicable to all of the variable rate loans provide that the variable base rate may only be varied in accordance with a number of reasons that are specified in the mortgage conditions. These reasons include:

- to reflect changes in the cost of funds used by the seller in its mortgage lending business;
- to reflect a change in the general practice of mortgage lenders;
- to reflect changes in the way the seller administers its mortgage accounts;
- to reflect any regulatory requirements or guidance or any change in the law or decision or recommendation by a court or an ombudsman; or
- to reflect changes to the way that the property over which the mortgage is granted is used or occupied.

In respect of the variable rate loans with these mortgage conditions, the servicer may also change the mortgages trustee variable base rate for any other valid reason. In maintaining, determining or setting the mortgages trustee variable base rate, the servicer will apply the factors set out here and, except in limited circumstances as set out in "**The servicing agreement – Undertakings by the servicer**", has undertaken to maintain, determine or set the mortgages trustee variable base rate at a rate which is not higher than the Halifax variable base rate from time to time.

If applicable, the servicer will also be responsible for setting any variable margins in respect of new tracker rate loans that are sold to the mortgages trustee in the future. However, in maintaining, determining or setting these variable margins, except in the limited circumstances as set out in "**The servicing agreement – Undertakings by 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 variable base rate cap whereby it has limited its variable base rates to no more than 2 per cent. above the Bank of England base rate at any time. The seller may vary the 2 per cent. limit but, prior to doing so, will give 30 days' notice to borrowers who pay interest at a variable base rate, a discounted rate or

an added rate and are subject to a repayment fee. Those borrowers will then have three months to repay their mortgage if they so require without incurring the repayment fee (this does not apply to borrowers who pay interest at a fixed, capped or tracker rate).

### ***Repayment fees***

The borrower may be required to pay a repayment fee if certain events occur during the predetermined product period and the loan agreement states that the borrower is liable for repayment fees. The seller also offered some products in the past with repayment fee periods that extended beyond the product period. Although these types of products are not currently offered to new borrowers, some are included in the portfolio. 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 all or part of the repayment fee based on the amount of principal borrowed at the outset of the mortgage (if a mortgage is redeemed in part, then a proportionate part of the repayment fee set out in the loan offer is payable). 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 per cent. of the amount outstanding on a mortgage in addition to scheduled repayments in any one year without having to pay a repayment fee, though the seller may withdraw this concession at its discretion. The seller currently has a policy not to charge the repayment fee in certain circumstances, for example if the repayment is due to the death of the borrower.

If the seller changes the borrower's marginal interest rate or the rate by which the variable base rate cap exceeds the Bank of England base rate to the borrower's disadvantage and the loan is subject to a repayment fee, the borrower may repay the mortgage debt in full within three months of receiving notice of the change without being charged the repayment fee.

The mortgages trustee has agreed to pay back to the seller any repayment fees received on the loan, so any sums received will be for the seller's account and not for the account of the mortgages trustee.

Some of the loans offered by the seller include a "**cashback**" feature under which the borrower is offered a sum of money, usually paid on completion of the loan. The incentive may take the form of a fixed amount, a percentage of the loan amount, or a combination of the two. Where any loan is subject to a cashback, if there is an unscheduled principal repayment or a product switch (as described in "**Product switches**"), in either case before a date specified in the agreement, then a repayment fee may be repayable by the borrower.

Some mortgage products do not include any provisions for the payment of a repayment fee by the borrower.

### ***Overpayments and underpayments***

Borrowers with interest calculated annually who pay more than the scheduled monthly payment will have the benefit of an interest adjustment on the amount overpaid. This will only be done in cases where the total overpayment in a month is £250 or more and the borrower has paid the normal required monthly payments due for the rest of the year. The seller will not make any adjustment to the interest charged in respect of the borrower's normal monthly payments, but the borrower will be credited with interest at the rate of interest charged on the borrower's mortgage. This concession may be withdrawn or changed by the seller. Borrowers may repay up to 10 per cent. of their loan each year without incurring a repayment fee.

If borrowers with daily calculations of interest pay more than the scheduled monthly payment, the balance on their mortgage account will be reduced. The seller will charge interest on the reduced balance, which reduces the amount of interest the borrower must pay.

Borrowers may underpay to the extent of previous overpayments.

Missed payments or underpayments are rolled up and added to the mortgage, and must be repaid over the remaining life of the mortgage unless it is otherwise agreed by the seller and the borrower to extend the mortgage term.

Any overpayments will be treated as prepayments of principal on the loans.

This section does not apply to flexible loans (see “**Flexible loans**” below).

### ***Payment holidays***

The seller offers “payment holidays” during which a borrower may suspend mortgage payments without penalty. This option may be exercised, upon the seller’s agreement, for a maximum of six months during the life of the mortgage. The payment holiday option does not include insurance premiums.

In order to qualify, the seller will perform a credit reference search and the mortgage cannot be more than one month in arrears when the payment holiday is applied for and no payment arrangement may be either currently in force or have been in force within the last six months. Additionally, at least three months must have elapsed since the date of the initial advance to the borrower. If a borrower’s account is more than one month in arrears, the seller will automatically reject the payment holiday application.

Furthermore, an applicant can neither be currently applying for, or in receipt of, income support, nor in receipt of amounts to pay the mortgage under a mortgage repayments insurance policy at the time of the application, nor have a current payment arrangement or have had one within the last six months with the seller on their loan. The applicant may not borrow any further money from the seller during the course of the payment holiday.

Payments deferred under the payment holiday programme are rolled up and added to the mortgage and must be repaid over the remaining life of the mortgage, unless the seller and the borrower agree to amend the mortgage term. The seller will provide the borrower with a new scheduled monthly payment based on the new amount owed. The total debt accumulated must not exceed 97 per cent. of the value of the property and must comply with the seller’s normal lending limits. However, the borrower may make over payments (subject to terms and conditions) to pay off their debt sooner. The payment holiday does not include buildings and contents insurance premiums, mortgage repayment insurance premiums, life assurance or total mortgage protection premiums, nor can the mortgage be a building mortgage.

This section does not apply to flexible loans (see “ – **Flexible loans**” below).

### ***Further advances***

8.2.2.7

If a borrower wishes to take out a further loan secured by the same mortgage, 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. All further advances will be funded solely by the seller. Where the aggregate of the initial advance and the further advance is greater than 90 per cent. of the indexation value of the property, the seller will reassess the property’s value, by instructing a valuer, who may physically inspect the property. A new loan-to-value, or LTV, ratio will be calculated by dividing the aggregate of the outstanding amount and the further advance by the reassessed valuation. The seller reserves the right to re-underwrite the loans. The aggregate of the outstanding amount of the loan and the further advance may be greater than the original amount of the loan. However, no loans will be sold to the mortgages trustee where the LTV ratio at the time of origination or further advance is in excess of 97 per cent.

In certain instances the further advance may be granted subject to the completion of improvements, alterations, or repairs to the property. The seller reserves the right to confirm the completion of the work, either through an inspection of the improvement bills or a physical inspection of the property.

In addition, the seller offers a further advance product called Home Cash Reserve, which is a facility linked to a borrower’s mortgage whereby a borrower may draw additional funds from time to time. A borrower must have had a Halifax mortgage for a minimum of three months to qualify for

the Home Cash Reserve. Where originated by the seller before 31 October 2004, the total amount of the facility must not be less than £25,005. Borrowers must drawdown amounts of at least £1,000 at a time. Funds drawn under the Home Cash Reserve are added to the mortgage loan. No redraw facility is available under the Home Cash Reserve.

None of the loans in the expected portfolio obliges the seller to make further advances save for retentions and Home Cash Reserve withdrawals. However, some loans in the expected portfolio may have further advances made on them prior to their being sold to the mortgages trustee and new loans added to the portfolio in the future may have had further advances made on them prior to that time.

If a loan is subject to a further advance, the seller will be required to repurchase the loan under the relevant mortgage account and its related security from the mortgages trustee unless the relevant loan is in arrears (although making further advances to borrowers in arrears is not in the normal course of the seller's business) in which case no repurchase will be required.

This section does not apply to flexible loans (see “ – **Flexible loans**”).

### ***Flexible loans***

Certain loans originated by the seller after 31 October 2004 included in the portfolio are subject to a range of options available for selection by the borrower, giving the borrower greater flexibility in the timing and amount of payments made under the loan as well as access to pre-approved further advances under the loan (**flexible loans**). These flexible loans may be discounted variable rate loans, capped rate loans or tracker rate loans and offer the optional features described below, subject to certain conditions and financial limits. Each borrower of a flexible loan is subject to an agreement which sets out a credit limit and the terms and conditions of the pre-approved further advances available to the borrower. The availability of the flexible loan options is generally limited to the available reserve, which in broad terms at any time is the difference between the credit limit and the amount of the outstanding debt at that time.

Flexible loans include the following flexible options, which may be exercised in any combination, all subject to certain conditions and financial limits. In general, the flexible options impose fewer conditions and restrictions than those referred to under “**Overpayments and underpayments**”, “**Payment holidays**” and “**Further advances**” above and those sections do not apply to flexible loans.

*Overpayments.* Borrowers may increase their regular monthly payments above the normal monthly payment then applicable at any time.

*Underpayments.* Borrowers may reduce their monthly payments below the amount of the applicable normal monthly payment. The amount underpaid cannot exceed six normal monthly payments in any twelve month period or have the effect, including payment holidays, of the borrower not paying the normal monthly payment for six consecutive months.

*Payment holidays.* Borrowers may stop monthly payments for up to six months in any twelve month period.

*Lump-sum payments.* Borrowers may repay all or part of the loan at any time.

*Drawdown.* Borrowers may borrow further amounts, subject to a minimum amount of £250 (unless the available reserve is less than £250 in which case the borrower may borrow such lesser amount).

The terms and conditions of the flexible loans provide that:

- (i) the flexible options will be available after the first monthly payment has been made;
- (ii) the borrower must inform the seller that it wishes to exercise the underpayment, payment holidays or overpayment options one month before the borrower wishes to exercise the relevant flexible option;
- (iii) amounts repaid under the flexible options agreement may be redrawn at any time using any available options;

- (iv) the borrower may not exceed the available reserve set out in the flexible options agreement; and
- (v) the amount underpaid by the borrower by exercising the underpayment and/or the payment holidays options may not exceed six normal monthly payments in any twelve month period.

In addition to the above restrictions, the seller has the right to reduce the available reserve to zero where: (a) an event requiring the immediate repayment of the debt (as set out in the applicable terms and conditions) occurs; or (b) the borrower's financial circumstances change adversely; or (c) the value of the security granted by the borrower for the debt is reduced such that part of the debt is unsecured; or (d) the seller obtains adverse information about the borrower from a credit reference agency or from any fraud prevention register or from its dealings with the seller and the seller reasonably considers that the available reserve should be reduced or withdrawn to protect its interests under the flexible options agreement; or (e) a borrower dies and the seller reasonably considers that the financial resources available to the borrower's personal representatives or (as the case may be) the surviving joint-borrower are not sufficient to support further borrowing up to the existing available reserve. If the available reserve is withdrawn, the payment holidays, underpayment and/or drawdown options will cease to be available and any unused part of the available reserve will not be able to be utilised.

The maximum total borrowing under a flexible loan is limited to 90 per cent. of the original property value (or of a later revaluation in the event a borrower subsequently transfers to a flexible product), subject to a lower limit if a borrower's maximum loan affordability is lower than this amount.

### **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 will be required to repurchase the loan or loans under the relevant mortgage account and their related security from the mortgages trustee unless the relevant loan is in arrears in which case no repurchase will be required. Those limited circumstances are that as at the relevant date, any of the conditions precedent to the sale of new loans to the mortgages trustee as described in "**Sale of the loans and their related security – Sale of new loans and their related security to the mortgages trustee**" has not been satisfied. From the date when those conditions precedent have been satisfied, then a loan that has been subject to a product switch will not be so repurchased by the seller. See further "**Risk factors – In limited circumstances loans subject to product switches will be repurchased by the seller from the mortgages trustee, which will affect the prepayment rate of the loans, and this may affect the yield to maturity of the Financing notes**" and "**Sale of the loans and their related security**".

### **Origination channels**

The seller currently derives its mortgage-lending business from the following sources: through the Halifax branch network (including the Bank of Scotland branch network) throughout the United Kingdom (including Halifax estate agency branches), through intermediaries, through internet applications and from telephone sales. See "**– Statistical information on the expected portfolio – Origination channels**".

Of the loans in the expected portfolio as at the reference date, approximately 42.35 per cent. were originated directly by Halifax (including through the branch network and telesales), approximately 57.42 per cent. through intermediaries and approximately 0.23 per cent. through other channels.

Under the Halifax Mortgage Promise, the seller can provide customers with an agreement in principle to lend almost immediately upon application. In May 2000, the seller launched the Halifax Mortgage Promise online. In June 2000, the seller launched Mortgage Enquirer, allowing customers



to view the progress of their mortgage application via the Internet and selected intermediaries to view their portfolio of customers' applications.

In an effort to improve mortgage customer retention, the seller introduced the Mortgage Review in May 2000. Over one million existing mortgage customers were contacted during the remainder of 2000 and offered a review of their mortgage. The programme continued throughout 2001.

The seller is subject to MCOB and the Financial Ombudsman Service, which is a statutory scheme under the FSMA, and follows the Code of Banking Practice. The seller has pledged its support for regulation of the UK mortgage industry by the FSA and, in particular, the implementation of CAT marked loans. CAT is a voluntary UK Government standard that was introduced for mortgages in 2000. The CAT mark indicates that the product meets minimum standards for charges, access and terms.

### **Right-to-buy scheme**

Approximately 4.88 per cent. of the mortgages in the expected 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 (each, a **landlord**) 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). Properties sold under these schemes are sold by the landlords at a discount to market value calculated in accordance with the Housing Act 1985 (as amended) or (as applicable) the Housing (Scotland) Act 1987. A purchaser under these schemes must, if he 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, five years) (the **RTB disposal period**), repay a proportion of the discount he received or, in England and Wales only, the resale price (the **resale share**) to the landlord. The landlord obtains a statutory charge (or, in Scotland, a standard security) over the property in respect of the contingent liability of the purchaser under the relevant scheme to repay the resale share. 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 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. In Scotland, where the landlord secures the contingent liability to repay the resale share, the standard security will, notwithstanding the usual statutory ranking provisions, have priority immediately after any standard security granted in security of a loan either to purchase or improve the relevant property plus interest and expenses and, if the landlord consents, a standard security over the relevant property securing any other loan.

The seller is an approved lending institution under the Housing Act 1985. The seller will, in the mortgage sale agreement, warrant that all mortgages or standard securities originated by it were made to the person exercising the right to buy for that purpose or other approved purposes (save where a deed of postponement has been granted by the local authority) and have (or the seller has the evidence necessary to ensure that the mortgages will have) priority over any statutory charge save in cases where the loan is made at a time where there is no more than one year remaining of the RTB disposal period (in which case the seller's view is that if it has to enforce, it is likely that the RTB disposal period will have expired by the time it sells the relevant property so the statutory charge will have ceased to subsist) or where adequate insurance is in place.

The seller usually obtains the relevant landlord's approval for loans for "approved purposes" retrospectively rather than in advance of making a loan because of the delays inherent in seeking that approval. 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**

Traditionally, the seller's decision whether to underwrite or not underwrite a loan has been made by underwriters in one of the seller's business centres, who liaise with the intermediaries and sales staff in the branch network. Each underwriter must undertake a training programme conducted by the seller to gain the authority to approve loans. The seller has established various levels of authority for its underwriters who approve loan applications. The levels are differentiated by, among other things, degree of risk and the ratio of the loan amount to the value of the property in the relevant application. An underwriter wishing to move to the next level of authority must undertake further training.

During 2001, the seller introduced a new automated system whereby the majority of mortgages are underwritten at the point of sale and do not make use of the traditional system of full evaluation by an underwriter. Those mortgages qualifying for point-of-sale underwriting remain subject to the seller's underwriting policies, lending criteria, and internal procedures for compliance with government regulations, such as those concerning money laundering.

All mortgage underwriting decisions, whether completed at the point of sale or in a servicing centre, are subject to internal monitoring by the seller in order to ensure the seller's procedures and policies regarding underwriting are being followed by staff.

## **Lending criteria**

Each loan in the expected portfolio was originated according to the seller's lending criteria applicable at the time the loan was offered, which included some or all of the criteria set out in this section. New loans may only be included in the portfolio 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 "**Sale of the loans and their related security – Sale of new loans and their related security to the mortgages trustee**" 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.

8.2.2.2  
8.2.2.7

### **(1) Type of property**

Properties may be either freehold or the Scottish equivalent or leasehold. In the case of leasehold properties, there must be at least 30 years left on the lease at the end of the mortgage term. The property must be used solely for residential purposes (with extremely limited case-by-case exceptions) and must be in sound structural condition and repair or be capable of being put into such state. 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 borrowers under the mortgage.

All properties have been valued by a valuer approved by the seller or, where appropriate, according to a methodology which would meet the standards of a reasonable, prudent mortgage lender (as referred to under "**The servicing agreement – Undertakings by the servicer**") and which has been approved by the seller.

## (2) Term of loan

There is no minimum term on home purchase loans and the current maximum term is 40 years for all loans. A repayment period for a new further advance that would extend beyond the term of the original advance may also be accepted at the seller's discretion, subject to the following:

- the consent of any subsequent lender or guarantor to the further advance;
- the seller may in its discretion extend the period of the original advance, provided that, in the case of all leasehold properties, not less than 30 years of the lease must be left unexpired at the end of the term of the mortgage; and
- the approval of the valuers is required where the valuer has previously recommended a term which is shorter than the maximum loan terms referred to above.

If the customer requests to increase the term of the existing loan, the maximum term for a repayment loan is 25 years from the date from which the extended term is granted. However, the total term from the start date of the account must not exceed 40 years.

## (3) Age of applicant

All borrowers must be aged 18 or over. There is no maximum age limit. However, if the term of the mortgage extends into retirement, the seller will attempt to ascertain the borrower's anticipated income in retirement. If the seller determines the borrower will not be able to afford the mortgage into retirement, the application will be declined. If the borrower is already retired, the seller will consider the borrower's ability to support the loan.

## (4) Loan-to-value (or LTV) ratio

The maximum original LTV ratio of loans in the expected portfolio is 97 per cent. For properties of £150,000 or less, the seller may currently lend up to 97 per cent. of the improved valuation of the property (the original valuation plus the increase in value deriving from any improvements). For properties in excess of £150,000 the permissible LTV ratio decreases as the property value increases. The seller does not provide loans in excess of 100 per cent. of the sum of the purchase price and the increase in value deriving from any improvements.

8.2.2.6

All lending for new purchases is based on a maximum of 97 per cent. of value, provided that this does not exceed 100 per cent. of the purchase price. For example, if the value of a property was £100,000 and the purchase price was £97,000, the maximum that the seller would lend is £97,000.

## (5) Mortgage indemnity guarantee policies and high LTV fees

Borrowers are currently required to pay high LTV fees to the seller for each mortgage account where the aggregate of the outstanding principal balance of the relevant loan(s) at origination (excluding any capitalised high LTV fees and/or booking fees and/or valuation fees) exceeds certain specified percentages.

If the LTV ratio exceeds 90 per cent., the borrower pays high LTV fees based on the difference between the actual LTV ratio and a 75 per cent. LTV ratio.

Prior to 1 January 2001, the seller required cover under mortgage indemnity guarantee, or MIG, policies for mortgages where the LTV ratio exceeded 75 per cent., though during 1999 and 2000 the seller paid the premium for the MIG cover if the LTV ratio was between 75 per cent. and 90 per cent. Approximately 30.26 per cent. of the loans in the expected portfolio as at the reference date are covered by MIG policies. Since 1 January 2001, the seller has not required cover under MIG policies for any loans. See “– **Insurance policies – Mortgage indemnity guarantee policies and high LTV fees**” below.

## (6) Status of applicant(s)

The maximum aggregate loan amount under a mortgage account is determined by the application of an affordability model. This model delivers an individualised result that reflects the applicant's net income, existing credit commitments and burden of family expenditure. The model also calculates the full debt servicing cost at a stressed rate of interest before comparing this cost

to the net disposable income that the applicant has available. The credit score also influences the decision of how much to lend using the principle that high credit scores infer a demonstrated ability to manage financial affairs. The seller maintains rules on the amount of variable income (overtime, bonus, commission) that it will allow into the model and as a general rule will allow no more than 60 per cent. of these items. Benefit payments are allowed (including tax credits) as these quite often compensate for the taxation and National Insurance deductions that would normally cause lower levels of income to fall below minimum wage levels. This model returns "answers" from zero up to amounts that would equate to over five times income. Regardless, the seller maintains a policy rule that it will not lend more than an amount equal to five times income.

In cases where a single borrower is attempting to have the seller take a secondary income into account, the seller will consider the sustainability of the borrower's work hours, the similarity of the jobs and/or skills, the commuting time and distance between the jobs, the length of employment at both positions and whether the salary is consistent with the type of employment. The seller will determine, after assessing the above factors, if it is appropriate to use both incomes. If so, both incomes will be used as part of the normal income calculation.

When there are two applicants, the seller adds joint incomes together for the purpose of calculating the applicants' total income. The seller may at its discretion consider the income of one additional applicant as well, but only a maximum rate of one times that income.

Positive proof of the borrower's identity and address must be established. In exceptional circumstances this requirement can be waived (provided money laundering regulations are complied with), but the reasons for doing so must be fully documented.

The seller may exercise discretion within its lending criteria in applying those factors that are used to determine the maximum amount of the loan(s). Accordingly, these parameters may vary for some loans. The seller may take the following into account when exercising discretion: credit score result, existing customer relationship, percentage of LTV, stability of employment and career progression, availability of living allowances and/or mortgage subsidy from the employer, employer's standing, regularity of overtime, bonus or commission (up to a maximum of 60 per cent. of the income), credit commitments, quality of security (such as type of property, repairs, location or saleability), and the increase in income needed to support the loan.

The seller may not exercise discretion where it is lending over 95 per cent. of value or the borrower's credit score fails. There is an exception from this policy for existing Halifax mortgage customers who are moving home and the seller's overall position is improved.

## (7) Credit history

### (a) Credit search

A credit search is carried out in respect of all applicants. 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.

#### Existing lender's reference

In some cases, the seller may seek a reference from any existing and/or previous lender. Any reference must satisfy the seller that the account has been properly conducted and that no history of material arrears exists.

#### First time buyers/applicants in rented accommodation

Where applicants currently reside in rented accommodation, the seller may seek a landlord's reference or 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.

#### Bank reference

A bank reference may be sought or the applicant may 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 mortgages trustee.

## **Insurance policies**

8.2.2.10

### ***Insurance on the property***

A borrower is required to insure the mortgaged property with buildings insurance. The insurance may be purchased through the seller, or alternatively the borrower or landlord (in the case of a leasehold property) may arrange for the buildings insurance independently. In either case, the borrower must ensure that the buildings insurance payments are kept up to date.

If the borrower does not insure the property, or insures the property but violates a provision of the insurance contract, the seller will upon becoming aware of the same insure the property itself, in which case the seller may determine who the insurer will be, what will be covered by the policy, the amount of the sum insured and any excess. The borrower will be responsible for the payment of insurance premiums. The seller retains the right to settle all insurance claims on reasonable terms without the borrower's consent.

### ***Halifax policies***

If the buildings insurance is purchased by the borrower through the seller, the seller will arrange the insurance through Halifax General Insurance Services Limited. The premiums paid by the borrower will be calculated on a number of factors including, for example, the location of the borrower's residence, the type, age and use of the borrower's property, and the borrower's age and past claims history. The borrower will have the option of paying the premium as a lump sum or over a 12-month period with the borrower's monthly mortgage payments. If paid monthly, interest will be charged. Any unpaid premiums will be added directly to the loan and interest charged. The policy will be automatically renewed each year. The seller will provide cover from the date the purchase contracts for a property are exchanged; if the borrower already owns the property, cover will start on the date that the borrower's mortgage is completed.

The borrower must ensure that nothing occurs which reduces the risk coverage or the amount of the sum insured, increases the premiums or the excess, prevents or hinders any claim from being settled in full, or renders the insurance invalid. On newly originated loans, the conveyancer will advise the customer in writing of the need to ensure that adequate insurance cover is in place.

The buildings insurance available through the seller does not cover the contents of the borrower's home. Contents insurance can be arranged by the seller at the same time through Halifax General Insurance Services Limited on a combined policy. Halifax General Insurance Services Limited does not underwrite the buildings or contents insurance itself; it acts as a broker and administrator for such policies. Prior to 1 January 2004 all buildings or contents insurance was underwritten by Royal & Sun Alliance Insurance plc (**Royal & Sun Alliance**). With effect on and from 1 January 2004 all new business or renewals is, or has been, underwritten by St Andrew's Insurance plc.

In the event of a claim, the buildings are insured up to the full cost of rebuilding the property in the same form as before the damage occurred, including the costs of complying with local authority and other statutory requirements, professional fees and related costs. Standard policy conditions apply. Amounts paid under the insurance policy are generally utilised to fund the reinstatement of the property or, on very rare occasions, are otherwise paid to the seller to reduce the amount of the loan(s). In the latter circumstance, all insurance cover will be removed.

The seller has procured the endorsement of Royal & Sun Alliance and will on or before the closing date procure the endorsement of St Andrew's Insurance plc to the inclusion of Funding 1 and the mortgages trustee as an insured under the Halifax policies in so far as the seller was so insured prior to the sale of the relevant loans to the mortgages trustee. In the servicing agreement, the seller, acting in its capacity as servicer, has also agreed to deal with claims under the Halifax policies in accordance with its normal procedures. If the seller, acting in its capacity as servicer, receives any claim proceeds relating to a loan which has been sold to the mortgages trustee, these will be required to be paid into the mortgages trustee's, rather than the seller's, accounts.

### ***Borrower-arranged buildings insurance***

A borrower may elect not to take up a Halifax policy, or a borrower who originally had a Halifax 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 and be reviewed annually, 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.

If the borrower fails to maintain the existing insurance cover over his or her property or wishes to change insurance providers, the borrower must contact the seller and provide the details of any new insurance cover he or she has taken out. Otherwise, the seller will arrange buildings insurance for the property and debit the insurance premium to the borrower's account.

### ***Mortgage protection plans***

The seller currently offers borrowers the option to purchase a Total Mortgage Protection Plan (TMPP). A TMPP can protect the borrower's monthly mortgage payments in the event of death, unemployment, accident, sickness, critical illness, or the borrower leaving work to become a full time carer for a relative. The borrower may choose the types and amount of cover that is needed up to a maximum of £250,000 combined life and critical illness cover, and may change the plan details at any time subject to acceptance terms and eligibility. The borrower's premiums are paid monthly in advance by direct debit separate from the monthly mortgage payments. The seller has also offered mortgage repayments insurance in the past, underwritten by Halifax Insurance Ireland Limited from 2 January 2001, and by General Electric Financial Insurance before that date. Existing mortgage repayment insurance policies will continue unless a borrower requests to change to a TMPP.

### ***Properties in possession cover***

When a mortgaged property is taken into possession by the seller and buildings insurance has been arranged through the seller, Halifax General Insurance Services Limited (HGISL) takes the necessary actions to ensure that the 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.

When a mortgaged property is taken into possession by the seller and the borrower had arranged their own insurance, HGISL will take the necessary actions (within current risk appetite) to ensure that the appropriate insurance is provided.

The seller has procured the endorsement of Royal & Sun Alliance to the inclusion of Funding 1 and the mortgages trustee as insured under the properties in possession cover. To the extent that any proceeds are received by the servicer, it has agreed to pay these into the mortgages trustee's accounts. The seller, acting in its capacity as servicer, will make claims in accordance with the seller's policy and pay proceeds relating to the loans into the mortgages trustee's accounts.

In the mortgage sale agreement the seller has agreed to make and enforce claims under the relevant policies and to hold the proceeds of claims on trust for the mortgages trustee or as the mortgages trustee may direct.

#### ***Title insurance***

As at the closing date, there will be no loans in the expected portfolio for which the underlying mortgages have the benefit of a title insurance policy, although the portfolio may contain loans of this type in the future. Inclusion of loans in the portfolio having the benefit of a title insurance policy will be subject to the approval of the security trustee and confirmation from each rating agency that inclusion of these loans will not cause the downgrade or withdrawal of the rating of any Financing note. Relevant representations and warranties will be given in relation to any title insurance policy each time that Funding 1 provides consideration for the sale of new loans to the mortgages trust.

#### ***Mortgage indemnity guarantee (MIG) policies and high LTV fees***

The seller currently requires borrowers to pay high LTV fees for loans made to borrowers that are over 90 per cent. of the property's value. The seller currently does not use secondary cover, but collects high LTV fees from the relevant borrower itself, with the risk remaining on the seller's balance sheet. The high LTV fees are charged to the borrower based on the difference between the actual LTV ratio and a 75 per cent. LTV ratio.

Approximately 30.26 per cent. of the mortgages in the expected portfolio as at the reference date are subject to MIG policies arranged when the loan was originated by the seller. MIG policies are a type of agreement between a lender and an insurance company to underwrite the amount of each relevant mortgage account that exceeds a certain LTV ratio. Each MIG policy sets out a formula to calculate the limit of indemnity in respect of each mortgage covered by the MIG policy. See "**Characteristics of the loans – Lending criteria – (5) Mortgage indemnity guarantee policies and high LTV fees**". The seller previously contracted with GE Capital, General Accident, Halifax Mortgage Re Ltd, a wholly owned subsidiary of the seller, and Royal & Sun Alliance from 1 February 1996 until 31 May 1996. The seller then contracted with GE Capital, General Accident and Halifax Mortgage Re Ltd from 1 June 1996 until 31 December 1997. From 1 January 1998 until 31 December 2000, Halifax Mortgage Re Ltd was the seller's sole MIG insurer. The seller stopped placing MIG policies as of 1 January 2001. During the 1996-2000 period, cover under an MIG policy was mandatory where the LTV ratio of a loan exceeded 75 per cent.

On 19 December 2001, the insurance business, including the MIG policies, of Halifax Mortgage Re Ltd was acquired by HBOS Insurance (PCC) Guernsey Limited by portfolio transfer. HBOS Insurance (PCC) Guernsey Limited was registered on 14 December 2001 as a protected cell company in accordance with provisions of the Guernsey Protected Cell Companies Ordinance 1997.

The insured under each MIG policy is the seller and in certain circumstances its relevant subsidiary. The seller has formally assigned, or will formally assign, its interest in each MIG policy contracted with HBOS Insurance (PCC) Guernsey Limited to the mortgages trustee to the extent that it relates to the loans from time to time comprised in the portfolio. For MIG policies contracted with GE Capital, General Accident or Royal & Sun Alliance, the seller has procured or will procure the endorsement of each insurer to the inclusion of Funding 1 and the mortgages trustee as an insured under each policy. Practically speaking, this has little effect on the way in which claims are made and paid under the policies as they continue to be administered by the seller acting in its capacity as servicer. To the extent that claims relate to loans in the portfolio, their proceeds will be paid by the seller into the mortgages trustee's accounts and all other claims will be paid into the seller's account.

Management of the seller believes that financial information relating to HBOS Insurance (PCC) Guernsey Limited is not material to an investor's decision to purchase the Financing notes. HBOS

Insurance (PCC) Guernsey Limited is not rated by any nationally recognised statistical rating agency.

### Governing law

Each of the English loans is governed by English law and each of the Scottish loans is governed by Scots law.

8.2.2.1

### Statistical information on the expected portfolio

The statistical and other information contained in this offering circular has been compiled by reference to the loans and mortgage accounts in the expected portfolio as at the reference date. Columns stating percentage amounts may not add up to 100 per cent. due to rounding. A loan will be removed from the expected portfolio if in the period from the reference date to (and including) the closing date the loan is repaid in full or if the loan does not comply with the terms of the mortgage sale agreement 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 pool.

### Outstanding balances as at the reference date

The following table shows the range of outstanding mortgage account balances (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the reference date.

8.2.2.2

Range of outstanding balances as at the reference date *	Aggregate outstanding balance as at the reference date (£)	% of total	Number of mortgage accounts	% of total
£0 – £24,999.99 .....	£1,547,436,676.19	3.14%	105,198	15.89%
£25,000 – £49,999.99 .....	£6,433,653,579.21	13.06%	172,275	26.02%
£50,000 – £74,999.99 .....	£8,298,106,956.04	16.84%	134,114	20.25%
£75,000 – £99,999.99 .....	£8,133,230,756.58	16.51%	93,883	14.18%
£100,000 – £124,999.99.....	£6,573,692,184.77	13.34%	58,823	8.88%
£125,000 – £149,999.99.....	£5,023,470,977.64	10.19%	36,785	5.55%
£150,000 – £174,999.99.....	£3,400,888,335.17	6.90%	21,084	3.18%
£175,000 – £199,999.99.....	£2,399,376,722.03	4.87%	12,869	1.94%
£200,000 – £224,999.99.....	£1,719,462,904.90	3.49%	8,123	1.23%
£225,000 – £249,999.99.....	£1,301,624,395.64	2.64%	5,491	0.83%
£250,000 – £299,999.99.....	£1,666,120,098.91	3.38%	6,104	0.92%
£300,000 – £349,999.99.....	£1,071,241,380.06	2.17%	3,316	0.50%
£350,000 – £399,999.99.....	£730,732,654.94	1.48%	1,956	0.30%
£400,000 – £449,999.99.....	£555,638,825.26	1.13%	1,310	0.20%
£450,000 – £500,000 .....	£420,119,990.64	0.85%	883	0.13%
Totals.....	£49,274,796,437.98	100.00%	662,214	100.00%

\* Including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees.

The maximum, minimum and average outstanding balance of the mortgage accounts as of the reference date were £499,990.08, £1.00 and £74,409.17 respectively.

### LTV ratios at origination

The following table shows the range of LTV ratios, which express the outstanding balance of the aggregate of loans in a mortgage account (excluding capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the date of the initial loan origination divided by the value of the property securing the loans in that mortgage account at the same date. The seller has not revalued any of the mortgaged properties since the date of the origination of the

8.2.2.6  
8.2.2.16



related loan other than where an additional lending has been applied for or advanced on an account since origination, in which case the original valuation may have been updated with a more recent valuation. Where this is the case, this revised valuation has been used in formulating this data.

<b>Range of LTV ratios at origination*</b>	<b>Aggregate outstanding balance at origination (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
0% – 24.99%.....	£1,856,198,924.96	3.77%	58,974	8.91%
25% – 49.99%.....	£11,143,051,281.74	22.61%	191,838	28.97%
50% – 74.99%.....	£21,032,897,155.46	42.68%	238,753	36.05%
75% – 79.99%.....	£3,704,018,787.18	7.52%	36,433	5.50%
80% – 84.99%.....	£2,216,407,355.65	4.50%	24,468	3.69%
85% – 89.99%.....	£2,893,649,518.77	5.87%	31,824	4.81%
90% – 94.99%.....	£3,524,206,134.39	7.15%	41,076	6.20%
95% – 97%.....	£2,904,367,279.83	5.89%	38,848	5.87%
<b>Totals.....</b>	<b>£49,274,796,437.98</b>	<b>100.00%</b>	<b>662,214</b>	<b>100.00%</b>

\* Excluding capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees.

The maximum, minimum and weighted average LTV ratio of the mortgage accounts (excluding any capitalised high LTV fees, capitalised booking fees and valuation fees) at origination were 97.00 per cent., 0.04 per cent. and 63.54 per cent., respectively.

#### **Reference date LTV ratios**

The following table shows the range of LTV ratios, which express the outstanding balance of the aggregate of loans in a mortgage account (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the reference date divided by the indexed valuation of the property securing the loans in that mortgage account at the same date.

<b>Range of LTV ratios as at the reference date *</b>	<b>Aggregate outstanding balance as at the reference date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
0% – 24.99%.....	£4,762,532,393.05	9.67%	158,339	23.91%
25% – 49.99%.....	£17,396,452,867.46	35.30%	263,269	39.76%
50% – 74.99%.....	£19,836,147,896.73	40.26%	182,505	27.56%
75% – 79.99%.....	£2,049,955,035.50	4.16%	16,737	2.53%
80% – 84.99%.....	£2,022,043,978.80	4.10%	15,600	2.36%
85% – 89.99%.....	£1,775,478,344.23	3.60%	13,816	2.09%
90% – 94.99%.....	£1,023,708,751.79	2.08%	8,339	1.26%
95% – 96.99%.....	£243,440,883.15	0.49%	2,107	0.32%
97% – 100%.....	£146,167,999.83	0.30%	1,318	0.20%
100%+ .....	£18,868,287.44	0.04%	184	0.03%
<b>Totals.....</b>	<b>£49,274,796,437.98</b>	<b>100.00</b>	<b>662,214</b>	<b>100.00%</b>

\* Including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees.

The maximum, minimum and weighted average LTV ratio as at the reference date of the mortgage accounts (including any capitalised high LTV fees and capitalised booking fees) were 131.05 per cent., 0.00 per cent. and 52.76 per cent., respectively.

### 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. The seller's lending criteria and current credit scoring tests do not take into account the geographical location of the property securing a loan.

Regions	Aggregate outstanding balance as at the reference date (£)	% of total	Number of mortgage accounts	% of total
London & South East .....	£14,480,485,036.83	29.39%	130,841	19.76%
East Midlands, West Midlands & East of England.....	£10,886,699,174.58	22.09%	144,947	21.89%
North East, Yorkshire & the Humberside .....	£6,755,782,462.49	13.71%	121,824	18.40%
North West .....	£5,769,919,808.74	11.71%	97,236	14.68%
Scotland .....	£3,606,566,116.20	7.32%	65,925	9.96%
Wales & South West .....	£7,230,101,978.47	14.67%	94,580	14.28%
Unknown* .....	£545,241,860.67	1.11%	6,861	1.04%
<b>Totals.....</b>	<b>£49,274,796,437.98</b>	<b>100.00%</b>	<b>662,214</b>	<b>100.00%</b>

\* Where the postal code for the relevant property has not yet been allocated or is not shown in the seller's records.

The table below summarises the major industries for each region. For a discussion of geographic concentration risks, see “**Risk factors – The timing and amount of payments on the loans could be affected by various factors which may adversely affect payments on the Financing notes**”.

Regions	Major industries
North.....	Traditional heavy industry; service industry
North West .....	Heavy engineering; textiles
Yorkshire & Humberside.....	Iron; steel; textiles; coal; fishing
East Midlands .....	Automotives; footwear and clothing
West Midlands .....	Mechanical and electrical engineering
East Anglia .....	Agriculture and food processing; micro technology
London.....	Financial and commercial centre
South East (excluding London) .....	Technological; light engineering
South West.....	Agriculture and food processing; aerospace; tobacco
Wales .....	Coal; iron; steel; agriculture
Scotland.....	North sea oil; agriculture

Source: www.bized.ac.uk

<b>Regions</b>	<b>Average earnings (£ per annum)</b>	<b>Price/earnings ratio</b>
North .....	26,644	4.14
North West .....	28,895	3.97
Yorkshire & Humberside .....	30,521	3.56
East Midlands .....	30,886	3.81
West Midlands .....	31,161	3.62
East Anglia .....	33,977	4.44
London .....	42,080	5.02
South East (excluding London) .....	35,440	4.63
South West .....	31,101	4.44
Wales .....	28,863	4.06
Scotland .....	25,662	3.62

Source: Office for National Statistics; bized.ac.uk

### **Seasoning of loans**

The following table shows the number of months since the date of origination of the initial loan in a mortgage account. The ages (but not the balances) of the loans in this table have been forecast forward to the expected closing date of 22 March 2006 for the purpose of calculating the seasoning.

<b>Forecasted age of loans in months as at expected closing date</b>	<b>Aggregate outstanding balance as at the reference date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
<6 .....	£1,289,446,881.52	2.62%	11,269	1.70%
6 to <12 .....	£5,254,026,269.70	10.66%	52,732	7.96%
12 to <18 .....	£7,504,803,848.45	15.23%	80,007	12.08%
18 to <24 .....	£8,361,195,775.35	16.97%	88,141	13.31%
24 to <30 .....	£5,900,683,317.63	11.98%	68,138	10.29%
30 to <36 .....	£4,917,950,390.34	9.98%	59,920	9.05%
36 to <42 .....	£3,351,066,324.42	6.80%	47,489	7.17%
42 to <48 .....	£2,938,692,163.33	5.96%	44,338	6.70%
48 to <54 .....	£1,939,259,664.39	3.94%	34,261	5.17%
54 to <60 .....	£1,628,335,388.90	3.30%	30,770	4.65%
60 to <66 .....	£842,462,655.17	1.71%	18,052	2.73%
66 to <72 .....	£891,950,807.47	1.81%	19,502	2.94%
72+ .....	£4,454,922,951.31	9.04%	107,595	16.25%
<b>Totals</b>	<b>£49,274,796,437.98</b>	<b>100.00</b>	<b>662,214</b>	<b>100.00%</b>

The forecasted maximum, minimum and weighted average seasoning of loans as at 22 March 2006 will be 119.08, 4.38 and 32.70 months, respectively.

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### **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.

<b>Years to maturity</b>	<b>Aggregate outstanding balance as at the reference date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
< 5 .....	£797,894,048.08	1.62%	30,384	4.59%
5 to < 10 .....	£4,095,070,797.72	8.31%	89,926	13.58%
10 to < 15 .....	£6,703,140,661.88	13.60%	110,314	16.66%
15 to < 20 .....	£11,561,802,311.59	23.46%	158,795	23.98%
20 to < 25 .....	£23,670,827,891.18	48.04%	245,819	37.12%
25 to < 30 .....	£1,970,608,287.14	4.00%	18,813	2.84%
30 to < 35 .....	£475,452,440.39	0.96%	8,163	1.23%
Totals .....	£49,274,796,437.98	100.00%	662,214	100.00%

The maximum, minimum and weighted average remaining term of the loans as at the reference date was 34.42, 0.00 and 19.01 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.

<b>Use of proceeds</b>	<b>Aggregate outstanding balance as at the reference date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
Purchase .....	£32,256,931,974.91	65.46%	438,533	66.22%
Remortgage .....	£17,017,864,463.07	34.54%	223,681	33.78%
Totals .....	£49,274,796,437.98	100.00%	662,214	100.00%

As at the reference date, the weighted average balance of loans used to finance the purchase of a new property was £123,128.67 and the weighted average balance of loans used to remortgage a property already owned by the borrower was £126,033.27.

### **Property type**

The following table shows the types of properties to which the mortgage accounts relate. Descriptions of the terms “detached”, “semi-detached” and “terraced” are contained in the Glossary.

<b>Property Type</b>	<b>Aggregate outstanding balance as at the reference date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
Detached .....	£15,104,641,819.69	30.65%	157,295	23.75%
Semi-detached .....	£14,420,217,491.88	29.26%	217,878	32.90%
Terraced .....	£13,729,359,032.96	27.86%	211,952	32.01%
Unknown* .....	£6,020,578,093.45	12.22%	75,089	11.34%
<b>Totals.....</b>	<b>£49,274,796,437.98</b>	<b>100.00%</b>	<b>662,214</b>	<b>100.00</b>

\* Primarily flats or maisonettes.

As at the reference date, the weighted average balance of loans secured by detached, semi-detached and terraced properties was £159,342.31, £102,822.35 and £105,067.11, respectively.

### **Origination channel**

The following table shows the origination channel for the initial loan in a mortgage account.

<b>Origination Channel</b>	<b>Aggregate outstanding balance as at the reference date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
Direct origination by Halifax .....	£20,865,622,223.02	42.35%	324,071	48.94%
Intermediaries .....	£28,295,899,472.57	57.42%	335,714	50.70%
Other channels.....	£113,274,742.39	0.23%	2,429	0.37%
<b>Totals .....</b>	<b>£49,274,796,437.98</b>	<b>100.00%</b>	<b>662,214</b>	<b>100.00%</b>

The direct origination by Halifax includes Halifax estate agency branches, direct internet applications and telephone sales.

As at the reference date, the weighted average balance of loans originated through direct origination, intermediaries and other channels was £105,453.97, £138,056.73 and £86,235.76, respectively.

### **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.

<b>Repayment terms</b>	<b>Aggregate outstanding balance as at the reference date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
Repayment .....	£29,796,116,948.35	60.47%	451,047	68.11%
Interest-only .....	£19,478,679,489.63	39.53%	211,167	31.89%
<b>Totals .....</b>	<b>£49,274,796,437.98</b>	<b>100.00%</b>	<b>662,214</b>	<b>100.00%</b>

As at the reference date, the weighted average balance of repayment loans and interest-only loans was £104,490.06 and £154,177.41, respectively.

### **Special rate and flexible loans**

The following table shows the distribution of special rate loans and flexible loans as at the reference date.

<b>Type of rate</b>	<b>Aggregate outstanding interest bearing balance as at the reference date (£)</b>	<b>% of total</b>	<b>Number of product holdings</b>	<b>% of total</b>
Special rate loans				
Discounted variable rate loans ....	£235,584,812.46	0.55%	5,313	0.94%
Fixed rate loans .....	£20,504,945,241.18	48.23%	248,494	43.89%
Capped rate loans .....	£0.00	0.00%	—	0.00%
Tracker rate loans .....	£21,727,058,730.20	51.11%	311,925	55.09%
Total special rate loans .....	£42,467,588,783.84	99.89%	565,732	99.91%
Flexible loans .....	£41,484,825.12	0.11%	486	0.09%
Total Special Rate and Flexible .....	£42,509,073,608.96	100.00%	566,218	100.00%

### **Payment methods**

The following table shows the payment methods for the mortgage accounts as at the reference date.

<b>Payment method</b>	<b>Aggregate outstanding balance as at the reference date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
Halifax Payment Plan .....	£10,264,916,290.41	20.83%	161,643	24.41%
Direct debit .....	£37,419,307,028.70	75.94%	469,050	70.83%
Other* .....	£1,590,573,118.87	3.23%	31,521	4.76%
Totals .....	£49,274,796,437.98	100.00%	662,214	100.00%

\* External standing orders, internal standing orders and payments made at Halifax branches.

### **Distribution of fixed rate loans**

As at the reference date, approximately 41.71 per cent. of the loans in the expected 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. A mortgage account may have more than one active loan product.

Fixed rate loans remain at the relevant fixed rate for a period of time as specified in the offer conditions, after which they move to a variable base rate or some other rate as specified in the offer conditions.

<b>Fixed Rate %</b>	<b>Aggregate outstanding interest bearing balance as at the reference date (£)</b>	<b>% of total</b>	<b>Number of product holdings</b>	<b>% of total fixed rate holdings</b>
0 – 3.99 .....	£607,774,741.90	2.96%	12,491	5.03%
4.00 – 4.99 .....	£10,320,919,040.35	50.33%	103,215	41.54%
5.00 – 5.99 .....	£9,004,378,905.96	43.91%	120,459	48.48%
6.00 – 6.99 .....	£570,092,989.26	2.78%	12,271	4.94%
7.00 – 7.99 .....	£1,632,632.78	0.01%	54	0.02%
8.00 – 8.99 .....	£146,930.93	0.00%	4	0.00%
<b>Totals .....</b>	<b>£20,504,945,241.18</b>	<b>100.00%</b>	<b>248,494</b>	<b>100.00%</b>

<b>Year in which current fixed rate period ends</b>	<b>Aggregate outstanding interest bearing balance as at the reference date (£)</b>	<b>% of total</b>	<b>Number of product holdings</b>	<b>% of total fixed rate holdings</b>
2006 .....	£5,585,766,092.14	27.24%	63,825	25.68%
2007 .....	£8,060,656,581.73	39.31%	85,041	34.22%
2008 .....	£1,937,990,007.38	9.45%	24,570	9.89%
2009 .....	£1,964,371,550.40	9.58%	26,322	10.59%
2010 .....	£1,460,691,446.28	7.12%	22,565	9.08%
2011 .....	£433,589,163.90	2.11%	6,821	2.74%
2012 .....	£0.00	0%	0	0%
2013 .....	£98,445,451.06	0.48%	1,368	0.55%
2014 .....	£387,530,928.61	1.89%	4,990	2.01%
2015 .....	£575,904,019.68	2.81%	12,992	5.23%
<b>Totals .....</b>	<b>£20,504,945,241.18</b>	<b>100.00%</b>	<b>248,494</b>	<b>100.00%</b>

***MIG policies***

The following table shows the percentage of mortgage accounts as at the reference date the initial loans in which were subject to MIG policies arranged at the time the loan was originated.

	<b>Aggregate outstanding balance as at the reference date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
MIG policy .....	£14,911,434,186.21	30.26%	176,670	26.68%

***Payment rate analysis***

The following table shows the annualised payment rate for the most recent 1-, 3- and 12-month period for the mortgage accounts in the portfolio.

<b>As of month-end</b>	<b>1-month annualised</b>	<b>3-month annualised</b>	<b>12-month annualised</b>
31 January 2006	30.11%	33.79%	31.85%

In the table above,

- 1-month annualised CPR is calculated as  $1 - ((1 - R) ^ 12)$ ,
- 3-month annualised CPR is calculated as the average of the 1-month annualised CPR for the most recent 3 months, and
- 12-month annualised CPR is calculated the average of the 1-month annualised CPR for the most recent 12 months,

where in each case R is (i) total principal receipts received plus the principal balance of loans repurchased by the seller (primarily due to further advances) during the relevant period, divided by (ii) the aggregate outstanding principal balance of the loans in the portfolio as at the start of that period.

### ***Delinquency and loss experience of the portfolio***

As at 31 January 2006, the total outstanding balance of loans that were at least 30 days in arrears was £963,753,999.72, representing 2.47% of the outstanding balance of loans in the portfolio as at such date.

Since the establishment of the mortgages trust, total losses on loans in the portfolio were £438,692.32, representing 0.001 per cent. of the outstanding balance of loans in the portfolio as at 31 January 2006.

### ***Characteristics of United Kingdom residential mortgage market***

8.2.2.2

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. At 31 December 2005, mortgage loans outstanding in the United Kingdom amounted to £967.0 billion. During 2005, outstanding mortgage debt grew by 10.2 per cent., compared to an annual average rate of 9.0 per cent. over the last ten full calendar years. At 31 December 2005, 59.6 per cent. of outstanding mortgage debt was held with banks and 17.9 per cent. with building societies. The statistics in this paragraph have been sourced from the Council of Mortgage Lenders and the Bank of England.

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

### **Industry CPR rates**

In the following tables, quarterly industry constant prepayment rate (**industry CPR**) data was calculated by dividing the amount of scheduled and unscheduled repayments of mortgages made by 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.

Since 1985, the highest single quarter industry CPR experienced in respect of residential mortgage loans made by building societies was recorded in September 2002 at a level of 22.40 per cent. and the lowest level was 7.96 per cent. in December 1992.



<b>Quarter</b>	<b>Industry CPR rate for the quarter (%)</b>	<b>12-month rolling average (%)</b>	<b>Quarter</b>	<b>Industry CPR rate for the quarter (%)</b>	<b>12-month rolling average (%)</b>
March 1985	10.02	11.61	June 1985	11.67	11.49
September 1985	13.46	11.76	December 1985	13.68	12.21
March 1986	11.06	12.47	June 1986	15.53	13.43
September 1986	17.52	14.45	December 1986	15.60	14.92
March 1987	10.57	14.80	June 1987	14.89	14.64
September 1987	16.79	14.46	December 1987	16.18	14.61
March 1988	13.55	15.35	June 1988	16.03	15.64
September 1988	18.23	16.00	December 1988	12.60	15.10
March 1989	8.85	13.93	June 1989	13.04	13.18
September 1989	11.53	11.51	December 1989	10.38	10.95
March 1990	8.91	10.96	June 1990	9.37	10.05
September 1990	9.66	9.58	December 1990	10.58	9.63
March 1991	9.07	9.67	June 1991	10.69	10.00
September 1991	11.57	10.48	December 1991	10.24	10.39
March 1992	9.14	10.41	June 1992	9.12	10.02
September 1992	9.75	9.56	December 1992	7.96	8.99
March 1993	8.53	8.84	June 1993	9.97	9.05
September 1993	10.65	9.28	December 1993	10.01	9.79
March 1994	8.97	9.90	June 1994	10.48	10.03
September 1994	11.05	10.13	December 1994	10.68	10.29
March 1995	9.15	10.34	June 1995	10.51	10.35
September 1995	11.76	10.53	December 1995	11.61	10.76
March 1996	10.14	11.00	June 1996	11.32	11.21
September 1996	13.20	11.57	December 1996	12.58	11.81
March 1997	9.75	11.71	June 1997	15.05	12.65
September 1997	12.18	12.39	December 1997	11.17	12.04
March 1998	10.16	12.14	June 1998	12.05	11.39
September 1998	13.79	11.79	December 1998	13.42	12.36
March 1999	11.14	12.60	June 1999	14.39	13.19
September 1999	15.59	13.64	December 1999	14.94	14.02
March 2000	13.82	14.69	June 2000	13.86	14.55
September 2000	14.89	14.38	December 2000	15.55	14.53
March 2001	15.47	14.94	June 2001	17.36	15.81
September 2001	19.12	16.87	December 2001	19.01	17.74
March 2002	18.68	18.54	June 2002	19.88	19.17
September 2002	22.40	19.99	December 2002	22.16	20.78
March 2003	19.51	20.99	June 2003	20.18	21.06
September 2003	21.65	20.88	December 2003	21.33	20.67
March 2004	19.90	20.77	June 2004	21.42	21.07
September 2004	21.41	21.01	December 2004	18.71	20.36
March 2005	17.76	19.83	June 2005	17.75	18.91
September 2005	20.24	18.62	December 2005	20.36	19.03

Source of repayment and outstanding mortgage information: Council of Mortgage Lenders

You should note that the CPR table above presents the historical CPR experience only of building societies in the United Kingdom. During the late 1990s, a number of former building societies (including the seller) converted to stock form UK banks, and the CPR experience of these banks is therefore not included in the foregoing building society CPR data. According to the Council of Mortgage Lenders, the 12 month rolling average CPR experience of banks during each of the years 1999 through 2005 was 16.08 per cent., 15.34 per cent., 18.69 per cent., 21.81 per cent., 23.81 per cent., 22.88 per cent. and 22.84 per cent., respectively.

### Repossession rate

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

Year	Repossessions (%)	Year	Repossessions (%)	Year	Repossessions (%)
1985 .....	0.25	1992.....	0.69	1999.....	0.27
1986 .....	0.30	1993.....	0.58	2000.....	0.20
1987 .....	0.32	1994.....	0.47	2001.....	0.15
1988 .....	0.22	1995.....	0.47	2002.....	0.11
1989 .....	0.17	1996.....	0.40	2003.....	0.07
1990 .....	0.47	1997.....	0.31	2004.....	0.05
1991 .....	0.77	1998.....	0.31	2005.....	0.09

Source: Council of Mortgage Lenders

According to the Council of Mortgage Lenders, for 2005, the repossession rate in the United Kingdom was 0.04 per cent., marginally higher than the rate for 2004. No assurance can be given as to whether, or for how long, this level of repossessions will continue.

### 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 CML's new earnings survey figures referring to weekly earnings in April of each year for those male employees whose earnings were not affected by their absence from work. While this is a good indication of house affordability, it does not take into account the fact that the majority of households have more than one income to support a mortgage loan.

Year	House Price to Earnings Ratio	Year	House Price to Earnings Ratio
1994 .....	3.44	2000 .....	4.46
1995 .....	3.39	2001 .....	4.53
1996 .....	3.42	2002 .....	5.12
1997 .....	3.64	2003 .....	5.66
1998 .....	3.88	2004 .....	6.03
1999 .....	4.10	2005 .....	6.17

Source: Council of Mortgage Lenders

### House price index

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

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

Quarter	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
March 1985 .....	92.0	5.5	66.2	11.2	113.5	8.6
June 1985.....	95.1	7.0	68.2	10.3	115.4	8.5
September 1985.....	95.4	6.3	69.2	10.5	116.8	7.5
December 1985.....	95.9	5.5	70.7	8.6	120.6	8.3
March 1986 .....	96.5	4.8	71.1	7.1	124.0	8.8
June 1986.....	97.8	2.8	73.8	7.9	128.1	10.4
September 1986.....	97.9	2.6	76.3	9.8	132.2	12.4
December 1986.....	99.1	3.3	79.0	11.1	136.8	12.6
March 1987 .....	100.3	3.8	81.6	13.8	142.3	13.8
June 1987.....	101.9	4.1	85.8	15.1	146.7	13.6
September 1987.....	102.1	4.2	88.6	15.0	151.5	13.6
December 1987.....	103.2	4.0	88.5	11.4	158.0	14.4
March 1988 .....	103.7	3.3	90.0	9.8	167.0	16.0
June 1988.....	106.2	4.1	97.6	12.9	179.4	20.1
September 1988.....	107.7	5.3	108.4	20.2	197.4	26.5
December 1988.....	109.9	6.3	114.2	25.5	211.8	29.3
March 1989 .....	111.7	7.4	118.8	27.8	220.7	27.9
June 1989.....	114.9	7.9	124.2	24.1	226.1	23.1
September 1989.....	116.0	7.4	125.2	14.4	225.5	13.3
December 1989.....	118.3	7.4	122.7	7.2	222.5	4.9
March 1990 .....	120.4	7.5	118.9	0.1	223.7	1.4
June 1990.....	126.0	9.2	117.7	(5.4)	223.3	(1.2)
September 1990.....	128.1	9.9	114.2	(9.2)	222.7	(1.2)
December 1990.....	130.1	9.5	109.6	(11.3)	223.0	0.2
March 1991 .....	130.8	8.3	108.8	(8.9)	223.1	(0.3)
June 1991.....	133.6	5.9	110.6	(6.2)	221.9	(0.6)
September 1991.....	134.2	4.7	109.5	(4.2)	219.5	(1.4)
December 1991.....	135.5	4.1	107.0	(2.4)	217.7	(2.4)
March 1992 .....	136.2	4.0	104.1	(4.4)	213.2	(4.5)
June 1992.....	139.1	4.0	105.1	(5.1)	208.8	(6.1)
September 1992.....	139.0	3.5	104.2	(5.0)	206.9	(5.9)
December 1992.....	139.6	3.0	100.1	(6.7)	199.5	(8.7)
March 1993 .....	138.7	1.8	100.0	(4.0)	199.6	(6.6)
June 1993.....	140.9	1.3	103.6	(1.4)	201.7	(3.5)
September 1993.....	141.3	1.6	103.2	(1.0)	202.6	(2.1)
December 1993.....	141.8	1.6	101.8	1.7	203.5	2.0
March 1994 .....	142.0	2.4	102.4	2.4	204.6	2.5
June 1994.....	144.5	2.5	102.5	(1.1)	202.9	0.6
September 1994.....	144.6	2.3	103.2	0.0	202.7	0.0
December 1994.....	145.5	2.6	104.0	2.1	201.9	(0.8)
March 1995 .....	146.8	3.3	101.9	(0.5)	201.8	(1.4)
June 1995.....	149.5	3.4	103.0	0.5	199.3	(1.8)
September 1995.....	149.9	3.6	102.4	(0.8)	197.8	(2.4)
December 1995.....	150.1	3.1	101.6	(2.3)	199.2	(1.3)
March 1996 .....	150.9	2.8	102.5	0.6	202.1	0.1
June 1996.....	152.8	2.2	105.8	2.7	206.7	3.6

Quarter	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
September 1996.....	153.1	2.1	107.7	5.1	208.8	5.4
December 1996.....	154.0	2.6	110.1	8.0	213.9	7.1
March 1997.....	154.9	2.6	111.3	8.3	216.7	7.0
June 1997.....	156.9	2.6	116.5	9.6	220.2	6.3
September 1997.....	158.4	3.5	121.2	11.8	222.6	6.4
December 1997.....	159.7	3.6	123.3	11.4	225.4	5.2
March 1998.....	160.2	3.4	125.5	12.0	228.4	5.3
June 1998.....	163.2	3.9	130.1	11.0	232.1	5.3
September 1998.....	163.7	3.3	132.4	8.8	234.8	5.3
December 1998.....	164.4	2.9	132.3	7.0	237.2	5.1
March 1999.....	163.7	2.2	134.6	7.0	238.6	4.4
June 1999.....	165.6	1.4	139.7	7.1	245.5	5.6
September 1999.....	165.6	1.2	144.4	8.6	255.5	8.4
December 1999.....	166.8	1.4	148.9	11.8	264.1	10.7
March 2000.....	167.5	2.3	155.0	14.1	273.1	13.5
June 2000.....	170.6	3.0	162.0	14.8	272.8	10.5
September 2000.....	170.9	3.2	161.5	11.2	275.9	7.7
December 2000.....	172.0	3.1	162.8	9.0	278.6	5.3
March 2001.....	171.8	2.5	167.5	7.8	281.7	3.1
June 2001.....	173.9	1.9	174.8	7.6	293.2	7.2
September 2001.....	174.0	1.8	181.6	11.8	302.4	9.2
December 2001.....	17.38	1.0	184.6	12.5	311.8	11.3
March 2002.....	173.9	1.2	190.2	12.7	327.3	15.0
June 2002.....	176.0	1.2	206.5	16.6	343.7	15.9
September 2002.....	176.6	1.5	221.1	19.7	366.1	19.1
December 2002.....	178.2	2.5	231.3	22.6	392.1	22.9
March 2003.....	179.2	3.0	239.3	22.9	403.8	21.0
June 2003.....	181.3	3.0	250.1	19.2	419.0	19.8
September 2003.....	181.8	2.9	258.9	15.8	434.5	17.1
December 2003.....	182.9	2.6	267.1	14.4	455.3	14.9
March 2004.....	183.8	2.5	279.7	15.6	480.3	17.3
June 2004.....	186.3	2.7	298.7	17.8	508.4	19.3
September 2004.....	187.4	3.0	308.8	17.6	522.0	18.3
December 2004.....	189.2	3.4	306.8	13.8	523.5	14.0
March 2005.....	189.7	3.2	307.4	9.4	527.1	9.3
June 2005.....	191.9	3.0	316.9	5.9	528.0	3.8
September 2005.....	192.6	2.7	317.2	2.7	538.7	3.1
December 2005.....	193.7	2.4	316.7	3.2	549.9	4.9

Source: Office for National Statistics, Nationwide Building Society and Halifax plc, respectively.

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

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

### The servicer

Under the servicing agreement, Halifax plc has been appointed as the servicer of the loans. The day-to-day servicing of the loans is performed by the servicer in accordance with the servicing agreement through the servicer's retail branches, telephone and customer service centres. The servicer's registered office is Trinity Road, Halifax, West Yorkshire HX1 2RG, United Kingdom.

Basic information on the organisation and history of the servicer is set out in this offering circular under "**Halifax plc**". The servicer has been engaged in the servicing of residential mortgage loans originated by it since its founding in 1853. Statistical information regarding the recent size and growth of the portfolio of residential mortgage loans serviced by the servicer (all of which were originated by it) appears below under "**– Halifax plc residential mortgage loans**".

This section describes the servicer's procedures in relation to mortgage loans generally. A description of the servicer's obligation under the servicing agreement follows in the next section.

### Servicing of loans

Servicing procedures include responding to customer enquiries, monitoring compliance with and servicing the loan features and facilities applicable to the loans and management of loans in arrears. See "**The servicing agreement**".

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

In the case of variable rate loans, the servicer sets the mortgages trustee variable base rate and the margin applicable to any tracker rate loan on behalf of the mortgages trustee and the beneficiaries, except in the limited circumstances as set out in the servicing agreement. In the case of some loans that are not payable at the mortgages trustee variable base rate, for example loans at a fixed rate, the borrower will continue to pay interest at the relevant fixed rate until the relevant period ends in accordance with the borrower's offer conditions. After that period ends, and unless the servicer sends an offer of, and the borrower accepts, another option with an incentive, interest will be payable at the mortgages trustee variable base rate. In addition, some other types of loans are payable or may change so as to become payable by reference to other rates not under the control of the servicer, such as rates set by the Bank of England, which rates may also include a fixed or variable rate margin set by the servicer.

The servicer will take all steps necessary under the mortgage terms to notify borrowers of any change in the interest rates applicable to the loans, whether due to a change in the mortgages trustee variable base rate or any variable margin or as a consequence of any provisions of those terms.

Payments of interest and principal on repayment loans are payable monthly in arrear. Payments of interest on interest-only loans are paid in the month that they are due. The servicer is responsible for ensuring that all payments are made by the relevant borrower into the collection account and transferred into the mortgages trustee GIC account on a regular basis but in any event in the case of payments by direct debits no later than the next business day after they are deposited in the seller's account. All amounts which are paid to the collection account will be held on trust by the seller for the seller and the mortgages trustee until they are transferred to the mortgages trustee GIC account. Payments from borrowers are generally made by direct debits from a suitable bank or building society account or through a Halifax banking account, although in some circumstances borrowers pay by cash, cheque or standing order.

The servicer initially credits the mortgages trustee GIC account with the full amount of the borrowers' monthly payments. However, direct debits may be returned unpaid up to three days after the due date for payment, and, under the Direct Debit Indemnity Scheme, a borrower may make a claim at any time to their bank for a refund of direct debit payments. In each case, the servicer is permitted to reclaim from the mortgages trustee GIC account the corresponding amounts previously

credited. In these circumstances the usual arrears procedures described in “– **Arrears and default procedures**” will be taken.

### **Recent changes**

From time to time, the seller reviews and updates its policies and procedures in relation to the servicing of the loans. Some of these changes are market-driven, for example in connection with the introduction of mortgage regulation on 1 November 2004, following the regulation of the UK mortgage markets under the FSMA. See “**Risk factors – Failure by the seller or any servicer to hold relevant authorisations and permissions under FSMA in relation to regulated mortgage contracts may have an adverse effect on enforceability of mortgage contracts**” and “**Risk Factors – If a significant number of borrowers attempt to set off claims for damage based on contravention of an FSA rule against the amount owing by the borrower under a loan, there could be a material decrease in receipts to us from the mortgages trust**”.

Other changes are driven by the seller reviewing its procedures and amending them to reflect current trading conditions. The following is an outline of such changes in the last three years which were material:

The seller’s arrears policy was amended to the position outlined below under “– **Arrears and default procedures**”. This approach allows the seller to focus attention on the loans with arrears where the risk associated is higher as a result of a higher LTV ratio, rather than treating all loans on the basis of the number of months in arrears regardless of degree of risk associated with the loan.

The seller’s affordability model, which calculates the maximum aggregate loan amount under a mortgage account in connection with the underwriting of new and further loans to customers, has been revised as described in “**Characteristics of the loans – Lending criteria – (6) Status of applicant(s)**”. These revisions are intended to produce results which more accurately reflect the individual circumstances of a loan applicant, including among others, net income, existing credit commitments and family expenditures.

The seller has introduced a new type of mortgage product, the flexible loan, offering the features described in “**The Loans – Flexible loans**”.

### **Arrears and default procedures**

The servicer regularly provides the mortgages trustee and the beneficiaries with written details of loans that are in arrears. A loan is identified as being “**in arrears**” where an amount equal to or greater than a full month’s contractual payment is past its due date. In general, the servicer attempts to collect all payments due under or in connection with the loans, having regard to the circumstances of the borrower in each case. Mortgage collection is conducted through payment collection departments located in Leeds, Manchester and Romford. The servicer will work constructively with the borrower to agree a course of action. Collections and recovery interventions will be commensurate with the rate of deterioration and the borrower’s willingness to address the arrears as well as risk of default. Only as a last resort where all reasonable efforts have been applied in reaching an agreement with the borrower over the method of repaying the arrears is legal action considered. The servicer uses an automated collections system to collect and/or negotiate with the borrower through letter/telephone contact.

The servicer’s system tracks arrears and advances and calculates when an amount is in arrears. When arrears are first reported and are equal to or greater than £50 overdue (based on due date), the borrower is contacted and asked for payment of the arrears. An automated process exists in which the borrower is contacted through a series of letters and/or phone contacts with specific manual intervention at a certain stage commensurate with risk. Where manual intervention is required, the servicer’s personnel will decide on the next appropriate course of action. Where no contact has been made or no agreement has been reached, this could result in telephone contact via a dialer and/or the use of an external agent in an attempt to reach a solution with the borrower. The servicer’s employees responsible for settling arrears are trained in all collection and negotiation techniques.

Where considered appropriate, the servicer may enter into arrangements with the borrower regarding the arrears, including:

- arrangements to make each monthly payment as it falls due plus an additional amount to pay the arrears over a period of time;
- arrangements to make each monthly payment as it falls due;
- arrangements to pay only a portion of each monthly payment as it falls due; and
- a deferment for an agreed period of time of all payments, including interest and principal or parts of any of them.

Any arrangements may be varied from time to time at the discretion of the servicer, the primary aim being to rehabilitate the borrower and recover the situation.

For residential loans, legal proceedings do not usually commence until the arrears become at least four months overdue for high risk loans (loans of above 60 per cent. LTV) and six months overdue for lower risk loans (loans below 60 per cent. LTV); however, the servicer's employees have discretion to commence earlier (but no sooner than 2 months in arrears) having due regard to the case history, reasonable attempts to find a solution, risk and type of lending. For very low risk loans, legal action may be delayed where appropriate to allow more time for recovery.

Once legal proceedings have commenced, the servicer or the servicer's solicitor may send further letters to the borrower encouraging the borrower to enter into discussions to pay the arrears, and may still enter into an arrangement with a borrower at any time prior to a court hearing. If a court order is made for payment and the borrower subsequently defaults in making the payment, then the servicer may take action as it considers appropriate, including entering into a further arrangement with the borrower. If the servicer applies to the court for an order for possession, the court has discretion as to whether it will grant the order.

After possession, the servicer may take action as it considers appropriate, including to:

- secure, maintain or protect the property and put it into a suitable condition for sale;
- create (other than in Scotland) any estate or interest on the property, including a leasehold; and
- dispose of the property (in whole or in part) or of any interest in the property, by auction, private sale or otherwise, for a price it considers appropriate.

The servicer has discretion as to the timing of any of these actions, including whether to postpone the action for any period of time. The servicer may also carry out works on the property as it considers appropriate to maintain the market value of the property.

The servicer has discretion to deviate from these procedures. In particular, the servicer may deviate from these procedures where a borrower suffers from a mental or physical infirmity, is deceased or where the borrower is otherwise prevented from making payment due to causes beyond the borrower's control. This is the case for both sole and joint borrowers.

It should also be noted that the lender's ability to exercise its power of sale in respect of the property is dependent upon mandatory legal restrictions as to notice requirements. In addition, there may be factors outside the control of the lender, such as whether the borrower contests the sale and the market conditions at the time of sale, that may affect the length of time between the decision of the lender to exercise its power of sale and final completion of the sale.

It should also be noted in relation to Scottish mortgages that the Mortgage Rights (Scotland) Act 2001 confers upon the court a discretion (upon application by the borrower or other specified persons) to suspend the exercise of the lender's statutory enforcement remedies for such period and to such extent as the court considers reasonable, having regard, among other factors, to the nature of the default, the applicant's ability to remedy it and the availability of alternative accommodation. See "**Material legal aspects of the loans – Scottish loans**".

The net proceeds of sale of the property are applied against the sums owed by the borrower to the extent necessary to discharge the mortgage including any accumulated fees, expenses of the servicer and interest. Where these proceeds are insufficient to cover all amounts owing under the

mortgage, a claim is made under any MIG policy, where arranged. Where the funds arising from application of these default procedures are insufficient to pay all amounts owing in respect of a loan, the funds are applied first in paying interest and costs, and second in paying principal.

The servicer may then institute recovery proceedings against the borrower. If after the sale of the property and redemption of the mortgage there are remaining funds, those funds will be distributed by the acting solicitor to the next entitled parties.

These arrears and security enforcement procedures may change over time as a result of a change in the servicer's business practices or legislative and regulatory changes.

### **Arrears experience**

The following table summarises loans in arrears and repossession experience for loans serviced by Halifax, including the loans that were contained in the expected portfolio as at the reference date (with the exception of any loans in the portfolio originated on or after 30 September 2005). All of the loans in the table were originated by Halifax, but not all of the loans form part of the portfolio. Halifax services all of the loans it originates.



## Halifax plc residential mortgage loans<sup>1</sup>

	31 January 2002	31 January 2003	31 January 2004	31 January 2005	31 January 2006
Outstanding balance (£ millions).....	£84,922.2	£89,898.3	£98,175.1	£107,826.2	£115,457.9
Number of loans outstanding (thousands) .....	2,056.0	2,004.3	1,981.8	1,972.0	1,945.3
<b>Outstanding balance of loans in arrears (£ millions)</b>					
30-59 days in arrears.....	£1,778.3	£1,917.7	£1,844.8	£2,081.7	£1,783.8
60-89 days in arrears.....	£456.0	£455.5	£443.9	£642.2	£658.7
90-119 days in arrears.....	£258.1	£250.7	£251.5	£356.9	£423.6
120 days or more in arrears .....	£564.6	£559.1	£720.6	£919.7	£1,423.6
Total outstanding balance of loans in arrears ...	<u>£3,057.0</u>	<u>£3,183.0</u>	<u>£3,260.8</u>	<u>£4,000.4</u>	<u>£4,289.8</u>
Total balance of loans 90 days or more in arrears.....	<u>£822.7</u>	<u>£809.8</u>	<u>£972.1</u>	<u>£1,276.6</u>	<u>£1,847.3</u>
Total outstanding balance of loans 90 days or more in arrears as % of the outstanding balance	<u>0.9688%</u>	<u>0.9008%</u>	<u>0.9901%</u>	<u>1.1839%</u>	<u>1.5999%</u>
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Outstanding balance of arrears (£ millions)</b>					
30-59 days in arrears.....	14.2	13.7	13.3	16.1	13.7
60-89 days in arrears.....	7.7	6.8	6.5	9.8	9.9
90-119 days in arrears.....	6.4	5.6	5.4	8.0	9.1
120 or more days in arrears .....	35.1	30.7	39.8	50.6	79.3
Total balance of arrears.....	<u>63.4</u>	<u>56.8</u>	<u>65.0</u>	<u>84.3</u>	<u>112.2</u>
total balance of arrears on loans 90 days or more in arrears (£ millions) .....	<u>41.5</u>	<u>36.3</u>	<u>45.2</u>	<u>58.6</u>	<u>88.4</u>
Total balance of arrears on loans 90 days or more in arrears as % of the outstanding balance	<u>0.0489%</u>	<u>0.0404%</u>	<u>0.0481%</u>	<u>0.0543%</u>	<u>0.0766%</u>
<b>Number of loans outstanding in arrears (thousands)</b>					
30-59 days in arrears.....	39.0	36.0	28.9	28.6	22.7
60-89 days in arrears.....	11.1	9.5	7.7	8.8	8.3
90-119 days in arrears.....	6.5	5.5	4.7	5.2	5.1
120 days or more in arrears .....	14.2	13.1	14.7	15.4	18.2
Total number of loans outstanding in arrears ...	<u>70.8</u>	<u>64.1</u>	<u>56.0</u>	<u>58.0</u>	<u>54.3</u>
Total number of loans outstanding 90 days or more in arrears (thousands).....	<u>20.7</u>	<u>18.6</u>	<u>19.5</u>	<u>20.6</u>	<u>23.3</u>
Total number of loans outstanding 90 days or more in arrears as % of the number of loans outstanding.....	<u>1.0068%</u>	<u>0.9281%</u>	<u>0.9815%</u>	<u>1.0457%</u>	<u>1.1989%</u>
Amount of loan losses (£ millions).....	14.9	8.7	3.7	1.8	8.91
Loan losses as % of total outstanding balance	0.0175%	0.0097%	0.0038%	0.0016%	0.0077%

(1) This table includes loans from Northern Ireland as well as England, Wales and Scotland. The seller's arrears experience for the loans from Northern Ireland does not differ materially from its experience for loans from England, Wales and Scotland.

Halifax 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. Halifax does not define a loan as defaulted at any particular delinquency level, but rather at the time it takes the related property into possession.

Halifax does not charge off a loan as uncollectible until it disposes of the property relating to that loan following default.

There can be no assurance that the arrears experience with respect to the loans comprising the portfolio will correspond to the experience of Halifax's originated loan portfolio as set forth in the foregoing table. The statistics in the preceding table represent only the arrears experience for the periods presented, whereas the arrears experience on the loans in the portfolio depends on results obtained over the life of the loans in the portfolio. The foregoing statistics include loans with a variety of payment and other characteristics that may not correspond to those of the loans in the portfolio. Moreover, if the property market experiences an overall decline in property values so that the value of the properties in the portfolio falls below the principal balances of the loans comprising the overall pool, the actual rates of arrears could be significantly higher than those previously experienced by the servicer. In addition, other adverse economic conditions, whether or not they affect property values, may nonetheless affect the timely payment by borrowers of principal and interest and, accordingly, the rates of arrears and losses with respect to the loans in the portfolio. Noteholders should observe that the United Kingdom experienced relatively low and stable interest rates during the periods covered in the preceding table. If interest rates were to rise, it is likely that the rate of arrears would rise.

Halifax's level of mortgage arrears has reduced since the recession in the United Kingdom in the early nineties. The introduction of the scorecard in judging applications – and thus reducing discretion – has helped to keep the arrears level low, as have a healthy economic climate and historically low interest rates. The percentage of loans by total outstanding loan balance which were in arrears by more than 90 days was 1.5999 per cent. of the book as at 31 January 2006 (compared with 31 January 2005: 1.1839 per cent.; 31 January 2004: 0.9901 per cent.; 31 January 2003: 0.9008 per cent.; 31 January 2002: 0.9688 per cent.).

House price inflation has indirectly contributed to the improved arrears situation by enabling borrowers to sell at a profit if they encounter financial hardship. In the late 1980s house prices rose substantially faster than inflation as housing turnover increased to record levels. This was at a time when the economy grew rapidly, which led to falling unemployment and relatively high rates of real income growth. These fed into higher demand for housing, and house prices rose rapidly. Demand was further increased by changes in taxation legislation with regard to tax relief on mortgage payments in 1988. When monetary policy was subsequently tightened (in terms of both “**locking in**” sterling to the European Exchange Rate Mechanism and higher interest rates), the pace of economic activity first slowed and then turned into recession. Rising unemployment combined with high interest rates led to a fall in housing demand and increased default rates and repossessions. The ability of borrowers to refinance was limited as house prices began to fall and many were in a position of negative equity (borrowings greater than the resale value of the property) in relation to their mortgages.

Halifax regularly reviews its lending policies in the light of prevailing market conditions and reviews actions so as to mitigate possible problems. The performance of Halifax new business and the arrears profiles are continuously monitored in monthly reports. Any deterioration of the arrears level is investigated and the internal procedures are reviewed if necessary.

## The servicing agreement

The following section contains a summary of the material terms of the servicing agreement. The summary does not purport to be complete and is subject to the provisions of the servicing agreement.

### Introduction

On the initial closing date, Halifax was appointed by the mortgages trustee, Funding 1 and the seller under the servicing agreement to be their agent to service the loans and their related security and the security trustee consented to the appointment. Halifax has undertaken that in its role as servicer it will comply with any proper directions and instructions that the mortgages trustee, Funding 1, the seller or the security trustee may from time to time give to Halifax in accordance with the provisions of the servicing agreement. The servicer is required to administer the loans in the following manner:

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

The servicer's actions in servicing the loans in accordance with its procedures are binding on the mortgages trustee. 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 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:

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

### Undertakings by the servicer

The servicer has undertaken, among other things, the following:

1. To maintain approvals, authorisations, permissions, consents, and licences required in order to perform its obligations under the servicing agreement.
2. To determine and set the mortgages trustee variable base rate and any variable margin applicable in relation to any tracker rate loan in relation to the loans comprising the trust property except in the limited circumstances described in this paragraph 2 when the mortgages trustee will be entitled to do so. It will not at any time, without the prior consent of the mortgages trustee and Funding 1, set or maintain:
  - (i) the mortgages trustee variable base rate at a rate which is higher than (although it may be lower than or equal to) the then prevailing Halifax variable base rate which applies to loans beneficially owned by the seller outside the portfolio;
  - (ii) a margin in respect of any tracker rate loan which, where the offer conditions for that loan provide that the margin shall be the same as the margin applicable to all other loans having the same offer conditions in relation to interest rate setting, is higher or lower than the margin then applying to those loans beneficially owned by the seller outside the portfolio; and

- (iii) a margin in respect of any other tracker rate loan which is higher than the margin which would then be set in accordance with the seller's policy from time to time in relation to that loan.

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

- (iv) the revenue which Funding 1 would expect to receive during the next succeeding interest period;
- (v) the mortgages trustee variable base rate, any variable margins applicable in relation to any tracker rate loans and the variable mortgage rates in respect of the loans which the servicer proposes to set under the servicing agreement; and
- (vi) the other resources available to Funding 1 including the Funding 1 swap agreement and the reserve funds,

whether Funding 1 would receive an amount of revenue during that loan interest period which is less than the amount which is the aggregate of (1) the amount of interest which will be payable in respect of all term AAA advances on the Funding 1 interest payment date falling at the end of that loan interest period and (2) the other senior expenses of Funding 1 ranking in priority to interest due on all those term AAA advances.

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

The mortgages trustee and/or Funding 1 and the security trustee may terminate the authority of the servicer to determine and set the mortgages trustee variable base rate and any variable margins on the occurrence of a "**servicer termination event**" as defined under "**– Removal or resignation of the servicer**", in which case the mortgages trustee will set the mortgages trustee variable base rate and any variable margins itself in accordance with this paragraph 2 above.

3. To notify borrowers when required of any change in interest rates.
4. To keep records and accounts on behalf of the mortgages trustee in relation to the loans and their related security.
5. To keep the customer files and title deeds in safe custody and maintain records necessary to enforce each mortgage.
6. To provide the mortgages trustee, Funding 1 (and their auditors) and the security trustee and any other person nominated by the beneficiaries with access to the title deeds and other records relating to the administration of the loans and mortgages.
7. To make available to beneficial owners of the Financing notes, who have provided the beneficial ownership certification as described in the servicing agreement, on a monthly basis a report containing information about the loans in the mortgages trust.
8. To assist the cash manager in the preparation of a quarterly report.

9. To take all reasonable steps, in accordance with the usual procedures undertaken by a reasonable, prudent mortgage lender, to recover all sums due to the mortgages trustee, including instituting proceedings and enforcing any relevant loan or mortgage.
10. To enforce any loan which is in default in accordance with its enforcement procedures or, if these are inapplicable, with the usual procedures undertaken by a reasonable, prudent mortgage lender on behalf of the mortgages trustee.
11. To provide to, among others, the mortgages trustee, Funding 1, the seller and the rating agencies a quarterly report regarding the compliance of the loans in the pool with the terms of the transaction agreements.

The requirement for any action to be taken according to the standards of a “reasonable, prudent mortgage lender” is as defined in the Glossary. For the avoidance of doubt, any action taken by the servicer to set variable base rates and any variable margins applicable in relation to any tracker rate loans 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. The mortgages trustee will pay to the servicer a servicing fee of 0.05 per cent. per annum (inclusive of VAT) on the aggregate amount of the trust property as at the close of business on the preceding Funding 1 interest payment date. The fee is payable in arrear on each distribution date only to the extent that the mortgages trustee has sufficient funds to pay it. Any unpaid balance will be carried forward until the next distribution date and, if not paid earlier, will be payable on the final repayment date of the previous intercompany loans, the Financing intercompany loan and all new intercompany loans or on their earlier repayment in full by Funding 1.

### **Removal or resignation of the servicer**

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

- the servicer defaults in the payment of any amount due and fails to remedy that default for a period of five London business days after the earlier of becoming aware of the default and receipt of written notice from Funding 1, the mortgages trustee and the security trustee requiring the default to be remedied;
- the servicer fails to comply with any of its other covenants or obligations under the servicing agreement which in the opinion of the security trustee is materially prejudicial to Funding 1, the previous issuing entities, Financing and/or any new issuing entities and the holders of any notes and does not remedy that failure within 20 London business days after becoming aware of the failure; or
- an insolvency event (as defined in the Glossary) occurs in relation to the servicer.

Subject to the fulfilment of a number of conditions (including the appointment of a substitute servicer), the servicer may voluntarily resign by giving not less than 12 months’ notice to the mortgages trustee and the beneficiaries. The substitute servicer is required to have experience of administering mortgages in the United Kingdom and to enter into a servicing agreement with the mortgages trustee, Funding 1 and the security trustee substantially on the same terms as the relevant provisions of the servicing agreement. It is a further condition precedent to the resignation of the servicer that the current ratings of the Financing notes are not adversely affected as a result of the resignation, unless the relevant classes of noteholders otherwise agree by an extraordinary resolution.

If the appointment of the servicer is terminated, the servicer must deliver the title deeds and customer files relating to the loans to, or at the direction of, the mortgages trustee. The servicing agreement will terminate when Funding 1 no longer has an interest in the trust property.

No provision has been made in the servicing agreement or otherwise for any costs and expenses associated with the transfer of servicing to a substitute servicer, and such costs and expenses will be borne by the seller and Funding 1 as beneficiaries of the mortgages trust. The servicing fee payable to a substitute servicer will be agreed with that substitute servicer prior to its appointment.

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

The servicer may sub-contract or delegate the performance of its duties under the servicing agreement, provided that it meets particular conditions, including that:

- Funding 1 and the security trustee consent to the proposed sub-contracting or delegation;
- notification has been given to each of the rating agencies;
- where the arrangements involve the custody or control of any customer files and/or title deeds the sub-contractor or delegate will provide a written acknowledgement that those customer files and/or title deeds will be held to the order of the mortgages trustee (as trustee for the beneficiaries);
- where the arrangements involve the receipt by the sub-contractor or delegate of monies belonging to the beneficiaries which are paid into the mortgages trustee GIC account and/or the Funding 1 GIC account, the sub-contractor or delegate will execute a declaration that any such monies are held on trust for the beneficiaries and will be paid forthwith into the mortgages trustee GIC account and/or the Funding 1 GIC account in accordance with the terms of the mortgages trust deed;
- the sub-contractor or delegate has executed a written waiver of any security interest arising in connection with the delegated services; and
- Funding 1, the mortgages trustee and the security trustee have no liability for any costs, charges or expenses in relation to the proposed sub-contracting or delegation.

The consent of Funding 1 and the security trustee referred to here will not be required in respect of any delegation to a wholly-owned subsidiary of Halifax or HBOS plc from time to time or to persons such as receivers, lawyers or other relevant professionals.

If the servicer sub-contracts or delegates the performance of its duties, it will nevertheless remain responsible for the performance of those duties to Funding 1, the mortgages trustee and the security trustee.

### **Liability of the servicer**

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

### **Governing law**

The servicing agreement is governed by English law.

## Sale of the loans and their related security

8.3.3

The following section contains a summary of the material terms of the mortgage sale agreement. The summary does not purport to be complete and is subject to the provisions of the mortgage sale agreement.

### Introduction

Loans and their related security have been and will continue to be sold to the mortgages trustee pursuant to the terms of the mortgage sale agreement. The mortgage sale agreement has six primary functions:

- it provides for the sale of the loans and their related security and the transfer of the beneficial interest therein;
- it sets out the circumstances under which new loans can be sold to the mortgages trustee;
- it provides for the legal assignment or assignation (as appropriate) of the loans and their related security to the mortgages trustee;
- it sets out the representations and warranties given by the seller;
- it provides for the repurchase of mortgage accounts and related security which have loans (1) which (in limited circumstances) are subject to a product switch or (2) which are subject to a further advance or (3) which cause the seller to be in breach of any of its warranties in respect of the loans; and
- it provides for drawings in respect of home cash reserve products and flexible loans included in the trust property.

### Sale of further loans and their related security to the mortgages trustee on the sale dates

Under the mortgage sale agreement, on the initial closing date the seller transferred by way of an equitable assignment to the mortgages trustee the initial loans, together with their related security. On subsequent dates, the seller has sold further loans (together with their related security) to the mortgages trustee pursuant to the mortgage sale agreement. Full legal assignment or assignation (as appropriate) of the loans will be deferred until a later date, as described under “– **Legal assignment of the loans to the mortgages trustee**”. On the date of each relevant sale, the consideration paid to the seller has consisted of:

- a cash sum, funded by the previous intercompany loans made by the previous issuing entities; and/or
- the promise by the mortgages trustee to hold the trust property on trust for the seller (as to the seller share) and Funding 1 (as to the Funding 1 share) in accordance with the terms of the mortgages trust deed.

Funding 1 and the seller (as beneficiaries of the mortgages trust) will not be entitled to retain any fees received by the mortgages trustee, which (except in relation to fees payable to the mortgages trustee for the work undertaken by it as trustee of the trusts created by the mortgages trust deed), upon receipt and identification by the servicer, the mortgages trustee will return to the seller.

### Sale of new loans and their related security to the mortgages trustee

The mortgage sale agreement provides that the seller may sell new loans and their related security to the mortgages trustee, which may have the effect of increasing or maintaining the overall size of the trust property. The new loans may include loans with characteristics that are not currently being offered to borrowers or that have not yet been developed. New loans and their related security can only be sold if certain conditions, as described in this section, are met. The mortgages trustee will hold the new loans and their related security on trust for the seller and Funding 1 pursuant to the terms of the mortgages trust deed.

The consideration for the sale of the new loans and their new related security (in all cases at their face value) to the mortgages trustee will consist of:

- a payment by Funding 1 to the seller by telegraphic transfer of the proceeds of any new term advance borrowed from a new issuing entity pursuant to a new intercompany loan agreement; and/or
- the promise of the mortgages trustee to hold the trust property (including the new loans and their related security) on trust for the seller (as to the seller share) and Funding 1 (as to the Funding 1 share) in accordance with the terms of the mortgages trust deed.

The sale of new loans and their related security to the mortgages trustee will in all cases be subject to the following conditions being satisfied on the relevant sale date (**sale date**):

- no event of default under the transaction documents shall have occurred which is continuing as at the relevant sale date;
- the principal deficiency ledger shall not have a debit balance as at the most recent Funding 1 interest payment date after applying all Funding 1 available revenue receipts on that Funding 1 interest payment date (for a description of the principal deficiency ledger, see “**Credit structure – Principal deficiency ledger**”);
- the mortgages trustee is not aware that the purchase of the new loans on the sale date would adversely affect the then current ratings by Moody’s, Standard & Poor’s or Fitch of the current notes or any of them;
- as at the relevant sale date the seller has not received any notice that the short-term, unsecured, unguaranteed and unsubordinated debt obligations of the seller are not rated at least P-1 by Moody’s, A-1 by Standard and Poor’s and F1 by Fitch at the time of, and immediately following, the sale of new loans to the mortgages trustee;
- as at the relevant sale date, the aggregate outstanding principal balance of loans in the mortgages trust, in respect of which the aggregate amount in arrears is more than three times the monthly payment then due, is less than five per cent. of the aggregate outstanding principal balance of the loans in the mortgages trust;
- except where Funding 1 pays amounts to the seller in consideration of new loans to be sold to the mortgages trustee, the aggregate outstanding principal balance (excluding arrears of interest (as defined in the Glossary)) of new loans transferred in any one interest period must not exceed 15 per cent. of the aggregate outstanding principal balance of loans (excluding arrears of interest) in the mortgages trust as at the beginning of that interest period;
- the sale of new loans on the relevant sale date does not result in the product of the weighted average repossession frequency (WAFF) and the weighted average loss severity (WALS) for the loans comprised in the mortgages trust after such purchase calculated on such sale date (in the same way as for the loans comprised in the mortgages trust as at the closing date (or as agreed by the servicer and the rating agencies from time to time)) exceeding the product of the WAFF and WALS for the loans comprised in the mortgages trust calculated on the closing date, plus 0.25 per cent.;
- the yield of the loans in the mortgages trust together with the yield of the new loans to be sold to the mortgages trustee on the relevant sale date is at least 0.50 per cent. greater than sterling-LIBOR for three-month sterling deposits as at the previous interest payment date, after taking into account the average yield on the loans which are variable rate loans, tracker rate loans and fixed rate loans and the margins on the Funding 1 swap(s), in each case as at the relevant sale date;
- the sale of new loans on the relevant sale date does not result in the loan-to-value ratio of the loans and the new loans, after application of the LTV test on the relevant sale date, exceeding the loan-to-value ratio (based on the LTV test), as determined in relation to the loans comprised in the trust property on the closing date, plus 0.25 per cent.;



- the sale of new loans on the relevant sale date does not result in the loans (other than fixed rate loans) which after taking into account the Funding 1 swap will yield less than sterling-LIBOR plus 0.50 per cent. as at the relevant sale date and have more than 2 years remaining on their incentive period accounting for more than 15 per cent. of the aggregate outstanding principal balance of loans comprised in the trust property;
- the sale of the new loans on the relevant sale date does not result in the fixed rate loans which have more than 1 year remaining on their incentive period accounting for more than 50 per cent. of the aggregate outstanding principal balance of loans comprised in the trust property;
- no sale of new loans may occur, if, as at the relevant sale date, the step-up date in respect of any note issued after 1 January 2003 and still outstanding has been reached and such note has not been redeemed in full. For the avoidance of doubt, this prohibition on the sale of new loans to the mortgages trustee shall remain in effect only for so long as any such note remains outstanding and, upon its redemption, the sale of new loans to the mortgages trustee may be resumed in accordance with the terms of the mortgage sale agreement;
- as at the sale date the adjusted general reserve fund is equal to or greater than the general reserve fund threshold;
- if the sale of loans would include the sale of new types of loan products (such as buy-to-let loans) to the mortgages trustee, the security trustee has received written confirmation from each of the rating agencies that such new types of loan products may be sold to the mortgages trustee and that such sale of new types of loan products would not have an adverse effect on the then current ratings of the notes;
- the Funding 1 swap agreement has been modified if and as required (or, if appropriate, Funding 1 has entered into a new Funding 1 swap agreement) to hedge against the interest rates payable in respect of such new loans and the floating rate of interest payable on the Financing intercompany loan; and
- no trigger event has occurred on or before the relevant sale date.

On the relevant sale date, the representations and warranties in respect of new loans and their related security (described below in “– **Representations and warranties**”) will also be given by the seller.

In the mortgage sale agreement, the seller promises to use all reasonable efforts to offer to sell to the mortgages trustee, and the mortgages trustee promises to use all reasonable efforts to acquire from the seller and hold in accordance with the terms of the mortgages trust deed, until the earlier of the interest payment date in September 2012 (the **Financing step-up date**) (or such later date as may be notified by Funding 1 to the seller) and the occurrence of a trigger event, sufficient new loans and their related security so that the aggregate outstanding principal balance of loans in the mortgages trust during the period from and including the closing date to but excluding the interest payment date in September 2009 is not less than £31,000,000,000 (or another amount notified by Funding 1 to the seller). However, the seller is not obliged to sell to the mortgages trustee, and the mortgages trustee is not obliged to acquire, new loans and their related security if, in the opinion of the seller, that sale would adversely affect the business of the seller. If Funding 1 enters into a new intercompany loan, then the period during which the seller covenants to use reasonable efforts to maintain the aggregate outstanding principal balance of loans in the mortgages trust at a specified level prior to a trigger event may be extended.

### **Legal assignment of the loans to the mortgages trustee**

The English loans in the portfolio were sold, and any new English loans will be sold, to the mortgages trustee by way of equitable assignment. The Scottish loans in the portfolio were sold, and any new Scottish loans will be sold, to the mortgages trustee by way of declarations of trust under which the beneficial interest in such Scottish loans has been or will be transferred to the mortgages trustee. In relation to Scottish loans, references in this document to the sale of loans are to be read as references to the making of such declarations of trust. This means that legal title to

both English and Scottish loans and their related security will remain with the seller until legal assignments or assignments (as appropriate) are delivered by the seller to the mortgages trustee and notice of such assignments or assignments (as appropriate) is given by the seller to the borrowers. Legal assignment or assignment (as appropriate) of the loans and their related security (including, where appropriate, their registration or recording in the relevant property register) to the mortgages trustee will be deferred and will only take place in the limited circumstances described below. See **“Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on the Financing notes”**.

Legal assignment or assignment (as appropriate) of the loans and their related security to the mortgages trustee will be completed on the 20th London business day after the earliest to occur of the following:

- the service of an intercompany loan acceleration notice or a note acceleration notice in relation to any intercompany loan or a note acceleration notice in relation to any notes of any issuing entity;
- the seller being required to perfect the mortgages trustee’s legal title to the mortgages, by an order of a court of competent jurisdiction, or by a regulatory authority to which the seller is subject or any organisation whose members comprise, but are not necessarily limited to, mortgage lenders with whose instructions it is customary for the seller to comply;
- it being rendered necessary by law to take actions to perfect legal title to the mortgages;
- the security under the Funding 1 deed of charge or any material part of that security being in jeopardy and the security trustee deciding to take action to reduce materially that jeopardy;
- unless otherwise agreed by the rating agencies and the security trustee, the termination of the seller’s role as servicer under the servicing agreement;
- the seller requesting perfection by serving notice in writing on the mortgages trustee, Funding 1 and the security trustee;
- the date on which the seller ceases to be assigned a long-term unsecured, unsubordinated unguaranteed debt obligation rating by Moody’s of at least Baa3 or by Standard & Poor’s of at least BBB- or by Fitch of at least BBB-;
- the occurrence of an insolvency event in relation to the seller; or
- the latest of the last repayment dates of the previous intercompany loans, the Financing intercompany loan and any new intercompany loans where any intercompany loan has not been discharged in full.

Pending completion of the transfer, the right of the mortgages trustee to exercise the powers of the legal owner of the mortgages will be secured by an irrevocable power of attorney granted by the seller in favour of the mortgages trustee, Funding 1 and the security trustee.

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

### **Representations and warranties**

Neither the mortgages trustee, Funding 1, the security trustee nor Financing has made or has caused to be made on its behalf any enquiries, searches or investigations in respect of the loans and their related security. Instead, each is relying entirely on the representations and warranties by the seller contained in the mortgage sale agreement. The representations and warranties in relation to each loan are made on the relevant sale date that the loan (together with its related security) is

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sold to the mortgages trustee. The parties to the mortgage sale agreement may, with the prior written consent of the security trustee (which consent may (subject as provided below) be given if the rating agencies confirm in writing that the ratings of the notes as at that time will not be adversely affected as a result), amend the representations and warranties in the mortgage sale agreement. The material representations and warranties are as follows:

- each loan was originated by the seller in pounds sterling and is denominated in pounds sterling (or was originated and is denominated in euro if the euro has been adopted as the lawful currency of the United Kingdom);
- each loan in the portfolio as at the closing date was made not earlier than 1 February 1996 and not later than 30 September 2005;
- the final maturity date of each loan is no later than June 2040;
- no loan has an outstanding principal balance of more than £500,000;
- prior to the making of each advance under a loan, (a) the lending criteria and all preconditions to the making of any loan were satisfied in all material respects subject only to exceptions made on a case by case basis as would be acceptable to a reasonable, prudent mortgage lender and (b) the requirements of the relevant MIG policy were met, so far as applicable to that loan;
- other than with respect to monthly payments, no borrower is or has, since the date of the relevant mortgage, been in material breach of any obligation owed in respect of the relevant loan or under the related security and accordingly no steps have been taken by the seller to enforce any related security;
- the total amount of arrears of interest or principal, together with any fees, commissions and premiums payable at the same time as that interest payment or principal repayment, on any loan is not on the relevant sale date in respect of any loan, nor has been during the 12 months immediately preceding the relevant sale date, more than the amount of the monthly payment then due;
- all of the borrowers are individuals and were aged 18 years or older at the date of executed mortgage;
- at least two monthly payments have been made in respect of each loan;
- the whole of the outstanding principal balance on each loan and any arrears of interest and all accrued interest is secured by a mortgage;
- each mortgage constitutes a valid and subsisting first charge by way of legal mortgage or (in Scotland) standard security over the relevant property, and subject only in certain appropriate cases to applications for registrations at the Land Registry or Registrars 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;
- all of the properties are in England, Wales or Scotland;
- not more than 12 months (or a longer period (including in the case of an intra-group remortgage) as may be acceptable to a reasonable, prudent mortgage lender) prior to the grant of each mortgage, the seller received a valuation report on the relevant property (or another form of report concerning the valuation of the relevant property as would be acceptable to a reasonable, prudent mortgage lender), the contents of which were such as would be acceptable to a reasonable, prudent mortgage lender
- the benefit of all valuation reports, any other valuation report referred to in this section (if any) and certificates of title which were provided to the seller not more than two years prior to the date of the mortgage sale agreement can be validly assigned to the mortgages trustee without obtaining the consent of the relevant valuer, solicitor, licensed conveyancer or (in Scotland) qualified conveyancer

- prior to the taking of each mortgage (other than a remortgage), the seller (a) instructed its solicitor, licensed conveyancer or (in Scotland) qualified conveyancer to carry out an investigation of title to the relevant property and to undertake other searches, investigations, enquiries and other actions on behalf of the seller in accordance with the instructions which the seller issued to the relevant solicitor, licensed conveyancer or qualified conveyancer as are set out in the case of English loans in the CML's Lenders' Handbook for England & Wales (or, for mortgages taken before this handbook was adopted in 1999, the seller's Mortgage Practice Notes) and, in the case of Scottish loans, the CML's Lenders' Handbook for Scotland (or, for Scottish mortgages taken before this handbook was adopted in 2000, the seller's Mortgage Practice Notes) or other comparable or successor instructions and/or guidelines as may for the time being be in place, subject only to those variations as would be acceptable to a reasonable, prudent mortgage lender and (b) received a certificate of title from such solicitor, licensed conveyancer or qualified conveyancer relating to such property, the contents of which would have been acceptable to a reasonable, prudent mortgage lender at that time;
- insurance cover for each property is available under either a policy arranged by the borrower or a Halifax policy or a seller-introduced insurance policy or a policy arranged by the relevant landlord or the properties in possession cover;
- where applicable, the MIG policies are in full force and effect in relation to the portfolio and all premiums have been paid;
- the seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits agreed to be sold and/or assigned by the seller to the mortgages trustee under the mortgage sale agreement;
- each loan and its related security is valid, binding and enforceable in accordance with its terms and is non-cancellable:
  - (i) except in relation to any term in any loan or in its related security, in each case which is not binding by virtue of the Unfair Terms in Consumer Contracts Regulations 1994 or (as the case may be) the Unfair Terms in Consumer Contracts Regulations 1999; and
  - (ii) except in relation to any flexible loan drawing, delayed cashback, home cash reserve drawing, and any other further advance, in each case which is not enforceable by virtue of the CCA;
- to the best of the seller's knowledge, none of the terms in any loan or in its related security is not binding by virtue of its being unfair within the meaning of the UTCCR. In this warranty and the previous warranty, reference to any legislation shall be construed as a reference to that legislation as amended, extended or re-enacted from time to time;
- the seller has, since the making of each loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all transactions, payments, receipts, proceedings and notices relating to such loan; and
- there are no authorisations, permissions, approvals, licences or consents required as appropriate for the seller to enter into or to perform the obligations under the mortgage sale agreement or to make the mortgage sale agreement legal, valid, binding and enforceable.

If new types of loans are to be sold to the mortgages trustee, then the representations and warranties in the mortgage sale agreement will be modified as required to accommodate these new types of loans. Your prior consent to the requisite amendments will not be obtained.

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

Under the mortgage sale agreement, if a loan does not materially comply on the sale date with the representations and warranties made under the mortgage sale agreement:

- the seller is required to remedy the breach within 20 London business days of the seller becoming aware of the breach; or

- if the breach is not remedied within the 20 London business day period then, at the direction of Funding 1 and the security trustee, the mortgages trustee will require the seller to purchase the loan or loans under the relevant mortgage account and their related security from the mortgages trustee at a price equal to their outstanding principal balances, together with any arrears of interest and accrued interest and expenses to the date of purchase.

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

- any term which relates to the recovery of interest under the standard documentation applicable to that loan and its related security is unfair; or
- the interest payable under any loan is to be set by reference to the Halifax variable base rate (and not that of the seller's successors or assigns or those deriving title from them); or
- the variable margin above the Bank of England repo rate under any tracker rate loan must be set by the seller (rather than its successors or assigns or those deriving title from them); or
- the interest payable under any loan is to be set by reference to an interest rate other than that set out or purported to be set by either the servicer or the mortgages trustee as a result of the seller having more than one variable mortgage rate.

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

#### **Drawings under flexible loans**

The seller is solely responsible for funding all future drawings in respect of any flexible loans included in the trust property. The amount of the seller's share of the trust property will increase by the amount of the drawing.

#### **Further advances**

If at its discretion the seller makes or causes the servicer to send an offer of a further advance under a loan to a borrower, then the seller will be required to repurchase the relevant loan or loans under the relevant mortgage account (save for any loan in arrears where no repurchase will be required) at a price equal to the outstanding principal balance of those loans together with accrued and unpaid interest and expenses to the date of purchase.

#### **Product switches**

If on any distribution date, the seller is in breach of the conditions precedent to the sale of new loans to the mortgages trustee listed in “– **Sale of new loans and their related security to the mortgages trustee**” then from and including that date to but excluding the date when those conditions precedent have been satisfied, the seller will be required to repurchase any loans and their related security that are subject to product switches (save for any loan in arrears where no repurchase will be required). The seller will be required to repurchase the relevant loan or loans under the relevant mortgage account and their related security from the mortgages trustee at a price equal to the outstanding principal balance of those loans together with any accrued and unpaid interest and expenses to the date of purchase.

A loan will be subject to a “**product switch**” if the borrower and the seller agree on, or the servicer sends an offer of, a variation in the financial terms and conditions applicable to the relevant borrower's loan other than:

- any variation agreed with a borrower to control or manage arrears on the loan;
- any variation to the interest rate as a result of borrowers being linked to HVR 2;

- any variation in the maturity date of the loan unless, while the Financing intercompany loan is outstanding, it is extended beyond June 2040;
- any variation imposed by statute;
- any variation of the rate of interest payable in respect of the loan where that rate is offered to the borrowers of more than 10 per cent. by outstanding principal amount of loans in the portfolio in any interest period; or
- any variation in the frequency with which the interest payable in respect of the loan is charged.

**Reasonable, prudent mortgage lender**

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

**Governing law**

The mortgage sale agreement, other than certain aspects of it relating to Scottish loans and their related security which are governed by Scots law, is governed by English law.

## The mortgages trust

The following section contains a summary of the material terms of the mortgages trust deed. The summary does not purport to be complete and is subject to the provisions of the mortgages trust deed.

8.3.3

### General legal structure

The mortgages trust is a trust formed under English law with the mortgages trustee as trustee for the benefit of the seller and Funding 1 as beneficiaries. The mortgages trust was formed for the financings of the previous issuing entities, for the financings described in this offering circular and for the future financings of any new issuing entities and Funding 2.

This section describes the material terms of the mortgages trust, including how money is distributed from the mortgages trust to Funding 1 and the seller. If new issuing entities are established or Funding 2 becomes a beneficiary of the mortgages trust or new types of loans are added to the mortgages trust, then the terms of the mortgages trust may be amended. Such amendments may affect the timing of payments on the notes. The prior consent of noteholders will not be sought in relation to any of the proposed amendments to the mortgages trust deed, provided (among other things) that the rating agencies confirm that the ratings of the current notes will not be adversely affected by such amendments. There can be no assurance that the effect of any such amendments will not ultimately adversely affect your interests (see “**Risk factors – The security trustee may agree modifications to the Financing transaction documents without your prior consent, which may adversely affect your interests**”).

Under the terms of the mortgages trust deed, the mortgages trustee holds all of the trust property on trust absolutely for Funding 1 (as to Funding 1’s share) and for the seller (as to the seller’s share). The “**trust property**” is:

- the sum of £100 settled by SFM Offshore Limited on trust on the date of the mortgages trust deed;
- the portfolio of loans and their related security sold to the mortgages trustee by the seller;
- any new loans and their related security sold to the mortgages trustee by the seller after the closing date;
- any increase in the outstanding principal balance of a loan due to a borrower taking payment holidays or making underpayments under a loan or a borrower making a drawing under any flexible loan;
- any interest and principal paid by borrowers on their loans;
- any other amounts received under the loans and related security (excluding third party amounts);
- rights under the insurance policies that are sold to the mortgages trustee or which the mortgages trustee has the benefit of; and
- amounts on deposit (and interest earned on those amounts) in the mortgages trustee GIC account;

less

- any actual losses in relation to the loans and any actual reductions occurring in respect of the loans as described in paragraph (1) in “– **Funding 1 share of trust property**” below; and
- distributions of principal made from time to time to the beneficiaries of the mortgages trust.

Funding 1 is not entitled to particular loans and their related security separately from the seller; rather, each of them has an undivided interest in all of the loans and their related security forming part of the trust property.

8.2.2.5

At the closing date, the share of Funding 1 in the trust property will be approximately £31,458,089,935, which corresponds to approximately 67.80 per cent. of the trust property. The actual percentage share of Funding 1 in the trust property will not be determined until the closing date.

At the closing date, the share of the seller in the trust property will be approximately £14,941,910,065, which corresponds to approximately 32.20 per cent. of the trust property. The actual percentage share of the seller in the trust property will not be determined until the closing date.

### **Fluctuation of shares in the trust property**

The shares of Funding 1 and the seller in the trust property will fluctuate depending on a number of factors, including:

- the allocation of principal receipts on the loans to Funding 1 and/or the seller;
- losses arising on the loans;
- if new loans and their related security are sold to the mortgages trustee;
- if Funding 1 acquires part of the seller's share of the trust property from the seller (see further under “– **Acquisition by Funding 1 of an increased interest in trust property**”);
- if a borrower makes underpayments or takes payment holidays under a loan;
- if a borrower makes a drawing under a flexible loan; and
- if the seller acquires part of Funding 1's share of the trust property as described in “–**Acquisition by seller of an interest relating to capitalised interest**” below and “–**Payment by the seller to Funding 1 of the amount outstanding under an intercompany loan**” below.

The shares of Funding 1 and the seller in the trust property are recalculated by the cash manager on each calculation date. A calculation date is the first day (or, if not a London business day, the next succeeding London business day) of each month (each being a **normal calculation date**) or the date on which Funding 1 acquires a further interest in the trust property. The recalculation is based on the total outstanding principal balance of the loans in the portfolio as at the close of business on the business day immediately preceding the relevant calculation date (as adjusted from time to time). The period from (and including) one calculation date, to (but excluding) the next calculation date, is known as a **calculation period**. The first calculation period in respect of this issue will be the period from (and including) the closing date to (but excluding) 3 April 2006.

The reason for the recalculation is to determine the new Funding 1 percentage share and the new seller percentage share in the trust property. The Funding 1 percentage share and the seller percentage share determines the entitlement of Funding 1 and the seller to interest (including capitalised interest) and principal receipts from the loans in the portfolio and also the allocation of losses arising on the loans. The method for determining the new Funding 1 percentage share and the seller percentage share is set out in the next two sections.

Two London business days after each calculation date (the **distribution date**) the mortgages trustee distributes principal and revenue receipts to Funding 1 and the seller, as described below. In relation to each distribution date, the **relevant share calculation date** means the calculation date at the start of the most recent completed calculation period.

### **Funding 1 share of trust property**

8.3.3

On each calculation date (also referred to in this section as the **relevant calculation date**) or such time as the mortgages trust terminates, the interest of Funding 1 in the trust property is recalculated to take effect from the next distribution date in accordance with the following formulae:

- The share of Funding 1 in the trust property will be an amount equal to:

$$A - B - C + D + E + F$$



- The percentage share of Funding 1 in the trust property will be an amount equal to:

$$\frac{A - B - C + D + E + F}{G} \times 100$$

in the latter case, expressed as a percentage and rounded upwards to five decimal places, where:

- A = the amount of the share of Funding 1 in the trust property calculated on the immediately preceding calculation date;
- B = the amount of any principal receipts on the loans to be distributed to Funding 1 on the distribution date immediately following the relevant calculation date (as described under “– **Allocation and distribution of principal receipts prior to the occurrence of a trigger event**”, “– **Allocation and distribution of principal receipts on or after the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event**” and “– **Allocation and distribution of principal receipts on or after the occurrence of an asset trigger event**”);
- C = the amount of losses sustained on the loans in the period from the immediately preceding calculation date to the relevant calculation date and the amount of any reductions occurring in respect of the loans as described in paragraph (1) below, in each case allocated to Funding 1 in the calculation period ending on the relevant calculation date;
- D = the amount of any consideration to be paid by Funding 1 to the seller with respect to any new loans to be sold to the mortgages trustee on the relevant calculation date;
- E = the amount of any consideration to be paid by Funding 1 to the seller in relation to the acquisition by Funding 1 from the seller on the calculation date of an interest in the trust property;
- F = the amount equal to any capitalised interest accruing on a loan due to borrowers taking payment holidays and which has been allocated to Funding 1 since the immediately preceding calculation date, less the amount to be paid by the seller on the relevant distribution date to acquire an interest in trust property as described in “– **Acquisition by seller of an interest relating to capitalised interest**” below; and
- G = the aggregate outstanding principal balance of all the loans in the portfolio as at the relevant calculation date after making the distributions, allocations and additions referred to in “B”, “C”, “D”, “E” and “F” and after taking account of:
  - any distribution of principal receipts to Funding 1 and the seller,
  - the amount of any losses allocated to Funding 1 and the seller,
  - the amount of any increase in the loan balances due to capitalisation of insurance premiums due by borrowers or borrowers taking payment holidays,
  - the adjustments referred to in paragraphs (1) to (4) below (or, if the seller share is zero, the adjustments referred to in paragraph (1) only), and
  - the amount of any other additions or subtractions to the trust property.

If any of the following events occurs during a calculation period, then the aggregate total outstanding principal balance of the loans in the portfolio will be reduced or deemed to be reduced for the purposes of the calculation of “G” on the calculation date at the end of that calculation period:

- (1) any borrower exercises a right of set-off so that the amount of principal and interest owing under a loan is reduced but no corresponding payment is received by the mortgages trustee. In this event, the aggregate outstanding principal balance of the loans in the portfolio will be reduced by an amount equal to the amount of that set-off; and/or

- (2) a loan or its related security is (i) in breach of the representations and warranties contained in the mortgage sale agreement or (ii) the subject of a further advance or (iii) in limited circumstances the subject of a product switch or other obligation of the seller to repurchase, and in each case the seller fails to repurchase the loan or loans under the relevant mortgage account and their related security to the extent required by the terms of the mortgage sale agreement. In this event, the aggregate outstanding principal balance of the loans in the portfolio will be deemed to be reduced for the purposes of the calculation in "G" by an amount equal to the outstanding principal balance of the relevant loan or loans under the relevant mortgage account (together with arrears of interest and accrued interest); and/or
- (3) the seller would be required to repurchase a loan and its related security as required by the terms of the mortgage sale agreement, but the loan is not capable of being repurchased. In this event, the aggregate outstanding principal balance of the loans in the portfolio will be deemed to be reduced for the purposes of the calculation in "G" by an amount equal to the outstanding principal balance of the relevant loan or loans under the relevant mortgage account (together with arrears of interest and accrued interest); and/or
- (4) the seller materially breaches any other material warranty under the mortgage sale agreement and/or (for so long as the seller is the servicer) the servicing agreement, which will also be grounds for terminating the appointment of the servicer. In this event, the aggregate outstanding principal balance of the loans in the portfolio will be deemed to be reduced by an amount equal to the resulting loss incurred by the beneficiaries.

The reductions or deemed reductions set out in paragraphs (1) to (4) above will be made on the relevant calculation date first to the seller's share (including the minimum seller share) of the trust property, and thereafter (in respect of paragraph (1) only) will be made to the Funding 1 share of the trust property.

Any sums that are subsequently recovered by the mortgages trustee in connection with a reduction or deemed reduction of the trust property under paragraphs (1) to (4) above, will constitute a revenue receipt under the relevant loan. Such revenue receipt will belong to Funding 1 (but only if and to the extent that the related reductions were applied against Funding 1's share of the trust property) and thereafter will belong to the seller.

### **Seller share of trust property**

On each calculation date or such time as the mortgages trust terminates, the interest of the seller in the trust property is recalculated to take effect from the next distribution date as follows:

The share of the seller in the trust property will be an amount equal to:

- the aggregate outstanding principal balance of all the loans in the portfolio as at that calculation date – the Funding 1 share as calculated on that calculation date.

The percentage share of the seller in the trust property is an amount equal to:

- 100 per cent. – the Funding 1 percentage share as calculated on that calculation date.

Neither the Funding 1 share nor the seller share of the trust property may be reduced below zero.

### **Minimum seller share**

The seller's share of the trust property includes an amount known as the **minimum seller share**. As at the closing date, the minimum seller share will be approximately £2,322,590,000, but the amount of the minimum seller share will fluctuate depending on changes to the characteristics of the loans in the portfolio. The seller will not be entitled to receive principal receipts which would reduce the seller share of the trust property to an amount less than the minimum seller share unless and until Funding 1's share of the trust is in an amount equal to zero or an asset trigger event occurs. The minimum seller share will be the amount determined on each calculation date

(after any sale of loans to the mortgages trustee on that calculation date) in accordance with the following formula:

$$X + Y + Z$$

where:

X = five per cent. of the aggregate outstanding principal balance of loans in the portfolio;

Y = the product:  $p * q * r$

where:

p = 8 per cent.;

q = the **flexible draw capacity**, being an amount equal to the excess of (1) the maximum amount that borrowers may draw under flexible loans included in the trust property (whether or not drawn) over (2) the aggregate principal balance of actual flexible loan advances in the trust property on the relevant calculation date; and

r = 3;

and

Z = the aggregate sum of reductions deemed made (if any) in accordance with paragraphs (2), (3) and (4) as described in “– **Funding 1 share of trust property**” above.

The purpose of “X” is to mitigate the risks relating to certain set-off risks relating to the loans. The amount of “X” may be reduced from time to time at the request of the seller or Funding 1 (acting reasonably) provided that the security trustee has received written confirmation from the rating agencies that there will be no adverse effect on the then current ratings of the notes as a result thereof.

The purpose of the calculation in “Y” is to mitigate the risk of the seller failing to fund a drawing under a flexible loan.

The purpose of the calculation in “Z” is to mitigate the risk of the seller materially breaching any material warranty under the mortgage sale agreement and/or the servicing agreement and failing to repurchase certain loans and their related security to the extent required by the terms of the mortgage sale agreement.

### **Cash management of trust property – revenue receipts**

Under the cash management agreement, the cash manager is responsible for distributing revenue receipts on behalf of the mortgages trustee on each distribution date in accordance with the priority described in the following section. For further information on the role of the cash manager, see “**Cash management for the mortgages trustee and Funding 1**”.

### **Mortgages trust calculation of revenue receipts**

**Mortgages trust available revenue receipts** is calculated by the cash manager on each calculation date and is an amount equal to:

- revenue receipts on the loans (but excluding principal receipts);
- plus interest payable to the mortgages trustee on the mortgages trustee GIC account;
- less amounts due to third parties (also known as **third party amounts**), including:
  - (1) amounts under a direct debit which are repaid to the bank making the payment if that bank is unable to recoup that amount itself from its customer’s account;
  - (2) payments by borrowers of any fees and other charges which are due to the seller;or

- (3) recoveries in respect of amounts deducted from loans as described in paragraphs (1) to (4) in “– **Funding 1 share of trust property**” above, which will belong to and be paid to Funding 1 and/or the seller as described therein, which amounts may be paid daily from monies on deposit in the mortgages trustee GIC account.

On each distribution date, the cash manager applies mortgages trust available revenue receipts in the following priority:

- (A) without priority among them but in proportion to the respective amounts due, to pay amounts due to:
- the mortgages trustee under the provisions of the mortgages trust deed; and
  - third parties from the mortgages trustee in respect of the mortgages trust, but only if:
    - (1) payment is not due as a result of a breach by the mortgages trustee of the documents to which it is a party; and/or
    - (2) payment has not already been provided for elsewhere;
- (B) in payment of amounts due to the servicer or to become due to the servicer during the following calculation period under the provisions of the servicing agreement;
- (C) to allocate and pay to Funding 1 an amount equal to the lesser of:
- an amount determined by multiplying the total amount of the remaining mortgages trust available revenue receipts by Funding 1’s percentage share of the trust property as calculated on the relevant share calculation date; and
- the aggregate of Funding 1’s obligations on the immediately succeeding Funding 1 interest payment date as set out under the Funding 1 pre-enforcement revenue priority of payments or, as the case may be, the Funding 1 post-enforcement priority of payments (but excluding any principal amount due under any intercompany loan and/or amounts relating to principal in items (J) and (K) of the Funding 1 post-enforcement priority of payments), less (in each case only to the extent that such amounts of interest or income would not otherwise be payable under an intercompany loan or, as applicable, any notes, on the succeeding interest payment date) the sum of (i) the interest or other income credited or to be credited to Funding 1’s bank accounts on the immediately succeeding Funding 1 interest payment date and (ii) all other income (not derived from the distribution of revenue receipts under the mortgages trust) which will constitute Funding 1 available revenue receipts on the succeeding Funding 1 interest payment date;
- (D) to allocate and pay to the mortgages trustee and/or Funding 1 (as applicable), an amount equal to any loss amount (as defined below) suffered or incurred by it or them (as applicable); and
- (E) to allocate and pay to the seller an amount (if positive) equal to the amount of the mortgages trust available revenue receipts less the amount of such mortgages trust available revenue receipts applied and/or allocated under (A) to (D) above.

For the purposes of item (D) above, **loss amount** means the amount of any costs, expenses, losses or other claims suffered or incurred by, as applicable, the mortgages trustee and/or Funding 1 in connection with any recovery of interest on the loans to which the seller, the mortgages trustee or Funding 1 was not entitled or could not enforce as a result of any determination by any court or other competent authority or any ombudsman in respect of any loan and its related security that:

- any term which relates to the recovery of interest under the standard documentation applicable to that loan and its related security is unfair; or
- the interest payable under any loan is to be set by reference to the Halifax variable base rate (and not that of the seller’s successors or assigns or those deriving title from them); or
- the variable margin above the Bank of England repo rate under any tracker rate loan must be set by the seller; or

- the interest payable under any loan is to be set by reference to an interest rate other than that set or purported to be set by either the servicer or the mortgages trustee as a result of the seller having more than one variable mortgage rate.

Amounts due to the mortgages trustee and the servicer include value added tax (VAT), if any, payable. At the date of this offering circular, VAT is calculated at the rate of 17.5 per cent. of the amount to be paid. Payment of VAT will not reduce the amounts ultimately available to pay interest on the Financing notes.

### Cash management of trust property – principal receipts

Under the cash management agreement, the cash manager is also responsible for distributing principal receipts on behalf of the mortgages trustee on each distribution date in accordance with the priority described in the next two following sections. To understand how the cash manager distributes principal receipts on the loans on each distribution date you need to understand the definitions set out below.

On each calculation date, the cash manager will ascertain whether the distribution date is within a cash accumulation period relating to a bullet term advance or a scheduled amortisation instalment (each a **cash accumulation advance**) and will ascertain Funding 1's cash accumulation requirement and repayment requirement.

The cash accumulation period will be calculated separately for each bullet term advance and scheduled amortisation instalment.

The following table sets out whether each term advance is a bullet term advance, scheduled amortisation term advance or pass-through term advance and in relation to cash accumulation advances (which are the bullet term advances and scheduled amortisation term advances) sets out the **scheduled repayment date** (being the Funding 1 interest payment date falling in the indicated month) and **relevant accumulation amount**.

Term advance	Term advance type	Scheduled repayment date	Relevant accumulation amount
Financing series 1 term AAA advance ....	bullet	March 2007	£858,230,000
Financing series 2 term AAA advance ....	bullet	March 2009	£1,001,260,000
Financing series 3 term AAA advance ....	scheduled amortisation (1st instalment)	December 2010	£286,075,000
Financing series 3 term AAA advance ....	scheduled amortisation (2nd instalment)	March 2011	£286,075,000
Financing series 4 term AAA advance ....	scheduled amortisation (1st instalment)	June 2011	£551,840,000
Financing series 4 term AAA advance ....	scheduled amortisation (2nd instalment)	September 2011	£551,840,000
Financing series 5 term AAA advance ....	pass-through	N.A.	N.A.
Financing term AA advances.....	pass-through	N.A.	N.A.
Financing term BBB advances .....	pass-through	N.A.	N.A.
<b>Advances made by Permanent Financing (No. 8) PLC</b>			
Previous series 1 term AAA advance.....	bullet	June 2006	£761,700,000
Previous series 2 term AAA advance.....	bullet	June 2008	£761,700,000
Previous series 3 term AAA advance.....	scheduled amortisation (1st instalment)	March 2010	£272,035,000
Previous series 3 term AAA advance.....	scheduled amortisation (2nd instalment)	June 2010	£272,035,000
Previous series 4 term AAA advance.....	scheduled amortisation (1st instalment)	September 2010	£335,500,000
Previous series 4 term AAA advance.....	scheduled amortisation (2nd instalment)	December 2010	£335,500,000
Previous series 5A1 term AAA advance .	pass-through	N.A.	N.A.
Previous series 5A2 term AAA advance .	scheduled amortisation (1st instalment)	September 2011	£300,000,000
Previous series 5A2 term AAA advance .	scheduled amortisation (2nd instalment)	December 2011	£300,000,000
Previous series 5A3 term AAA advance .	pass-through	N.A.	N.A.
Previous term AA advances .....	pass-through	N.A.	N.A.
Previous term BBB advances.....	pass-through	N.A.	N.A.

**Advances made by Permanent****Financing (No.7) PLC**

Previous series 1 term AAA advance* .....	bullet	March 2006*	£523,013,000
Previous series 2 term AAA advance.....	bullet	September 2007	£732,218,000
Previous series 3 term AAA advance.....	scheduled amortisation (1st instalment)	September 2009	£295,800,000
Previous series 3 term AAA advance.....	scheduled amortisation (2nd instalment)	December 2009	£295,800,000
Previous series 3 term AAA advance.....	scheduled amortisation (3rd instalment)	March 2010	£295,800,000
Previous series 3 term AAA advance.....	scheduled amortisation (4th instalment)	June 2010	£295,800,000
Previous series 4 term AAA advance.....	scheduled amortisation (1st instalment)	June 2010	£425,000,000
Previous series 4 term AAA advance.....	scheduled amortisation (2nd instalment)	September 2010	£425,000,000
Previous series 5 term AAA advance.....	scheduled amortisation (1st instalment)	June 2011	£250,000,000
Previous series 5 term AAA advance.....	scheduled amortisation (2nd instalment)	December 2011	£250,000,000
Previous term AA advances .....	pass-through	N.A.	N.A.
Previous term BBB advances.....	pass-through	N.A.	N.A.

**Advances made by Permanent****Financing (No. 6) PLC**

Previous series 1 term AAA advance* .....	bullet	September 2005*	£541,711,000
Previous series 2 term AAA advance.....	scheduled amortisation (1st instalment)	March 2007	£135,428,000
Previous series 2 term AAA advance.....	scheduled amortisation (2nd instalment)	June 2007	£135,428,000
Previous series 2 term AAA advance.....	scheduled amortisation (3rd instalment)	September 2007	£135,428,000
Previous series 2 term AAA advance.....	scheduled amortisation (4th instalment)	December 2007	£135,428,000
Previous series 3 term AAA advance.....	scheduled amortisation (1st instalment)	December 2007	£250,000,000
Previous series 3 term AAA advance.....	scheduled amortisation (2nd instalment)	March 2008	£250,000,000
Previous series 3 term AAA advance.....	scheduled amortisation (3rd instalment)	June 2008	£250,000,000
Previous series 3 term AAA advance.....	scheduled amortisation (4th instalment)	September 2008	£250,000,000
Previous series 4 term AAA advance.....	scheduled amortisation (1st instalment)	December 2009	£259,800,000
Previous series 4 term AAA advance.....	scheduled amortisation (2nd instalment)	March 2010	£259,800,000
Previous series 5 term AAA advances .....	pass-through	N.A.	N.A.
Previous term AA advances .....	pass-through	N.A.	N.A.
Previous term BBB advances.....	pass-through	N.A.	N.A.

**Advances made by Permanent****Financing (No. 5) PLC**

Previous series 1 term AAA advance* .....	bullet	June 2005*	£667,736,000
Previous series 2 term AAA advance.....	scheduled amortisation (1st instalment)	December 2006	£173,611,250
Previous series 2 term AAA advance.....	scheduled amortisation (2nd instalment)	March 2007	£173,611,250
Previous series 2 term AAA advance.....	scheduled amortisation (3rd instalment)	June 2007	£173,611,250
Previous series 2 term AAA advance.....	scheduled amortisation (4th instalment)	September 2007	£173,611,250
Previous series 3 term AAA advance.....	scheduled amortisation (1st instalment)	March 2009	£200,321,000
Previous series 3 term AAA advance.....	scheduled amortisation (2nd instalment)	June 2009	£200,321,000
Previous series 4 term AAA advance.....	scheduled amortisation (1st instalment)	September 2009	£333,000,000
Previous series 4 term AAA advance.....	scheduled amortisation (2nd instalment)	December 2009	£333,000,000
Previous series 5 term AAA advance.....	pass-through	N.A.	N.A.
Previous term AA advances .....	pass-through	N.A.	N.A.
Previous term BBB advances.....	pass-through	N.A.	N.A.

**Advances made by Permanent****Financing (No. 4) PLC**

Previous series 1 term AAA advance* .....	bullet	March 2005*	£803,859,000
Previous series 2 term AAA advance.....	bullet	March 2007	£1,286,174,000
Previous series 3 term AAA advance.....	scheduled amortisation (1st instalment)	December 2008	£455,520,000
Previous series 3 term AAA advance.....	scheduled amortisation (2nd instalment)	March 2009	£455,520,000
Previous series 4 term AAA advance.....	scheduled amortisation (1st instalment)	September 2009	£499,875,500
Previous series 4 term AAA advance.....	scheduled amortisation (2nd instalment)	December 2009	£499,875,500
Previous series 5 term AAA advance.....	pass-through	N.A.	N.A.
Previous term AA advances .....	pass-through	N.A.	N.A.
Previous term A advances.....	pass-through	N.A.	N.A.
Previous term BBB advances.....	pass-through	N.A.	N.A.

**Advances made by Permanent**

**Financing (No. 3) PLC**

Previous series 1 term AAA advance* ....	bullet	December 2004*	£658,500,000
Previous series 2 term AAA advance.....	bullet	September 2006	£1,018,000,000
Previous series 3 term AAA advance.....	scheduled amortisation (1st instalment)	June 2008	£449,125,000
Previous series 3 term AAA advance.....	scheduled amortisation (2nd instalment)	September 2008	£449,125,000
Previous series 4A1 term AAA advance .	scheduled amortisation (1st instalment)	March 2009	£241,375,000
Previous series 4A1 term AAA advance .	scheduled amortisation (2nd instalment)	June 2009	£241,375,000
Previous series 4A2 term AAA advance .	scheduled amortisation (1st instalment)	March 2009	£375,000,000
Previous series 4A2 term AAA advance .	scheduled amortisation (2nd instalment)	June 2009	£375,000,000
Previous series 5 term AAA advance.....	pass-through	N.A.	N.A.
Previous term AA advances .....	pass-through	N.A.	N.A.
Previous term BBB advances.....	pass-through	N.A.	N.A.

**Advances made by Permanent**

**Financing (No. 2) PLC**

Previous series 1 term AAA advance* ....	bullet	March 2004*	£633,312,000
Previous series 2 term AAA advance* ....	bullet	September 2005*	£1,108,016,000
Previous series 3 term AAA advance* ....	scheduled amortisation (1st instalment)	March 2006*	£427,187,500
Previous series 3 term AAA advance.....	scheduled amortisation (2nd instalment)	June 2006	£427,187,500
Previous series 4 term AAA advance.....	bullet	December 2007	£1,107,250,000
Previous series 5 term AAA advance.....	pass-through	N.A.	N.A.
Previous term AA advances .....	pass-through	N.A.	N.A.
Previous term BBB advances.....	pass-through	N.A.	N.A.

**Advances made by Permanent**

**Financing (No. 1) PLC**

Previous series 1 term AAA advance* ....	bullet	June 2003*	£509,614,731
Previous series 2 term AAA advance* ....	bullet	June 2005*	£509,614,731
Previous series 3 term AAA advance* ....	bullet	December 2005*	£748,299,320
Previous series 4A1 term AAA advance .	bullet	June 2007	£484,000,000
Previous series 4A2 term AAA advance .	pass-through	N.A.	N.A.
Previous term AA advances .....	pass-through	N.A.	N.A.
Previous term BBB advances.....	pass-through	N.A.	N.A.

Any bullet term advance in respect of a new issuing entity ..... as indicated in the relevant prospectus or other offering document the principal amount of that bullet term advance

Any scheduled amortisation instalment in respect of a new issuing entity ..... as indicated in the relevant prospectus or other offering document the principal amount of that scheduled amortisation instalment

\* previously repaid

**Definitions:**

**cash accumulation period** means the period beginning on the earlier of:

- the commencement of the anticipated cash accumulation period relating to the relevant accumulation amount; and
- in respect of an original bullet term advance, six months (or three months in respect of an original bullet term advance corresponding to the series 2 class A Financing notes) prior to the scheduled repayment date of that original bullet term advance, and in respect of an original scheduled amortisation instalment, three months prior (or one month in the case of the scheduled amortisation instalment relating to the previous series 2 term AAA advance by the fifth issuing entity; the previous series 2 term AAA advance and the previous series 3 term AAA advance by the sixth issuing entity; the previous series 3 term AAA advance and the previous series 5 term AAA advance by the seventh issuing entity; the previous series 3 term AAA advance, the previous series 4 term AAA advance and the previous series 5 term AAA advance by the eighth issuing entity; and the series 3 term AAA advance and the series 4 term AAA advance by Financing) to the scheduled repayment date of that original scheduled amortisation instalment,

and ending when Funding 1 has fully repaid that original bullet term advance or scheduled amortisation instalment, as applicable.

**anticipated cash accumulation period** means on any normal calculation date the anticipated number of months required to accumulate sufficient principal receipts to pay the relevant accumulation amount in relation to the relevant cash accumulation advance, which will be equal to:

$$\frac{J + K - L}{M * (N * O)}$$

calculated in months and rounded up to the nearest whole number, where:

J = the relevant accumulation amount;

K = the aggregate principal amount outstanding on that normal calculation date of:

- each bullet term advance or scheduled amortisation term advance that was not fully repaid on its scheduled repayment date; and
- each other bullet term advance or scheduled amortisation term advance, the scheduled repayment date of which falls on or before the scheduled repayment date of the relevant cash accumulation advance;

L = the amount of any available cash already standing to the credit of the cash accumulation ledger at the start of that normal calculation date plus the aggregate amount of cash accumulation requirement paid to Funding 1 since the previous Funding 1 interest payment date;

M = means the sum of each monthly CPR on the 12 most recent normal calculation dates which have occurred prior to that date divided by 12;

N = 0.85; and

O = the aggregate outstanding principal balance of the loans comprising the trust property on the previous normal calculation date.

**monthly CPR** on any normal calculation date means the total principal receipts received during the period of one month ending on that normal calculation date divided by the aggregate outstanding principal balance of the loans comprised in the trust property as at the immediately preceding normal calculation date.

**scheduled amortisation instalment** means that part of a scheduled amortisation term advance which is payable on each of the scheduled repayment dates of that term advance.

**cash accumulation requirement** means on a calculation date:

- the outstanding principal amounts in relation to each cash accumulation advance;
- plus amounts due in items (A), (B) and (C) of the Funding 1 pre-enforcement principal priority of payments;
- less the amount standing to the credit of the cash accumulation ledger at the last Funding 1 interest payment date (which amount was not distributed on that Funding 1 interest payment date to the relevant issuing entity having the cash accumulation requirement);
- less the sum of each cash accumulation requirement amount paid to Funding 1 on a previous distribution date during the relevant interest period.

The **cash accumulation ledger** means a ledger maintained by the cash manager for Funding 1, which records amounts accumulated by Funding 1 to pay relevant accumulation amounts.

**repayment requirement** means on a calculation date the amount, if any, by which:

- the aggregate of all amounts that will be payable by Funding 1 on the next Funding 1 interest payment date as described in items (D) to (G) (inclusive) of the priority of payments under “**Cashflows – Distribution of Funding 1 available principal receipts – Repayment of all term advances before a trigger event and before intercompany loan acceleration or acceleration of all notes**” on the basis:



- that there would be no deferral of term advances pursuant to Rule (1) as set out in that section;
- that where Rule (2) or Rule (3) set out in that section applies to an intercompany loan, the amount so payable by Funding 1 in respect of term advances (other than bullet term advances and scheduled amortisation instalments) under that intercompany loan shall be treated as the lesser of (A) the amount due and payable in respect of those term advances, and (B) the product of (a) the Funding 1 share percentage as at the start of the most recently ended calculation period (provided that if during the most recently ended calculation period loans and their related security are sold to the mortgages trustee or Funding 1 has acquired part of the seller's share of the trust property from the seller, then the Funding 1 share percentage will be calculated for purposes of this paragraph as the weighted average of the Funding 1 share percentages as of the first day of such calculation period and as of the date immediately after such sale or acquisition), (b) the aggregate amount of principal receipts received by the mortgages trustee during the most recently ended calculation period and (c) the outstanding principal balance of intercompany loan A (in the case of Rule (2)) or intercompany loan B (in the case of Rule (3)), divided by the aggregate outstanding principal balance of all intercompany loans, each as of the most recent Funding 1 interest payment date;
- that term advances will be treated as due and payable if they are already due and payable, or would become due and payable on or before the next Funding 1 interest payment date if all principal receipts were paid to Funding 1 on that calculation date; and
- excluding amounts due and payable in respect of bullet term advances and scheduled amortisation instalments,

exceeds the sum of:

- the amounts standing to the credit of the Funding 1 principal ledger as at the last Funding 1 interest payment date (which amount was not distributed on that Funding 1 interest payment date to Financing); and
- the sum of each repayment requirement amount paid to Funding 1 on a previous distribution date during the relevant interest period.

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

An **asset trigger event** will occur when an amount is debited to the AAA principal deficiency sub-ledger (unless such debit is made when (a) the aggregate principal amount outstanding of each of the term AA advances, the term A advances and the term BBB advances is equal to zero and (b) the sum of (i) the amount standing to the credit of the general reserve ledger and (ii) the amount standing to the credit of the Funding 1 revenue ledger together with amounts determined and due to be credited to the Funding 1 revenue ledger prior to the immediately following Funding 1 interest payment date after such debit is made, is greater than the amount necessary to pay the items in paragraphs (A) to (G) in the Funding 1 pre-enforcement revenue priority of payments on the immediately following Funding 1 interest payment date after such debit is made). For more information on the principal deficiency ledger, see "**Credit structure**".

A **non-asset trigger event** will occur on a calculation date if:

- an insolvency event occurs in relation to the seller on or about that calculation date;
- the seller's role as servicer under the servicing agreement is terminated and a new servicer is not appointed within 30 days;
- the seller share of the trust property at any time is equal to or less than the minimum seller share (in each case by reference to the most recent calculation date); or
- on any calculation date the aggregate outstanding principal balance of loans comprising the trust property at that date during the period from and including the closing date to but excluding the interest payment date in September 2009 is less than £31,000,000,000.

The definitions of “**asset trigger event**” and “**non-asset trigger event**” may change as new loans are sold to the mortgages trustee.

### **Mortgages trust calculation of principal receipts**

**Mortgages trust available principal receipts** are calculated by the cash manager on each calculation date and will be equal to the amount that is standing to the credit of the principal ledger on that calculation date. The repayment requirement and the cash accumulation requirement are calculated by the cash manager on each calculation date and the relevant amounts notified to the mortgages trustee (who will be entitled to rely on such notifications).

### **Allocation and distribution of principal receipts prior to the occurrence of a trigger event**

On each distribution date where no trigger event has occurred on or before the immediately preceding calculation date, the cash manager will apply mortgages trust available principal receipts as follows:

- (A) *first*, where Funding 1 has no cash accumulation requirement and no repayment requirement on that distribution date, all such receipts will be allocated and paid to the seller until the seller share of the trust property (as calculated on the relevant share calculation date) is equal to the minimum seller share;
- (B) *then* if Funding 1 has a cash accumulation requirement on that distribution date, such receipts will be allocated and paid to Funding 1 in an amount up to but not exceeding Funding 1’s cash accumulation requirement on that distribution date;
- (C) *then*, if Funding 1 has a repayment requirement on that distribution date, such receipts will be allocated and paid to Funding 1 in an amount up to but not exceeding Funding 1’s repayment requirement on that date; and
- (D) *finally*, the remainder, if any, of such receipts will be allocated and paid to the seller until the seller share of the trust property (as calculated on the relevant share calculation date) is equal to the minimum seller share.

### **Allocation and distribution of principal receipts on or after the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event**

On each distribution date where a non-asset trigger event has occurred on or before the immediately preceding calculation date and an asset trigger event has not occurred on or before that calculation date, the cash manager will apply mortgages trust available principal receipts as follows:

- (A) *first*, all such receipts will be allocated and paid to Funding 1 until the Funding 1 share of the trust property (as calculated on the relevant share calculation date) is zero, and
- (B) *then*, the remainder, if any, of such receipts will be allocated and paid to the seller.

Following the occurrence of a non-asset trigger event, the Financing notes will be subject to prepayment risk (that is, they may be repaid earlier than expected).

### **Allocation and distribution of principal receipts on or after the occurrence of an asset trigger event**

On each distribution date where an asset trigger event has occurred on or before the immediately preceding calculation date, the cash manager will allocate and pay mortgages trust available principal receipts, without priority among them but in proportion to the respective amounts due, to Funding 1 and the seller according to the Funding 1 percentage share of the trust property (as calculated on the relevant share calculation date) and the seller percentage share of the trust property (as calculated on the relevant share calculation date) respectively (until, in the case of Funding 1, the Funding 1 share of the trust property is zero).

Following the occurrence of an asset trigger event, the series 1 class A Financing notes, the series 2 class A Financing notes, the series 3 class A Financing notes and the series 4 class A Financing notes may not be repaid in full by their respective final maturity dates. See “**Risk factors – If an asset trigger event occurs, any class A Financing notes of any series then outstanding will not be repaid on their scheduled redemption dates**”.

## Losses

All losses arising on the loans will be applied in reducing the Funding 1 share and the seller share of the trust property. Funding 1's share and the seller's share of the losses will be determined by multiplying the amount of losses during a calculation period by the Funding 1 share percentage (as calculated on the relevant share calculation date), which will be allocated to Funding 1 (until the Funding 1 share of the trust property is zero), and the remainder, which will be allocated to the seller, on each calculation date in each case prior to calculating the allocation of mortgages trust available principal receipts on that calculation date.

## Disposal of trust property

The trust property is held on trust for the benefit of Funding 1 and the seller. Subject to the terms of the mortgages trust deed, the mortgages trustee is not entitled to dispose of the trust property or create any security interest over the trust property.

If an event of default occurs under any intercompany loan agreement (an **intercompany loan event of default**) and the security trustee determines to serve an intercompany loan acceleration notice on Funding 1, then the security trustee will be entitled, among other things, to sell Funding 1's share of the trust property. For further information on the security granted by Funding 1 over its assets, see "**Security for Funding 1's obligations**".

## Additions to trust property

The trust property may be increased from time to time by the sale of new loans and their related security to the mortgages trustee. The mortgages trustee will hold the new loans and their related security on trust for Funding 1 and the seller according to the terms of the mortgages trust deed. For further information on the sale of new loans and their related security to the mortgages trustee, see "**Sale of the loans and their related security**".

## Acquisition by Funding 1 of an increased interest in trust property

If Funding 1 enters into a new intercompany loan, then it may apply the proceeds of that new intercompany loan to make a payment to the seller so as to give rise to an increase in Funding 1's share of the trust property (and giving rise to a corresponding decrease in the seller's share of the trust property). Funding 1 will be permitted to do this only if it meets a number of conditions, including:

- that on the relevant calculation date no intercompany loan event of default under any intercompany loan agreement and no note event of default have occurred that have not been remedied or waived;
- as at the most recent Funding 1 interest payment date, no deficiency is recorded on Funding 1's principal deficiency ledger;
- the security trustee is not aware that the proposed increase in the Funding 1 share of the trust property (or the corresponding decrease in the seller share) would adversely affect the ratings at that time by the rating agencies of the current notes;
- as at the relevant calculation date, the aggregate outstanding principal balance of loans constituting the trust property, in respect of which the aggregate amount in arrears is more than three times the monthly payment then due, is less than five per cent. of the aggregate outstanding principal balance of all loans constituting the trust property;
- the seller has not received written notice that the short-term, unsecured, unguaranteed and unsubordinated debt obligations of the seller are not rated at least P-1 by Moody's, A-1 by Standard & Poor's and F1 by Fitch at the time of, and immediately following the payment made by Funding 1 on the relevant calculation date;
- the product of the WAFF and WALs for the loans constituting the trust property calculated on the relevant date in the same way as for the initial portfolio (or as agreed by the servicer and the rating agencies from time to time) does not exceed the product of the WAFF and WALs for the loans constituting the trust property calculated on the most recent previous closing date, plus 0.25 per cent.;

- the loan-to-value ratio of loans in the portfolio, after application of the LTV test on the relevant date, does not exceed the loan-to-value ratio (based on the LTV test) of loans in the portfolio on the most recent previous closing date plus 0.25 per cent.; and
- the general reserve fund has not been debited on or before the relevant date for the purposes of curing a principal deficiency in respect of the term advances in circumstances where the general reserve fund has not been replenished by a corresponding amount by the relevant date.

#### **Acquisition by seller of an interest relating to capitalised interest**

If a borrower takes a payment holiday under a loan (as permitted by the terms of the loan), then the outstanding principal balance of the loan will increase by the amount of interest that would have been paid on the relevant loan if not for such payment holiday (the **capitalised interest**).

The increase in the loan balance due to the capitalised interest will be allocated to the Funding 1 share of the trust property and to the seller share of the trust property, based on their respective percentage shares in the trust property as calculated on the previous calculation date.

Prior to an insolvency event occurring in respect of the seller, on each distribution date, the seller will make a cash payment to Funding 1 in an amount equal to Funding 1's share of the capitalised interest in respect of those loans that are subject to payment holidays. Following such payment:

- the seller share of the trust property will increase by an amount equal to the amount paid to Funding 1 for Funding 1's share of the capitalised interest, and Funding 1's share of the trust property will decrease by a corresponding amount; and
- Funding 1 will apply the proceeds of the amount paid by the seller in accordance with the Funding 1 pre-enforcement revenue priority of payments and, after enforcement of the Funding 1 security, in accordance with the Funding 1 post-enforcement priority of payments.

If an insolvency event occurs in respect of the seller, then the seller may continue to make payments to Funding 1 in an amount equal to Funding 1's share of the capitalised interest in the same manner and for the same purpose described above, but it is not obliged to do so.

#### **Payment by the seller to Funding 1 of the amount outstanding under an intercompany loan**

If the seller offers to make a payment to Funding 1 of the amount outstanding under an intercompany loan, then Funding 1 may accept that offer but only if:

- the security trustee has received written confirmation from each of the rating agencies that there would not be any adverse effect on the then current ratings of the notes if Funding 1 accepted the offer;
- Funding 1 would receive the payment on a Funding 1 interest payment date; and
- the relevant issuing entity has confirmed to Funding 1 that the proceeds of the corresponding payment made by Funding 1 to the relevant issuing entity would be applied to repay the relevant intercompany loan.

The Funding 1 share of the trust property would decrease by an amount equal to the payment made by the seller and the seller share would increase by a corresponding amount.

#### **Termination of mortgages trust**

The mortgages trust will terminate on the later to occur of:

- the date on which all amounts due from Funding 1 to its secured creditors have been paid in full; and
- any other date agreed in writing by Funding 1 and the seller.

#### **Retirement of mortgages trustee**

The mortgages trustee is not entitled to retire or otherwise terminate its appointment. The seller and Funding 1 cannot replace the mortgages trustee.

**Governing law**

The mortgages trust deed is governed by English law.

## The Financing intercompany loan agreement

8.2.2.12

The following section contains a summary of the material terms of the Financing intercompany loan agreement. The summary does not purport to be complete and is subject to the provisions of the Financing intercompany loan agreement.

The Financing intercompany loan agreement, to be entered into on or about the closing date, will provide that, subject to satisfying the conditions described in “– **Conditions to drawdown**” below, on the closing date, Financing will lend to Funding 1 an amount in sterling equal to the proceeds of the issue of the Financing notes, after converting the US dollar proceeds of the offered Financing notes into sterling at the relevant Financing dollar currency exchange rates and after converting the euro proceeds of the series 4 Financing notes into sterling at the relevant Financing euro currency exchange rate. Funding 1 will then pay the proceeds of the Financing intercompany loan to the seller as consideration for the sale of loans to the mortgages trustee.

8.3.3

The Financing intercompany loan will be split into 13 separate sub-loans, or “**Financing term advances**”, as described in the following table:

13.4.10

Financing term advance	Rating designation	Corresponding Financing notes	Corresponding Financing swap (if any)	Initial principal amount	Final repayment date
Series 1 term AAA advance	AAA	Series 1 class A	Series 1 class A	£858,230,000	March 2007
Series 1 term AA advance..	AA	Series 1 class B	Series 1 class B	£36,280,000	June 2042
Series 1 term BBB advance	BBB	Series 1 class C	Series 1 class C	£38,110,000	June 2042
Series 2 term AAA advance	AAA	Series 2 class A	Series 2 class A	£1,001,260,000	March 2015
Series 2 term AA advance..	AA	Series 2 class B	Series 2 class B	£38,800,000	June 2042
Series 2 term BBB advance	BBB	Series 2 class C	Series 2 class C	£41,660,000	June 2042
Series 3 term AAA advance	AAA	Series 3 class A	Series 3 class A	£572,150,000	June 2033
Series 3 term AA advance..	AA	Series 3 class B	Series 3 class B	£21,750,000	June 2042
Series 3 term BBB advance	BBB	Series 3 class C	Series 3 class C	£23,980,000	June 2042
Series 4 term AAA advance	AAA	Series 4 class A	Series 4 class A	£1,103,680,000	June 2033
Series 4 term AA advance..	AA	Series 4 class B	Series 4 class B	£42,220,000	June 2042
Series 4 term BBB advance	BBB	Series 4 class C	Series 4 class C	£44,570,000	June 2042
Series 5 term AAA advance	AAA	Series 5 class A	N/A	£750,000,000	June 2042
Total:				<u>£4,572,690,000</u>	

### **Ratings designations of the Financing term advances**

The rating designation of each Financing term advance reflects the rating expected to be assigned to the related class of Financing notes by the rating agencies on the closing date. Hence, the rating designation of the Financing term AAA advances, Financing term AA advances and Financing term BBB advances each reflects the rating expected to be assigned to the class A Financing notes, class B Financing notes and class C Financing notes, respectively, by the rating agencies on the closing date (although the series 1 term AAA advance will have the same rating designation as the Financing term AAA advances relating to the other series, despite the series 1 class A Financing notes having different short-term ratings than the Financing class A notes relating to other series). If, after the closing date, the rating agencies change the rating assigned to any class of the Financing notes, this will not affect the rating designation of any Financing term advances.

The Financing intercompany loan agreement will provide that, subject to satisfying the conditions in “– **Conditions to drawdown**”, the following advances will be made available by Financing to Funding 1 by way of the Financing intercompany loan made on the closing date:

- the Financing term AAA advances in an aggregate principal amount of £4,285,320,000, which will be funded by the issue of the class A Financing notes on the closing date;
  - the Financing term AA advances in an aggregate principal amount of £139,050,000, which will be funded by the issue of the class B Financing notes on the closing date;
- and

- the Financing term BBB advances in an aggregate principal amount of £148,320,000, which will be funded by the issue of the class C Financing notes on the closing date.

The money received by Funding 1 under the Financing term advances will be used by Funding 1 on the closing date, among other things, to pay the seller part of the consideration due for loans (together with their related security) sold to the mortgages trustee on the closing date, thereby increasing Funding 1's share of the trust property. Funding 1's interest in the portfolio will constitute the Funding 1 share of the trust property.

Financing will make payments of interest and principal on the Financing notes from, among other things, respective payments of interest and principal made by Funding 1 to Financing under the Financing term AAA advances, the Financing term AA advances and the Financing term BBB advances of the Financing intercompany loan and from amounts paid by the Financing swap providers to Financing under the Financing swaps.

Financing has no obligation to make any further advances to Funding 1 under the terms of the Financing intercompany loan agreement.

### **Conditions to drawdown**

Financing will not be obliged to make the advances available to Funding 1 unless the security trustee is satisfied on the closing date that a number of conditions have been met, including:

- that the Financing notes have been issued and the proceeds received by or on behalf of Financing;
- that Funding 1 has delivered a certificate certifying that it is solvent; and
- that each of the Financing transaction documents has been duly executed by the relevant parties to it.

### **Representations and agreements**

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

In addition, Funding 1 will agree that:

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

## Payments of interest

The interest rates applicable to the Financing term advances from time to time will be determined by reference to LIBOR for three-month sterling deposits (other than, in each case, in respect of the first interest period) plus or minus, in each case, a margin which will differ for each separate advance. For the first interest period, LIBOR will be determined on the basis of a linear interpolation between LIBOR for two-month and three-month sterling deposits. LIBOR for an interest period will be determined on the relevant Funding 1 interest determination date. The **Funding 1 interest determination date** will be the Funding 1 interest payment date (as described later in this section) on which the relevant interest period (as described in this section) commences or, in the case of the first interest period, the closing date.

The following table sets out details relating to the payment of interest on the Financing term advances, as described further in this section:

Series name	Designated term advance rating	Initial interest rate per annum	Step-up date	Stepped-up interest rate per annum
Series 1.....	AAA	LIBOR - 0.03930%	N/A	N/A
Series 1.....	AA	LIBOR +0.07630%	September 2012	LIBOR +0.40260%
Series 1.....	BBB	LIBOR +0.30310%	September 2012	LIBOR +0.85620%
Series 2.....	AAA	LIBOR +0.05200%	September 2012	LIBOR +0.35400%
Series 2.....	AA	LIBOR +0.14580%	September 2012	LIBOR +0.54160%
Series 2.....	BBB	LIBOR +0.40310%	September 2012	LIBOR +1.05620%
Series 3.....	AAA	LIBOR +0.11510%	September 2012	LIBOR +0.48020%
Series 3.....	AA	LIBOR +0.18820%	September 2012	LIBOR +0.62640%
Series 3.....	BBB	LIBOR +0.53110%	September 2012	LIBOR +1.31220%
Series 4.....	AAA	LIBOR +0.09750%	September 2012	LIBOR +0.44500%
Series 4.....	AA	LIBOR +0.15100%	September 2012	LIBOR +0.55200%
Series 4.....	BBB	LIBOR +0.54350%	September 2012	LIBOR +1.33700%
Series 5.....	AAA	LIBOR +0.11000%	September 2012	LIBOR +0.22000%

The initial interest rate indicated in relation to a Financing term advance in the above table shall apply to that Financing term advance for each interest period relating to that Financing term advance to and including the interest period which ends on the relevant step-up date indicated in that table in relation to that Financing term advance.

A stepped-up interest rate indicated in relation to a Financing term advance in the above table shall apply to that Financing term advance for each interest period relating to that Financing term advance from and including the interest period which starts on the Financing step-up date.

The first interest period in relation to the Financing term advances will commence on and include the closing date and end on but exclude the Funding 1 interest payment date falling in June 2006. Each subsequent interest period will commence on and include a Funding 1 interest payment date and end on but exclude the following Funding 1 interest payment date.

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

## Repayment of principal on the Financing term advances

The Financing term advances will be repaid on the dates and in the priorities described in "**Cashflows – Distribution of Funding 1 available principal receipts**". You should note that, in the circumstances described in Rule (1) of that section, payments on the Financing term AAA



advances (other than the series 1 term AAA advance), the Financing term AA advances and/or the Financing term BBB advances will be deferred.

### **Limited recourse**

Funding 1 will only be obliged to pay amounts to Financing under the Financing intercompany loan to the extent that it has funds to do so after making payments ranking in priority to amounts due on the Financing term advances.

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

If, on the final repayment date of the Financing intercompany loan, there is a shortfall between the amount required to pay all outstanding interest and/or principal on the Financing term AA advances and/or the Financing term BBB advances and the amount available to Funding 1 to make those payments, then the shortfall shall be deemed to be not due and payable under the Financing intercompany loan agreement and any claim that Financing may have against Funding 1 in respect of that shortfall will be extinguished.

### **Financing intercompany loan events of default**

The Financing intercompany loan agreement will contain events of default (each a **Financing intercompany loan event of default**), which will include, among others, the following events:

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

Investors should note that, as described in “– **Limited recourse**”, it will not be an event of default under an intercompany loan agreement (whether the previous intercompany loan agreements, the Financing intercompany loan agreement or any new intercompany loan agreement) if default is made by Funding 1 in paying amounts due under an intercompany loan agreement where Funding 1 does not have the money available to make the relevant payment. The ability of Financing to repay the Financing notes will depend upon payments to Financing from Funding 1 under the Financing intercompany loan agreement. See “**Risk factors – Failure by Funding 1 to meet its obligations under the Financing intercompany loan agreement would adversely affect payments on the Financing notes**”.

Investors should also note that an event of default by Funding 1 in respect of a previous intercompany loan and any new intercompany loan or any agreement entered into by Funding 1 in connection with that previous intercompany loan or new intercompany loan, will constitute an event of default under the Financing intercompany loan.

If a Financing intercompany loan event of default occurs, then the security trustee will be entitled to deliver a notice to Funding 1 stating that the Financing intercompany loan event of default has occurred. Upon the service of such an acceleration notice, the security trustee may

direct that the Financing term advances become immediately due and payable and/or that the Financing term advances become due and payable on the demand of the security trustee.

### **New intercompany loan agreements**

Holdings is expected to establish new issuing entities, each of which would issue new notes to investors. The Financing intercompany loan agreement will provide that Funding 1 may at any time, by written notice to the security trustee and the rating agencies, enter into a new intercompany loan agreement with a new issuing entity and draw new term advances thereunder. Each new term advance will be financed by the issue of new notes, and will only be permitted if certain conditions precedent are satisfied, including:

- each of the rating agencies confirms in writing to the security trustee that there will not, as a result of the new issuing entity issuing any new notes, be any adverse effect on the ratings of the current notes at that time by the rating agencies then rating the notes;
- no intercompany loan event of default under any intercompany loan agreement is continuing or unwaived on the date when the advance is drawn; and
- no principal deficiency is recorded on the principal deficiency ledger.

The proceeds of a new intercompany loan may only be used by Funding 1 to:

- pay the seller for new loans and their related security to be sold to the mortgages trustee, which will result in an increase in Funding 1's share of the trust property;
- pay the seller for a portion of the seller's share of the trust property, which will result in an increase in Funding 1's share of the trust property;
- refinance an intercompany loan or intercompany loans outstanding at that time, which will not result in a change in the size of Funding 1's share of the trust property (In these circumstances, Funding 1 will use the proceeds of the new intercompany loan to repay an intercompany loan outstanding at that time, which the relevant issuing entity will use to repay the relevant noteholders. If the Financing intercompany loan is refinanced in these circumstances, you could be repaid early.); and/or
- use a portion of the proceeds to make a deposit in the general reserve fund.

Each new intercompany loan agreement will be on substantially the same terms as the Financing intercompany loan agreement, except as to the amount advanced, the rating of the new notes to which the new term advances correspond, the interest rates applicable to the new term advances, the date that the new term advances are drawn and the terms for repayment.

Subject to the rules regarding the application of principal receipts by Funding 1 (see **“Cashflows – Distribution of Funding 1 available principal receipts – Repayment of all term advances before a trigger event and before intercompany loan acceleration or acceleration of all notes”**), Funding 1 shall pay interest and repay principal which is due and payable on the term advances to Financing, each previous issuing entity and each new issuing entity in a priority which will depend on the ratings of each term advance. Each term AAA advance due and payable will rank equally and proportionately, except that principal will be paid to each earliest maturing term AAA advance ahead of other term AAA advances. Payments on the term AAA advances will rank ahead of payments of interest and principal due and payable to Financing, any previous issuing entity and any new issuing entity on the term AA advances, the term A advances and the term BBB advances. Similarly, each term AA advance due and payable will rank equally and proportionately as to payment of interest and principal due and payable, ahead of payments of interest and principal due and payable on the term A advances and on the BBB advances.

Similarly, each term A advance due and payable will rank equally and proportionately as to payment of interest and principal due and payable, ahead of payments of interest and principal due and payable on the term BBB advances. Investors should note that amounts due and payable on the previous term advances and any new term advances may be paid to the previous issuing entity and to any new issuing entity ahead of payments due and payable on the Financing term advances.

### **Funding 1's bank accounts**

Funding 1 maintains two bank accounts in England in its name with Bank of Scotland. These are:

- the Funding 1 GIC account: the reserve funds are credited to this account and on each distribution date Funding 1's share of the mortgages trust available revenue receipts, any distribution of principal receipts to Funding 1 under the mortgages trust and any balance remaining in the cash accumulation ledger are initially deposited in this account. On each Funding 1 interest payment date, amounts required to meet Funding 1's obligations to its various creditors are transferred to the Funding 1 transaction account; and
- the Funding 1 transaction account: on each Funding 1 interest payment date, monies standing to the credit of the Funding 1 GIC account are, with the consent of the security trustee, transferred to the Funding 1 transaction account and applied by the cash manager in accordance with the relevant order for priority of payments. Amounts representing Funding 1's profits are retained in the Funding 1 transaction account.

These accounts may be required to be transferred to an alternative bank if the short-term, unguaranteed and unsecured ratings of the account bank fall below A-1+ by Standard & Poor's, F1+ by Fitch or P-1 by Moody's unless each rating agency confirms that its then current rating of the notes would not be adversely affected as a result of such ratings falling below these minimum ratings.

If Funding 1 makes a Funding 1 stand-by drawing under the Funding 1 liquidity facility, then Funding 1 shall open a new account in its name, subject to the terms of the Funding 1 liquidity facility agreement, called the "**Funding 1 liquidity facility stand-by account**" into which the Funding 1 stand-by drawing will be deposited. See "**Credit structure – Funding 1 liquidity facility**".

### **Governing law**

The Financing intercompany loan agreement will be governed by English law.

## Security for Funding 1's obligations

Funding 1 has granted security for its obligations under each previous intercompany loan agreement (and the other transaction documents to which it is a party) by entering into the Funding 1 deed of charge and deeds of accession with the security trustee, the cash manager, the account bank, the seller, the corporate services provider, each previous issuing entity, the Funding 1 swap provider, the Funding 1 GIC provider, the Funding 1 liquidity facility provider and each previous start-up loan provider. Together with the start-up loan provider and the other secured creditors, Financing will enter into the Financing deed of accession to the Funding 1 deed of charge which means that Financing will share in the security granted by Funding 1 under the Funding 1 deed of charge. If Funding 1 enters into new intercompany loan agreements with new issuing entities, then the new issuing entities (together with any new start-up loan providers and any new Funding 1 swap provider) will enter into deeds of accession in relation to the Funding 1 deed of charge and the second supplemental Funding 1 deed of charge. This means that they will also share in the security granted by Funding 1 under the Funding 1 deed of charge and the second supplemental Funding 1 deed of charge with the existing Funding 1 secured creditors.

The Funding 1 deed of charge has seven primary functions:

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

In addition, on 12 March 2004 Funding 1 granted additional security in favour of the security trustee for and on behalf of the Funding 1 secured creditors, to secure the same obligations as under the Funding 1 deed of charge (the **additional Funding 1 security**). The additional security was granted under the second supplemental Funding 1 deed of charge which was supplemental to the Funding 1 deed of charge. The second supplemental Funding 1 deed of charge contains certain Scots law provisions and is principally governed by English law. It will be enforceable in the same circumstances as the Funding 1 deed of charge and the proceeds of enforcement of the second supplemental Funding 1 deed of charge (if any) will be applied in the order set out in the Funding 1 deed of charge. By their execution of the Financing deed of accession, the parties thereto will also accede to the second supplemental Funding 1 deed of charge.

The following section contains a summary of the material terms of the Funding 1 deed of charge. The summary does not purport to be complete and is subject to the provisions of the Funding 1 deed of charge.

### Covenants of Funding 1

The Funding 1 deed of charge contains covenants made by Funding 1 in favour of the security trustee on trust for the benefit of itself, any receiver of Funding 1 and the Funding 1 secured creditors. The main covenants are that Funding 1 will pay all amounts due to each of the Funding 1 secured creditors as they become due (subject to the limited recourse provisions of each intercompany loan) and that it will comply with its other obligations under the transaction documents.

## **Funding 1 security**

Under the Funding 1 deed of charge, Funding 1 has created the following security interests in favour of the security trustee for and on behalf of the secured creditors (also known as, except where the context requires otherwise, the **Initial Funding 1 security** and together with the additional Funding 1 security, the **Funding 1 security**) in respect of all the intercompany loans outstanding at any one time and Funding 1's obligations under the transaction documents to which it is a party:

- an assignment (which is likely to take effect as a floating charge) of the Funding 1 share of the trust property;
- an assignment (which is likely to take effect as a floating charge) of all of its right, benefit and interest in the transaction documents to which Funding 1 is a party from time to time;
- a first ranking fixed charge (which is likely to take effect as a floating charge) over all of the right, title, interest and benefit of Funding 1 in the Funding 1 GIC account, the Funding 1 transaction account and the Funding 1 liquidity facility stand-by account, all amounts standing to the credit of those accounts from time to time and all authorised investments purchased from those accounts including all monies and income payable under them; and
- a first floating charge over all of the property, assets and undertaking of Funding 1 not otherwise secured by any fixed security interest detailed above.

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

Whether a fixed security interest expressed to be created by the Funding 1 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 over the chargors' 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. However, it is likely that the security trustee does not exert sufficient control over the accounts of Funding 1 for the charges over those account to take effect as fixed charges. In addition, any assignment, charge or security granted over an asset which is expressed to be a fixed charge may be characterised as a floating charge if the proceeds thereof are paid into a bank account over which the security trustee is not deemed to have sufficient control. Such is likely to be the case in this transaction.

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

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

The Funding 1 deed of charge was created prior to 15 September 2003. Accordingly, the floating charge created by the Funding 1 deed of charge allows the security trustee to appoint an administrative receiver of Funding 1 and thereby prevent the appointment of an administrator or receiver of Funding 1 by one of Funding 1's other creditors. This ensures that in the event that enforcement proceedings are commenced in respect of amounts due and owing by Funding 1, the security trustee will be entitled to control those proceedings in the best interests of the Funding 1 secured creditors.

The floating charge created by the supplemental Funding 1 deed of charge was created after 15 September 2003. However, as the secured creditors under the supplemental Funding 1 deed of charge are the same as the secured creditors under the Funding 1 deed of charge, they can rely

on the security trustee's ability to appoint an administrative receiver of Funding 1 under the Funding 1 deed of charge as set out below.

The existence of the floating charge allows the security trustee to appoint an administrative receiver of Funding 1 in certain circumstances and thereby prevent the appointment of an administrator or receiver of Funding 1 by one of Funding 1's other creditors which allows the security trustee to control proceedings in the event Funding 1's other creditors seek such action.

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

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

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

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

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

As new issuing entities are established to issue new notes and accordingly to make new term advances to Funding 1, those new issuing entities (together with any new start-up loan providers and any new Funding 1 swap providers and any new Funding 1 liquidity facility provider) will enter into deeds of accession in relation to the Funding 1 deed of charge which will amend the Funding 1 pre-enforcement revenue priority of payments, the Funding 1 pre-enforcement principal priority of payments (including those priorities of payments applying if a trigger event occurs or if a note acceleration notice is served on one or more of the issuing entities), and the Funding 1 post-enforcement priority of payments to reflect the amounts due to the new issuing entity and any new start-up loan provider and any new Funding 1 swap provider and any new Funding 1 liquidity facility provider. The ranking of those new amounts due will be as follows:

- subject to the rules regarding the application of principal receipts by Funding 1 (see **“Cashflows – Distribution of Funding 1 available principal receipts – Repayment of all term advances before a trigger event and before intercompany loan acceleration or acceleration of all notes”**), all amounts due and payable to Financing, the previous issuing entities and any new issuing entities will be paid, subject to their relevant repayment dates, in order of the respective rating designations of their term advances, from highest to lowest;
- all Funding 1 swap providers will rank without priority among themselves but in proportion to the respective amounts due to them;

- all start-up loan providers will rank without priority among themselves but in proportion to the respective amounts due to them; and
- all Funding 1 liquidity facility providers will rank without priority among themselves but in proportion to the respective amounts due to them.

### **Enforcement**

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

The Funding 1 deed of charge requires the security trustee to consider the interests of each of the Funding 1 secured creditors as to the exercise of its powers, trusts, authorities, duties and discretions, but requires the security trustee in the event of a conflict between the interests of Financing, the previous issuing entities and any new issuing entities and the interests of any other Funding 1 secured creditors, to consider only, unless stated otherwise, the interests of Financing, the previous issuing entities and any new issuing entities.

As among Financing, the previous issuing entities and any new issuing entities, the security trustee will exercise its rights under the Funding 1 deed of charge only in accordance with the directions of Financing, the previous issuing entities and/or the new issuing entity(ies) with the term advances with the highest rating designation. If Financing, the previous issuing entities and/or any new issuing entities with term advances of equal rating designations give conflicting directions, then the security trustee will act in accordance with the directions of Financing, any previous issuing entity or new issuing entity (or two or more of them if in agreement) with the largest aggregate principal amount outstanding of term advances with the highest rating designation. In all cases, the security trustee will only act if it is indemnified and/or secured to its satisfaction.

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

- a sufficient amount would be realised to allow a full and immediate discharge of all amounts owing in respect of the term AAA advances – including the term AAA advances made under the Financing intercompany loan, each previous intercompany loan and any new intercompany loans (or, once these term AAA advances have been repaid, the term advances with the next highest rating designation, and so on); or
- the security trustee is of the sole opinion that the cashflow expected to be received by Funding 1 will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of Funding 1, to discharge in full over time all amounts owing in respect of the term AAA advances, including the term AAA advances made under the Financing intercompany loan, the previous intercompany loans and any new intercompany loans (or, once these term AAA advances have been repaid, the term advances with the next highest rating designation, and so on).

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

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

The Funding 1 deed of charge sets out the priority of distribution as at the closing date by the security trustee, following service of an intercompany loan acceleration notice, of amounts received or recovered by the security trustee or a receiver appointed on its behalf. This priority is described in “**Cashflows – Distribution of Funding 1 principal receipts and Funding 1 revenue receipts following intercompany loan acceleration**”.

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

Any deeds of accession will amend the Funding 1 post-enforcement priority of payments to reflect the amounts due to the new issuing entity and any new start-up loan provider and any new Funding 1 swap provider or any other relevant creditor that has acceded to the terms of the Funding 1 deed of charge. The prior consent of noteholders and other secured creditors of Funding 1 and Financing will not be obtained in relation to the accession of a new issuing entity or other relevant creditor to the Funding 1 deed of charge. The Funding 1 deed of charge will direct the security trustee to execute any deed of accession for and on behalf of the Funding 1 secured creditors, provided that the conditions precedent to the creation of a new intercompany loan have been satisfied.

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

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

The security trustee may, without the consent or sanction of Funding 1's secured creditors, concur with any person in making or sanctioning any modifications to the transaction documents:

- which in the opinion of the security trustee it may be expedient to make, provided that the security trustee is of the opinion acting reasonably that such modification will not be materially prejudicial to the interests of the secured creditors or, if it is not of that opinion in relation to any secured creditor, such secured creditor has given its consent to such modification; or
- which in the opinion of the security trustee is made to correct a manifest error or an error established as such to the satisfaction of the security trustee or is of a formal, minor or technical nature.

The security trustee will be entitled to assume that the exercise of its discretions will not be materially prejudicial to the interests of the noteholders if each of the rating agencies has confirmed that the then current rating by it of the current notes would not be adversely affected by such exercise.

In addition, the security trustee will give its consent to any modifications to the mortgage sale agreement, the servicing agreement, the cash management agreement, the Funding 1 deed of charge, the Funding 1 liquidity facility agreement, the Funding 1 swap agreement, the intercompany loan terms and conditions, the bank account agreement and the master definitions and construction schedule, that are requested by Funding 1 or the cash manager, provided that Funding 1 or the cash manager certifies to the security trustee that such modifications are required in order to accommodate:

- (i) the entry by Funding 1 into new intercompany loan agreements, and/or the issue of new types of notes by new issuing entities and/or the addition of other relevant creditors to the transaction;
- (ii) the inclusion of Funding 2 as a beneficiary of the mortgages trust;
- (iii) the issue (directly or indirectly) of new notes by Funding 2;
- (iv) the sale of new types of loans or mortgages to the mortgages trustee;
- (v) changes to be made to the general reserve fund required amount, the liquidity reserve fund required amount and/or the manner in which the reserve funds are funded;
- (vi) changes to be made to the definitions of asset trigger event and non-asset trigger event; and
- (vii) the addition of an additional Funding 1 liquidity facility in the circumstances described in **“Credit structure – Additional Funding 1 liquidity facility”**,



and provided further that:

- in respect of the matters listed in paragraphs (i) to (iv), the relevant conditions precedent to, as applicable, the addition of new issuing entities, the inclusion of Funding 2 as a beneficiary of the mortgages trust or the sale of new loans to the mortgages trustee, have been satisfied; and
- in respect of the matters listed in paragraphs (i) to (vii) the security trustee has received written confirmation from each of the rating agencies then rating the current notes that the relevant modifications will not adversely affect the then current ratings of the notes.

The actual consent of the Funding 1 liquidity facility provider, the Funding 1 swap provider and the Financing swap providers will be required in order to make the changes described above (subject to the terms of the Financing transaction documents).

### ***Security trustee's fees and expenses***

Funding 1 shall reimburse the security trustee for all its costs and expenses properly incurred in acting as security trustee. The security trustee shall be entitled to a fee payable quarterly in the amount agreed from time to time by the security trustee and Funding 1. Funding 1 has agreed to indemnify the security trustee and each of its officers, employees and advisers from and against all claims, actions, proceedings, demands, liabilities, losses, damages, costs and expenses arising out of or in connection with:

- the transaction documents; or
- the security trustee's engagement as security trustee,

which it or any of its officers, employees or advisers may suffer as a result of Funding 1 failing to perform any of its obligations.

Funding 1 will not be responsible under the Funding 1 deed of charge for any liabilities, losses, damages, costs or expenses resulting from fraud, negligence or wilful default by the security trustee or any of its officers, employees or advisers.

### ***Retirement and removal***

Subject to the appointment of a successor security trustee, the security trustee may retire after giving three months' notice in writing to Funding 1. In order to be eligible to act as security trustee, such successor security trustee must agree to be bound by the terms of the Funding 1 deed of charge and must meet the applicable eligibility requirements under the Funding 1 deed of charge, including the requirement that it satisfies the minimum capitalisation and other applicable conditions in regards to trustee eligibility set forth in the United States Investment Company Act of 1940, as amended. If within 60 days of having given notice of its intention to retire, Funding 1 has failed to appoint a replacement security trustee, the outgoing security trustee will be entitled to appoint its successor (provided that such successor is acceptable to the rating agencies and agrees to be bound by the terms of the Funding 1 deed of charge, and further provided that such rating agencies confirm that the current ratings of the notes shall not be either downgraded, reviewed or withdrawn as a result of such appointment).

Funding 1 may remove the security trustee at any time provided that it has the consent, which must not be unreasonably withheld or delayed, of each of the Funding 1 secured creditors to the removal.

In addition, the security trustee may, subject to conditions specified in the Funding 1 deed of charge, appoint a co-trustee to act jointly with it.

### ***Additional provisions of the Funding 1 deed of charge***

The Funding 1 deed of charge contains a range of provisions regulating the scope of the security trustee's duties and liabilities. These include the following:

- the security trustee is not responsible for the adequacy or enforceability of the Funding 1 deed of charge or the security interests created thereby or any other transaction document;

- the security trustee is not required to exercise its powers under the Funding 1 deed of charge without being directed to do so by Financing or the other Funding 1 secured creditors;
- the security trustee may rely (without investigation or further inquiry) on documents provided by the mortgages trustee, Funding 1 and the cash manager, the ratings agencies and the advice of consultants and advisers and shall not be liable for any loss or damage arising as a result of such reference;
- the security trustee is not required to monitor compliance by Funding 1 with the transaction documents or whether an intercompany loan event of default under any intercompany loan has occurred (and will be taken not to have knowledge of the occurrence thereof unless notified by a Funding 1 secured creditor in accordance with the Funding 1 deed of charge);
- the security trustee will be taken not to have knowledge of the occurrence of an intercompany loan event of default under any intercompany loan unless the security trustee has received written notice from a Funding 1 secured creditor stating that an intercompany loan event of default has occurred and describing that intercompany loan event of default;
- any action taken by the security trustee under the Funding 1 deed of charge or any transaction document binds all of the Funding 1 secured creditors;
- each Funding 1 secured creditor must make its own independent investigations without reliance on the security trustee, as to the affairs of Funding 1 and whether or not to request that the security trustee take any particular course of action under any transaction document;
- the security trustee generally has no liability under or in connection with the Funding 1 deed of charge or any other transaction document, whether to a Funding 1 secured creditor or otherwise, other than to the extent to which (1) the liability is able to be satisfied in accordance with the Funding 1 deed of charge out of the property held by it on trust under the Funding 1 deed of charge and (2) it is actually indemnified for the liability; and
- the security trustee is not responsible for any deficiency which may arise because it is liable to tax in respect of the proceeds of security.

The security trustee has had no involvement in the preparation of any part of this offering circular, other than any particular reference to the security trustee. The security trustee expressly disclaims and takes no responsibility for any other part of this offering circular. The security trustee makes no statement or representation in this offering circular, has not authorised or caused the issue of any part of it and takes no responsibility for any part of it. The security trustee does not guarantee the performance of the Financing notes or the payment of principal or interest on the Financing notes.

### **Governing law**

The Funding 1 deed of charge is governed by English law. The second supplemental Funding 1 deed of charge is governed by English law.

## Security for Financing's obligations

Financing will provide security for its obligations by entering into the Financing deed of charge with the Financing secured creditors, who are the security trustee, noteholders, the note trustee, the paying agents, the registrar, the transfer agent, the agent bank, the Financing swap providers, the corporate services provider under the Financing corporate services agreement, the Financing cash manager and the Financing account bank.

The Financing deed of charge has five primary functions:

- it sets out covenants of Financing;
- it creates security interests in favour of the security trustee which the security trustee then holds on trust for each of the Financing secured creditors;
- it sets out the enforcement procedures relating to a default by Financing of its covenants under the transaction documents (including the appointment of a receiver);
- it sets out the order in which the security trustee applies monies standing to the credit of Financing transaction account both prior to and following the service of a note acceleration notice on Financing; and
- it sets out the appointment of the security trustee, its powers and responsibilities and the limitations on those responsibilities.

The following section contains a summary of the material terms of the Financing deed of charge. The summary does not purport to be complete and is subject to the provisions of the Financing deed of charge.

### Covenants of Financing

The Financing deed of charge contains covenants made by Financing in favour of the security trustee on trust for the benefit of itself, any receiver of Financing and the Financing secured creditors. The main covenants are that Financing will pay all amounts due to each of the Financing secured creditors as they become due and that it will comply with its other obligations under the Financing transaction documents.

### Financing security

Under the Financing deed of charge, Financing creates the following security interests in favour of the security trustee for and on behalf of the secured creditors in respect of its obligations:

- an assignment (which is likely to take effect as a floating charge) of all of Financing's right, benefit and interest under the Financing transaction documents to which it is a party, including the Financing intercompany loan agreement, the Funding 1 deed of charge, the Financing swap agreements, the paying agent and agent bank agreement, the purchase agreement, the subscription agreement, the Financing corporate services agreement, the Financing bank account agreement, the Financing cash management agreement and the trust deed;
- a first ranking fixed charge (which is likely to take effect as a floating charge) over all of Financing's right, title, interest and benefit present and future in Financing's transaction account and any amounts deposited in them from time to time;
- a first ranking fixed charge (which is likely to take effect as a floating charge) over all of Financing's right, title, interest and benefit in all authorised investments made by or on behalf of Financing, including all monies and income payable under them; and
- a first floating charge over all of Financing's property, assets and undertaking not already secured under the security interests described above (including all of Financing's property, assets and undertaking situated in Scotland or governed by Scots law).

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

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 over the chargors' 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. However, it is likely that the security trustee does not exert sufficient control over the accounts of Financing for the charges over those accounts to take effect as fixed charges. In addition, any assignment, charge or security granted over an asset which is expressed to be a fixed charge may be characterised a floating charge if the proceeds thereof are paid into a bank account over which the security trustee is not deemed to have sufficient control. Such may be the case in this transaction.

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

Unlike the fixed charges, the floating charge does not attach to specific assets but instead "floats" over a class of assets which may change from time to time, allowing Financing 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 Financing's business. Any assets acquired by Financing after the closing date (including assets acquired as a result of the disposition of any other assets of Financing) which are not subject to fixed charges described in the preceding section (including all of Financing's Scottish assets) will also be subject to the floating charge.

The floating charge created by the Financing deed of charge allows the security trustee to appoint an administrative receiver of Financing and thereby prevent the appointment of an administrator or receiver of Financing by one of Financing's other creditors. We expect that an appointment of an administrative receiver by the security trustee under the Financing deed of charge will not be prohibited by Section 72A of the Insolvency Act as the appointment will fall within the exception set out under Section 72B of the Insolvency Act (First Exception: Capital Markets). Therefore, in the event that enforcement proceedings are commenced in respect of amounts due and owing by Financing, the security trustee will be entitled to control those proceedings in the best interest of the Financing secured creditors. However, see "**Risk factors – Changes of law may adversely affect your interests**" relating to the appointment of administrative receivers.

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

The floating charge created by the Financing deed of charge may "crystallise" and become a fixed charge over the relevant class of assets owned by Financing at the time of crystallisation. Except in relation to Financing's Scottish assets, crystallisation will occur automatically following the occurrence of specific events set out in the Financing deed of charge, including, among other events, notice to Financing from the security trustee following an event of default under the Financing notes. In relation to Financing's Scottish assets crystallisation will occur on the appointment of an administrative receiver or on the commencement of the winding-up of Financing. A crystallised floating charge will rank ahead of the claims of unsecured creditors which are in excess of the prescribed part but will rank behind the expenses of any liquidation or administration,

the claims of preferential creditors and the beneficiaries of the prescribed part on enforcement of the Financing security.

## **Enforcement**

The Financing deed of charge sets out the general procedures by which the security trustee may take steps to enforce the security created by Financing so that the security trustee can protect the interests of each of the Financing secured creditors.

The Financing deed of charge requires the security trustee to consider the interests of each of the Financing secured creditors as to the exercise of its powers, trusts, authorities, duties and discretions, but requires the security trustee in the event of a conflict between the interests of the noteholders and the interests of any other Financing secured creditor, to consider only, unless stated otherwise, the interests of the noteholders. As among noteholders, the security trustee will exercise its rights under the Financing deed of charge only in accordance with the directions of the class of noteholders with the highest class designation. If there is a conflict between the interests of the class A noteholders of one series and the class A noteholders of another series, or a conflict between the interests of class B noteholders of one series and the class B noteholders of another series or a conflict between the interests of the class C noteholders of one series and the class C noteholders of another series then a resolution directing the security trustee to take any action must be passed at separate meetings of the holders of each series of the class A Financing notes or, as applicable, each series of the class B Financing notes or each series of the class C Financing notes. In all such cases, the security trustee will only act if it is indemnified and/or secured to its satisfaction.

The Financing security will become enforceable at any time following the service of a Financing note acceleration notice on Financing or if there are no Financing notes outstanding, following a default in payment of any other secured obligation of Financing, provided that, if the Financing security has become enforceable otherwise than by reason of a default in payment of any amount due on the Financing notes, the security trustee will not be entitled to dispose of all or part of the assets comprised in the Financing security unless either:

- a sufficient amount would be realised to allow a full and immediate discharge of all amounts owing in respect of the class A Financing notes or, if the class A Financing notes have been fully repaid, the class B Financing notes or, if the class B Financing notes have been fully repaid, the class C Financing notes; or
- the security trustee is of the sole opinion that the cashflow expected to be received by Financing 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 Financing, to discharge in full over time all amounts owing in respect of the class A Financing notes or, if the class A Financing notes have been fully repaid, the class B Financing notes or, if the class B Financing notes have been fully repaid, the class C Financing notes.

Each of the Financing secured creditors (other than the noteholders, the note trustee acting on behalf of the noteholders and the security trustee) will agree under the Financing deed of charge that they will not take steps directly against Financing (other than in accordance with the transaction documents) for any amounts owing to them, unless the security trustee has become bound to enforce the Financing security but has failed to do so within 30 business days of becoming so bound.

The security interests expressed to be created by Financing under the Financing deed of charge are binding on the creditors and a liquidator or an administrator of Financing. Accordingly, in a liquidation or administration of Financing, neither Financing nor any of its creditors nor a liquidator or administrator of Financing would be able to contest successfully the validity of such security, although that security may be subject to restrictions on enforcement. Financing's and the security trustee's (as trustee for the Financing secured creditors) respective interests may, however, be or become subject to prior third party rights, claims or interests. Neither a creditor of Financing nor its liquidator or administrator would be able to challenge successfully the priority of the application of payments on enforcement of the Financing deed of charge.

### **Financing post-enforcement priority of payments**

The Financing deed of charge sets out the priority of distribution by the security trustee, following service of a Financing note acceleration notice, of amounts received or recovered by the security trustee (or a receiver appointed on its behalf). There are two separate payment orders of priority depending on whether the Funding 1 security has also been enforced. These orders of priority are described in “**Cashflows**”.

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

The security trustee is appointed to act as trustee on behalf of the Financing secured creditors on the terms and conditions of the Financing deed of charge. It holds the benefit of the security created by the Financing deed of charge on trust for each of the Financing secured creditors in accordance with the terms and conditions of the Financing deed of charge.

The security trustee may, without the consent or sanction of the Financing secured creditors, concur with any person in making or sanctioning any modifications to the transaction documents:

- which in the opinion of the security trustee it may be expedient to make, provided that the security trustee is of the opinion that such modification will not be materially prejudicial to the interests of the secured creditors or, if it is not of that opinion in relation to any secured creditor, such secured creditor has given its written consent to such modification; or
- which in the opinion of the security trustee is made to correct a manifest error or an error established as such to the satisfaction of the security trustee or is of a formal, minor or technical nature.

The security trustee will be entitled to assume that the exercise of its rights, powers, duties and discretions will not be materially prejudicial to the interests of the noteholders if each of the rating agencies has confirmed that the then current rating by it of the notes would not be adversely affected by such exercise.

In addition, the security trustee will give its consent to any modifications to the mortgage sale agreement, the servicing agreement, the cash management agreement, the Funding 1 deed of charge, the Funding 1 liquidity facility agreement, the Funding 1 swap agreement, the intercompany loan terms and conditions, the bank account agreement and the master definitions and construction schedule, that are requested by Funding 1 or the cash manager, provided that Funding 1 or the cash manager certifies to the security trustee in writing that such modifications are required in order to accommodate:

- (i) the entry by Funding 1 into new intercompany loan agreements and/or the addition of other relevant creditors to the transaction documents;
- (ii) the issue of new types of notes by new issuing entities;
- (iii) the inclusion of Funding 2 as a beneficiary of the mortgages trust;
- (iv) the issue (directly or indirectly) of new notes by Funding 2;
- (v) the sale of new types of loans or mortgages to the mortgages trustee;
- (vi) changes to be made to the general reserve fund required amount, the liquidity reserve fund required amount and/or the manner in which the reserve funds are funded;
- (vii) changes to be made to the definitions of asset trigger event and non-asset trigger event; and
- (viii) the addition of an additional Funding 1 liquidity facility in the circumstances described in “**Credit structure – Additional Funding 1 liquidity facility**”,

and provided further that:

- in respect of the matters listed in paragraphs (i) to (v), the relevant conditions precedent to, as applicable, the addition of new issuing entities, the inclusion of Funding 2 as a beneficiary of the mortgages trust or the sale of new loans to the mortgages trustee, have been satisfied; and

- in respect of the matters listed in paragraphs (i) to (viii), the security trustee has received written confirmation from each of the rating agencies then rating the notes that the relevant modifications will not adversely affect the then current ratings of the current notes.

The actual consent of the Funding 1 liquidity facility provider, the Funding 1 swap provider and the Financing swap providers will be required in order to make the changes described above (subject to the terms of the Financing transaction documents).

#### ***Security trustee's fees and expenses***

Financing will reimburse the security trustee for all its costs and expenses properly incurred in acting as security trustee. The security trustee shall be entitled to a fee payable quarterly in the amount agreed from time to time by the security trustee and Financing. Financing has agreed to indemnify the security trustee and each of its officers, employees and advisers from and against all claims, actions, proceedings, demands, liabilities, losses, damages, costs and expenses arising out of or in connection with:

- the Financing transaction documents; or
- the security trustee's engagement as security trustee,

which it or any of its officers, employees or advisers may suffer as a result of Financing failing to perform any of its obligations.

Financing will not be responsible under the Financing deed of charge for any liabilities, losses, damages, costs or expenses resulting from the fraud, negligence or wilful default on the part of the security trustee or any of its officers, employees and advisers or breach by them of the terms of the Financing deed of charge.

#### ***Retirement and removal***

Subject to the appointment of a successor security trustee, the security trustee may retire after giving three months' notice in writing to Financing. In order to be eligible to act as security trustee, such successor security trustee must agree to be bound by the terms of the Financing deed of charge and must meet the applicable eligibility requirements under the Financing deed of charge, including the requirement that it satisfies the minimum capitalisation and other applicable conditions in regards to trustee eligibility set forth in the United States Investment Company Act of 1940, as amended. If within 60 days of having given notice of its intention to retire, Financing has failed to appoint a replacement security trustee, the outgoing security trustee will be entitled to appoint its successor (provided that such successor is acceptable to the rating agencies and agrees to be bound by the terms of the Financing deed of charge, and further provided that rating agencies confirm that the current ratings of the notes shall not be either downgraded, reviewed or withdrawn as a result of such appointment).

Financing may remove the security trustee at any time providing that it has the consent, which must not be unreasonably withheld or delayed, of each of the Financing secured creditors to the removal.

In addition, the security trustee may, subject to the conditions specified in the Financing deed of charge, appoint a co-trustee to act jointly with it.

#### ***Additional provisions of the Financing deed of charge***

The Financing deed of charge contains a range of provisions regulating the scope of the security trustee's duties and liability. These include the following:

- the security trustee will, if reasonably practicable, give prior written notification to the seller of the security trustee's intention to enforce the Financing security (although any failure to so notify will not prejudice the ability of the security trustee to enforce the Financing security);
- the security trustee is not responsible for the adequacy or enforceability of the Financing deed of charge or the security interests created thereby or any other Financing transaction document;

- the security trustee is not required to exercise its powers under the Financing deed of charge without being directed or requested to do so by an extraordinary resolution of the noteholders or in writing by the holders of at least 25 per cent. of the aggregate principal amount outstanding of the Financing notes then outstanding or by any other Financing secured creditor (and then only to the extent that it is indemnified and/or secured to its satisfaction) provided that:
  - (i) the security trustee will not act at the direction or request of the class B noteholders unless either so to do would not, in its sole opinion, be materially prejudicial to the interests of the class A noteholders or the action is sanctioned by an extraordinary resolution of the class A noteholders;
  - (ii) the security trustee will not act at the direction or request of the class C noteholders unless either so to do would not, in its sole opinion, be materially prejudicial to the interests of the class A noteholders and/or the class B noteholders or the action is sanctioned by extraordinary resolutions of the class A noteholders and/or the class B noteholders, as the case may be; and
  - (iii) the security trustee will not act at the direction or request of any other Financing secured creditor unless so to do would not, in its sole opinion, be materially prejudicial to the interests of the noteholders or the action is sanctioned by extraordinary resolutions of the noteholders and each of the other relevant secured creditors that ranks ahead of that Financing secured creditor (in Financing post-enforcement priority of payments) also consents to that action;
- the security trustee may rely (without investigation or further inquiry) on documents provided by Financing, the Financing cash manager, the Financing swap providers, the agent bank, the paying agents, the registrar, the transfer agent, the Financing account bank, the corporate services provider, the rating agencies and the advice of consultants and advisers and shall not be liable for any loss or damage arising as a result of such reliance;
- the security trustee is not required to monitor whether a Financing note event of default has occurred or compliance by Financing with the Financing transaction documents;
- the security trustee will be taken not to have knowledge of the occurrence of a Financing note event of default unless the security trustee has received written notice from a Financing secured creditor stating that a Financing note event of default has occurred and describing that Financing note event of default;
- the security trustee may rely (without investigation or further inquiry) on any instructions or directions given to it by the note trustee as being given on behalf of the relevant class of noteholders without inquiry about compliance with the trust deed and shall not be liable for any loss or damage arising as a result of such reliance;
- the security trustee has no duties or responsibilities except those expressly set out in the Financing deed of charge or the Financing transaction documents;
- any action taken by the security trustee under the Financing deed of charge or any of the Financing transaction documents binds all of the Financing secured creditors;
- each Financing secured creditor must make its own independent investigations, without reliance on the security trustee, as to the affairs of Financing and whether or not to request that the security trustee take any particular course of action under any Financing transaction document;
- the security trustee in a capacity other than as security trustee can exercise its rights and powers as such as if it were not acting as the security trustee;
- the security trustee and its affiliates may engage in any kind of business with Financing or any of the Financing secured creditors as if it were not the security trustee and may receive consideration for services in connection with any Financing transaction document or otherwise without having to account to the Financing secured creditors;



- the security trustee has no liability under or in connection with the Financing deed of charge or any other Financing transaction document, whether to a Financing secured creditor or otherwise, (1) other than to the extent to which the liability is able to be satisfied in accordance with the Financing deed of charge out of the property held by it on trust under the Financing deed of charge and (2) it is actually indemnified for the liability. This limitation of liability does not apply to a liability of the security trustee to the extent that it is not satisfied because there is a reduction in the extent of the security trustee's indemnification as a result of its fraud, negligence, wilful misconduct or breach of the terms of the Financing deed of charge; and
- the security trustee is not responsible for any deficiency which may arise because it is liable to tax in respect of the proceeds of security.

The security trustee has had no involvement in the preparation of any part of this offering circular, other than any particular reference to the security trustee. The security trustee expressly disclaims and takes no responsibility for any other part of this offering circular. The security trustee makes no statement or representation in this offering circular, has not authorised or caused the issue of any part of it and takes no responsibility for any part of it. The security trustee does not guarantee the success of the Financing notes or the payment of principal or interest on the Financing notes.

### **Governing law**

The Financing deed of charge will be governed by English law.

## Cashflows

8.3.4.1  
8.3.4.6  
8.3.4.7

### Definition of Funding 1 available revenue receipts

**Funding 1 available revenue receipts** for each Funding 1 interest payment date will be calculated by the cash manager on the day falling four business days prior to such Funding 1 interest payment date and will be an amount equal to the sum of:

- all mortgages trust available revenue receipts distributed or to be distributed to Funding 1 during the then current interest period;
- any amounts paid or to be paid by the seller to Funding 1 during the then current interest period in consideration of the seller acquiring a further interest in the trust property (see “**The mortgages trust – Acquisition by seller of an interest relating to capitalised interest**”);
- other net income of Funding 1 including all amounts of interest received on the Funding 1 GIC account, the Funding 1 transaction account and/or authorised investments (as defined in the Glossary) and amounts received by Funding 1 under the Funding 1 swap agreement (other than any early termination amount received by Funding 1 under the Funding 1 swap agreement), in each case to be received during the then current interest period;
- the amounts then standing to the credit of the general reserve ledger;
- if a liquidity reserve fund rating event has occurred and is continuing, and there are no amounts standing to the credit of the general reserve ledger, the amounts then standing to the credit of the liquidity reserve ledger and available to be drawn, to the extent necessary to pay the items in paragraphs (A) to (F), (H), (J) and (L) in the Funding 1 pre-enforcement revenue priority of payments;
- if a liquidity reserve fund rating event has occurred but is no longer continuing due to an increase in the seller’s rating since the preceding Funding 1 interest payment date, and Funding 1 elects to terminate the liquidity reserve fund, all amounts standing to the credit of the liquidity reserve ledger; and
- any amounts standing to the credit of the liquidity reserve ledger in excess of the liquidity reserve fund required amount as a result of a reduction in the liquidity reserve fund required amount;

Funding 1 available revenue receipts does not include:

- any payment made by the seller to Funding 1 on such Funding 1 interest payment date as described in “**The mortgages trust – Payment by the seller to Funding 1 of the amount outstanding under an intercompany loan**”; and
- any proceeds of a new intercompany loan received by Funding 1 during the then current interest period as described in “**The Financing intercompany loan agreement – New intercompany loan agreements**”.

Four business days prior to each Funding 1 interest payment date, the cash manager will calculate whether Funding 1 available revenue receipts (as calculated above) will be sufficient to pay items (A) to (F), (H), (J) and (L) of the Funding 1 pre-enforcement revenue priority of payments.

If the cash manager determines that there is an insufficiency, then Funding 1 shall pay or provide for that insufficiency by applying amounts then standing to the credit of (a) first, the Funding 1 principal ledger, if any, and (b) second, any amounts standing to the credit of the cash accumulation ledger after deducting the amounts standing to the credit of the Funding 1 principal ledger (if any) from such ledger, and the cash manager shall make a corresponding entry in the relevant principal deficiency ledger, as described in “**Credit structure – Principal deficiency ledger**”. Funding 1 principal receipts thus applied may not be used to pay interest on any term advance if and to the extent that would result in a deficiency being recorded or an existing deficiency being increased, on a principal deficiency sub-ledger relating to a term advance with a higher rating designation. If there are no (or insufficient) amounts standing to the credit of the

Funding 1 principal ledger and the cash accumulation ledger to cure such insufficiency (referred to as an uncured Funding 1 revenue shortfall), then the cash manager will direct Funding 1 to request a drawing under the Funding 1 liquidity facility to apply towards the revenue shortfall in accordance with the Funding 1 pre-enforcement revenue priority of payments. See “**Credit Structure – Funding 1 Liquidity Facility**” and “**Credit Structure – Liquidity reserve fund**”.

If the cash manager determines that there is an excess of Funding 1 available revenue receipts over the amount required to pay the specified items in the Funding 1 pre-enforcement revenue priority of payments, then Funding 1 shall apply such excess to extinguish any balance on the principal deficiency ledger, as described in “**Credit structure – Principal deficiency ledger**”.

#### **Distribution of Funding 1 available revenue receipts before intercompany loan acceleration**

This section sets out the priority of payments of Funding 1 available revenue receipts as at the closing date. If Funding 1 enters into new intercompany loan agreements, then this priority will change. See “**Security for Funding 1’s obligations**”.

Except for amounts due to third parties by Financing and/or the previous issuing entities and/or Funding 1 under item (A) or amounts due to the account bank and/or the Financing account bank and/or account banks for the previous issuing entities, which will be paid when due, on each Funding 1 interest payment date prior to the service of an intercompany loan acceleration notice on Funding 1, the cash manager will apply (i) the Funding 1 available revenue receipts for such date (ii) if Funding 1 available revenue receipts for such date are insufficient to pay items (A) to (F), (H), (J) and (L) below, amounts standing to the credit of the Funding 1 principal ledger and the cash accumulation ledger (in the manner described above) and (iii) if there is an uncured Funding 1 revenue shortfall on such date, drawings under the Funding 1 liquidity facility agreement to the extent necessary to pay the items listed below in paragraphs (A) to (F), (H), (J) and (L), in the following priority (the **Funding 1 pre-enforcement revenue priority of payments**):

- (A) *first*, without priority among them but in proportion to the respective amounts due, to pay amounts due to:
- the security trustee (together with interest and any amount in respect of VAT on those amounts) and to provide for any amounts due or to become due in the immediately following interest period to the security trustee under the Funding 1 deed of charge;
  - without priority among them but in proportion to the respective amounts due, to pay amounts due to (1) Financing in respect of Financing’s obligations specified in items (A) to (C) inclusive of the Financing pre-enforcement revenue priority of payments or, as the case may be, items (A) and (B) of Financing post-enforcement priority of payments, as described in “– **Distribution of Financing revenue receipts before note acceleration**” and “– **Distribution of Financing principal receipts and Financing revenue receipts following note acceleration and intercompany loan acceleration**” and (2) the previous issuing entities in respect of the previous issuing entities’ similar obligations under their respective priorities of payments; and
  - any third party creditors of Funding 1 (other than those referred to later in this priority of payments), which amounts have been incurred without breach by Funding 1 of the transaction documents to which it is a party (and for which payment has not been provided for elsewhere) and to provide for any of these amounts expected to become due and payable in the immediately following interest period by Funding 1 and to pay or discharge any liability of Funding 1 for corporation tax on any chargeable income or gain of Funding 1;
- (B) *then*, to pay amounts due to the Funding 1 liquidity facility provider under the Funding 1 liquidity facility agreement (except for amounts drawn thereunder to repay principal due on the bullet term advances, scheduled amortisation term advances and any “**Funding 1 liquidity subordinated amounts**”, which are:
- any withholding taxes and increased costs on the provision of the Funding 1 liquidity facility; and

- any additional costs incurred by the Funding 1 liquidity facility provider to comply with the requirements of the Bank of England, the Financial Services Authority, the European Central Bank and/or changes to the capital adequacy rules applicable to the Funding 1 liquidity facility provider and Funding 1);
- (C) *then*, towards payment of amounts due and payable to the cash manager under the cash management agreement (together with any amount in respect of VAT on those amounts);
- (D) *then*, without priority among them but in proportion to the respective amounts due, towards payment of amounts, if any, due and payable to the account bank under the terms of the bank account agreement and to the corporate services provider under the Funding 1 corporate services agreement and the post-enforcement call option holder corporate services agreement;
- (E) *then*, towards payment of all amounts (if any) due and payable to the Funding 1 swap provider under the Funding 1 swap agreement (including termination payments but excluding any Funding 1 swap excluded termination amount (as defined later in this section));
- (F) *then*, without priority among them but in proportion to the respective amounts due, towards payment of interest due and payable on the term AAA advances;
- (G) *then*, towards a credit to the AAA principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;
- (H) *then*, without priority among them but in proportion to the respective amounts due, towards payment of interest due and payable on the term AA advances;
- (I) *then*, towards a credit to the AA principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;
- (J) *then*, without priority among them but in proportion to the respective amounts due, towards payment of interest due and payable on the term A advances;
- (K) *then*, towards a credit to the A principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;
- (L) *then*, without priority among them but in proportion to the respective amounts due, towards payment of interest due and payable on the term BBB advances;
- (M) *then*, towards a credit to the BBB principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;
- (N) *then*, without priority among them but in proportion to the respective amounts due, towards payment of any amounts due to Financing and any previous issuing entity in respect of their respective obligations (if any) to make a termination payment to a current swap provider (but excluding any current swap excluded termination amount);
- (O) *then*, towards a credit to the general reserve ledger to the extent the amount standing to the credit thereof is less than the general reserve fund required amount, taking into account any net replenishment of the general reserve fund on that Funding 1 interest payment date from Funding 1 available principal receipts (see item (B) of the relevant Funding 1 pre-enforcement principal priority of payments);
- (P) *then*, if a liquidity reserve fund rating event has occurred and is continuing, towards a credit to the liquidity reserve ledger to the extent the amount standing to the credit thereof is less than the liquidity reserve fund required amount, taking into account any net replenishment of the liquidity reserve fund on that Funding 1 interest payment date from Funding 1 available principal receipts (see item (C) of the relevant Funding 1 pre-enforcement principal priority of payments);

- (Q) *then*, without priority among them but in proportion to the respective amounts due, to pay (without double counting):
- to Financing and/or any previous issuing entity, as the case may be, in respect of their respective obligations (if any) to pay any current swap excluded termination amount;
  - any other amounts due to Financing under the Financing intercompany loan agreement and/or to any previous issuing entities under any previous intercompany loan agreements, and not otherwise provided for in this priority of payments;
  - after the occurrence of a Funding 1 swap provider default or a Funding 1 swap provider downgrade termination event, any termination amount due and payable by Funding 1 under the Funding 1 swap agreement; and
  - to the Funding 1 liquidity facility provider, any Funding 1 liquidity subordinated amounts due under the Funding 1 liquidity facility agreement;
- (R) *then*, without priority among them but in proportion to the respective amounts due, towards payment of amounts due to the start-up loan provider under the start-up loan agreements;
- (S) *then*, towards payment to Funding 1 of an amount equal to 0.01 per cent. of the Funding 1 available revenue receipts; and
- (T) *then*, the balance to Funding 1.

#### **Definition of Financing revenue receipts**

**Financing revenue receipts** will be calculated by the Financing cash manager four business days prior to each interest payment date and will be an amount equal to the sum of:

- interest to be paid by Funding 1 on the relevant Funding 1 interest payment date in respect of the Financing term advances under the Financing intercompany loan;
- fees to be paid to Financing by Funding 1 on the relevant Funding 1 interest payment date under the terms of the Financing intercompany loan;
- interest payable on Financing's transaction accounts and any authorised investments (as defined in the Glossary) and which will be received on or before the relevant interest payment date in respect of the Financing notes;
- other net income of Financing including amounts received or to be received under the Financing swap agreements on or before the relevant interest payment date (including any amount received by Financing in consideration for entering into a replacement Financing swap agreement but excluding (i) the return or transfer of any excess swap collateral (as defined in the Glossary) as set out under any of the Financing swap agreements and (ii) in respect of each Financing swap provider, prior to the designation of an early termination date under the relevant Financing swap agreement and the resulting application of the collateral by way of netting or set-off, an amount equal to the value of all collateral (other than excess swap collateral) provided by such Financing swap provider to Financing pursuant to the relevant Financing swap agreement (and any interest or distributions in respect thereof)); and
- any additional amount Financing receives from any taxing authority on account of amounts paid to that taxing authority for and on account of tax by a Financing swap provider under a Financing swap agreement.

#### **Distribution of Financing revenue receipts before note acceleration**

The Financing cash management agreement sets out the priority of distribution by the Financing cash manager, prior to the service of a note acceleration notice on Financing, of amounts received by Financing on each interest payment date. As at the closing date, the priority will be as described in this section.

Except for amounts due to third parties by Financing under item (B) below or amounts due to the Financing account bank under item (C) below, which will be paid when due, on each applicable interest payment date the Financing cash manager will apply Financing revenue receipts in the following priority (the **Financing pre-enforcement revenue priority of payments**):

- (A) *first*, without priority among them but in proportion to the respective amounts due, to pay amounts due to:
- the security trustee, together with interest and any amount in respect of VAT on those amounts, and to provide for any amounts due or to become due during the following interest period to the security trustee under the Financing deed of charge;
  - the note trustee, together with interest and any amount in respect of VAT on those amounts, and to provide for any amounts due or to become due during the following interest period to the note trustee under the trust deed; and
  - the agent bank, the paying agents, the registrar and the transfer agent, together with interest and any amount in respect of VAT on those amounts, and any costs, charges, liabilities and expenses then due or to become due during the following interest period to the agent bank, the registrar, the transfer agent and the paying agents under the paying agent and agent bank agreement;
- (B) *then*, to pay amounts due to any third party creditors of Financing (other than those referred to later in this priority of payments), which amounts have been incurred without breach by Financing of the Financing transaction documents to which it is a party and for which payment has not been provided for elsewhere and to provide for any of those amounts expected to become due and payable during the following interest period by Financing and to pay or discharge any liability of Financing for corporation tax on any chargeable income or gain of Financing;
- (C) *then*, without priority among them but in proportion to the respective amounts due, to pay amounts due to the Financing cash manager, together with any amount in respect of VAT on those amounts, and to provide for any amounts due, or to become due to the Financing cash manager in the immediately succeeding interest period, under the Financing cash management agreement and to the corporate services provider under the Financing corporate services agreement and to the Financing account bank under the Financing bank account agreement;
- (D) *then*, without priority among them but in proportion to the respective amounts due, to pay:
- on each Funding 1 interest payment date amounts due to the series 1 Financing swap provider in respect of the series 1 class A Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 1 Financing swap provider to pay interest due and payable on the series 1 class A Financing notes;
  - amounts due to the series 2 Financing swap provider in respect of the series 2 class A Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the Financing swap provider to pay interest due and payable on the series 2 class A Financing notes;
  - amounts due to the series 3 Financing swap provider in respect of the series 3 class A Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 3 Financing swap provider in relation to such swap to pay interest due and payable on the series 3 class A Financing notes;

- amounts due to the series 4 Financing swap provider in respect of the series 4 class A Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 4 Financing swap provider in relation to such swap to pay interest due and payable on the series 4 class A Financing notes; and
  - interest due and payable on the series 5 class A Financing notes;
- (E) *then*, without priority among them but in proportion to the respective amounts due, to pay:
- amounts due to the series 1 Financing swap provider in respect of the series 1 class B Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 1 Financing swap provider in relation to such swap to pay interest due and payable on the series 1 class B Financing notes;
  - amounts due to the series 2 Financing swap provider in respect of the series 2 class B Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 2 Financing swap provider in relation to such swap to pay interest due and payable on the series 2 class B Financing notes;
  - amounts due to the series 3 Financing swap provider in respect of the series 3 class B Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 3 Financing swap provider in relation to such swap to pay interest due and payable on the series 3 class B Financing notes; and
  - amounts due to the series 4 Financing swap provider in respect of the series 4 class B Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 4 Financing swap provider in relation to such swap to pay interest due and payable on the series 4 class B Financing notes;
- (F) *then*, without priority among them but in proportion to the respective amounts due, to pay:
- amounts due to the series 1 Financing swap provider in respect of the series 1 class C Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 1 Financing swap provider in relation to such swap to pay interest due and payable on the series 1 class C Financing notes;
  - amounts due to the series 2 Financing swap provider in respect of the series 2 class C Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 2 Financing swap provider in relation to such swap to pay interest due and payable on the series 2 class C Financing notes;
  - amounts due to the series 3 Financing swap provider in respect of the series 3 class C Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 3 Financing swap provider in relation to such swap to pay interest due and payable on the series 3 class C Financing notes; and
  - amounts due to the series 4 Financing swap provider in respect of the series 4 class C Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 4 Financing swap provider in relation to such swap to pay interest due and payable on the series 4 class C Financing notes;

- (G) *then*, without priority among them but in proportion to the respective amounts due, to pay any termination payment due (without double counting) to:
- the series 1 Financing swap provider as a result of a Financing swap provider default or a Financing swap provider downgrade termination event in respect of the series 1 Financing swap provider;
  - the series 2 Financing swap provider as a result of a Financing swap provider default or a Financing swap provider downgrade termination event in respect of the series 2 Financing swap provider;
  - the series 3 Financing swap provider as a result of a Financing swap provider default or a Financing swap provider downgrade termination event in respect of the series 3 Financing swap provider; and
  - the series 4 Financing swap provider as a result of a Financing swap provider default or a Financing swap provider downgrade termination event in respect of the series 4 Financing swap provider;
- (H) *then*, to Financing, an amount equal to 0.01 per cent. of the interest received on the Financing term advances, to be retained by Financing as profit; and
- (I) *then*, the balance to Financing.

#### **Distribution of Financing revenue receipts after note acceleration but before intercompany loan acceleration**

Following the service of a note acceleration notice on Financing under the Financing deed of charge, but prior to the service of an intercompany loan acceleration notice on Funding 1 under the Funding 1 deed of charge, the security trustee will apply Financing revenue receipts in the same priority as set out in the Financing pre-enforcement revenue priority of payments, except that:

- in addition to the amounts due to the security trustee under item (A) of Financing pre-enforcement revenue priority of payments, Financing revenue receipts will be applied to pay amounts due to any receiver appointed by the security trustee together with interest and any amount in respect of VAT on those amounts, and to provide for any amounts due or to become due to the receiver during the following interest period; and
- the security trustee will not be required to pay amounts due to any entity which is not a Financing secured creditor.

#### **Distribution of Funding 1 available principal receipts**

##### ***Payment of principal receipts to Funding 1 by the mortgages trustee***

On each distribution date mortgages trust available principal receipts will be paid to Funding 1 in the manner and to the extent provided by the mortgages trustee principal priority of payments (see “**The mortgages trust – Mortgages trust calculation of principal receipts**” above) and shall be deposited in the Funding 1 GIC account and credited by the cash manager to “**Funding 1 principal ledger**” (being a ledger maintained by the cash manager for Funding 1).

##### ***Definition of Funding 1 available principal receipts***

**Funding 1 available principal receipts** will be calculated by the cash manager on the day falling four business days prior to each Funding 1 interest payment date and will be an amount equal to the sum of:

- all Funding 1 principal receipts received by Funding 1 during the interest period ending on the relevant Funding 1 interest payment date;
- all other Funding 1 principal receipts standing to the credit of the cash accumulation ledger which are to be applied on the next Funding 1 interest payment date to repay a bullet term advance and/or, subject to Rule (1) below, a scheduled amortisation instalment, or to make a payment under items (A), (B) or (C) of the Funding 1 pre-enforcement principal priority of payments and, if such Funding 1 interest payment date occurs on or after a trigger event, the remainder of such receipts standing to the credit of the cash accumulation ledger;



- the amount, if any, to be credited to the principal deficiency ledger pursuant to items (G), (I), (K) and (M) of the Funding 1 pre-enforcement revenue priority of payments on the relevant Funding 1 interest payment date;
- in so far as available for and needed to make eligible liquidity facility principal repayments (see “**Credit Structure – Funding 1 Liquidity Facility**” below), any amounts available to be drawn under the Funding 1 liquidity facility, less any amounts applied or to be applied on the relevant date in payment of interest and other revenue expenses as set out in items (A) to (F) (inclusive) and (H), (J) and (L) of the Funding 1 pre-enforcement revenue priority of payments, plus any amounts which will be repaid to the Funding 1 liquidity facility provider under item (A) of the relevant Funding 1 pre-enforcement priority of payments on the next Funding 1 interest payment date (i.e. occurring at the end of such period of four business days) to the extent that such repayment is available to be redrawn on that Funding 1 interest payment date;
- in so far as available for and needed to make eligible general reserve fund principal repayments (see “**Credit Structure – General reserve fund**” below), the amount that would then be standing to the credit of the general reserve ledger, less any amounts applied or to be applied on the relevant date in payment of interest and other revenue expenses as set out in items (A) to (N) (inclusive) of the Funding 1 pre-enforcement revenue priority of payments, plus any amounts which will be credited to the general reserve ledger under item (B) of the relevant Funding 1 pre-enforcement principal priority of payments on the next Funding 1 interest payment date (i.e. occurring at the end of such period of four business days); and
- in so far as available for and needed to make eligible liquidity fund principal repayments (see “**Credit Structure – Liquidity reserve fund**” below), the amount that would then be standing to the credit of the liquidity reserve ledger (but less any amounts applied or to be applied on the relevant date in payment of interest and other revenue expenses as set out in items (A) to (F) (inclusive) and (H), (J) and (L) of the Funding 1 pre-enforcement revenue priority of payments plus any amounts which will be credited to the liquidity reserve ledger under item (C) of the relevant Funding 1 pre-enforcement principal priority of payments on the next Funding 1 interest payment date (i.e. occurring at the end of such period of four business days);

less

- amounts to be applied on the relevant Funding 1 interest payment date to pay items (A) to (F) (inclusive), (H), (J) and (L) of the Funding 1 pre-enforcement revenue priority of payments.

#### ***Due and payable dates of Financing term advances***

A Financing term advance shall become **due and payable** on the earlier to occur of:

- (1) the date being:
  - in relation to the series 1 term AAA advance, the Funding 1 interest payment date falling in March 2007;
  - in relation to the series 2 term AAA advance, the Funding 1 interest payment date falling in March 2009;
  - in relation to the series 3 term AAA advance, the Funding 1 interest payment dates falling in December 2010 in respect of the first scheduled amortisation amount and March 2011 in respect of the second scheduled amortisation amount;
  - in relation to the series 4 term AAA advances, the Funding 1 interest payment date falling in June 2011 in respect of the first scheduled amortisation amount and September 2011 in respect of the second scheduled amortisation amount;
  - in relation to the series 5 term AAA advances, the Funding 1 interest payment date falling in September 2012;

- in relation to the series 1 term AA advance, the Funding 1 interest payment date falling **on or after** the date on which the series 1 term AAA advance has been fully repaid;
  - in relation to the series 2 term AA advance, the Funding 1 interest payment date falling **on or after** the date on which the series 2 term AAA advance has been fully repaid;
  - in relation to the series 3 term AA advance, the Funding 1 interest payment date falling **on or after** the date on which the series 3 term AAA advance has been fully repaid;
  - in relation to the series 4 term AA advance, the Funding 1 interest payment date falling **on or after** the date on which the series 4 term AAA advance has been fully repaid;
  - in relation to the series 1 term BBB advance, the Funding 1 interest payment date falling **on or after** the date on which the series 1 term AA advance has been fully repaid;
  - in relation to the series 2 term BBB advance, the Funding 1 interest payment date falling **on or after** the date on which the series 2 term AA advance has been fully repaid;
  - in relation to the series 3 term BBB advance, the Funding 1 interest payment date falling **on or after** the date on which the series 3 term AA advance has been fully repaid; and
  - in relation to the series 4 term BBB advance, the Funding 1 interest payment date falling **on or after** the date on which the series 4 term AA advance has been fully repaid.
- (2) the date upon which a trigger event occurs;
  - (3) the date upon which a note acceleration notice is served on Financing under the Financing deed of charge;
  - (4) the date upon which an intercompany loan acceleration notice is served on Funding 1 under the Funding 1 deed of charge; and
  - (5) the date upon which a step-up date occurs in relation to the relevant Financing term advance.

In each case, when a Financing term advance becomes due and payable, it shall continue to be due and payable until it is fully repaid. If there are insufficient funds available to repay a Financing term advance on a Funding 1 interest payment date upon which that Financing term advance is due and payable, then the shortfall will be repaid on subsequent Funding 1 interest payment dates from Funding 1 available principal receipts until that Financing term advance is fully repaid.

The following sections set out various priorities of payments for Funding 1 available principal receipts under the following circumstances, and are collectively referred to as the “**Funding 1 pre-enforcement principal priority of payments**”:

- repayment of all term advances before a trigger event and before intercompany loan acceleration or acceleration of all notes;
- repayment of all term advances after a non-asset trigger event but before intercompany loan acceleration or acceleration of all notes;
- repayment of all term advances after an asset trigger event but before intercompany loan acceleration notice or acceleration of all notes; and
- repayment of all term advances after acceleration of all notes but before intercompany loan acceleration.

**Repayment of all term advances before a trigger event and before intercompany loan acceleration or acceleration of all notes**

On each Funding 1 interest payment date prior to the occurrence of a trigger event or the service on Funding 1 of an intercompany loan acceleration notice or the service on each issuing entity of a note acceleration notice, the cash manager shall apply Funding 1 available principal receipts in the following priority:

- (A) *first*, towards repayment of the Funding 1 liquidity facility provider amounts outstanding under the Funding 1 liquidity facility that were drawn in order to make eligible liquidity facility principal repayments;
- (B) *then*, to the extent only that monies have been drawn from the general reserve fund to make eligible general reserve fund principal repayments, towards a credit to the general reserve ledger to the extent the amount standing to the credit thereof is less than the general reserve fund required amount;
- (C) *then*, if a liquidity reserve fund rating event has occurred and is continuing, (i) to the extent only that monies have been drawn from the liquidity reserve fund in order to make eligible liquidity fund principal repayments or (ii) to the extent that the liquidity reserve fund has not been previously fully funded and Funding 1 available revenue receipts on such Funding 1 interest payment date are insufficient to do so, towards a credit to the liquidity reserve ledger to the extent the amount standing to the credit thereof is less than the liquidity reserve fund required amount;
- (D) *then*, towards repayment of all term AAA advances that are then due and payable in priority based on their final repayment date, so that the earliest maturing term AAA advance is paid first (and if any term AAA advances have the same final repayment date, then those term advances will be paid without priority among them but in proportion to their respective amounts due), in each case subject to Rules (1), (2) and (3) below;
- (E) *then*, towards repayment of all term AA advances that are then due and payable without priority among them but in proportion to the respective amounts due, in each case subject to Rules (1), (2) and (3) below;
- (F) *then*, towards repayment of all term A advances that are then due and payable without priority among them but in proportion to the respective amounts due, in each case subject to Rules (1), (2) and (3) below;
- (G) *then*, towards repayment of all term BBB advances that are then due and payable without priority among them but in proportion to the respective amounts due, in each case subject to Rules (1), (2) and (3) below;
- (H) *then*, towards a credit to the cash accumulation ledger until the balance is equal to Funding 1's cash accumulation liability (as calculated after any payments are made at item (D) of this priority of payments); and
- (I) *then*, the remainder shall be credited to the Funding 1 principal ledger.

In the applicable circumstances, the following Rules apply in determining the amounts to be paid under items (D), (E), (F) and (G) of the priority of payments set out above and below:

**Rule (1) – Repayment deferrals for pass-through term advances and/or scheduled amortisation instalments**

- (A) *Deferral of term AA advances, term A advances and/or term BBB advances*

If on a Funding 1 interest payment date:

- (1) there is a debit balance on the BBB principal deficiency sub-ledger, the A principal deficiency sub-ledger or the AA principal deficiency sub-ledger, after application of the Funding 1 available revenue receipts on that Funding 1 interest payment date; or
- (2) the adjusted general reserve fund level is less than the general reserve fund threshold; or

- (3) the aggregate outstanding principal balance of loans in the mortgages trust, in respect of which the aggregate amount in arrears is more than three times the monthly payment then due, is more than five per cent. of the aggregate outstanding principal balance of loans in the mortgages trust

then until the relevant circumstance as described in sub-paragraphs (1), (2) or (3) above has been cured or otherwise ceases to exist, if:

- (a) any term AAA advance (whether or not such term AAA advance is then due and payable) remains outstanding after making the payments under item (D) of the above priority of payments, the term AA advances (including the Financing term AA advances) will not be entitled to principal repayments under item (E) of the above priority of payments;
- (b) any term AAA advance or any AA term advance (whether or not such term AAA advance or term AA advance is then due and payable) remains outstanding after making the payments under items (D) and/or (E) of the above priority of payments then the term A advances will not be entitled to principal repayments under item (F) of the priority of payments set out above; and/or
- (c) any term AAA advance, any term AA advance or any A term advance (whether or not such term AAA advance, term AA advance or term A advance is then due and payable) remains outstanding after making the payments under items (D) and/or (E) and/or (F) of the above priority of payments then the term BBB advances (including the Financing term BBB advances) will not be entitled to principal repayments under item (G) of the priority of payments set out above.

*(B) Deferral of scheduled amortisation term advances when CPR is below certain threshold(s) prior to step-up date*

If on a Funding 1 interest payment date:

- (1) one or more bullet term advances are within a cash accumulation period at that time (irrespective of whether any scheduled amortisation instalments are then in a cash accumulation period); and
- (2) either:
  - (a) the quarterly CPR is less than 10 per cent.; or
  - (b) both:
    - (i) the quarterly CPR is equal to or greater than 10 per cent., but less than 15 per cent., and
    - (ii) the annualised CPR is less than 10 per cent.;

then on or before their step-up dates the scheduled amortisation term advances will be entitled to principal repayments under item (D) of the priority of payments set out above only to the extent permitted under the scheduled amortisation repayment restrictions.

*(C) Deferral of original pass-through term advances when CPR is below a certain threshold prior to step-up date*

If on a Funding 1 interest payment date:

- (1) one or more bullet term advances and/or scheduled amortisation instalments are within a cash accumulation period at that time;
- (2) the quarterly CPR is less than 15 per cent.; and
- (3) there is a cash accumulation shortfall at that time,

then, on or before their step-up dates, the original pass-through term advances will be entitled to principal repayments under items (D), (E) (F) and (G) (as applicable) of the priority of payments above only to the extent permitted under the pass through repayment restrictions.

In this offering circular:

**annualised CPR** means the result of:

$$1 - ((1 - M)^{12})$$

where

**M** is expressed as a percentage and determined as at the most recent normal calculation date as indicated in the definition of **anticipated cash accumulation period** (see “**The mortgages trust – Cash management of trust property – principal receipts**”);

**bullet accumulation liability** means on any Funding 1 interest payment date prior to any payment under item (D) of the above priority of payments the aggregate of each relevant accumulation amount at that time of each bullet term advance which is within a cash accumulation period;

**bullet accumulation shortfall** means at any time that the cash accumulation ledger amount is less than the bullet accumulation liability;

**cash accumulation liability** means on any Funding 1 interest payment date prior to any payment under item (D) of the above priority of payments the sum of:

- (1) the bullet accumulation liability at that time; and
- (2) the aggregate of each relevant accumulation amount at that time of each scheduled amortisation instalment which is within a cash accumulation period;

**cash accumulation shortfall** means the cash accumulation ledger amount being less than the cash accumulation liability;

**cash accumulation ledger amount** means at any time the amount standing to the credit of the cash accumulation ledger at that time (immediately prior to any drawing to be applied on that interest payment date and prior to any payment under item (H) of the above priority of payments);

**pass-through repayment restrictions** means at any time on a Funding 1 interest payment date no amount may be applied in repayment of any original pass-through term advance unless:

- (1) the sum of the cash accumulation ledger amount and the amount of Funding 1 available principal receipts after the application of items (A), (B) and (C) and before item (D) of the above priority of payments,

is greater than or equal to

- (2) the sum of the cash accumulation liability and the aggregate amount of all original pass-through term advances which are due and payable as at that time; and

**scheduled amortisation repayment restrictions** means at any time on a Funding 1 interest payment date:

- (1) where there is not a bullet accumulation shortfall at that time, the total amount withdrawn from the cash accumulation ledger on that Funding 1 interest payment date for repayment of the relevant scheduled amortisation instalments shall not exceed the cash accumulation ledger amount less the bullet accumulation liability at that time; and
- (2) where there is a bullet accumulation shortfall at that time:
  - (a) no amount may be withdrawn from the cash accumulation ledger on that Funding 1 interest payment date to be applied in repayment of the relevant scheduled amortisation instalments; and
  - (b) no amount may be applied in repayment of the relevant scheduled amortisation instalments unless:
    - (i) the sum of the cash accumulation ledger amount and the amount of Funding 1 available principal receipts after the application of items (A), (B) and (C) and before item (D) of the above priority of payments, is greater than or equal to
    - (ii) the sum of the bullet accumulation liability and the aggregate amount of scheduled amortisation instalments which are due and payable as at that time.

**Rule (2) – Repayment of payable pass-through term advances after a step-up date**

Following the occurrence of the step-up date under an intercompany loan (**intercompany loan A**) but prior to the time at which Rule (3) becomes applicable and provided that the Funding 1 share of the trust property is greater than zero, the aggregate amount repaid on a Funding 1 interest payment date in relation to term advances (other than bullet term advances or scheduled amortisation instalments) under that intercompany loan A under items (D), (E), (F) and (G) of the priority of payments set out above shall be limited to an amount calculated as follows:

$$\text{Funding 1 principal funds x } \frac{\text{Outstanding principal balance of intercompany loan A}}{\text{Aggregate outstanding principal balance of all intercompany loans}}$$

where **Funding 1 principal funds** means in respect of any Funding 1 interest payment date the sum of:

- (A) the aggregate of the following amount for each calculation period which has ended in the period from the previous Funding 1 interest payment date to the most recent normal calculation date, such amount being the product of:
  - (1) the Funding 1 share percentage as calculated at the start of the relevant calculation period; and
  - (2) the aggregate amount of principal receipts received by the mortgages trustee in the relevant calculation period;
- (B) the amount credited to the principal deficiency ledger on the relevant Funding 1 interest payment date; and
- (C) the amount, if any, credited to the Funding 1 principal ledger pursuant to item (I) of the above Funding 1 pre-enforcement principal priority of payments on the immediately preceding Funding 1 interest payment date.

**Rule (3) – Repayment of term advances after note acceleration for some but not all issuing entities.**

If a note acceleration notice has been served on one or more (but not all) issuing entities, then this Rule (3) will apply. In these circumstances:

- (i) enforcement of an issuing entity's security will not result in automatic enforcement of the Funding 1 security;
- (ii) the term advances (including any outstanding bullet term advances and scheduled amortisation instalments) under the intercompany loan relating to the relevant issuing entity whose security is being enforced (**intercompany loan B**) will become immediately due and payable;
- (iii) the cash manager shall apply the appropriate amount of Funding 1 available principal receipts allocated to intercompany loan B at the relevant level of the applicable Funding 1 priority of payments to repay any term AAA advances outstanding under that intercompany loan B without priority among them but in proportion to the respective amounts due (that is, those term AAA advances will not be repaid in priority based on their final repayment date); and
- (iv) the aggregate amount repaid on a Funding 1 interest payment date in respect of intercompany loan B under items (D), (E), (F) and (G) of the above priority of payments shall be limited to an amount calculated as follows:

$$\text{Funding 1 principal funds x } \frac{\text{Outstanding principal balance of intercompany loan A}}{\text{Aggregate outstanding principal balance of all intercompany loans}}$$

where **Funding 1 principal funds** means in respect of any Funding 1 interest payment date the sum of:

- (A) the aggregate of the following amount for each calculation period which has ended in the period from the previous Funding 1 interest payment date to the most recent normal calculation date, such amount being the product of:
  - (1) the Funding 1 share percentage as calculated at the start of the relevant calculation period; and
  - (2) the aggregate amount of principal receipts received by the mortgages trustee in the relevant calculation period;
- (B) the amount credited to the principal deficiency ledger on the relevant Funding 1 interest payment date; and
- (C) the amount, if any, credited to the Funding 1 principal ledger pursuant to item (I) of the above Funding 1 pre-enforcement principal priority of payments on the immediately preceding Funding 1 interest payment date.

*Allocations involving Rule (2) or Rule (3)*

Where Rule (2) or Rule (3) applies at a level of any priority of payments, the funds available for making payments at that level shall first be allocated without reference to Rule (2) or Rule (3) (as applicable). However, if the amount so allocated to one or more term advances exceeds the amount permitted under Rule (2) or Rule (3) (as applicable) to be paid in respect of those term advances (the **capped advances**), the excess shall then be reallocated among any other relevant term advances at that level using the method of allocation as applies at that level but without reference to the capped advances in calculating such reallocation. If a further such excess arises as a result of the reallocation process, the reallocation process shall be repeated at that level in relation to each such further excess that arises until no further funds can be allocated at that level following which the remaining excess shall then be applied at the next level of that priority of payments.

***Repayment of all term advances after a non-asset trigger event but before intercompany loan acceleration or acceleration of all notes***

Following the occurrence of a non-asset trigger event (where no asset trigger event has occurred) under the mortgages trust deed but prior to the service on Funding 1 of an intercompany loan acceleration notice under the Funding 1 deed of charge or the service on each issuing entity of a note acceleration notice under their respective deeds of charge, the bullet term advances and the scheduled amortisation term advances in respect of any intercompany loan will be deemed to be pass-through term advances and on each Funding 1 interest payment date Funding 1 will be required to apply Funding 1 available principal receipts in the following priority:

- (A) *first*, towards repayment of the Funding 1 liquidity facility provider amounts outstanding under the Funding 1 liquidity facility that were drawn in order to make eligible liquidity facility principal repayments;
- (B) *then*, to the extent only that monies have been drawn from the general reserve fund to make eligible general reserve fund principal repayments, towards a credit to the general reserve ledger to the extent the amount standing to the credit thereof is less than the general reserve fund required amount;
- (C) *then*, if a liquidity reserve fund rating event has occurred and is continuing, (i) to the extent only that monies have been drawn from the liquidity reserve fund in order to make eligible liquidity fund principal repayments or (ii) to the extent that the liquidity reserve fund has not been previously fully funded and Funding 1 available revenue receipts on such Funding 1 interest payment date are insufficient to do so, towards a credit to the liquidity reserve ledger to the extent the amount standing to the credit thereof is less than the liquidity reserve fund required amount;

- (D) *then*, to repay the term AAA advance with the earliest final repayment date, then to repay the term AAA advance with the next earliest final repayment date, and so on until the term AAA advances are fully repaid;
- (E) *then*, without priority among them but in proportion to the amounts due, to repay the term AA advances until those term AA advances are fully repaid;
- (F) *then*, without priority among them but in proportion to the amounts due, to repay the term A advances until those term A advances are fully repaid; and
- (G) *then*, without priority among them but in proportion to the amounts due, to repay the term BBB advances until those term BBB advances are fully repaid.

***Repayment of all term advances after an asset trigger event but before intercompany loan acceleration notice or acceleration of all notes***

Following the occurrence of an asset trigger event (whether or not a non-asset trigger event occurs or has occurred) but prior to the service on Funding 1 of an intercompany loan acceleration notice under the Funding 1 deed of charge or the service on each issuing entity of a note acceleration notice under their respective deeds of charge, the bullet term advances and the scheduled amortisation term advances in respect of any intercompany loan will be deemed to be pass-through term advances and on each Funding 1 interest payment date Funding 1 will be required to apply Funding 1 available principal receipts in the following priority:

- (A) *first*, towards repayment of the Funding 1 liquidity facility provider amounts outstanding under the Funding 1 liquidity facility that were drawn in order to make eligible liquidity facility principal repayments;
- (B) *then*, to the extent only that monies have been drawn from the general reserve fund to make eligible general reserve fund principal repayments, towards a credit to the general reserve ledger to the extent the amount standing to the credit thereof is less than the general reserve fund required amount;
- (C) *then*, if a liquidity reserve fund rating event has occurred and is continuing, (i) to the extent only that monies have been drawn from the liquidity reserve fund in order to make eligible liquidity fund principal repayments or (ii) to the extent that the liquidity reserve fund has not been previously fully funded and Funding 1 available revenue receipts on such Funding 1 interest payment date are insufficient to do so, towards a credit to the liquidity reserve ledger to the extent the amount standing to the credit thereof is less than the liquidity reserve fund required amount;
- (D) *then*, without priority among them, but in proportion to the amounts due, to repay the term AAA advances until each of those term AAA advances is fully repaid;
- (E) *then*, without priority among them, but in proportion to the amounts due, to repay the term AA advances until each of those term AA advances is fully repaid;
- (F) *then*, without priority among them but in proportion to the amounts due, to repay the term A advances until those term A advances are fully repaid; and
- (G) *then*, without priority among them, but in proportion to the amounts due, to repay the term BBB advances until each of those term BBB advances is fully repaid.

***Repayment of all term advances after acceleration of all notes but before intercompany loan acceleration***

If a note acceleration notice is served on each issuing entity under their respective deeds of charge, then that will not result in automatic enforcement of the Funding 1 security under the Funding 1 deed of charge. In those circumstances, however, the bullet term advances and any scheduled amortisation term advances under any intercompany loans will be deemed to be pass-through term advances and on each Funding 1 interest payment date Funding 1 will be required to apply Funding 1 available principal receipts in the following priority:



- (A) *first*, towards repayment of the Funding 1 liquidity facility provider amounts outstanding under the Funding 1 liquidity facility that were drawn in order to make eligible liquidity facility principal repayments;
- (B) *then*, to the extent only that monies have been drawn from the general reserve fund to make eligible general reserve fund principal repayments, towards a credit to the general reserve ledger to the extent the amount standing to the credit thereof is less than the general reserve fund required amount;
- (C) *then*, if a liquidity reserve fund rating event has occurred and is continuing, (i) to the extent only that monies have been drawn from the liquidity reserve fund in order to make eligible liquidity fund principal repayments or (ii) to the extent that the liquidity reserve fund has not been previously fully funded and Funding 1 available revenue receipts on such Funding 1 interest payment date are insufficient to do so, towards a credit to the liquidity reserve ledger to the extent the amount standing to the credit thereof is less than the liquidity reserve fund required amount;
- (D) *then*, without priority among them, but in proportion to the amounts due, to repay the term AAA advances until each of those advances is fully repaid;
- (E) *then*, without priority among them, but in proportion to the amounts due, to repay the term AA advances, until each of those advances is fully repaid;
- (F) *then*, without priority among them but in proportion to the amounts due, to repay the term A advances until those term A advances are fully repaid; and
- (G) *then*, without priority among them, but in proportion to the amounts due, to repay the term BBB advances until each of those advances is fully repaid.

***Repayment of term advances when Funding 1 receives the amount outstanding under an intercompany loan***

If Funding 1 receives a payment from the seller in the circumstances described in “**The mortgages trust – Payment by the seller to Funding 1 of the amount outstanding under an intercompany loan**” or the proceeds of a new intercompany loan which are to be used to refinance another intercompany loan as described in “**The Financing intercompany loan agreement – New intercompany loan agreements**” (such payment by the seller or such proceeds being a **full repayment amount**), then Funding 1 will not apply the full repayment amount as described above in “– **Distribution of Funding 1 available principal receipts**”. Rather, Funding 1 will apply the full repayment amount to repay the relevant intercompany loan. If at any time only one previous intercompany loan is outstanding, then Funding 1 shall apply the full repayment amount first to repay the Funding 1 liquidity facility provider any amounts outstanding under the Funding 1 liquidity facility to the extent that such funds were drawn in order to repay the principal amounts of any previous bullet term advances made under any of the previous intercompany loans and the remainder shall be applied to repay the relevant previous intercompany loan.

**Definition of Financing principal receipts**

Prior to the service of a note acceleration notice on Financing, “Financing principal receipts” will be calculated by the Financing cash manager four business days prior to each interest payment date and will be an amount equal to all principal amounts to be repaid by Funding 1 to Financing under the Financing intercompany loan during the relevant interest period. Following the service of a note acceleration notice on Financing, but prior to the service of an intercompany loan acceleration notice on Funding 1, **Financing principal receipts** means the sum calculated by the security trustee four business days prior to each interest payment date as the amount to be repaid by Funding 1 to Financing under the Financing intercompany loan during the relevant interest period and/or the sum otherwise recovered by the security trustee (or the receiver appointed on its behalf) representing the principal balance of the Financing notes.

### **Distribution of Financing principal receipts before note acceleration**

Prior to the service of a note acceleration notice on Financing, Financing, or the Financing cash manager on its behalf, will apply any Financing principal receipts on each interest payment date to repay the Financing notes in the following manner (the **Financing pre-enforcement principal priority of payments**):

- any principal amounts received by Financing from Funding 1 on each Funding 1 interest payment date in respect of a Financing term advance which corresponds to a class of dollar- or euro-denominated Financing notes will be paid by Financing to the Financing swap provider for the corresponding class of Financing notes, and on each applicable interest payment date that corresponding class of Financing notes will be redeemed in an amount equal to the principal exchange amount (if any) received by Financing from that Financing swap provider under the relevant Financing swap; and
- any principal amounts received by Financing from Funding 1 on each Funding 1 interest payment date in respect of a Financing term advance which corresponds to a class of sterling-denominated Financing notes will be applied by Financing to redeem that corresponding class of Financing notes on each applicable interest payment date.

Accordingly, prior to the service of a note acceleration notice on Financing, principal payments on each class of the Financing notes depends entirely on the amounts received from Funding 1 as principal repayments on the corresponding Financing term advance.

### **Distribution of Financing principal receipts after note acceleration but before intercompany loan acceleration**

The Financing deed of charge sets out the priority of distribution of Financing principal receipts received or recovered by the security trustee (or a receiver appointed on its behalf) following the service of a note acceleration notice on Financing but prior to the service of an intercompany loan acceleration notice on Funding 1. In these circumstances, the security trustee will apply Financing principal receipts on each interest payment date to repay the Financing notes in the following manner:

- (A) *first*, without priority among them, but in proportion to the amounts due, to repay the class A Financing notes as follows:
- any principal amounts received by Financing from Funding 1 in respect of the series 1 term AAA advance on each Funding 1 interest payment date will be paid by Financing to the series 1 Financing swap provider, and on each interest payment date the series 1 class A Financing notes will be redeemed in amounts corresponding to the principal exchange amounts (if any) received from the series 1 Financing swap provider under the series 1 class A Financing swap;
  - any principal amounts received by Financing from Funding 1 in respect of the series 2 term AAA advance on each Funding 1 interest payment date will be paid by Financing to the series 2 Financing swap provider, and on each interest payment date the series 2 class A Financing notes will be redeemed in amounts corresponding to the principal exchange amounts (if any) received from the series 2 Financing swap provider under the series 2 class A Financing swap;
  - any principal amounts received by Financing from Funding 1 in respect of the series 3 term AAA advance on each Funding 1 interest payment date, will be paid by Financing to the series 3 Financing swap provider, and on each interest payment date the series 3 class A Financing notes will be redeemed in amounts corresponding to the principal exchange amounts (if any) received from the series 3 Financing swap provider under the series 3 class A Financing swap;
  - any principal amounts received by Financing from Funding 1 in respect of the series 4 term AAA advance on each Funding 1 interest payment date shall be paid by Financing to the series 4 swap provider and on each applicable interest payment

date the series 4 class A Financing notes will be redeemed in amounts corresponding to the principal exchange amounts (if any) received from the series 4 Financing swap provider under the series 4 class A Financing swap; and

- any principal amounts received by Financing from Funding 1 in respect of the series 5 term AAA advance on each Funding 1 interest payment date shall be applied to redeem the series 5 class A Financing notes on each applicable interest payment date;

(B) *then*, without priority among them, but in proportion to the amounts due, to repay the class B Financing notes as follows:

- any principal amounts received by Financing from Funding 1 in respect of the series 1 term AA advance on each Funding 1 interest payment date will be paid by Financing to the series 1 Financing swap provider, and on each interest payment date the series 1 class B Financing notes will be redeemed in amounts corresponding to the principal exchange amounts (if any) received from the series 1 Financing swap provider under the series 1 class B Financing swap;
- any principal amounts received by Financing from Funding 1 in respect of the series 2 term AA advance on each Funding 1 interest payment date will be paid by Financing to the series 2 Financing swap provider, and on each interest payment date the series 2 class B Financing notes will be redeemed in amounts corresponding to the principal exchange amounts (if any) received from the series 2 Financing swap provider under the series 2 class B Financing swap;
- any principal amounts received by Financing from Funding 1 in respect of the series 3 term AA advance on each Funding 1 interest payment date will be paid by Financing to the series 3 Financing swap provider, and on each applicable interest payment date the series 3 class B Financing notes will be redeemed in amounts corresponding to the principal exchange amounts (if any) received from the series 3 Financing swap provider under the series 3 class B Financing swap; and
- any principal amounts received by Financing from Funding 1 in respect of the series 4 term AA advance on each Funding 1 interest payment date shall be paid by Financing to the series 4 Financing swap provider, and on each applicable interest payment date the series 4 class B Financing notes will be redeemed in amounts corresponding to the principal exchange amounts (if any) received from the series 4 Financing swap provider under the series 4 class B Financing Swap;

(C) *then*, without priority among them, but in proportion to the amounts due, to repay the class C Financing notes as follows:

- any principal amounts received by Financing from Funding 1 in respect of the series 1 term BBB advance on each Funding 1 interest payment date, will be paid by Financing to the series 1 Financing swap provider, and on each interest payment date the series 1 class C Financing notes will be redeemed in amounts corresponding to the principal exchange amounts (if any) received from the series 1 Financing swap provider under the series 1 class C Financing swap;
- any principal amounts received by Financing from Funding 1 in respect of the series 2 term BBB advance on each Funding 1 interest payment date, will be paid by Financing to the series 2 Financing swap provider, and on each interest payment date the series 2 class C Financing notes will be redeemed in amounts corresponding to the principal exchange amounts (if any) received from the series 2 Financing swap provider under the series 2 class C Financing swap;
- any principal amounts received by Financing from Funding 1 in respect of the series 3 term BBB advance on each Funding 1 interest payment date, will be paid by Financing to the series 3 Financing swap provider, and on each applicable interest

payment date the series 3 class C Financing notes will be redeemed in amounts corresponding to the principal exchange amounts (if any) received from the series 3 Financing swap provider under the series 3 class C Financing swap; and

- any principal amounts received by Financing from Funding 1 in respect of the series 4 term BBB advance on each Funding 1 interest payment date shall be paid by Financing to the series 4 Financing swap provider, and on each applicable interest payment date the series 4 class C Financing notes will be redeemed in amounts corresponding to the principal exchange amounts (if any) received from the series 4 Financing swap provider under the series 4 class C Financing swap.

### **Distribution of Funding 1 principal receipts and Funding 1 revenue receipts following intercompany loan acceleration**

The Funding 1 deed of charge sets out the priority of distribution as at the closing date of amounts received or recovered by the security trustee or a receiver appointed on its behalf following the service of an intercompany loan acceleration notice on Funding 1. If Funding 1 enters into new intercompany loan agreements, then this priority will change – see “**Security for Funding 1’s obligations**”.

The security trustee will apply amounts received or recovered following the service of an intercompany loan acceleration notice on Funding 1 on each Funding 1 interest payment date in accordance with the following priority (the “**Funding 1 post-enforcement priority of payments**”):

- (A) *first*, without priority among them but in proportion to the respective amounts due, to pay amounts due to:
  - the security trustee and any receiver appointed by the security trustee, together with interest and any amount in respect of VAT on those amounts, and to provide for any amounts due or to become due to the security trustee and the receiver in the following interest period under the Funding 1 deed of charge; and
  - Financing, any previous issuing entity and/or any new issuing entity in respect of that issuing entity’s obligations specified in items (A) and (B) of the Financing post-enforcement priority of payments;
- (B) *then*, towards payment of amounts due and payable to the cash manager and any costs, charges, liabilities and expenses then due or to become due and payable to the cash manager under the cash management agreement, together with VAT on those amounts;
- (C) *then*, without priority among them but in proportion to the respective amounts due, towards payment of amounts (if any) due to the account bank under the terms of the bank account agreement and to the corporate services provider under the Funding 1 corporate services agreement and the post-enforcement call option holder corporate services agreement;
- (D) *then*, towards payment of amounts (if any) due to the Funding 1 liquidity facility provider under the Funding 1 liquidity facility agreement (except for any Funding 1 liquidity facility subordinated amounts);
- (E) *then*, towards payment of amounts (if any) due to the Funding 1 swap provider under the Funding 1 swap agreement (including any termination payment but excluding any Funding 1 swap excluded termination amount);
- (F) *then*, without priority among them but in proportion to the respective amounts due, towards payments of interest and principal due and payable on the term AAA advances;
- (G) *then*, without priority among them but in proportion to the respective amounts due, towards payments of interest and principal due and payable on the term AA advances;
- (H) *then*, without priority among them but in proportion to the respective amounts due, towards payments of interest and principal due and payable on the term A advances;
- (I) *then*, without priority among them but in proportion to the respective amounts due, towards payments of interest and principal due and payable on the term BBB advances;

- (J) *then*, towards payment of any amounts due to Financing and/or any previous issuing entity in respect of their respective obligations (if any) to make a termination payment to a current swap provider (but excluding any current swap excluded termination amount);
- (K) *then*, without priority among them but in proportion to the respective amounts due, to pay (without double counting):
- amounts due to Financing, any previous issuing entity and/or any new issuing entity in respect of their respective obligations (if any) to pay any current swap excluded termination amount to a current swap provider following a current swap provider default or a current swap provider downgrade termination event (as appropriate);
  - any other amounts due to Financing under the Financing intercompany loan agreement and any previous issuing entity under any previous intercompany loan agreement and not otherwise provided for earlier in this priority of payments;
  - any Funding 1 liquidity subordinated amounts due to the Funding 1 liquidity facility provider; and
  - amounts due to the Funding 1 swap provider in respect of Funding 1's obligation to pay any termination amount to the Funding 1 swap provider as a result of a Funding 1 swap provider default or a Funding 1 swap provider downgrade termination event; and
- (L) last, without priority among them but in proportion to the amounts then due, towards payment of amounts due to the start-up loan provider under the start-up loan agreements.

**Distribution of Financing principal receipts and Financing revenue receipts following note acceleration and intercompany loan acceleration**

If an intercompany loan acceleration notice is served on Funding 1 under the Funding 1 deed of charge, then there will be an automatic enforcement of the Financing security under the Financing deed of charge. The Financing deed of charge sets out the priority of distribution by the security trustee, following the service of a note acceleration notice on Financing and the service of an intercompany loan acceleration notice on Funding 1 (known as the **Financing post-enforcement priority of payments**), of amounts received or recovered by the security trustee (or a receiver appointed on its behalf). On each interest payment date, the security trustee will apply amounts (other than amounts representing (i) any excess swap collateral which shall be returned directly to the relevant Financing swap provider and (ii) in respect of each Financing swap provider, prior to the designation of an early termination date under the relevant Financing swap agreement and the resulting application of the collateral by way of netting or set-off, an amount equal to the value of all collateral (other than excess swap collateral) provided by such Financing swap provider to Financing pursuant to the relevant Financing swap agreement (and any interest or distributions in respect thereof)) received or recovered following enforcement of the Financing security as follows:

- (A) *first*, without priority among them but in proportion to the respective amounts due, to pay amounts due to:
- the security trustee and any receiver appointed by the security trustee together with interest and any amount in respect of VAT on those amounts and any amounts then due or to become due to the security trustee and the receiver under the provisions of the Financing deed of charge;
  - the note trustee together with interest and any amount in respect of VAT on those amounts and any amounts then due or to become due and payable to the note trustee under the provisions of the trust deed; and
  - the agent bank, the paying agents, the registrar and the transfer agent together with interest and any amount in respect of VAT on those amounts and any costs, charges, liabilities and expenses then due or to become due and payable to them under the provisions of the paying agent and agent bank agreement;

- (B) *then*, without priority among them but in proportion to the respective amounts due, towards payment of amounts (together with any amount in respect of VAT on those amounts) due and payable to the Financing cash manager under the Financing cash management agreement and to the corporate services provider under the Financing corporate services agreement and to the Financing account bank;
- (C) *then*, without priority among them but in proportion to the respective amounts due, to pay:
- amounts due to the series 1 Financing swap provider in respect of the series 1 class A Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 1 Financing swap provider in respect of the series 1 class A Financing swap to pay interest and principal due and payable on the series 1 class A Financing notes;
  - amounts due to the series 2 Financing swap provider in respect of the series 2 class A Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 2 Financing swap provider in respect of the series 2 class A Financing swap to pay interest and principal due and payable on the series 2 class A Financing notes;
  - amounts due to the series 3 Financing swap provider in respect of the series 3 class A Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 3 Financing swap provider in respect of the series 3 class A Financing swap to pay interest and principal due and payable on the series 3 class A Financing notes;
  - amounts due to the Series 4 Financing swap provider in respect of the series 4 class A Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 4 Financing swap provider in respect of the series 4 class A Financing swap to pay interest and principal due and payable on the series 4 class A Financing notes; and
  - interest and principal on the series 5 class A Financing notes;
- (D) *then*, without priority among them but in proportion to the respective amounts due, to pay:
- amounts due to the series 1 Financing swap provider in respect of the series 1 class B Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 1 Financing swap provider in respect of the series 1 class B Financing swap to pay interest and principal due and payable on the series 1 class B Financing notes;
  - amounts due to the series 2 Financing swap provider in respect of the series 2 class B Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 2 Financing swap provider in respect of the series 2 class B Financing swap to pay interest and principal due and payable on the series 2 class B Financing notes;
  - amounts due to the series 3 Financing swap provider in respect of the series 3 class B Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 3 Financing swap provider in respect of the series 3 class B Financing swap to pay interest and principal due and payable on the series 3 class B Financing notes; and

- amounts due to the series 4 Financing swap provider in respect of the series 4 class B Financing Swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 4 Financing swap provider in respect of the series 4 class B Financing swap to pay interest and principal due and payable on the Series 4 Class B Financing Notes;
- (E) *then*, without priority among them but in proportion to the respective amounts due, to pay:
- amounts due to the series 1 Financing swap provider in respect of the series 1 class C Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 1 Financing swap provider in respect of the series 1 class C Financing swap to pay interest and principal due and payable on the series 1 class C Financing notes;
  - amounts due to the series 2 Financing swap provider in respect of the series 2 class C Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 2 Financing swap provider in respect of the series 2 class C Financing swap to pay interest and principal due and payable on the series 2 class C Financing notes;
  - amounts due to the series 3 Financing swap provider in respect of the series 3 class C Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 3 Financing swap provider in respect of the series 3 class C Financing swap to pay interest and principal due and payable on the series 3 class C Financing notes; and
  - amounts due to the series 4 Financing swap provider in respect of the series 4 class C Financing swap (including any termination payment but excluding any related Financing swap excluded termination amount) and from amounts received from the series 4 Financing swap provider in respect of the series 4 class C Financing swap to pay interest and principal due and payable on the series 4 class C Financing notes;
- (F) *then*, without priority among them but in proportion to the respective amounts due, to pay any termination payment due (without double counting) to:
- the series 1 Financing swap provider, following a Financing swap provider default or a Financing swap provider downgrade termination event by the series 1 Financing swap provider;
  - the series 2 Financing swap provider, following a Financing swap provider default or a Financing swap provider downgrade termination event by the series 2 Financing swap provider;
  - the series 3 Financing swap provider, following a Financing swap provider default or a Financing swap provider downgrade termination event by the series 3 Financing swap provider; and
  - the Series 4 Financing swap provider, following a Financing swap provider default or a Financing swap provider downgrade termination event by the series 4 Financing swap provider.

## Credit structure

8.3.4.2

The Financing notes will be obligations of Financing only and will not be obligations of, or the responsibility of, or guaranteed by, any other party. However, there are a number of features of the transaction which enhance the likelihood of timely receipt of payments to noteholders, as follows:

- Funding 1 available revenue receipts are expected to exceed interest and fees payable to Financing;
- a shortfall in Funding 1 available revenue receipts may be met from Funding 1's principal receipts;
- a general reserve fund has been established to help meet shortfalls in principal due on the original bullet term advances and original scheduled amortisation term advances in the circumstances described below;
- the general reserve fund may also be used to increase the available revenue receipts (to help meet any shortfall which may arise, for example, due to non-performance of loans in the mortgages trust);
- Funding 1 will be obliged to establish a liquidity reserve fund if the seller ceases to have a long-term unsecured, unsubordinated and unguaranteed credit rating by Moody's of at least A3 or at least A- by Fitch (unless the relevant rating agency confirms that the current rating of the notes will not be adversely affected by the rating downgrade of the seller);
- payments on the class C Financing notes will be subordinated to payments on the class A Financing notes and the class B Financing notes;
- payments on the class B Financing notes will be subordinated to payments on the class A Financing notes;
- the mortgages trustee GIC account and the Funding 1 GIC account each earn interest at the rate of 0.25 per cent. below LIBOR for three-month sterling deposits;
- a liquidity facility is available to Funding 1 to pay interest on all Financing term advances, previous term advances, principal amounts due on Financing's original bullet term advances and Financing's original scheduled amortisation term advances and principal amounts due on the previous original bullet term advances and previous original scheduled amortisation term advances in the circumstances described below; and
- the Financing start-up loan will be provided to increase the general reserve fund and meet the costs of setting up the structure.

Each of these factors is considered more fully in the remainder of this section.

### **Credit support for the Financing notes provided by Funding 1 available revenue receipts**

It is anticipated that, during the life of the Financing notes, the Funding 1 share of the interest received from borrowers on the loans will, assuming that all of the loans are fully performing, be greater than the sum of the interest which Financing has to pay on all of the Financing notes, the interest which the previous issuing entities have to pay on all of the previous notes, the interest which each new issuing entity has to pay on all of the new notes (if and when issued) and the other costs and expenses of the structure. In other words, the Funding 1 available revenue receipts will be sufficient to pay the amounts payable under items (A) to (F), (H), (J) and (L) of the Funding 1 pre-enforcement revenue priority of payments assuming all loans are fully performing.

The actual amount of any excess will vary during the life of the Financing notes. Two of the key factors determining the variation are as follows:

- the interest rate on the loans in the portfolio; and
- the level of arrears experienced.



### **Level of arrears experienced**

If the level of arrears of interest payments made by the borrowers results in Funding 1 experiencing an income deficit, Funding 1 will be able to use the following amounts to cure that income deficit:

*first*, amounts standing to the credit of the general reserve fund, as described in “– **General reserve fund**”;

*second*, drawings under the liquidity reserve fund, if available, as described in “– **Liquidity reserve fund**”;

*third*, principal receipts, if any, as described in “– **Use of Funding 1 principal receipts to pay Funding 1 income deficiency**”; and

*fourth*, drawings under the Funding 1 liquidity facility, if available, as described in “– **Funding 1 liquidity facility**”, but only to pay certain amounts due on the term advances made by the previous issuing entities.

Any excess of Funding 1 revenue receipts will be applied on each Funding 1 interest payment date to the extent described in the Funding 1 pre-enforcement revenue priority of payments, including to extinguish amounts standing to the debit of any principal deficiency ledger and to replenish the reserve funds.

### **Use of Funding 1 principal receipts to pay Funding 1 income deficiency**

Four business days prior to each Funding 1 interest payment date, the cash manager will calculate whether there will be an excess or a deficit of Funding 1 available revenue receipts to pay items (A) to (F), (H), (J) and (L) of the Funding 1 pre-enforcement revenue priority of payments.

If there is a deficit, then Funding 1 shall pay or provide for that deficit by the application of Funding 1 available principal receipts (plus any part of the balance of the cash accumulation ledger which is not comprised in Funding 1 available principal receipts), if any, and the cash manager shall make a corresponding entry in the relevant principal deficiency sub-ledger, as described in “–**Principal deficiency ledger**” as well as making a debit in the Funding 1 principal ledger. Any such entry and debit shall be made and taken into account (including as to which priority of payments shall apply) prior to the application of Funding 1 available principal receipts on the relevant Funding 1 interest payment date.

Funding 1 principal receipts may not be used to pay interest on any term advance if and to the extent that would result in a deficiency being recorded, or an existing deficiency being increased, on a principal deficiency sub-ledger relating to a term advance with a higher rating designation.

### **General reserve fund**

A general reserve fund has been established:

- to contribute to Funding 1 available revenue receipts (including to help meet any deficit recorded on the principal deficiency ledger); and
- to make, where necessary, “eligible general reserve fund principal repayments”, being:
  - (i) prior to the occurrence of a trigger event;
    - (a) repayments of principal which are then due and payable in respect of the original bullet term advances; and
    - (b) repayments of principal in respect of original scheduled amortisation term advances on their respective final maturity dates only; and
  - (ii) on or after the occurrence of a non-asset trigger event or an asset trigger event, repayments of principal in respect of original bullet term advances and original scheduled amortisation term advances on their respective final maturity dates only,

in each case prior to the service of an intercompany loan acceleration notice on Funding 1.

The general reserve fund:

- (i) was initially funded on the initial closing date from a portion of the first start-up loan, was further funded on some other previous closing dates from a portion of the relevant previous start-up loans and will amount to approximately £525,000,000 on the closing date;
- (ii) may be replenished from excess Funding 1 available revenue receipts (as described further below), after Funding 1 has paid all of its obligations in respect of items ranking higher than the reserve funds in the Funding 1 pre-enforcement revenue priority of payments on each Funding 1 interest payment date (see “**Cashflows – Distribution of Funding 1 available revenue receipts before intercompany loan acceleration**”).

A general reserve ledger is maintained by the cash manager to record the balance from time to time of the general reserve fund.

On each Funding 1 interest payment date the amount of the general reserve fund is added to certain other income of Funding 1 in calculating Funding 1 available revenue receipts.

The general reserve fund is replenished up to and including an amount equal to the general reserve fund required amount on Funding 1 interest payment dates from Funding 1 available revenue receipts at item (O) of the Funding 1 pre-enforcement revenue priority of payments and from Funding 1 available principal receipts at item (B) of the relevant Funding 1 pre-enforcement principal priority of payments. The “**general reserve fund required amount**” is an amount equal to £545,000,000.

The seller, Funding 1 and the security trustee may agree to increase, decrease or amend the general reserve fund required amount from time to time. The prior consent of noteholders and other creditors of Funding 1 will not be obtained in relation to such amendment, provided that the rating agencies have confirmed that the ratings of the notes will not be adversely affected by the proposed amendment.

### **Principal deficiency ledger**

A principal deficiency ledger has been established to record:

- on each calculation date, any principal losses on the loans allocated to Funding 1; and/or
- on each Funding 1 interest payment date, any application of Funding 1 available principal receipts to meet any deficiency in Funding 1 available revenue receipts (as described in “**– Use of Funding 1 principal receipts to pay Funding 1 income deficiency**”);

and/or

- the application of Funding 1 available principal receipts which are allocated to fund the liquidity reserve fund up to the liquidity reserve fund required amount.

The principal deficiency ledger is split into four sub-ledgers which will each correspond to all the term advances, as follows:

- the AAA principal deficiency sub-ledger corresponding to the term AAA advances;
- the AA principal deficiency sub-ledger corresponding to the term AA advances;
- the A principal deficiency sub-ledger corresponding to the term A advances; and
- the BBB principal deficiency sub-ledger corresponding to the term BBB advances.

Losses on the loans and/or the application of Funding 1 available principal receipts to pay interest on the term advances will be recorded as follows:

- *first*, on the BBB principal deficiency sub-ledger until the balance of the BBB principal deficiency sub-ledger is equal to the aggregate principal amount outstanding of the term BBB advances;

- *second*, on the A principal deficiency sub-ledger until the balance of the A principal deficiency sub-ledger is equal to the aggregate principal amount outstanding of the term A advances;
- *third*, on the AA principal deficiency sub-ledger until the balance of the AA principal deficiency sub-ledger is equal to the aggregate principal amount outstanding of the term AA advances; and
- *fourth*, on the AAA principal deficiency sub-ledger, at which point there will be an asset trigger event (unless such losses are recorded when (a) the aggregate principal amount outstanding of each of the term AA advances, the term A advances and the term BBB advances is equal to zero and (b) the sum of (i) the amount standing to the credit of the general reserve ledger and (ii) the amount standing to the credit of the Funding 1 revenue ledger together with amounts determined and due to be credited to the Funding 1 revenue ledger prior to the immediately following Funding 1 interest payment date after such debit is made, is greater than the amount necessary to pay the items in paragraphs (A) to (G) in the Funding 1 pre-enforcement revenue priority of payments on the immediately following Funding 1 interest payment date after such debit is made).

Losses on the loans and/or the application of Funding 1 available principal receipts to pay interest on the term advances will not be recorded on the principal deficiency ledger on any day to the extent that the Funding 1 share of the trust property together with amounts standing to the credit of the Funding 1 cash accumulation ledger and the Funding 1 principal ledger, in aggregate is greater than or equal to the aggregate outstanding principal balance of the intercompany loans on that day, after taking account of such losses or the relevant application of principal receipts.

Prior to the service of an intercompany loan acceleration notice on Funding 1, Funding 1 available revenue receipts will be applied on each Funding 1 interest payment date in the manner and to the extent described in the Funding 1 pre-enforcement revenue priority of payments as follows:

- *first*, in an amount necessary to reduce to zero the balance on the AAA principal deficiency sub-ledger;
- *second*, provided that interest due on the term AA advances has been paid, in an amount necessary to reduce to zero the balance on the AA principal deficiency sub-ledger;
- *third*, provided that interest due on the term A advances has been paid, in an amount to reduce to zero the balance on the A principal deficiency sub-ledger; and
- *fourth*, provided that interest due on the term BBB advances has been paid, in an amount necessary to reduce to zero the balance on the BBB principal deficiency sub-ledger.

See also “– **Use of Funding 1 principal receipts to pay Funding 1 income deficiency**”.

In general, if Funding 1 borrows a new term advance under a new intercompany loan, and that new term advance does not have a rating designation of either AAA, AA, A or BBB, then Funding 1 will establish a new principal deficiency sub-ledger. That new principal deficiency sub-ledger will correspond to and be known by the rating designation of the relevant new term advance.

Losses on the loans and/or the application of Funding 1 available principal receipts to pay interest on the term advances will first be recorded on the principal deficiency sub-ledger with the lowest rating designation and then to other principal deficiency sub-ledgers in ascending priority of rating designation. Any excess revenue of Funding 1 will be applied first to the principal deficiency sub-ledger with the highest rating designation and then to other principal deficiency sub-ledgers in descending order of rating designation.

### **Financing available funds**

On each Funding 1 interest payment date in respect of the Financing intercompany loan, Financing will receive from Funding 1 an amount equal to or less than the amount which it needs to pay out on the corresponding interest payment date in respect of the Financing notes in

accordance with the Financing pre-enforcement principal priority of payments and the Financing pre-enforcement revenue priority of payments. It is not intended that any surplus cash will be accumulated in Financing.

Please see also the description of the Financing swaps under “**The swap agreements**”.

### **The class B Financing notes and the class C Financing notes**

13.4.6

Payments of interest on the Financing notes will be prioritised so that interest payments on the class C Financing notes will be subordinated to interest payments on the class B Financing notes and interest payments on the class B Financing notes will be subordinated to interest payments on the class A Financing notes, as detailed in the Financing priority of payments.

Any shortfall in payments of interest on the class B Financing notes and/or the class C Financing notes will be deferred until the next interest payment date. On the next interest payment date, the amount of interest due on each class of notes will be increased to take account of any deferred interest. If on that interest payment date, there is still a shortfall, that shortfall will be deferred again. This deferral process will continue until the final maturity date of the notes, at which point if there is insufficient money available to Financing to pay interest on the class B Financing notes or the class C Financing notes, then you may not receive all interest amounts payable on those classes of Financing notes.

Financing is not able to defer payments of interest due on any interest payment date in respect of the class A Financing notes. The failure to pay interest on the class A Financing notes will be an event of default under that class of Financing notes.

The class A Financing notes, the class B Financing notes, and the class C Financing notes will be constituted by the trust deed and will share the same security. However, upon enforcement of the Financing security or the occurrence of a trigger event, the class A Financing notes will rank in priority to the class B Financing notes and the class C Financing notes; and the class B Financing notes will rank in priority to the class C Financing notes.

### **Mortgages trustee GIC account/Funding 1 GIC account**

All amounts held by the mortgages trustee have been and will continue to be deposited in the mortgages trustee GIC account with the mortgages trustee GIC provider. This account is subject to the mortgages trustee guaranteed investment contract under which the mortgages trustee GIC provider has agreed to pay a variable rate of interest on funds in the mortgages trustee GIC account of 0.25 per cent. per annum below LIBOR for three-month sterling deposits.

Amounts held in the collection account will not have the benefit of a guaranteed investment contract but following receipt will be transferred into the mortgages trustee GIC account on a regular basis and in any event in the case of direct debits no later than the next business day after they are deposited in the collection account.

All amounts held by Funding 1 have been and will continue to be deposited in the Funding 1 GIC account in the first instance. The Funding 1 GIC account is maintained with the Funding 1 GIC provider. This account is subject to the Funding 1 guaranteed investment contract under which the Funding 1 GIC provider has agreed to pay a variable rate of interest on funds in the Funding 1 GIC account of 0.25 per cent. per annum below LIBOR for three-month sterling deposits.

The mortgages trustee GIC provider and the Funding 1 GIC provider are required to satisfy certain criteria (including certain criteria and/or permissions set or required by the FSA from time to time) in order to continue to receive deposits in the mortgages trustee GIC account and the Funding 1 GIC account respectively. These criteria include a requirement that the short-term, unguaranteed and unsecured ratings of the mortgages trustee GIC provider or the Funding 1 GIC provider, as the case may be, are at least A-1+ by Standard & Poor's, F1+ by Fitch and P-1 by Moody's, unless each rating agency confirms that its then current rating of the notes would not be adversely affected as a result of such ratings falling below these minimum ratings. If either the mortgages trustee GIC provider or the Funding 1 GIC provider ceases to satisfy these criteria, then the relevant account may be transferred to another entity which does satisfy these criteria.

## **Funding 1 liquidity facility**

The following section contains a summary of the material terms of the Funding 1 liquidity facility. The summary does not purport to be complete and is subject to the provisions of the Funding 1 liquidity facility agreement.

### **General description**

The Funding 1 liquidity facility is available to make payments on the Financing term advances and previous term advances and to pay certain senior expense amounts.

On the initial closing date Funding 1 entered into the Funding 1 liquidity facility agreement with the Funding 1 liquidity facility provider in relation to the previous term advances made to it by Permanent Financing (No. 1) PLC. The Funding 1 liquidity facility agreement was subsequently amended and restated to, among other matters, provide liquidity for the previous term advances made to it by the other previous issuing entities. On the closing date, the Funding 1 liquidity facility agreement will be further amended and restated to, among other matters, provide liquidity for the Financing term advances. Under the Funding 1 liquidity facility agreement, the Funding 1 liquidity facility provider has agreed to grant to Funding 1 a liquidity facility upon the terms, subject to the conditions and for the purposes described below:

- paying in full on any Funding 1 interest payment date interest due and payable on all Financing term advances and previous term advances as specified in the Funding 1 pre-enforcement revenue priority of payments provided that:
  - (1) drawings may not be made under the Funding 1 liquidity facility to pay interest on item (H) of the Funding 1 pre-enforcement revenue priority of payments (being payment of interest on the term AA advances) if, at the date of the relevant drawing, the debit balance on the AA principal deficiency sub-ledger is in an amount equal to or in excess of 50 per cent. of the principal amount outstanding of the term AA advances;
  - (2) drawings may not be made under the Funding 1 liquidity facility to pay interest on item (J) of the Funding 1 pre-enforcement revenue priority of payments (being payment of interest on the term A advances) if, at the date of the relevant drawing, the debit balance on the A principal deficiency sub-ledger is in an amount equal to or in excess of 50 per cent. of the principal amount outstanding of the term A advances; and
  - (3) drawings may not be made under the Funding 1 liquidity facility to pay interest on item (L) of the Funding 1 pre-enforcement revenue priority of payments (being payment of interest on the term BBB advances) if, at the date of the relevant drawing, the debit balance on the BBB principal deficiency sub-ledger is in an amount equal to or in excess of 50 per cent. of the principal amount outstanding of the term BBB advances; and/or
- making “eligible liquidity facility principal repayments”, being:
  - (i) prior to the occurrence of a trigger event:
    - (a) repayments of principal which are then due and payable in respect of previous original bullet term advances and Financing’s original bullet term advances; and
    - (b) repayments of principal in respect of previous original scheduled amortisation term advances and Financing’s original scheduled amortisation term advances on their respective final maturity dates only; and
  - (ii) following the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event, repayments of principal in respect of previous original bullet term advances, Financing’s original bullet term advances, previous original scheduled amortisation term advances and Financing’s original scheduled amortisation term advances on their respective final maturity dates only; in each

case prior to the service of an intercompany loan acceleration notice on Funding 1 and taking into account any allocation of principal to meet any deficiency in Funding 1's available revenue receipts.

Following the occurrence of an asset trigger event the Funding 1 liquidity facility will not be available to repay principal in respect of original bullet term advances or original scheduled amortisation term advances of the current issuing entities.

The Funding 1 liquidity facility will be a 364-day committed facility. Each year, Funding 1 may request a renewal of the Funding 1 liquidity facility for a further 364 days by giving written notice to the Funding 1 liquidity facility provider not more than 30 days and not less than 20 days before the expiration of the 364-day period.

### ***Funding 1 liquidity drawings***

If the cash manager determines on the London business day immediately preceding a Funding 1 interest payment date that Funding 1 will not have sufficient funds to make the payments specified in “– **General description**” above (a shortfall known as the **Funding 1 liquidity shortfall**), then the cash manager must direct Funding 1 to request a drawing under the Funding 1 liquidity facility (a **Funding 1 liquidity facility drawing**) to apply towards the Funding 1 liquidity shortfall. The drawing will be the lesser of the amount of the Funding 1 liquidity shortfall and the amount available for drawing under the Funding 1 liquidity facility. A drawing may only be made by a duly completed drawdown notice signed by an authorised signatory of Funding 1.

### ***Conditions precedent to a Funding 1 liquidity drawing***

A drawing may be made under the Funding 1 liquidity facility:

- if no event of default exists under the Funding 1 liquidity facility;
- if no asset trigger event has occurred; and
- if insufficient amounts are available for drawing from the reserve funds.

### ***Funding 1 liquidity facility stand-by account***

The Funding 1 liquidity facility agreement provides that if:

- the relevant rating(s) of the Funding 1 liquidity facility provider is or are, as applicable, downgraded by a rating agency below the rating(s) specified in the Funding 1 liquidity facility agreement; or
- the Funding 1 liquidity facility provider does not agree to renew the Funding 1 liquidity facility beyond each 364-day commitment period,

then Funding 1 may require the Funding 1 liquidity facility provider to pay an amount equal to the then undrawn commitment under the Funding 1 liquidity facility agreement (the **Funding 1 standby drawing**) into a designated bank account of Funding 1 (the **Funding 1 liquidity facility stand-by account**). The Funding 1 liquidity facility stand-by account must be maintained with a bank having the requisite ratings, which will be the Funding 1 liquidity facility provider if it has the requisite ratings. Amounts standing to the credit of the Funding 1 liquidity facility stand-by account will be available for drawing during the period that the Funding 1 liquidity facility is available in the circumstances described and for investing in short-term authorised investments.

All interest accrued on the amount on deposit in the Funding 1 liquidity facility stand-by account will belong to Funding 1.

Funding 1 may require that the Funding 1 liquidity facility provider transfer its rights and obligations under the Funding 1 liquidity facility agreement to a replacement Funding 1 liquidity facility provider which has the requisite ratings so long as the then current ratings of the notes (whether the previous notes, the Financing notes or any new notes) are not adversely affected by that transfer.

### ***Interest on Funding 1 liquidity drawings***

Interest is payable to the Funding 1 liquidity facility provider on the principal amount of a Funding 1 liquidity facility drawing but is not payable on the principal amount of a Funding 1 standby drawing (other than, for so long as amounts are outstanding under the intercompany loan made by Permanent Financing (No. 1) PLC to Funding 1, the first £60,000,000 of the Funding 1 stand-by drawing). This interest is payable at a rate based on three-month sterling LIBOR plus a margin of 0.50 per cent. per annum. Unpaid interest will be added to the principal amount owed to the Funding 1 liquidity facility provider and interest will accrue on that amount.

A commitment fee is also payable at the rate of 0.08 per cent. per annum on the undrawn, uncanceled amount of the Funding 1 liquidity facility. The commitment fee is payable quarterly in arrear on each Funding 1 interest payment date. A contingent fee will be payable at the rate of 0.38 per cent. per annum on any Funding 1 stand-by drawing together with an amount equal to any interest received by Funding 1 on the Funding 1 liquidity facility stand-by account (other than, for so long as amounts are outstanding under the intercompany loan made by Permanent Financing (No. 1) PLC to Funding 1, the first £60,000,000 of the Funding 1 stand-by drawing).

Interest and fees on the Funding 1 liquidity facility are senior to amounts due to the Funding 1 swap provider under the Funding 1 pre-enforcement revenue priority of payments and under the Funding 1 post-enforcement priority of payments.

### ***Repayment of Funding 1 liquidity drawings***

If an amount has been drawn down under the Funding 1 liquidity facility, the principal amount is repayable on the following Funding 1 interest payment date from Funding 1 available principal receipts (to the extent that the drawing has been made to repay principal on the relevant Funding 1 term advance) or from Funding 1 available revenue receipts (to the extent that the drawing has been made to pay interest on other relevant revenue expenses), prior to making payments on the term advances.

### ***Events of default under the Funding 1 liquidity facility***

It is an event of default under the Funding 1 liquidity facility, whether or not that event is within the control of Funding 1, if, among other things:

- (a) Funding 1 does not pay within three business days of the due date any amount due and payable under the Funding 1 liquidity facility, other than Funding 1 liquidity subordinated amounts, where funds are available;
- (b) an event of default occurs under any previous intercompany loan and notice is or should be served on Funding 1 in relation to that default; or
- (c) it is or becomes unlawful for Funding 1 to perform any of its obligations under the Funding 1 liquidity facility.

### ***Consequences of default***

After the occurrence of an event of default under the Funding 1 liquidity facility agreement, the Funding 1 liquidity facility provider may by notice to Funding 1:

- cancel the Funding 1 liquidity facility commitment; and/or
- demand that all or part of the loans made to Funding 1 under the Funding 1 liquidity facility, together with accrued interest and all other amounts accrued under the Funding 1 liquidity facility agreement, be immediately due and payable, in which case they shall become immediately due and payable; and/or
- demand that all or part of the loans made under the Funding 1 liquidity facility be repayable on demand, in which case they will immediately become repayable on demand.

The occurrence of an event of default under the Funding 1 liquidity facility agreement may constitute an intercompany loan event of default as set out in “**The Financing intercompany loan agreement – Financing intercompany loan events of default**”.

### ***Funding 1 liquidity facility provider a secured creditor***

The Funding 1 liquidity facility provider is a secured creditor of Funding 1 pursuant to the Funding 1 deed of charge. All amounts owing to the Funding 1 liquidity facility provider will, on the service of an intercompany loan acceleration notice on Funding 1, rank in priority to the payment of all amounts of interest and principal in respect of the term advances.

### ***Governing law***

The Funding 1 liquidity facility agreement is governed by English law.

### ***Additional Funding 1 liquidity facility***

If the rating of the short-term unsecured, unguaranteed and unsubordinated debt obligations of the seller fall below A-1 by Standard & Poor's, P-1 by Moody's and F1 by Fitch, then Funding 1 (unless otherwise agreed in writing with the rating agencies and the security trustee) will enter into an additional liquidity facility agreement (the **additional Funding 1 liquidity facility agreement**). The additional Funding 1 liquidity facility provider will be a bank the short-term unsecured, unguaranteed and unsubordinated debt obligations of which are rated at least A-1+ by Standard & Poor's, P-1 by Moody's and F1+ by Fitch, unless otherwise agreed by the rating agencies and the security trustee.

Under the terms of the additional Funding 1 liquidity facility agreement, Funding 1 will be permitted to make drawings only if (i) an insolvency event (as defined in the Glossary) occurs in relation to the seller and (ii) no intercompany loan acceleration notice has been served by the security trustee, in order to pay interest and amounts ranking in priority to interest in the Funding 1 pre-enforcement revenue priority of payments.

The other terms of the additional Funding 1 liquidity facility agreement will be agreed at the time that Funding 1 is required to enter into such an agreement, subject to the prior written approval of the rating agencies and the security trustee.

The additional Funding 1 liquidity facility provider will accede to the terms of the Funding 1 deed of charge and will be a secured creditor of Funding 1, and all payments due to the additional Funding 1 liquidity facility provider will rank in priority to payments of interest and principal on the term advances, and will rank equally and proportionately with amounts due to the existing Funding 1 liquidity facility provider. The other Funding 1 secured creditors (including Financing) will agree on the closing date to the proposed accession.

If the Funding 1 liquidity facility has been used to pay any amounts in relation to the Funding 1 pre-enforcement revenue priority of payments as described in “– **Funding 1 liquidity facility – General description**”, then the Funding 1 liquidity facility provider will be repaid from Funding 1 revenue receipts prior to paying interest on the term advances. If the Funding 1 liquidity facility has been used to pay principal amounts due on the eligible liquidity facility term advances, then the Funding 1 liquidity facility provider will be repaid from Funding 1 principal receipts prior to paying principal amounts due on the term advances.

### ***Liquidity reserve fund***

Funding 1 will be required to establish a liquidity reserve fund to the extent of the liquidity reserve fund required amount if, and for as long as, the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller cease to be rated at least A3 by Moody's or A- by Fitch (unless Moody's or Fitch, as applicable, confirms that the then current ratings of the Financing notes will not be adversely affected by the ratings downgrade). If following a subsequent increase in the seller's rating Funding 1 would no longer be required to maintain the liquidity reserve fund, then Funding 1 at its option may terminate the liquidity reserve fund, and all amounts standing to the credit of the liquidity reserve ledger will then be treated as Funding 1 available revenue receipts for the next Funding 1 interest payment date. In addition, following a reduction in the liquidity reserve fund required amount, amounts standing to the credit of the liquidity reserve ledger in excess of the liquidity reserve fund required amount will then be treated as Funding 1 available revenue receipts for the next Funding 1 interest payment date.



Prior to enforcement of the Funding 1 security, the liquidity reserve fund may be used as part of Funding 1 available revenue receipts to fund the payment of certain senior expenses and interest on term advances made by Financing and previous issuing entities. The liquidity reserve fund is also available to make “**eligible liquidity fund principal repayments**”, which are:

- (i) prior to the occurrence of a trigger event:
  - (a) repayments of principal which are then due and payable in respect of previous original bullet term advances and Financing’s original bullet term advances; and
  - (b) repayments of principal in respect of previous original scheduled amortisation term advances and Financing’s original scheduled amortisation term advances on their respective final maturity dates only; and
- (ii) following the occurrence of a non-asset trigger event or an asset trigger event, repayments of principal in respect of previous original bullet term advances, Financing’s original bullet term advances, previous original scheduled amortisation term advances and Financing’s original scheduled amortisation term advances on their respective final maturity dates only,

in each case prior to the service of an intercompany loan acceleration notice on Funding 1 and taking into account any allocation of principal to meet any deficiency in Funding 1’s available revenue receipts.

The liquidity reserve fund, if required to be funded, will be funded initially from Funding 1 available revenue receipts or (if insufficient funds are available therefrom) from Funding 1 available principal receipts in accordance with the Funding 1 pre-enforcement revenue priority of payments or Funding 1 pre-enforcement principal priority of payments, as applicable. The liquidity reserve fund will be deposited in Funding 1’s name in the Funding 1 GIC account into which the general reserve fund is also deposited. All interest or income accrued on the amount of the liquidity reserve fund while on deposit in the Funding 1 GIC account will belong to Funding 1. The cash manager will maintain a separate liquidity reserve ledger to record the balance from time to time of the liquidity reserve fund.

The liquidity reserve fund is funded and replenished up to and including an amount equal to the liquidity reserve fund required amount on Funding 1 interest payment dates from Funding 1 available revenue receipts at item (P) of the Funding 1 pre-enforcement revenue priority of payments and from Funding 1 available principal receipts at item (C) of the relevant Funding 1 pre-enforcement principal priority of payments.

Following enforcement of the Funding 1 security, amounts standing to the credit of the liquidity reserve ledger may be applied in making payments of principal due under the term advances.

### **Start-up loan**

The following section contains a summary of the material terms of the Financing start-up loan agreement. The summary does not purport to be complete and is subject to the provisions of the Financing start-up loan agreement. Funding 1 has also entered into the previous start-up loan agreements as described in “– **General reserve fund**” above.

### **General description**

On the closing date, Halifax (the **start-up loan provider**) will make available to Funding 1 the Financing start-up loan under the Financing start-up loan agreement. This will be a subordinated loan facility in an amount of approximately £5,800,000, for meeting the costs and expenses incurred by Funding 1 in connection with its payment to the seller of part of the consideration for loans (together with their related security) sold to the mortgages trustee on the closing date and the fees payable under the Financing intercompany loan agreement which relate to the costs of issue of the Financing notes.

### **Interest**

The Financing start-up loan will bear interest until the Financing step-up date, at the rate of LIBOR for three-month sterling deposits plus 0.25 per cent. per annum and from the Financing

step-up date at the rate of LIBOR for three-month sterling deposits at 0.50 per cent. per annum. For the first interest period, LIBOR will be determined on the basis of a linear interpolation between LIBOR for two-month and three-month sterling deposits. Any unpaid interest will be added to the principal amount owed and will bear interest. Interest is payable by Funding 1 on each Funding 1 interest payment date.

***Repayment***

Funding 1 will repay the Financing start-up loan, but only to the extent that it has Funding 1 available revenue receipts after making higher ranking payments (see further “**Security for Funding 1’s obligations – Funding 1 pre-enforcement priority of payments**” and “**Security for Funding 1’s obligations – Funding 1 post-enforcement priority of payments**”). Amounts due to the start-up loan provider are payable after amounts due on the term advances to the current issuing entities. After Funding 1 has repaid the Financing start-up loan, it will have no further recourse to the start-up loan provider.

***Event of default***

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

The occurrence of an event of default under any start-up loan agreement may constitute a Financing intercompany loan event of default as set out in “**The Financing intercompany loan agreement – Financing intercompany loan events of default**”.

***Acceleration***

If notice is given that the security granted by Funding 1 under the Funding 1 deed of charge is to be enforced, then the Financing start-up loan will become immediately due and payable.

***Governing law***

The Financing start-up loan agreement will be governed by English law.

## The swap agreements

The following section contains a summary of the material terms of the Funding 1 swap agreement and the Financing swap agreements. The summary does not purport to be complete and is subject to the provisions of those swap agreements.

### General

Funding 1 has entered into the Funding 1 swap agreement with Halifax (as the Funding 1 swap provider) and the security trustee. Financing will enter into Financing swaps with the Financing swap providers and the security trustee. In general, the swaps are designed to do the following:

- Funding 1 swap: to hedge against the possible variance between the mortgages trustee variable base rate payable on the variable rate loans, the rates of interest payable on the tracker rate loans and the fixed rates of interest payable on the fixed rate loans and a LIBOR-based rate for three-month sterling deposits;
- Financing dollar currency swaps: to protect Financing against changes in the sterling to US dollar exchange rate following the closing date and the possible variance between a LIBOR-based rate for three-month sterling deposits and either (i) a LIBOR-based rate for one-month dollar deposits applicable to the series 1 class A Financing notes, or (ii) a LIBOR-based rate for three-month dollar deposits applicable to the offered Financing notes (other than the series 1 class A Financing notes), and to address the difference in periodicity between the interest payment dates in respect of the intercompany loans, which occur quarterly, and the interest payment dates in respect of the series 1 class A Financing notes, which occur (i) monthly until the occurrence of a trigger event or enforcement of the Financing security and (ii) quarterly on and following the interest payment date occurring immediately thereafter; and
- Financing euro currency swaps: to protect Financing against changes in the sterling to euro exchange rate following the closing date and the possible variance between a LIBOR-based rate for three-month sterling deposits and a EURIBOR-based rate for three-month euro deposits applicable to the series 4 Financing notes.

### The Funding 1 swap

Some of the loans in the portfolio pay a variable rate of interest for a period of time which may be linked to the mortgages trustee variable base rate, linked to a variable interest rate other than the mortgages trustee variable base rate, such as a rate set by the Bank of England, or linked to the flexible variable rate. Other loans pay a fixed rate of interest for a period of time. However, the interest rate payable by Funding 1 with respect to the Financing term advances is calculated as a margin over LIBOR for three-month sterling deposits. To provide a hedge against the possible variance between:

- (1) the mortgages trustee variable base rate payable on the variable rate loans, the rates of interest payable on the tracker rate loans and the fixed rates of interest payable on the fixed rate loans; and
- (2) a LIBOR-based rate for three-month sterling deposits.

Funding 1, the Funding 1 swap provider and the security trustee will amend and restate the Funding 1 swap agreement on the closing date. The Funding 1 swap will:

- have a notional amount that is sized to hedge against any potential interest rate mismatches in relation to the previous notes and the Financing notes which remain outstanding; and
- provide for the notional amount to be increased as appropriate to hedge against similar potential interest rate mismatches in relation to any new issues.

Under the Funding 1 swap, on each calculation date (as defined in the Glossary) the following amounts will be calculated:

- the amount produced by applying LIBOR for three-month sterling deposits (as determined in respect of the corresponding interest period under the intercompany loans) plus a spread for the relevant calculation period to the notional amount of the Funding 1 swap (known as the **calculation period swap provider amount**); and
- the amount produced by applying a rate equal to the weighted average of:
  - (i) the average of the standard variable mortgage rates or their equivalent charged to existing borrowers on residential mortgage loans as published from time to time, after excluding the highest and the lowest rate, of Abbey National plc, HSBC Bank plc, Cheltenham & Gloucester plc, National Westminster Bank Plc, Nationwide Building Society, Northern Rock plc, and Woolwich plc (and where those banks have more than one standard variable rate, the highest of those rates);
  - (ii) the rates of interest payable on the tracker rate loans; and
  - (iii) the rates of interest payable on the fixed rate loans,

for the relevant calculation period to the notional amount of the Funding 1 swap (known as the **calculation period Funding 1 amount**).

On each Funding 1 interest payment date the following amounts will be calculated:

- the sum of each of the calculation period swap provider amounts calculated during the preceding interest period; and
- the sum of each of the calculation period Funding 1 amounts calculated during the preceding interest period.

After these two amounts are calculated in relation to a Funding 1 interest payment date, the following payments will be made on that Funding 1 interest payment date:

- if the first amount is greater than the second amount, then the Funding 1 swap provider will pay the difference to Funding 1;
- if the second amount is greater than the first amount, then Funding 1 will pay the difference to the Funding 1 swap provider; and
- if the two amounts are equal, neither party will make a payment to the other.

If a payment is to be made by the Funding 1 swap provider, that payment will be included in the Funding 1 available revenue receipts and will be applied on the relevant Funding 1 interest payment date according to the relevant priority of payments of Funding 1. If a payment is to be made by Funding 1, it will be made according to the relevant priority of payments of Funding 1.

The notional amount of the Funding 1 swap in respect of a calculation period will be an amount in sterling equal to:

- the aggregate principal amount outstanding of all intercompany loans during the relevant calculation period, less
- the balance of the principal deficiency ledger attributable to all intercompany loans during the relevant calculation period, less
- the amount of the principal receipts in the Funding 1 GIC account attributable to all intercompany loans during the relevant calculation period.

In the event that the Funding 1 swap is terminated prior to the service of any intercompany loan acceleration notice or final repayment of any intercompany loan, Funding 1 shall enter into a replacement Funding 1 swap on terms acceptable to the rating agencies, with the security trustee and with a swap provider whom the rating agencies have previously confirmed in writing to Funding 1, Financing and the security trustee will not cause the then current ratings of the current notes to be downgraded, withdrawn or qualified. If Funding 1 is unable to enter into a replacement Funding 1 swap on terms acceptable to the rating agencies, this may affect amounts available to pay interest on the intercompany loans.

## The Financing currency swaps

The Financing intercompany loan will be denominated in sterling and interest payable by Funding 1 to Financing under the Financing term advances is calculated as a margin over LIBOR for three-month sterling deposits. However, some of the Financing notes will be denominated in US dollars and will accrue interest at either a LIBOR-based rate for one-month US-dollar deposits or a LIBOR-based rate for three-month US dollar deposits. In addition, the series 4 Financing notes will be denominated in euro and will accrue interest at a EURIBOR-based rate for three-month euro deposits. To deal with the potential currency mismatch between (i) its receipts and liabilities in respect of the Financing intercompany loan and (ii) its receipts and liabilities under the Financing notes, Financing will, pursuant to the terms of the Financing currency swap, swap its receipts and liabilities in respect of the Financing intercompany loan on terms that match Financing's obligations under the US dollar denominated Financing notes or the euro denominated Financing notes, as applicable.

The currency amount of each Financing currency swap will be the principal amount outstanding under the Financing notes to which the relevant Financing currency swap relates. Subject, in the case of the class B and C Financing swaps, to certain deferral of interest provisions that will apply when payment of interest under the corresponding offered Financing notes is deferred in accordance with the terms and conditions of such offered Financing notes, the Financing swap providers will pay to Financing amounts in US dollars or euro, as applicable, that are equal to the amounts of interest to be paid on each of the classes of the offered Financing notes and Financing will pay to the Financing swap providers the sterling interest amounts received on the Financing term advances corresponding to the classes of the offered Financing notes. In order to allow for the effective currency amount of each Financing currency swap to amortise at the same rate as the relevant series and class of Financing notes, each Financing currency swap agreement will provide that, as and when the Financing notes amortise, a corresponding portion of the currency amount of the relevant Financing currency swap will amortise. Pursuant to each Financing currency swap agreement, any portion of Financing currency swap so amortised will be swapped from sterling into US dollars at the relevant US dollar currency exchange rate or into euro at the euro currency exchange rate, as applicable.

On the final maturity date of each class of offered Financing notes or, if earlier, the date on which such notes are redeemed in full (other than pursuant to number 5(F) (Redemption or purchase following a regulatory event) under "**Terms and conditions of the offered Financing notes**"), the relevant Financing swap provider will pay to Financing an amount in US dollars or euro, as applicable, equal to the principal amount outstanding under the relevant Financing notes and Financing will pay to the relevant Financing swap provider an equivalent amount in sterling, converted by reference to the dollar currency exchange rate or euro currency exchange rate, as applicable. If Financing does not have sufficient principal available pursuant to the cash management agreement to pay such amount in full on such date and accordingly pays only a part of such amount to the relevant Financing swap provider, the relevant Financing swap provider will be obliged on such date to pay only the equivalent of such partial amount in US dollars or euro, as applicable, in each case converted by reference to the dollar currency exchange rate or euro currency exchange rate, as applicable.

In the event that any currency Financing swap is terminated prior to the service of a Financing note acceleration notice or the final redemption of the relevant US dollar denominated or euro denominated Financing notes, as applicable, Financing shall enter into a replacement Financing currency swap in respect of that class and series of Financing notes. Any replacement Financing currency swap must be entered into on terms acceptable to the rating agencies, Financing and the security trustee and with a replacement Financing currency swap provider whom the rating agencies have previously confirmed in writing to Financing and the security trustee will not cause the then current ratings of the Financing notes to be downgraded, withdrawn or qualified. If Financing is unable to enter into any replacement Financing currency swaps on terms acceptable to the rating agencies, this may affect amounts available to pay amounts due under the Financing notes.

If a Financing currency swap agreement is terminated and Financing is unable to enter into a replacement swap as described above, then any payments received by Financing from Funding 1 on each Funding 1 interest payment date shall be deposited in Financing bank account (or such other account opened for this purpose) and applied by Financing to repay the Financing notes on each interest payment date after exchanging at the “spot” rate the relevant proceeds from sterling into US dollars or euros as required.

### **Ratings downgrade of swap providers**

Under each of the swap agreements, in the event that the relevant rating(s) of a swap provider, or its respective guarantor, as applicable, is or are, as applicable, downgraded by a rating agency below the rating(s) specified in the relevant swap agreement (in accordance with the requirements of the rating agencies) for such swap provider, and, if applicable, as a result of the downgrade, the then current ratings of the current notes, in respect of the Funding 1 swap, or the Financing notes corresponding to the relevant Financing swap, in respect of the relevant Financing swap, would or may, as applicable, be adversely affected, the relevant swap provider will, in accordance with the Funding 1 swap or the relevant Financing swap, as applicable, be required to take certain remedial measures which may include providing collateral for its obligations under the relevant swap, arranging for its obligations under the relevant swap to be transferred to an entity with rating(s) required by the relevant rating agency as specified in the relevant swap agreement (in accordance with the requirements of the relevant rating agency), procuring another entity with rating(s) required by the relevant rating agency as specified in the relevant swap agreement (in accordance with the requirements of the relevant rating agency) to become co-obligor or guarantor, as applicable, in respect of its obligations under the relevant swap, or taking such other action as it may agree with the relevant rating agency.

### **Termination of the swaps**

The Funding 1 swap and the Financing swaps will or may be terminated under certain circumstances, including the following:

- The Funding 1 swap will terminate on the date on which the aggregate principal amount outstanding under all intercompany loans is reduced to zero.
- Each Financing swap (other than the series 1 class A Financing swap, the series 2 class A Financing swap, the series 3 class A Financing swap and the series 4 class A Financing swap) will terminate on the earlier of the interest payment date falling in June 2042 and the date on which all of the relevant class and series of Financing notes are redeemed in full. The series 1 class A Financing swap will terminate on the earlier of the interest payment date falling in March 2007 and the date on which the series 1 class A Financing notes are redeemed in full (other than pursuant to number 5(F) (Redemption or purchase following a regulatory event) under “**Terms and conditions of the offered Financing notes**”). The series 2 class A Financing swap will terminate on the earlier of the interest payment date falling in March 2015 and the date on which the series 2 class A Financing notes are redeemed in full (other than pursuant to number 5(F) (Redemption or purchase following a regulatory event) under “**Terms and conditions of the offered Financing notes**”). The series 3 class A Financing swap will terminate on the earlier of the interest payment date falling in June 2033 and the date on which the series 3 class A Financing notes are redeemed in full (other than pursuant to number 5(F) (Redemption or purchase following a regulatory event) under “**Terms and conditions of the offered Financing notes**”). The series 4 class A Financing swap will terminate on the earlier of the interest payment date falling in June 2033 and the date on which the series 4 class A Financing notes are redeemed in full (other than pursuant to number 5(F) (Redemption or purchase following a regulatory event) under “**Terms and conditions of the offered Financing notes**”).
- Any swap agreement may also be terminated in certain other circumstances, including the following, each referred to as a **swap early termination event**;

- at the option of one party to the swap agreement, if there is a failure by the other party to pay any amounts due under that swap agreement and any applicable grace period has expired;
- in respect of the Financing swaps, at the option of the relevant Financing swap provider, if an event of default under the relevant class of Financing notes occurs and the security trustee serves a Financing note acceleration notice;
- in respect of the Funding 1 swap, at the option of the Funding 1 swap provider, if an event of default under any intercompany loan occurs and the security trustee serves an intercompany loan acceleration notice;
- in respect of the Financing swaps, at the option of either party, if a redemption or purchase of the relevant class of Financing notes occurs pursuant to number 5(F) (Redemption or purchase following a regulatory event) under “**Terms and conditions of the offered Financing notes**”;
- at the option of Financing (in the case of a Financing swap) or Funding 1 (in the case of the Funding 1 swap), if certain tax representations by the relevant swap provider prove to have been incorrect or misleading in any material respect;
- at the option of the relevant swap provider, if certain insolvency events occur with respect to Financing (in the case of a Financing swap) or Funding 1 (in the case of the Funding 1 swap);
- at the option of Financing (in the case of a Financing swap) or Funding 1 (in the case of the Funding 1 swap), upon the occurrence of an insolvency of the relevant swap provider, or its guarantor, or the merger of the relevant swap provider without an assumption of its obligations under the relevant swap agreement, or if a material misrepresentation is made by the swap provider under the relevant swap agreement, or if the relevant swap provider defaults under an over-the-counter derivatives transaction under another agreement between Financing and such swap provider; or if a breach of a provision of the relevant swap agreement by the swap provider is not remedied within the applicable grace period, or, if applicable, if the guarantor of the relevant swap provider fails to comply with its obligations under the guarantee;
- if a change in law results in the obligations of one of the parties becoming illegal;
- at the option of the relevant Financing swap provider but subject to obtaining the consent of the security trustee (which, if certain conditions are satisfied, will not be withheld), if withholding taxes are imposed on payments made by the Financing swap provider under the Financing swap due to a change in law; and
- if the relevant swap provider or its guarantor, as applicable, is downgraded and fails to comply with the requirements of the ratings downgrade provision contained in the relevant swap agreement and described above under “– **Ratings downgrade of swap providers**”.

Upon the occurrence of a swap early termination event, Financing or the relevant Financing swap provider may be liable to make a termination payment to the other (in the case of a Financing swap) and/or Funding 1 or the Funding 1 swap provider may be liable to make a termination payment to the other (in the case of the Funding 1 swap). This termination payment will be calculated and made in sterling. The amount of any termination payment will be based on the market value of the terminated swap as determined on the basis of quotations sought from leading dealers as to the cost of entering into a swap with the same terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (or based upon a good faith determination of total losses and costs (or gains) if an insufficient number of quotations can be obtained or if basing the valuation on quotations would not produce a commercially reasonable result) and will include any unpaid amounts that became due and payable prior to the date of termination. Any such termination payment could be substantial.

If any Financing swap is terminated early and a termination payment is due by Financing to a Financing swap provider, then, pursuant to its obligations under the Financing intercompany loan, Funding 1 shall pay to Financing an amount equal to the termination payment due to the relevant Financing swap provider less any amount received by Financing under any replacement Financing swap agreement. These payments will be made by Funding 1 only after paying interest amounts due on the Financing term advances and after providing for any debit balance on the principal deficiency ledger. Financing shall apply amounts received from Funding 1 under the Financing intercompany loan in accordance with the Financing pre-enforcement revenue priority of payments or, as the case may be, the Financing post-enforcement priority of payments. The application by Financing of termination payments due to a Financing swap provider may affect the funds available to pay amounts due to the noteholders (see further “**Risk factors – You may be subject to exchange rate risks on the Financing notes**”).

If Financing receives a termination payment from a Financing currency swap provider, then Financing shall use those funds towards meeting its costs in effecting currency exchanges at the applicable spot rate of exchange until a replacement Financing currency swap is entered into and/or to acquire a replacement Financing currency swap.

Noteholders will not receive extra amounts (over and above interest and principal payable on the Financing notes) as a result of Financing receiving a termination payment.

### **Transfer of the swaps**

Each swap provider may, subject to certain conditions specified in the relevant swap agreement, including (without limitation) the satisfaction of certain requirements of the rating agencies, transfer its obligations under any of the swaps to another entity.

### **Taxation**

Neither Funding 1 nor Financing is obliged under any of the swaps to gross up payments made by them if withholding taxes are imposed on payments made under the Funding 1 swap or the Financing swaps.

Each swap provider will generally be obliged to gross up payments made by it to Funding 1 or Financing, as appropriate, if withholding taxes are imposed on payments made under the Funding 1 swap or the Financing swaps. However, if a Financing swap provider is required to gross up a payment under a Financing swap due to a change in law the relevant Financing swap provider may, subject to obtaining the consent of the security trustee (which, if certain conditions are satisfied, shall be given), terminate the relevant Financing swaps.

### **Governing law**

The Funding 1 swap agreement and Financing currency swap agreements will be governed by English law.



## **Cash management for the mortgages trustee and Funding 1**

The following section contains a summary of the material terms of the cash management agreement. The summary does not purport to be complete and is subject to the provisions of the cash management agreement.

Halifax was appointed on the initial closing date by the mortgages trustee, Funding 1 and the security trustee to provide cash management services in relation to the mortgages trust and Funding 1.

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

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

- (A) determining the current shares of Funding 1 and the seller in the trust property in accordance with the terms of the mortgages trust deed;
- (B) maintaining the following ledgers on behalf of the mortgages trustee:
  - a ledger designated the Funding 1 share/seller share ledger, which records the current shares and share percentage of the seller and Funding 1 in the trust property;
  - the losses ledger, which records losses on the loans;
  - the principal ledger, which records principal receipts on the loans received by the mortgages trustee and payments of principal from the mortgages trustee GIC account to Funding 1 and the seller; and
  - the revenue ledger, which records revenue receipts on the loans received by the mortgages trustee and payments of revenue receipts from the mortgages trustee GIC account to Funding 1 and the seller;
- (C) distributing the mortgages trust available revenue receipts and the mortgages trustee principal receipts to Funding 1 and the seller in accordance with the terms of the mortgages trust deed; and
- (D) providing the mortgages trustee, Funding 1, the security trustee and the rating agencies with a quarterly report in relation to the trust property.

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

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

- (A) four business days before each Funding 1 interest payment date, determining:
  - the amount of Funding 1 available revenue receipts to be applied to pay interest and fees in relation to the term advances on the following Funding 1 interest payment date; and
  - the amount of Funding 1 available principal receipts to be applied to repay the term advances on the following Funding 1 interest payment date;
- (B) if required, making drawings under the Funding 1 liquidity facility and the liquidity reserve fund;
- (C) maintaining the following ledgers on behalf of Funding 1:
  - the Funding 1 principal ledger, which records the amount of principal receipts received by Funding 1 on each distribution date;
  - the Funding 1 revenue ledger, which records all other amounts received by Funding 1 on each distribution date;
  - the general reserve ledger, which records the amount credited to the general reserve fund from a portion of the proceeds of (i) the previous start-up loans on the previous closing dates, (ii) the Financing start-up loan on the closing date, (iii) other

amounts standing to the credit of the general reserve fund (but not exceeding the general reserve fund required amount) and (iv) all deposits and other credits in respect of the general reserve fund;

- the principal deficiency ledger, which records principal deficiencies arising from losses on the loans which have been allocated to Funding 1's share or the use of Funding 1's principal receipts to cover certain senior expenses (including interest on the term advances);
  - the intercompany loan ledger, which records payments of interest and repayments of principal made on each of the term advances under the intercompany loans;
  - the cash accumulation ledger, which records the amount accumulated by Funding 1 from time to time to pay the amounts due on the bullet term advances and the scheduled amortisation instalments;
  - the Funding 1 liquidity facility ledger, which will record drawings made under the Funding 1 liquidity facility and repayments of those drawings; and
  - the liquidity reserve ledger, which will record the amounts credited to the liquidity reserve fund from Funding 1 available revenue receipts and from Funding 1 available principal receipts up to the liquidity reserve fund required amount and drawings made under the liquidity reserve fund;
- (D) investing sums standing to the credit of the Funding 1 GIC account and the Funding 1 liquidity facility stand-by account in short-term authorised investments (as defined in the Glossary) as determined by Funding 1, the cash manager and the security trustee;
- (E) making withdrawals from the reserve funds as and when required;
- (F) applying the Funding 1 available revenue receipts and Funding 1 available principal receipts in accordance with the relevant priority of payments for Funding 1 contained in the Funding 1 deed of charge;
- (G) providing Funding 1, Financing, the security trustee and the rating agencies with a quarterly report in relation to Funding 1; and
- (H) making all returns and filings in relation to Funding 1 and the mortgages trustee and providing or procuring the provision of company secretarial and administration services to them.

8.3.4.4

For the definitions of Funding 1 available revenue receipts, Funding 1 available principal receipts and the Funding 1 priorities of payments, see "**Cashflows**".

The cash manager's external auditors will review the mortgages trustee's and Funding 1's bank accounts and account activity as part of their periodic audits.

### **Compensation of cash manager**

The cash manager is paid a rate of 0.025 per cent. per annum of the principal amount outstanding of the intercompany loans for its services which is paid in four equal instalments quarterly in arrear on each Funding 1 interest payment date. The rate is inclusive of VAT. The rate is subject to adjustment if the applicable rate of VAT changes.

In addition, the cash manager is entitled to be reimbursed for any expenses or other amounts properly incurred by it in carrying out its duties. The cash manager is paid by Funding 1 prior to amounts due to the relevant issuing entities on the term advances.

### **Resignation of cash manager**

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

- a substitute cash manager has been appointed and a new cash management agreement is entered into on terms satisfactory to the security trustee, the mortgages trustee and Funding 1; and

- the ratings of the notes at that time would not be adversely affected as a result of that replacement (unless otherwise agreed by an extraordinary resolution of the noteholders of each class).

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

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

- the cash manager defaults in the payment of any amount due and fails to remedy the default for a period of three London business days after becoming aware of the default;
- the cash manager fails to comply with any of its other obligations under the cash management agreement which in the opinion of the security trustee is materially prejudicial to the Funding 1 secured creditors and does not remedy that failure within 20 London business days after the earlier of becoming aware of the failure and receiving a notice from the security trustee; or
- Halifax, while acting as the cash manager, suffers an insolvency event.

If the appointment of the cash manager is terminated or it resigns, the cash manager must deliver its books of account relating to the loans to or at the direction of the mortgages trustee, Funding 1 or the security trustee, as the case may be. The cash management agreement will terminate automatically when Funding 1 has no further interest in the trust property and the intercompany loan and all new intercompany loans (if any) have been repaid or otherwise discharged.

#### **Governing law**

The cash management agreement is governed by English law.

## Cash management for Financing

8.3.8

The following section contains a summary of the material terms of the Financing cash management agreement. The summary does not purport to be complete and is subject to the provisions of the Financing cash management agreement.

Halifax will be appointed on the closing date by Financing and the security trustee to provide cash management services to Financing.

### Cash management services to be provided to Financing

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

- (A) four business days before each interest payment date, determining:
  - the amount of Financing revenue receipts to be applied to pay interest on the Financing notes on the following interest payment date and to pay amounts due to other creditors of Financing; and
  - the amount of Financing principal receipts to be applied to repay the Financing notes on the following interest payment date;
- (B) applying Financing revenue receipts and Financing principal receipts in accordance with the relevant priority of payments for Financing set out in the Financing cash management agreement or, as applicable, the Financing deed of charge;
- (C) providing Financing, Funding 1, the security trustee and the rating agencies with quarterly reports in relation to Financing;
- (D) making all returns and filings required to be made by Financing and providing or procuring the provision of company secretarial and administration services to Financing;
- (E) arranging payment of all fees to the London Stock Exchange plc or, as applicable, the Financial Services Authority; and
- (F) if necessary, performing all currency and interest rate conversions (whether it be a conversion from sterling to dollars or vice versa, sterling to euro or vice versa, or floating rates of interest to fixed rates of interest or vice versa) free of charge, cost or expense at the relevant exchange rate.

The Financing cash manager's external auditors will review Financing's bank accounts and account activity as part of their periodic audits.

### Financing's bank accounts

On the closing date, Financing will maintain a sterling bank account in its name with Bank of Scotland acting through its offices at 116 Wellington Street, Leeds LS1 4LT, the right, benefit and interest of which is assigned to the security trustee under the Financing deed of charge (together with any other accounts of Financing from time to time the **Financing transaction account**). Financing may, with the prior written consent of the security trustee, open additional or replacement bank accounts.

A Financing transaction account may be required to be transferred to an alternative bank if the short-term, unguaranteed and unsecured ratings of the Financing account bank falls below A-1+ by Standard & Poor's, F1+ by Fitch or P-1 by Moody's unless each rating agency confirms that its then current rating of the notes would not be adversely affected as a result of such ratings falling below these minimum ratings.

### Compensation of Financing cash manager

The Financing cash manager will be paid a rate of 0.025 per cent. per annum of the principal amount outstanding of the Financing notes for its services which will be paid in four equal instalments quarterly in arrear on each interest payment date. The rate is inclusive of VAT. The fees will be subject to adjustment if the applicable rate of VAT changes.

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

#### **Resignation of Financing cash manager**

The Financing cash manager may resign only on giving 12 months' written notice to the security trustee and Financing and if:

- a substitute Financing cash manager has been appointed and a new Financing cash management agreement is entered into on terms satisfactory to the security trustee and Financing; and
- the ratings of the Financing notes at that time would not be adversely affected as a result of that replacement.

#### **Termination of appointment of Financing cash manager**

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

- the Financing cash manager defaults in the payment of any amount due and fails to remedy the default for a period of three London business days after becoming aware of the default;
- the Financing cash manager fails to comply with any of its other obligations under the Financing cash management agreement which in the opinion of the security trustee is materially prejudicial to the Financing secured creditors and does not remedy that failure within 20 London business days after the earlier of becoming aware of the failure and receiving a notice from the security trustee; or
- the Financing cash manager suffers an insolvency event.

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

#### **Governing law**

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

## Description of the trust deed

### General

The principal agreement governing the Financing notes will be the trust deed dated on or about the closing date and made between Financing and the note trustee (the **trust deed**). The trust deed has five primary functions. It:

- constitutes the Financing notes;
- sets out the covenants of Financing in relation to the Financing notes;
- sets out the enforcement and post-enforcement procedures relating to the Financing notes; and
- sets out the appointment, powers and responsibilities of the note trustee.

The following section contains a summary of the material terms of the trust deed. The summary does not purport to be complete and is subject to the provisions of the trust deed.

The trust deed sets out the form of the global Financing notes and the definitive Financing notes. It also sets out the terms and conditions, and the conditions for the issue of definitive Financing notes and/or the cancellation of any Financing notes. It stipulates, among other things, that the paying agents, the registrar, the transfer agent and the agent bank will be appointed. The detailed provisions regulating these appointments are contained in the paying agent and agent bank agreement.

The trust deed also contains covenants made by Financing in favour of the note trustee and the noteholders. The main covenants are that Financing will pay interest and repay principal on each of the Financing notes when due. Covenants are included to ensure that Financing remains insolvency-remote, and to give the note trustee access to all information and reports that it may need in order to discharge its responsibilities in relation to the noteholders. Some of the covenants also appear in the terms and conditions of the Financing notes. See “**Terms and conditions of the offered Financing notes**”. Financing also covenants that it will do all things necessary to maintain the listing of the Financing notes on the official list of the UK Listing Authority and to maintain the trading of those Financing notes on the London Stock Exchange and to keep in place a common depositary, paying agents and an agent bank.

The trust deed provides that the class A noteholders’ interests take precedence over the interests of other noteholders for so long as the class A Financing notes are outstanding and thereafter the interests of the class B noteholders take precedence for so long as the class B Financing notes are outstanding and thereafter the interests of the class C noteholders take precedence for so long as the class C Financing notes are outstanding. Certain basic terms of each class of Financing notes may not be amended without the consent of the majority of the holders of that class of note. This is described further in “**Terms and conditions of the offered Financing notes**”.

The trust deed also sets out the terms on which the note trustee is appointed, the indemnification of the note trustee, the payment it receives and the extent of the note trustee’s authority to act beyond its statutory powers under English law. The note trustee is also given the ability to appoint a co-trustee or any delegate or agent in the execution of any of its duties under the trust deed. The trust deed also sets out the circumstances in which the note trustee may resign or retire.

### Governing law

The trust deed will be governed by English law.

## The Financing notes and the global Financing notes

The issue of the Financing notes will be authorised by a resolution of the board of directors of Financing passed prior to the closing date. The Financing notes will be constituted by a trust deed to be dated the closing date, between Financing and the note trustee, as trustee for, among others, the holders for the time being of the Financing notes. While the material terms of the Financing notes, the definitive Financing notes and the global Financing notes are described in this offering circular, the statements set out in this section with regard to the Financing notes, the definitive Financing notes and the global Financing notes are subject to the detailed provisions of the trust deed. The trust deed will include the form of the global Financing notes and the form of definitive Financing notes. The trust deed includes provisions which enable it to be modified or supplemented and any reference to the trust deed is a reference also to the document as modified or supplemented in accordance with its terms.

A paying agent and agent bank agreement between Financing, the note trustee, Citibank, N.A. in London as principal paying agent, the US paying agent, the registrar, the transfer agent and the agent bank, regulate how payments will be made on the Financing notes and how determinations and notifications will be made. They will be dated as of the closing date and the parties will include, on an ongoing basis, any successor party appointed in accordance with its terms.

Each class of each series of Financing notes will be represented initially by a global Financing note or notes in registered form without interest coupons attached. The offered Financing notes initially offered and sold to qualified institutional investors (**QIBs**) in reliance on Rule 144A under the Securities Act will each be represented by a Rule 144A global Financing note (a **Rule 144A global Financing note**). The offered Financing notes, the series 4 Financing notes and the series 5 Financing notes initially offered and sold outside the United States to non-US persons pursuant to Regulation S under the Securities Act will each be represented by a Reg S global Financing note (a **Reg S global Financing note** and, together with the Rule 144A global Financing notes, the **global Financing notes**).

The Rule 144A global Financing notes will be deposited on behalf of the beneficial owners of the Financing notes with Citibank, N.A. in London, as the custodian for, and registered in the name of Cede & Co. as nominee of, The Depository Trust Company – called “**DTC**”. On confirmation from the custodian that it holds the global Financing notes, DTC will record book-entry interests in the beneficial owner’s account or the participant account through which the beneficial owner holds its interests in the Financing notes. These book-entry interests will represent the beneficial owner’s beneficial interest in the relevant global Financing notes.

The Reg S global Financing notes will be deposited on behalf of the beneficial owners of those Financing notes with, and registered in the name of a nominee of, Citibank, N.A., as common depository for Clearstream, Luxembourg and Euroclear. On confirmation from the common depository that it holds the Reg S global Financing notes, Clearstream, Luxembourg and/or Euroclear, as the case may be, will record book-entry interests in the beneficial owner’s account or the participant account through which the beneficial owner holds its interests in the Reg S global Financing notes. These book-entry interests will represent the beneficial owner’s beneficial interest in the relevant Reg S global Financing notes.

The amount of Financing notes represented by each global Financing note is evidenced by the register maintained for that purpose by the registrar. Together, the Financing notes represented by the global Financing notes and any outstanding definitive Financing notes will equal the aggregate principal amount of the Financing notes outstanding at any time.

Beneficial owners may hold their interests in the global Financing notes only through DTC, Clearstream, Luxembourg or Euroclear, as applicable, or indirectly through organisations that are participants in any of those systems. Ownership of these beneficial interests in a global Financing note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC, Clearstream, Luxembourg or Euroclear (with respect to interests of their participants) and the records of their participants (with respect to interests of persons other than their participants). By contrast, ownership of definitive Financing notes and direct interests in a global Financing note will be shown on, and the transfer of that ownership will be effected through,

the register maintained by the registrar. Because of this holding structure of Financing notes, beneficial owners of Financing notes may look only to DTC, Clearstream, Luxembourg or Euroclear, as applicable, or their respective participants for their beneficial entitlement to those Financing notes. Financing expects that DTC, Clearstream, Luxembourg or Euroclear will take any action permitted to be taken by a beneficial owner of Financing notes only at the direction of one or more participants to whose account the interests in a global Financing note is credited and only in respect of that portion of the aggregate principal amount of Financing notes as to which that participant or those participants has or have given that direction.

Except as set forth below, the Rule 144A global Financing notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Rule 144A global Financing note may not be exchanged for Financing notes in definitive, certificated form except in the limited circumstances described under “–**Definitive Financing notes**” below.

Beneficial interests in a Reg S global Financing note relating to a series 1 Financing note, a series 2 Financing note or a series 3 Financing note may be exchanged for beneficial interests in the corresponding Rule 144A global Financing note only if such exchange occurs in connection with a transfer of the offered Financing notes pursuant to Rule 144A and, prior to the first business day that is 40 days following the later of the commencement of the offering and the closing date (the **distribution compliance period**), the transferring Financing noteholder first delivers to the transfer agent and registrar (i) instructions given in accordance with the procedures of Euroclear or Clearstream, Luxembourg, as the case may be, and DTC directing the transfer agent and registrar to credit or cause to be credited a beneficial interest in the Rule 144A global Financing note in an amount equal to the beneficial interest in the corresponding Reg S global Financing note to be exchanged or transferred, (ii) a written order given in accordance with the procedures of Euroclear or Clearstream, Luxembourg, as the case may be, and DTC containing information regarding the account to be credited with such increase and the name of such account and (iii) a written certificate in the form required by the Financing trust deed to the effect that the transfer is being made to a person who the transferor reasonably believes is a QIB purchasing for its own account or the account of a QIB in a transaction meeting the requirements of Rule 144A and in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Beneficial interests in the Rule 144A global Financing note may be transferred to a person who takes delivery in the form of an interest in a Reg S global Financing note, whether before or after the distribution compliance period, only if the transferring Financing noteholder first delivers to the transfer agent and registrar (i) instructions given in accordance with the DTC’s procedures from or on behalf of a beneficial owner of the Rule 144A global Financing note, directing the transfer agent and registrar to credit or cause to be credited a beneficial interest in the corresponding Reg S global Financing note in an amount equal to the beneficial interest in the Rule 144A global Financing note to be exchanged or transferred, (ii) a written order in accordance with the clearing agency’s procedures containing information regarding the Euroclear or Clearstream, Luxembourg account to be credited with such increase and the name of such account and (iii) a written certificate in the form required by the Financing trust deed to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S. Transfers involving an exchange of a beneficial interest in a Reg S global Financing note for a beneficial interest in the corresponding Rule 144A global Financing note or vice versa will be effected in DTC, Euroclear or Clearstream, Luxembourg (as applicable) by means of an instruction originated by the transfer agent and registrar through the facilities of DTC, Euroclear or Clearstream, Luxembourg (as applicable).

Any beneficial interest in one of the global Financing notes that is transferred to a person who takes delivery in the form of an interest in the other global Financing notes will, upon transfer, cease to be an interest in such global Financing note and will become an interest in the other global Financing note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other global note for so long as it remains such an interest.



Beneficial owners will be entitled to the benefit of, will be bound by and will be deemed to have notice of, all the provisions of the trust deed and the paying agent and agent bank agreement. Beneficial owners can see copies of these agreements at the principal office for the time being of the note trustee, which is, as of the date of this document, The Bank of New York, One Canada Square, London, E14 5AL and at the specified office for the time being of each of the paying agents. Pursuant to its obligations under the Listing Rules made by the UK Listing Authority, Financing will maintain a paying agent in the United Kingdom until the date on which the Financing notes are finally redeemed for as long as any Financing note is outstanding. Financing will endeavour to maintain a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with or introduced in order to conform to such Directive.

## Payment

Principal and interest payments on the offered global Financing notes will be made via the paying agents to DTC, Euroclear or Clearstream, Luxembourg (as applicable) or the respective nominee, as the registered holder of the offered global Financing notes. DTC's practice is to credit its participants' accounts on the applicable interest payment date according to their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on that interest payment date.

Payments by DTC, Clearstream, Luxembourg and Euroclear participants to the beneficial owners of Financing notes will be governed by standing instructions, customary practice, and any statutory or regulatory requirements as may be in effect from time to time, as is now the case with securities held by the accounts of customers registered in "street name". These payments will be the responsibility of the DTC, Clearstream, Luxembourg or Euroclear participant and not of DTC, Clearstream, Luxembourg, Euroclear, any paying agent, the note trustee or Financing. Neither Financing, the note trustee nor any paying agent will have any responsibility or liability for any aspect of the records of DTC, Clearstream, Luxembourg or Euroclear relating to payments made by DTC, Clearstream, Luxembourg or Euroclear on account of beneficial interests in the global Financing notes or for maintaining, supervising or reviewing any records of DTC, Clearstream, Luxembourg or Euroclear relating to those beneficial interests.

## Clearance and settlement

13.4.14

### DTC

DTC has advised us and the initial purchasers that it intends to follow the following procedures:

DTC will act as securities depository for the offered global Financing notes. The offered global Financing notes will be issued as securities registered in the name of Cede & Co. (DTC's nominee).

DTC has advised us that it is a:

- limited-purpose trust company organised under the New York Banking Law;
- **banking organisation** within the meaning of the New York Banking Law;
- member of the Federal Reserve System;
- **clearing corporation** within the meaning of the New York Uniform Commercial Code; and
- **clearing agency** registered under the provisions of Section 17A of the US Securities Exchange Act of 1934, as amended (the **Exchange Act**).

DTC holds securities for its participants and facilitates the clearance and settlement among its participants of securities transactions, including transfers and pledges, in deposited securities through electronic book-entry changes in its participants' accounts. This eliminates the need for physical movement of securities certificates. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and other organisations. Indirect access to the DTC system is also available to others including securities brokers and dealers, banks and trust

companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC. Transfers between participants on the DTC system will occur under DTC rules.

Purchases of Financing notes under the DTC system must be made by or through DTC participants, which will receive a credit for the Financing notes on DTC's records. The ownership interest of each actual beneficial owner is in turn to be recorded on the DTC participants' and indirect participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase. However, beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the DTC participant or indirect participant through which the beneficial owner entered into the transaction. Transfer of ownership interests in the offered global Financing notes are to be accomplished by entries made on the books of DTC participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interest in Financing notes unless use of the book-entry system for the Financing notes described in this section is discontinued.

To facilitate subsequent transfers, all global Financing notes deposited with DTC are registered in the name of DTC's nominee, Cede & Co. The deposit of these global Financing notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the ultimate beneficial owners of the Financing notes. DTC's records reflect only the identity of the DTC participants to whose accounts the beneficial interests are credited, which may or may not be the actual beneficial owners of the Financing notes. The DTC participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to DTC participants, by DTC participants to indirect participants, and by DTC participants and indirect participants to beneficial owners will be governed by arrangements among them and by any statutory or regulatory requirements in effect from time to time.

Redemption notices for the offered global Financing notes will be sent to DTC. If less than all of those global Financing notes are being redeemed by investors, DTC's practice is to determine by lot the amount of the interest of each participant in those global Financing notes to be redeemed.

Neither DTC nor Cede & Co. will consent or vote on behalf of the offered global Financing notes. Under its usual procedures, DTC will mail an omnibus proxy to Financing as soon as possible after the record date, which assigns the consenting or voting rights of Cede & Co. to those DTC participants to whose accounts the book-entry interests are credited on the record date, identified in a list attached to the proxy.

Financing understands that under existing industry practices, when Financing requests any action of noteholders or when a beneficial owner desires to give or take any action which a noteholder is entitled to give or take under the trust deed, DTC generally will give or take that action, or authorise the relevant participants to give or take that action, and those participants would authorise beneficial owners owning through those participants to give or take that action or would otherwise act upon the instructions of beneficial owners through them.

### ***Clearstream, Luxembourg and Euroclear***

13.4.14

Clearstream, Luxembourg and Euroclear each hold securities for their participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of those participants, thereby eliminating the need for physical movement of securities. Clearstream, Luxembourg and Euroclear provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg and Euroclear also deal with domestic securities markets in several countries through established depository and custodial relationships. Clearstream, Luxembourg and Euroclear have established an electronic bridge between their two systems across which their respective participants may settle trades with each other. Transactions may be settled in Clearstream, Luxembourg and Euroclear in any of numerous currencies, including United States dollars. Transfer between participants on the

Clearstream, Luxembourg system and participants of the Euroclear system will occur under their respective rules and operating procedures.

Clearstream, Luxembourg is incorporated under the laws of Luxembourg as a professional depository. Clearstream, Luxembourg participants are financial institutions around the world, including initial purchasers, securities brokers and dealers, banks, trust companies, and clearing corporations. Indirect access to Clearstream, Luxembourg is also available to others, including banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream, Luxembourg participant, either directly or indirectly.

The Euroclear system was created in 1968 to hold securities for its participants and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment. The Euroclear system is operated by Euroclear Bank S.A./N.V. (the **Euroclear operator**), under contract with Euroclear Clearance System, Co-operative, a Belgium co-operative corporation (the **Euroclear co-operative**). All operations are conducted by the Euroclear operator. All Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear operator, not the Euroclear co-operative. The board of the Euroclear co-operative establishes policy for the Euroclear system.

Euroclear participants include banks – including central banks – securities brokers and dealers and other professional financial intermediaries. Indirect access to the Euroclear system is also available to other firms that maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear operator are governed by the Terms and Conditions Governing use of Euroclear and the related Operating Procedures of the Euroclear system. These terms and conditions govern transfers of securities and cash within the Euroclear system, withdrawal of securities and cash from the Euroclear system, and receipts of payments for securities in the Euroclear system. All securities in the Euroclear system are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear operator acts under these terms and conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

The information in this section concerning DTC and DTC's book-entry system, Clearstream, Luxembourg and Euroclear has been obtained from sources that Financing believes to be reliable, but Financing takes no responsibility for the accuracy thereof.

As the holders of book-entry interests, beneficial owners will not have the right under the trust deed to act on solicitations by Financing for action by noteholders. Beneficial owners will only be able to act to the extent they receive the appropriate proxies to do so from DTC, Clearstream, Luxembourg or Euroclear or, if applicable, their respective participants. No assurances are made about these procedures or their adequacy for ensuring timely exercise of remedies under the trust deed.

No beneficial owner of an interest in a global Financing note will be able to transfer that interest except in accordance with applicable procedures, in addition to those provided for under the trust deed, of DTC, Clearstream, Luxembourg and Euroclear, as applicable. The laws of some jurisdictions require that some purchasers of securities take physical delivery of those securities in definitive form. These laws and limitations may impair the ability to transfer beneficial interests in the global Financing notes.

### ***Global clearance and settlement procedures***

13.4.14

#### **Initial settlement**

The Rule 144A global Financing notes will be delivered at initial settlement to Citibank, N.A., London Branch as custodian for DTC, and the Reg S global Financing notes will be delivered to Citibank, N.A., as common depository for Clearstream, Luxembourg and Euroclear. Customary settlement procedures will be followed for participants of each system at initial settlement. Financing notes will be credited to investors' securities accounts on the settlement date against payment in same-day funds.

## Secondary trading

Secondary market sales of book-entry interests in Financing notes between DTC participants will occur in accordance with DTC rules and will be settled using the procedures applicable to conventional United States corporate debt obligations.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to these procedures to facilitate transfers of interests in securities among participants of DTC, Clearstream, Luxembourg and Euroclear, they are not obligated to perform these procedures. Additionally, these procedures may be discontinued at any time. None of Financing, any agent, the initial purchasers or any affiliate of any of the foregoing, or any person by whom any of the foregoing is controlled for the purposes of the Securities Act, will have any responsibility for the performance by DTC, Clearstream, Luxembourg, Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described herein.

## Definitive Financing notes

Beneficial owners of global Financing notes will only be entitled to receive definitive Financing notes (such as exchanged global Financing notes, the **definitive Financing notes**) under the following limited circumstances:

- as a result of a change in UK law, Financing or any paying agent is or will be required to make any deduction or withholding for or on account of tax from any payment on the Financing notes that would not be required if the Financing notes were in definitive form;
- in the case of the Rule 144A global Financing notes, DTC notifies Financing that it is unwilling or unable to hold the Rule 144A global Financing notes or is unwilling or unable to continue as, or has ceased to be, a clearing agency under the Exchange Act and, in each case, Financing cannot appoint a successor within 90 days; or
- in the case of the Reg S global Financing notes, Clearstream, Luxembourg and Euroclear are closed for business for a continuous period of 14 days or more (other than by reason of legal holidays) or announce an intention to cease business permanently or do in fact do so and no alternative clearing system satisfactory to Financing note trustee is available.

In no event will definitive Financing notes in bearer form be issued. Any definitive offered Financing notes will be issued in registered form in denominations of \$75,000 plus, in the case of definitive Financing notes representing the series 1 Financing notes, the series 2 Financing notes and the series 3 Financing notes, integral multiples of \$1,000. Any definitive Financing notes will be registered in that name or those names as the registrar shall be instructed by DTC, Clearstream, Luxembourg and Euroclear, as applicable. It is expected that these instructions will be based upon directions received by DTC, Clearstream, Luxembourg and Euroclear from their participants reflecting the ownership of book-entry interests. To the extent permitted by law, Financing, the note trustee and any paying agent shall be entitled to treat the person in whose name any definitive Financing notes are registered as the absolute owner thereof. The paying agent and agent bank agreement contains provisions relating to the maintenance by a registrar of a register reflecting ownership of the Financing notes and other provisions customary for a registered debt security.

Any person receiving definitive Financing notes will not be obligated to pay or otherwise bear the cost of any tax or governmental charge or any cost or expense relating to insurance, postage, transportation or any similar charge, which will be solely the responsibility of Financing. No service charge will be made for any registration of transfer or exchange of any definitive Financing notes.

## Terms and conditions of the offered Financing notes

13.4.2  
13.4.7  
13.4.8  
13.4.11

The following is a summary of the material terms and conditions of the series 1 Financing notes, the series 2 Financing notes and the series 3 Financing notes (the **offered Financing notes**), numbered 1 to 16. This summary does not need to be read with the actual terms and conditions of the Financing notes in order to learn all the material terms and conditions of the offered Financing notes. The complete terms and conditions of the Financing notes are set out in the trust deed, and in the event of a conflict, the terms and conditions of the offered Financing notes set out in the trust deed will prevail.

The Financing notes are the subject of the following documents:

- a trust deed dated the closing date between Financing and the note trustee;
- a paying agent and agent bank agreement dated the closing date between Financing, the principal paying agent and the agent bank, the US paying agent, any other payment agents, the registrar, the transfer agent and the note trustee;
- a Financing deed of charge dated the closing date between Financing, the note trustee, the security trustee, the Financing swap providers and certain other parties; and
- the Financing swap agreements dated on or about the closing date between Financing, the relevant Financing swap provider and the security trustee.

When we refer to the parties to these documents, the reference includes any successor to that party validly appointed.

Initially the parties will be as follows:

- Permanent Financing (No. 9) PLC as the issuing entity;
- Citibank, N.A. as principal paying agent and agent bank;
- The Bank of New York as note trustee;
- The Bank of New York as security trustee for the Financing secured creditors under the Financing deed of charge;
- The Bank of New York as security trustee for the Funding 1 secured creditors under the Funding 1 deed of charge;
- Citibank, N.A., as registrar and transfer agent;
- JPMorgan Chase Bank, National Association as the Funding 1 liquidity provider;
- Danske Bank A/S London Branch as Financing swap provider in respect of the series 1 Financing notes;
- Danske Bank A/S London Branch as Financing swap provider in respect of the series 2 Financing notes;
- IXIS Corporate & Investment Bank as Financing swap provider in respect of the series 3 Financing notes;
- Citibank, N.A., London Branch as Financing swap provider in respect of the series 4 Financing notes; and
- Halifax plc as Funding 1 swap provider.

13.5.2

Noteholders can view copies of those documents at the specified office of any of the paying agents after the closing date.

13.4.11

There is no English law which prohibits US residents from holding Financing notes due solely to their residence outside the United Kingdom.

There are no UK governmental laws or regulations other than in relation to withholding tax, as described in “**United Kingdom taxation – Withholding tax**”, that restrict payments made to non-UK resident noteholders.

## 1. Form, denomination and title

13.4.4

Each class of each series of the offered Financing notes initially offered and sold outside the United States to non-US persons pursuant to Regulation S (**Reg S**) under the United States Securities Act of 1933, as amended (the **Securities Act**), will initially be represented by a separate global note in registered form without coupons attached for each such class (each a **Reg S global Financing note**).

Each class of each series of the offered Financing notes initially offered and sold in the United States to qualified institutional buyers as defined in and in reliance on Rule 144A (**Rule 144A**) under the Securities Act likewise will initially be represented by a separate global note in registered form without coupons attached for each such class (each a **Rule 144A global Financing note** and, together with the Reg S global Financing notes, the **global Financing notes**).

Transfers and exchanges of beneficial interests in global Financing notes are made in accordance with the rules and procedures of DTC, Euroclear and/or Clearstream, Luxembourg, as applicable.

The offered Financing notes (in either global or definitive form) will be in denominations of \$75,000 plus integral multiples of \$1,000, and such other denominations greater than \$75,000 as the note trustee may determine.

A global note will be exchanged for Financing notes in definitive registered form only under limited circumstances. If Financing notes in definitive form are issued, they will be serially numbered and issued in an aggregate principal amount equal to the principal amount outstanding of the relevant global Financing notes and in registered form only. Title to the global Financing notes or to any definitive Financing notes will pass on registration in the register maintained by the registrar. The registered holder of any global Financing note is the absolute owner of that note. Definitive Financing notes may be transferred in whole upon surrender of the note to the registrar and completion of the relevant form of transfer. The Financing notes are not issuable in bearer form.

8.1.1

## 2. Status, security and priority

13.4.6

The class A Financing notes, the class B Financing notes and the class C Financing notes are direct, secured and unconditional obligations of Financing and are all secured by the same security. Payments on each class of Financing notes will be made equally among all Financing notes of that class.

Without prejudice to the repayment provisions described in number 5 (and except if a non-asset trigger event occurs or if, prior to enforcement of the Financing security, amounts are due and payable in respect of more than one series of the class A Financing notes), the class A Financing notes rank, irrespective of series, without preference or priority among themselves. Without prejudice to the repayment provisions described in number 5 below and subject to the relevant scheduled and/or, as applicable, permitted redemption dates or other payment conditions of the Financing notes, payments of principal and interest due and payable on the class A Financing notes will rank ahead of payments of principal and interest due and payable on the class B Financing notes and the class C Financing notes subject to the terms and conditions of the Financing notes, the Financing cash management agreement, the Financing deed of charge, the Funding 1 deed of charge and the other Financing transaction documents.

Without prejudice to the repayment provisions described in number 5, the class B Financing notes rank, irrespective of series, without preference or priority among themselves. Without prejudice to the repayment provisions described in number 5 below and subject to the relevant scheduled and/or, as applicable, permitted redemption dates or other payment conditions of the Financing notes, payments of principal and interest due and payable on the class B Financing notes will rank ahead of payments of principal and interest due and payable on the class C Financing notes and will be subordinated to those payments due and payable on the class A Financing notes subject to the terms and conditions of the Financing notes, the Financing cash management agreement, the Financing deed of charge, the Funding 1 deed of charge and the other Financing transaction documents.

Without prejudice to the repayment provisions described in number 5, the class C Financing notes rank, irrespective of series, without preference or priority among themselves. Without prejudice to the repayment provisions described in number 5 below and subject to the relevant scheduled and/or, as applicable, permitted redemption dates or other payment conditions of the Financing notes, payments of principal and interest due and payable on the class C Financing notes will be subordinated to payments due and payable on the class A Financing notes and the class B Financing notes subject to the terms and conditions of the Financing notes, the Financing cash management agreement, the Financing deed of charge, the Funding 1 deed of charge and the other Financing transaction documents.

In the event of the Financing security being enforced, the class A Financing notes will rank in priority to the class B Financing notes, and the class A Financing notes and the class B Financing notes will rank in priority to the class C Financing notes.

The note trustee and the security trustee are required to have regard to the interests of all classes of noteholders equally. However, if there are any class A Financing notes outstanding and there is or may be a conflict between the interests of the class A noteholders and the interests of the class B noteholders and/or the class C noteholders, then the note trustee and the security trustee will have regard to the interests of the class A noteholders only. If there are no class A Financing notes outstanding and there are any class B Financing notes outstanding and there is or may be a conflict between the interests of the class B noteholders and the interests of the class C noteholders, then the note trustee and the security trustee will have regard to the interests of the class B noteholders only. Except in limited circumstances described in number 11, there is no limitation on the power of class A noteholders to pass an effective extraordinary resolution the exercise of which is binding on the class B noteholders and the class C noteholders. However, as described in number 11, there are provisions limiting the power of the class B noteholders and the class C noteholders to pass an effective extraordinary resolution, depending on its effect on the class A noteholders. Except in the limited circumstances described in number 11 there is no limitation on the power of class B noteholders to pass an effective extraordinary resolution the exercise of which is binding on the class C noteholders. However, as described in number 11, there are provisions limiting the power of the class C noteholders to pass an effective extraordinary resolution, depending on its effect on the class B noteholders.

The security trustee and the note trustee are entitled to assume (without further investigation or inquiry) that any exercise by it or them of any power, discretion or duty under the Financing transaction documents will not be materially prejudicial to the interests of the noteholders if the rating agencies have confirmed that the current ratings of the Financing notes will not be adversely affected by that exercise.

The security for the payment of amounts due under the Financing notes is created by the Financing deed of charge. The security is created in favour of the security trustee who will hold it on behalf of the note trustee for and on behalf of the noteholders and on behalf of other secured creditors of Financing. The security consists of the following:

- (1) an assignment by way of first fixed security (which is likely to take effect as a floating charge) of all of Financing's right, benefit and interest under the Financing transaction documents to which it is a party, including the Financing intercompany loan agreement, the Funding 1 deed of charge, the second supplemental Funding 1 deed of charge, the Financing swap agreements, the Financing swap guarantees, the paying agent and agent bank agreement, the subscription agreement, the purchase agreement, the Financing corporate services agreement, the Financing bank account agreement, the Financing cash management agreement and the trust deed;
- (2) a first ranking fixed charge (which is likely to take effect as a floating charge) over all of Financing's right, title, interest and benefit present and future in Financing transaction account and any amounts deposited in them from time to time;
- (3) a first ranking fixed charge (which is likely to take effect as a floating charge) over all of Financing's right, title, interest and benefit in all authorised investments made by or on behalf of Financing, including all monies and income payable under them; and

- (4) a first floating charge over all of Financing's property, assets and undertakings not already secured under (1), (2) or (3) above (including all of Financing's property, assets and undertakings situated in Scotland or governed by Scots law).

The security is described in detail in the Financing deed of charge, which is described under the heading "**Security for Financing's obligations**" in this offering circular. The Financing deed of charge also sets out how money is to be distributed between the secured parties if the security is enforced. The security becomes enforceable at any time following the service of a note acceleration notice on Financing, as described in number 9. If a note acceleration notice is served on Financing, the redemption of the Financing notes will be accelerated, as described in number 10.

### 3. Covenants

If any Financing note is outstanding, Financing will not, unless it is provided in or permitted by the terms of the Financing transaction documents or with the prior written consent of the security trustee:

- create or permit to subsist any mortgage, standard security, pledge, lien, charge or other security interest upon the whole or any part of its present or future assets or undertakings;
- sell, assign, transfer, lease or otherwise dispose of or grant any option or right to acquire any of its assets or undertakings or any interest or benefit in its assets or undertakings;
- permit any person, other than itself and the security trustee (as to itself and on behalf of the Financing secured creditors), to have any equitable or beneficial interest in any of its assets or undertakings;
- have an interest in any bank account other than the bank accounts of Financing maintained pursuant to the Financing transaction documents;
- carry on any business other than as described in this offering circular or as contemplated in the Financing transaction documents relating to the issue of the Financing notes and the related activities described in this offering circular;
- incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness;
- consolidate or merge with any other person or transfer substantially all of its properties or assets to any other person;
- waive or consent to the modification or waiver of any of the obligations relating to the Financing security;
- have any employees, premises or subsidiaries;
- pay any dividend or make any other distributions to its shareholders or issue any further shares or alter any rights attaching to its shares as at the date of the Financing deed of charge;
- purchase or otherwise acquire any Financing notes; or
- engage in any activities in the US (directly or through agents), or derive any income from US sources as determined under US income tax principles, or hold any property if doing so would cause it to be engaged or deemed to be engaged in a trade or business in the US as determined under US income tax principles.

### 4. Interest

Each offered Financing note bears interest on its principal amount outstanding from, and including, the closing date. Interest will stop accruing on all or any part of the principal amount outstanding of an offered Financing note from the date it is due for redemption unless payment of principal is improperly withheld or refused. If this happens it will continue to bear interest on the unpaid amount in accordance with this condition, both before and after any judgment is given, until whichever is the earlier of the following:

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- the day on which all sums due in respect of that offered Financing note are paid; and
- the day which is seven days after the principal paying agent or the US paying agent has notified the relevant class of noteholders, either in accordance with number 14 or individually, that the payment will be made, provided that subsequently payment is in fact made.

Interest on the series 1 class A Financing notes will be paid monthly in arrear on each applicable interest payment date. If a trigger event occurs or the Financing security is enforced prior to the interest payment date falling in March 2007, interest on the series 1 class A Financing notes will be payable quarterly in arrear on the relevant interest payment dates falling in March, June, September and December in each year, as applicable.

Interest on the offered Financing notes (other than the series 1 class A Financing notes) will be paid quarterly in arrear on each interest payment date.

Interest in respect of the offered Financing notes for any interest period will be calculated on the basis of actual days elapsed in a 360-day year.

Each period beginning on, and including, the closing date or any interest payment date and ending on, but excluding, the next interest payment date is called an interest period, except that for the series 1 class A Financing notes, following the occurrence of a trigger event or enforcement of the Financing security, an interest period is the period from (and including) the 10th day of the then next to occur of March, June, September and December (or if such a day is not a business day, the next succeeding business day) to (but excluding) the 10th day of the then next to occur of March, June, September and December (or if such a day is not a business day, the next succeeding business day). The first interest payment date for the series 1 class A Financing notes will be 10 April 2006 for the interest period from and including the closing date to but excluding 10 April 2006. The first interest payment date for the other offered Financing notes will be 10 June 2006 for the interest period from and including the closing date to but excluding 10 June 2006.

Payments of interest on the classes of Financing notes will be prioritised so that interest payments on the class C Financing notes will be subordinated to interest payments on the class B Financing notes and the class A Financing notes; and interest payments on the class B Financing notes will be subordinated to interest payments on the class A Financing notes, as detailed in the Financing priority of payments.

Any shortfall in payments of interest on the class B Financing notes and/or the class C Financing notes will be deferred until the next interest payment date. On the next interest payment date, the amount of interest due on each class of Financing notes will be increased to take account of any deferred interest, and interest will be paid on that deferred interest. If on that interest payment date there is still a shortfall, that shortfall will be deferred again. This deferral process will continue until the final maturity date of the Financing notes.

Payments of interest due on an interest payment date in respect of the class A Financing notes will not be deferred. In the event of the delivery of a class A Financing note acceleration notice (as described in number 9), the amount of interest that was due but not paid on any payment date will itself bear interest at the applicable rate until both the unpaid interest and the interest on that interest are paid.

The rate of interest for each interest period for the:

- series 1 class A Financing notes will be the sum of one-month USD-LIBOR minus a margin of 0.03 per cent. per annum;
- series 1 class B Financing notes will be the sum of three-month USD-LIBOR plus a margin of 0.08 per cent. per annum up to and including the Financing step-up date and thereafter the sum of three-month USD-LIBOR plus a margin of 0.16 per cent. per annum;
- series 1 class C Financing notes will be the sum of three-month USD-LIBOR plus a margin of 0.30 per cent. per annum up to and including the Financing step-up date and thereafter the sum of three-month USD-LIBOR plus a margin of 0.60 per cent. per annum;

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- series 2 class A Financing notes will be the sum of three-month USD-LIBOR plus a margin of 0.04 per cent. per annum up to and including the Financing step-up date and thereafter the sum of three-month USD-LIBOR plus a margin of 0.08 per cent. per annum;
- series 2 class B Financing notes will be the sum of three-month USD-LIBOR plus a margin of 0.13 per cent. per annum up to and including the Financing step-up date and thereafter the sum of three-month USD-LIBOR plus a margin of 0.26 per cent. per annum;
- series 2 class C Financing notes will be the sum of three-month USD-LIBOR plus a margin of 0.38 per cent. per annum up to and including the Financing step-up date and thereafter the sum of three-month USD-LIBOR plus a margin of 0.76 per cent. per annum;
- series 3 class A Financing notes will be the sum of three-month USD-LIBOR plus a margin of 0.10 per cent. per annum up to and including the Financing step-up date and thereafter the sum of three-month USD-LIBOR plus a margin of 0.20 per cent. per annum;
- series 3 class B Financing notes will be the sum of three-month USD-LIBOR plus a margin of 0.17 per cent. per annum up to and including the Financing step-up date and thereafter the sum of three-month USD-LIBOR plus a margin of 0.34 per cent. per annum; and
- series 3 class C Financing notes will be the sum of three-month USD-LIBOR plus a margin of 0.50 per cent. per annum up to and including the Financing step-up date and thereafter the sum of three-month USD-LIBOR plus a margin of 1.00 per cent. per annum.

The agent bank will, as soon as practicable after 11.00 a.m. (London time) on each interest determination date, calculate the amount of interest payable on each class of offered Financing notes for that interest period. The amount of interest payable on each Financing note will be calculated by first applying the rate of interest for that interest period to the principal amount outstanding of the relevant class of Financing notes as at the interest determination date and multiplying the product by the relevant day-count fraction, in each case rounding to the nearest cent, half a cent being rounded upwards, and then apportioning the resulting total between the noteholders of that class of Financing notes, without priority between them but in proportion to their respective holdings. For these purposes, in the case of the series 1 class A Financing notes, following the occurrence of a trigger event or enforcement of the Financing security, the principal amount outstanding will include any amount of interest which would otherwise be payable on a monthly interest payment date, which will not then fall due but will instead be deferred until the next monthly interest payment date and will itself accrue interest at the rate of interest applicable to subsequent interest periods in respect of the series 1 class A Financing notes until the next quarterly interest payment date.

The rates and amounts determined by the agent bank will be notified in writing to Financing, the Financing cash manager, the note trustee and the paying agents. The agent bank will also notify those rates and amounts to each stock exchange, competent listing authority and/or quotation system on which the Financing notes are then listed, quoted and/or traded and to the relevant class of noteholders in accordance with number 14 as soon as possible.

If the agent bank for any reason fails to make a required determination or calculation as described, the note trustee will make the determination or calculation as it shall deem fair and reasonable or as described in this number 4. If this happens, the determination or calculation will be deemed to have been made by the agent bank.

Financing, the Financing cash manager, the note trustee, the reference banks, the agent bank and the noteholders will (in the absence of wilful default, bad faith or manifest error) be bound by the determinations properly made.

The agent bank will ensure that there will be four reference banks with offices in London and an agent bank while there are Financing notes outstanding.

## 5. Redemption, purchase and cancellation

### (A) Final redemption

13.4.9

If the offered Financing notes have not previously been redeemed in full as described in this number 5, Financing will redeem the Financing notes at their then principal amount outstanding together with all accrued interest on the final maturity date in respect of each class of Financing notes.

### (B) Mandatory redemption

Subject as provided in the next paragraph, each class of Financing notes will be redeemed on each interest payment date in amounts corresponding to the amounts (if any) repaid by Funding 1 on the corresponding interest payment date in respect of, and pursuant to, the relevant Financing term advance as set forth in the following table, in each case converted into dollars at the relevant Financing dollar currency exchange rate:

Offered Financing notes	Financing term advance
series 1 class A .....	series 1 term AAA
series 1 class B .....	series 1 term AA
series 1 class C .....	series 1 term BBB
series 2 class A .....	series 2 term AAA
series 2 class B .....	series 2 term AA
series 2 class C .....	series 2 term BBB
series 3 class A .....	series 3 term AAA
series 3 class B .....	series 3 term AA
series 3 class C .....	series 3 term BBB

If on an interest payment date, prior to enforcement of the Financing security or the occurrence of an asset trigger event, amounts are outstanding under more than one series of the class A Financing notes, then Financing will apply Financing principal receipts to repay, as the case may be, (1) the series 1 class A Financing notes prior to making payments of principal on the series 2 class A Financing notes, the series 3 class A Financing notes, the series 4 class A Financing notes and the series 5 class A Financing notes; (2) the series 2 class A Financing notes prior to making payments of principal on the series 3 class A Financing notes and the series 4 class A Financing notes and the series 5 class A Financing notes; (3) the series 3 class A Financing notes prior to making payments of principal on the series 4 class A Financing notes and the series 5 class A Financing notes and (4) the series 4 class A Financing notes prior to making payments of principal on the series 5 class A Financing notes.

### (C) Note principal payments, principal amount outstanding and pool factor

Two business days prior to each interest payment date (the **note determination date**), Financing or the agent bank (based on information provided to the agent bank by Financing or the Financing cash manager) will determine the following:

- the note principal payment of each offered Financing note, being the amount of any principal payment payable on each offered Financing note on the next interest payment date;
- the principal amount outstanding of each offered Financing note as at the note determination date, which is the principal amount outstanding of that offered Financing note as at the closing date less the aggregate of all note principal payments that have been paid in respect of that note; and
- the pool factor, being the fraction obtained by dividing the principal amount outstanding of each offered Financing note as at such note determination date by the principal amount outstanding of that note as at the closing date.

Financing will notify the agent bank, paying agents, note trustee, registrar and each stock exchange competent listing authority and/or quotation system on or by which the Financing notes are then listed quoted and/or traded of each determination of a note principal payment, the principal amount outstanding and pool factor and shall publish those determinations in accordance with number 14 as soon as possible after the relevant interest payment date.

If Financing or agent bank fails to make a determination as described, the note trustee will calculate the note principal payment, principal amount outstanding of a note on the note determination date and pool factor as described in this subsection (C), and each of these determinations or calculations will be deemed to have been made by Financing. If this happens, Financing, the agent bank and the noteholders will (in the absence of wilful default, bad faith or manifest error) be bound by the determinations made.

**(D) Optional redemption in full**

Provided that a Financing note acceleration notice has not been served and subject to the provisos below, Financing may by giving not less than 30 and not more than 60 days' prior written notice to the note trustee, the Financing swap providers and the noteholders redeem all (but not some only) of the Financing notes at the principal amount outstanding thereof, together with any accrued (and unpaid) interest thereon, on the following dates:

- any interest payment date falling on or after the Financing step-up date;
- any interest payment date on which the aggregate principal amount of the Financing notes then outstanding is less than 10 per cent. of the aggregate principal amount outstanding of the Financing notes as at the closing date.

Financing may only redeem the offered Financing notes as described in this subsection (D) if (a) Financing has provided to the note trustee a certificate to the effect that Financing will have funds available to it to redeem the Financing notes and amounts required to be paid in priority to or *pari passu* with the Financing notes on such interest payment date and (b) the note trustee is satisfied in accordance with the transaction documents that there are sufficient funds to allow Financing to redeem the Financing notes.

**(E) Optional redemption for tax and other reasons**

Provided that a Financing note acceleration notice has not been served and if Financing satisfies the note trustee that on the next interest payment date either:

- Financing would by virtue of a change in the law or regulations of the United Kingdom or any other jurisdiction (or the application or interpretation thereof) be required to withhold or deduct from amounts due on the Financing notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature (other than where the relevant holder or beneficial owner has some connection with the relevant jurisdiction other than the holding of the Financing notes); or
- Funding 1 would be required to withhold or deduct from amounts due on the Financing intercompany loan any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature; and
- such obligation of Financing or Funding 1, as the case may be, cannot be avoided by Financing or Funding 1, as the case may be, taking reasonable measures available to it,

then Financing will use reasonable endeavours to arrange the substitution of a company incorporated in another jurisdiction and approved by the note trustee in order to avoid such a situation, provided that Financing will not be required to do so if that would require registration of any new security under US securities laws or materially increase the disclosure requirements under US law or the costs of issuance.

If Financing is unable to arrange a substitution as described in this subsection, then Financing may, by giving not less than 30 and not more than 60 days' prior notice to the note trustee, the Financing swap providers and the noteholders, redeem all (but not some only) of the Financing notes at the principal amount outstanding together with any accrued interest on the next following interest payment date, provided that, prior to giving any such notice, Financing shall deliver to the

note trustee (1) a certificate signed by two directors of Financing stating that the circumstances referred to in the bullet points immediately above prevail and setting out details of such circumstances, and (2) an opinion in form and substance satisfactory to the note trustee of independent legal advisers of recognised standing to the effect that Financing has or will become obliged to pay such additional amounts as a result of such change or amendment. The note trustee shall be entitled to accept (without investigation or inquiry) such certificate and opinion as sufficient evidence of the satisfaction of the circumstance set out in the bullet points immediately above, in which event they shall be conclusive and binding on the noteholders. Financing may only redeem the Financing notes as described above if the note trustee is satisfied in accordance with the Financing transaction documents that Financing will have funds available to it to make the required payment of principal and interest due in respect of the Financing notes on the relevant interest payment date, including any amounts required to be paid in priority to or in the same priority as the Financing notes outstanding in accordance with the Financing pre-enforcement revenue priority of payments and Financing pre-enforcement principal priority of payments.

If at any time, it would be unlawful for Financing to make, fund or allow to remain outstanding a term advance made by it under the Financing intercompany loan agreement and the relevant certificate states that Financing requires Funding 1 to prepay the term advance, then Financing may redeem all (but not some only) of the Financing notes at the principal amount outstanding thereof, together with any accrued (and unpaid) interest thereon, on giving not more than 60 days' and not less than 30 days' (or such shorter period as may be required by any relevant law) prior written notice thereof to the note trustee, the Financing swap providers and noteholders in accordance with number 14, provided that, prior to giving any such notice, Financing shall have provided to the note trustee a certificate signed by two directors of Financing to the effect that it will have the funds, not subject to the interest of any other person, required to redeem the Financing notes as aforesaid and any amounts required under the Financing pre-enforcement revenue priority of payments (or, as the case may be, Financing post-enforcement revenue priority of payments) currently set out in the Financing cash management agreement to be paid in priority to or *pari passu* with the Financing notes outstanding in accordance with the terms and conditions thereof.

**(F) Redemption or purchase following a regulatory event**

- (i) If:
- (a) the Basel II Framework (as described in the document titled "*Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework*" published in June 2004 by the Basel Committee on Banking Supervision) has been implemented in the United Kingdom, whether by rule of law, recommendation of best practices or by any other regulation (including pursuant to implementation in the United Kingdom of the proposed EU Capital Requirements Directive),
  - (b) a Financing note acceleration notice has not been served on the relevant interest payment date for the exercise of the purchase option or redemption option, as the case may be,
  - (c) Financing has given not more than 60 days' and not less than 30 days' (or such shorter period as may be required by any relevant law) prior written notice to the note trustee, the Financing swap providers and noteholders, in accordance with number 14, of the exercise of the purchase option or redemption option, as the case may be,
  - (d) each rating agency has confirmed to Financing in writing that its then current ratings of none of the Financing notes or notes of any issuing entity would be adversely affected by the exercise of the purchase option or redemption option, as the case may be, and
  - (e) prior to giving any such notice, Financing shall have provided to the note trustee a certificate signed by two directors of Financing to the effect that Financing will have sufficient funds to purchase or redeem, as the case may be, the called notes in accordance with this number 5(F) and to pay any amounts under Financing pre-enforcement revenue priority of payments required to be paid in priority to or *pari passu* with payments on the Financing notes on the relevant interest payment date,

then:

- (y) Financing has the right (the **purchase option**) to require holders of all but not some only of one or more classes of the class B Financing notes or the class C Financing notes (collectively, the **called notes**) to transfer the called notes to Financing on any interest payment date falling on or after the interest payment date in March 2009 for a price equal to the specified amount, together with any accrued interest on the called notes, or
  - (z) Financing may redeem (the **redemption option**) the called notes on any interest payment date falling on or after the interest payment date in March 2009 at the specified amount, together with any accrued interest on the called notes.
- (ii) The called notes transferred to Financing pursuant to the purchase option shall, subject as provided in (iii) below, remain outstanding until the date on which they would otherwise be redeemed or cancelled in accordance with the terms and conditions of the Financing notes.
  - (iii) The note trustee shall concur in, execute and do all such deeds, instruments, acts and things, and shall consent to any amendment, modification or waiver of the provisions of the Financing transaction documents to which it is a party and of the terms and conditions of the Financing notes, which may be necessary or desirable to permit and give effect to the exercise of the purchase option and the transfer of the called notes to Financing, including any waiver of covenants of Financing and any suspension or termination of the rights of the holders of the called notes from (and including) the interest payment date specified for the exercise of the purchase option, for as long as the called notes have not been transferred to Financing, other than the right to receive the price payable for such transfer.
  - (iv) Each holder of called notes shall be deemed to have authorised and instructed Euroclear, or, as the case may be, Clearstream, Luxembourg to effect the transfer of its called notes on the relevant interest payment date to Financing, in accordance with the rules for the time being of Euroclear, or, as the case may be, Clearstream, Luxembourg.
  - (v) **Specified amount** means in respect of any called notes, the principal amount outstanding of the called notes.

## 6. Payments

Payments of principal and interest in respect of the global Financing notes will be made to the persons in whose names the global Financing note certificates are registered on the register at the opening of business in the place of the registrar's specified office on the fifteenth day before the due date for such payment. Such date is called the **record date**. Payments shall be made by wire transfer of immediately available funds, if such registered holder shall have provided wiring instructions no less than five business days prior to the record date, or otherwise by cheque mailed to the address of such registered holder as it appears in the register at the opening of business on the record date. In the case of the final redemption, and provided that payment is made in full, payment will only be made against surrender of those global Financing note certificates to the registrar. None of the persons appearing on the records of DTC, Euroclear or Clearstream, Luxembourg as a holder of Financing notes will have any direct claim against Financing in respect of payments due on the Financing notes while the Financing notes are represented by global Financing notes.

If a noteholder holds definitive offered Financing notes, payments of principal and interest on an offered Financing note (except in the case of a final payment that pays off the entire principal on the offered Financing note) will be made by US dollar cheque and mailed to the noteholder at the address shown in the register on the record date. In the case of final redemption, payment will be made only when the offered Financing note is surrendered to the registrar. If the noteholder makes an application to the registrar, payments can instead be made by transfer to a bank account.

All payments on the offered Financing notes are subject to any applicable fiscal or other laws and regulations. Noteholders will not be charged commissions or expenses on these payments.

If payment of principal on an offered Financing note is improperly withheld or refused, the interest which continues to accrue will still be payable in accordance with this number 6.

Financing can, at any time, vary or terminate the appointment of any paying agent, the registrar or the transfer agent and can appoint successor or additional paying agents. If Financing does this it must ensure that it maintains a paying agent in London, a paying agent in New York and a registrar. Financing will ensure that at least 30 days' notice of any change in the paying agents, registrar or transfer agent or their specified offices is given to noteholders in accordance with number 14 and will notify the rating agencies of any change.

If the due date for payment of any amount on the offered Financing notes is not a business day in the place monies are due to be received in accordance with this number 6, noteholders will not be entitled to payment of the amount due in that place until the next business day in that place and noteholders shall not be entitled to any further interest or other payment as a result of that delay.

If a paying agent makes a partial payment on an offered Financing note, the registrar will annotate the register of noteholders, indicating the amount and date of that payment.

If payment of interest on a note is not paid for any other reason when due and payable, the unpaid interest will itself bear interest at the rate of interest applicable from time to time to such note until you have been notified, in accordance with number 14, that both the unpaid interest and the interest on that interest are available for payment.

## 7. Prescription

13.4.8

Claims against Financing for payment in respect of the offered Financing notes will become void if they are not presented within the time limit for payment. That time limit is 10 years from their due date. If there is a delay in the paying agents or, as applicable, the note trustee, receiving the funds, then the due date, for the purposes of this time limit, is the date on which such funds have been received and notice to that effect has been given to the noteholder in accordance with number 14.

## 8. Taxation

Payments of interest and principal will be made without making any withholding or deduction for or on account of any tax unless a withholding or deduction is required by any applicable law. If a withholding or deduction for or on account of tax is made, the relevant paying agent will make payments of interest and principal after such withholding or deduction for tax has been made and Financing or the relevant paying agent will account to the relevant authority for the amount so withheld or deducted. Neither Financing nor any paying agent is required to make any additional payments to noteholders for this withholding or deduction.

## 9. Events of default

### (A) Class A noteholders

The note trustee may in its absolute discretion give notice (a **class A note acceleration notice**) of a class A note event of default (as defined in the following paragraph), and shall give such notice if it is indemnified and/or secured to its satisfaction and it is:

- required to by the holders of at least one quarter of the aggregate principal amount outstanding of the class A Financing notes; or
- directed to by an extraordinary resolution (as defined in the trust deed) of the class A noteholders.

If any of the following events occurs and is continuing it is called a **class A note event of default**:

- Financing fails to pay for a period of three business days any amount of interest or principal on the class A Financing notes when that payment is due and payable in accordance with these conditions; or

- Financing fails to perform or observe any of its other obligations under the class A Financing notes, the trust deed, the Financing deed of charge or any other Financing transaction document, and (except where the note trustee certifies that, in its sole opinion, such failure is incapable of remedy, in which case no notice will be required) it remains unremedied for 20 days after the note trustee has given notice of it to Financing requiring the same to be remedied; and the note trustee has certified that the failure to perform or observe is materially prejudicial to the interests of the class A noteholders; or
- except for the purposes of an amalgamation or restructuring as described in the point immediately following, Financing stops or threatens to stop carrying on all or a substantial part of its business or is or is deemed unable to pay its debts within the meaning of Section 123 (1) (a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted) or the value of its assets falls to less than the amount of its liabilities (taking into account contingent and prospective liabilities) or otherwise becomes insolvent; or
- an order is made or an effective resolution is passed for the winding-up of Financing except for the purposes of or pursuant to an amalgamation or restructuring or merger previously approved by the note trustee in writing or by an extraordinary resolution of the class A noteholders; or
- proceedings are otherwise initiated against Financing under any applicable liquidation, insolvency, reorganisation or other similar laws (including, but not limited to, presentation of a petition for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) and (except in the case of presentation of a petition for an administration order) those proceedings are not being disputed in good faith with a reasonable prospect of success or an administration order is granted or the appointment of an administrator takes effect or an administrative receiver or other receiver, liquidator or similar official is appointed in relation to Financing or the whole or any substantial part of the business or assets of Financing, or an encumbrancer takes possession of that business or those assets or a distress, execution, diligence or other process is levied or enforced upon or sued out against that business or those assets and is not discharged within 30 days, or Financing initiates or consents to the foregoing proceedings 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; or
- an intercompany loan acceleration notice is served on Funding 1 while any of the class A Financing notes is outstanding.

**(B) Class B noteholders**

The terms described in this number 9(B) will have no effect so long as any of the class A Financing notes are outstanding. Subject to that occurrence, the note trustee may in its absolute discretion give notice (a **class B note acceleration notice**) of a class B note event of default (as defined in the following paragraph), and shall give that notice if it is indemnified and/or secured to its satisfaction and it is:

- required to by the holders of at least one quarter of the aggregate principal amount outstanding of the class B Financing notes; or
- directed to by an extraordinary resolution of the class B noteholders.

If any of the following events occurs and is continuing it is called a **class B note event of default**:

- Financing fails to pay for a period of three business days any amount of interest or principal on the class B Financing notes when that payment is due and payable in accordance with these conditions; or
- the occurrence of any of the other events in number 9(A) described above but provided that any reference to the class A Financing notes and the class A noteholders shall be read as references to the class B Financing notes and the class B noteholders.



### **(C) Class C noteholders**

The terms described in this number 9(C) will have no effect so long as any of the class A Financing notes or the class B Financing notes are outstanding. Subject to that occurrence, the note trustee may in its absolute discretion give notice (a **class C note acceleration notice**) of a class C note event of default (as defined in the following paragraph), and shall give that notice if it is indemnified and/or secured to its satisfaction and it is:

- required to by the holders of at least one quarter of the aggregate principal amount outstanding of the class C Financing notes; or
- directed to by an extraordinary resolution of the class C noteholders.

If any of the following events occurs and is continuing it is called a **class C note event of default**:

- Financing fails to pay for a period of three business days any amount of interest or principal on the class C Financing notes when that payment is due and payable in accordance with these conditions; or
- the occurrence of any of the other events in number 9(A) described above but provided that any reference to the class A Financing notes and the class A noteholders shall be read as references to the class C Financing notes and the class C noteholders.

A class A note acceleration notice, a class B note acceleration notice and a class C note acceleration notice are alone or together referred to in this offering circular as a **Financing note acceleration notice**. A Financing note acceleration notice is a written notice to Financing and the security trustee declaring the Financing notes to be immediately due and payable. When it is given, all Financing notes will become immediately due and payable at their principal amount outstanding together with accrued interest without further action or formality.

## **10. Enforcement**

At any time the note trustee and the security trustee may take steps against Financing to enforce the provisions of the trust deed and the Financing notes or the Financing deed of charge or any of the other Financing transaction documents. At any time after the security under the Financing deed of charge has become enforceable, the security trustee may, in its absolute discretion and without notice, institute those proceedings as it thinks fit to enforce the Financing security. Neither the note trustee nor the security trustee shall be bound to take these steps unless it is indemnified and/or secured to its satisfaction and:

- it is so requested in writing by holders of at least one quarter of the aggregate principal amount outstanding of the class A Financing notes, the class B Financing notes or the class C Financing notes (subject to those restrictions in the trust deed and/or the Financing deed of charge to protect the interests of any higher ranking class of noteholders); or
- in the case of the security trustee, it has been so directed by the note trustee acting on the instructions of an extraordinary resolution (as described in number 11) of the class A noteholders, class B noteholders or class C noteholders (subject to those restrictions in the trust deed and/or the Financing deed of charge to protect the interests of any higher ranking class of noteholders); or
- in the case of the security trustee, it is so requested in writing by any other Financing secured creditor (subject to those restrictions in the Financing deed of charge to protect the noteholders).

Amounts available for distribution after enforcement of the Financing security shall be distributed in accordance with the terms of the Financing deed of charge.

No noteholder may institute any proceedings against Financing to enforce its rights under or in respect of the Financing notes or the trust deed unless (1) the note trustee or the security trustee, as the case may be, has become bound to institute proceedings and has failed to do so within a reasonable time and (2) the failure is continuing. Notwithstanding the previous sentence and

notwithstanding any other provision of the trust deed, the right of any noteholder to receive payment of principal of and interest on its Financing notes on or after the due date for the principal or interest, or to institute suit for the enforcement of payment of that interest or principal, may not be impaired or affected without the consent of that noteholder. In addition, no class B noteholder or class C noteholder will be entitled to take proceedings for the winding-up or administration of Financing unless:

- there are no outstanding Financing notes of a class with higher class designation; or
- if Financing notes of a class with a higher class designation are outstanding, there is consent of holders of at least one quarter of the aggregate principal amount outstanding of the class or classes of Financing notes with higher class designations.

In the event that the Financing security is enforced and the proceeds of that enforcement (after such proceeds have been distributed) are insufficient, after payment of all other claims ranking in priority, to pay in full any amount due on the class B Financing notes and the class C Financing notes under the Financing deed of charge, the note trustee is required, at the request of Permanent PECO Limited, to transfer, for a nominal payment only all of the class B Financing notes and/or all of the class C Financing notes to Permanent PECO Limited, pursuant to the option granted by the note trustee to Permanent PECO Limited. The option is granted to acquire all of the class B Financing notes and/or all of the class C Financing notes, plus accrued interest on them. This is called the **post-enforcement call option**. Each class B noteholder and class C noteholder acknowledges that the note trustee has the authority and the power to bind it in accordance with the terms and conditions set out in the post-enforcement call option and, by subscribing for or acquiring the Financing notes, it agrees to be bound in this way.

## **11. Meetings of noteholders, modifications and waiver**

### **(A) Meetings of noteholders**

The trust deed contains provisions for convening meetings of each series and/or class of noteholders to consider any matter affecting their interests, including the modification of any provision of the terms and conditions of the Financing notes or any of the Financing transaction documents.

In respect of the class A Financing notes, the trust deed provides that:

- a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of one series only of the class A Financing notes shall be deemed to have been duly passed if passed at a single meeting of the holders of the class A Financing notes of that series;
- a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of any two or more series of the class A Financing notes but does not give rise to a conflict of interest between the holders of those two or more series of the class A Financing notes, shall be deemed to have been duly passed if passed at a single meeting of the holders of those two or more series of the class A Financing notes; and
- a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of any two or more series of the class A Financing notes and gives or may give rise to a conflict of interest between the holders of those two or more series of the class A Financing notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the holders of those two or more series of the class A Financing notes, it shall be duly passed at separate meetings of the holders of those two or more series of the class A Financing notes.

In the case of a single meeting of the holders of two or more series of the class A Financing notes which are not all denominated in the same currency, the principal amount outstanding of any class A Financing note denominated in US dollars or euro shall be converted into sterling at the relevant Financing dollar currency exchange rate or the relevant Financing euro currency exchange rate, as the case may be.

In respect of the class B Financing notes, the trust deed provides that:

- a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of one series only of the class B Financing notes shall be deemed to have been duly passed if passed at a single meeting of the holders of the class B Financing notes of that series;
- a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of any two or more series of the class B Financing notes but does not give rise to a conflict of interest between the holders of those two or more series of the class B Financing notes, shall be deemed to have been duly passed if passed at a single meeting of the holders of those two or more series of the class B Financing notes; and
- a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of any two or more series of the class B Financing notes and gives or may give rise to a conflict of interest between the holders of those two or more series of the class B Financing notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the holders of those two or more series of the class B Financing notes, it shall be duly passed at separate meetings of the holders of those two or more series of the class B Financing notes.

In the case of a single meeting of the holders of two or more series of the class B Financing notes which are not all denominated in the same currency, the principal amount outstanding of any class B Financing note denominated in US dollars or euro shall be converted into sterling at the relevant Financing dollar currency exchange rate or the relevant Financing euro currency exchange rate, as the case may be.

In respect of the class C Financing notes, the trust deed provides that:

- a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of one series only of the class C Financing notes shall be deemed to have been duly passed if passed at a single meeting of the holders of the class C Financing notes of that series;
- a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of any two or more series of the class C Financing notes but does not give rise to a conflict of interest between the holders of those two or more series of the class C Financing notes, shall be deemed to have been duly passed if passed at a single meeting of the holders of those two or more series of the class C Financing notes; and
- a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of any two or more series of the class C Financing notes and gives or may give rise to a conflict of interest between the holders of those two or more series of the class C Financing notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the holders of those two or more series of the class C Financing notes, it shall be duly passed at separate meetings of the holders of those two or more series of the class C Financing notes.

In the case of a single meeting of the holders of two or more series of the class C Financing notes which are not all denominated in the same currency, the principal amount outstanding of any class C Financing note denominated in US dollars or euro shall be converted into sterling at the relevant Financing dollar currency exchange rate or the relevant Financing euro currency exchange rate, as the case may be.

Similar requirements apply in relation to requests in writing from class A noteholders, class B noteholders and class C noteholders upon which the note trustee or security trustee is bound to act.

Subject as provided in the following paragraph, the quorum for any meeting convened to consider an extraordinary resolution will be two or more persons holding or representing not less than half of the aggregate principal amount outstanding of the relevant series, class or classes of Financing notes or, at any adjourned meeting, one or more noteholders or persons representing noteholders of the relevant series, class or classes of Financing notes, whatever the total principal amount outstanding of Financing notes so represented.

Certain terms including the alteration of the amount, rate or timing of payments on the Financing notes, the currency of payment, the priority of payments or the quorum or majority required in relation to these terms, require a quorum for passing an extraordinary resolution of one or more persons holding or representing in total not less than three quarters of the total principal amount outstanding of the classes of Financing notes of each series for the time being outstanding or, at any adjourned meeting, at least one quarter of the total principal amount outstanding of those classes of Financing notes. These modifications are called “**basic terms modifications**”.

No extraordinary resolution of the class B noteholders, except as mentioned below, shall take effect while any class A Financing notes remain outstanding unless sanctioned by an extraordinary resolution of the class A noteholders, or the note trustee (or, as the case may be, the security trustee) is of the opinion that it would not be materially prejudicial to the interests of the class A noteholders.

No extraordinary resolution of the class C noteholders, except as mentioned below, shall take effect while any class A Financing notes or class B Financing notes remain outstanding unless sanctioned by an extraordinary resolution of the class A noteholders and/or the class B noteholders (as the case may be), or the note trustee (or, as the case may be, the security trustee) is of the opinion that it would not be materially prejudicial to the interests of the class A noteholders and/or the class B noteholders (as the case may be).

An extraordinary resolution of the class A noteholders to sanction a modification of or any waiver or authorisation of any breach of the terms and conditions of the Financing notes or of the Financing transaction documents (including basic terms modifications) (except as provided below) will not be effective unless it is also sanctioned by extraordinary resolutions of the class B noteholders and the class C noteholders or the note trustee (in its absolute discretion) considers that it will not be materially prejudicial to the class B noteholders and the class C noteholders. If there are no class A Financing notes outstanding, an extraordinary resolution of the class B noteholders to sanction a modification of or any waiver or authorisation of any breach of the terms and conditions of the Financing notes or of the Financing transaction documents (including basic terms modifications) (except as provided below) will not be effective unless it is also sanctioned by an extraordinary resolution of the class C noteholders or the note trustee (in its absolute discretion) considers that it will not be materially prejudicial to the interests of the class C noteholders.

**(B) Modifications and waiver**

The note trustee may agree to, or authorise, without the consent of the noteholders, (1) any modification (excluding basic terms modifications) of, or to the waiver or authorisation (other than a waiver or authorisation, the subject of which falls within the definition of a basic terms modification) of any breach or proposed breach of, the terms and conditions of the Financing notes or any of the Financing transaction documents which is not, in the sole opinion of the note trustee, materially prejudicial to the interests of the noteholders (and, for the avoidance of doubt, the note trustee shall be entitled to assume without further investigation or inquiry, that such modification, waiver or authorisation will not be materially prejudicial to the interests of the noteholders (or any series and/or class thereof) if each of the rating agencies has confirmed in writing that the then current ratings of the applicable series and/or class or classes of notes would not be adversely affected by such modification, waiver or authorisation) or (2) any modification (including basic terms modifications) of any of the terms and conditions of the Financing notes or any of the Financing transaction documents which, in the opinion of the note trustee, is of a formal, minor or technical nature or is to correct a manifest error or an error established as such to the satisfaction of the note trustee.

In the circumstances set out in the Financing deed of charge, the security trustee will consent to relevant modifications that are requested by Funding 1 or the cash manager to be made to the Financing transaction documents. In those circumstances, the consent of the note trustee or the noteholders to those modifications will not be obtained.

The note trustee may also, without the consent of the noteholders, determine that any Financing note event of default shall not be treated as such. Any of these modifications, authorisations or waivers will be binding on the noteholders and, unless the note trustee agrees

otherwise, shall be promptly notified to the noteholders and the rating agencies in accordance with number 14 as soon as practicable thereafter.

Where the note trustee is required in connection with the exercise of its powers to have regard to the interests of the noteholders of any series or class, it shall have regard to the interests of those noteholders as a class. In particular, the note trustee shall not have regard to, or be liable for, the consequences of that exercise for individual noteholders resulting from their being domiciled or resident in or connected with any particular territory. In connection with any such exercise, the note trustee shall not be entitled to require, and no noteholder shall be entitled to claim, from Financing or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual noteholders.

## **12. Indemnification of the note trustee and the security trustee**

The note trustee and the security trustee are entitled to be indemnified and relieved from responsibility in certain circumstances, including provisions relieving them from taking enforcement proceedings or, in the case of the security trustee, enforcing the Financing security unless indemnified and/or secured to their satisfaction.

The note trustee, the security trustee and their related companies are entitled to enter into business transactions with Financing, Halifax plc or related companies of either of them and to act as note trustee and security trustee, respectively, for the holders of any new notes and/or any other person who is a party to any transaction document or whose obligations are comprised in the Financing security or any of their subsidiary or associated companies, without accounting for any profit resulting from those transactions.

Neither the note trustee nor the security trustee will be responsible for any loss or liability suffered as a result of any assets in the Financing security being uninsured or inadequately insured or being held by clearing operations or their operators or by intermediaries on behalf of the note trustee and/or the security trustee.

## **13. Replacement of Financing notes**

If any definitive Financing note is lost, stolen, mutilated, defaced or destroyed, the noteholder can replace it at the specified office of any paying agent. The noteholder will be required both to pay the expenses of producing a replacement and to comply with the reasonable requests of Financing, the registrar and the paying agents as to evidence and indemnity. The noteholder must surrender any defaced or mutilated Financing notes before replacements will be issued.

If a global Financing note is lost, stolen, mutilated, defaced or destroyed, it will upon satisfactory evidence become void and Financing will deliver a replacement global Financing note duly executed and authenticated to the registered holder upon surrender of any defaced or mutilated global Financing note. Replacement of a global Financing note will only be made upon payment of the expenses for a replacement and compliance with the reasonable requests of Financing, the registrar and the paying agents as to evidence and indemnity.

## **14. Notice to noteholders**

Notices to noteholders will be sent to them by first class mail (or its equivalent) or (if posted to a non-UK address) by airmail at the respective addresses on the register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, notices shall be published in the *Financial Times* and, so long as any of the offered Financing notes are outstanding, *The New York Times* or, if either newspaper ceases to be published or, if timely publication therein is not practicable, in another English language newspaper or newspapers approved by the note trustee with general circulation in the United Kingdom and the United States. However, a notice will also be treated as having been duly given if the information contained in that notice appears on the relevant page of the Reuters screen or other similar service approved by the note trustee and notified to noteholders. The notice will be deemed given on the date of first publication or when it first appears on the screen.

While the Financing notes are represented by global Financing notes, notices to noteholders will be valid if published as described in the previous paragraph or (at the option of Financing) if delivered to DTC, in the case of the offered Financing notes, or Euroclear and/or Clearstream, Luxembourg, in the case of the other Financing notes.

Any notice delivered to DTC, in the case of the offered Financing notes, or Euroclear and/or Clearstream, Luxembourg, in the case of the other Financing notes, will be deemed to be given on the day of such delivery.

The note trustee may approve some other method of giving notice to noteholders if that method conforms to market practice and the rules of the UK Listing Authority and if notice of that other method is given to noteholders.

## 15. Rating Agencies

If:

- (i) a confirmation of rating or other response by a rating agency is a condition to any action or step under any transaction document; and
- (ii) a written request for such confirmation or response is delivered to each rating agency by Financing (copied to the note trustee and/or the security trustee, as applicable) and either one or more rating agency (each a **non-responsive rating agency**) indicates that it does not consider such confirmation or response necessary in the circumstances or within 30 days of such delivery such request elicits no confirmation or response and/or such request elicits no statement by such rating agency that such confirmation or response could not be given; and
- (iii) at least one rating agency gives such a confirmation or response based on the same facts,

then such condition shall be deemed to be modified with respect to the facts set out in the request referred to in (ii) so that there shall be no requirement for the confirmation or response from the non-responsive rating agency.

The note trustee and/or the security trustee, as applicable, shall be entitled to treat as conclusive a certificate by any director, officer or employee of Financing, Funding 1, the seller, any investment bank or financial adviser acting in relation to the Financing notes as to any matter referred to in (ii) in the absence of manifest error or the note trustee and/or the security trustee, as applicable, having facts contradicting such certificates specifically drawn to his attention and the note trustee and/or the security trustee, as applicable, shall not be responsible for any loss, liability, costs, damages, expenses or inconvenience that may be caused as a result.

## 16. Governing law

The Financing transaction documents, other than the purchase agreement (which will be governed by the laws of the State of New York) and the Scottish declarations of trust (which will be governed by Scots law), and the Financing notes will be governed by English law.

The courts of England are to have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Financing transaction documents (other than the purchase agreement) and the Financing notes. Financing and the other parties to the Financing transaction documents (other than the purchase agreement) irrevocably submit to the non-exclusive jurisdiction of the courts of England.

The purchase agreement will be governed by the laws of the State of New York and Financing and the other parties to the purchase agreement irrevocably agree that any state or federal court in the State of New York will have jurisdiction to hear any dispute arising out of the purchase agreement.

## Ratings of the Financing notes

The Financing notes are expected, on issue, to be assigned the following ratings by Moody's, Standard & Poor's and Fitch. 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 Funding 1 swap provider and/or any Financing swap provider (or, where relevant, the credit support provider of the Funding 1 swap provider or any of the Financing swap providers), the mortgages trustee GIC provider and/or the Funding 1 GIC provider) in the future so warrant.

Class of Financing notes	Moody's	Standard & Poor's	Fitch
Series 1 class A .....	P-1	A-1+	F1+
Series 2 class A .....	Aaa	AAA	AAA
Series 3 class A .....	Aaa	AAA	AAA
Series 4 class A .....	Aaa	AAA	AAA
Series 5 class A .....	Aaa	AAA	AAA
Series 1 class B .....	Aa3	AA	AA
Series 2 class B .....	Aa3	AA	AA
Series 3 class B .....	Aa3	AA	AA
Series 4 class B .....	Aa3	AA	AA
Series 1 class C .....	Baa2	BBB	BBB
Series 2 class C .....	Baa2	BBB	BBB
Series 3 class C .....	Baa2	BBB	BBB
Series 4 class C .....	Baa2	BBB	BBB

The ratings assigned by Standard & Poor's and Fitch to each class of Financing notes address the likelihood of full and timely payment to you of all payments of interest on each interest payment date under those classes of Financing notes. The ratings also address the likelihood of ultimate payment of principal on the final maturity date of each class of Financing notes. The ratings assigned by Moody's to each class of Financing notes address the expected loss in proportion to the initial principal amount of such class posed to investors by the final maturity date. In Moody's opinion, the structure allows for timely payment of interest and principal at par on or before the final maturity date. The ratings do not address the actual likely rate of prepayments on the loans. The rate of prepayments, if different than originally anticipated, could adversely affect the yield realised on your notes.

Assignment of the expected ratings to the Financing notes of each class will be a condition to issue of the Financing notes.

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

## Maturity and prepayment considerations

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

- (1) none of the previous issuing entities security nor the Financing security nor the Funding 1 security has been enforced;
- (2) the seller is not in breach of the terms of the mortgage sale agreement;
- (3) the seller sells no new loans to the mortgages trustee after the closing date and the loans are assumed to amortise in accordance with the assumed constant repayment rate indicated in the table below (subject to assumption (4) below);
- (4) the seller sells to the mortgages trustee sufficient new loans and their related security in the period up to but excluding the interest payment date in September 2009, such that the aggregate principal amount outstanding of loans in the portfolio at any time is not less than £31,000,000,000 or such higher amount as may be required to be maintained as a result of new issuing entities providing new term advances to Funding 1 which Funding 1 uses as consideration for an increase in its share of the trust property or for the sale of new loans to the trust property;
- (5) neither an asset trigger event nor a non-asset trigger event occurs;
- (6) no event occurs that would cause payments on scheduled amortisation term advances or the pass-through term advances to be deferred (unless such advances are deferred in accordance with Rule 1 (B) or (C));
- (7) Financing exercises its option to redeem the Financing notes on the interest payment date falling in September 2012, Permanent Financing (No. 8) PLC refinances its outstanding notes on the interest payment date falling in December 2011, Permanent Financing (No. 7) PLC refinances its outstanding notes on the interest payment date falling in December 2011, Permanent Financing (No. 6) PLC refinances its outstanding notes on the interest payment date falling in September 2011, Permanent Financing (No. 5) PLC refinances its outstanding notes on the interest payment date falling in June 2011, Permanent Financing (No. 4) PLC refinances its outstanding notes on the interest payment date falling in March 2011, Permanent Financing (No. 3) PLC refinances its outstanding notes on the interest payment date falling in December 2010, Permanent Financing (No. 2) PLC refinances its outstanding notes on the interest payment date falling in December 2008 and Permanent Financing (No. 1 PLC) refinances its outstanding notes on the interest payment date falling in June 2007 and such that the Funding 1 share and the outstanding trust property is not reduced;
- (8) the annualised CPR as at the closing date is assumed to be the same as the various assumed rates in the table below;
- (9) there is a balance of £761,700,000 in the cash accumulation ledger at the closing date; and
- (10) the closing date of the transaction is 22 March 2006,

the approximate average life in years of the offered Financing notes, at various assumed rates of repayment of the loans, would be as follows:



## Possible average lives of various classes of Financing notes (in years)

Constant repayment rate (% per annum)	series 1 class A	series 1 class B	series 1 class C	series 2 class A	series 2 class B	series 2 class C	series 3 class A	series 3 class B	series 3 class C
5%.....	0.97	6.48	6.48	2.97	6.48	6.48	6.06	6.48	6.48
10%.....	0.97	5.72	5.82	2.97	5.72	5.82	4.85	5.72	5.82
15%.....	0.97	0.97	1.21	2.97	2.97	2.97	4.85	4.97	4.97
20%.....	0.97	0.97	0.97	2.97	2.97	2.97	4.85	4.97	4.97
25%.....	0.97	0.97	0.97	2.97	2.97	2.97	4.85	4.97	4.97
30%.....	0.97	0.97	0.97	2.97	2.97	2.97	4.85	4.97	4.97
35%.....	0.97	0.97	0.97	2.97	2.97	2.97	4.85	4.97	4.97

Assumptions (1), (2), (3), (4), (5), (6), (7) and (10) relate to circumstances which are not predictable. No assurance can be given that Financing will be in a position to redeem the Financing notes on the Financing step-up date. If Financing does not so exercise its option to redeem, then the average lives of the then outstanding Financing notes would be extended.

The average lives of the Financing notes are subject to factors largely outside the control of Financing and consequently no assurance can be given that these assumptions and estimates will prove in any way to be realistic and they must therefore be viewed with considerable caution. For more information in relation to the risks involved in the use of these estimated average lives, see **“Risk factors – The yield to maturity of the Financing notes may be adversely affected by prepayments or redemptions 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 programs, local and regional economic conditions and homeowner mobility. For instance, prepayments on the loans may be due to borrowers refinancing their loans and sales of properties by borrowers (either voluntarily or as a result of enforcement action taken). In addition, if the seller is required to repurchase a loan or loans under a mortgage account and their related security because, for example, one of the loans does not comply with the representations and warranties in the mortgage sale agreement, or because the loan is subject to a further advance or in some circumstances a product switch, then the payment received by the mortgages trustee will have the same effect as a prepayment of all of the loans under that mortgage account.

Variation in the rate of prepayments of principal on the loans may affect each class of Financing notes differently depending upon amounts already repaid by Funding 1 to Financing under the Financing intercompany loan and whether a trigger event has occurred, or a loan is subject to a product switch or a further advance or the security granted by Financing under the Financing deed of charge has been enforced. If prepayments on the loans occur less frequently than anticipated, then there may not be sufficient funds available to redeem the class A Financing notes of any series in full on their respective scheduled redemption dates.

The yield to maturity of each class of the Financing notes will depend mostly on the amount and timing of payment of principal on the loans and the price paid by the noteholders of such class. The yield to maturity of the Financing notes of each class may be adversely affected by a higher or lower than anticipated rate of prepayments on the loans, as described above.

## **Material legal aspects of the loans**

The following discussion is a summary of the material legal aspects of English and Scottish residential property loans and mortgages. It is not an exhaustive analysis of the relevant law.

### **English Loans**

#### ***General***

There are two parties to a mortgage. The first party is the mortgagor, who is the borrower and homeowner. The mortgagor grants the mortgage over its property. The second party is the mortgagee, who is the lender. Each English loan will be secured by a mortgage which has a first ranking priority over all other mortgages secured on the property and over all unsecured creditors of the borrower. Borrowers may create a subsequent mortgage or other secured interest over the relevant property without the consent of the seller, though such other mortgage or interest will rank below the seller's mortgage in priority.

#### ***Nature of property as security***

There are two forms of title to land in England and Wales: registered and unregistered. Both systems of title can include both freehold and leasehold land.

#### ***Registered title***

Title to registered land is registered at the Land Registry. Each parcel of land is given a unique title number. Prior to 13 October 2003 title to the land was established by a land or (in the case of land which is subject to a mortgage or charge) charge certificate containing official copies of the entries on the register relating to that land, however, pursuant to the Land Registration Act 2002 which came into force on 13 October 2003 the provision of land certificates and charge certificates has now been abolished. Title to land is now established by reference to entries on the registers held by the Land Registry.

There are four classes of registered title. The most common is title absolute. A person registered with title absolute owns the land free from all interests other than those entered on the register and those classified as unregistered interests which override first registration and unregistered interests which override registered dispositions.

Title information documents provided by the Land Registry will reveal the present owner of the land, together with any legal charges and other interests affecting the land. However, the Land Registration Act 2002 provides that some interests in the land will bind the land even though they are not capable of registration at the Land Registry such as unregistered interests which override first registration and unregistered interests which override registered dispositions. The title information documents will also contain a plan indicating the location of the land. However, this plan is not conclusive as to matters such as the location of boundaries.

#### ***Unregistered title***

All land in England and Wales is now subject to compulsory registration on the happening of any of a number of trigger events, which includes the granting of a first legal mortgage. However, a small proportion of land in England and Wales (typically where the land has been in the same ownership for a number of years) is still unregistered. Title to unregistered land is proved by establishing a chain of documentary evidence to title going back at least 15 years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However, other rights would have to be registered at the Central Land Charges Registry in order to be effective against a subsequent purchaser of the land.

#### ***Taking security over land***

Where land is registered, a mortgagee must register its mortgage at the Land Registry in order to secure priority over any subsequent mortgagee. Prior to registration, the mortgage will take effect only as an equitable mortgage or charge. Priority of mortgages over registered land is governed by the date of registration of the mortgage rather than date of creation. However, a

prospective mortgagee is able to obtain a priority period within which to register his mortgage. If the mortgagee submits a proper application for registration during this period, its interest will take priority over any application for registration of another interest which is received by the Land Registry during this priority period.

In the system of unregistered land, the mortgagee protects its interest by retaining possession of the title deeds to the property. Without the title deeds to the property, the borrower is unable to establish the necessary chain of ownership, and is therefore effectively prevented from dealing with its land without the consent of the mortgagee. Priority of mortgages over unregistered land is governed first by the possession of title deeds, and in relation to subsequent mortgages by the registration of a land charge.

### ***The seller as mortgagee***

The sale of the English mortgages by the seller to the mortgages trustee will take effect in equity only. The mortgages trustee will not apply to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the mortgages. The consequences of this are explained in **“Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the mortgages which may adversely affect payments on the Financing notes”**.

### ***Enforcement of mortgages***

If a borrower defaults under a loan, the English mortgage conditions provide that all monies under the loan will become immediately due and payable. The seller or its successors or assigns would then be entitled to recover all outstanding principal, interest and fees under the covenant of the borrower contained in the English mortgage conditions to pay or repay those amounts. In addition, the seller or its successors or assigns may enforce its mortgage in relation to the defaulted loan. Enforcement may occur in a number of ways, including the following:

- The mortgagee may enter into possession of the property. If it does so, it does so in its own right and not as agent of the mortgagor, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property.
- The mortgagee may lease the property to third parties.
- The mortgagee may foreclose on the property. Under foreclosure procedures, the mortgagor's title to the property is extinguished so that the mortgagee becomes the owner of the property. The remedy is, because of procedural constraints, rarely used.
- The mortgagee may sell the property, subject to various duties to ensure that the mortgagee exercises proper care in relation to the sale. This power of sale arises under the Law of Property Act 1925. The purchaser of a property sold pursuant to a mortgagee's power of sale becomes the owner of the property.

A court order under section 126 of the CCA is necessary to enforce a land mortgage in certain circumstances as described under **“Risk Factors – If our interpretation of certain technical rules under the CCA were held to be incorrect by a court or the Ombudsman or was challenged by a significant number of borrowers, there could be material disruption in the income from the mortgages trust”**.

## **Scottish loans**

### ***General***

A standard security is the only means of creating a fixed charge over heritable or long leasehold property in Scotland. Its form must comply with the requirements of the Conveyancing and Feudal Reform (Scotland) Act 1970 (the **1970 Act**). There are two parties to a standard security. The first party is the grantor, who is the borrower and homeowner. The grantor grants the standard security over its property (and is generally the only party to execute the standard security). The second party is the grantee of the standard security, who is the lender and is called the heritable creditor. Each Scottish loan will be secured by a standard security which has a first ranking priority over all other standard securities secured on the property and over all unsecured

creditors of the borrower. Borrowers may create a subsequent standard security over the relevant property without the consent of the seller. Upon intimation to the seller (in its capacity as trustee for the mortgages trustee pursuant to the relevant Scottish declaration of trust) of any subsequent standard security the prior ranking of the seller's standard security shall be restricted to security for advances made prior to such intimation and advances made subsequent to such intimation which the seller or the mortgages trustee is obliged to advance, and interest and expenses in respect thereof.

The 1970 Act automatically imports a statutory set of "**Standard Conditions**" into all standard securities, although the majority of these may be varied by agreement between the parties. The seller, along with most major lenders in the residential mortgage market in Scotland, has elected to vary the Standard Conditions by means of its own set of Scottish mortgage conditions, the terms of which are in turn imported into each standard security. The main provisions of the Standard Conditions which cannot be varied by agreement relate to redemption and enforcement, and in particular the notice and other procedures that are required to be carried out prior to the exercise of the heritable creditor's rights on a default by the borrower.

### ***Nature of property as security***

While title to all land in Scotland is registered there are currently two possible forms of registration, namely the Land Register and Sasine Register. Both systems of registration can include both heritable (the Scottish equivalent to freehold) and long leasehold land.

### ***Land Register***

This system of registration was established by the Land Registration (Scotland) Act 1979 and now applies to the whole of Scotland. Any sale of land (including a long leasehold interest in land) the title to which has not been registered in the Land Register or the occurrence of certain other events in relation thereto (but not the granting of a standard security alone) trigger its registration in the Land Register, when it is given a unique title number. Title to the land is established by a land certificate containing official copies of the entries on the Land Register relating to that land. Similarly, the holder of any standard security over the land in question receives a charge certificate containing official copies of the entries relating to that security. A person registered in the Land Register owns the land free from all interests other than those entered on the Register, those classified as overriding interests and any other interests implied by law.

The land certificate will reveal the present owners of the land, together with any standard securities and other interests (other than certain overriding interests) affecting the land. The land certificate will also contain a plan indicating the location and extent of the land. While this plan is not in all circumstances conclusive as to the extent of the land, it cannot be amended if this would be to the prejudice of a proprietor in possession of the land, unless the statutory indemnity in respect of such amendments has been expressly excluded in the land certificate itself.

### ***Sasine Register***

Title to all land in Scotland where no event has yet occurred to trigger registration in the Land Register is recorded in the General Register of Sasines. Title to such land is proved by establishing a chain of documentary evidence of title going back at least ten years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However, other rights (including standard securities) would have to be recorded in the Sasine Register in order to be effective against a subsequent purchaser of the land.

### ***Taking security over land***

A heritable creditor must register its standard security in the Land Register or the Sasine Register (as applicable) in order to perfect its security and secure priority over any subsequent standard security. Until such registration occurs, a standard security will not be effective against a subsequent purchaser or the heritable creditor under another standard security over the property. Priority of standard securities is (subject to express agreement to the contrary between the security holders) governed by their date of registration rather than their date of execution. There is no

equivalent in Scotland to the priority period system which operates in relation to registered land in England and Wales.

### ***The seller as heritable creditor***

The sale of the Scottish mortgages by the seller to the mortgages trustee has been given effect by a declaration of trust by the seller (and the sale on the closing date and any further sale of Scottish mortgages in the future will be given effect by further declarations of trust), by which the beneficial interest in the Scottish mortgages will be transferred to the mortgages trustee. Such beneficial interest (as opposed to the legal title) cannot be registered in the Land Register or Sasine Register. The consequences of this are explained in “**Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the mortgages, which may adversely affect the payments on the Financing notes**”.

### ***Enforcement of mortgages***

If a borrower defaults under a Scottish loan, the Scottish mortgage conditions provide that all monies under the loan will become immediately due and payable. The seller or its successors or assignees would then be entitled to recover all outstanding principal, interest and fees under the obligation of the borrower contained in the Scottish mortgage conditions to pay or repay those amounts. In addition, the seller or its successors or assignees may enforce its standard security in relation to the defaulted loan. Enforcement may occur in a number of ways, including the following (all of which arise under the 1970 Act):

- The heritable creditor may enter into possession of the property. If it does so, it does so in its own right and not as agent of the borrower, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property.
- The heritable creditor may grant a lease of the property of up to seven years (or longer with the courts’ permission) to third parties.
- The heritable creditor may sell the property, subject to various duties to ensure that the sale price is the best that can reasonably be obtained. The purchaser of a property sold pursuant to a heritable creditor’s power of sale becomes the owner of the property.
- The heritable creditor may, in the event that a sale cannot be achieved, foreclose on the property. Under foreclosure procedures the borrower’s title to the property is extinguished so that the heritable creditor becomes the owner of the property. However, this remedy is rarely used.

In contrast to the position in England and Wales, the heritable creditor has no power to appoint a receiver under the standard security.

A court order under section 126 of the CCA is necessary to enforce a standard security in certain circumstances as described under “**Risk Factors – If our interpretation of certain technical rules under the CCA were held to be incorrect by a court or the Ombudsman or was challenged by a significant number of borrowers, there could be material disruption in the income from the mortgages trust**”.

### ***Borrower’s right of redemption***

Under Section 11 of the Land Tenure Reform (Scotland) Act 1974 the grantor of any standard security has an absolute right, on giving appropriate notice, to redeem that standard security once it has subsisted for a period of 20 years, subject only to the payment of certain sums specified in Section 11 of that Act. These specified sums consist essentially of the principal monies advanced by the lender, interest thereon and expenses incurred by the lender in relation to that standard security.

## United Kingdom taxation

*The following section is a general description of certain UK tax consequences of the purchase, ownership and disposition of the Financing notes based on current law and practice in the United Kingdom. The summary assumes that the profit in Funding 1's profit and loss account will not exceed 0.01 per cent. of the Funding 1 available revenue receipts and that the profit in Financing's profit and loss account will not exceed the sum of 0.01 per cent. of the interest on the Financing term advances under the Financing intercompany loan and any interest earned by Financing on its share capital proceeds. It further assumes that all payments made pursuant to the final documentation are calculated on arm's length terms. The summary does not purport to be a complete analysis of all tax considerations of the purchase, ownership and disposition of the Financing notes. It relates to the position of persons who are the absolute beneficial owners of Financing notes and may not apply to certain classes of persons such as dealers and persons connected with Financing. Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.*

### Taxation of US residents

As discussed in more detail under “– **Withholding tax**” below, no UK withholding tax will be required in relation to interest payments on the Financing notes provided that the Financing notes are listed on a “recognised stock exchange”, which includes the London Stock Exchange. If the Financing notes cease to be listed on a “recognised stock exchange”, an amount must be withheld on account of UK income tax at the lower rate (currently 20 per cent.), subject to any direction to the contrary from H.M. Revenue & Customs in respect of such relief as may be available pursuant to the provisions of an applicable double taxation treaty.

Residents of the US are generally not subject to tax in the United Kingdom on payments on the Financing notes under the terms of the double taxation treaty between the US and the United Kingdom (the **Treaty**), subject to completion of administrative formalities, except where the Financing notes are effectively connected with a permanent establishment or a fixed base of the noteholder situated in the United Kingdom or where the amounts paid on the Financing notes exceed the return on comparable debt instruments, in which event the United Kingdom may tax the excess in accordance with UK domestic law.

Subject to the opinions set out in the preceding paragraphs, as discussed in more detail under “– **Direct assessment of non-UK resident holders of Financing notes to UK tax on interest**” below, a noteholder who is resident in the US for US tax purposes and who is not resident in the United Kingdom for UK tax purposes will not be subject to UK tax in respect of any payments on the Financing notes unless they are held by or for a trade, profession or vocation carried on by him through a branch or agency (or, in the case of a noteholder which is a company, through a permanent establishment) in the United Kingdom.

US resident noteholders will not be liable to UK tax in respect of a disposal of the Financing notes provided they are not within the charge to UK corporation tax and (i) are not resident or ordinarily resident in the United Kingdom, and (ii) do not carry on a trade, profession or vocation in the United Kingdom through a branch or agency in connection with which interest is received or to which the Financing notes are attributable.

As discussed in more detail below under “– **UK taxation of Funding 1 and Financing**”, Funding 1 and Financing will generally be subject to UK corporation tax, currently at a rate of 30 per cent., on the profit reflected in their respective profit and loss accounts as increased by the amounts of any non-deductible expenses or losses.

As discussed in more detail below under “– **UK taxation of the mortgages trustee**”, the mortgages trustee will have no liability to UK tax in relation to amounts which it receives on behalf of Funding 1 or the seller under the mortgages trust.

## **Withholding tax**

There will be no UK withholding tax in relation to interest payments on the Financing notes provided that, so far as concerns deduction by Financing or its paying agents, the Financing notes are listed on a “recognised stock exchange”, as defined in Section 841 of the Income and Corporation Taxes Act 1988 (**ICTA**). (The London Stock Exchange is currently a recognised stock exchange for this purpose.) If the Financing notes cease to be listed on a “recognised stock exchange”, an amount must be withheld on account of UK income tax at the lower rate (currently 20 per cent.) from interest paid on them, subject to any direction to the contrary from H.M. Revenue & Customs in respect of such relief as may be available pursuant to the provisions of an applicable double taxation treaty or to the interest being paid to persons (including companies within the charge to UK corporation tax) and in the circumstances specified in Section 349A to 349D of the Income and Corporation Taxes Act 1988.

Noteholders who are individuals may wish to note that H.M. Revenue & Customs has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to, or receives interest for the benefit of, an individual. Information so obtained may, in certain circumstances, be exchanged by H.M. Revenue & Customs with the tax authorities of other jurisdictions.

## **Direct assessment of non-UK resident holders of Financing notes to UK tax on interest**

Interest on the Financing notes has a UK source. Accordingly, payments of interest on the Financing notes will in principle be within the charge to UK tax even if paid without withholding or deduction. However, (other than where the provisions of the Treaty apply to allow certain interest paid to residents of the US to be taxed in the United Kingdom) such payments will not be chargeable to UK tax in the hands of a noteholder who is not resident for tax purposes in the United Kingdom unless such noteholder carries on a trade, profession or vocation through a branch or agency (or, in the case of a noteholder which is a company, which carries on a trade through a permanent establishment) in the United Kingdom in connection with which the payments are received or to which the Financing notes are attributable, in which case (subject to exemptions for interest received by certain categories of agent such as some brokers and investment managers) tax may be levied on the UK branch or agency or permanent establishment.

## **Taxation of returns: companies within the charge to UK corporation tax**

In general, noteholders who are within the charge to UK corporation tax (other than authorised unit trusts) will normally be subject to tax on all profits and gains, including interest and profit and gains attributable to currency fluctuations, arising on or in connection with the Financing notes under the loan relationship rules. Any such profits and gains will generally fall to be calculated in accordance with the statutory accounting treatment of the Financing notes in the hands of the relevant noteholder, and will generally be charged to tax as income in respect of each accounting period to which they are allocated, in accordance with that accounting treatment. Relief may be available in respect of losses or for related expenses on a similar basis.

## **Taxation of returns: other noteholders**

Noteholders who are not within the charge to UK corporation tax and who are resident or ordinarily resident in the United Kingdom for tax purposes or who carry on a trade, profession or vocation in the United Kingdom through a branch or agency in connection with which interest on the Financing notes is received or to which the Financing notes are attributable will generally be liable to UK tax on the amount of any interest received in respect of the Financing notes. As the offered Financing notes are denominated in US dollars, and the series 4 Financing notes are denominated in euro, they will not constitute “qualifying corporate bonds” within the meaning of Section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal of any of these Financing notes by such noteholders as described above may give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

It is expected that the series 5 Financing notes will be regarded by H.M. Revenue & Customs as constituting “qualifying corporate bonds” within the meaning of Section 117 of the Taxation of

Chargeable Gains Act 1992. Accordingly, a disposal of any of these Financing notes by such noteholders as described above is not expected to give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

A disposal of Financing notes by such noteholders as described above may also give rise to a charge to tax on income in respect of an amount representing interest accrued on the Financing notes since the preceding payment date. For Financing notes which constitute variable rate securities, taxation in respect of such a disposal will be computed on the basis that such amount as H.M. Revenue & Customs considers to be just and reasonable will be treated as accrued income. However, the transferee of a variable rate security will not be entitled to any relief on such amount. All of the Financing notes (except the series 1 class A notes) will constitute variable rate Financing notes for this purpose.

#### **Stamp duty and stamp duty reserve tax**

No UK stamp duty or stamp duty reserve tax is payable on the issue or transfer of the offered global Financing notes or on the issue or transfer of definitive Financing notes.

#### **UK taxation of Funding 1 and Financing**

Funding 1 and Financing will generally be subject to UK corporation tax, currently at a rate of 30 per cent., on the profit reflected in their respective profit and loss accounts as increased by the amounts of any non-deductible expenses or losses. In respect of Funding 1, the profit in the profit and loss account is expected to be 0.01 per cent. of the Funding 1 available revenue receipts. In respect of Financing, the profit in the profit and loss account is expected to be the sum of 0.01 per cent. of the interest on the Financing term advances under the Financing intercompany loan and any interest earned by Financing on its share capital proceeds. We refer you to **“Risk factors – Tax payable by Funding 1 or Financing may adversely affect Financing’s ability to make payments on the Financing notes”**.

#### **UK taxation of the mortgages trustee**

The mortgages trustee will have no liability to UK tax in respect of any income, profit or gain arising under these arrangements. Accordingly, the mortgages trustee will have no liability to UK tax in relation to amounts which it receives on behalf of Funding 1 or the seller under the mortgages trust.



## EU savings tax directive

Under the European Council Directive 2003/48/EC on the taxation of savings income (the **EU Savings Directive**), each Member State of the European Union is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-European Union countries and territories, including Switzerland, have agreed to adopt similar measures (a withholding system in the case of Switzerland).

As part of an agreement reached in connection with the EU Savings Directive on the taxation of savings income in the form of interest payments, in line with steps taken by other relevant third countries, Jersey introduced, with effect from 1 July 2005, a retention tax system in respect of payments of interest, or other similar income, made to an individual beneficial owner resident in an EU Member State by a paying agent established in Jersey. The retention tax system applies for a transitional period prior to the implementation of a system of automatic communication to EU Member States of information regarding such payments. During this transitional period, such an individual beneficial owner resident in an EU Member State will be entitled to request a paying agent not to retain tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the EU Member State in which the beneficial owner is resident.

## **Circular 230 notice**

Any discussion of U.S. federal tax issues (including federal income tax and ERISA issues) set forth in this offering circular was written in connection with the promotion and marketing by the issuing entity and the managers of the transactions described in this offering. Such discussion was not intended or written to be legal or tax advice to any person and was not intended or written to be used, and it cannot be used, by any person for the purpose of avoiding any U.S. federal tax penalties that may be imposed on such person. Each investor should seek advice based on its particular circumstances from an independent tax advisor.

## United States federal income taxation

### General

The following section discusses the material US federal income tax consequences of the purchase, ownership and disposition of the offered Financing notes. In general, the discussion assumes that a holder acquires the offered Financing notes at original issuance and holds the offered Financing notes as capital assets. It does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the offered Financing notes. In particular, it does not discuss special tax considerations that may apply to certain types of taxpayers, including, without limitation, the following: (i) financial institutions; (ii) insurance companies; (iii) dealers or traders in stocks, securities, notional principal contracts or currencies; (iv) tax-exempt entities; (v) regulated investment companies; (vi) persons that will hold the offered Financing notes as part of a “hedging” or “conversion” transaction or as a position in a “straddle” for US federal income tax purposes; (vii) persons that own (or are deemed to own) 10 per cent. or more of the voting shares of Financing; (viii) persons who hold offered Financing notes through partnerships or other pass-through entities; and (ix) persons that have a “functional currency” other than the US dollar. In addition, this discussion does not address alternative minimum tax consequences, nor does it describe any tax consequences arising under the laws of any taxing jurisdiction other than the US federal government.

This discussion is based on the US Internal Revenue Code of 1986, as amended (the **Code**), US Treasury regulations and judicial and administrative interpretations thereof, in each case as in effect or available on the date of this offering circular. All of the foregoing are subject to change, and any change may apply retroactively and could affect the tax consequences described below.

As described under “**Tax status of Financing, Funding 1, mortgages trustee and mortgages trust**”, the mortgages trustee acting as trustee of the mortgages trust, Funding 1 and Financing will not be subject to US federal income tax as a result of their contemplated activities. As described further under “– **Characterisation of the offered Financing notes**”, although there is no authority on the treatment of instruments substantially similar to the offered Financing notes, Financing intends to take the position that the offered class A and class B Financing notes, when issued, will be treated as debt for US federal income tax purposes and the class C Financing notes should be treated as debt for US federal income tax purposes.

This position is not binding on the US Internal Revenue Service (the **IRS**) or the courts, and no rulings will be sought from the IRS on any of the issues discussed in this section and there can be no assurance that the IRS or courts will agree with the conclusions expressed herein.

**Accordingly, investors are encouraged to consult their own tax advisers as to the personal US federal income tax consequences to the investor of the purchase, ownership and disposition of the offered Financing notes, including the possible application of state, local, non-US or other tax laws, and other US tax issues affecting the transaction.**

As used in this section, the term **United States holder** means a beneficial owner of offered Financing notes that is for US federal income tax purposes: (i) a citizen or resident of the United States; (ii) a corporation (or other entity treated as a corporation) or partnership, created or organised in or under the laws of the United States or any state thereof (including the District of Columbia); (iii) any estate the income of which is subject to US federal income tax regardless of the source of its income; or (iv) any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust. If a partnership holds offered Financing notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding offered Financing notes are encouraged to consult their own tax advisers regarding the personal tax consequences to them. A **Non-United States holder** is a beneficial owner of offered Financing notes that is not a United States holder.

## **Tax status of Financing, Funding 1, mortgages trustee and mortgages trust**

Under the transaction documents, each of Financing, Funding 1 and the mortgages trustee acting in its capacity as trustee of the mortgages trust covenants not to engage in any activities in the United States (directly or through agents), not to derive any income from sources within the United States as determined under US federal income tax principles, and not to hold any property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the United States as determined under US federal income tax principles. US tax advisors to Financing will provide an opinion that, assuming compliance with the transaction documents, none of Financing, Funding 1 or the mortgages trustee acting in its capacity as trustee of the mortgages trust will be subject to US federal income tax. See “**United States federal income taxation – General**” for further information regarding this opinion. No election will be made to treat Financing, Funding 1 or the mortgages trustee or any of their assets as a REMIC (a type of securitisation vehicle having a special tax status under the Code).

## **Characterisation of the offered Financing notes**

Although there is no authority regarding the treatment of instruments that are substantially similar to the offered Financing notes, Financing intends to take the position that the offered class A and class B Financing notes will be treated as debt for US federal income tax purposes and the class C Financing notes should be treated as debt for US federal income tax purposes (see “**Alternative Characterisation of the offered Financing notes**” and see “**United States federal income taxation – General**” for further information regarding this opinion). In this regard, Financing will obtain an opinion from its US tax advisors. This opinion will be based upon, among other things, certain representations and assumptions authorised by Financing. Financing intends to treat the offered Financing notes as indebtedness of Financing for all purposes, including US tax purposes.

The offered Financing notes will not be qualifying real property loans in the hands of domestic savings and loan associations, real estate investment trusts, or REMICs under sections 7701(a)(19)(C), 856(c) or 860G(a)(3) of the Code, respectively.

## **Taxation of United States holders of the offered Financing notes**

### ***Qualified Stated Interest and Original Issue Discount***

Financing intends to treat interest on the offered Financing notes (other than interest on the series 1 class A Financing notes) as “**qualified stated interest**” under US Treasury regulations relating to original issue discount (hereafter the **OID regulations**). As a consequence, discount on the offered Financing notes (other than discount on the series 1 class A Financing notes) arising from an issuance at less than par will only be required to be accrued under the OID regulations if such discount exceeds a statutorily defined *de minimis* amount. Qualified stated interest, which generally must be unconditionally payable at least annually, is taxed under a holder’s normal method of accounting as ordinary interest income. *De minimis* original issue discount (**OID**) is included in income on a *pro rata* basis as principal payments are made on the offered Financing notes.

It is possible that interest on the offered Financing notes that are class B Financing notes or class C Financing notes could be treated as OID because such interest is subject to deferral in certain limited circumstances. A United States holder of an offered Financing note (other than a series 1 class A Financing note) issued with OID must include OID in income over the term of such offered Financing note under a constant yield method that takes into account the compounding of interest. Under the Code, OID is calculated and accrued using prepayment assumptions where payments on a debt instrument may be accelerated by reason of prepayments of other obligations securing such debt instrument. Moreover, the legislative history to the provisions provide that the same prepayment assumptions used to price a debt instrument be used to calculate OID, as well as to accrue market discount and amortise premium. Here, prepayment of the loans is not expected to alter the scheduled principal payments on the offered Financing notes that are class B Financing notes or class C Financing notes and accordingly, Financing intends to assume that such offered Financing notes will have their principal repaid according to the schedule for purposes of

accruing any OID. No representation is made that the loans will pay on the basis of such prepayment assumption or in accordance with any other prepayment scenario.

In general, United States holders who report income for US federal income tax purposes under the accrual method are required to accrue OID on short-term obligations, such as the series 1 class A Financing notes, on a straight-line basis unless an election is made to accrue the OID under a constant yield method (based on daily compounding). A United States holder who is an individual or other cash method holder is not required to accrue such OID unless such holder elects to do so. If such an election is not made, any gain recognised by such holder on the sale, exchange or maturity of the series 1 class A Financing notes will be ordinary income to the extent of the holder's rateable share of OID accrued on a straight-line basis, or upon election under the constant yield method (based on daily compounding), through the date of the sale, exchange or maturity.

As an alternative to the above treatments, United States holders may elect to include in gross income all interest with respect to the offered Financing notes, including stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount, and unstated interest, as adjusted by any amortisable bond premium or acquisition premium, using the constant yield method described above.

Interest income on the offered Financing notes will be treated as foreign source income for US federal income tax purposes, which may be relevant in calculating a United States holder's foreign tax credit limitation for US federal income tax purposes. The limitation on foreign taxes eligible for the US foreign tax credit is calculated separately with respect to specific classes of income. The foreign tax credit rules are complex, and United States holders are encouraged to consult their own tax advisers regarding the availability of a foreign tax credit and the application of the limitation in their particular circumstances.

#### ***Sales and retirement***

In general, a United States holder of an offered Financing note will have a basis in such offered Financing note equal to the cost of the offered Financing note to such holder, and reduced by any payments thereon other than payments of stated interest. Upon a sale or exchange of the offered Financing note, a United States holder will generally recognise gain or loss equal to the difference between the amount realised (less any accrued interest, which would be taxable as such) and the holder's tax basis in the offered Financing note. Such gain or loss will be long-term capital gain or loss if the United States holder has held the offered Financing note for more than one year at the time of disposition. **Prospective investors are encouraged to consult their own tax advisers regarding the treatment of capital gains (which may be taxed at lower rates than ordinary income for taxpayers who are individuals, trusts or estates that hold the offered Financing notes for more than one year) and capital losses (the deductibility of which is subject to limitations) for them as a consequence of an investment in the Financing notes.**

#### ***Taxation of Non-United States holders of the offered Financing notes***

Subject to the backup withholding rules discussed below, a Non-United States holder generally should not be subject to US federal income or withholding tax on any payments on an offered Financing note and gain from the sale, redemption or other disposition of an offered Financing note unless: (i) that payment and/or gain is effectively connected with the conduct by that Non-United States holder of a trade or business in the United States; (ii) in the case of any gain realised on the sale or exchange of an offered Financing note by an individual Non-United States holder, that holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met; or (iii) the Non-United States holder is subject to tax pursuant to provisions of the Code applicable to certain expatriates. **Non-United States holders are encouraged to consult their own tax advisers regarding the US federal income and other tax consequences to them of owning offered Financing notes.**

#### ***Alternative characterisation of the offered Financing notes***

The proper characterisation of the arrangement involving Financing and the holders of the offered Financing notes is not clear because there is no authority on transactions comparable to

that contemplated herein. Financing intends to treat the offered Financing notes as debt for all US federal income tax purposes. Prospective investors are encouraged to consult their own tax advisers regarding the personal tax consequences with respect to the potential impact of an alternative characterisation of the offered Financing notes for US federal income tax purposes. See “**Risk factors – Risks related to alternative characterisation of the Financing notes as an equity interest in Financing for US federal income tax purposes**”.

One possible alternative characterisation is that the IRS could assert that the class C Financing notes or any other class of notes should be treated as equity in Financing for US federal income tax purposes because the issuing entity may not have substantial equity. If the class C Financing notes or any other class of Financing notes were treated as equity, United States holders of such notes would be treated as owning equity in a passive foreign investment company (**PFIC**) which, depending on the level of ownership of such United States holders and certain other factors, might also constitute an interest in a controlled foreign corporation (**CFC**) for such United States holder. A Financing note that is treated as an equity interest in a PFCI or CFC rather than a debt instrument for US federal income tax purposes would have certain timing and character consequences to a United States holders and could require certain elections and disclosures that would need to be made shortly after acquisition to avoid potentially adverse US tax consequences.

If a United States holder were treated as owning an equity interest in a PFIC, unless a United States holder makes a **QEF election** or **mark to market election**, a United States holder will be subject to a special tax regime (i) in respect of gains realised on the sale or other disposition of the relevant notes, and (ii) in respect of distributions on the relevant notes held for more than one taxable year to the extent those distributions constitute “**excess distributions**”. Although not free from doubt, the PFIC rules should not apply to gain realised in respect of any notes disposed of during the same taxable year in which such notes are acquired. An excess distribution generally includes dividends or other distributions received from a PFIC in any taxable year to the extent the amount of such distributions exceeds 125 per cent. of the average distributions for the three preceding years (or, if shorter, the investor’s holding period). Because the offered Financing notes pay interest at a floating rate, it is possible that a US holder will receive “**excess distributions**” as a result of fluctuations in the rate of USD-LIBOR over the term of offered Financing notes. In general, under the PFIC rules, a United States holder will be required to allocate such excess distributions and any gain realised on a sale of its notes to each day during the United States holder’s holding period for the notes, and will be taxable at the highest rate of taxation applicable to the notes for the year to which the excess distribution or gain is allocable (without regard to the United States holder’s other items of income and loss for such taxable year) (the **deferred tax**). The deferred tax (other than the tax on amounts allocable to the year of disposition or receipt of the distribution) will then be increased by an interest charge computed by reference to the rate generally applicable to underpayments of tax (which interest charge generally will be a non-deductible interest expense for individual taxpayers). Financing does not intend to provide information that would enable a holder of a Financing note to make a QEF election, and the mark to market election will only be available during any period in which the Financing notes are traded on a qualifying exchange or market. Financing encourages persons considering the purchase or ownership of 10 per cent., or more of any class of Financing notes (or combination of classes) that is treated as equity for US federal income tax purposes to consult their own tax advisers regarding the personal US tax consequences resulting from such an acquisition under the special rules applicable to CFCs under the Code.

### **Backup withholding and information reporting**

Backup withholding and information reporting requirements may apply to certain payments on the offered Financing notes and proceeds of the sale or redemption of the offered Financing notes to United States holders. Financing, its agent, a broker, or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding if the United States holder fails to furnish the United States holder’s taxpayer identification number (usually on IRS Form W-9), to certify that such United States holder is not subject to backup withholding, or to otherwise comply with the applicable requirements of the backup withholding rules. Certain United States holders (including, among others, corporations) are not subject to the

backup withholding and information reporting requirements. Non-United States holders may be required to comply with applicable certification procedures (usually on IRS Form W-8BEN) to establish that they are not United States holders in order to avoid the application of such information reporting requirements and backup withholding.

Payments of principal or interest made to or through a foreign office of a custodian, nominee or other agent acting on behalf of a beneficial owner of an offered Financing note generally will not be subject to backup withholding. However, if such custodian, nominee or other agent is (i) a United States person (as defined in section 7701(a)(30) of the Code), (ii) a controlled foreign corporation (as defined in section 957(a) of the Code), (iii) a foreign person 50 per cent. or more of whose gross income is effectively connected with a US trade or business for a specified three-year period, or (iv) a foreign partnership if (A) at any time during its tax year, one or more of its partners are United States persons (as defined in applicable Treasury regulations) who in the aggregate hold more than 50 per cent. of the income or capital interest in the partnership or (B) at any time during its taxable year, it is engaged in a US trade or business (each of (i) through (iv), a **US Connected Holder**), such custodian, nominee or other agent may be subject to certain information reporting requirements with respect to such payment unless it has in its records documentary evidence that the beneficial owner is not a United States holder and certain conditions are met or the beneficial owner otherwise establishes an exemption. Principal and interest paid by the US office of a custodian, nominee or agent will be subject to both backup withholding and information reporting unless the beneficial owner certifies its non-US status under penalties of perjury or otherwise establishes an exemption. Payments of proceeds on the sale of an offered Financing note made to or through a foreign office of a broker will not be subject to backup withholding. However, if such broker is a US Connected Holder, information reporting will be required unless the broker has in its records documentary evidence that the beneficial owner is not a United States holder and certain conditions are met or the beneficial owner otherwise establishes an exemption. Payments of proceeds on the sale of an offered Financing note made to or through the US office of a broker will be subject to backup withholding and information reporting unless the beneficial owner certifies, under penalties of perjury, that it is not a US holder or otherwise establishes an exemption.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be refunded or credited against the United States holder's US federal income tax liability, provided that the required information is furnished to the IRS. **Holders of offered Financing notes are encouraged to consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.**

## **Material Jersey (Channel Islands) tax considerations**

### **Tax status of the mortgages trustee and the mortgages trust**

The mortgages trustee is resident in Jersey for taxation purposes and will be liable to income tax in Jersey at a rate of 20 per cent. in respect of the profits it makes from acting as trustee of the mortgages trust. The mortgages trustee will not be liable for any income tax in Jersey in respect of any income it receives in its capacity as mortgages trustee on behalf of the beneficiaries of the mortgages trust.



## ERISA considerations

The offered Financing notes are eligible for purchase by employee benefit plans and other plans subject to the US Employee Retirement Income Security Act of 1974, as amended (**ERISA**), and/or the provisions of Section 4975 of the Code and by governmental plans that are subject to state, local or other federal law of the United States that is substantially similar to ERISA or Section 4975 of the Code, subject to consideration of the issues described in this section. ERISA imposes certain requirements on **employee benefit plans** (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, **ERISA Plans**) and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirements of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed under "**Risk factors**" and the fact that in the future there may be no market in which such fiduciary will be able to sell or otherwise dispose of the offered Financing notes.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, the **Plans**)) and certain persons (referred to as **parties in interest** or **disqualified persons**) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The seller, Financing, the servicer, the mortgages trustee, Funding 1 or any other party to the transactions contemplated by the transaction documents may be parties in interest or disqualified persons with respect to many Plans. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any of the offered Financing notes is acquired or held by a Plan with respect to which Financing, the servicer, the mortgages trustee, Funding 1 or any other party to such transactions is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire any such Financing notes and the circumstances under which such decision is made. Included among these exemptions are Prohibited Transaction Class Exemption (**PTCE**) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a **qualified professional asset manager**), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by in-house asset managers). There can be no assurance that any of these class exemptions or any other exemption will be available with respect to any particular transaction involving any such Financing notes.

Each purchaser and subsequent transferee of any offered Financing note will be deemed by such purchase or acquisition of any such note to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such note through and including the date on which the purchaser or transferee disposes of such note, either that (A) it is not a Plan or an entity whose underlying assets include the assets of any Plan or a governmental plan which is subject to any federal, state or local law of the United States that is substantially similar to the provisions of section 406 of ERISA or section 4975 of the Code or (B) its purchase, holding and disposition of such note will not result in a prohibited transaction under section 406 of ERISA or section 4975 of the Code (or, in the case of a governmental plan, any substantially similar federal, state or local law of the United States) for which an exemption is not available.

In addition, the US Department of Labor has promulgated a regulation, 29 C.F.R. Section 2510.3-101 (the **Plan Asset Regulation**), describing what constitutes the assets of a Plan with respect to the Plan's investment in an entity for purposes of certain provisions of ERISA, including the fiduciary responsibility provisions of Title I of ERISA, and section 4975 of the Code. Under the Plan Asset Regulation, if a Plan invests in an **equity interest** of an entity that is neither a **publicly-offered security** nor a security issued by an investment company registered under the United States Investment Company Act of 1940, as amended, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless one of the exceptions to such treatment described in the Plan Asset Regulation applies. Under the Plan Asset Regulation, a security which is in debt form may be considered an **equity interest** if it has **substantial equity features**. If Financing were deemed under the Plan Asset Regulation to hold plan assets by reason of a Plan's investment in any of the offered Financing notes, such plan assets would include an undivided interest in the assets held by Financing and transactions by Financing would be subject to the fiduciary responsibility provisions of Title I of ERISA and the prohibited transaction provisions of ERISA and Section 4975 of the Code.

Any insurance company proposing to purchase any of the offered Financing notes using the assets of its general account should consider the extent to which such investment would be subject to the requirements of ERISA in light of the US Supreme Court's decision in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank* and under any subsequent guidance that may become available relating to that decision. In particular, such an insurance company should consider the retroactive and prospective exemptive relief granted by the Department of Labor for transactions involving insurance company general accounts in PTCE 95-60, 60 Fed. Reg. 35925 (12 July 1995), the enactment of Section 401(c) of ERISA by the Small Business Job Protection Act of 1996 (including, without limitation, the expiration of any relief granted thereunder) and the Insurance Company General Account Regulations, 65 Fed. Reg. No. 3 (5 January 2000) (codified at 29 C.F.R. pt. 2550) that became generally applicable on 5 July 2001.

Each Plan fiduciary who is responsible for making the investment decisions whether to purchase or commit to purchase and to hold any of the offered Financing notes should determine whether, under the documents and instruments governing the Plan, an investment in such Financing notes is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio and liquidity needs in view of the Plan's benefit obligations. Any Plan proposing to invest in such Financing notes (including any governmental plan) should consult with its counsel to confirm that such investment will not result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA and the Code (or, in the case of a governmental plan, any substantially similar state, local or other federal law).

The sale of any offered Financing notes to a Plan is in no respect a representation by the seller, Financing, the servicer, the mortgages trustee, Funding 1 or any other party to the transactions that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

## Enforcement of foreign judgments in England and Wales

Financing is a UK public limited company incorporated with limited liability in England and Wales. Any final and conclusive judgment of any United States federal or state court having jurisdiction recognised by England or Wales in respect of an obligation of Financing in respect of the Financing notes which is for a fixed sum of money and which has not been stayed or satisfied in full, would be enforceable by action against Financing in the courts of England and Wales without a re-examination of the merits of the issues determined by the proceedings in that United States federal or state court, as applicable, unless:

- the proceedings in that United States federal or state court, as applicable, involved a denial of the principles of natural or substantial justice;
- the judgment is contrary to the public policy of England or Wales;
- the judgment was obtained by fraud or duress or was based on a clear mistake of fact;
- the judgment is of a public nature (for example, a penal or revenue judgment);
- there has been a prior judgment in another court between the same parties concerning the same issues as are dealt with in the judgment of the United States federal or state court, as applicable;
- enforcement would breach section 5 of the Protection of Trading Interests Act 1980; or
- enforcement proceedings are not instituted within six years after the date of the judgment.

A judgment by a court may be given in some cases only in sterling. Financing expressly submits to the non-exclusive jurisdiction of the courts of England for the purpose of any suit, action or proceedings arising out of this offering.

All of the directors and executive officers of Financing reside outside the United States. Substantially all or a substantial portion of the assets of all or many of those persons are located outside the United States. As a result, it may not be possible for holders of the Financing notes to effect service of process within the United States upon those persons or to enforce against them judgments obtained in United States courts predicated upon the civil liability provisions of federal securities laws of the United States. Based on the restrictions referred to in this section, there is doubt as to the enforceability in England and Wales, in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated upon the federal securities laws of the United States.

## United States legal investment considerations

None of the Financing notes will constitute “**mortgage related securities**” under the United States Secondary Mortgage Market Enhancement Act of 1984, as amended.

No representation is made as to the proper characterisation of the Financing notes for legal investment purposes, financial institutional regulatory purposes, or other purposes, or as to the ability of particular investors to purchase the Financing notes under applicable legal investment restrictions. These uncertainties may adversely affect the liquidity of the Financing notes. Accordingly, all institutions whose investment activities are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult with their legal advisors in determining whether and to what extent the Financing notes constitute legal investments or are subject to investment, capital or other restrictions.

## **Legal matters**

An opinion with respect to English law regarding the Financing notes, including matters relating to the validity of the issuance of the Financing notes, will be provided to Financing and the initial purchasers by Allen & Overy LLP. An opinion with respect to United States law regarding the Financing notes, including matters of United States federal income tax law with respect to the offered Financing notes will be provided to Financing and the initial purchasers by Allen & Overy LLP. Opinions with respect to United States law will be provided to the initial purchasers by Sidley Austin.

Certain matters of Jersey (Channel Islands) law regarding the mortgages trustee will be opined upon for the mortgages trustee by Mourant du Feu & Jeune.

## Method of Distribution

### United States

Financing has agreed to sell, and Banc of America Securities, LLC, Credit Suisse Securities (Europe) Limited and J.P. Morgan Securities Inc. (the **class A initial purchasers**) and the other co-purchasers for the series 1 class A Financing notes, the series 1 class B Financing notes and the series 3 class C Financing notes listed in the table below (the **class A co-purchasers**) have agreed to purchase, the principal amount of those Financing notes listed in the table below (also called the **class A offered Financing notes**). Financing has agreed to sell, and Credit Suisse Securities (Europe) Limited and J.P. Morgan Securities Inc. (the **class B/C initial purchasers** and, together with the class A initial purchasers and the class A co-purchasers, the **initial purchasers**) have agreed to purchase, the principal amount of those Financing notes listed in the following tables (also called the **class B/C offered Financing notes** and, together with the class A offered Financing notes, the **offered Financing notes**). The terms of these purchases are governed by a purchase agreement among Financing and the initial purchasers.

<b>Initial purchasers</b>	<b>Principal amount of the series 1 class A Financing notes</b>	<b>Principal amount of the series 2 class A Financing notes</b>	<b>Principal amount of the series 3 class A Financing notes</b>
Banc of America Securities, LLC .....	\$500,000,000	\$583,000,000	\$333,000,000
Credit Suisse Securities (Europe) Limited .....	\$500,000,000	\$584,000,000	\$334,000,000
J.P. Morgan Securities Inc. ....	\$500,000,000	\$583,000,000	\$333,000,000
ABN AMRO Bank N.V. ....	\$0	\$0	\$0
IXIS Corporate & Investment Bank.....	\$0	\$0	\$0
UBS Limited.....	\$0	\$0	\$0

<b>Initial purchasers</b>	<b>Principal amount of the series 1 class B Financing notes</b>	<b>Principal amount of the series 2 class B Financing notes</b>	<b>Principal amount of the series 3 class B Financing notes</b>
Credit Suisse Securities (Europe) Limited .....	\$31,700,000	\$33,900,000	\$19,000,000
J.P. Morgan Securities Inc. ....	\$31,700,000	\$33,900,000	\$19,000,000

<b>Initial purchasers</b>	<b>Principal amount of the series 1 class C Financing notes</b>	<b>Principal amount of the series 2 class C Financing notes</b>	<b>Principal amount of the series 3 class C Financing notes</b>
Credit Suisse Securities (Europe) Limited .....	\$33,700,000	\$36,400,000	\$20,950,000
J.P. Morgan Securities Inc. ....	\$33,700,000	\$36,400,000	\$20,950,000

The class A initial purchasers and the class A co-purchasers or affiliates of certain of the class A initial purchasers and the class A co-purchasers have also agreed to pay and subscribe for the series 4 class A Financing notes and the series 5 class A Financing notes, none of which are being offered pursuant to this offering circular, on the closing date. The class B/C initial purchasers or affiliates of certain of the class B/C initial purchasers have also agreed to pay and subscribe for the series 4 class B Financing notes and the series 4 class C Financing notes, none of which are being offered pursuant to this offering circular, on the closing date.

The initial purchasers will offer and sell the offered Financing notes in the United States only through their selling agents which are registered broker-dealers in the United States to the extent they are not themselves so registered.

Financing has agreed to pay to the other initial purchasers of each class of offered Financing notes a selling commission and a management and underwriting fee in the percentages indicated in the table below. The initial purchasers for each class of offered Financing notes have advised Financing that such initial purchasers propose initially to offer the relevant class of offered Financing notes to the public at the public offering price stated on the cover page of this offering

circular, and to some dealers at such price less a concession of up to the percentage indicated in the table below for each offered Financing note. The initial purchasers for each class of offered Financing notes may allow, and those dealers may re-allow, concessions of up to the percentage indicated in the table below of the principal balance of the relevant class of offered Financing notes to some brokers and dealers.

Class	Selling commission as % of the aggregate principal amount of the class of notes	Management and underwriting fee as % of the aggregate principal amount of the class of notes	Concession by initial purchaser for each note of that class	Concession allowed as a % of the principal balance of class of Financing notes
series 1 class A .....	0.030%	0.06%	0.030%	0.06%
series 1 class B .....	0.120%	0.24%	0.120%	0.24%
series 1 class C .....	0.200%	0.40%	0.200%	0.40%
series 2 class A .....	0.035%	0.07%	0.035%	0.07%
series 2 class B .....	0.180%	0.32%	0.180%	0.32%
series 2 class C .....	0.240%	0.48%	0.240%	0.48%
series 3 class A .....	0.040%	0.08%	0.040%	0.08%
series 3 class B .....	0.180%	0.36%	0.180%	0.36%
series 3 class C .....	0.280%	0.56%	0.280%	0.56%

In the event that an initial purchaser fails to purchase the Financing notes allocated to it in accordance with the terms of the purchase agreement, the purchase agreement provides that in certain circumstances the purchase agreement may be terminated.

The management and underwriting fees and selling commissions that Financing has agreed to pay to the initial purchasers will be paid to the initial purchasers on behalf of Financing by Funding 1 from the proceeds of the Financing start-up loan.

After the initial offering, the initial purchasers may change the public offering price and any other selling terms.

Additional offering expenses are estimated to be £5,800,000, which will be paid on behalf of Financing from the proceeds of the Financing start-up loan.

Financing and Halifax have agreed to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act.

The offered Financing notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the Securities Act. Resales of the offered Financing notes are restricted.

In addition, until 40 days after the commencement of the offering, an offer or sale of the offering Financing notes within the United States by a broker-dealer (whether or not it is participating in the offering), may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

The offered Financing notes will not be offered or sold via the internet, e-mail or through similar electronic channels except that certain initial purchasers may deliver copies of this offering circular via e-mail to persons who have given, and not withdrawn, their prior consent to receive copies of this offering circular in that format.

## United Kingdom

Each class A initial purchaser and each class A co-purchaser (with respect to the class A offered Financing notes only) and each class B/C initial purchaser (with respect to the class B/C offered Financing notes only) will represent and agree that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any offered Financing notes in circumstances in which section 21 (1) of the FSMA does not apply to Financing; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the offered Financing notes in, from or otherwise involving the United Kingdom.

### **Norway**

Each initial purchaser has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in the Kingdom of Norway any offered Financing notes other than to persons who are registered with the Oslo Stock Exchange as professional investors.

### **Republic of Italy**

The offering of the offered Financing notes has not been cleared by CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and, accordingly, no offered Financing notes may be offered, sold or delivered, nor may copies of this offering circular or of any other document relating to the offered Financing notes be distributed in the Republic of Italy, except:

- (a) to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation no. 11522 of 1 July 1998, as amended; or
- (b) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the Financial Services Act) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended.

Any offer, sale or delivery of the offered Financing notes or distribution copies of the offering circular or any other document relating to the offered Financing notes in the Republic of Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and legislative Decree No. 385 of 1 September 1993 (the Banking Act), as amended;
- (b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics; and
- (c) in compliance with any other applicable laws and regulations.

### **Sweden**

This offering circular is for the recipient only and may not in any way be forwarded to any other person or to the public in Sweden. This offering circular has not and will not be registered with the Swedish Financial Supervisory Authority pursuant to the Swedish Financial Instruments Trading Act (1991:980, as amended). Accordingly, this offering circular may not be made available, nor may the offered Financing notes otherwise be marketed and offered in Sweden, other than in circumstances which are deemed not to be an offer to the public in Sweden under the Financial Instruments Trading Act.

### **The Netherlands**

This offering circular may not be distributed and the offered Financing notes (including rights representing an interest in a global note) may not be offered, sold, transferred or delivered as part



of the initial purchaser's initial distribution or at any time thereafter, directly or indirectly, to individuals or legal entities who or which are established, domiciled or have their residence in The Netherlands (**Dutch Residents**) other than to the following entities, provided that such entities trade or invest in securities in the conduct of a business or profession (the following such entities hereinafter referred to as **Professional Market Parties** or **PMPs**) and provided further that they acquire the offered Financing notes for their own account:

- (i) banks, insurance companies, securities firms, collective investment institutions or pension funds that are supervised or licensed under Dutch law;
- (ii) banks or securities firms licensed or supervised in a European Economic Area member state (other than The Netherlands) and registered with the Dutch Central Bank (De Nederlandsche Bank N.V.: DNB) or the Dutch Authority for the Financial Markets (Stichting Autoriteit Financiële Markten) acting through a branch office in The Netherlands;
- (iii) Netherlands collective investment institutions which offer their shares or participations exclusively to professional investors and are not required to be supervised or licensed under Dutch law;
- (iv) the Dutch government (*de Staat der Nederlanden*), DNB, Dutch regional, local or other decentralised governmental institutions, or any international treaty organisations and supranational organisations located in The Netherlands;
- (v) Netherlands enterprises or entities with total assets of at least €500,000,000 (or the equivalent thereof in another currency) according to their balance sheet at the end of the financial year preceding the date they purchase or acquire the offered Financing notes;
- (vi) Netherlands enterprises, entities or individuals with net equity (eigen vermogen) of at least €10,000,000 (or the equivalent thereof in another currency) according to their balance sheet at the end of the financial year preceding the date they purchase or acquire the offered Financing notes and who or which have been active in the financial markets on average twice a month over a period of at least two consecutive years preceding such date;
- (vii) Netherlands subsidiaries of the entities referred to under (i) above provided such subsidiaries are subject to prudential supervision;
- (viii) Netherlands enterprises or entities that have a credit rating from an approved rating agency or whose securities have such a rating; and
- (ix) such other Netherlands entities designated by the competent Netherlands authorities after the date hereof by any amendment of the applicable regulations.

The offered Financing notes (whether or not offered to Dutch Residents) shall bear the following legend:

THIS NOTE (OR ANY INTEREST HEREIN) MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DELIVERED AS PART OF ITS INITIAL DISTRIBUTION OR AT ANY TIME THEREAFTER, DIRECTLY OR INDIRECTLY, TO INDIVIDUALS OR LEGAL ENTITIES WHO ARE ESTABLISHED, DOMICILED OR HAVE THEIR RESIDENCE IN THE NETHERLANDS (**DUTCH RESIDENTS**) OTHER THAN TO PROFESSIONAL MARKET PARTIES WITHIN THE MEANING OF THE EXEMPTION REGULATION PURSUANT TO THE DUTCH ACT ON THE SUPERVISION OF THE CREDIT SYSTEM 1992 (**PMPs**).

EACH DUTCH RESIDENT BY PURCHASING THIS NOTE (OR ANY INTEREST HEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF FINANCING THAT IT IS SUCH A PMP AND IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A PMP.

EACH HOLDER OF THIS NOTE (OR ANY INTEREST HEREIN), BY PURCHASING THIS NOTE (OR ANY INTEREST HEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF FINANCING THAT (1) THIS NOTE (OR ANY INTEREST HEREIN) MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DELIVERED TO DUTCH

RESIDENTS OTHER THAN TO A PMP ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A PMP AND THAT (2) THE HOLDER WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS DESCRIBED HEREIN TO ANY SUBSEQUENT TRANSFEREE.

### **Hong Kong**

Each initial purchaser has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any offered Financing notes other than (i) to persons whose ordinary business it is to buy or sell shares or debentures (whether as principal or agent) or (ii) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32) of Hong Kong; and
- (b) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the offered Financing notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to offered Financing notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) and any rules made thereunder.

### **Japan**

The offered Financing notes have not been and will not be registered under the Securities and Exchange Law of Japan (the **Securities and Exchange Law**). Each underwriter has agreed that it has not offered or sold and will not offer or sell any offered Financing notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

### **People’s Republic of China**

This offering circular does not constitute an offer to sell any securities in the People’s Republic of China (**PRC**) to any person to whom it is unlawful to make the offer in the PRC. Neither Financing nor the initial purchasers represent that this offering circular may be lawfully distributed or that any securities may be lawfully offered, in compliance with any applicable registration or other requirement in the PRC, or pursuant to an exemption applicable thereunder, or assume any responsibility facilitating any such distribution or offering. In particular, no action has been taken by Financing or the initial purchasers which would permit a public offering of any securities or distribution of this offering circular in the PRC. Accordingly, no securities may be offered or sold, directly or indirectly, and neither this offering circular nor any advertisement or other offering material may be distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations.

### **Singapore**

This offering circular has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**). Accordingly, the offered Financing notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this offering circular or any other document or material in connection with the offer or sale or invitation for subscription or purchase of such Financing notes be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2)), or any person pursuant to Section 275(1A), and in

accordance with the conditions, specified in Section 275 or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the offered Financing notes are subscribed or purchased under Section 275 by a relevant person which is:

- (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the offered Financing notes under Section 275 except:

- (1) to an institutional investor under Section 274, or to a relevant person, or to any person pursuant to an offer that is made on terms that such rights or interest are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets;
- (2) where no consideration is given for the transfer; or
- (3) by operation of law.

### **General**

The offered Financing notes are a new issue of securities, and there is currently no established trading market for the offered Financing notes. The class A initial purchasers and the class A co-purchasers have advised us that they intend to make a market in the class A offered Financing notes and the class B/C initial purchasers have advised us that they intend to make a market in the class B/C offered Financing notes, but they are not obligated to do so. The initial purchasers may discontinue any market making in the offered Financing notes at any time in their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the offered Financing notes.

Certain of the initial purchasers and their affiliates perform various financial advisory, investment banking and commercial banking services from time to time for us and our affiliates.

## Transfer Restrictions

*Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of any offered note.*

The offered Financing notes have not been and will not be registered under the Securities Act 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) except to qualified institutional buyers (**QIBs**) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

Each purchaser of the offered Financing notes will be deemed to have acknowledged, represented and agreed with the issuing entity, the note trustee, the transfer agent and registrar and the managers as follows (terms used in this paragraph that are defined in Rule 144A under the Securities Act are used herein as defined therein):

- (1) The purchaser (i) is a QIB, (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring the offered Financing notes for its own account or for the account of a QIB.
- (2) The purchaser understands that the offered Financing notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that the offered Financing notes have not been and will not be registered under the Securities Act and that (A) if in the future it decides to offer, resell, pledge or otherwise transfer any of the offered Financing notes such offered Financing notes may be offered, resold, pledged or otherwise transferred only (i) in the United States to a person whom the seller reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (ii) outside the United States in a transaction complying with the provisions of Rule 903 or 904 under the Securities Act, (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 (if available), or (iv) pursuant to an effective registration statement under the Securities Act, in each of cases (i) through (iv) in accordance with any applicable securities laws of any State of the United States, and that (B) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of the offered Financing notes from it of the resale restrictions referred to in (A) above.
- (3) The purchaser understands that the offered Financing notes will bear a legend substantially to the following effect:

THIS NOTE IS ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS NOTE AGREES FOR THE BENEFIT OF THE ISSUING ENTITY THAT (A) THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (II) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 UNDER THE SECURITIES ACT, (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (IV) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (IV) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO,

NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

- (4) It acknowledges that the offered Financing notes offered in reliance on Rule 144A will be represented by a global Financing note and that transfers thereof or any interest therein are restricted as described herein.
- (5) With respect to any foreign purchaser claiming an exemption from United States income or withholding tax, such purchaser has delivered to the paying agent a true and complete Form W-8, W-8BEN or W-8ECI, indicating such exemption.
- (6) The purchaser acknowledges that transfers of the offered Financing notes or any interest therein will otherwise be subject in all respects to the restrictions applicable thereto contained in the trust deed.

Any transfer, resale, pledge or other transfer of the offered Financing notes contrary to the restrictions set forth above and in the trust deed will be deemed void *ab initio* by the transfer agent and registrar.

## Reports to noteholders

The servicer will prepare monthly reports that will contain information about the issuing entity, the Financing notes and the mortgage portfolio. The financial information contained in the reports will not be prepared in accordance with generally accepted accounting principles of any jurisdiction. Annual and monthly reports prepared by the servicer will be sent by the servicer on behalf of the issuing entity to Cede & Co. as the registered holder of the Financing notes, unless and until individual note certificates are issued. Reports will not be sent to beneficial owners of the notes by the servicer. Cede & Co. may make such reports available to beneficial owners upon request in accordance with their rules.

8.4.1

## Certain relationships

There are no business relationships, agreements, arrangements, transactions or understandings that are entered into outside the ordinary course of business or are on terms other than would be obtained in an arm's length transaction with an unrelated third party, apart from the issuance of the Financing notes, between the sponsor, Funding 1 or Financing on the one hand and the servicer, the note trustee, the security trustee, the mortgages trustee, the originator, the Funding 1 liquidity facility provider, the Funding 1 swap provider, any Financing swap provider or any affiliates of such parties, that currently exist or that existed during the past two years and that would be material to the Financing notes.

Pursuant to the transaction documents, there are numerous relationships involving or relating to the Financing notes or the portfolio between the sponsor (who is also the seller, the servicer, the cash manager and the Financing cash manager), Funding 1 or Financing on the one hand and the servicer (see "**The servicing agreement**"), the note trustee and the security trustee (see "**Description of the trust deed**" and "**Security for Financing's obligations – Appointment, powers, responsibilities and liabilities of the security trustee**"), the mortgages trustee (see "**The mortgages trust deed**"), the originator (see "**Sale of the loans and their related security**"), the Funding 1 liquidity facility provider (see "**Credit structure – Funding 1 liquidity facility**"), the Funding 1 swap provider (see "**The swap agreements – The Funding 1 swap**"), each Financing swap provider (see "**The swap agreements – The Financing currency swaps**") or any affiliates of such parties (Bank of Scotland, an affiliate of Halifax, is the account bank and the Financing account bank; see "**Cash management for the mortgages trustee and Funding 1 – Funding 1's bank accounts**" and "**Cash management for Financing – Financing's bank accounts**"), that currently exists or that existed during the past two years and that would be material to the Financing notes. The material terms of these relationships are disclosed in the sections referred to above. See "**Summary of offering circular – Fees**" for a summary of fee amounts relating to the foregoing relationships.

## Market-making

This offering circular may be used by (i) the class A initial purchasers and the class A co-purchasers and their affiliates for offers and sales related to market-making transactions in the class A offered Financing notes and (ii) the class B/C initial purchasers and their affiliates for offers and sales related to market-making transactions in the class B/C offered Financing notes. Such initial purchasers and their affiliates may act as principal or agent in these transactions. These sales will be made at prices relating to prevailing market prices at the time of sale. None of the initial purchasers or their affiliates has any obligation to make a market in such offered Financing notes, and any market-making may be discontinued at any time without notice. Banc of America Securities, LLC, Credit Suisse Securities (Europe) Limited and J.P. Morgan Securities Inc. are among the initial purchasers participating in the initial distribution of the offered Financing notes.

## Listing and general information

Application will be made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended (the **UK Listing Authority**) for the offered Financing notes to be admitted to the official list (the **Official List**) maintained by the UK Listing Authority and to the London Stock Exchange for those offered Financing notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market (being a regulated market for the purposes of the Investment Service Directive (93/22/EEC)). Admission to the Official List together with admission to the London Stock Exchange's Gilt Edged and Fixed Interest Market (being a regulated market for the purposes of the Investment Service Directive (93/22/EEC)) constitute official listing on the London Stock Exchange. It is expected that listing of the Financing notes on the Official List of the UK Listing Authority and the

13.5.1

admission to trading of those Financing notes on the London Stock Exchange will be granted on or about 22 March 2006 subject only to the issue of the global Financing notes. 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 the case of the offered Financing notes, in dollars, in the case of the series 4 Financing notes, in euro, and in the case of the series 5 Financing notes, in sterling, and for delivery on the third working day after the date of the transaction.

Financing accepts responsibility for the information contained in this offering circular. To the best of the knowledge of Financing (who has taken all reasonable care to ensure that such is the case) the information contained in this offering circular is in accordance with the facts and does not omit anything likely to affect the import of such information. Financing accepts responsibility accordingly.

13.1.1  
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7.1.1  
7.1.2  
9.11.5  
7.8.3

None of Financing, Funding 1, Holdings, the post-enforcement call option holder, PECO Holdings or the mortgage trustee is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Financing, Funding 1, Holdings, the post-enforcement call option holder, PECO Holdings or the mortgages trustee (respectively) is aware), during the preceding 12 months (or, in the case of Financing, since 15 February 2006 (being the date of its incorporation) and in the case of PECO Holdings, since 1 June 2005 (being the date of its incorporation)) which may have, or have had in the recent past, significant effects upon the financial position or profitability of Financing, Funding 1, Holdings, the post-enforcement call option holder, PECO Holdings or the mortgage trustee (as the case may be).

There are currently no legal or arbitration proceedings pending (or known by Halifax to be contemplated by governmental authorities) against Halifax or in which any property of Halifax is the subject, that is material to holders of the Financing notes.

No statutory or non-statutory accounts within the meaning of the Companies Act 1985 in respect of any financial year of Financing have been prepared. So long as the Financing notes are listed on the Official List of the UK Listing Authority and are trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market, the most recently published audited annual accounts of Financing from time to time shall be available at the specified office of the principal paying agent in London. Financing does not publish interim accounts.

Since the date of its incorporation, Financing has not entered into any contracts or arrangements not being in the ordinary course of business other than the purchase agreement and the subscription agreement.

Since 1 June 2005 (the date of incorporation of PECO Holdings), 15 February 2006 (the date of incorporation of Financing), 31 December 2004 (the date of the most recent non-statutory audited accounts of Funding 1), 9 August 2001 (the date of incorporation of Holdings and the post-enforcement call option holder) and 13 May 2002 (the date of incorporation of the mortgages trustee), there has been (1) no material adverse change in the financial position or prospects of Financing, Funding 1, Holdings, the post-enforcement call option holder or the mortgages trustee and (2) no significant change in the financial or trading position of Financing, Funding 1 (other than as specified above, see "**Permanent Funding (No. 1) Limited**"), Holdings, the post-enforcement call option holder or the mortgages trustee.

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The issue of the Financing notes was authorised pursuant to a resolution of the board of directors of Financing passed on or about 15 March 2006.

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The offered Financing notes have been accepted for clearance through DTC, Clearstream, Luxembourg and Euroclear under the following CUSIP numbers, ISINs and common codes:

Class of offered Financing notes	Regulation S notes ISIN	Regulation S		Rule 144A notes	
		notes Common Code	Rule 144A notes ISIN	Rule 144A notes Common Code	CUSIP
Series 1 class A	XS0248346388	024834638	US71419XAA19	24851974	71419X AA1
Series 1 class B	XS0248348673	024834867	US71419XAB91	24852008	71419X AB9
Series 1 class C	XS0248349218	024834921	US71419XAC74	24852016	71419X AC7
Series 2 class A	XS0248346974	024834697	US71419XAD57	24852059	71419X AD5
Series 2 class B	XS0248349648	024834964	US71419XAE31	24852075	71419X AE3
Series 2 class C	XS0248350570	024835057	US71419XAF06	24852091	71419X AF0
Series 3 class A	XS0248347600	024834760	US71419XAG88	24852121	71419X AG8
Series 3 class B	XS0248350901	024835090	US71419XAH61	24852148	71419X AH6
Series 3 class C	XS0248351461	024835146	US71419XAJ28	24852229	71419X AJ2

13.4.2  
8.1.1

Copies of the following documents may be inspected at the offices of Allen & Overy LLP at One New Change, London EC4M 9QQ during usual business hours, on any weekday (Saturdays, Sundays and public holidays excepted) for 14 days from the date of this offering circular:

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13.4.14  
7.10.1

- (A) the Memorandum and Articles of Association of each of Financing, Funding 1, Holdings, the mortgages trustee, the post-enforcement call option holder and PECO Holdings;
- (B) the audited financial statements (including auditor's report) of Funding 1 for the years ending 31 December 2004 and 31 December 2005 prepared in accordance with UK GAAP;
- (C) prior to the closing date, drafts (subject to minor amendment) or copies, and after the closing date, copies of the following documents:
  - the purchase agreement;
  - the subscription agreement;
  - the Financing intercompany loan agreement;
  - the mortgages trust deed (as amended and restated);
  - the mortgage sale agreement (as amended and restated);
  - the Financing deed of charge;
  - the Scottish declaration of trust;
  - the Financing deed of accession to the Funding 1 deed of charge;
  - the Funding 1 deed of charge (as amended);
  - the second supplemental Funding 1 deed of charge;
  - the Funding 1 liquidity facility agreement (as amended and restated);
  - the Financing dollar currency swap agreements and confirmations;
  - the Financing euro currency swap agreements and confirmations;
  - the Financing swap guarantees;
  - the Funding 1 swap agreement (as amended and restated);
  - the trust deed;
  - the paying agent and agent bank agreement;
  - the servicing agreement (as amended and restated);
  - the cash management agreement;
  - the Financing cash management agreement;
  - the Funding 1 guaranteed investment contract;
  - the mortgages trustee guaranteed investment contract;

- the post-enforcement call option agreement;
- the bank account agreement;
- the Financing bank account agreement;
- the master definitions and construction schedule (including the amended and restated master definitions and construction schedule and Financing master definitions and construction schedule);
- the Financing start-up loan agreement;
- the mortgages trustee corporate services agreement;
- the Funding 1 corporate services agreement;
- the Financing corporate services agreement; and
- the PECO corporate services agreement.

Financing does not intend to provide post-issuance transaction information regarding the Financing notes or the loans other than as described in “**Reports to noteholders**”.

8.4.1

## Glossary

Principal terms used in this offering circular are defined as follows:

<b>\$, US\$, US dollars and dollars</b>	the lawful currency for the time being of the United States of America
<b>€, euro and Euro</b>	the single currency introduced at the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Communities, as amended from time to time
<b>£, pounds and sterling</b>	the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland
<b>A principal deficiency sub-ledger</b>	a sub-ledger on the principal deficiency ledger which specifically records any principal deficiency in respect of any term A advances
<b>AA principal deficiency sub-ledger</b>	a sub-ledger on the principal deficiency ledger which specifically records any principal deficiency in respect of any term AA advances
<b>AAA principal deficiency sub-ledger</b>	a sub-ledger on the principal deficiency ledger which specifically records any principal deficiency in respect of any term AAA advances
<b>account bank</b>	Bank of Scotland
<b>accrued interest</b>	in respect of a given date, the interest which has accrued from the last regular payment date up to that date, but which is not currently payable
<b>additional Funding 1 security</b>	security created under and/or pursuant to the second supplemental Funding 1 deed of charge
<b>adjusted general reserve fund level</b>	the sum of:  (a) the amount standing to the credit of the general reserve fund; and  (b) the amount (if any) then to be credited in accordance with item (B) of the relevant Funding 1 pre-enforcement principal priority of payments
<b>agent bank</b>	Citibank, N.A.
<b>alternative insurance requirements</b>	requirements which vary the insurance provisions of the mortgage conditions
<b>annualised CPR</b>	the result of the calculation $1 - ((1 - M)^{12})$  where <b>M</b> is expressed as a percentage and determined as at the most recent normal calculation date as indicated in the definition of “anticipated cash accumulation period” (see “ <b>The mortgages trust – Cash management of trust property – principal receipts</b> ”);
<b>anticipated cash accumulation period</b>	the anticipated number of months required to accumulate sufficient principal receipts to pay the relevant accumulation amount, as described further in “ <b>The mortgages trust – Cash management of trust property – principal receipts</b> ”
<b>arrears of interest</b>	in respect of a given date, interest and expenses which are due and payable and remain unpaid on that date

<b>asset trigger event</b>	<p>the occurrence of an amount being debited to the AAA principal deficiency sub-ledger unless such debit is made when:</p> <p>(a) the aggregate principal amount outstanding of each of the term AA advances, the term A advances and the term BBB advances is equal to zero; and</p> <p>(b) the sum of (i) the amount standing to the credit of the general reserve ledger and (ii) the amount standing to the credit of the Funding 1 revenue ledger together with amounts determined and due to be credited to the Funding 1 revenue ledger prior to the immediately following Funding 1 interest payment date after such debit is made, is greater than the amount necessary to pay the items in paragraphs (A) to (G) in the Funding 1 pre-enforcement revenue priority of payments on the immediately following Funding 1 interest payment date after such debit is made</p>
<b>authorised investments</b>	<p>means:</p> <ul style="list-style-type: none"> <li>● sterling gilt-edged securities; and</li> <li>● sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) provided that in all cases such investments have a maturity date of 90 days or less and mature on or before the next following interest payment date and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least equal to either A-1+ by Standard &amp; Poor's, P-1 by Moody's and F1+ by Fitch or their equivalents by three other internationally recognised rating agencies</li> </ul>
<b>bank account agreement</b>	<p>the agreement entered into on the initial closing date between the account bank, the mortgages trustee and Funding 1 (as amended, supplemented and/or novated from time to time), which governs the operation of the mortgages trustee GIC account, the Funding 1 GIC account and the Funding 1 transaction account</p>
<b>Bank of Scotland</b>	<p>The Governor and Company of the Bank of Scotland established by an Act of the Parliament of Scotland in 1695</p>
<b>Basel II Framework</b>	<p>the regulatory capital framework described in the Basel Committee on Banking Supervision's publication, <i>Basel II: The International Convergence of Capital Measurement and Capital Standards: a Revised Framework</i></p>
<b>basic terms modification</b>	<p>the modification of terms, including altering the amount, rate or timing of payments on the Financing notes, the currency of payment, the priority of payments or the quorum or majority required in relation to these terms</p>
<b>BBB principal deficiency sub-ledger</b>	<p>a sub-ledger on the principal deficiency ledger which specifically records any principal deficiency in respect of any term BBB advances</p>
<b>beneficiaries</b>	<p>both Funding 1 and the seller together as beneficiaries of the mortgages trust</p>
<b>booking fee</b>	<p>a fee payable by the borrower in respect of applications for certain types of loans</p>

8.3.4.4

<b>borrower</b>	in relation to a loan, the individual or individuals specified as such in the relevant mortgage together with the individual or individuals (if any) from time to time assuming an obligation to repay such loan or any part of it
<b>bullet accumulation liability</b>	means on any Funding 1 interest payment date prior to any payment under item (D) of the priority of payments described in “ <b>Cashflows – Distribution of Funding 1 available principal receipts – Repayment of all term advances before a trigger event and before intercompany loan acceleration or acceleration of all notes</b> ” the aggregate of each relevant accumulation amount at that time of each bullet term advance which is within a cash accumulation period
<b>bullet accumulation shortfall</b>	means at any time that the cash accumulation ledger amount is less than the bullet accumulation liability
<b>bullet term advance</b>	any term advance which is scheduled to be repaid in full on one Funding 1 interest payment date, namely those term advances of Financing and each previous issuing entity designated as a ‘bullet term advance’ in the table under the caption “ <b>The mortgages trust – Cash management of trust property – principal receipts</b> ” and any term advance which is referred to as such in the prospectus or other offering document relating to any new issuing entity.  The bullet term advances made by Financing will be deemed to be pass-through term advances if: <ul style="list-style-type: none"> <li>● a trigger event occurs;</li> <li>● the Financing security is enforced; or</li> <li>● the Funding 1 security is enforced</li> </ul>
<b>business day</b>	a day that is a London business day, a New York business day and a TARGET business day
<b>calculation date</b>	the first day of each month or, if not a London business day, the next succeeding London business day or any other day on which either Funding 1 acquires a further interest in the trust property or the mortgages trustee acquires new loans from the seller
<b>calculation period</b>	the period from (and including) one calculation date, to (but excluding) the next calculation date and in respect of the first calculation date, the period from (and including) the closing date to (but excluding) the first calculation date
<b>calendar year</b>	a year from the beginning of 1 January to the end of 31 December
<b>capitalised</b>	means, in respect of a fee or other amount, added to the principal balance of a loan
<b>capitalised interest</b>	if a borrower takes a payment holiday (as permitted under the terms of the loan), then the outstanding principal balance of the loan will increase by the amount of interest that would have been paid on the relevant loan if not for such payment holiday
<b>cash accumulation advance</b>	a bullet term advance or scheduled amortisation instalment which is within a cash accumulation period
<b>cash accumulation ledger</b>	a ledger maintained by the cash manager to record the amount accumulated by Funding 1 from time to time to pay the relevant accumulation amounts

<b>cash accumulation ledger amount</b>	means at any time the amount standing to the credit of the cash accumulation ledger at that time immediately prior to any drawing to be applied on that interest payment date and prior to any payment under item (H) of the priority of payments described in <b>“Cashflows – Distribution of Funding 1 available principal receipts – Repayment of all term advances before a trigger event and before intercompany loan acceleration or acceleration of all notes”</b>
<b>cash accumulation liability</b>	means on any Funding 1 interest payment date prior to any payment under item (D) of the priority of payments described in <b>“Cashflows – Distribution of Funding 1 available principal receipts – Repayment of all term advances before a trigger event and before intercompany loan acceleration or acceleration of all notes”</b> , the sum of: <ul style="list-style-type: none"> <li>● the bullet accumulation liability at that time; and</li> <li>● the aggregate of each relevant accumulation amount at that time of each scheduled amortisation instalment which is within a cash accumulation period</li> </ul>
<b>cash accumulation period</b>	the period of time estimated to be the number of months prior to the relevant Funding 1 interest payment date of a relevant accumulation amount necessary for Funding 1 to accumulate sufficient principal receipts so that the relevant class of notes will be redeemed in full, as described further in <b>“The mortgages trust – Cash management of trust property – principal receipts”</b>
<b>cash accumulation shortfall</b>	means the cash accumulation ledger amount being less than the cash accumulation liability
<b>cash management agreement</b>	the cash management agreement entered into on the initial closing date between the cash manager, the mortgages trustee, Funding 1 and the security trustee, (as amended, supplemented and/or novated from time to time), as described further in <b>“Cash management for the mortgages trustee and Funding 1”</b>
<b>cash manager</b>	Halifax acting, pursuant to the cash management agreement, as agent for the mortgages trustee, Funding 1 and the security trustee, among others, to manage all cash transactions and maintain certain ledgers on behalf of the mortgages trustee, Funding 1 and the security trustee
<b>CCA</b>	the Consumer Credit Act 1974
<b>Cashback</b>	the agreement by the seller to pay an amount to the relevant borrower on the completion of the relevant loan
<b><u>class A co-purchasers</u></b>	<u>ABN AMRO Bank N.V., IXIS Corporate &amp; Investment Bank and UBS Limited</u>
<b>class A offered Financing notes</b>	the series 1 class A notes, the series 2 class A notes and the series 3 class A notes
<b>class A initial purchasers</b>	Banc of America Securities, LLC, Credit Suisse Securities (Europe) Limited and J.P. Morgan Securities Inc.
<b>class B/C offered Financing notes</b>	the series 1 class B Financing notes, the series 1 class C Financing notes, the series 2 class B Financing notes, the series 2 class C Financing notes, the series 3 class B Financing notes and the series 3 class C Financing notes

<b>class B/C initial purchasers</b>	Credit Suisse Securities (Europe) Limited and J.P. Morgan Securities Inc.
<b>class X Financing notes</b>	all Financing notes with a class designation of “Y” (where Y is A, B or C), irrespective of their series designation, <i>provided</i> that a reference to class A Financing notes includes a reference to Financing notes designated as class A1 or class A2
<b>class X previous notes</b>	all previous notes with a class designation of “Y” (where Y is A, B, M or C), irrespective of their series designation, <i>provided</i> that a reference to class A previous notes includes a reference to previous notes designated as class A1 or class A2
<b>clearing agency</b>	an agency registered under the provisions of section 17A of the United States Securities Exchange Act of 1934, as amended
<b>clearing corporation</b>	a corporation within the meaning of the New York Uniform Commercial Code
<b>Clearstream, Luxembourg</b>	Clearstream Banking, société anonyme
<b>closing date</b>	on or about 22 March 2006
<b>CML</b>	Council of Mortgage Lenders
<b>Code</b>	United States Internal Revenue Code of 1986, as amended
<b>collection account</b>	the collection account in the name of the servicer which is from time to time used for the purpose of collecting, directly or indirectly, monies due in respect of the loans and/or the related security forming part of the trust property
<b>common depositary</b>	Citibank, N.A.
<b>core terms</b>	the main subject matter of the contract
<b>corporate services provider</b>	<p>(a) in respect of Funding 1, Holdings, the post-enforcement call option holder and Financing, means Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to</p> <p>(i) Funding 1, Holdings and the post-enforcement call option holder under the Funding 1 corporate services agreement, (ii) Financing under the Financing corporate services agreement and (iii) the post-enforcement call option holder and PECO Holdings under the post-enforcement call option holder corporate services agreement; and</p> <p>(b) in respect of the mortgages trustee, means SFM Offshore Limited or such other person or persons for the time being acting as corporate services provider to the mortgages trustee under the mortgages trustee corporate services agreement</p>
<b>crystallise</b>	when a floating charge becomes a fixed charge
<b>current notes</b>	the previous notes and the Financing notes
<b>current swap agreements</b>	the Financing swap agreements and the previous swap agreements
<b>current swap excluded termination amount</b>	<p>in relation to a current swap agreement an amount equal to:</p> <p>(a) the amount of any termination payment due and payable to the relevant current swap provider as a result of a current swap provider default or following a current swap provider downgrade termination event;</p>

	less
	(b) the amount, if any, received by Financing or a previous issuing entity from a replacement swap provider upon entry by Financing or a previous issuing entity (as the case may be) into an agreement with such replacement swap provider to replace such current swap agreement which has terminated as a result of such current swap provider default or following the occurrence of such current swap provider downgrade termination event
<b>current swap provider default</b>	the occurrence of an event of default (as defined in the relevant current swap agreement) where the relevant current swap provider is the defaulting party (as defined in the relevant swap agreement)
<b>current swap provider downgrade termination event</b>	means the occurrence of an additional termination event following the failure by any of the current swap providers to comply with the requirements of the ratings downgrade provisions set out in the relevant swap agreement
<b>current swap providers</b>	the Financing swap providers and the previous swap providers
<b>delayed cashback</b>	means in relation to any loan, the agreement by the seller to pay an amount to the relevant borrower after a specified period of time following completion of the relevant loan
<b>detached</b>	means a house not joined to another house
<b>diligence</b>	the process (under Scots law) by which a creditor attaches the property of a debtor to implement or secure a court decree or judgment
<b>distribution date</b>	means the date which is two London business days after each calculation date, being the date that the mortgages trustee will distribute principal and revenue receipts to Funding 1 and the seller
<b>DTC</b>	The Depository Trust Company
<b>due and payable</b>	has the meaning set out in “ <b>Cashflows – Distribution of Funding 1 available principal receipts – Due and payable dates of Financing term advances</b> ”
<b>early repayment fee</b>	any fee which a borrower is required to pay in the event that he or she is in default or his or her loan becomes repayable for any other mandatory reason or he or she repays all or any part of the relevant loan before a specified date
<b>eighth issuing entity</b>	Permanent Financing (No. 8) PLC
<b>eligible general reserve fund principal repayments</b>	(a) prior to the occurrence of a trigger event: <ul style="list-style-type: none"> <li>(i) repayments of principal which are then due and payable in respect of original bullet term advances; and</li> <li>(ii) repayments of principal in respect of original scheduled amortisation term advances on their respective final maturity dates only; and</li> </ul>



- (b) on or after the occurrence of a non-asset trigger event or an asset trigger event, repayments of principal in respect of original bullet term advances and original scheduled amortisation term advances on their respective final maturity dates only,

in each case prior to the service of an intercompany loan acceleration notice on Funding 1

**eligible liquidity facility principal repayments**

- (a) prior to the occurrence of a trigger event:
  - (i) repayments of principal which are then due and payable in respect of original bullet term advances; and
  - (ii) repayments of principal in respect of original scheduled amortisation term advances on their respective final maturity dates only; and
- (b) on or after the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event, repayments of principal in respect of original bullet term advances and original scheduled term amortisation term advances on their respective final maturity dates only,

in each case prior to the service of an intercompany loan acceleration notice on Funding 1 and taking into account any allocation of principal to meet any deficiency in Funding 1's available revenue receipts.

Following the occurrence of an asset trigger event, the liquidity facility will not be available to repay principal in respect of original bullet term advances or original scheduled amortisation term advances

**eligible liquidity fund principal repayments**

means:

- (a) prior to the occurrence of a trigger event:
  - (i) repayments of principal which are then due and payable in respect of previous original bullet term advances and Financing's original bullet term advances; and
  - (ii) repayments of principal in respect of previous original scheduled amortisation term advances and Financing's original scheduled amortisation term advances on their respective final maturity dates only; and
- (b) following the occurrence of a non-asset event or an asset trigger event, repayments of principal in respect of previous original bullet term advances, Financing's original scheduled amortisation term advances and Financing's original scheduled amortisation term advances on their respective final maturity dates only,

in each case prior to the service of an intercompany loan acceleration notice on Funding 1 and taking into account any allocation of principal to meet any deficiency in Funding 1's available revenue receipts

<b>English loan</b>	a loan secured by an English mortgage
<b>English mortgage</b>	a mortgage secured over a property in England or Wales
<b>English mortgage conditions</b>	the mortgage conditions applicable to English loans
<b>equivalent net issue proceeds</b>	in relation to notes issued by a relevant issuing entity, means the net proceeds in sterling of such notes (in each case where the relevant class of notes is denominated in US dollars or euro after making appropriate currency exchanges under the relevant swaps)
<b>ERISA</b>	the US Employee Retirement Income Security Act of 1974
<b>EURIBOR</b>	<p>EURIBOR will be determined by the agent bank on the following basis:</p> <p>(1) on the applicable interest determination date applicable to the series 3 Financing notes, the agent bank will calculate the arithmetic mean, rounded upwards to five decimal places, of the offered quotations to leading banks for euro deposits for the relevant period (or, in the case of the first interest period, a linear interpolation of such rates for two-month and three-month euro deposits).</p> <p>This will be determined by reference to the display as quoted on the Moneyline Telerate Screen No. 248. If the Telerate Screen No. 248 stops providing these quotations, the replacement service for the purposes of displaying this information will be used. If the replacement service stops displaying the information, another page as determined by Financing with the approval of the note trustee will be used.</p> <p>In each of these cases, the determination will be made as at or about 11.00 a.m., Brussels time, on that date. This is called the screen rate for the series 3 Financing notes;</p> <p>(2) if, on any such interest determination date, the screen rate is unavailable, the agent bank will:</p> <ul style="list-style-type: none"> <li>● request the principal London office of each of the reference banks to provide the agent bank with its offered quotation to prime banks for euro deposits of the equivalent amount, and for the relevant period, in the Eurozone inter-bank market as at or about 11.00 a.m. (Brussels time); and</li> <li>● calculate the arithmetic mean, rounded upwards to five decimal places, of those quotations;</li> </ul> <p>(3) if, on any such interest determination date, the screen rate is unavailable and only two or three of the reference banks provide offered quotations, the relevant rate for that interest period will be the arithmetic mean of the quotations as calculated in (2); and</p> <p>(4) if, on any such interest determination date, fewer than two reference banks provide quotations, the agent bank will consult with the note trustee and Financing for the purpose of agreeing a total of two banks to provide such quotations and the relevant rate for that interest period will be the arithmetic mean of the quotations as calculated in (2). If no</p>

such banks are agreed then the relevant rate for that interest period will be the rate in effect for the last preceding interest period for which (1) or (2) was applicable

<b>Euroclear</b>	Euroclear Bank S.A./N.V., as operator of the Euroclear System
<b>excess swap collateral</b>	means an amount equal to the value of the collateral (or the applicable part of any collateral) provided by a Financing swap provider to Financing in respect of that Financing swap provider's obligations to transfer collateral to Financing under the relevant Financing swap agreement which is in excess of that Financing swap provider's liability under the relevant Financing swap agreement as at the date of termination of the relevant Financing swap agreement or which it is otherwise entitled to have returned to it under the terms of the relevant Financing swap agreement
<b>fifth issuing entity</b>	Permanent Financing (No. 5) PLC
<b>final maturity date</b>	in respect of each class of Financing notes means the interest payment date falling in the month indicated for such class in " <b>Summary of offering circular – Summary of the Financing notes</b> "
<b>final repayment date</b>	in respect of the Financing intercompany loan means the interest payment date falling in June 2042
<b>Financing</b>	Permanent Financing (No. 9) PLC
<b>Financing account bank</b>	Bank of Scotland
<b>Financing bank account agreement</b>	the agreement to be entered into on the closing date between the Financing account bank, Financing, the Financing cash manager and the security trustee (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) which governs the operation of Financing transaction accounts
<b>Financing cash management agreement</b>	the Financing cash management agreement to be entered into on the closing date between the Financing cash manager, Financing and the security trustee (as the same may be amended, restated, novated, replaced or supplemented from time to time), as described further in " <b>Cash management for Financing</b> "
<b>Financing cash manager</b>	Halifax acting, pursuant to the Financing cash management agreement, as agent for Financing and the security trustee to manage all cash transactions and maintain certain ledgers on behalf of Financing
<b>Financing corporate services agreement</b>	an agreement to be entered into on the closing date between Holdings, Financing, Halifax, the corporate services provider, the share trustee and the security trustee, which governs the provision of corporate services by the corporate services provider to Financing (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>Financing currency swap providers</b>	means the Financing euro currency swap provider and the Financing dollar currency swap providers
<b>Financing currency swap</b>	means the Financing euro currency swap and the Financing dollar currency swaps
<b>Financing deed of accession</b>	means the deed of accession to the Funding 1 deed of charge to be entered into by, among others, Funding 1 and Financing dated on or about the closing date

<b>Financing deed of charge</b>	the deed of charge to be entered into on the closing date between, among others, Financing and the security trustee, under which Financing charges the Financing security in favour of the security trustee for the benefit of the Financing secured creditors, as described further in “ <b>Security for Financing’s obligations</b> ”
<b>Financing dollar currency exchange rate</b>	the rate at which US dollars are converted to sterling or, as the case may be, sterling is converted to US dollars under the relevant Financing dollar currency swap or, if there is no relevant Financing dollar currency swap agreement in effect at such time, the <b>spot</b> rate at which US dollars are converted into sterling or, as the case may be, sterling is converted into US dollars on the foreign exchange markets
<b>Financing dollar currency swap agreements</b>	collectively, the ISDA master agreements, schedules and confirmations relating to the Financing dollar currency swaps to be entered into on or before the closing date between Financing, the relevant Financing dollar currency swap provider and the security trustee (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>Financing dollar currency swap providers</b>	the series 1 Financing swap provider, the series 2 Financing swap provider and the series 3 Financing swap provider, or any one of them, as the case may be
<b>Financing dollar currency swaps</b>	the sterling-US dollar currency swaps which enable Financing to receive and pay amounts under the Financing intercompany loan in sterling and to receive and pay amounts under the offered Financing notes in US dollars, as described further in “ <b>The swap agreements – The Financing dollar currency swaps and the Financing euro currency swaps</b> ”
<b>Financing euro currency exchange rate</b>	the rate at which euro is converted to sterling or, as the case may be, sterling is converted to euro under the Financing euro currency swap or, if there is no Financing euro currency swap agreement in effect at such time, the <b>spot</b> rate at which euro are converted into sterling or, as the case may be, sterling is converted into euro on the foreign exchange markets
<b>Financing euro currency swap agreements</b>	collectively, the ISDA master agreements, schedules and confirmations relating to the Financing euro currency swap to be entered into on or before the closing date between Financing, the relevant Financing euro currency swap provider and the security trustee (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>Financing euro currency swap provider</b>	the series 4 Financing swap provider
<b>Financing euro currency swaps</b>	the sterling-euro currency swaps which enable Financing to receive and pay amounts under the Financing intercompany loan in sterling and to receive and pay amounts under the series 4 Financing notes, as described further in “ <b>The swap agreements – The Financing dollar currency swaps and the Financing euro currency swaps</b> ”
<b>Financing intercompany loan</b>	the loan of the Financing term advances made by Financing to Funding 1 on the closing date under the Financing intercompany loan agreement

<b>Financing intercompany loan agreement</b>	the Financing intercompany loan agreement to be entered into on the closing date between Funding 1, Financing and the security trustee
<b>Financing intercompany loan event of default</b>	an event of default under the Financing intercompany loan agreement
<b>Financing note acceleration notice</b>	an acceleration notice served by the note trustee in relation to the enforcement of the Financing security following a Financing note event of default under the Financing notes
<b>Financing note event of default</b>	an event of default under the provisions of condition 9 of the Financing notes where Financing is the defaulting party
<b>Financing notes</b>	includes all of the class A Financing notes, the class B Financing notes and the class C Financing notes
<b>Financing post-enforcement priority of payments</b>	the order in which, following enforcement of the Financing security, the security trustee will apply the amounts received following enforcement of the Financing security, as set out in <b>“Security for Financing’s obligations”</b> and <b>“Cashflows – Distribution of Financing principal receipts and Financing revenue receipts following note acceleration and intercompany loan acceleration”</b>
<b>Financing pre-enforcement principal priority of payments</b>	the order in which, prior to enforcement of the Financing security, the Financing cash manager will apply the Financing principal receipts on each interest payment date, as set out in <b>“Cashflows – Distribution of Financing principal receipts before note acceleration”</b>
<b>Financing pre-enforcement revenue priority of payments</b>	the order in which, prior to enforcement of the Financing security, the Financing cash manager will apply the Financing revenue receipts on each interest payment date, as set out in <b>“Cashflows – Distribution of Financing revenue receipts before note acceleration”</b>
<b>Financing principal receipts</b>	an amount equal to the sum of all principal amounts repaid by Funding 1 to Financing under the Financing intercompany loan
<b>Financing revenue receipts</b>	an amount equal to the sum of: <ul style="list-style-type: none"> <li>(a) interest paid by Funding 1 on the relevant Funding 1 interest payment date in respect of the Financing term advances under the Financing intercompany loan;</li> <li>(b) fees to be paid by Funding 1 on the relevant date under the terms of the Financing intercompany loan agreement;</li> <li>(c) interest payable on Financing bank accounts and authorised investments which will be received on or before the relevant date;</li> <li>(d) other net income of Financing including amounts received or to be received under the Financing swap agreements on or before the relevant interest payment date (including any amounts received by Financing in consideration of it entering into a replacement Financing swap agreement but excluding (i) the return or transfer of any excess swap collateral as set out under any of the Financing swap agreements and (ii) in respect of each Financing swap provider, prior to the designation of an early termination date under the relevant Financing swap agreement and the resulting application of the collateral by way of netting or</li> </ul>

	set-off, an amount equal to the value of all collateral (other than excess swap collateral) provided by such Financing swap provider to Financing pursuant to the relevant Financing swap agreement (and any interest or distributions in respect thereof)); and
	(e) any additional amount Financing receives from any taxing authority on account of amounts paid to that taxing authority for and on account of tax by a Financing swap provider under a Financing swap agreement
<b>Financing secured creditor</b>	the security trustee, noteholders, the Financing swap providers, the note trustee, the Financing account bank, the paying agents, the registrar, the transfer agent, the agent bank, the corporate services provider under the Financing corporate services agreement and the Financing cash manager
<b>Financing security</b>	security created by Financing pursuant to the Financing deed of charge in favour of the Financing secured creditors
<b>Financing start-up loan</b>	the loan made by the start-up loan provider to Funding 1 under the start-up loan agreement
<b>Financing start-up loan agreement</b>	the agreement to be entered into on the closing date between the start-up loan provider and Funding 1 under which the start-up loan will be made by the start-up loan provider to Funding 1
<b>Financing step-up date</b>	the interest payment date falling in September 2012.
<b>Financing swap agreements</b>	the Financing dollar currency swap agreements and the Financing euro currency swap agreements
<b>Financing swap excluded termination amount</b>	in relation to a Financing swap agreement an amount equal to: <ul style="list-style-type: none"> <li>(a) the amount of any termination payment due and payable to the relevant Financing swap provider as a result of a Financing swap provider default or following a Financing swap provider downgrade termination event, less</li> <li>(b) the amount, if any, received by Financing from a replacement swap provider upon entry by Financing into an agreement with such replacement swap provider to replace such Financing swap agreement which has been terminated as a result of such Financing swap provider default or following the occurrence of such Financing swap provider downgrade termination event</li> </ul>
<b>Financing swap provider default</b>	as the context may require, the occurrence of an event of default (as defined in the relevant Financing swap agreement) where the relevant Financing swap provider is the defaulting party (as defined in the relevant Financing swap agreement)
<b>Financing swap provider downgrade termination event</b>	means the occurrence of an additional termination event following the failure by a Financing swap provider to comply with the requirements of the ratings downgrade provisions set out in the relevant Financing swap agreement
<b>Financing swap providers</b>	the Financing dollar currency swap provider and the Financing euro currency swap provider or any of them as the context requires
<b>Financing swaps</b>	the Financing dollar currency swaps and the Financing euro currency swaps

<b>Financing term advances</b>	the various advances into which the loan made by Financing to Funding 1 under the Financing intercompany loan will be split, as set out in the table under “ <b>The Financing intercompany loan agreement</b> ”
<b>Financing term X advances</b>	those Financing term advances with a rating designation of “X” (where X is AAA, AA, A or BBB), irrespective of series designation
<b>Financing transaction documents</b>	the documents listed in paragraph (C) in “ <b>Listing and general information</b> ”
<b>first issuing entity</b>	Permanent Financing (No. 1) PLC
<b>Fitch</b>	Fitch Ratings Ltd. and any successor to its ratings business
<b>fixed security</b>	a form of security which means that the chargor is not allowed to deal with the assets subject to the charge without the consent of the chargee
<b>flexible loan</b>	a type of loan product that typically incorporates features that give the borrower options to, among other things, make further drawings on the loan account and/or to overpay or underpay interest and principal in a given month
<b>floating charge</b>	a form of charge which is not attached to specific assets but which “floats” over a class of them and which allows the chargor to deal with those assets in the every day course of its business, up until the point that the floating security is enforced, at which point it crystallises into a fixed security
<b>fourth issuing entity</b>	Permanent Financing (No. 4) PLC
<b>FSA</b>	the Financial Services Authority
<b>FSMA</b>	the Financial Services and Markets Act 2000
<b>Funding 1</b>	Permanent Funding (No. 1) Limited
<b>Funding 2</b>	Permanent Funding (No. 2) PLC
<b>Funding 1 available principal receipts</b>	has the meaning set out under “ <b>Cashflows – Distribution of Funding 1 available principal receipts</b> ”
<b>Funding 1 available revenue receipts</b>	has the meaning set out under “ <b>Cashflows – Distribution of Funding 1 available revenue receipts</b> ”
<b>Funding 1 corporate services agreement</b>	an agreement entered into on the initial closing date between Holdings, Funding 1, Halifax, the corporate services provider, the share trustee and the security trustee (as amended, supplemented and/or novated from time to time) which governs the provision of corporate services by the corporate services provider to Funding 1 and Holdings
<b>Funding 1 deed of charge</b>	the deed of charge entered into on the initial closing date between Funding 1, the first issuing entity, the corporate services provider, the account bank, the Funding 1 GIC provider, the security trustee, the seller, the start-up loan provider, the Funding 1 liquidity facility provider, the cash manager and the Funding 1 swap provider as amended and/or restated from time to time and acceded to by Financing and the Financing start-up loan provider on the closing date and includes (except where the context otherwise requires) the second supplemental Funding 1 deed of charge
<b>Funding 1 GIC account</b>	the account of Funding 1 held at Bank of Scotland. Amounts deposited to the credit of the Funding 1 GIC account will receive

	a rate of interest determined in accordance with the Funding 1 guaranteed investment contract
<b>Funding 1 GIC provider</b>	Bank of Scotland
<b>Funding 1 guaranteed investment contract</b>	the guaranteed investment contract entered into on the initial closing date between Funding 1 and the Funding 1 GIC provider under which the Funding 1 GIC provider agrees to pay Funding 1 a guaranteed rate of interest on the balance of the Funding 1 GIC account, as described further in “ <b>Credit structure – Mortgages trustee GIC account/Funding 1 GIC account</b> ”
<b>Funding 1 interest payment date</b>	in relation to the Financing term advances, the 10th day of March, June, September and December in each year
<b>Funding 1 liquidity facility</b>	the liquidity facility provided for Funding 1 pursuant to the Funding 1 liquidity facility agreement
<b>Funding 1 liquidity facility agreement</b>	the liquidity facility agreement entered into on the initial closing date as previously amended and restated from time to time and as further amended and restated on or about the closing date, and made between Funding 1 and the Funding 1 liquidity facility provider in relation to the provision of a liquidity facility in a total amount of £150,000,000 to Funding 1 (as the same may be further amended, restated, varied or supplemented from time to time), as described further in “ <b>Credit structure – Funding 1 liquidity facility</b> ”
<b>Funding 1 liquidity facility drawing</b>	a drawing (other than a liquidity facility stand-by drawing) under the Funding 1 liquidity facility
<b>Funding 1 liquidity facility provider</b>	JPMorgan Chase Bank, National Association
<b>Funding 1 liquidity facility stand-by account</b>	the designated bank account of Funding 1 into which the undrawn amounts of the Funding 1 liquidity facility will be deposited if the Funding 1 liquidity facility provider does not extend the Funding 1 liquidity facility commitment period or if the rating of the Funding 1 liquidity facility provider falls below the requisite ratings as described in “ <b>Credit structure – Funding 1 liquidity facility</b> ”
<b>Funding 1 liquidity shortfall</b>	where there are insufficient amounts to make the payments specified in “ <b>Credit Structure – Funding 1 liquidity facility – General description</b> ”, after taking into account the amount available for drawing from the reserve funds
<b>Funding 1 liquidity subordinated amounts</b>	the sum of (i) any additional amounts due to any withholding taxes and increased costs on the provision of the Funding 1 liquidity facility and (ii) any additional costs incurred by the Funding 1 liquidity facility provider to comply with the requirements of the Bank of England, the Financial Services Authority and/or the European Central Bank and/or changes to the capital adequacy rules applicable to the Funding 1 liquidity facility provider and Funding 1
<b>Funding 1 post-enforcement priority of payments</b>	the order in which, following the enforcement of the Funding 1 security, the security trustee will apply the amounts received following enforcement of the Funding 1 security, as set out in “ <b>Security for Funding 1’s obligations</b> ” and “ <b>Cashflows – Distribution of Funding 1 principal receipts and Funding 1 revenue receipts following intercompany loan acceleration</b> ”



<b>Funding 1 pre-enforcement principal priority of payments</b>	the order in which, prior to enforcement of the Funding 1 security, the cash manager will apply the Funding 1 available principal receipts on each Funding 1 interest payment date, as set out in “ <b>Security for Funding 1’s obligations</b> ” and “ <b>Cashflows – Distribution of Funding 1 available principal receipts</b> ”
<b>Funding 1 pre-enforcement revenue priority of payments</b>	the order in which, prior to enforcement of the Funding 1 security, the cash manager will apply the Funding 1 available revenue receipts on each Funding 1 interest payment date, as set out in “ <b>Security for Funding 1’s obligations</b> ” and “ <b>Cashflows – Distribution of Funding 1 available revenue receipts before intercompany loan acceleration</b> ”
<b>Funding 1 principal ledger</b>	a ledger maintained by the cash manager to record the amount of principal receipts received by Funding 1 from the mortgages trustee on each distribution date
<b>Funding 1 principal receipts</b>	the principal receipts paid by the mortgages trustee to Funding 1 on each distribution date
<b>Funding 1 revenue ledger</b>	a ledger maintained by the cash manager to record all amounts received by Funding 1 from the mortgages trustee on each distribution date other than principal receipts, together with interest received by Funding 1 on its authorised investments or pursuant to the bank account agreement
<b>Funding 1 secured creditors</b>	the security trustee, the Funding 1 swap provider, the Funding 1 liquidity facility provider, the cash manager, the account bank, the seller, the corporate services provider, each start-up loan provider, the Funding 1 GIC Provider, the previous issuing entities, Financing and any other entity that accedes to the terms of the Funding 1 deed of charge from time to time
<b>Funding 1 security</b>	the initial Funding 1 security, except where the context requires otherwise, and the additional Funding 1 security
<b>Funding 1 share</b>	the Funding 1 share of the trust property from time to time, as calculated on each calculation date
<b>Funding 1 share percentage</b>	the Funding 1 share percentage of the trust property from time to time as calculated on each calculation date
<b>Funding 1 stand-by drawing</b>	the amount which is equal to the undrawn commitment under the Funding 1 liquidity facility agreement
<b>Funding 1 swap</b>	the swap documented under the Funding 1 swap agreement which enables Funding 1 to hedge against the possible variance between the mortgages trustee variable base rate payable on the variable rate loans, the fixed rates of interest payable on the fixed rate loans and the rates of interest payable on the tracker rate loans and a LIBOR-based rate for three-month sterling deposits, as described further in “ <b>The swap agreements – The Funding 1 swap</b> ”
<b>Funding 1 swap agreement</b>	the ISDA master agreement and schedule thereto entered into on the initial closing date between Funding 1, the Funding 1 swap provider and the security trustee and any confirmation documented thereunder from time to time between Funding 1, the Funding 1 swap provider and the security trustee (as each of the same may be amended, restated, novated or supplemented from time to time)

<b>Funding 1 swap excluded termination amount</b>	in relation to the Funding 1 swap agreement an amount equal to: <ul style="list-style-type: none"> <li>(a) the amount of any termination payment due and payable to the Funding 1 swap provider as a result of a Funding 1 swap provider default or following a Funding 1 swap provider downgrade termination event;</li> </ul> less <ul style="list-style-type: none"> <li>(b) the amount, if any, received by Funding 1 from a replacement swap provider upon entry by Funding 1 into an agreement with such replacement swap provider to replace the Funding 1 swap agreement which has terminated as a result of such Funding 1 swap provider default or following the occurrence of such Funding 1 swap provider downgrade termination event</li> </ul>
<b>Funding 1 swap provider</b>	Halifax, pursuant to the Funding 1 swap agreement
<b>Funding 1 swap provider default</b>	the occurrence of an event of default (as defined in the Funding 1 swap agreement) where the Funding 1 swap provider is the defaulting party (as defined in the Funding 1 swap agreement)
<b>Funding 1 swap provider downgrade termination event</b>	means the occurrence of an additional termination event following the failure by the Funding 1 swap provider to comply with the requirements of the ratings downgrade provisions set out in the Funding 1 swap agreement
<b>Funding 1 transaction account</b>	the account in the name of Funding 1 maintained with the account bank pursuant to the bank account agreement or such additional or replacement account as may for the time being be in place
<b>further advance</b>	an advance made following a request from an existing borrower for a further amount to be lent to him or her under his or her mortgage, where Halifax has a discretion as to whether to accept that request
<b>general reserve fund</b>	at any time the amount standing to the credit of the general reserve ledger at that time, which may be used in certain circumstances by Funding 1 to meet any deficit in revenue or to repay amounts of principal, as described further in “ <b>Credit structure – General reserve fund</b> ”
<b>general reserve fund required amount</b>	an amount equal to £545,000,000
<b>general reserve fund threshold</b>	the lesser of: <ul style="list-style-type: none"> <li>● the general reserve fund required amount, and</li> <li>● the highest amount which the adjusted general reserve fund level has been since the first Funding 1 interest payment date upon which interest is due and payable in respect of term advances made upon the closing date relating to the then most recent issue of notes</li> </ul>
<b>general reserve ledger</b>	a ledger maintained by the cash manager to record the amount credited to the general reserve fund from the proceeds of a portion of each start-up loan, and other withdrawals and deposits in respect of the general reserve fund
<b>global Financing notes Halifax</b>	the Financing notes in global form Halifax plc (see “ <b>Halifax plc</b> ”)

<b>high loan-to-value fee</b>	a fee incurred by a borrower as a result of taking out a loan with an LTV ratio in excess of a certain percentage specified in the offer
<b>higher variable rate loans</b>	loans subject to an interest rate at a margin above HVR 1, HVR 2 or the mortgages trustee variable base rate, as applicable
<b>Holdings</b>	Permanent Holdings Limited
<b>HVR 1</b>	the variable mortgage rate set by the seller which applies to certain loans beneficially owned by the seller on the seller's residential mortgage book
<b>HVR 2</b>	the second variable base rate that was made available to borrowers between 1 March 2001 and 1 February 2002
<b>ICTA</b>	the UK Income and Corporation Taxes Act 1988
<b>in arrears</b>	in respect of a mortgage account, occurs when one or more monthly payments in respect of a mortgage account have become due and unpaid by a borrower
<b>industry CPR</b>	a constant prepayment rate which is calculated by dividing the amount of mortgages repaid in a quarter by the quarterly balance of mortgages outstanding for building societies in the United Kingdom
<b>initial closing date</b>	14 June 2002
<b>initial Funding 1 security</b>	security created by Funding 1 pursuant to the Funding 1 deed of charge
<b>initial loans</b>	the loans sold by the seller to the mortgages trustee on the initial closing date pursuant to the terms of the mortgage sale agreement
<b>initial purchasers</b>	the class A initial purchasers, <u>the class A co-purchasers</u> and the class B/C initial purchasers
<b>insolvency event</b>	<p>in respect of the seller, the servicer, the cash manager or the Financing cash manager (each, for the purposes of this definition, a <b>relevant entity</b>) means:</p> <ul style="list-style-type: none"> <li>(a) an order is made or an effective resolution passed for the winding up of the relevant entity;</li> <li>(b) the relevant entity ceases or threatens to cease to carry on its business or stops payment or threatens to stop payment of its debts or is deemed unable to pay its debts within the meaning of section 123(i)(a), (b), (c) or (d) of the Insolvency Act 1986 (as amended) or becomes unable to pay its debts as they fall due 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</li> <li>(c) proceedings (including, but not limited to, presentation of an application for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) are initiated against the relevant entity under any applicable liquidation, administration reorganisation (other than a reorganisation where the relevant entity is solvent) or other similar laws, save where such proceedings are being contested in good faith; or an administrative or other receiver, administrator or other</li> </ul>

similar official is appointed in relation to the whole or any substantial part of the undertaking or assets of the relevant entity or the appointment of an administrator takes effect; or a distress, execution or diligence or other process is enforced upon the whole or any substantial part of the undertaking or assets of the relevant entity and in any of the foregoing cases it is not discharged within 15 London business days; or if the relevant entity initiates or consents to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally or takes steps with a view to obtaining a moratorium in respect of any indebtedness

<b>intercompany loan acceleration notice</b>	an acceleration notice served by the security trustee on Funding 1 following an event of default under a previous intercompany loan agreement, a Financing intercompany loan event of default and/or (as the context may require) an event of default under any new intercompany loan agreement
<b>intercompany loan agreements</b>	the previous intercompany loan agreements, the Financing intercompany loan agreement and all new intercompany loan agreements
<b>intercompany loan ledger</b>	a ledger maintained by the cash manager to record payments of interest and repayments of principal made on each of the current term advances and any new term advances under any intercompany loans
<b>intercompany loan terms and conditions</b>	the standard terms and conditions incorporated into each intercompany loan agreement, signed for the purposes of identification on the initial closing date by Funding 1, the security trustee and the agent bank
<b>intercompany loans</b>	the previous intercompany loans, the Financing intercompany loan and all new intercompany loans, each an <b>intercompany loan</b>
<b>interest determination date</b>	<ul style="list-style-type: none"><li>(a) in respect of the series 1 Financing notes, the series 2 Financing notes and the series 3 Financing notes means the date which is two London business days before the first day of the interest period for which the rate will apply;</li><li>(b) in respect of the series 4 Financing notes means the date which is two TARGET business days before the first day of the interest period for which the rate will apply;</li><li>(c) in respect of the series 5 Financing notes, means the first day of the interest period for which the rate will apply; and</li><li>(d) in respect of the Financing term advances, means, in respect of the first interest period, the closing date and, in respect of subsequent interest periods, the first day of the interest period for which the rate will apply.</li></ul>
<b>interest payment date</b>	<ul style="list-style-type: none"><li>(a) in relation to the series 1 class A Financing notes, the 10th day of each consecutive month in each year up to and including the earliest of (i) the interest payment date in March 2007, (ii) the occurrence of a trigger event or (iii) enforcement of the Financing security, and thereafter the</li></ul>

10th day of March, June, September and December in each year; and

- (b) in all other cases, the 10th day of March, June, September and December in each year,

or, in each of the preceding cases, if such day is not a business day, the next succeeding business day

**interest period**

means:

- (a) in relation to the series 1 class A Financing 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, except that prior to the applicable interest payment date falling in March 2007, if a trigger event occurs or the Financing security is enforced, then the interest period for the series 1 class A Financing notes (in respect of the first such interest period) will be the period from (and including) the last interest payment date to have occurred to (but excluding) the 10th day of the then next to occur of March, June, September and December and thereafter will be the period from (and including) such interest payment date to (but excluding) the next following 10th day of March, June, September and December in each year; and
- (b) in all other cases, the period from (and including) the applicable interest payment date (or in respect of the first interest period, the closing date) to (but excluding) the next following applicable interest payment date

**investment plan**

in respect of an interest-only loan, a repayment mechanism selected by the borrower and intended to provide sufficient funds to redeem the full principal of a loan at maturity

**ISA**

an individual savings account within the Individual Savings Account Regulations 1998 (as amended) and which shelters investments in the account from income tax and capital gains tax

**lending criteria**

the criteria applicable to the granting of an offer of a mortgage to a borrower, as may be amended from time to time and as further described in “**The loans – Characteristics of the loans – Lending criteria**”

**LIBOR or sterling LIBOR**

the London Interbank Offered Rate for sterling deposits, as determined by the agent bank on the following basis:

- (1) on the applicable interest determination date, the agent bank will determine the arithmetic mean, rounded upwards to five decimal places, of the offered quotations to leading banks in the London inter-bank market for sterling deposits for the relevant period (or, in the case of the first interest period, the linear interpolation of the arithmetic mean of such offered quotations for two-month and three-month sterling deposits (rounded upwards, if necessary, to five decimal places)).

This will be determined by reference to the display as quoted on the Moneyline Telerate Screen No. 3750. If the Telerate Screen No. 3750 stops providing these quotations, the replacement service for the purposes of displaying this information will be used. If the replacement service stops

displaying the information, another page as determined by Financing with the approval of the note trustee will be used. In each of these cases, the determination will be made as at or about 11.00 a.m., London time, on that date. This is called the screen rate for LIBOR or sterling LIBOR;

- (2) if, on any such interest determination date, the screen rate is unavailable, the agent bank will:
  - (i) request the principal London office of each of the reference banks to provide the agent bank with its offered quotation to leading banks for sterling deposits of the equivalent amount, and for the relevant period, in the London inter-bank market as at or about 11.00 a.m. (London time); and
  - (ii) calculate the arithmetic mean, rounded upwards to five decimal places, of those quotations;
- (3) if, on any such interest determination date, the screen rate is unavailable and only two or three of the reference banks provide offered quotations, the relevant rate for that interest period will be the arithmetic mean of the quotations as calculated in (2); and
- (4) if, on any such interest determination date, fewer than two reference banks provide quotations, the agent bank will consult with the note trustee and Financing for the purpose of agreeing a total of two banks to provide such quotations and the relevant rate for that interest period will be the arithmetic mean of the quotations as calculated in (2). If no such banks are agreed then the relevant rate for that interest period will be the rate in effect for the last preceding interest period for which (1) or (2) was applicable.

See also the definitions of EURIBOR and USD-LIBOR

**liquidity reserve fund**

a liquidity reserve fund established on the occurrence of certain ratings downgrades of the seller to meet interest and principal shortfalls (in limited circumstances) on the Financing notes

**liquidity reserve fund rating event**

means the seller's long-term, unsecured, unsubordinated and unguaranteed debt obligations are rated below A3 by Moody's or A- by Fitch (unless the relevant rating agency confirms that its then current ratings of the Financing notes will not be adversely affected as a consequence of such rating of the seller)

**liquidity reserve fund required amount**

on any Funding 1 interest payment date, an amount equal to 3 per cent. of the aggregate outstanding balance of the Financing notes on that date

**liquidity reserve ledger**

a ledger maintained by the cash manager to record the withdrawals and deposits in respect of the liquidity reserve fund

**loan**

each loan referenced by its loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other monies (including all further advances) due or owing with respect to that loan under the relevant mortgage conditions by a borrower on the security of a mortgage from time to time outstanding or, as the context may require, the borrower's obligations in respect of the same

**London business day**

a day (other than a Saturday or Sunday) on which banks are generally open for business in London

<b>loss amount</b>	<p>means the amount of any costs, expenses, losses or other claims suffered or incurred by, as applicable, the mortgages trustee and/or Funding 1 in connection with any recovery of interest on the loans to which the seller, the mortgages trustee or Funding 1 was not entitled or could not enforce as a result of any determination by any court or other competent authority or any ombudsman in respect of any loan and its related security that:</p> <ul style="list-style-type: none"> <li>● any term which relates to the recovery of interest under the standard documentation applicable to that loan and its related security is unfair; or</li> <li>● the interest payable under any loan is to be set by reference to the Halifax variable base rate (and not that of the seller's successors or assigns or those deriving title from them); or</li> <li>● the variable margin above the Bank of England repo rate under any tracker rate loan must be set by the seller; or</li> <li>● the interest payable under any loan is to be set by reference to an interest rate other than that set or purported to be set by either the servicer or the mortgages trustee as a result of the seller having more than one variable mortgage rate</li> </ul>
<b>losses</b>	the realised losses experienced on the loans in the portfolio
<b>losses ledger</b>	the ledger of such name created and maintained by the cash manager pursuant to the cash management agreement to record the losses on the portfolio
<b>LTV ratio or loan-to-value ratio</b>	the ratio of the outstanding balance of a loan to the value of the mortgaged property securing that loan
<b>LTV test</b>	a test which assigns a credit enhancement value to each loan in the portfolio based on its current loan-to-value ratio and the amount of mortgage indemnity cover on that loan. The weighted average credit enhancement value for the portfolio is then determined
<b>managers</b>	<u>Banc of America Securities Limited, Credit Suisse Securities (Europe) Limited, J.P. Morgan Securities Ltd., ABN AMRO Bank N.V., IXIS Corporate &amp; Investment Bank and UBS Limited</u>
<b>master definitions and construction schedule</b>	together, the amended and restated master definitions and construction schedule and Financing master definitions and construction schedule, which are schedules of definitions used in the Financing transaction documents
<b>MCOB</b>	the FSA Mortgages: Conduct of Business Sourcebook
<b>MIG policies</b>	mortgage indemnity guarantee policies
<b>minimum rate loans</b>	loans subject to a minimum rate of interest
<b>minimum seller share</b>	an amount included in the current seller share which is calculated in accordance with the mortgages trust deed and which, as at the closing date, will be approximately <u>£2,322,590,000</u>
<b>Moody's</b>	Moody's Investors Service Limited and any successor to its ratings business
<b>mortgage</b>	the legal charge or standard security securing a loan
<b>mortgage account</b>	all loans secured on the same property will be incorporated in the same mortgage account

<b>mortgage conditions</b>	the terms and conditions applicable to the loans as contained in the seller's <b>Mortgage Conditions</b> booklets for England and Wales and Scotland applicable from time to time
<b>mortgage related securities</b>	as defined in the US Secondary Mortgage Markets Enhancement Act 1984, as amended
<b>mortgage sale agreement</b>	the mortgage sale agreement entered into on the initial closing date and made between the seller, the mortgages trustee, Funding 1 and the security trustee in relation to the sale of the initial portfolio and new loans to the mortgages trustee from time to time, as amended and/or restated from time to time and as further described in " <b>Sale of the loans and their related security</b> "
<b>mortgage terms</b>	all the terms and conditions applicable to a loan, including without limitation the applicable mortgage conditions and offer conditions
<b>mortgages trust</b>	the bare trust of the trust property held by the mortgages trustee as to both capital and income on trust absolutely for Funding 1 (as to the Funding 1 share) and the seller (as to the seller share), so that each has an undivided beneficial interest in the trust property
<b>mortgages trust available principal receipts</b>	the amount standing to the credit of the principal ledger on the relevant calculation date
<b>mortgages trust available revenue receipts</b>	<p>an amount equal to:</p> <ul style="list-style-type: none"> <li>(a) revenue receipts on the loans (but excluding principal receipts);</li> <li>(b) plus interest payable to the mortgages trustee on the mortgages trustee GIC account;</li> <li>(c) less third party amounts</li> </ul> <p>as described further in "<b>The mortgages trust</b>"</p>
<b>mortgages trust deed</b>	the mortgages trust deed made by the mortgages trustee, Funding 1 and the seller on 13 June 2002, as amended and/or restated from time to time and as further described in " <b>The mortgages trust</b> "
<b>mortgages trustee</b>	Permanent Mortgages Trustee Limited
<b>mortgages trustee account</b>	the mortgages trustee GIC account
<b>mortgages trustee corporate services agreement</b>	the agreement entered into on the initial closing date between the corporate services provider, the mortgages trustee and the security trustee, which governs the provision of corporate services by the corporate services provider to the mortgages trustee
<b>mortgages trustee GIC account</b>	the account in the name of the mortgages trustee maintained with the account bank pursuant to the terms of the bank account agreement and the mortgages trustee guaranteed investment contract or such additional or replacement account as may for the time being be in place
<b>mortgages trustee GIC provider</b>	Bank of Scotland
<b>mortgages trustee guaranteed investment contract</b>	the guaranteed investment contract entered into on the initial closing date between the mortgages trustee and the mortgages trustee GIC provider under which the mortgages trustee GIC provider agrees to pay the mortgages trustee a guaranteed rate



	of interest on the balance of the mortgages trustee GIC account (as the same may be amended, restated, varied or supplemented from time to time), as described further in “ <b>Credit structure – Mortgages trustee GIC account/Funding 1 GIC account</b> ”
<b>mortgages trustee variable base rate</b>	the variable base rates which apply to the variable rate loans in the portfolio as set, other than in limited circumstances, by the servicer, as described further in “ <b>The servicing agreement</b> ”
<b>new Funding 1 swap and new Funding 1 swap provider</b>	a new Funding 1 swap to be entered into by Funding 1, a new Funding 1 swap provider and the security trustee when and if required
<b>new Funding 1 swap agreement</b>	a new Funding 1 swap agreement, documenting the new Funding 1 swap, between Funding 1, a new Funding 1 swap provider and the security trustee
<b>new intercompany loan and new intercompany loan agreement</b>	a loan of a new issuing entity term advance made by a new issuing entity to Funding 1 under a new intercompany loan agreement entered into by Funding 1 with a new issuing entity
<b>new issue</b>	the issue of new notes to investors by a new issuing entity to fund a new intercompany loan
<b>new issuing entity</b>	a new wholly-owned subsidiary of Holdings that is not established as at the closing date and which, if established, will make a new intercompany loan to Funding 1
<b>new loans</b>	loans which the seller may sell, from time to time after the closing date, to the mortgages trustee pursuant to the terms of the mortgage sale agreement
<b>new notes</b>	an issue of notes by a new issuing entity
<b>new related security</b>	the security for the new loans which the seller may sell to the mortgages trustee pursuant to the mortgage sale agreement
<b>new start-up loan and new start-up loan provider</b>	a new start-up loan to be made available to Funding 1 by a new start-up loan provider when Funding 1 enters into a new intercompany loan agreement
<b>new start-up loan agreement</b>	a new start-up loan agreement to be entered into by a new start-up loan provider, Funding 1 and the security trustee
<b>new term X advances</b>	term advances to be advanced to Funding 1 by new issuing entities under new intercompany loan agreements from the proceeds of issues of new notes with a rating designation of “X” (where X is AAA, AA, A or BBB) or its equivalent
<b>new term advances</b>	term advances to be advanced to Funding 1 by new issuing entities under a new intercompany loan agreement
<b>New York business day</b>	means a day (other than a Saturday or a Sunday) on which banks are generally open in the city of New York
<b>non-asset trigger event</b>	this will occur on a calculation date if: <ul style="list-style-type: none"> <li>(a) an insolvency event occurs in relation to the seller on or about that calculation date;</li> <li>(b) the role of the seller as servicer under the servicing agreement is terminated and a new servicer is not appointed within 30 days;</li> <li>(c) as at the calculation date immediately preceding that calculation date the seller share is equal to or less than the minimum seller share;</li> </ul>

	(d) on any calculation date, the aggregate outstanding principal balance of loans comprising the trust property at that date during the period from and including the closing date to but excluding the interest payment date in September 2009 is less than £31,000,000,000
<b>normal calculation date</b>	the first day (or, if not a London business day, the next succeeding London business day) of each month
<b>note acceleration notice</b>	a Financing note acceleration notice and/or (as the context may require) an acceleration notice served on a new issuing entity following an event of default by the new issuing entity under the new notes
<b>note principal payment</b>	the amount of each principal payment payable on each note
<b>note trustee</b>	The Bank of New York
<b>noteholders</b>	the holders of Financing notes, or any of them as the context requires
<b>offer conditions</b>	the terms and conditions applicable to a specific loan as set out in the relevant offer letter to the borrower
<b>offered Financing notes</b>	the series 1 Financing notes, the series 2 Financing notes and the series 3 Financing notes
<b>original bullet term advance</b>	a term advance which at any time has been a bullet term advance (even if such term advance has subsequently become a pass-through advance)
<b>original pass-through term advance</b>	a term advance which at the time it was advanced was a pass-through term advance
<b>original scheduled amortisation instalment</b>	that part of a term advance which at any time has been a scheduled amortisation instalment (even if that part of that term advance has subsequently become a pass-through term advance)
<b>original scheduled amortisation term advance</b>	a term advance which at any time has been a scheduled amortisation term advance (even if such term advance has subsequently become a pass-through term advance)
<b>outstanding amount</b>	following enforcement of a loan, the amount outstanding on the payment of that loan after deducting money received under the applicable mortgage indemnity guarantee policy
<b>overpayment</b>	a payment made by a borrower in an amount greater than the monthly payment then due on the loan
<b>pass-through repayment restrictions</b>	means at any time on a Funding 1 interest payment date no amount may be applied in repayment of any pass-through term advance unless: <ul style="list-style-type: none"> <li>● the sum of the cash accumulation ledger amount and the amount of Funding 1 available principal receipts after the application of items (A), (B) and (C) and before item (D) of the priority of payments described in “<b>Cashflows – Distribution of Funding 1 available principal receipts – Repayment of all term advances before a trigger event and before intercompany loan acceleration or acceleration of all notes</b>”,</li> </ul> <p>is greater than or equal to</p>

	<ul style="list-style-type: none"> <li>the sum of the cash accumulation liability and the aggregate amount of all original pass-through term advances which are due and payable as at that time</li> </ul>
<b>pass-through term advance</b>	<p>a term advance which has no scheduled repayment date other than the final repayment date, namely those term advances of Financing and each previous issuing entity designated as 'pass-through' term advances in the table under the caption "<b>The mortgages trust – Cash management of trust property – principal receipts</b>" and any term advance which is referred to as such in the prospectus or other offering document relating to any new issuing entity.</p> <p>If a trigger event occurs or the Funding 1 security or Financing security is enforced, then the bullet term advances (other than the series 1 term AAA advance and the previous series 1 term AAA advances) and the scheduled amortisation term advances will be deemed to be pass-through term advances</p>
<b>paying agent and agent bank agreement</b>	the agreement to be entered into on the closing date which sets out the appointment of the paying agents, the registrar, the transfer agent and the agent bank for the Financing notes (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>paying agents</b>	the principal paying agent and the US paying agent
<b>payment holiday</b>	a period during which a borrower may suspend payments under a loan without penalty
<b>PECOH Holdings</b>	Permanent PECO Holdings Limited
<b>permitted redemption dates</b>	in respect of any class of Financing notes, the interest payment date on which those notes may be redeemed by Financing pursuant to the terms and conditions of the Financing notes (as further described in " <b>Terms and conditions of the offered Financing notes</b> ")
<b>portfolio</b>	at any time the loans and their related security sold to the mortgages trustee and held by the mortgages trustee on trust for the beneficiaries
<b>post-enforcement call option</b>	means the call option granted to Permanent PECO Holdings Limited in respect of the class B Financing notes and the class C Financing notes under the post-enforcement call option agreement
<b>post-enforcement call option agreement</b>	the agreement to be entered into on the closing date under which the note trustee agrees on behalf of the holders of the class B Financing notes and the class C Financing notes, that following enforcement of the Financing security, the post-enforcement call option holder may call for the class B Financing notes and the class C Financing notes (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>post-enforcement call option holder</b>	Permanent PECO Holdings Limited
<b>post-enforcement call option holder corporate services agreement</b>	an agreement entered into on the closing date between the post-enforcement call option holder, PECO Holdings, the corporate services provider, the share trustee and the security trustee which governs the provision of corporate services by the corporate services provider to the post-enforcement call option holder and PECO Holdings

<b>previous closing dates</b>	in respect of Permanent Financing (No. 1) PLC, 14 June 2002; in respect of Permanent Financing (No. 2) PLC, 6 March 2003; in respect of Permanent Financing (No. 3) PLC, 25 November 2003; in respect of Permanent Financing (No. 4) PLC, 12 March 2004; in respect of Permanent Financing (No. 5) PLC, 22 July 2004, in respect of Permanent Financing (No. 6) PLC, 18 November 2004, in respect of Permanent Financing (No.7) PLC, 23 March 2005 and in respect of Permanent Financing (No. 8) PLC, 22 June 2005
<b>previous intercompany loan agreement</b>	the previous intercompany loan agreement entered into on each previous closing date between Funding 1, the relevant previous issuing entity and the security trustee
<b>previous intercompany loans</b>	the loan of the previous term advances made by the previous issuing entities to Funding 1 each under the previous intercompany loan agreements
<b>previous issuing entity account bank</b>	Bank of Scotland
<b>previous issuing entities</b>	Permanent Financing (No. 1) PLC, Permanent Financing (No. 2) PLC, Permanent Financing (No. 3) PLC, Permanent Financing (No. 4) PLC, Permanent Financing (No. 5) PLC, Permanent Financing (No. 6) PLC, Permanent Financing (No. 7) PLC and Permanent Financing (No. 8) PLC
<b>previous issues</b>	the issue of the previous notes by each previous issuing entity
<b>previous noteholders</b>	the holders of previous notes, or any of them as the context requires
<b>previous notes</b>	any notes issued by a previous issuing entity
<b>previous series X term AAA advance</b>	a term AAA advance made by a previous issuing entity to Funding 1 under the applicable previous intercompany loan agreement with series designation that includes "X", where "X" is 1, 2, 3, 4, 5 or 6 (so that a series 5 term AAA advance includes any series 5A1 term AAA advance or series 5A2 term AAA advance)
<b>previous start-up loans</b>	each loan made by a previous start-up loan provider to Funding 1 under a previous start-up loan agreement
<b>previous start-up loan agreements</b>	each agreement entered into on a previous closing date between a previous start-up loan provider and Funding 1 under which a start-up loan was made by the relevant previous start-up loan provider to Funding 1
<b>previous start-up loan provider</b>	Halifax plc, in its capacities as provider of each previous start-up loan under the relevant previous start-up loan agreement
<b>previous swap agreements</b>	the swap agreements entered into between each of the previous issuing entities and the previous swap providers in relation to the previous swaps
<b>previous swap providers</b>	means in respect of (i) the first issuing entity, JPMorgan Chase Bank, National Association, Banque AIG or Credit Suisse First Boston International; (ii) the second issuing entity, CDC IXIS Capital Markets, JPMorgan Chase Bank, National Association or Banque AIG; (iii) the third issuing entity, Credit Suisse First Boston International, JPMorgan Chase Bank, National Association, Banque AIG or HBOS Treasury Services plc; (iv) the fourth issuing entity, Westdeutsche Landesbank Girozentrale

	AG, HBOS Treasury Services plc, Citibank N.A, Banque AIG or Swiss Re Financial Products Corporation; (v) the fifth issuing entity, Banque AIG, HBOS Treasury Services plc, Swiss Re Financial Products Corporation or UBS Limited; (vi) the sixth issuing entity, Swiss Re Financial Products Corporation, Banque AIG and Citibank N.A., London Branch; (vii) the seventh issuing entity, UBS Limited, Swiss Re Financial Products Corporation and Citibank, N.A., London Branch; (viii) the eighth issuing entity, UBS Limited, ABN AMRO Bank N.V., IXIS Corporate & Investment Bank, or in each case such other swap provider appointed from time to time in respect of the relevant previous notes issued by the relevant previous issuing entity
<b>previous swaps</b>	the dollar currency swaps, euro currency swaps and interest rate swaps entered into by the previous issuing entities under the previous swap agreements
<b>previous term X advances</b>	the advances made by the previous issuing entities to Funding 1 under previous intercompany loan agreements from the proceeds of issue of previous notes with a rating designation of "X" (where X is AAA, AA, A or BBB)
<b>previous term advances</b>	the term advances made under the previous intercompany loans, funded from the proceeds of the previous notes, as described in <b>"Description of the previous issuing entity, the previous notes and the previous intercompany loan"</b>
<b>principal deficiency ledger</b>	the ledger of such name maintained by the cash manager, comprising on the closing date four sub-ledgers, the AAA principal deficiency sub-ledger, the AA principal deficiency sub-ledger, the A principal deficiency sub-ledger and the BBB principal deficiency sub-ledger and which records any deficiency of principal (following a loss on a loan or the application of principal receipts to meet any deficiency in Funding 1 available revenue receipts) in respect of payments due under an intercompany loan
<b>principal ledger</b>	the ledger of such name maintained by the cash manager on behalf of the mortgages trustee pursuant to the cash management agreement to record principal receipts on the loans and payments of principal from the mortgages trustee GIC account to Funding 1 and the seller on each distribution date. Together the principal ledger and the revenue ledger reflect the aggregate of all amounts of cash standing to the credit of the mortgages trustee GIC account
<b>principal paying agent</b>	Citibank, N.A.
<b>principal receipts</b>	all principal amounts received from borrowers in respect of the loans or otherwise paid or recovered in respect of the loans and their related security representing monthly repayments of principal, prepayments of principal, redemption proceeds and amounts recovered on enforcement representing principal and prepayments on the loans made by borrowers (but excluding principal received or treated as received in respect of a loan subsequent to the completion of enforcement procedures and certain early repayment fees)
<b>product switch</b>	a variation to the financial terms and conditions of a loan other than:

- any variation agreed with a borrower to control or manage arrears on the loan;
- any variation to the interest rate as a result of borrowers switching to HVR 2;
- any variation in the maturity date of the loan unless, while the Financing intercompany loan is outstanding, it is extended beyond June 2040;
- any variation imposed by statute;
- any variation of the rate of interest payable in respect of the loan where that rate is offered to the borrowers of more than 10 per cent. by outstanding principal amount of loans in the portfolio in any interest period; or
- any variation in the frequency with which the interest payable in respect of the loan is charged

**purchase agreement**

the agreement to be entered into on or about the date of this offering circular between the initial purchasers and Financing relating to the sale of the offered Financing notes

**purpose-built**

in respect of a residential dwelling, built or made for such a residential purpose (as opposed to converted)

**quarterly CPR**

on any date means the average of the three most recent CPRs, where CPR is, on any normal calculation date, the annualised principal repayment rate of all the loans comprised in the trust property during the previous calculation period calculated as follows:

$$1 - ((1 - R) ^ 12)$$

where **R** equals the result (expressed as a percentage) of the total principal receipts received during the period of one month ending on that calculation date divided by the aggregate outstanding principal balance of the loans comprised in the trust property as at the first day of that period

**rating**

rating assigned by the rating agencies to the current notes or new notes

**rating agencies**

each of Moody's, Standard & Poor's and Fitch

**reasonable, prudent mortgage lender**

a reasonably prudent prime residential mortgage lender lending to borrowers in England, Wales and Scotland who generally satisfy the lending criteria of traditional sources of residential mortgage capital

**receiver**

a receiver appointed by the relevant security trustee pursuant to the Financing deed of charge and/or the Funding 1 deed of charge

**reference banks**

at the closing date, the London office of each of the following banks: ABN AMRO Bank N.V., Barclays Bank PLC, Citibank, N.A. and The Royal Bank of Scotland plc

**reference date**

19 January 2006

**registrar**

Citibank, N.A.

**regulated mortgage contract**

as defined in **"Risk factors – Failure by the seller or any servicer to hold relevant authorisations and permissions under FSMA in relation to regulated mortgage contracts may have an adverse effect on enforceability of mortgage contracts"**

<b>reinstatement</b>	in relation to a property that has been damaged, repairing or rebuilding that property to the condition that it was in prior to the occurrence of the damage
<b>related security</b>	in relation to a loan, the security for the repayment of that loan including the relevant mortgage and all other matters applicable thereto acquired as part of the portfolio sold to the mortgages trustee
<b>relevant accumulation amount</b>	the amount of funds to be accumulated over a cash accumulation period in order to repay a bullet term advance or a scheduled amortisation instalment on its scheduled repayment date whether or not actually repaid on that scheduled repayment date. On the closing date, the relevant accumulation amounts for term advances of Financing and each previous issuing entity are set out in the table under the caption “ <b>The mortgages trust – Cash management of trust property – principal receipts</b> ”
<b>relevant issuing entities</b>	the previous issuing entities, Financing and any new issuing entities, as applicable
<b>relevant share calculation date</b>	means the calculation date at the start of the most recently completed calculation period
<b>reserve funds</b>	the general reserve fund and the liquidity reserve fund
<b>revenue ledger</b>	the ledger(s) of such name created and maintained by the cash manager on behalf of the mortgages trustee pursuant to the cash management agreement to record revenue receipts on the loans and interest from the mortgages trustee GIC account and payments of revenue receipts from the mortgages trustee GIC account to Funding 1 and the seller on each distribution date. The revenue ledger and the principal ledger together reflect the aggregate of all amounts of cash standing to the credit of the mortgages trustee GIC account
<b>revenue receipts</b>	amounts received by the mortgages trustee in the mortgages trustee GIC account in respect of the loans other than principal receipts and third party amounts
<b>sale date</b>	means the date on which any new loans are sold to the mortgages trustee in accordance with clause 4 of the mortgage sale agreement
<b>scheduled amortisation instalment</b>	in respect of each term advance of Financing and each previous issuing entity designated as a ‘scheduled amortisation’ term advance in the table under the caption “ <b>The mortgages trust – Cash management of trust property – principal receipts</b> ”, the instalment amounts and repayment dates set out in such table, and in respect of each term advance of a new issuing entity designated as a ‘scheduled amortisation term advance’, the instalment amounts and repayment dates set out in the prospectus or other offering document relating to such new issuing entity
<b>scheduled amortisation repayment restrictions</b>	means at any time on a Funding 1 interest payment date: <ul style="list-style-type: none"> <li>(1) where there is not a bullet accumulation shortfall at that time, the total amount withdrawn from the cash accumulation ledger on that Funding 1 interest payment</li> </ul>

date for repayment of the relevant scheduled amortisation instalments shall not exceed the cash accumulation ledger amount less the bullet accumulation liability at that time; and

- (2) where there is a bullet accumulation shortfall at that time:
- (a) no amount may be withdrawn from the cash accumulation ledger on that Funding 1 interest payment date to be applied in repayment of the relevant scheduled amortisation instalments; and
  - (b) no amount may be applied in repayment of the relevant scheduled amortisation instalments unless:
    - (i) the sum of the cash accumulation ledger amount and the amount of Funding 1 available principal receipts after the application of items (A), (B) and (C) and before (D) of the priority of payments described in **“Cashflows – Distribution of Funding 1 available principal receipts – Repayment of all term advances before a trigger event and before intercompany loan acceleration or acceleration of all notes”**

is greater than or equal to

- (ii) the sum of the bullet accumulation liability and the aggregate amount of scheduled amortisation instalments which are due and payable as at that time

**scheduled amortisation term advance**

any term advance that is scheduled to be repaid in instalments on more than one Funding 1 interest payment date, namely those term advances of Financing and each previous issuing entity designated as a “scheduled amortisation” term advance in the table under the caption **“The mortgages trust – Cash management of trust property – principal receipts”** and any term advance which is referred to as such in the prospectus or other offering document relating to any new issuing entity.

Scheduled amortisation term advances will be deemed to be pass-through term advances if:

- a trigger event occurs;
- the Funding 1 security is enforced; or
- the Financing security is enforced

**scheduled redemption dates**

- (a) in respect of the series 1 class A Financing notes, the interest payment date in March 2007;
- (b) in respect of the series 2 class A Financing notes, the interest payment date in March 2009;
- (c) in respect of the series 3 class A Financing notes, the interest payment dates in December 2010 and March 2011; and
- (d) in respect of the series 4 class A Financing notes, the interest payment dates in June 2011 and September 2011;

**scheduled repayment dates**

- (a) in respect of the series 1 term AAA advance, the interest payment date in March 2007;
- (b) in respect of the series 2 term AAA advance, the interest payment date in March 2009;



- (c) in respect of the series 3 term AAA advance, the interest payment dates in December 2010 and March 2011;
- (d) in respect of the series 4 term AAA advance, the interest payment dates in June 2011 and September 2011;
- (e) in respect of each previous term advance made by a previous issuing entity, the interest payment date falling in the month indicated for such previous term advance in "Description of the previous issuing entity, the previous notes and the previous intercompany loan";
- (f) in respect of any new term advance which is intended to be a scheduled amortisation term advance, the scheduled repayment dates for those scheduled amortisation term advances; and
- (g) in respect of any new term advance which is intended to be a bullet term advance, the scheduled repayment date of that bullet term advance

<b>Scottish declarations of trust</b>	the declarations of trust granted and to be granted by the seller in favour of the mortgages trustee pursuant to the mortgage sale agreement transferring the beneficial interest in Scottish loans to the mortgages trustee
<b>Scottish loan</b>	a loan secured by a Scottish mortgage
<b>Scottish mortgage</b>	a mortgage secured over a property in Scotland
<b>Scottish mortgage conditions</b>	the mortgage conditions applicable to Scottish loans
<b>SEC</b>	The United States Securities and Exchange Commission
<b>second issuing entity</b>	Permanent Financing (No. 2) PLC
<b>second supplemental Funding 1 deed of charge</b>	the deed entered into on 12 March 2004 between, among others, Funding 1 and the security trustee
<b>security trustee</b>	The Bank of New York
<b>seller</b>	Halifax
<b>seller's policy</b>	the originating, underwriting, administration, arrears and enforcement policy applied by the seller from time to time to loans and their related security owned solely by the seller
<b>seller share</b>	the seller share of the trust property from time to time as calculated on each calculation date
<b>seller share percentage</b>	the seller share percentage of the trust property from time to time as calculated on each calculation date
<b>semi-detached</b>	a house joined to another house on one side only
<b>senior expenses</b>	amounts ranking in priority to interest due on the term advances
<b>series X class Y Financing notes</b>	the Financing notes with a series designation of "X" (where X is 1, 2, 3, 4 or 5) and a class designation of "Y" (where Y is A, B or C), as described in the tables under " <b>Summary of offering circular – Summary of the Financing notes</b> ", <i>provided</i> that a reference to series X class A Financing notes includes a reference to class A1 and class A2 notes, if any, of that series
<b>series X class Y previous notes</b>	any previous notes with a series designation of "X" (where X is 1, 2, 3, 4, 5 or 6) and a class designation of "Y" (where Y is A, B, M or C); <i>provided</i> that a reference to series X class A previous notes includes a reference to class A1 and class A2 previous notes, if any, of that series

<b>series X class Y Financing swap</b>	the Financing dollar currency or euro currency or interest rate swap entered into in relation to the Financing notes with a series designation of “X” (where X is 1, 2, 3 or 4) and a class designation of “Y” (where Y is A, B or C)
<b>series X Financing notes</b>	all Financing notes with a series designation of “X” (where X is 1, 2, 3, 4 or 5), irrespective of their class designation
<b>series X term Y advance</b>	the term advance under the Financing intercompany loan with a series designation of “X” (where X is 1, 2, 3 or 4) and a rating designation of “Y” (where Y is AAA, AA or BBB), which the characteristics described in the table under “ <b>The Financing intercompany loan agreement</b> ”
<b>series 1 Financing swap provider</b>	Danske Bank A/S London Branch, or such other swap provider appointed from time to time in relation to the series 1 Financing notes
<b>series 2 Financing swap provider</b>	Danske Bank A/S London Branch, or such other swap provider appointed from time to time in relation to the series 2 Financing notes
<b>series 3 Financing swap provider</b>	IXIS Corporate & Investment Bank, or such other swap provider appointed from time to time in relation to the series 3 Financing notes
<b>series 4 Financing swap provider</b>	Citibank, N.A., London Branch, or such other swap provider appointed from time to time in relation to the series 4 Financing notes
<b>servicer</b>	Halifax or such other person as may from time to time be appointed as servicer of the portfolio pursuant to the servicing agreement
<b>servicing agreement</b>	the agreement entered into on the initial closing date (as amended, restated, supplemented, replaced and/or novated from time to time) between the servicer, the mortgages trustee, the seller, the security trustee and Funding 1 under which the servicer agrees to administer the loans and their related security comprised in the portfolio, as described further in “ <b>The servicing agreement</b> ”
<b>seventh issuing entity</b>	Permanent Financing (No. 7) PLC
<b>shortfall</b>	the deficiency of Funding 1 available income receipts on a Funding 1 interest payment date over the amounts due by Funding 1 under the Funding 1 pre-enforcement revenue priority of payments
<b>sixth issuing entity</b>	Permanent Financing (No. 6) PLC
<b>specified minimum rate</b>	the rate specified in the offer conditions
<b>Standard &amp; Poor’s</b>	Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. and any successor to its ratings business
<b>St Andrew’s Insurance</b>	means St Andrew’s Insurance plc, a non-life insurance company incorporated on 15 September 2003, whose office is at St Andrew’s House, Portsmouth Road, Esher, Surrey
<b>start-up loan agreements</b>	each previous start-up loan agreement, the Financing start-up loan agreement and any new start-up loan agreements
<b>start-up loan provider</b>	Halifax plc, in its capacities as provider of each start-up loan
<b>start-up loans</b>	each previous start-up loan, the Financing start-up loan and any new start-up loan

<b>step-up date</b>	means (i) in relation to the term advances, the Funding 1 interest payment date on which the interest rate on the relevant term advances under any intercompany loan increases by a pre-determined amount and (ii) in relation to the notes, the Funding 1 interest payment date on which the interest rate on the relevant notes increases by a pre-determined amount
<b>subscription agreement</b>	a subscription agreement in relation to the series 4 Financing notes and the series 5 Financing notes between, among others, Financing and the managers
<b>swap early termination event</b>	a circumstance in which a swap agreement can be terminated prior to its scheduled termination date
<b>swap agreements</b>	the Funding 1 swap agreement and the Financing swap agreements and a <b>swap agreement</b> means any one of them
<b>swap providers</b>	the Funding 1 swap provider and the Financing currency swap providers and a <b>swap provider</b> means any one of them
<b>TARGET business day</b>	a day on which the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) System is open
<b>term X advances</b>	the previous term advances, the Financing term advances and any new term advances made by a new issuing entity to Funding 1, in each case that have a rating designation of “X” or its equivalent (where X is AAA, AA, A or BBB)
<b>term advances</b>	the term AAA advances, the term AA advances , the term A advances and the term BBB advances outstanding from time to time
<b>terraced</b>	a house in a row of houses built in one block in a uniform style
<b>third issuing entity</b>	Permanent Financing (No. 3) PLC
<b>third party amounts</b>	includes: <ul style="list-style-type: none"> <li>(a) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup that amount itself from its customer’s account;</li> <li>(b) payments by borrowers of any fees and other charges which are due to the seller; or</li> <li>(c) recoveries in respect of amounts deducted from loans as described in paragraphs (1) to (4) in “<b>The mortgages trust – Funding 1 share of trust property</b>”, which shall belong to and be paid to Funding 1 and/or the seller as described therein</li> </ul>
<b>tracker rate</b>	the rate of interest applicable to a tracker rate loan (before applying any cap or minimum rate)
<b>tracker rate loan</b>	a loan where interest is linked to a variable interest rate other than the variable base rates. The rate on tracker rate loans is currently set at a margin by reference to rates set by the Bank of England
<b>transaction documents</b>	the Financing transaction documents and other documents relating to the Financing notes, the previous intercompany loan agreements, the previous start-up loan agreements, the previous swap agreements, other documents relating to the issue of previous notes by the previous issuing entities and any new intercompany loan agreements, new start-up loan agreements,

	new swap agreements, new Funding 1 swap agreements and other documents relating to issues of new notes by new issuing entities
<b>transfer agent</b>	Citibank, N.A.
<b>trigger event</b>	an asset trigger event and/or a non-asset trigger event
<b>trust deed</b>	the principal agreement to be entered into on the closing date governing the Financing notes, as further described in “ <b>Description of the trust deed</b> ”
<b>trust property</b>	includes: <ul style="list-style-type: none"> <li>(a) the sum of £100 settled by SFM Corporate Services Limited on trust on the date of the mortgage trust deed;</li> <li>(b) the portfolio of loans and their related security sold to the mortgages trustee by the seller at their relevant sale dates;</li> <li>(c) any new loans and their related security sold to the mortgages trustee by the seller after the closing date;</li> <li>(d) any increase in the outstanding principal balance of a loan due to a borrower taking payment holidays or making underpayments under a loan or a borrower making a drawing under any flexible loan;</li> <li>(e) any interest and principal paid by borrowers on their loans;</li> <li>(f) any other amounts received under the loans and related security (excluding third party amounts);</li> <li>(g) rights under the insurance policies that are assigned to the mortgages trustee or which the mortgages trustee has the benefit of; and</li> <li>(h) amounts on deposit and interest earned on such amounts in the mortgages trustee GIC account;</li> </ul> <p>less</p> <ul style="list-style-type: none"> <li>(i) any actual losses in relation to the loans and any actual reductions occurring in respect of the loans as described in paragraph (1) in “<b>The Mortgages Trust – Funding 1 share of trust property</b>”; and</li> <li>(j) distributions of principal made from time to time to the beneficiaries of the mortgages trust</li> </ul>
<b>underpayment</b>	a payment made by a borrower in an amount less than the monthly payment then due on the loan being a sum not exceeding the aggregate of any previous overpayments
<b>UK Listing Authority</b>	the FSA in its capacity as competent authority under part VI of the FSMA
<b>United States holder</b>	a beneficial owner of offered Financing notes who is for US federal income tax purposes: <ul style="list-style-type: none"> <li>(a) a citizen or resident of the United States;</li> <li>(b) a corporation (or other entity treated as a corporation) or partnership created or organised in or under the laws of the United States or any state thereof (including the District of Columbia);</li> <li>(c) any estate, the income of which is subject to US federal income tax regardless of the source of its income; or</li> </ul>

- (d) any trust if: (i) a court within the United States is able to exercise primary supervision over the administration of the trust; and (ii) one or more US persons have the authority to control all substantial decisions of the trust

**US paying agent**

**USD-LIBOR**

Citibank, N.A.

the London Interbank Offered Rate for dollar deposits, as determined by the agent bank on the following basis:

- (a) on the applicable interest determination date applicable to the series 1 Financing notes the series 2 Financing notes and the series 3 Financing notes, the agent bank will determine the arithmetic mean, rounded upwards to five decimal places, of the offered quotations to leading banks for US dollar deposits for the relevant period. The USD-LIBOR for the first interest period shall be (in the case of the series 1 class A Financing notes) the linear interpolation of the arithmetic mean of such offered quotations for two-week and one-month US dollar deposits and (in all other cases) the linear interpolation of the arithmetic mean of such offered quotations for two-month and three-month US dollar deposits (rounded upwards, if necessary, to five decimal places).

This will be determined by reference to the display as quoted on the Moneyline Telerate Screen No. 3750. If the Telerate Screen No. 3750 stops providing these quotations, the replacement service for the purposes of displaying this information will be used. If the replacement service stops displaying the information, another page as determined by Financing with the approval of the note trustee will be used. In each of these cases, the determination will be made as at or about 11.00 a.m., London time, on that date. This is called the screen rate for the series 1 Financing notes and the series 2 Financing notes;

- (b) if, on any such interest determination date, the 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 US dollar deposits of the equivalent amount and for the relevant period, in the London inter-bank market as at or about 11.00 a.m. (London time); and

calculate the arithmetic mean, rounded upwards to five decimal places, of those quotations;

- (c) if, on any such interest determination date, the screen rate is unavailable and only two or three of the reference banks provide offered quotations, the relevant rate for that interest period will be the arithmetic mean of the quotations as calculated in (b); and
- (d) if, on any such interest determination date, fewer than two reference banks provide quotations, the agent bank will consult with the note trustee and Financing for the purpose of agreeing a total of two banks to provide such quotations and the relevant rate for that interest period will be the arithmetic mean of the quotations as calculated in (b). If no

	such banks are agreed then the relevant rate for that interest period will be the rate in effect for the last preceding interest period for which (a) or (b) was applicable
<b>valuation</b>	a methodology for determining the value of a property which would meet the standards of a reasonable, prudent mortgage lender (as referred to under “ <b>The servicing agreement – Undertakings by the servicer</b> ”)
<b>valuation fee</b>	a fee incurred by borrowers as a result of the seller or servicer obtaining a valuation of the property
<b>variable base rates</b>	HVR 1, HVR 2 or the mortgages trustee variable base rate, as applicable
<b>variable mortgage rate</b>	the rate of interest which determines the amount of interest payable each month on a variable rate loan
<b>variable rate loan</b>	a loan where the interest rate payable by the borrower varies in accordance with a specified variable mortgage rate
<b>VAT</b>	value added tax
<b>we and us</b>	Funding 1
<b>withholding tax</b>	a tax levied under UK law, as further described in “ <b>United Kingdom taxation – Withholding tax</b> ”

## Annex A

The following is an extract from the most recent report on Form 6-K for each of the previous issuing entities, Funding 1 and the mortgages trustee, as filed with the SEC on 1 February, 2006. Although each previous issuing entity is required to file such a report with the SEC because its respective previous notes are registered with the SEC, while Financing is not so required, this extract is included here for the benefit of potential investors because it describes certain aspects of the mortgage loans in the mortgages trust during the period from 12 December, 2006 to 10 March, 2006.

**Quarter 12 December, to 10 March, 2006**

**Monthly Report – January 2006**

**Date of Report 6 February, 2006**

### Mortgages

Number of Mortgages in Pool .....	555,456
Current Principal Balance .....	£39,024,533,085
Opening Trust Assets .....	£100
<b>Total .....</b>	<b>£39,024,533,185</b>
Notes Outstanding .....	£28,694,505,952
Funding Share.....	£26,885,421,645
Cash Accumulation Balance .....	£1,809,084,307
Funding Share Percentage .....	68.89637%
Seller Share .....	£12,139,111,440
Seller Share Percentage.....	31.10363%
Minimum Seller Share (Amount).....	£1,954,718,060
Minimum Seller Share (% of Total).....	5.00895%

<b>Arrears Analysis</b>	<b>Number</b>	<b>Principal</b>	<b>Arrears</b>	<b>% by Principal</b>
Less than 1 month.....	544,400	£38,060,779,085.27	£2,024,052.24	97.53%
1 – <2 months.....	5,675	£487,503,971.32	£3,607,045.97	1.25%
2 – <3 months.....	1,828	£158,401,254.38	£2,287,768.98	0.41%
3 – <6 months.....	2,203	£196,163,776.13	£5,038,186.19	0.50%
6 – <12 months.....	1,110	£102,820,850.11	£4,914,146.10	0.26%
12 months + .....	240	£18,864,147.78	£1,670,277.29	0.05%
<b>Total .....</b>	<b>555,456</b>	<b>£39,024,533,084.99</b>	<b>£19,541,476.77</b>	<b>100.00%</b>

<b>Properties in Possession</b>	<b>Number</b>	<b>Balance</b>	<b>Amount in Arrears</b>
Total .....	74	£6,387,795.62	£477,971.35

**Properties in Possession (this month)**

Number Brought Forward .....	60
Repossessed .....	22
Sold .....	7
Relinquished .....	1
Number Carried Forward .....	74
Average Time from Possession to Sale in days .....	110
Average Arrears Sale .....	£5,393.89
MIG Claims submitted .....	0
MIG Claims Outstanding .....	0
Average Time from Claim to Payment in days .....	0

Note: The arrears analysis and repossession information is as at the end of the report month

<b>Substitution</b>	<b>Number</b>	<b>Principal</b>
Substituted this period (this month) .....	0	£ —
Substituted this period (since 14/06/2002)* .....	269,422	£19,948,880,951.42

\* On 23rd March 2005, Permanent 7 closed. The Permanent Trust was topped-up by 70,542 accounts (to value: £6,625,343,617.12). These are not included above.

<b>CPR Analysis</b>	<b>Monthly</b>	<b>Annualised</b>
<b>(includes redemptions and repurchases)</b>		
Current 1 Month CPR Rate .....	2.94%	30.11%
Previous 3 Month CPR Rate .....	3.38%	33.79%
Previous 12 Month CPR Rate .....	3.14%	31.84%

Note: The annualised CPRs are expressed as a percentage of the outstanding balance at the beginning of the report month.

Weighted Average Seasoning in Months (by value) .....	34.77
Average Loan Size .....	£70,256.75
Weighted Average Current HPI LTV (by value) .....	50.82%
Weighted Average Current LTV (by value) .....	60.92%

**Yield Net of Funding Swap over 3 Month Sterling LIBOR**

Current Month .....	0.607%
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**Excess Spread**

January 2006 .....	0.311%
December 2005 .....	0.315%
November 2005 .....	0.337%

**Product Breakdown**

Fixed Rate % .....	38.36%
Tracker Rate % .....	44.92%
Other Variable Rate % .....	16.72%



<b>LTV Levels Breakdown*</b>	<b>Number</b>	<b>Value</b>	<b>% of Total</b>
0-30% .....	117,147	£3,443,942,672.07	8.83%
30-35% .....	30,662	£1,607,318,337.59	4.12%
35-40% .....	32,787	£1,926,921,302.88	4.94%
40-45% .....	34,536	£2,234,746,639.21	5.73%
45-50% .....	36,326	£2,579,693,430.34	6.61%
50-55% .....	36,797	£2,818,979,900.66	7.22%
55-60% .....	36,768	£3,064,550,840.67	7.85%
60-65% .....	37,508	£3,340,408,397.00	8.56%
65-70% .....	38,334	£3,596,582,239.04	9.22%
70-75% .....	40,359	£4,159,667,178.56	10.66%
75-80% .....	26,971	£2,503,198,401.92	6.41%
80-85% .....	24,116	£2,032,650,680.15	5.21%
85-90% .....	26,902	£2,407,817,307.67	6.17%
90-95% .....	20,521	£1,832,145,748.34	4.69%
95-100% .....	14,930	£1,409,474,989.01	3.61%
100% + .....	792	£66,435,019.88	0.17%
<b>Totals .....</b>	<b>555,456</b>	<b>£39,024,533,084.99</b>	<b>100.00%</b>

\* Using Latest Valuation

<b>HPI LTV Levels Breakdown**</b>	<b>Number</b>	<b>Value</b>	<b>% of Total</b>
0-30% .....	192,170	£6,539,876,197.84	16.76%
30-35% .....	49,543	£2,826,587,349.75	7.24%
35-40% .....	49,924	£3,188,200,622.07	8.17%
40-45% .....	44,371	£3,224,372,334.63	8.26%
45-50% .....	39,413	£3,252,657,277.80	8.33%
50-55% .....	36,087	£3,288,992,830.48	8.43%
55-60% .....	32,175	£3,246,956,487.13	8.32%
60-65% .....	29,036	£3,224,814,111.43	8.26%
65-70% .....	25,450	£3,059,324,606.71	7.84%
70-75% .....	18,217	£2,311,402,853.35	5.92%
75-80% .....	12,223	£1,469,391,186.57	3.77%
80-85% .....	11,059	£1,416,634,027.05	3.63%
85-90% .....	9,055	£1,146,243,128.36	2.94%
90-95% .....	4,931	£615,578,858.50	1.58%
95-100% .....	1,727	£205,357,098.54	0.53%
100% + .....	75	£8,144,114.78	0.02%
<b>Totals .....</b>	<b>555,456</b>	<b>£39,024,533,084.99</b>	<b>100.00%</b>

\*\* Using Latest Valuation Adjusted for changes in the HPI index

Current HVR1 Rate .....	6.50%
Effective Date of Change .....	09/01/2005
Current HVR2 Rate .....	5.75%
Effective Date of Change .....	09/01/2005

Notes	Deal	Rating Moody's/ S&P/ Fitch)	Outstanding	Reference Rate	Margin
Series 1 Class A	Permanent Financing No.7	P-1 / A-1+ / F1+	\$1,100,000,000.00	4.42000%	-0.040%
Series 1 Class A	Permanent Financing No.8	P-1 / A-1+ / F1+	\$1,400,000,000.00	4.42000%	-0.040%
Series 1 Class B	Permanent Financing No.7	Aa3 / AA / AA	\$43,400,000.00	4.48000%	0.090%
Series 1 Class B	Permanent Financing No.8	Aa3 / AA / AA	\$72,700,000.00	4.48000%	0.100%
Series 1 Class B	Permanent Financing No.7	Baa2 / BBB / BBB	\$42,200,000.00	4.48000%	0.280%
Series 1 Class B	Permanent Financing No.8	Baa2 / BBB / BBB	\$82,900,000.00	4.48000%	0.330%
Series 1 Class C	Permanent Financing No.8	Baa2 / BBB / BBB	\$82,900,000.00	4.48000%	0.330%
Series 2 Class A	Permanent Financing No.3	Aaa / AAA / AAA	\$1,700,000,000.00	4.48000%	0.110%
Series 2 Class A	Permanent Financing No.4	Aaa / AAA / AAA	\$2,400,000,000.00	4.48000%	0.070%
Series 2 Class A	Permanent Financing No.5	Aaa / AAA / AAA	\$1,300,000,000.00	4.48000%	0.110%
Series 2 Class A	Permanent Financing No.6	Aaa / AAA / AAA	\$1,000,000,000.00	4.48000%	0.090%
Series 2 Class A	Permanent Financing No.7	Aaa / AAA / AAA	\$1,400,000,000.00	4.48000%	0.040%
Series 2 Class A	Permanent Financing No.8	Aaa / AAA / AAA	\$1,400,000,000.00	4.48000%	0.070%
Series 2 Class B	Permanent Financing No.3	Aa3 / AA / AA	\$59,000,000.00	4.48000%	0.250%
Series 2 Class B	Permanent Financing No.4	Aa3 / AA / AA	\$100,700,000.00	4.48000%	0.180%
Series 2 Class B	Permanent Financing No.5	Aa3 / AA / AA	\$56,400,000.00	4.48000%	0.180%
Series 2 Class B	Permanent Financing No.6	Aa3 / AA / AA	\$35,800,000.00	4.48000%	0.140%
Series 2 Class B	Permanent Financing No.7	Aa3 / AA / AA	\$60,700,000.00	4.48000%	0.110%
Series 2 Class B	Permanent Financing No.8	Aa3 / AA / AA	\$69,800,000.00	4.48000%	0.150%
Series 2 Class M	Permanent Financing No.4	A2/A/A	\$59,900,000.00	4.48000%	0.330%
Series 2 Class C	Permanent Financing No.3	Baa2 / BBB / BBB	\$59,000,000.00	4.48000%	1.050%
Series 2 Class C	Permanent Financing No.4	Baa2 / BBB / BBB	\$82,200,000.00	4.48000%	0.720%
Series 2 Class C	Permanent Financing No.5	Baa2 / BBB / BBB	\$46,200,000.00	4.48000%	0.650%
Series 2 Class C	Permanent Financing No.6	Baa2 / BBB / BBB	\$34,700,000.00	4.48000%	0.450%
Series 2 Class C	Permanent Financing No.7	Baa2 / BBB / BBB	\$59,200,000.00	4.48000%	0.330%
Series 2 Class C	Permanent Financing No.8	Baa2 / BBB / BBB	\$82,900,000.00	4.48000%	0.400%
Series 3 Class A	Permanent Financing No.2	Aaa / AAA / AAA	€1,250,000,000.00	2.45200%	0.230%
Series 3 Class A	Permanent Financing No.3	Aaa / AAA / AAA	\$1,500,000,000.00	4.48000%	0.180%
Series 3 Class A	Permanent Financing No.4	Aaa / AAA / AAA	\$1,700,000,000.00	4.48000%	0.140%
Series 3 Class A	Permanent Financing No.5	Aaa / AAA / AAA	\$750,000,000.00	4.48000%	0.160%
Series 3 Class A	Permanent Financing No.6	Aaa / AAA / AAA	£1,000,000,000.00	4.64125%	0.125%
Series 3 Class A	Permanent Financing No.7	Aaa / AAA / AAA	€1,700,000,000.00	2.45200%	0.070%
Series 3 Class A	Permanent Financing No.8	Aaa / AAA / AAA	\$1,000,000,000.00	4.48000%	0.120%
Series 3 Class B	Permanent Financing No.1	Aa3 / AA / AA	\$38,500,000.00	4.48000%	0.300%
Series 3 Class B	Permanent Financing No.2	Aa3 / AA / AA	€43,500,000.00	2.45200%	0.430%
Series 3 Class B	Permanent Financing No.3	Aa3 / AA / AA	\$52,000,000.00	4.48000%	0.350%
Series 3 Class B	Permanent Financing No.4	Aa3 / AA / AA	\$75,800,000.00	4.48000%	0.230%
Series 3 Class B	Permanent Financing No.5	Aa3 / AA / AA	\$32,500,000.00	4.48000%	0.260%
Series 3 Class B	Permanent Financing No.6	Aa3 / AA / AA	\$35,300,000.00	4.64125%	0.230%
Series 3 Class B	Permanent Financing No.7	Aa3 / AA / AA	€73,700,000.00	2.45200%	0.120%
Series 3 Class B	Permanent Financing No.8	Aa3 / AA / AA	\$52,000,000.00	4.48000%	0.200%
Series 3 Class M	Permanent Financing No.4	A2 / AA / AA	\$40,400,000.00	4.48000%	0.370%
Series 3 Class C	Permanent Financing No.1	Baa2 / BBB / BBB	\$38,500,000.00	4.48000%	1.200%
Series 3 Class C	Permanent Financing No.2	Baa2 / BBB / BBB	€43,500,000.00	2.45200%	1.450%
Series 3 Class C	Permanent Financing No.3	Baa2 / BBB / BBB	\$52,000,000.00	4.48000%	0.150%
Series 3 Class C	Permanent Financing No.4	Baa2 / BBB / BBB	\$55,400,000.00	4.48000%	0.800%
Series 3 Class C	Permanent Financing No.5	Baa2 / BBB / BBB	\$27,000,000.00	4.48000%	0.820%
Series 3 Class C	Permanent Financing No.6	Baa2 / BBB / BBB	\$34,200,000.00	4.64125%	0.680%
Series 3 Class C	Permanent Financing No.7	Baa2 / BBB / BBB	€71,800,000.00	2.45200%	0.430%
Series 3 Class C	Permanent Financing No.8	Baa2 / BBB / BBB	\$40,400,000.00	4.48000%	0.520%
Series 4 Class A1	Permanent Financing No.1	Aaa / AAA / AAA	€750,000,000.00		5.100%
Series 4 Class A1	Permanent Financing No.3	Aaa / AAA / AAA	€700,000,000.00	2.45200%	0.190%
Series 4 Class A	Permanent Financing No.2	Aaa / AAA / AAA	£1,750,000,000.00	4.48000%	0.220%
Series 4 Class A	Permanent Financing No.4	Aaa / AAA / AAA	€1,500,000,000.00	2.45200%	0.150%
Series 4 Class A	Permanent Financing No.5	Aaa / AAA / AAA	€1,000,000,000.00	2.45200%	0.170%
Series 4 Class A	Permanent Financing No.6	Aaa / AAA / AAA	€750,000,000.00	2.45200%	1.140%
Series 4 Class A	Permanent Financing No.7	Aaa / AAA / AAA	€850,000,000.00	4.64125%	0.080%
Series 4 Class A	Permanent Financing No.8	Aaa / AAA / AAA	€1,000,000,000.00	2.45200%	0.130%
Series 4 Class A2	Permanent Financing No.1	Aaa / AAA / AAA	£1,000,000,000.00	4.64125%	0.180%
Series 4 Class A2	Permanent Financing No.3	Aaa / AAA / AAA	€750,000,000.00	4.64125%	0.190%
Series 4 Class B	Permanent Financing No.1	Aa3 / AA / AA	£52,000,000.00	4.64125%	0.300%
Series 4 Class B	Permanent Financing No.2	Aa3 / AA / AA	€56,500,000.00	2.45200%	0.450%
Series 4 Class B	Permanent Financing No.3	Aa3 / AA / AA	€62,000,000.00	2.45200%	0.390%
Series 4 Class B	Permanent Financing No.4	Aa3 / AA / AA	€85,000,000.00	2.45200%	0.352%
Series 4 Class B	Permanent Financing No.5	Aa3 / AA / AA	€43,500,000.00	2.45200%	0.330%
Series 4 Class B	Permanent Financing No.6	Aa3 / AA / AA	€26,100,000.00	2.45200%	0.230%

Notes	Deal	Rating Moody's/ S&P/ Fitch)	Outstanding	Reference Rate	Margin
Series 4 Class B	Permanent Financing No.7	Aa3 / AA / AA	£36,800,000.00	4.64125%	0.130%
Series 4 Class B	Permanent Financing No.8	Aa3 / AA / AA	€47,200,000.00	2.45200%	0.200%
Series 4 Class M	Permanent Financing No.4	A2 / A / A	£62,500,000.00	2.45200%	0.534%
Series 4 Class C	Permanent Financing No.1	Baa2 / BBB / BBB	£52,000,000.00	4.64125%	1.200%
Series 4 Class C	Permanent Financing No.2	Baa2 / BBB / BBB	€56,500,000.00	2.45200%	1.450%
Series 5 Class C	Permanent Financing No.3	Baa2 / BBB / BBB	€62,000,000.00	2.45200%	1.180%
Series 4 Class C	Permanent Financing No.5	Baa2 / BBB / BBB	€36,000,000.00	2.45200%	0.780%
Series 4 Class C	Permanent Financing No.6	Baa2 / BBB / BBB	€25,300,000.00	2.45200%	0.680%
Series 4 Class C	Permanent Financing No.7	Baa2 / BBB / BBB	£35,900,000.00	4.64125%	0.450%
Series 4 Class C	Permanent Financing No.8	Baa2 / BBB / BBB	€65,700,000.00	2.45200%	0.520%
Series 5 Class A1	Permanent Financing No.4	Aaa / AAA / AAA	€750,000,000.00		3.962%
Series 5 Class A1	Permanent Financing No.5	Aaa / AAA / AAA	€500,000,000.00		5.625%
Series 5 Class A1	Permanent Financing No.6	Aaa / AAA / AAA	£500,000,000.00	4.64125%	0.150%
Series 5 Class A1	Permanent Financing No.8	Aaa / AAA / AAA	£400,000,000.00	4.64125%	0.150%
Series 5 Class A	Permanent Financing No.2	Aaa / AAA / AAA	£750,000,000.00	4.64125%	0.250%
Series 5 Class A	Permanent Financing No.3	Aaa / AAA / AAA	£400,000,000.00		5.521%
Series 5 Class A	Permanent Financing No.7	Aaa / AAA / AAA	£500,000,000.00	4.64125%	0.100%
Series 5 Class A2	Permanent Financing No.4	Aaa / AAA / AAA	£1,100,000,000.00	4.64125%	0.170%
Series 5 Class A2	Permanent Financing No.5	Aaa / AAA / AAA	£750,000,000.00	4.64125%	0.190%
Series 5 Class A2	Permanent Financing No.6	Aaa / AAA / AAA	£500,000,000.00	4.64125%	0.160%
Series 5 Class A2	Permanent Financing No.8	Aaa / AAA / AAA	£600,000,000.00	4.64125%	0.150%
Series 5 Class A3	Permanent Financing No.8	Aaa / AAA / AAA	£500,000,000.00	4.64125%	0.150%
Series 5 Class B	Permanent Financing No.2	Aa3 / AA / AA	£26,000,000.00	4.64125%	0.450%
Series 5 Class B	Permanent Financing No.3	Aa3 / AA / AA	€20,000,000.00	2.45200%	0.450%
Series 5 Class B	Permanent Financing No.4	Aa3 / AA / AA	£43,000,000.00	4.64125%	0.330%
Series 5 Class B	Permanent Financing No.5	Aa3/AA/AA	£47,000,000.00	4.64125%	0.350%
Series 5 Class B	Permanent Financing No.6	Aa3/AA/AA	£34,800,000.00	4.64125%	0.310%
Series 5 Class M	Permanent Financing No.4	A2 / A / A	£32,000,000.00	4.64125%	0.500%
Series 5 Class C	Permanent Financing No.2	Baa2 / BBB / BBB	£26,000,000.00	4.64125%	1.450%
Series 5 Class C	Permanent Financing No.3	Baa2 / BBB / BBB	€20,000,000.00	2.45200%	1.230%
Series 5 Class C	Permanent Financing No.4	Baa2 / BBB / BBB	£54,000,000.00	4.64125%	0.900%
Series 5 Class C	Permanent Financing No.5	Baa2 / BBB / BBB	£39,000,000.00	4.64125%	0.850%
Series 5 Class C	Permanent Financing No.6	Baa2 / BBB / BBB	£33,700,000.00	4.64125%	0.800%

Funding Level Reserve Fund Requirement	£525,000,000.00
Balance brought forward	£481,251,067.28
Drawings this period	£—
Top-up this period* .....	£—
Current Balance .....	£481,251,067.28
Liquidity Facility Original Amount.....	£150,000,000.00
Balance brought forward.....	£150,000,000.00
Drawings this period .....	£—
Liquidity Repaid this period.....	£—
Closing balance for period .....	£150,000,000.00

\* Top-ups only occur at the end of each quarter.

### Trigger Events:

#### Non-asset trigger events:

- If the Seller suffers an Insolvency Event.
- If the role of the Seller as Servicer is terminated and a new servicer is not appointed within 60\* days.
- If the current Seller's Share at any time is equal to or less than the Minimum Seller Share.
- If the outstanding principal balance of the trust property is less than £31,000,000,000 to 9th September, 2008.

\* S/C This should be 30 days

*Asset trigger events:*

- If there has been a debit to the AAA Principal Deficiency Sub-Ledger.

**No Trigger Events have occurred**  
**FUNDING SELLER SHARE LEDGER**

Month	Pool Balance	Funding Share	Seller Share	Funding	Seller
January 2006 .....	£40,202,880,185.30	£26,885,427,930.37	£13,317,452,254.93	66.87692%	33.12308%
December 2005.....	£35,698,404,357.34	£28,171,210,696.98	£7,527,193,660.36	78.91761%	21.08239%
November 2005.....	£37,006,419,471.27	£28,171,272,867.60	£8,835,146,603.67	76.12853%	23.87147%

**PRINCIPAL LEDGER**

Month	Principal Received	Further Advances	Sub Total
January 2006 .....	£928,353,217.16	£254,225,087.05	£1,182,578,304.21
December 2005 .....	£1,023,242,897.59	£277,132,118.21	£1,300,375,015.80
November 2005 .....	£1,034,367,646.04	£279,445,456.02	£1,313,813,102.06
	<u>£2,985,963,760.79</u>	<u>£810,802,661.28</u>	<u>£3,796,766,422.07</u>

**PRINCIPAL DISTRIBUTION**

Month	Funding	Seller
January 2006 .....	£—	£1,182,578,304.21
December 2005 .....	£1,285,756,196.98	£14,618,818.82
November 2005 .....	£—	£1,313,813,102.06
	<u>£1,285,756,196.98</u>	<u>£2,511,010,225.09</u>

**REVENUE LEDGER**

Month	Revenue Received	GIC Interest	Authorised Investment Income	Sub Total
January 2006.....	£172,002,588.90	£3,691,320.05	£—	£175,693,908.95
December 2005.....	£170,593,013.64	£3,962,574.02	£—	£174,555,587.66
November 2005.....	£152,933,190.16	£2,940,502.93	£—	£155,873,693.09
	<u>£495,528,792.70</u>	<u>£10,594,397.00</u>	<u>£—</u>	<u>£506,123,189.70</u>

**PAID TO**

<b>Month</b>	<b>Mortgages Trustee</b>	<b>Administrator</b>	<b>Available Revenue</b>
January 2006.....	£—	£1,729,647.61	£173,964,261.34
December 2005.....	£—	£1,729,647.61	£172,825,940.05
November 2005.....	£150.00	£1,606,819.19	£154,266,723.90
	<u>£150.00</u>	<u>£5,066,114.41</u>	<u>£501,056,925.29</u>

**REVENUE DISTRIBUTION**

<b>Month</b>	<b>Funding</b>	<b>Seller</b>
January 2006 .....	£117,452,869.69	£56,511,391.65
December 2005.....	£137,708,837.74	£35,117,102.31
November 2005.....	£118,567,867.56	£35,698,856.34
	<u>£373,729,574.99</u>	<u>£127,327,350.30</u>

**LOSSES LEDGER**

<b>Month</b>	<b>Losses</b>	<b>Balance</b>
January 2006 .....	£9,398.27	£438,649.32
December 2005.....	£33,667.56	£429,251.05
November 2005.....	£81,665.33	£395,583.49
	<u>£124,731.16</u>	<u>£1,263,483.86</u>

**LOSSES DISTRIBUTION**

<b>Month</b>	<b>Funding</b>	<b>Seller</b>
January 2006 .....	£6,285.27	£3,113.00
December 2005.....	£26,569.63	£7,097.93
November 2005.....	£62,170.62	£19,494.71
	<u>£95,025.52</u>	<u>£29,705.64</u>

## CPR ANALYSIS

<u>Month</u>	<u>1 Month CPR</u>	<u>3 Month CPR</u>	<u>12 Month CPR</u>
January 2006.....	2.94%	3.38%	3.14%
December 2005.....	3.64%	3.75%	3.14%
November 2005.....	3.55%	3.56%	3.08%

## REGIONAL ANALYSIS

<u>Halifax Mapped Region</u>	<u>Number</u>	<u>Value</u>	<u>% of Total</u>
London & South East.....	109,969	£11,555,888,970.42	29.61%
Midlands & South Anglia.....	121,489	£8,608,079,092.89	22.06%
North.....	102,397	£5,298,742,811.22	13.58%
North West.....	81,672	£4,543,445,238.39	11.64%
South Wales & West.....	78,847	£5,701,157,180.34	14.61%
Scotland.....	54,322	£2,787,737,475.34	7.14%
Unknown.....	6,760	£529,482,316.39	1.36%
Totals.....	<u>555,456</u>	<u>£39,024,533,084.99</u>	<u>100.00%</u>

## Annex B

### Static Pool Data

This annex sets out, to the extent material, certain static pool information with respect to the loans in the mortgages trust.

We have not included static pool information on prepayments because changes in prepayment and payment rates historically have not affected repayment of the notes, and are not anticipated to have a significant effect on future payments on the Financing notes for a number of reasons: The mechanics of the mortgages trust require an extended cash accumulation period when prepayment rates fall below certain minima dictated by the rating agencies, serving to limit the extent to which slow prepayments would cause the average lives of the Financing notes to extend. Conversely, rapid prepayments should not cause the average lives of the Financing notes to shorten so long as the seller maintains the minimum required mortgages trust size. Furthermore, only a limited amount of Financing note principal in relation to the very large mortgages trust size is actually due to be repaid on any particular interest payment date.

One of the characteristics of the mortgages trust is that the seller is able to sell more loans to the mortgages trustee over time, whether in connection with an issuance of notes by an issuing entity or otherwise. To aid in understanding changes to the mortgages trust over time, the following table sets out information relating to each sale of loans by the seller to the mortgages trustee pursuant to the mortgage sale agreement.

Date	Balance of loans substituted or sold	Number of loans substituted or sold	In connection with previous issue by
June 2002	£10,117,255,819	173,505	first issuing entity
November 2002	£898,016,408	16,209	N/A
January 2003	£894,475,758	16,835	N/A
March 2003	£10,538,839,220	186,140	second issuing entity
June 2003	£1,576,963,369	25,652	N/A
September 2003	£1,688,468,552	23,426	N/A
October 2003	£2,735,667,398	37,770	N/A
January 2004	£2,670,143,154	35,418	N/A
March 2004	£9,376,972,811	134,716	fourth issuing entity
July 2004	£3,698,396,657	48,652	N/A
November 2004	£9,582,315,930	104,569	sixth issuing entity
March 2005	£6,625,343,617	70,542	seventh issuing entity
June 2005	£9,483,670,772	101,317	eighth issuing entity
December 2005	£5,786,749,656	65,460	N/A

The sale of new loans by the seller to the mortgages trustee is subject to conditions, including ones required by the rating agencies, designed to maintain certain credit-related and other characteristics of the mortgages trust. These include limits on loans in arrears in the mortgages trust at the time of sale, limits on the aggregate balance of loans sold, limits on changes in the weighted average repossession frequency (WAFR) and the weighted average loss severity (WALS), minimum yield for the loans in the mortgages trust after the sale and maximum LTV for the loans in the mortgages trust after the sale. See a description of these conditions in “**Sale of the loans and their related security-Sale of new loans and their related security to the mortgages trustee**”.

## Portfolio Arrears by Year of Origination

The following tables show, for each of the last five years of origination, the distribution of loans in the mortgages trust originated in that year by delinquency category as at each year-end starting in 2002, when the mortgages trust was established. The tables include loans that are secured by mortgaged properties subject to foreclosure proceedings and in possession.

### Loans originated in 2001 as at each specified date

	31 December 2002				31 December 2003				31 December 2004				31 December 2005			
	Number	Principal balance	% by number	% by balance	Number	Principal balance	% by number	% by balance	Number	Principal balance	% by number	% by balance	Number	Principal balance	% by number	% by balance
< 1 month.....	31,056	£2,067,815,506.17	98.35%	98.28%	69,156	£3,928,308,333.74	98.57%	98.35%	66,020	£3,490,804,655.45	98.41%	98.19%	53,112	£2,708,370,121.10	98.02%	97.46%
1 - < 2 months .....	443	£30,778,764.13	1.40%	1.46%	709	£48,734,510.89	1.01%	1.22%	666	£41,188,641.03	0.99%	1.16%	562	£36,919,662.41	1.04%	1.33%
2 - < 3 months .....	53	£3,706,043.16	0.17%	0.18%	141	£8,504,061.78	0.20%	0.21%	148	£9,132,487.95	0.22%	0.26%	157	£10,727,450.22	0.29%	0.39%
3 - < 6 months .....	23	£1,658,074.57	0.07%	0.08%	120	£6,862,076.15	0.17%	0.17%	169	£8,627,408.20	0.25%	0.24%	211	£13,932,712.13	0.39%	0.50%
6 - < 12 months .....	3	£132,908.78	0.01%	0.01%	28	£1,604,651.77	0.04%	0.04%	69	£4,576,113.41	0.10%	0.13%	110	£7,410,333.96	0.20%	0.27%
12+ months .....					4	£165,817.79	0.01%	0.00%	17	£720,432.45	0.03%	0.02%	32	£1,624,814.71	0.06%	0.06%
<b>Total .....</b>	<b>31,578</b>	<b>£2,104,091,296.81</b>	<b>100.00%</b>	<b>100.00%</b>	<b>70,158</b>	<b>£3,994,179,452.12</b>	<b>100.00%</b>	<b>100.00%</b>	<b>67,089</b>	<b>£3,555,049,738.49</b>	<b>100.00%</b>	<b>100.00%</b>	<b>54,184</b>	<b>£2,778,985,094.53</b>	<b>100.00%</b>	<b>100.00%</b>

### Loans originated in 2002 as at each specified date

	31 December 2002				31 December 2003				31 December 2004				31 December 2005			
	Number	Principal balance	% by number	% by balance	Number	Principal balance	% by number	% by balance	Number	Principal balance	% by number	% by balance	Number	Principal balance	% by number	% by balance
< 1 month.....	1,727	£126,307,564.56	99.48%	99.44%	46,697	£3,388,754,285.77	98.91%	98.82%	112,326	£7,715,051,727.75	98.19%	97.89%	82,578	£5,313,206,575.66	97.14%	96.23%
1 - < 2 months .....	7	£569,682.47	0.40%	0.45%	370	£29,634,533.26	0.78%	0.86%	1,369	£113,084,968.76	1.20%	1.43%	1,236	£102,798,534.42	1.45%	1.86%
2 - < 3 months .....	2	£147,586.08	0.12%	0.12%	90	£6,982,473.20	0.19%	0.20%	281	£21,469,974.92	0.25%	0.27%	368	£32,782,261.81	0.43%	0.59%
3 - < 6 months .....					49	£3,657,248.63	0.10%	0.11%	308	£23,788,337.75	0.27%	0.30%	472	£40,800,694.05	0.56%	0.74%
6 - < 12 months .....					7	£264,059.37	0.01%	0.01%	106	£7,300,194.83	0.09%	0.09%	284	£25,831,543.76	0.33%	0.47%
12+ months .....									8	£406,929.28	0.01%	0.01%	72	£6,024,736.92	0.08%	0.11%
<b>Total .....</b>	<b>1,736</b>	<b>£127,024,833.12</b>	<b>100.00%</b>	<b>100.00%</b>	<b>47,213</b>	<b>£3,429,292,600.23</b>	<b>100.00%</b>	<b>100.00%</b>	<b>114,398</b>	<b>£7,881,102,133.29</b>	<b>100.00%</b>	<b>100.00%</b>	<b>85,010</b>	<b>£5,521,444,346.62</b>	<b>100.00%</b>	<b>100.00%</b>



### Loans originated in 2003

as at each specified date

	31 December 2002				31 December 2003				31 December 2004				31 December 2005			
	Number	Principal balance	% by number	% by balance	Number	Principal balance	% by number	% by balance	Number	Principal balance	% by number	% by balance	Number	Principal balance	% by number	% by balance
< 1 month .....					12,597	£1,053,542,109.67	98.78%	98.67%	108,700	£9,227,540,592.24	98.48%	98.29%	108,801	£8,700,882,418.00	97.11%	96.40%
1 - < 2 months .....					105	£10,192,062.89	0.82%	0.95%	1,196	£115,817,389.19	1.08%	1.23%	1,737	£173,884,749.58	1.55%	1.93%
2 - < 3 months .....					27	£2,231,878.38	0.21%	0.21%	240	£22,249,037.02	0.22%	0.24%	536	£53,514,449.90	0.48%	0.59%
3 - < 6 months .....					22	£1,653,973.03	0.17%	0.15%	179	£15,944,468.84	0.16%	0.17%	612	£60,450,194.41	0.55%	0.67%
6 - < 12 months .....					1	£153,196.12	0.01%	0.01%	59	£5,947,263.53	0.05%	0.06%	303	£32,151,785.67	0.27%	0.36%
12+ months .....									5	£843,952.10	0.00%	0.01%	45	£4,830,377.80	0.04%	0.05%
<b>Total .....</b>					<b>12,752</b>	<b>£1,067,773,220.09</b>	<b>100.00%</b>	<b>100.00%</b>	<b>110,379</b>	<b>£9,388,342,702.92</b>	<b>100.00%</b>	<b>100.00%</b>	<b>112,034</b>	<b>£9,025,713,975.36</b>	<b>100.00%</b>	<b>100.00%</b>

### Loans originated in 2004

as at each specified date

	31 December 2002				31 December 2003				31 December 2004				31 December 2005			
	Number	Principal balance	% by number	% by balance	Number	Principal balance	% by number	% by balance	Number	Principal balance	% by number	% by balance	Number	Principal balance	% by number	% by balance
< 1 month .....									47,273	£4,349,384,125.53	98.97%	98.86%	144,025	£13,394,350,935.59	98.11%	97.88%
1 - < 2 months .....									415	£41,574,042.02	0.87%	0.94%	1,613	£166,716,327.95	1.10%	1.22%
2 - < 3 months .....									50	£5,904,471.66	0.10%	0.13%	520	£53,715,820.69	0.35%	0.39%
3 - < 6 months .....									25	£2,323,075.30	0.05%	0.05%	467	£49,782,391.43	0.32%	0.36%
6 - < 12 months .....									3	£385,070.08	0.01%	0.01%	161	£18,535,619.02	0.11%	0.14%
12+ months .....									1	£5,645.80	0.00%	0.00%	11	£1,389,217.86	0.01%	0.01%
<b>Total .....</b>									<b>47,767</b>	<b>£4,399,576,430.39</b>	<b>100.00%</b>	<b>100.00%</b>	<b>146,797</b>	<b>£13,684,490,312.54</b>	<b>100.00%</b>	<b>100.00%</b>

## Loans originated in 2005

as at each specified date

	31 December 2002				31 December 2003				31 December 2004				31 December 2005			
	Number	Principal balance	% by number	% by balance	Number	Principal balance	% by number	% by balance	Number	Principal balance	% by number	% by balance	Number	Principal balance	% by number	% by balance
< 1 month.....													41,324	£3,853,299,928.89	98.93%	98.73%
1 - < 2 months.....													333	£36,743,353.97	0.80%	0.94%
2 - < 3 months.....													65	£6,592,397.35	0.16%	0.17%
3 - < 6 months.....													45	£5,764,591.80	0.11%	0.15%
6 - < 12 months.....													6	£549,023.66	0.01%	0.01%
12+ months.....																
<b>Total .....</b>													<b>41,773</b>	<b>£3,902,949,295.67</b>	<b>100.00%</b>	<b>100.00%</b>

## All loans in the mortgages trust

as at each specified date

	31 December 2002				31 December 2003				31 December 2004				31 December 2005			
	Number	Principal balance	% by number	% by balance	Number	Principal balance	% by number	% by balance	Number	Principal balance	% by number	% by balance	Number	Principal balance	% by number	% by balance
< 1 month.....	154,808	£8,546,845,121.26	98.94%	98.80%	322,871	£17,373,787,780.46	98.95%	98.81%	488,649	£31,368,892,016.92	98.59%	98.37%	557,786	£39,181,203,470.58	97.98%	97.46%
1 - < 2 months.....	1,372	£87,299,087.79	0.88%	1.01%	2395	£152,165,189.03	0.73%	0.87%	4,652	£360,290,493.80	0.94%	1.13%	6,287	£558,426,731.49	1.10%	1.39%
2 - < 3 months.....	206	£12,118,729.53	0.13%	0.14%	498	£29,716,578.74	0.15%	0.17%	965	£70,122,158.39	0.19%	0.22%	1,896	£169,271,228.32	0.33%	0.42%
3 - < 6 months.....	80	£4,358,492.51	0.05%	0.05%	409	£22,536,994.60	0.13%	0.13%	942	£62,444,502.74	0.19%	0.20%	2,109	£185,240,926.43	0.37%	0.46%
6 - < 12 months.....	5	£184,769.53	0.00%	0.00%	116	£5,298,954.00	0.04%	0.03%	368	£24,281,457.21	0.07%	0.08%	1,018	£92,804,452.17	0.18%	0.23%
12+ months.....	0	£0.00	0.00%	0.00%	7	£327,452.54	0.00%	0.00%	58	£3,091,608.81	0.01%	0.01%	214	£15,933,376.31	0.04%	0.04%
<b>Total .....</b>	<b>156,471</b>	<b>£8,650,806,200.62</b>	<b>100.00%</b>	<b>100.00%</b>	<b>326,296</b>	<b>£17,583,832,949.37</b>	<b>100.00%</b>	<b>100.00%</b>	<b>495,634</b>	<b>£31,889,122,237.87</b>	<b>100.00%</b>	<b>100.00%</b>	<b>569,310</b>	<b>£40,202,880,185.30</b>	<b>100.00%</b>	<b>100.00%</b>

**ISSUING ENTITY**  
**Permanent Financing (No. 9) PLC**  
35 Great St. Helen's  
London EC3A 6AP

**DEPOSITOR**  
**Permanent Funding (No. 1) Limited**  
35 Great St. Helen's  
London EC3A 6AP

7.4.2  
7.4.5

**SERVICER**  
**Halifax plc**  
Trinity Road  
Halifax  
West Yorkshire  
HX1 2RG

**AGENT BANK, PRINCIPAL PAYING AGENT,  
REGISTRAR AND TRANSFER AGENT**  
**Citibank, N.A.**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

**US PAYING AGENT**  
**Citibank, N.A.**  
14th Floor  
388 Greenwich Street  
New York, New York 10013

13.5.2

**NOTE TRUSTEE**  
**The Bank of New York**  
One Canada Square  
London E14 5AL

**SECURITY TRUSTEE**  
**The Bank of New York**  
One Canada Square  
London E14 5AL

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THE INITIAL PURCHASERS**  
*as to English law and US law*  
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25 Basinghall Street  
London EC2V 5HA

*as to Scots law*  
**Tods Murray LLP**  
Edinburgh Quay  
133 Fountainbridge  
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AND THE SERVICER**  
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20 Castle Terrace  
Edinburgh EH1 2ET

**LEGAL ADVISERS TO THE NOTE TRUSTEE  
AND THE SECURITY TRUSTEE**  
*as to English law and US law*  
**Clifford Chance**  
10 Upper Bank Street  
London E14 5JJ

13.7.1

**AUDITORS OF FINANCING  
AND FUNDING 1**  
KPMG Audit plc  
8 Salisbury Square  
London EC4Y 8BB

9.2.1

# Permanent Financing (No. 9) PLC

**\$1,500,000,000 series 1 class A floating rate Financing notes due March 2007**  
**\$63,400,000 series 1 class B floating rate Financing notes due June 2042**  
**\$66,600,000 series 1 class C floating rate Financing notes due June 2042**  
**\$1,750,000,000 series 2 class A floating rate Financing notes due March 2015**  
**\$67,800,000 series 2 class B floating rate Financing notes due June 2042**  
**\$72,800,000 series 2 class C floating rate Financing notes due June 2042**  
**\$1,000,000,000 series 3 class A floating rate Financing notes due June 2033**  
**\$38,000,000 series 3 class B floating rate Financing notes due June 2042**  
**\$41,900,000 series 3 class C floating rate Financing notes due June 2042**

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## OFFERING CIRCULAR

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**Arranger**

**HBOS Treasury Services plc**

**Initial Purchasers of the Series 1 Class A Financing notes, Series 2 Class A  
Financing notes and the Series 3 Class A Financing notes**

**Banc of America  
Securities, LLC**

**Credit Suisse**

**JPMorgan**

**Initial Purchasers of the Series 1 Class B and Class C Financing notes, Series 2 Class B  
and Class C Financing notes and the Series 3 Class B and Class C Financing notes**

**Credit Suisse**

**JPMorgan**

Offering Circular dated 17 March 2006