

## IMPORTANT NOTICE

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

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

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

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

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

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

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

## Friary No. 1 plc

(incorporated with limited liability in England and Wales under number 7645720)

Notes	Initial Principal Amount	Issue Price	Interest Rate	Margin/ Step-Up Margin	Step-Up Date/Call Option Date	Pre-enforcement Redemption Profile	Final Maturity Date	Ratings (Fitch/Moody's)
Class A1	229,000,000	100%	3 month GBP Libor (interpolated for 5 and 6 month GBP Libor in respect of the first Interest Payment Date) + Margin or Step-Up Margin, as applicable	Up to and excluding the Step-Up Date, 1.40% p. a./ from and including the Step-Up Date, 2.80% p. a.	The Interest Payment Date falling in July 2016	Pass through amortisation	The Interest Payment Date falling in October 2043	AAA(sf)/Aaa(sf)
Class A2	457,000,000	100%	3 month GBP Libor (interpolated for 5 and 6 month GBP Libor in respect of the first Interest Payment Date) + Margin or Step-Up Margin, as applicable	Up to and excluding the Step-Up Date, 1.80% p. a./ from and including the Step-Up Date, 3.60% p. a.	The Interest Payment Date falling in July 2016	Pass through amortisation	The Interest Payment Date falling in October 2043	AAA(sf)/Aaa(sf)
Class B	128,000,000	100%	3 month GBP Libor (interpolated for 5 and 6 month GBP Libor in respect of the first Interest Payment Date) + Margin	0.00% p. a.	The Interest Payment Date falling in July 2016	Pass through amortisation	The Interest Payment Date falling in October 2043	N/A

<b>Issue Date</b>	The Issuer will issue the Notes in the Classes set out above on the Closing Date.
<b>Stand alone/programme issuance</b>	Stand alone issuance.
<b>Underlying Assets</b>	<p>The Issuer will make payments on the Notes from, <i>inter alia</i>, payments of principal and revenue on a portfolio comprising mortgage loans originated by Principality Building Society ("<b>Principality</b>") and secured over residential properties located in England and Wales (the "<b>Portfolio</b>") which will be purchased by the Issuer on the Closing Date. Substitution of the Loans contained in the Portfolio may occur in accordance with the terms described herein.</p> <p>Please refer to the section entitled "<i>The Portfolio</i>" for further information.</p>
<b>Credit Enhancement</b>	<ul style="list-style-type: none"> <li>• Subordination of junior ranking Notes;</li> <li>• General Reserve Fund; and</li> <li>• Excess Available Revenue Receipts.</li> </ul> <p>Please refer to sections entitled "<i>Key Structural Features</i>" and "<i>Cashflows and Cash Management</i>" for further information.</p>
<b>Liquidity Support</b>	<p><u>Liquidity Support Features for the Class A Notes</u></p> <ul style="list-style-type: none"> <li>• General Reserve Fund;</li> <li>• Principal Receipts applied to make up any Remaining Income Deficit; and</li> <li>• Upon Principality ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa2, the availability of the Liquidity Reserve Fund, as funded by Available Principal Receipts.</li> </ul> <p>Please refer to the section entitled "<i>Key Structural Features</i>" for further information.</p>
<b>Redemption Provisions</b>	Information on any optional and mandatory redemption of the Notes is summarised on page 10 (" <i>Transaction Overview – Overview of the Terms and Conditions of the Notes</i> ") and is set out in full in Condition 9 (" <i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i> ").
<b>Rating Agencies</b>	In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Community and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the " <b>CRA Regulation</b> ") unless the rating is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted an application for registration in accordance with the

	<p>CRA Regulation and such registration is not refused. Credit ratings included or referred to in this Prospectus have been or, as applicable, may be, issued by Fitch Ratings Limited and Moody's Investors Service Limited, each of which is a credit rating agency established and operating in the European Community prior to 7 June 2010 and has submitted an application for registration in accordance with the CRA Regulation. Although notification of the corresponding registration decision has not yet been provided by the relevant competent authority, as at the date of this Prospectus, such application for registration has not been refused.</p>
<b>Credit Ratings</b>	<p>Ratings are expected to be assigned to the Class A Notes by the Rating Agencies as set out above on or before the Closing Date. The Class B Notes will not be rated.</p>
	<p>The ratings reflect the views of the Rating Agencies and are based on the Loans, the Related Security and the Properties and the structural features of the transaction, including, <i>inter alia</i>, the current ratings of the Stand-by Interest Rate Swap Provider.</p> <p>The ratings assigned by Fitch address the likelihood of full and timely payment to the Noteholders (i) of interest due on each Interest Payment Date and (ii) of principal on a date that is not later than the Final Maturity Date.</p>
	<p>The ratings assigned by Moody's address the expected loss to a Noteholder in proportion to the initial principal amount of the class of Notes held by the Noteholder by the Final Maturity Date. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal on or before the Final Maturity Date.</p> <p>The assignment of ratings to the Notes is not a recommendation to invest in the Notes and ratings may be suspended, revised or withdrawn at any time by the assigned rating agency.</p>
<b>Listing</b>	<p>This document comprises a prospectus (the "<b>Prospectus</b>") for the purpose of Directive 2003/71/EC (the "<b>Prospectus Directive</b>"). The Prospectus has been approved by the Central Bank of Ireland (the "<b>Central Bank</b>") as competent authority under the Prospectus Directive. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive.</p>
	<p>Application has been made to the Irish Stock Exchange (the "<b>Irish Stock Exchange</b>") for the Notes to be admitted to the official list of the Irish Stock Exchange (the "<b>Official List</b>") and trading on its regulated market. References in this Prospectus to Notes being listed (and all related references) shall mean that such Notes have been admitted to the Official List and to trading on the Irish Stock Exchange's regulated market.</p>
<b>Obligations</b>	<p>The Notes will be obligations of the Issuer alone and will not be guaranteed by, or be the responsibility of, any other entity. The Notes will not be obligations of any Transaction Party other than the Issuer.</p>
<b>Retention Undertaking</b>	<p>Principality will undertake to the Issuer, the Stand-by Interest Rate Swap Provider and the Trustee, on behalf of the Noteholders, that it will retain a material net economic interest of at least 5% of the nominal value of the securitised exposures in accordance with Article 122a(1)(d) of Directive 2006/48/EC (as amended by Directive 2009/111/EC) (which does not take into account any implementing rules of the CRD in a relevant jurisdiction), referred to as the Capital Requirements Directive ("<b>CRD 2</b>") by holding a sufficient amount of the Class B Notes. In exceptional circumstances Principality may hold a material net economic interest in another manner permitted by Article 122a(1).</p> <p>Please refer to the section entitled "<i>Subscription and Sale</i>" for further information.</p>
<b>Significant Investor</b>	<p>Principality, will on the Closing Date purchase Class A1 Notes in an aggregate amount equal to £60,000,000, Class A2 Notes in an aggregate amount equal to £326,000,000 and all of the Class B Notes.</p> <p>Principality may enter into certain pre-agreed securities lending, collateral swap, repurchase or analogous transactions with one or more of the Arrangers or a third party in respect of a portion of the Class A Notes that Principality will purchase on the Closing Date (the "<b>Securities Lending Transaction</b>").</p> <p>The counterparty under the Securities Lending Transaction with respect to the Class A Notes held by it pursuant to the Securities Lending Transaction, may exercise certain voting rights in respect of such Class A Notes held by it in a manner that may be prejudicial to other Noteholders.</p> <p>Please refer to the section entitled "<i>Subscription and Sale</i>" for further information.</p>

A "RISK FACTORS" SECTION BEGINNING ON PAGE 37 OF THIS PROSPECTUS CONTAINS DETAILS OF CERTAIN RISKS AND OTHER FACTORS THAT SHOULD BE GIVEN PARTICULAR CONSIDERATION BEFORE INVESTING IN THE NOTES. PROSPECTIVE INVESTORS SHOULD BE AWARE OF THE ISSUES SUMMARISED WITHIN THAT SECTION.

Arrangers  
**The Royal Bank of Scotland**  
**UBS Investment Bank**

Joint Lead Managers  
**The Royal Bank of Scotland**  
**UBS Investment Bank**

The date of this Prospectus is 10 August 2011.

## IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. Any information sourced from third parties contained in this Prospectus, including the information provided by the Stand-by Interest Rate Swap Provider in the section entitled "*Stand-by Interest Rate Swap Provider*", has been accurately reproduced (and is clearly sourced where it appears in this Prospectus) and, as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Principality accepts responsibility for the information set out in the sections headed "*Principality Building Society*", "*The Portfolio*" and "*Article 122a of the Capital Requirements Directive*". To the best of the knowledge and belief of Principality (having taken all reasonable care to ensure that such is the case), the information contained in such sections are in accordance with the facts and do not omit anything likely to affect the import of such information. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by Principality as to the accuracy or completeness of any information contained in this Prospectus (other than in the sections referred to above) or any other information supplied in connection with the Notes or their distribution.

RBS accepts responsibility for the relevant information set out in the section headed "*Stand-by Interest Rate Swap Provider*". To the best of the knowledge and belief of RBS (having taken all reasonable care to ensure that such is the case), the information contained in such section is in accordance with the facts and does not omit anything likely to affect the import of such information. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by RBS as to the accuracy or completeness of any information contained in this Prospectus (other than in the section referred to above) or any other information supplied in connection with the Notes or their distribution.

The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. No representation is made by any Transaction Party that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and none of them assumes any responsibility for facilitating any such distribution or offering. In particular, save for obtaining the approval of this prospectus as a Prospectus for the purposes of the Prospectus Directive by the Central Bank, no action has been or will be taken by any Transaction Party which would permit a public offering of the Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required.

Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published, in any jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations. Persons into whose possession this Prospectus comes are required by the Issuer, the Joint Lead Managers and the Arrangers to inform themselves about and to observe any such restriction. For a further description of certain restrictions on offers and sales of the Notes and distribution of this document (or any part hereof), see the section entitled "*Subscription and Sale*" below.

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

None of the Joint Lead Managers, the Arrangers or the Trustee makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus or part thereof or any other information provided by the Issuer in connection with the Notes. None of the Joint Lead Managers, the Arrangers or the Trustee accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the Notes. Each potential purchaser of Notes should determine the relevance of the information contained in this Prospectus or part hereof and the purchase of Notes should be based upon such investigation as each purchaser deems necessary. None of the Joint Lead Managers, the Arrangers or the Trustee undertakes or shall undertake to review the financial condition or affairs of the Issuer nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Joint Lead Managers or the Arrangers.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES SECURITIES LAWS AND THEREFORE MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM, SUCH REGISTRATION REQUIREMENTS. THE NOTES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED HEREIN UNDER THE GLOBAL NOTES.

None of the Issuer, the Joint Lead Managers or the Arrangers makes any representation to any prospective investor or purchaser of the Notes regarding the legality of investment therein by such prospective investor or purchaser under applicable legal investment or similar laws or regulations.

No person has been authorised to give any information or to make any representation other than as contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, the Trustee, the Stand-by Interest Rate Swap Provider, the directors of the Issuer, the Joint Lead Managers or the Arrangers.

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

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

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

### **Forward-Looking Statements and Statistical Information**

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

Information or to update the reasons for which actual results could differ materially from those anticipated in the forward-looking statements or Statistical Information, as applicable.

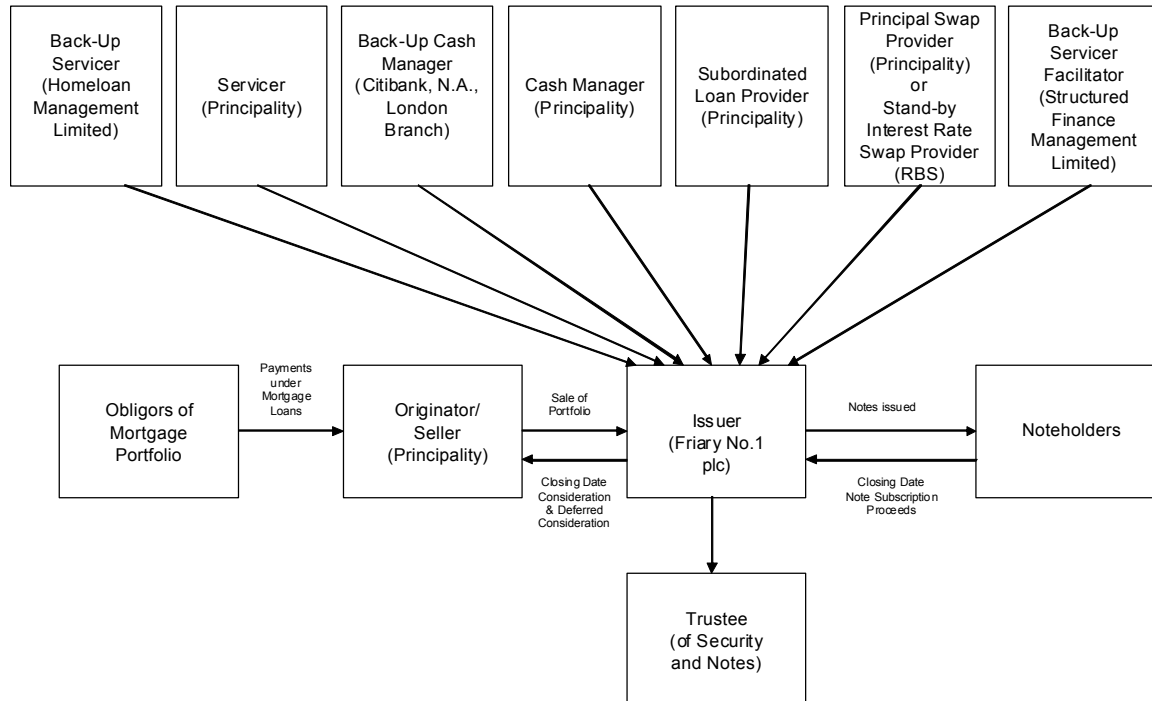
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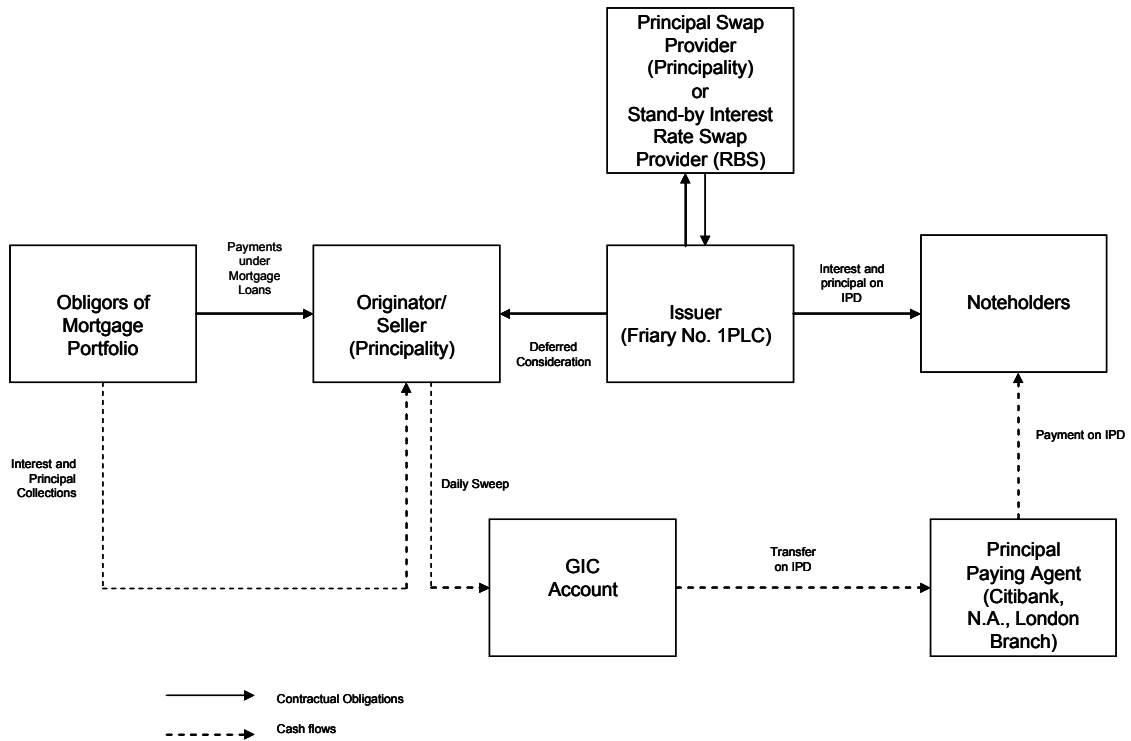


## DIAGRAMMATIC OVERVIEW OF TRANSACTION

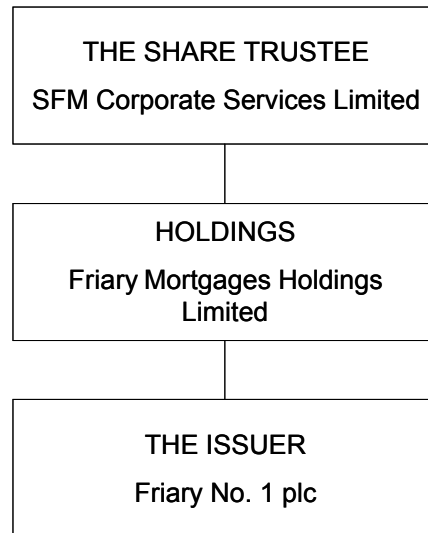
### DIAGRAMMATIC OVERVIEW OF TRANSACTION



## DIAGRAMMATIC OVERVIEW OF ON-GOING CASHFLOW



## OWNERSHIP STRUCTURE DIAGRAM



The entire issued share capital of the Issuer is beneficially owned by Holdings.

The entire issued share capital of Holdings is beneficially owned by the Share Trustee and is held on discretionary trust for charitable purposes.

## TRANSACTION OVERVIEW

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

### TRANSACTION PARTIES ON THE CLOSING DATE

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

<b>Party</b>	<b>Name</b>	<b>Address</b>	<b>Document under which appointed / Further Information</b>
		CF10 1UA	section entitled " <i>Key Structural Features</i> " for further information on this.)
<b>Principal Swap Provider:</b>	Principality Building Society	Principality Buildings Queen Street Cardiff CF10 1UA	Principal Swap Agreement (Please refer to the section entitled " <i>Key Structural Features</i> " for further information on this.)
<b>Stand-by Interest Rate Swap Provider</b>	The Royal Bank of Scotland plc	135 Bishopsgate, London EC2M 3UR	Stand-by Interest Rate Swap Agreement (Please refer to the section entitled " <i>Key Structural Features</i> " for further information on this.)
<b>Trustee:</b>	Citicorp Trustee Company Limited	Citigroup Centre, Canada Square, London E14 5LB	Trust Deed (See the Conditions for further information on this.)
<b>Principal Paying Agent:</b>	Citibank, N.A., London Branch	Citigroup Centre, Canada Square, London E14 5LB	Agency Agreement
<b>Agent Bank:</b>	Citibank, N.A., London Branch	Citigroup Centre, Canada Square, London E14 5LB	Agency Agreement
<b>Registrar:</b>	Citibank, N.A., London Branch	Citigroup Centre, Canada Square, London E14 5LB	Agency Agreement
<b>Account Bank:</b>	Barclays Bank PLC	5 The North Colonnade Canary Wharf London E14 4BB	Account Bank Agreement
<b>Corporate Services Provider:</b>	Structured Finance Management Limited	35 Great St. Helen's, London EC3A 6AP	Corporate Services Agreement
<b>Arrangers:</b>	The Royal Bank of Scotland plc	135 Bishopsgate, London EC2M 3UR	N/A

<b>Party</b>	<b>Name</b>	<b>Address</b>	<b>Document under which appointed / Further Information</b>
	UBS Limited	1 Finsbury Avenue London EC2M 2PP	
<b>Joint Lead Managers:</b>	The Royal Bank of Scotland plc	135 Bishopsgate, London EC2M 3UR	N/A
	UBS Limited	1 Finsbury Avenue London EC2M 2PP	
<b>The Share Trustee</b>	SFM Corporate Services Limited	35 Great St. Helen's, London EC3A 6AP	N/A
<b>Auditors of the Issuer</b>	Deloitte LLP	5 Callaghan Square Cardiff CF10 5BT	N/A
<b>Irish Listing Agent</b>	McCann FitzGerald Listing Services Limited	Riverside One Sir John Rogerson's Quay Dublin 2 Ireland	N/A
<b>Back-Up Servicer</b>	Homeloan Management Limited	The Bailey Skipton North Yorkshire BD23 1DN	Back-Up Servicing Agreement
<b>Back-Up Cash Manager</b>	Citibank, N.A., London Branch	Citigroup Centre Canada Square London E14 5LB	Back-Up Cash Management Agreement

## SUMMARY OF THE TERMS AND CONDITIONS OF THE NOTES

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

### FULL CAPITAL STRUCTURE OF THE NOTES

	Class A1 Notes	Class A2 Notes	Class B Notes
<i>Currency:</i>	GBP	GBP	GBP
<i>Initial Principal Amount:</i>	229,000,000	457,000,000	128,000,000
<i>Note Credit Enhancement:</i>	Subordination of Class B Notes, excess Available Revenue Receipts		Excess Available Revenue Receipts
<i>Reserve Credit Enhancement for the Class A Notes:</i>	General Reserve Fund		N/A
<i>Liquidity Support:</i>	General Reserve Fund applied to make up Income Deficit. Principal Receipts applied to make up Remaining Income Deficit (subject to conditions as set out in "Overview of Credit Structure and Cashflow – Income Deficiency")  Upon Principality ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa2, the availability of the Liquidity Reserve Fund, as funded by Available Principal Receipts		N/A
<i>Issue Price:</i>	100 per. cent.	100 per. cent.	100 per. cent.
<i>Interest Rate:</i>	3 month GBP Libor (interpolated for 5 and 6 month GBP Libor in respect of the first Interest Payment Date) + Margin or Step-Up Margin, as applicable	3 month GBP Libor (interpolated for 5 and 6 month GBP Libor in respect of the first Interest Payment Date) + Margin or Step-Up Margin, as applicable	3 month GBP Libor (interpolated for 5 and 6 month GBP Libor in respect of the first Interest Payment Date) + Margin
<i>Margin:</i>	Up to and excluding the Step-Up Date, 1.40% p. a.	Up to and excluding the Step-Up Date, 1.80% p. a.	0.00% p. a.
<i>Step-Up Margin:</i>	From and including the Step-Up Date, 2.80% p. a.	From and including the Step-Up Date, 3.60% p. a.	N/A
<i>Interest Accrual Method:</i>	Actual/365	Actual/365	Actual/365
<i>Calculation Date:</i>	The fifth Business Day prior to each Interest Payment Date.		
<i>Payment Dates:</i>	Interest and Principal will be payable quarterly in arrear on the Interest Payment Dates falling in January, April, July and October in each year.		
<i>Business Day Convention:</i>	Modified Following		
<i>First Interest Payment Date:</i>	The Interest Payment Date falling in January 2012		
<i>First Interest Period:</i>	The period from the Closing Date to the Interest Payment Date falling in January 2012		
<i>Call Option / Step-Up Date:</i>	The Interest Payment Date falling in July 2016		
<i>Pre-Step-Up Date Redemption profile:</i>	Pass through redemption on each Interest Payment Date. Please refer to Condition 9 ( <i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i> ).		
<i>Post-Step-Up Date Redemption profile:</i>	Pass through redemption on each Interest Payment Date. Please refer to Condition 9 ( <i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i> ).		
<i>Other Early Redemption in Full Events:</i>	tax/illegality/clean up call. Please refer to Condition 9 ( <i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i> ).		

<i>Final Maturity Date:</i>	The Interest Payment Date falling in October 2043		
<i>Form of the Notes:</i>	Registered		
<i>Application for Listing:</i>	Ireland		
<i>ISIN:</i>	XS0652305854	XS0652306407	XS0652306589
<i>Common Code:</i>	065230585	065230640	065230658
<i>Minimum Denomination:</i>	£100,000 and £1,000 thereafter	£100,000 and £1,000 thereafter	£100,000 and £1,000 thereafter
<i>Expected Ratings:</i>	AAA(sf) Aaa(sf)	AAA(sf) Aaa(sf)	N/A
<i>(Fitch/Moody's)</i>			



## OVERVIEW OF THE TERMS AND CONDITIONS OF THE NOTES

Please refer to the section entitled "**Terms and Conditions of the Notes**" for further detail in respect of the terms of the Notes.

### **Ranking of Payments of Interest:**

Payments of interest on the Class A Notes and the Class B Notes will be paid in Sequential Order. Payments of interest on the Class B Notes rank behind payments made to the General Reserve Fund.

The Notes within each individual Class and sub-Class will rank *pro rata* and *pari passu* and rateably among themselves at all times in respect of payments of interest to be made to such individual Class and sub-Class.

Any reference to a "**Class**" of Noteholders shall be a reference to the Class A Notes and the Class B Notes, as the case may be, or to the respective holders thereof and to a "**sub-Class**" of Notes or Noteholders shall be a reference to any sub-class of such Class of Notes (including, for the avoidance of doubt, the Class A1 Notes and the Class A2 Notes, which are sub-classes of the Class A Notes), as the case may be, or to the respective holders thereof.

### **Ranking of Payments of Principal:**

Payments of principal on the Class A1 Notes and the Class A2 Notes will be paid in Sequential Order, other than following the service of an Enforcement Notice, whereupon payments of principal on the Class A Notes, amongst themselves will be made *pari passu* and *pro rata*.

Payments of principal on the Class A Notes and the Class B Notes will be paid in Sequential Order.

The Notes within each individual Class and sub-Class will rank *pro rata* and *pari passu* and rateably among themselves at all times in respect of payments of principal to be made to such individual sub-Class (other than as specified above in respect of the Class A Notes).

For a more detailed summary of the Priority of Payments, please refer to the section entitled "*Cashflows and Cash Management*".

### **Most Senior Class:**

The Class A Notes whilst they remain outstanding and thereafter the Class B Notes.

### **Sequential Order:**

In respect of payments of principal to be made to the Class A Notes themselves (other than following the service of an Enforcement Notice): firstly, to the Class A1 Notes and secondly, to the Class A2 Notes.

In respect of payments of interest and principal to be made to the Class A Notes and Class B Notes: firstly, to the Class A Notes and secondly to the Class B Notes.

### **Security:**

The Issuer's obligations in respect of the Notes are secured and will share the same Security together with the other secured obligations of the Issuer in accordance with the Deed of Charge as described in further detail in Condition 6 (*Security*). The security granted by the Issuer includes:

- (a) a first fixed charge over the Loans and the Related Security acquired by the Issuer;
- (b) a charge at law over indebtedness comprising an obligation or liability to pay money secured by each registered charge

of which it is registered as proprietor at the Land Registry of England and Wales (the "**Land Registry**") (such registration to occur following a Perfection Trigger Event);

- (c) a first fixed charge over the benefit of each Authorised Investment;
- (d) first fixed charges over the GIC Account, the Swap Collateral Accounts and other bank accounts of the Issuer established on or after the Closing Date in accordance with the Account Bank Agreement or the other Transaction Documents;
- (e) an assignment by way of security of the benefit under each relevant Transaction Document; except that the assignment by way of security of all of the Issuer's right, title, interest and benefit under the Swap Agreements shall be subject to any rights of set off or netting provided for thereunder;
- (f) a first floating charge over the whole of its undertaking and all its property, assets and rights whatsoever and wheresoever present and future including its uncalled capital (including assets expected to be subject to a fixed charge or assignment by way of security or absolute assignment as described above); and
- (g) a first fixed security to the Trustee (or, to the extent not assignable, charges by way of a first fixed charge) all of its rights, title, interest and benefit in all Loans and their Related Security.

Certain other Secured Amounts (including certain obligations owed to the Swap Providers under the Swap Agreements) rank senior to the Issuer's obligations under the Notes in respect of the allocation of proceeds as set out in the Pre-Enforcement Revenue Priority of Payments and the Post-Enforcement Priority of Payments.

**Interest payable on the Notes:** The interest rates applicable to each Class of Notes are described in the sections "*Full Capital Structure of the Notes*" and "*Terms and Conditions of the Notes*".

**Interest Deferral:** Interest due and payable on the Class B Notes may be deferred in accordance with Condition 8.11 (Interest Accrual).

**Gross-up:** None of the Issuer, the Trustee or any other person will be obliged to pay any additional amounts to the Noteholders if there is any withholding or deduction for or on account of taxes from a payment made under the Notes.

**Redemption:** The Notes are subject to the following optional or mandatory redemption events:

- (a) mandatory redemption in whole on the Final Maturity Date, as fully set out in Condition 9.1 (Final Redemption);
- (b) mandatory redemption in part on any Interest Payment Date prior to the delivery of an Enforcement Notice subject to availability of Available Principal Receipts, as fully set out in Condition 9.2 (Mandatory Redemption in part);
- (c) optional redemption exercisable by the Issuer in whole on any Interest Payment Date where the Principal Amount

Outstanding of all the Notes is equal to or less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date, as fully set out in Condition 9.3(a) (Optional Redemption in whole);

- (d) optional redemption exercisable by the Issuer in whole on any Interest Payment Date on or after the Step-Up Date, as fully set out in Condition 9.3(b) (Optional Redemption in whole); and
- (e) optional redemption exercisable by the Issuer in whole for tax reasons, as fully set out in Condition 9.4 (Optional Redemption in whole for taxation reasons).

Subject to the Issuer having sufficient funds available for this purpose, each Note redeemed will be redeemed in an amount equal to the Principal Amount Outstanding of the relevant Note together with accrued (and unpaid) interest on the Principal Amount Outstanding of the relevant Note up to (but excluding) the date of redemption.

**Events of Default:**

As fully set out in Condition 13 (Events of Default), which broadly includes:

- non-payment by the Issuer of principal in respect of the Most Senior Class of Notes within 7 days following the due date or non-payment by the Issuer of interest within 14 days following the due date (provided that, for the avoidance of doubt, a deferral of interest in respect of the Class B Notes in accordance with Condition 8.11 (Interest Accrual) shall not constitute a default in the payment of such interest);
- breach of contractual obligations by the Issuer under the Transaction Documents which are incapable of remedy or which are, if capable of remedy, not remedied within 30 days;
- Issuer Insolvency Event; or
- it is illegal for the Issuer to perform or comply with its obligations.

**Limited Recourse:**

The Notes are limited recourse obligations of the Issuer and, if the Issuer has insufficient funds to pay amounts due in respect of the Notes in full, following the distribution of all available funds, any amounts outstanding under the Notes will cease to be due and payable as described in more detail in Condition 10 (Limited Recourse).

**Governing Law:**

English law.

## OVERVIEW OF RIGHTS OF NOTEHOLDERS AND RELATIONSHIP WITH OTHER SECURED CREDITORS

Please refer to the section entitled "*Terms and Conditions of the Notes*" for further details in respect of the rights of Noteholders, conditions for exercising such rights and relationship with other Secured Creditors.

<b>Prior to an Event of Default:</b>	Noteholders holding not less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes then outstanding of the relevant Class are entitled to request that the Trustee convene a Noteholders' meeting and all Noteholders of each Class are entitled to participate in a Noteholders' meeting convened by the Issuer or the Trustee to consider any matter affecting their interests.		
<b>Following an Event of Default:</b>	Following the occurrence of an Event of Default which is continuing, the Trustee may and shall if so requested in writing by the holders of at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of Notes then outstanding or if so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes outstanding, deliver an Enforcement Notice to the Issuer that all Classes of the Notes are immediately due and repayable at their respective Principal Amount Outstanding.		
<b>Noteholders Meeting provisions:</b>	Notice period:	21 clear days for the initial meeting	14 clear days for the adjourned meeting
	Quorum:	One or more persons holding or representing in aggregate a majority of the Principal Amount Outstanding of the relevant Class or Classes of Notes outstanding for the initial meeting (other than a Reserved Matter (which must be proposed separately to each Class of Noteholders), which requires one or more persons holding or representing in the aggregate not less than 75 per cent. of the Principal Amount Outstanding of the relevant Class or Classes of Notes then outstanding).	At an adjourned meeting one or more persons being or representing Noteholders of that Class or those Classes, whatever the Principal Amount Outstanding of the Notes then outstanding held or represented by them (other than Reserved Matter (which must be proposed separately to each Class of Noteholders), which requires one or more persons holding or representing not less than in aggregate 25 per cent. of the Principal Amount Outstanding of the relevant Class or Classes of Notes then outstanding).
	Required majority for Extraordinary Resolution:	Not less than 75 per cent. of votes cast	Not less than 75 per cent. of votes cast
	Written Resolution:	100 per cent. of the Principal Amount Outstanding of the relevant Class of Notes	

outstanding. A Written Resolution has the same effect as an Extraordinary Resolution.

**Reserved Matters:**

Broadly speaking, the following matters are Reserved Matters:

Changes to payments (timing, method of calculation, reduction in amounts due and currency), to effect the exchange, conversion or substitution of the Notes, changes to the Priority of Payments and changes to quorum and majority requirements and amendments to the definition of Reserved Matter.

**Relationship between  
Classes of Noteholders:**

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

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

A Reserved Matter requires an Extraordinary Resolution of each Class of Notes then outstanding.

**Seller as Noteholder:**

For the purpose of, *inter alia*, the right to attend and vote at any meeting of Noteholders, any Extraordinary Resolution in writing and any direction made by Noteholders, those Notes (if any) which are held by or on behalf of or for the benefit of the Seller, any holding company of the Seller or any subsidiary of such holding company in each case as beneficial owner, shall (unless and until ceasing to be held) be deemed not to remain outstanding, provided that if all the Notes of a particular Class are held by the Seller, any holding company of the Seller and/or any other subsidiary of such holding company (the "**Relevant Class of Notes**") (and no other Classes of Notes exist that rank junior or *pari passu* to the Relevant Class of Notes, in respect of which the Notes are held by persons other than the Seller, any holding company of the Seller or any other subsidiary of such holding company), Notes of the Relevant Class of Notes will be deemed to remain outstanding.

**Relationship between  
Noteholders and other  
Secured Creditors:**

The Trust Deed provides that the Trustee shall, except where expressly provided otherwise and prior to the redemption in full of the Notes, have regard solely to the interests of the Noteholders and shall have regard to the interests of the other Secured Creditors only to pay such parties any monies received and payable to it and to act in accordance with the applicable Priority of Payments.

## OVERVIEW OF CREDIT STRUCTURE AND CASHFLOW

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

### **Available Funds of the Issuer:**

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

"Available Revenue Receipts" will comprise the following:

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

- (i) any amount applied as Available Revenue Receipts in accordance with Condition 8.12(c)(ii),

less:

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

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

If the Cash Manager determines that there would be a deficit on an Interest Payment Date to pay items (a) to (f) (inclusive) of the Pre-Enforcement Revenue Priority of Payments, then the Issuer shall pay or provide for such deficit by applying (1) amounts standing to the credit of the General Reserve Fund, (2) (only in respect of any senior expenses of the Issuer which rank in priority to the Class A Notes in the relevant Priority of Payments (the "**Senior Expenses**") and interest payments due on the Class A Notes) Principal Receipts (if any), subject to certain conditions, and (3) (only in respect of any Remaining Income Deficit) the amount then standing to the credit of the Liquidity Reserve Fund (if established) and available to be drawn to the extent necessary to pay such Remaining Income Deficit. See "*Overview of Credit Structure and Cashflow - Income Deficiency*" below.

"**Available Principal Receipts**" will, broadly, include the following:

- (a) Principal Receipts on the Loans received during the immediately preceding Collection Period or, if the immediately preceding Collection Period is a Determination Period, Calculated Principal Receipts (excluding in each case an amount to be applied as Available Revenue Receipts in accordance with Condition 8.12(c)(ii) on the relevant Interest Payment Date);
- (b) amounts (if any) to be credited to the Principal Deficiency Ledger pursuant to items (f) and (j) of the Pre-Enforcement Revenue Priority of Payments on such Interest Payment Date;
- (c) in respect of the first Interest Period only, any funds representing the excess of the proceeds of the issue of the Notes over the Initial Consideration;
- (d) any amount applied as Available Principal Receipts in accordance with Condition 8.12(c)(i); and
- (e) on each Interest Payment Date, the amount standing to the credit of the Liquidity Reserve Fund (if applicable) in excess of the Liquidity Reserve Fund Required Amount (to the extent not utilised on such Interest Payment Date to pay amounts due in respect

of any Remaining Income Deficit) and on the earlier of the Final Maturity Date and the date on which the Class A Notes are redeemed in full, the amount standing to the credit of the Liquidity Reserve Fund (if established) (to the extent not utilised on such Interest Payment Date to pay amounts due in respect of any Remaining Income Deficit),

less:

- (f) the amount of Principal Receipts received by the Issuer during the immediately preceding Collection Period which are to be applied to cover Remaining Income Deficits; and
- (g) the amount of Principal Receipts used during the immediately preceding Collection Period to purchase any Flexible Drawings and/or Further Advances.

**Summary of Priority of Payments:**

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



<b><u>Pre-Enforcement Revenue Priority of Payments</u></b>	<b><u>Pre-Enforcement Principal Priority of Payments</u></b>	<b><u>Post-Enforcement Priority of Payments</u></b>
<p>(a) Fees, costs, indemnity payments and expenses of the Trustee;</p> <p>(b) any costs and fees of the Agents, any third parties, amounts required to discharge any liability of the Issuer for corporation tax (which cannot be met out of amounts previously retained under item (i) below), any costs and expenses of the Corporate Services Provider and any costs and expenses associated with any transfer of servicing to a substitute servicer;</p> <p>(c) any costs and fees of each of the Servicer, Back-Up Servicer, Back-Up Servicer Facilitator, Cash Manager, Back-Up Cash Manager, Account Bank and any bank at which a Swap Collateral Account is held;</p> <p>(d) any amounts due to the Swap Providers in respect of the Swap Agreements to be applied: <i>first</i>, to pay such amounts due to the Stand-by Interest Rate Swap Provider and then <i>second</i>, to pay such amounts due to the Principal Swap Provider (in each case, excluding Swap Subordinated Amounts and any Return Amounts, Interest Amounts and Distributions payable under a Swap Credit Support Annex (as defined in the relevant Swap Credit Support Annex));</p> <p>(e) Class A interest;</p> <p>(f) an amount sufficient to eliminate any debit on the Class A Principal Deficiency Sub-Ledger;</p>	<p>(a) Following the date on which Principality ceased to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa2, amounts to be credited to the Liquidity Reserve Ledger up to the Liquidity Reserve Fund Required Amount;</p> <p>(b) to redeem the Class A1 Notes;</p> <p>(c) to redeem the Class A2 Notes;</p> <p>(d) to redeem the Class B Notes; and</p> <p>(e) any further amounts to be applied as Available Revenue Receipts.</p>	<p>(a) Fees, costs, indemnity payments and expenses of the Trustee (and any Receiver appointed by the Trustee);</p> <p>(b) any costs and fees of the Agents and the Corporate Services Provider;</p> <p>(c) any costs and fees of each Servicer, Back-Up Servicer, Back-Up Servicer Facilitator, Cash Manager, Back-Up Cash Manager, Account Bank and any bank at which a Swap Collateral Account is held;</p> <p>(d) any amounts due to the Swap Providers in respect of the Swap Agreements to be applied: <i>first</i>, to pay such amounts due to the Stand-by Interest Rate Swap Provider and then <i>second</i>, to pay such amounts due to the Principal Swap Provider (in each case, excluding Swap Subordinated Amounts and any Return Amounts, Interest Amounts and Distributions payable under a Swap Credit Support Annex (as defined in the relevant Swap Credit Support Annex));</p> <p>(e) Class A interest;</p> <p>(f) to redeem the Class A Notes;</p> <p>(g) Class B interest;</p> <p>(h) to redeem the Class B Notes;</p> <p>(i) Swap Subordinated Amounts to be applied: <i>first</i>, to pay such Swap Subordinated Amounts due to the Stand-by Interest Rate Swap Provider and then <i>second</i>, to pay such Swap Subordinated Amounts due to the Principal Swap Provider;</p> <p>(j) payment of interest and principal to the Subordinated Loan Provider;</p>

<b><u>Pre-Enforcement Revenue Priority of Payments</u></b>	<b><u>Pre-Enforcement Principal Priority of Payments</u></b>	<b><u>Post-Enforcement Priority of Payments</u></b>
<p>(g) (so long as the Class A Notes will remain outstanding following such Interest Payment Date) to credit the General Reserve Ledger up to the General Reserve Required Amount;</p> <p>(h) Swap Subordinated Amounts to be applied: <i>first</i>, to pay such Swap Subordinated Amounts due to the Stand-by Interest Rate Swap Provider and then <i>second</i>, to pay such Swap Subordinated Amounts due to the Principal Swap Provider;</p> <p>(i) Issuer Profit Amount;</p> <p>(j) an amount sufficient to eliminate any debit on the Class B Principal Deficiency Sub-Ledger;</p> <p>(k) Class B interest;</p> <p>(l) interest payment to the Subordinated Loan Provider;</p> <p>(m) principal payment to the Subordinated Loan Provider;</p> <p>(n) if such Interest Payment Date falls immediately after a Determination Period, the excess (if any) to be retained in the GIC Account to be applied as Available Revenue Receipts on the next following Interest Payment Date; and</p> <p>(o) Deferred Consideration to the Seller.</p>		<p>(k) Issuer Profit Amount;</p> <p>(l) corporation tax payable by the Issuer; and</p> <p>(m) Deferred Consideration to the Seller.</p>

**Key Structural Features:**

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

- availability of the General Reserve Fund, initially funded by a Subordinated Loan on the Closing Date up to the General Reserve Required Amount (being an amount equal to 4 per cent. of the Principal Amount Outstanding of the Notes as at the Closing Date) and replenished on each Interest Payment Date up to the General Reserve Required Amount from Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments. The General Reserve Fund will be credited to the GIC Account. Moneys standing to the credit of the General Reserve Fund will be applied to make up any Income Deficit. Any amount credited to the General Reserve Fund after the Class A Notes have been repaid in full shall be used to repay the Subordinated Loan in full and thereafter will form part of Available Revenue Receipts;
- availability of Principal Receipts to make up any Remaining Income Deficit. See the section entitled "*Overview of Credit Structure and Cashflow - Income Deficiency*" below for limitations on the use of Principal Receipts for this purpose;
- following the date on which Principality ceases to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa2, availability of the Liquidity Reserve Fund funded by the Issuer up to the Liquidity Reserve Fund Required Amount which will be applied together with Available Revenue Receipts to the extent necessary to pay any Remaining Income Deficit in accordance with the Pre-Enforcement Revenue Priority of Payments on each Interest Payment Date, to the extent such amounts are not funded from the General Reserve Fund or the application of Principal Receipts. The Liquidity Reserve Fund will be funded from time to time up to the Liquidity Reserve Fund Required Amount following the date on which Principality ceases to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa2 from Available Principal Receipts in accordance with the Pre-Enforcement Principal Priority of Payments. The Principal Deficiency Ledger will be debited on each Interest Payment Date by an amount equal to the amount drawn from the Liquidity Reserve Fund on that date (if any). The Liquidity Reserve Fund will be applied by the Issuer as Principal Receipts on the earlier of the Interest Payment Date falling on or prior to the Final Maturity Date and the date on which all Class A Notes are redeemed in full (see section "*Overview of Credit Structure and Cashflows – Liquidity Reserve Fund*" for further details);
- prior to the service of an Enforcement Notice, payments of principal amongst the Class A Notes will be made in Sequential Order (being applied firstly to redeem the Class A1 Notes and thereafter the Class A2 Notes) and payments of interest on the Class A Notes shall be made *pari passu* and *pro rata* amongst each other;
- payments of principal and interest on the Class B Notes will be subordinated to payments on the Class A Notes;
- availability of guaranteed investment payment provided by the

Account Bank in respect of collections transferred to the GIC Account. The GIC Account is subject to a guaranteed investment contract, under which, the Account Bank has agreed to pay Three Month GBP LIBOR less a margin in respect of sums in the GIC Account. However, the Issuer (or the Cash Manager on its behalf) may invest sums standing to the credit of the GIC Account in Authorised Investments;

- availability of Bank of England base rate swaps, standard variable rate swaps and fixed rate swaps provided by the Principal Swap Provider or, as applicable, the Stand-by Interest Rate Swap Provider (each, a "**Swap Provider**"), to hedge against the possible variance between the fixed interest rates, Bank of England base rate linked interest rates and standard variable rate linked interest rates payable in respect of certain Loans and the floating rate interest payable in respect of the Notes; and
- it is expected that during the life of the Notes, the cash available to the Issuer will, assuming that all the Loans are fully performing, be sufficient to pay the interest amounts payable in respect of all the Class A Notes, the Senior Expenses of the structure and retaining the Issuer Profit Amount.

See the section entitled "*Key Structural Features*" for further information on this.

#### **Income Deficiency:**

On each Calculation Date, the Cash Manager will determine whether Available Revenue Receipts are sufficient to pay or provide for payment of Senior Expenses, interest amounts on the Class A Notes and the elimination of debit balances on the Class A Principal Deficiency Sub Ledger. To the extent that Available Revenue Receipts are insufficient to pay items (a) to (f) inclusive of the Pre-Enforcement Revenue Priority of Payments in full (the amount of any deficit being an "**Income Deficit**"), the Cash Manager will, on the relevant Interest Payment Date and on behalf of the Issuer, pay or provide for such Income Deficit by applying amounts standing to the credit of the General Reserve Fund. Any amounts so withdrawn from the General Reserve Fund will be applied to pay Senior Expenses, interest on the Class A Notes and to eliminate any debit balances on the Class A Principal Deficiency Sub Ledger in the order set out in the Pre-Enforcement Revenue Priority of Payments.

If following application of Available Revenue Receipts and amounts standing to the credit of the General Reserve Fund, the Cash Manager determines that there would be a remaining income deficit on such Interest Payment Date to pay Senior Expenses and interest amounts on the Class A Notes under items (a) to (e) of the Pre-Enforcement Revenue Priority of Payments (the amount of any such deficit being a "**Remaining Income Deficit**"), the Cash Manager will on the relevant Interest Payment Date and on behalf of the Issuer, pay or provide for such Remaining Income Deficit by applying Principal Receipts (if any). If any Remaining Income Deficit cannot be funded in full from Principal Receipts, the Cash Manager will on behalf of the Issuer, apply amounts standing to the credit of the Liquidity Reserve Fund (if established) to pay or provide for such Remaining Income Deficiency.

The application of any Principal Receipts and amounts standing to the credit of the Liquidity Reserve Ledger to meet any Remaining Income Deficit will be recorded as set out below in the section entitled

*"Overview of Credit Structure and Cashflow - Principal Deficiency Ledger".*

**Principal Deficiency Ledger:**

The Principal Deficiency Ledger of the Issuer will record as a debit to the ledger (i) any Losses on the Portfolio, (ii) the application of any Principal Receipts to meet any Remaining Income Deficit and (iii) drawings from the Liquidity Reserve Fund to meet any Remaining Income Deficit. The Principal Deficiency Ledger will be divided into two sub-ledgers which will correspond to each of the Class A Notes and the Class B Notes. The sub-ledger for each Class of Notes will show separate entries for each Class of Notes.

Debits will be recorded as follows:

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

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

- (i) *first*, in or towards satisfaction of the amounts necessary to reduce to zero the debit balance in respect of the Class A Notes on the Class A Principal Deficiency Sub-Ledger; and
- (ii) *second*, in or towards satisfaction of the amounts necessary to reduce to zero the debit balance in respect of the Class B Notes on the Class B Principal Deficiency Sub-Ledger.

On each Interest Payment Date, the Issuer shall also apply any amount standing to the credit of the General Reserve Fund to extinguish or reduce any balance on the Class A Principal Deficiency Sub-Ledger and such amounts will be applied as Available Principal Receipts (see *"Overview of Credit Structure and Cashflow - Income Deficiency"* above).

Please refer to the section entitled *"Key Structural Features"* for further information on this.

**GIC Account and Cash Management:**

The Servicer shall ensure that all amounts from (and including) the Cut-Off Date that relate to the Loans will be identified on a daily basis (each such aggregate daily amount, a **"Daily Loan Amount"**) and the Seller will transfer an amount equal to the Daily Loan Amount into the GIC Account on the next Business Day after that Daily Loan Amount is identified as received or in respect of amounts received from and including the Cut-Off Date to (and excluding) the Closing Date on the next Business Day after the Closing Date. On each Interest Payment Date amounts standing to the credit of the GIC Account will be applied by the Cash Manager in accordance with the relevant Priority of Payments.

## OVERVIEW OF THE PORTFOLIO AND SERVICING

Please refer to the section entitled "*The Portfolio - The Loans*", "*The Portfolio – Statistical Information on the Portfolio*" and "*The Servicer – Servicing Procedures*" for further detail in respect of the characteristics of the Portfolio and the sale and the servicing arrangements in respect of the Portfolio.

### Sale of Portfolio:

The Portfolio will consist of the Loans and the Related Security which will be sold by the Seller to the Issuer on the Closing Date pursuant to the Mortgage Sale Agreement.

The Loans and Related Security and any non-contractual obligations arising out of or in connection with them are governed by English Law.

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

### Features of Loans:

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

Type of Borrower	Prime		
Type of Loan	Repayment, Part and Part and Interest Only		
Number of Loans	10,120		
	Weighted average	Minimum	Maximum
Current Balance*	£81,511	£10,006	£563,147
Current LTV Ratio (%)	58.01	1.81	89.98
Seasoning (months)	35.7	4.0	131.0
Remaining Term (years)	17.1	0.2	29.1

\*Current balance calculated as a simple average

### Consideration:

The consideration from the Issuer to the Seller in respect of the sale of the Portfolio together with the Related Security shall be: (i) Initial Consideration of £813,999,641.22, being an amount equal to the Current Balance of the Loans of the Seller comprising the Portfolio determined as at opening of business on 1 August 2011 (the "**Cut-Off Date**"), which is due and payable on the Closing Date and (ii) Deferred Consideration, in each case, payable in accordance with the Mortgage Sale Agreement.

Any Deferred Consideration will be paid to the Seller in accordance with the Pre-Enforcement Revenue Priority of Payments or, if applicable, the Post-Enforcement Priority of Payments.

Any reference to the "**Current Balance**" of any Loan means, on any date, the aggregate balance of the amounts charged to the Borrower's account in respect of a Loan at such date (but avoiding double counting) including:

- a) the original principal amount advanced to the relevant Borrower and any further amount (including any Flexible Drawings or

Further Advance) advanced on or before the given date to the relevant Borrower secured or intended to be secured by the related Mortgage; and

- b) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent or capitalised in accordance with the Seller's normal charging practices and added to the amounts secured or intended to be secured by the related Mortgage; and
- c) any other amount (including, for the avoidance of doubt, Accrued Interest and Arrears of Interest) which is due or accrued (whether or not due) and which has not been paid by the relevant Borrower and has not been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent or in accordance with the Seller's normal charging practices but which is secured or intended to be secured by the related Mortgage, as at the end of the Business Day immediately preceding that given date,

less any repayment or payment (including, if permitted, by way of set-off, withholding or counterclaim) of any of the foregoing made on or before the end of the Business Day immediately preceding that given date and excluding any retentions made but not released and any Flexible Drawings or Further Advances committed to be made but not made by the end of the Business Day immediately preceding that given date.

See the section entitled "*The Portfolio*" for further information.

The consideration from the Issuer to the Seller in respect of the sale of Further Advances and/or Flexible Drawings to the Issuer shall be the Further Advance Purchase Price and/or the Flexible Drawings Purchase Price, as applicable, which will, if sufficient, be met through Available Principal Receipts on the last day of the calendar month in which the Further Advance and/or Flexible Drawing is made.

## **Representations and Warranties:**

The Seller will make certain representations and warranties to the Issuer and the Trustee on (i) the Closing Date in respect of the Portfolio; (ii) each Advance Date in respect of the relevant Further Advances; (iii) each Drawings Date in respect of the relevant Flexible Drawing, (iv) each Switch Date in respect of the relevant Product Switches; and (v) each Substitution Date in respect of the relevant Substitute Loans.

In addition to warranties in respect of the legal status of the Loans and their Related Security, there are also warranties in relation to the assets which include (but are not limited to) the following:

- First ranking mortgage;
- Maximum loan amount not exceeding £1,000,000;
- Minimum payment made (not less than one monthly payment);
- No right of set-off;
- Loan repayment date not falling beyond three years prior to the Final Maturity Date.

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

**Substitution Criteria:**

On repurchase of the Loans as described below, the Seller may transfer Substitute Loans to the Issuer as consideration in whole, or in part together with any cash payment amount, for such repurchase. This is subject to the satisfaction of certain Substitution Conditions which broadly speaking include the following:

- no Event of Default is continuing;
- no Seller Insolvency Event has occurred;
- if required, the Swap Agreements may be appropriately varied or, replaced in order to hedge against the interest rate payable on the Substitute Loan(s) and the floating rate of interest payable on the Notes; and
- the Substitute Loan and Related Security constitute the same ranking and priority security over a Property as the security provided in respect of the relevant repurchased Loan.

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

**Repurchase of Loans:**

The Seller shall repurchase the Loans and their Related Security in the following circumstances:

- upon material breach of any of the representations or warranties given by the Seller on the Closing Date, which have not been remedied by the Seller within 30 days of being notified by the Issuer of such breach;
- upon material breach of any of the representations or warranties given by the Seller (i) in respect of a Further Advance, on the Advance Date (ii) in respect of the relevant Flexible Drawing, on the Drawings Date (iii) in respect of a Product Switch, on the Switch Date or (iv) in respect of a Substitute Loan, on a Substitution Date (in each case which is not capable of remedy or is not remedied within 30 Business days of being notified by the Issuer); and
- in certain circumstances upon making a Product Switch, Further Advance, Flexible Drawing or substitution if the Seller has notified the Issuer that certain conditions have not been met. See "*The Portfolio - Sale of the Portfolio under the Mortgage Sale Agreement*".

The Seller will also repurchase the Loans and their Related Security in the following circumstances:

- if the Issuer exercises its clean up call option where the Principal Amount Outstanding of the Notes is less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date; or
- if the Issuer exercises a general call option on any Interest Payment Date from and including the Step-Up Date (see the section headed "*Overview of the Terms and Conditions of the Notes – Redemption*" and Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*)).

As an alternative to selling the Further Advance and/or Flexible Drawings to the Issuer, if the Available Principal Receipts are insufficient to pay the consideration for any Further Advance and/or Flexible Drawing or if the Seller does not wish a Loan which is the subject of a Product Switch to remain in the Portfolio (as applicable),



the Seller may elect to repurchase the relevant Loan and its Related Security from the Issuer on the last day of the calendar month in which the Further Advance, Flexible Drawing or Product Switch is made.

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

**Consideration for repurchase:**

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

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

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

**Perfection Trigger Events:**

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

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

**Servicing of the Portfolio:**

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

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

**Delegation:**

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

## TRIGGERS TABLES

### Rating Triggers Table

Transaction Party	Required Ratings on the Closing Date	Possible effects of Ratings Trigger being breached include the following
Stand-by Interest Rate Swap Provider (or any guarantor thereof):	(i) Short-term, unsecured and unsubordinated debt or counterparty obligations must be rated at least P-1 and long-term, unsecured and unsubordinated debt obligations must be rated at least A2 by Moody's (or, if the Swap Provider (or any guarantor thereof) is not the subject of a short-term rating by Moody's, the long-term, unsecured and unsubordinated debt obligations must be rated at least A1 by Moody's); and (ii) the long-term issuer default rating (" <b>IDR</b> ") of the Stand-by Interest Rate Swap Provider (or its successor or assignee) or any guarantor thereof ceases to be rated at least as high as "A" (or its equivalent) by Fitch or, if Fitch has placed such long-term IDR on Rating Watch Negative, at least as high as "A+" (or its equivalent) by Fitch and the short-term IDR of the Stand-by Interest Rate Swap Provider (or its successor or assignee) or any or any guarantor thereof ceases to be rated at least as high as "F1" (or its equivalent) by Fitch or, if Fitch has placed such short-term IDR on Rating Watch Negative, at least as high as "F1+" (or its equivalent) by Fitch.	The consequences of breach may include the requirement to provide collateral or replace the Stand-by Interest Rate Swap Provider or procure a guarantee of the Stand-by Interest Rate Swap Provider's obligations or such other remedial action acceptable to the Rating Agencies which would maintain the then current rating of the Notes. If none of these remedial measures is taken within the timeframes stipulated in the Stand-by Interest Rate Swap Agreement, the Stand-by Interest Rate Swap Agreement may be terminated early and a termination payment may become payable either by the Issuer or the Stand-by Interest Rate Swap Provider. See the section entitled " <i>Key Structural Features – Ratings Downgrade of Stand-by Interest Rate Swap Provider</i> ".
Account Bank:	(i) Short-term, unsecured, unguaranteed and unsubordinated debt obligations must be rated at least F1 by Fitch and P-1 by Moody's and (ii) long-term, unsecured and unsubordinated debt must be rated at least A by Fitch (or such other short term or long term rating which is otherwise acceptable to the relevant Rating Agency).	The consequences of breach may include replacement of Account Bank or guarantee of Account Bank's obligations within 30 days from the date of such breach or such other remedial action acceptable to the Rating Agencies which would maintain the then current rating of the Notes.
Seller:	Long-term, unsecured and unsubordinated debt obligations from Fitch of at least BBB- and from Moody's of at least Baa3 (or such other long term rating which is otherwise acceptable to the relevant Rating Agency) (a " <b>Seller Downgrade Event</b> ").	Under the Mortgage Sale Agreement, the Seller shall be obliged to prepare the documentation required to perfect legal title to the Loans and Related Security, but shall not be required to give notice of the transfer of the equitable or beneficial interest in the Loans to the Borrowers nor complete any other step necessary to perfect

Transaction Party	Required Ratings on the Closing Date	Possible effects of Ratings Trigger being breached include the following
		legal title to the Loans or the Related Security to the Issuer. See the section entitled " <i>Sale of the Portfolio under the Mortgage Sale Agreement</i> ".
Seller	Short term unsecured, unsubordinated and unguaranteed debt rating has fallen below F1 by Fitch or P-1 by Moody's (or such other lower short term rating acceptable to the relevant Rating Agency).	Under the Mortgage Sale Agreement, the Seller shall be obliged to provide to the Issuer and the Trustee a valid solvency certificate signed in accordance with the Mortgage Sale Agreement. See the section entitled " <i>Product Switches, Flexible Drawings, Further Advances and Substitution</i> ".
Seller	Short term unsecured, unsubordinated and unguaranteed debt rating has fallen below F2 by Fitch or P-2 by Moody's (or such other lower short term rating acceptable to the relevant Rating Agency).	Under the Servicing Agreement, the Seller shall, within 60 days, use reasonable endeavours to procure that (i) a separate account in the name of the Seller is set up, into which all amounts received in relation to the Loans and Related Security comprised in the Portfolio will be transferred; (ii) all further instructions by the Servicer to debit the accounts of Borrowers that are subject to direct debit mandates shall be made to such account; and (iii) all Monthly Payments made by a Borrower other than by direct debit, are credited to such account.
Seller	Long-term unsecured, unsubordinated and unguaranteed debt obligations of Principality cease to be assigned a long-term credit rating by Moody's of at least Baa2.	The Issuer will establish the Liquidity Reserve Fund.
Servicer	Long-term, unsecured and unsubordinated debt obligations from Moody's of at least Baa3 (or such other long term rating which is otherwise acceptable to Moody's).	Under the Servicing Agreement the Servicer, so long as the Back-Up Servicer's appointment has been terminated and with the assistance of the Back-Up Servicer Facilitator, shall, within 60 days, use best efforts to appoint a new back-up servicer which meets the requirements for a substitute servicer provided for by the Servicing Agreement.
	Long-term, unsecured and unsubordinated	Under the Servicing Agreement the Servicer shall, so long as the

Transaction Party	Required Ratings on the Closing Date	Possible effects of Ratings Trigger being breached include the following
	debt obligations from Fitch above BBB- (or such other long term rating which is otherwise acceptable to Fitch).	Back-Up Servicer's appointment has been terminated, within 60 days, use reasonable endeavours to enter into a back-up servicing agreement with a new back-up servicer with suitable experience and credentials in such form as the Issuer and the Trustee shall reasonably require, subject to and in accordance with the Servicing Agreement.

In accordance with Fitch's counterparty criteria, current at the date hereof, when assessing a Fitch ratings trigger, a transaction party put on "Rating Watch Negative" by Fitch shall be deemed, while they remain on "Rating Watch Negative", to be rated one notch below their actual current Fitch rating, save in respect of the appointment of a Back-Up Servicer.

**Non-Rating Triggers Table**

<b>Nature of Trigger</b>	<b>Description of Trigger</b>	<b>Consequence of Trigger</b>
<p>Servicer Termination Event</p> <p>See the section entitled "<i>The Servicer</i>" for further information on this.</p>	<p>(i) Servicer payment default;</p> <p>(ii) Failure to comply with any of its other covenants or obligations; or</p> <p>(iii) Servicer Insolvency Event.</p>	<p>The Back-Up Servicer will replace the Servicer and shall provide the servicing services in accordance with the Replacement Servicing Agreement as replacement Servicer.</p>
<p>Perfection Trigger Events</p> <p>See the section entitled "<i>The Portfolio - Sale of the Portfolio under the Mortgage Sale Agreement</i>" for further information on this.</p>	<p>Seller Insolvency Event.</p>	<p>The legal transfer by the Seller to the Issuer of all the Loans and their Related Security as soon as reasonably practicable.</p>
<p>Certain Principal Swap Provider Events</p> <p>See the section entitled "<i>Key Structural Features – Swap Agreements</i>" for further information on this.</p>	<p>Occurrence of certain events including:</p> <p>(i) the Principal Swap Provider failing to make payments under the Principal Swap Agreements;</p> <p>(ii) a Seller Insolvency Event occurring in relation to the Principal Swap Provider; or</p> <p>(iii) other events as set out in the definition of Transfer Date.</p>	<p>The obligations of the Stand-by Interest Rate Swap Provider and Issuer under the Stand-by Interest Rate Swap Transactions will begin.</p>
<p>Replacement of Cash Manager</p> <p>See the section entitled "<i>Cashflows and Cash Management</i>" for further information on this.</p>	<p>Following the termination of the appointment of the Cash Manager under the Cash Management Agreement.</p>	<p>The Back-Up Cash Manager will replace the Cash Manager and shall provide the cash management services in accordance with the terms of the Replacement Cash Management Agreement as replacement Cash Manager.</p>

## FEES

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

<b>Type of Fee</b>	<b>Amount of Fee</b>	<b>Priority in Cashflow</b>	<b>Frequency</b>
Servicing Fees	£1,200 per annum (inclusive of any applicable VAT)	Ahead of all outstanding Notes	Quarterly in arrears on each Interest Payment Date
Cash Management Fees	£1,200 per annum (inclusive of any applicable VAT)	Ahead of all outstanding Notes	Quarterly in arrears on each Interest Payment Date
Back-Up Servicing Fee	0.0114 per cent. per annum on the aggregate Current Balance of all Loans comprising the Portfolio (subject to a minimum annual fee of £60,000 and inclusive of any applicable VAT) and following the date on which the Back-Up Servicer replaces the Servicer (pursuant to the terms of the Back-Up Servicing Agreement), 0.25 per cent. per annum on the aggregate Current Balance of all Loans comprising the Portfolio plus £50 per Loan in Arrears per month plus £120 per Loan which has been repaid in full during an Interest Period (in each case, exclusive of any applicable VAT subject to the Issuer only being required to pay an amount equal to the VAT up to a maximum rate of 20 per cent. of such fee)	Ahead of all outstanding Notes	Quarterly in arrears on each Interest Payment Date
Other fees and expenses of the Issuer	Estimated at £49,250 each year (exclusive of VAT)	Ahead of all outstanding Notes	Quarterly in arrears on each Interest Payment Date
Expenses related to the admission to trading of the Notes	Estimated at £5,000 (exclusive of any applicable VAT)		On or about the Closing Date

## ARTICLE 122A OF THE CAPITAL REQUIREMENTS DIRECTIVE

Principality will, for the life of the transaction, retain a material net economic interest of not less than 5 per cent. of the nominal value of the securitised exposures in accordance with the text of Article 122a of Directive 2006/48/EC (as amended) (which does not take into account any implementing rules of the CRD in a relevant jurisdiction). As at the Closing Date, such interest will be comprised of an interest in the first loss tranche as required by Article 122a. Such retention requirement will be satisfied by Principality by holding a sufficient amount of the Class B Notes. Any change to the manner in which such interest is held will be notified to the Trustee and the Noteholders.

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

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

Each prospective investor is required to independently assess and determine the sufficiency of the information described above and in this Prospectus generally for the purposes of complying with Article 122a and none of the Issuer, Principality, the Trustee, the Arrangers nor the Joint Lead Managers makes any representation that the information described above or in this Prospectus is sufficient in all circumstances for such purposes. In addition each prospective Noteholder should ensure that they comply with the implementing provisions in respect of Article 122a and CRD 2 in their relevant jurisdiction. Investors who are uncertain as to the requirements which apply to them in respect of their relevant jurisdiction, should seek guidance from their regulator.

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

## WEIGHTED AVERAGE LIFE OF THE NOTES

Weighted average life refers to the average amount of time that will elapse from the date of issuance of a security to the date of distribution to the investor of amounts distributed in net reduction of principal of such security (assuming no losses). The weighted average lives of the Notes will be influenced by, among other things, the actual rate of repayment of the Loans in the Portfolio.

The model used in this Prospectus for the Loans represents an assumed constant per annum rate of prepayment ("CPR") each month relative to the then current principal balance of a pool of Loans. CPR does not purport to be either an historical description of the prepayment experience of any pool of loans or a prediction of the expected rate of prepayment of any Loans, including the Mortgages to be included in the Portfolio.

The following tables were prepared based on the characteristics of the Loans included in the Portfolio and the following additional assumptions (the "**Modelling Assumptions**"):

- (a) there are no arrears or enforcements;
- (b) no Loan is sold by the Issuer;
- (c) there is no debit balance on the Class A Principal Deficiency Sub-Ledger on any Interest Payment Date;
- (d) the Seller is not in breach of the terms of the Mortgage Sale Agreement;
- (e) no Loan is repurchased by the Seller;
- (f) no Substitute Loans are purchased;
- (g) no Further Advances and/or Flexible Drawings are made in respect of the Portfolio;
- (h) the portfolio mix of Loan characteristics remains the same throughout the life of the Notes;
- (i) the Principal Amount Outstanding of the Notes as at the Closing Date is (in respect of the Class A1 Notes) £229,000,000, (in respect of the Class A2 Notes) £457,000,000 and (in respect of the Class B Notes) £128,000,000;
- (j) the interest rate on each Loan in the Portfolio is equal to the Seller Standard Variable Rate, the Tracker Rate or a fixed rate, with the addition of any relevant margins above or below the applicable index. The Seller Standard Variable Rate is equal to 4.99 per cent. and the Bank of England base rate is equal to 0.5 per cent. in respect of the Tracker Rate Loans;
- (k) the Loans revert to their respective reversion margins in the first period after the reversion date;
- (l) the Notes are issued on 28 July 2011 and all payments on the Notes are received on the 21st day of every third calendar month commencing from 21 January 2012. The Collection Dates are the end of each month preceding the Interest Payment Date;
- (m) LIBOR is equal to 0.83 per cent.;
- (n) in the case of tables stating "with optional redemption", the Notes are redeemed at their Principal Amount Outstanding on the Step-Up Date;
- (o) the Notes will be redeemed in accordance with the Conditions;
- (p) no Security has been enforced;
- (q) the assets of the Issuer are not sold by the Trustee except as may be necessary to enable the Issuer to realise sufficient funds to exercise its option to redeem the Notes;
- (r) no Enforcement Notice has been served on the Issuer and no Event of Default has occurred;
- (s) the Loans continue to be fully performing;



- (t) the initial Portfolio will be purchased on the Issue Date and is derived from the initial Provisional Portfolio, which has the characteristics defined below; and
- (u) Principal has not ceased to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa2, and therefore the Liquidity Reserve Fund has not been established.

## Replines

Collateral Line	Current Balance (£)	Initial Payment Type	Reversion Payment Type	Interest Payment Type	Current Mortgage Rate	Reversion Margin (%)	WA Remaining Term to Maturity (months)	WA Months to Reversionary Rate
1	7,577,712	Discount	SVR	IO	3.87	0%	149	12
2	60,294,763	SVR	SVR	IO	4.99	0%	174	172
3	136,528,773	Fixed	SVR	IO	4.85	0%	182	22
4	92,798,148	BBR	SVR	IO	3.24	0%	185	12
5	9,778,243	Discount	SVR	REP	3.89	0%	203	12
6	78,815,791	SVR	SVR	REP	4.99	0%	198	195
7	354,158,846	Fixed	SVR	REP	4.97	0%	223	26
8	84,938,854	BBR	SVR	REP	3.29	0%	222	11

Collateral lines 3 and 7 indicate Loans where a fixed rate applies until reversion

Collateral lines 1 to 8 indicate Loans where the Seller Standard Variable Rate applies following reversion

Collateral lines 1 and 5 indicate Loans where the Discount Rate applies until reversion

Collateral lines 4 and 8 indicate Loans where the Tracker Rate applies until reversion

Collateral lines 2 and 6 indicate Loans where the initial Seller Standard Variable Rate applies until reversion

The actual characteristics and performance of the Loans are likely to differ from the assumptions. The following tables are hypothetical in nature and are provided only to give a general sense of how the principal cash flows might behave under varying prepayment scenarios. For example, it is not expected that the Loans will prepay at a constant rate until maturity, that all of the Loans will prepay at the same rate or that there will be no defaults or delinquencies on the Loans. Moreover, the diverse remaining terms to maturity and mortgage rates of the Loans could produce slower or faster principal distributions than indicated in the tables at the various percentages of CPR specified, even if the weighted average remaining term to maturity and weighted average mortgage rates of the Loans are as assumed. Any difference between such assumptions and the actual characteristics and performance of the Loans, or actual prepayment of loss experience, will affect the percentage of the initial amount outstanding of the Notes which are outstanding over time and cause the weighted average lives of the Notes to differ (which difference could be material) from the corresponding information in the tables for each indicated percentage CPR.

The weighted average lives shown below were determined by (i) multiplying the net reduction, if any, of the Principal Amount Outstanding of each Class of Notes by the number of years from the date of issuance of the Notes to the related Interest Payment Date and (ii) adding the results and dividing the sum by the aggregate of the net reductions of the Principal Amount Outstanding described in (i) above. Net reductions, such as CPR or scheduled amortisation, are calculated on an Actual/365 basis.

Subject to the foregoing discussion and assumptions, the following tables indicate the weighted average lives of the Class A1 Notes and the Class A2 Notes. The average lives of the Class A1 Notes and the Class A2 Notes have been calculated on a 30/360 basis.

**Percentage of the Original Principal Amount Outstanding of the Class A1 Notes at the Specified CPRs**

**Weighted Average  
Lives**

<b>CPR</b>	<b>0</b>	<b>5</b>	<b>10</b>	<b>15</b>	<b>20</b>	<b>25</b>	<b>30</b>	<b>12</b>
With Optional Redemption	4.02	2.26	1.41	1.05	0.85	0.73	0.65	1.23
Without Optional Redemption	5.61	2.26	1.41	1.05	0.85	0.73	0.65	1.23

**Percentage of Original Principal Amount Outstanding (without Optional Redemption)**

<b>CPR</b>	<b>0</b>	<b>5</b>	<b>10</b>	<b>15</b>	<b>20</b>	<b>25</b>	<b>30</b>	<b>12</b>
28 July 2011	100%	100%	100%	100%	100%	100%	100%	100%
21 January 2012	97%	89%	81%	73%	64%	56%	47%	78%
21 April 2012	95%	83%	70%	58%	45%	32%	19%	66%
21 July 2012	93%	76%	60%	44%	27%	11%	0%	54%
21 October 2012	91%	70%	50%	30%	10%	0%	0%	42%
21 January 2013	89%	64%	40%	17%	0%	0%	0%	31%
21 April 2013	86%	58%	31%	5%	0%	0%	0%	20%
21 July 2013	84%	52%	22%	0%	0%	0%	0%	10%
21 October 2013	82%	46%	13%	0%	0%	0%	0%	0%
21 January 2014	80%	41%	4%	0%	0%	0%	0%	0%
21 April 2014	78%	35%	0%	0%	0%	0%	0%	0%
21 July 2014	76%	29%	0%	0%	0%	0%	0%	0%
21 October 2014	73%	24%	0%	0%	0%	0%	0%	0%
21 January 2015	71%	18%	0%	0%	0%	0%	0%	0%
21 April 2015	69%	13%	0%	0%	0%	0%	0%	0%
21 July 2015	67%	8%	0%	0%	0%	0%	0%	0%
21 October 2015	64%	2%	0%	0%	0%	0%	0%	0%
21 January 2016	62%	0%	0%	0%	0%	0%	0%	0%
21 April 2016	59%	0%	0%	0%	0%	0%	0%	0%
21 July 2016	57%	0%	0%	0%	0%	0%	0%	0%
21 October 2016	55%	0%	0%	0%	0%	0%	0%	0%
21 January 2017	52%	0%	0%	0%	0%	0%	0%	0%
21 April 2017	49%	0%	0%	0%	0%	0%	0%	0%
21 July 2017	47%	0%	0%	0%	0%	0%	0%	0%
21 October 2017	44%	0%	0%	0%	0%	0%	0%	0%
21 January 2018	42%	0%	0%	0%	0%	0%	0%	0%
21 April 2018	39%	0%	0%	0%	0%	0%	0%	0%
21 July 2018	36%	0%	0%	0%	0%	0%	0%	0%
21 October 2018	34%	0%	0%	0%	0%	0%	0%	0%
21 January 2019	31%	0%	0%	0%	0%	0%	0%	0%
21 April 2019	28%	0%	0%	0%	0%	0%	0%	0%
21 July 2019	25%	0%	0%	0%	0%	0%	0%	0%
21 October 2019	22%	0%	0%	0%	0%	0%	0%	0%
21 January 2020	19%	0%	0%	0%	0%	0%	0%	0%
21 April 2020	17%	0%	0%	0%	0%	0%	0%	0%
21 July 2020	14%	0%	0%	0%	0%	0%	0%	0%
21 October 2020	11%	0%	0%	0%	0%	0%	0%	0%
21 January 2021	8%	0%	0%	0%	0%	0%	0%	0%
21 April 2021	4%	0%	0%	0%	0%	0%	0%	0%
21 July 2021	1%	0%	0%	0%	0%	0%	0%	0%
21 October 2021	0%	0%	0%	0%	0%	0%	0%	0%
21 January 2022	0%	0%	0%	0%	0%	0%	0%	0%
21 April 2022	0%	0%	0%	0%	0%	0%	0%	0%
21 July 2022	0%	0%	0%	0%	0%	0%	0%	0%
21 October 2022	0%	0%	0%	0%	0%	0%	0%	0%
21 January 2023	0%	0%	0%	0%	0%	0%	0%	0%
21 April 2023	0%	0%	0%	0%	0%	0%	0%	0%
21 July 2023	0%	0%	0%	0%	0%	0%	0%	0%
21 October 2023	0%	0%	0%	0%	0%	0%	0%	0%
21 January 2024	0%	0%	0%	0%	0%	0%	0%	0%
21 April 2024	0%	0%	0%	0%	0%	0%	0%	0%
21 July 2024	0%	0%	0%	0%	0%	0%	0%	0%
21 October 2024	0%	0%	0%	0%	0%	0%	0%	0%
21 January 2025	0%	0%	0%	0%	0%	0%	0%	0%
21 April 2025	0%	0%	0%	0%	0%	0%	0%	0%
21 July 2025	0%	0%	0%	0%	0%	0%	0%	0%
21 October 2025	0%	0%	0%	0%	0%	0%	0%	0%
21 January 2026	0%	0%	0%	0%	0%	0%	0%	0%
21 April 2026	0%	0%	0%	0%	0%	0%	0%	0%
21 July 2026	0%	0%	0%	0%	0%	0%	0%	0%
21 October 2026	0%	0%	0%	0%	0%	0%	0%	0%

21 January 2027	0%	0%	0%	0%	0%	0%	0%	0%
21 April 2027	0%	0%	0%	0%	0%	0%	0%	0%

**Percentage of the Original Principal Amount Outstanding of the Class A2 Notes at the Specified CPRs**

**Weighted Average Lives**

<b>CPR</b>	<b>0</b>	<b>5</b>	<b>10</b>	<b>15</b>	<b>20</b>	<b>25</b>	<b>30</b>	<b>12</b>
With Optional Redemption	4.98	4.97	4.59	4.06	3.52	3.01	2.55	4.38
Without Optional Redemption	14.30	10.15	6.85	4.94	3.81	3.07	2.55	5.95

**Percentage of Original Principal Amount Outstanding (without Optional Redemption)**

<b>CPR</b>	<b>0</b>	<b>5</b>	<b>10</b>	<b>15</b>	<b>20</b>	<b>25</b>	<b>30</b>	<b>12</b>
28 July 2011	100%	100%	100%	100%	100%	100%	100%	100%
21 January 2012	100%	100%	100%	100%	100%	100%	100%	100%
21 April 2012	100%	100%	100%	100%	100%	100%	100%	100%
21 July 2012	100%	100%	100%	100%	100%	100%	97%	100%
21 October 2012	100%	100%	100%	100%	100%	95%	86%	100%
21 January 2013	100%	100%	100%	100%	97%	86%	75%	100%
21 April 2013	100%	100%	100%	100%	90%	78%	66%	100%
21 July 2013	100%	100%	100%	96%	83%	70%	58%	100%
21 October 2013	100%	100%	100%	91%	76%	62%	50%	100%
21 January 2014	100%	100%	100%	85%	70%	55%	43%	95%
21 April 2014	100%	100%	98%	80%	64%	49%	36%	91%
21 July 2014	100%	100%	94%	75%	58%	43%	30%	86%
21 October 2014	100%	100%	90%	70%	53%	38%	25%	82%
21 January 2015	100%	100%	86%	66%	48%	33%	20%	78%
21 April 2015	100%	100%	82%	61%	44%	28%	16%	74%
21 July 2015	100%	100%	79%	57%	39%	24%	12%	70%
21 October 2015	100%	100%	75%	53%	35%	20%	8%	66%
21 January 2016	100%	99%	72%	49%	31%	16%	5%	62%
21 April 2016	100%	96%	68%	46%	28%	13%	2%	59%
21 July 2016	100%	94%	65%	42%	24%	10%	0%	55%
21 October 2016	100%	91%	62%	39%	21%	7%	0%	52%
21 January 2017	100%	89%	59%	36%	18%	4%	0%	49%
21 April 2017	100%	86%	56%	33%	15%	2%	0%	46%
21 July 2017	100%	84%	53%	30%	12%	0%	0%	43%
21 October 2017	100%	81%	50%	27%	10%	0%	0%	40%
21 January 2018	100%	79%	48%	24%	7%	0%	0%	37%
21 April 2018	100%	77%	45%	22%	5%	0%	0%	35%
21 July 2018	100%	74%	42%	19%	3%	0%	0%	32%
21 October 2018	100%	72%	40%	17%	1%	0%	0%	30%
21 January 2019	100%	70%	38%	15%	0%	0%	0%	27%
21 April 2019	100%	68%	35%	13%	0%	0%	0%	25%
21 July 2019	100%	66%	33%	11%	0%	0%	0%	23%
21 October 2019	100%	63%	31%	9%	0%	0%	0%	21%
21 January 2020	100%	61%	29%	7%	0%	0%	0%	19%
21 April 2020	100%	59%	27%	5%	0%	0%	0%	17%
21 July 2020	100%	57%	25%	4%	0%	0%	0%	15%
21 October 2020	100%	55%	23%	2%	0%	0%	0%	13%
21 January 2021	100%	53%	21%	0%	0%	0%	0%	11%
21 April 2021	100%	51%	19%	0%	0%	0%	0%	10%
21 July 2021	100%	49%	17%	0%	0%	0%	0%	8%
21 October 2021	99%	47%	15%	0%	0%	0%	0%	7%
21 January 2022	97%	45%	14%	0%	0%	0%	0%	5%
21 April 2022	96%	44%	12%	0%	0%	0%	0%	4%
21 July 2022	94%	42%	11%	0%	0%	0%	0%	2%
21 October 2022	93%	40%	9%	0%	0%	0%	0%	1%
21 January 2023	91%	38%	8%	0%	0%	0%	0%	0%
21 April 2023	89%	36%	6%	0%	0%	0%	0%	0%
21 July 2023	87%	35%	5%	0%	0%	0%	0%	0%
21 October 2023	86%	33%	4%	0%	0%	0%	0%	0%
21 January 2024	82%	30%	2%	0%	0%	0%	0%	0%
21 April 2024	80%	29%	1%	0%	0%	0%	0%	0%
21 July 2024	79%	27%	0%	0%	0%	0%	0%	0%

21 October 2024	77%	25%	0%	0%	0%	0%	0%	0%
21 January 2025	75%	24%	0%	0%	0%	0%	0%	0%
21 April 2025	73%	22%	0%	0%	0%	0%	0%	0%
21 July 2025	71%	21%	0%	0%	0%	0%	0%	0%
21 October 2025	69%	19%	0%	0%	0%	0%	0%	0%
21 January 2026	67%	17%	0%	0%	0%	0%	0%	0%
21 April 2026	52%	10%	0%	0%	0%	0%	0%	0%
21 July 2026	50%	8%	0%	0%	0%	0%	0%	0%
21 October 2026	19%	0%	0%	0%	0%	0%	0%	0%
21 January 2027	0%	0%	0%	0%	0%	0%	0%	0%
21 April 2027	0%	0%	0%	0%	0%	0%	0%	0%

For more information in relation to the risks involved in the use of the average lives estimated above, see the section entitled "*Risk Factors – Credit Structure – Yield and prepayment considerations*".

## RISK FACTORS

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

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

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

### Credit Structure

#### *Notes obligations of Issuer only*

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

#### *Limited source of funds*

The ability of the Issuer to meet its obligations to pay principal and interest on the Notes and its operating and administrative expenses will be dependent primarily on Revenue Receipts and Principal Receipts in respect of the Loans in the Portfolio, interest earned on the GIC Account, the receipts under the Swap Agreements and amounts standing to the credit of the General Reserve Fund and, if established, the Liquidity Reserve Fund. Other than the foregoing, the Issuer is not expected to have any other material funds available to it to meet its obligations under the Notes and/or any other payment obligation ranking in priority to, or *pari passu* with, the Notes under the applicable Priority of Payments. If such funds are insufficient, any such insufficiency will be borne by the Noteholders and the other Secured Creditors, subject to the applicable Priority of Payments. The Issuer will have no recourse to the Seller, save in the limited circumstances provided in the Mortgage Sale Agreement (see further the section entitled "*The Portfolio – Sale of the Portfolio under the Mortgage Sale Agreement*").

#### *Limited recourse*

The Notes will be limited recourse obligations of the Issuer. If at any time following:

- (a) the occurrence of either:
  - (i) the Final Maturity Date or any earlier date upon which all of the Notes of each Class are due and payable; or
  - (ii) the service of an Enforcement Notice; and
- (b) realisation of the Charged Property and application in full of any amounts available to pay amounts due and payable under the Notes in accordance with the applicable Priority of Payments,

the proceeds of such Realisation are insufficient, after payment of all other claims ranking in priority in accordance with the applicable Priority of Payments, to pay in full all amounts then due and payable under any Class of Notes, then the amount remaining to be paid (after such application in full of the amounts first referred to in (b) above) under such Class of Notes (and any Class of Notes junior to that Class of Notes) shall, on the day following such application in full of the amounts referred to in (b)

above, cease to be due and payable by the Issuer. "**Realisation**" is defined in Condition 10 (*Limited Recourse*).

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

#### *Deferral of interest payments on the Notes*

If, on any Interest Payment Date, the Issuer has insufficient funds to make payment in full of all amounts of interest (including any accrued interest thereon) payable in respect of the Notes other than the Most Senior Class of Notes, after having paid or provided for items of higher priority in the Pre-Enforcement Revenue Priority of Payments, then that amount shall not be due and payable and the Issuer will be entitled under Condition 8.11 (*Interest Accrual*) to defer payment of that amount (to the extent of the insufficiency) until the following Interest Payment Date or such earlier date as interest in respect of such Class of Notes becomes immediately due and repayable in accordance with the Conditions and it shall not constitute an Event of Default. To the extent that there are insufficient funds on the following Interest Payment Date or such earlier date as interest in respect of such Class of Notes is scheduled to be paid in accordance with the Conditions, the deferral of interest shall continue until the Final Maturity Date. However, if there is insufficient money available to the Issuer to pay interest on any Class of Notes, then the relevant Noteholders may not receive all interest amounts.

#### *Credit risk*

The Issuer is subject to the risk of default in payment by the Borrowers and the failure by the Servicer, on behalf of the Issuer, to realise or recover sufficient funds under the arrears and default procedures in respect of the Loan and Related Security in order to discharge all amounts due and owing by the relevant Borrowers under the Loans, which may adversely affect payments on the Notes. This risk is mitigated to some extent by certain credit enhancement features which are described in the section entitled "*Key Structural Features*". However, no assurance can be made as to the effectiveness of such credit enhancement features, or that such credit enhancement features will protect the Noteholders from all risk of loss.

#### *Liquidity risk*

The Issuer is subject to the risk of insufficiency of funds on any Interest Payment Date as a result of payments being made late by Borrowers after the end of the relevant Collection Period. This risk is addressed in respect of the Notes by the provision of liquidity from alternative sources as described in the section entitled "*Key Structural Features*". However, no assurance can be made as to the effectiveness of such credit enhancement features, or that such credit enhancement features will protect the Noteholders from all risk of loss.

#### *Payment of Principal in respect of the Class A Notes is sequential*

Prior to the service of an Enforcement Notice by the Trustee, the payment of principal amongst the Class A Notes will be made in Sequential Order as set out in "*Key Structural Features*". This will (prior to the service of an Enforcement Notice) result in the Class A1 Notes being repaid prior to the Class A2 Notes.

#### *Payment of principal and interest in respect of the Class B Notes is sequential.*

The Class B Notes are subordinated in right of payment of interest and principal to the Class A Notes as set out in "*Key Structural Features*". Further, Available Revenue Receipts will be applied to credit the General Reserve Fund prior to payment of interest on the Class B Notes. There is no assurance that these subordination provisions will protect the holders of the Class A Notes from all risk of loss.

#### *Basis risk*

The Issuer is subject to the risk of a mismatch between (i) the fixed rates of interest payable on the Fixed Rate Loans and the interest rate payable in respect of the Notes; and (ii) the interest rate on BoE Base

Rate linked Loans and standard variable rate linked Loans being determined on different bases from that on which the interest rate payable on the Notes is determined, which risks are mitigated by the Swap Transactions.

The Swap Transactions are not designed to provide a perfect hedge for the Loans included in the Portfolio or eliminate all risks associated with the rates payable in respect of such Loans. In particular, the notional amount of the Swap Transactions will be set at the end of the calendar month ending during the relevant calculation period of the Swap Transactions and will only be reset on a monthly basis. In addition, the portion of a Loan which is attributable to a Further Advance or Flexible Drawing which occurred after a Transfer Date will not be included in the calculation of the notional amount of the relevant Swap Agreement.

#### *Swap Provider Risk and Swap Termination Payment*

In the event that any Swap Provider does not pay the amount payable under a Swap Agreement when due, available funds of the Issuer may be less than would otherwise be the case and this could result in reduced payments to Noteholders.

If a Swap Agreement is terminated for any reason, the Cash Manager (on behalf of the Issuer) may be obliged to use available funds of the Issuer to pay any termination payment due to the relevant Swap Provider under such Swap Agreement. Any termination payment due by the Issuer to a Swap Provider will be paid first out of amounts standing to the credit of the relevant Swap Collateral Account in accordance with the relevant Swap Collateral Account Priority of Payments and then, to the extent that there are insufficient funds standing to the credit of the relevant Swap Collateral Account, using available funds in accordance with the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement Priority of Payments. Any termination payment due by the Issuer to a Swap Provider (except for any Swap Subordinated Amounts) will rank in priority to amounts due on the Notes both in the Pre-Enforcement Revenue Priority of Payments and the Post-Enforcement Priority of Payments.

If the Issuer is obliged to make a termination payment to a Swap Provider, this may reduce or adversely affect the amount of funds which the Issuer has available to make payments on the Notes. There can be no assurance that the Issuer will have sufficient funds available to make any termination payment under the relevant Swap Agreement or that the Issuer will have sufficient funds to make subsequent payments to the Noteholders in respect of the Notes.

Furthermore, if any Swap Provider were to default in respect of its obligations under a Swap Agreement so as to result in a termination of such Swap Agreement, the Issuer will use commercially reasonable efforts to enter into a replacement arrangement with another appropriately rated entity, which may require the Issuer to make a payment to the replacement swap provider. A failure to enter into such a replacement arrangement may result in a downgrading on the rating of the Class A Notes, and may reduce the amount of funds available to make payments on the Notes. In addition, if the Issuer fails to enter into such replacement arrangement, the Portfolio will remain unhedged.

In the event of the insolvency of a Swap Provider the Issuer will be treated as a general creditor of such Swap Provider. Consequently, the Issuer will be subject to the credit risk of such Swap Provider, as well as that of the Loans.

To mitigate this risk, under the terms of the Swap Agreements, in the event that the relevant ratings of a Swap Provider and any party providing credit support for such Swap Provider fail to meet the required ratings, such Swap Provider will, in accordance with the terms of the relevant Swap Agreement, be required to elect to take certain remedial measures within the time frame stipulated in the relevant Swap Agreement and at its own cost, which may include providing collateral for its obligations under the relevant Swap Agreement, arranging for its obligations under the relevant Swap Agreement to be transferred to an entity with the required ratings, procuring another entity with the required ratings to become co-obligor or guarantor, as applicable, in respect of its obligations under the relevant Swap Agreement or such other action that would result in the Rating Agencies continuing the then current rating of the Notes or restoring such rating to the level prior to the downgrade event. However, no assurance can be given that, at the time that such actions are required, sufficient collateral will be provided by the relevant Swap Provider or that another entity with the required rating will be available or willing to become a replacement swap provider, co-obligor or guarantor. Other than a Swap Collateral

Account Surplus, collateral provided will not generally be available to meet the Issuer's obligations under the Notes or the Transaction Documents.

#### *Moody's rating of UK banks and building societies*

Moody's consider that, since September 2008, the UK banking system and the UK mutual sector has benefitted from extraordinary support provided by both the UK government and the Bank of England and these support assumptions were factored into its debt and deposit ratings. Due to the systemic nature of the crisis, whereby the failure of any bank or building society had implications for the overall system, Moody's increased its assumptions for the probability of the provision of government support for a number of UK institutions during the crisis, including, in the context of this transaction, Principality, RBS and Barclays Bank PLC.

In March 2010 Moody's announced that, as the financial sector emerges from the crisis, its assessment of the probability of the UK government and the Bank of England providing support will revert back to a case-by-case base assessment of the impact of each bank or building society's hypothetical failure on financial stability. In March 2010 Moody's expected gradually to reduce the extraordinary support assumption factored into its debt and deposit ratings for the relevant UK institutions and return to its lower pre-crisis support assumptions for such UK institutions. Moody's have stated that how and when it reduces the support assumptions will depend upon a number of factors, including the importance of the bank or building society and the pace in the recovery of the UK economy.

Moody's have also reiterated these intentions in subsequent announcements in December 2010, February 2011, March 2011 and April 2011. In December 2010 Moody's announced that they expected to reduce the level of support incorporated in senior debt ratings over the next one to two years from the date of that announcement. In April 2011, Moody's announced that it will begin its reassessment of the systemic support assumptions that it currently incorporates into debt ratings for UK financial institutions (and in May 2011 announced that in light of this reassessment the credit ratings of 14 UK financial institutions, including Principality, have been placed on review for possible downgrade). Such reassessment will focus on the high systemic support assumptions currently incorporated in the senior debt ratings of small to medium-sized UK financial institutions, as well as, on a case-by-case basis, the level of systemic support incorporated in the large, complex financial institutions. Moody's have stated that they intend to continue to assume some level of systemic support for senior debt issued by larger financial institutions and expects to be able to make a more informed assessment of this in the second half of 2011. As such, there can be no assurance for investors as to the timeframe or impact of any reduction by Moody's to these support assumptions. The Issuer has mitigated the risk of certain transaction counterparties being downgraded through the downgrade provisions in the Transaction Documents – see "*Triggers Table – Rating Triggers Table*".

#### *Yield and prepayment considerations*

The yield to maturity of the Notes of each Class will depend on, among other things, the amount and timing of payment of principal and interest (including prepayments, sale proceeds arising on enforcement of a Loan and repurchases of Loans required to be made under the Mortgage Sale Agreement) on the Loans and the price paid by the holders of the Notes of each Class. Such yield may be adversely affected by, amongst other things, a higher or lower than anticipated rate of prepayments on the Loans. Furthermore, if the conditions for the purchase of Further Advances and/or Flexible Drawings by the Issuer are not met, then the Issuer will not be able to fund the purchase of such Further Advances and/or Flexible Drawings which may result in Principal Receipts in the form of repurchase proceeds payable by the Seller, instead being used to prematurely repay the Notes. See also "*Risk Factors – Product Switches, Further Advances, Flexible Drawings and Substitutions*".

The rate of prepayment of Loans is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing programmes, local and regional economic conditions and homeowner mobility. Subject to the terms and conditions of the Loans (which may require in some cases notification to the Seller and in other cases the consent of the Seller), a Borrower may "overpay" or prepay principal on any day in specified circumstances. No assurance can be given as to the level of prepayments that the Portfolio will experience. See also the section entitled "*The Portfolio – Sale of the Portfolio under the Mortgage Sale Agreement*".



Following enforcement of the Security, there is no guarantee that the Issuer will have sufficient funds to redeem the Notes in full.

On any Interest Payment Date from and including the Step-Up Date or Interest Payment Date on which the aggregate Principal Amount Outstanding of all the Notes is less than 10 per cent. of the aggregate Principal Amount Outstanding of all such Notes on the Closing Date, the Issuer may, subject to certain conditions, redeem all of the Notes. In addition, the Issuer may, subject to the Conditions, redeem all of the Notes if a change in tax law results in the Issuer or the Swap Providers being required to make a Tax Deduction in respect of any payment in respect of the Notes or a Swap Agreement, respectively, or the Issuer would be subject to UK corporation tax in an accounting period on an amount which materially exceeds the Issuer Profit Amount retained during that accounting period. See Condition 9.4 (*Optional Redemption in whole for taxation reasons*) for further information.

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

#### *Ratings of the Notes*

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

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

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

#### *Ratings confirmation in relation to the Notes in respect of certain actions*

The terms of certain Transaction Documents require the Rating Agencies to confirm that certain actions proposed to be taken by the Issuer and the Trustee will not have an adverse effect on the then current rating of the Notes (a “**Ratings Confirmation**”).

A Ratings Confirmation that any action proposed to be taken by the Issuer or the Trustee will not have an adverse effect on the then current rating of the Notes does not, for example, confirm that such action (i) is permitted by the terms of the Transaction Documents or (ii) is in the best interests of, or prejudicial to, Noteholders. While entitled to have regard to the fact that the Rating Agencies have confirmed that the then current rating of the relevant class (or sub-Class) of Notes would not be adversely affected, the above does not impose or extend any actual or contingent liability on the Rating Agencies to the Secured Creditors (including the Noteholders), the Issuer, the Trustee or any other person or create any legal relationship between the Rating Agencies and the Secured Creditors (including the Noteholders), the Issuer, the Trustee or any other person whether by way of contract or otherwise.

Any such Ratings Confirmation may or may not be given at the sole discretion of each Rating Agency. It should be noted that, depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that a Rating Agency cannot provide a Ratings Confirmation in the time available or at all, and the Rating Agency should not be responsible for the consequences thereof. A Ratings Confirmation, if given, will be given on the basis of the facts and

circumstances prevailing at the relevant time and in the context of cumulative changes to the transaction of which the securities form part since the Closing Date. A Ratings Confirmation represents only a restatement of the opinions given as at the Closing Date and cannot be construed as advice for the benefit of any parties to the transaction.

Certain Rating Agencies have indicated that they will no longer provide Ratings Confirmations as a matter of policy. To the extent that a Ratings Confirmation cannot be obtained, whether or not a proposed action will ultimately take place will be determined in accordance with the provisions of the relevant Transaction Documents and specifically the relevant modification and waiver provisions.

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

No assurance is provided that there is an active and liquid secondary market for the Notes, and no assurance is provided that a secondary market for the Notes will develop or, if it does develop, that it will provide Noteholders with liquidity of investment for the life of the Notes. Any investor in the Notes must be prepared to hold their Notes for an indefinite period of time or until their Final Maturity Date or alternatively such investor may only be able to sell the Notes at a discount to the original purchase price of those Notes.

Moreover, at the date of this Prospectus, the secondary market for mortgage-backed securities in general is experiencing disruptions resulting from reduced investor demand for such securities. At times this has had a material adverse impact on the market value of mortgage-backed securities and resulted in the secondary market for mortgage-backed securities similar to the Notes experiencing limited liquidity. Limited liquidity in the secondary market may have an adverse effect on the market value of mortgage-backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the requirements of limited categories of investors. It is not known for how long these market conditions will continue or whether they will worsen.

Whilst central bank schemes such as the Bank of England's Discount Window Facility which was launched in October 2008 and the European Central Bank liquidity scheme provide an important source of liquidity in respect of eligible securities, recent restrictions in respect of the relevant eligibility criteria for eligible collateral which applies and will apply in the future under such facilities are likely to adversely impact secondary market liquidity for mortgage-backed securities in general, regardless of whether the Notes are eligible securities. No assurance is given that any Class of Notes will be eligible for any specific central bank liquidity schemes.

### ***Rights of Noteholders and Secured Creditors***

#### ***Conflict between Noteholders***

The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of the Class A Noteholders and the Class B Noteholders equally as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise).

If, in the opinion of the Trustee, there is a conflict between the interests of holders of different classes of Notes, the Trustee will have regard only to the interests of the holders of the Class A Notes.

#### ***Conflict Between Noteholders and other Secured Creditors***

The Trust Deed provides that the Trustee shall, except where expressly provided otherwise and prior to the redemption in full of the Notes, have regard solely to the interests of the Noteholders and shall have regard to the interests of the other Secured Creditors only to pay such parties any monies received and payable to it and to act in accordance with the Post-Enforcement Priority of Payments. However in certain circumstances, the Trustee will be prevented from acting or taking certain action where the consent of the Swap Providers has not been obtained, as to which see further Condition 17.1 (*Modification*) below and "*Risk Factors – Meetings of Noteholders, Modification and Waiver*".

## ***The Mortgages***

*Seller to initially retain legal title to the Loans and risks relating to set-off*

The sale by the Seller to the Issuer of certain loans secured by Mortgages (the "**Loans**") and their Related Security (until legal title is conveyed) takes effect in equity only. This means that the Issuer will not acquire legal title and, in the case of registered land in England or Wales, will not be registered as proprietor and legal owner of the Mortgage at the Land Registry, until certain trigger events occur under the terms of the Mortgage Sale Agreement (see "*The Portfolio — Sale of the Mortgages and their Related Security*", below).

The Issuer has not and will not apply to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the Mortgages and their Related Security.

There are certain consequences under English law of the Issuer not obtaining legal title to the Loans and their Related Security or the Properties secured thereby:

- (a) a *bona fide* purchaser from the Seller for value of any of such Loans and their Related Security without notice of any of the interests of the Issuer might obtain a good title free of any such interest. If this occurred, then the Issuer would not have good title to the affected Loan and its Related Security, and it would not be entitled to payments by a Borrower in respect of that Loan. However, the risk of third party claims obtaining priority to the interests of the Issuer in this way would be likely to be limited to circumstances arising from a breach by the Seller of its contractual obligations or fraud, negligence or mistake on the part of the Seller or the Issuer or their respective personnel or agents;
- (b) although as between the Seller and the Issuer, under the Servicing Agreement, the Seller has agreed that it will not vary any of the terms of the Loans or their Related Security except that it may in its capacity as Servicer vary certain terms in certain circumstances as set out in the Servicing Agreement, as between any Borrower and the Issuer, if the Seller were to modify the terms of the Loans and their Related Security the revised terms would apply and the Issuer would only have recourse against the Seller for breach of contract or breach of trust;
- (c) prior to the insolvency of the Seller, unless notice of the assignment is given to a Borrower who is a creditor of the Seller in the context of the Loans and their Related Security, equitable or independent set-off rights may accrue in favour of the Borrower against his or her obligation to make payments to the Seller under the Loan. These rights may result in the Issuer receiving reduced payments on the Loans. The transfer of the benefit of any Loans to the Issuer will continue to be subject to any prior rights the Borrower may become entitled to after the transfer. However, where notice of the assignment is given to the Borrower, some rights of set-off may continue to arise after the date notice is given;
- (d) once notice has been given to the Borrowers of the assignment of the Loans and their Related Security to the Issuer, independent set-off rights which a Borrower has against the Seller (such as, for example, set-off rights associated with Borrowers holding deposits with the Seller) will crystallise and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under "transaction set-off" (which are set-off claims arising out of a transaction connected with the Loan such as in respect of a flexible drawing) will not be affected by that notice and will continue to exist (see "*Risk Factors - Set-off risk may adversely affect the value of the Portfolio or any part thereof*" below); and
- (e) until notice of the assignment is given to the Borrowers, the Issuer would not be able to enforce any Borrower's obligations under a Loan or Related Security itself but would have to join the Seller as a party to any legal proceedings. Borrowers will also have the right to redeem their Mortgages by repaying the Loan directly to the Seller. However, the Seller will undertake, pursuant to the Mortgage Sale Agreement, to hold any money repaid to it in respect of Loans to the order of the Issuer. However, for so long as the Issuer does not have legal title, the Seller will undertake for the benefit of the Issuer that it will lend its name to, and take such other steps as may reasonably be required by the Issuer in relation to, any legal proceedings in respect of the Loans and their Related Security.

If any of the risks described above were to occur then the realisable value of the Portfolio or any part thereof may be affected. Under the Mortgage Sale Agreement, the Seller will grant to the Issuer and the Trustee a power of attorney to give them the power to do all further things and take all necessary action to perfect the transfer of legal title to the Loans and their Related Security on the occurrence of a Perfection Trigger Event.

*Set-off risk may adversely affect the value of the Portfolio or any part thereof*

As described above, the sale by the Seller to the Issuer of Loans will be given effect by an assignment. As a result, legal title to the Loans and their Related Security sold by the Seller to the Issuer will remain with the Seller until the occurrence of certain trigger events under the terms of the Mortgage Sale Agreement. Once notice has been given to the Borrowers of the assignment of the Loans and their Related Security to the Issuer, independent set-off rights which a Borrower has against the Seller (such as set-off rights not associated with or connected to the relevant Loan, for example in relation to deposits held by a Borrower with the Seller) will crystallise and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice.

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

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

The relevant Borrower may set off any claim for damages arising from the Seller's breach of contract against the Seller's (and, as equitable assignee of or holder of the beneficial interest in the Loans and the Mortgages in the Portfolio, the Issuer's) claim for payment of principal and/or interest under the relevant Loan as and when it becomes due. These set-off claims will constitute transaction set-off, as described in the immediately preceding risk factor.

The amount of any such claim against the Seller will, in many cases, be the cost to the Borrower of finding an alternative source of funds. The Borrower may obtain a mortgage loan elsewhere, in which case the damages awarded could be equal to any difference in the borrowing costs together with any direct losses arising from the Seller's breach of contract, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees).

If the Borrower is unable to obtain an alternative mortgage loan, he or she may have a claim in respect of other indirect losses arising from the Seller's breach of contract where there are special circumstances communicated by the Borrower to the Seller at the time the Borrower entered into the Mortgage or which otherwise were reasonably foreseeable. A Borrower may also attempt to set off an amount greater than the amount of his or her damages claim against his or her mortgage payments. In that case, the Servicer will be entitled to take enforcement proceedings against the Borrower, although the period of non-payment by the Borrower is likely to continue until a judgment is obtained.

The exercise of set-off rights by Borrowers may adversely affect the realisable value of the Portfolio and/or the ability of the Issuer to make payments under the Notes.

*Income and Principal Deficiency*

If, on any Interest Payment Date, as a result of shortfalls in Available Revenue Receipts relative to interest due on the Class A Notes, amounts ranking in priority to the payment of interest on the Class A Notes and amounts necessary to eliminate any debit balances on the Class A Principal Deficiency Sub-Ledger, there is an Income Deficit, then subject to certain conditions set out in "Key Structural Features", the Issuer may apply the General Reserve Fund. If following application of the General Reserve Fund, there is a Remaining Income Deficit, then (again subject to certain conditions) the Issuer may apply Principal Receipts (if any) and following which amounts standing to the credit of the Liquidity Reserve Fund (if established). In this event, the consequences set out in the following paragraph may result.

Application, as described above, of any Principal Receipts and amounts standing to the credit of the Liquidity Reserve Fund (if established) to meet any Remaining Income Deficit (in addition to any Losses) will be recorded first on the Class B Principal Deficiency Sub-Ledger until the balance of the Class B Principal Deficiency Sub-Ledger is equal to the aggregate Principal Amount Outstanding of the Class B

Notes then outstanding, and next on the Class A Principal Deficiency Sub-ledger until the balance of the Class A Principal Deficiency Sub-Ledger is equal to the aggregate Principal Amount Outstanding of the Class A Notes then outstanding.

It is expected that during the course of the life of the Notes, principal deficiencies will be recouped from Available Revenue Receipts and, other than in respect of the Class B Notes, amounts standing to the credit of the General Reserve Fund. Available Revenue Receipts will be applied, after meeting prior ranking obligations as set out under the Pre-Enforcement Revenue Priority of Payments, to credit first the Class A Principal Deficiency Sub-Ledger and second the Class B Principal Deficiency Sub-Ledger. Amounts standing to the credit of the General Reserve Fund will be applied, after meeting prior ranking obligations as further described in "*Key Structural Features*", to credit the Class A Principal Deficiency Sub-Ledger.

If there are insufficient funds available as a result of such income or principal deficiencies, then one or more of the following consequences may ensue:

- the interest and other net income of the Issuer may not be sufficient, after making the payments to be made in priority thereto, to pay, in full or at all, interest due on the Notes; and
- there may be insufficient funds to repay the Notes on or prior to the Final Maturity Date of the Notes unless the other net income of the Issuer is sufficient, after making other payments to be made in priority thereto, to reduce to nil the balance on the Principal Deficiency Ledger.

#### *Product Switches, Further Advances, Flexible Drawings and Substitutions*

A Loan and its Related Security may be repurchased where a Product Switch, Further Advance or Flexible Drawing or substitution is made in the circumstances and for the consideration set out in "*The Portfolio - Sale of the Portfolio under the Mortgage Sale Agreement*". There can be no assurance that the Seller will have the financial resources to honour its repurchase obligations under the Mortgage Sale Agreement. This may affect the quality of the Loans and their Related Security in the Portfolio and accordingly the ability of the Issuer to make payments on the Notes. The yield to maturity of the Notes may be affected by the repurchase of Loans subject to Product Switches, Further Advances, Flexible Drawings and substitution.

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

#### ***Selection of the Portfolio***

The information in the section headed "*Statistical Information on the Portfolio*" has been extracted from the systems of the Seller as at 30 June 2011 (the "**Portfolio Cut-Off Date**"). The pool of Loans from which the Portfolio will be selected (the "**Provisional Portfolio**") comprises of 10,120 Loans with a Current Balance of £824,891,131. The characteristics of the Portfolio as at the Closing Date will vary from those set out in the tables in this Prospectus as a result of, *inter alia*, repayments and redemptions of Loans prior to the Closing Date and the operation of a random selection process.

#### ***Servicing and Third Party Risk***

##### *Issuer reliance on other third parties*

The Issuer is also party to contracts with a number of other third parties who have agreed to perform services in relation to the Notes. In particular, but without limitation, the Swap Providers have agreed to provide hedging to the Issuer, the Corporate Services Provider has agreed to provide certain corporate services to the Issuer, the Account Bank has agreed to provide the GIC Account to the Issuer, the Servicer has agreed to service the Portfolio, the Cash Manager has agreed to provide cash management services and the Paying Agents, the Registrar and the Agent Bank have all agreed to provide services with respect to the Notes and the Back-Up Servicer Facilitator has agreed to assist in appointing a Back-Up Servicer.

In the event that any of the above parties were to fail to perform their obligations under the respective agreements to which they are a party, payments on the Notes may be adversely affected.

#### *Ability to appoint Substitute Servicer*

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

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

There can be no assurance that the Back-Up Servicer will be able to perform its obligations. In which case, there can be no assurance that a substitute servicer with sufficient experience of servicing mortgages of residential properties would be found who would be willing and able to service the Loans on the terms of the Servicing Agreement. In addition, as described below, any such substitute servicer will be required to be authorised under the Financial Services and Markets Act 2000 (the "FSMA") in order to service Loans that constitute Regulated Mortgage Contracts. The ability of any entity acting as a substitute servicer to fully perform the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect payments on the Loans and hence the Issuer's ability to make payments when due on the Notes.

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

#### *The Trustee is not obliged to act in certain circumstances*

The Trustee may, at any time, at its discretion and without notice, take such proceedings, actions or steps against the Issuer or any other party to any of the Transaction Documents as it may think fit to enforce the provisions of the Notes or the Trust Documents (including the Conditions) or of the other Transaction Documents to which it is a party and at any time after the service of an Enforcement Notice, the Trustee may, at its discretion and without notice, take such proceedings, actions or steps as it may think fit to enforce the Security. However, the Trustee shall not be bound to take any such proceedings, actions or steps (including, but not limited to, the giving of an Enforcement Notice in accordance with Condition 13 (*Events of Default*)) unless it shall have been directed to do so by an Extraordinary Resolution of the Most Senior Class of Noteholders or in writing by the holders of at least 25 per cent. in Principal Amount Outstanding of the Most Senior Class of Notes then outstanding and it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

In relation to the undertaking to be given by the Seller to the Issuer, the Stand-by Interest Rate Swap Provider and the Trustee on behalf of itself and the Noteholders in the Deed of Charge in accordance with Article 122a of the CRD 2 regarding the material net economic interest to be retained by the Seller and certain requirements as to providing investor information in connection therewith, the Trustee shall not be under any obligation to monitor the compliance by the Seller with such undertaking or to investigate any matter which is the subject of such undertaking and shall not be under any obligation to take any action in relation to non-compliance with such undertaking unless and until the Trustee has received actual written notice of the same from any Transaction Party, in which event the only obligation of the Trustee shall be to notify the Issuer (who shall notify the Noteholders and the other Secured Creditors of the same) and, subject to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction, to take such further action as it is directed to take in connection with such non-compliance by an Extraordinary Resolution of the Most Senior Class of outstanding Notes.

#### *Change of counterparties*

The parties to the Transaction Documents who receive and hold monies or provide support to the transaction pursuant to the terms of such documents (such as the Account Bank and the Swap Providers) are required to satisfy certain criteria in order to remain a counterparty to the Issuer.

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

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

### ***The Portfolio***

#### ***Default by Borrowers in paying amounts due on their Loans***

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

In particular, Loans in 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 in the United Kingdom, a concentration of the Loans in such a region may be expected to exacerbate the risks relating to the Loans described in this section. Certain geographic regions within the United Kingdom rely on different types of industries. Any downturn in a local economy or particular industry may adversely affect the regional employment levels and consequently the repayment ability of the Borrowers in that region or the region that relies most heavily on that industry. Any natural disasters in a particular region may reduce the value of affected Properties. This may result in a loss being incurred upon sale of the Property. These circumstances could affect receipts on the Loans and ultimately result in losses on the Notes. In addition, the realisable value of the Loans comprised in the Portfolio will be heavily dependent on the housing market and economic conditions in Wales, which may be different from the general conditions experienced in the UK at such time. For an overview of the geographical distribution of the Loans as at the Portfolio Cut-Off Date, see "*The Portfolio — Statistical information on the Portfolio — Geographical Distribution of Properties*".

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

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

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

such payment may be reduced further if the mortgagee's method for obtaining possession of properties permitted by law is restricted in the future.

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

Borrowers with a Loan subject to a variable rate of interest or with a Loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, may be exposed to increased monthly payments if the related mortgage interest rate adjusts upward (or, in the case of a Loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). This increase in Borrowers' monthly payments, which (in the case of a Loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, ultimately may result in higher delinquency rates and losses in the future.

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

These events, alone or in combination, may contribute to higher delinquency rates, slower prepayment spreads and higher losses on the Portfolio, which in turn may affect the ability of the Issuer to make payments of interest and principal on the Notes.

*Declining property values*

The value of the Related Security in respect of the Loans may be affected by, among other things, a decline in the residential property values in the United Kingdom. If the residential property market in the United Kingdom should experience an overall decline in property values, such a decline could in certain circumstances result in the value of the Related Security being significantly reduced and, in the event that the Related Security is required to be enforced, may result in an adverse effect on payments on the Notes.

The Issuer cannot guarantee that the value of a Property will remain at the same level as on the date of origination of the related Loan. The recent downturn in the United Kingdom economy has had a negative effect on the housing market. The fall in property prices resulting from the deterioration in the housing market could result in losses being incurred by lenders where the net recovery proceeds are insufficient to redeem the outstanding Loan. If the value of the Security backing the Loans is reduced this may ultimately result in losses to Noteholders if the Security is required to be enforced and the resulting proceeds are insufficient to make payments on all Notes.

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

*Geographic Concentration Risks*

Loans in the Portfolio may also be subject to geographic concentration risks within certain regions of the United Kingdom and particularly will be dependent on the housing market and economic conditions in Wales, which may be different from the general conditions experienced in the UK. To the extent that specific geographic regions within the United Kingdom have experienced or may experience in the future weaker regional economic conditions and housing markets than other regions in the United Kingdom, a concentration of the Loans in such a region may be expected to exacerbate the risks relating to the Loans described in this section. Certain geographic regions within the United Kingdom rely on different types of industries. Any downturn in a local economy or particular industry may adversely affect the regional employment levels and consequently the repayment ability of the Borrowers in that region or the region that relies most heavily on that industry. Any natural disasters in a particular region may reduce the value of affected Properties. This may result in a loss being incurred upon sale of the Property. These



circumstances could affect receipts on the Loans and ultimately result in losses on the Notes. For an overview of the geographical distribution of the Loans as at the Portfolio Cut-Off Date, see "*Characteristics of the Portfolio — Geographical Distribution of Property*".

#### *Interest Only Loans*

Each Loan in the Portfolio may be repayable either on a capital repayment basis, an interest-only basis or a combination capital repayment/interest payment basis (see the section entitled "*The Portfolio – The Loans — Characteristics of the Loans – Repayment Terms*"). Where the Borrower is only required to pay interest during the term of the Loan, with the capital being repaid in a lump sum at the end of the term, the Borrower is recommended to ensure that some repayment mechanism such as an investment policy is put in place to ensure that funds will be available to repay the capital at the end of the term. Whilst the Seller does not verify or does not require proof that such repayment mechanism is in place and does not take security over any investment policies taken out by Borrowers, the Seller will review the repayment mechanism in line with the size of the Loan, applicant's age, income and likelihood of the repayment mechanism accumulating sufficient value to repay the Loan and will decline the application if this repayment mechanism is deemed to be unacceptable. Affordability for interest only loans is calculated on an interest basis, over a 25 year term at the applicable standard variable rate plus 3%. The Seller also recommends that the Borrower takes out term life assurance cover in relation to the Loan, although the Seller, again, does not verify or take security over such policies.

Borrowers may not have been making payment in full or on time of the premiums due on any relevant investment or life policy, which may therefore have lapsed and/or no further benefits may be accruing thereunder. In certain cases, the policy may have been surrendered but not necessarily in return for a cash payment and any cash received by the Borrower may not have been applied in paying amounts due under the Loan. Thus the ability of such a Borrower to repay an Interest Only Loan at maturity without resorting to the sale of the underlying Property depends on such Borrower's responsibility in ensuring that sufficient funds are available from a given source such as pension policies, PEPs, ISA or endowment policies, as well as the financial condition of the Borrower, tax laws and general economic conditions at the time. If a Borrower cannot repay an Interest Only Loan and a Loss occurs, this may affect repayments on the Notes if the resulting Principal Deficiency Ledger entry cannot be cured.

#### *Buildings insurance*

The practice of the Seller in relation to buildings insurance are described under the section entitled "*The Portfolio — The Loans – Insurance Policies*" below. No assurance can be given that the Issuer will always receive the benefit of any claims made under any applicable buildings insurance contracts or that the amounts received in respect of a successful claim will be sufficient to reinstate the affected Property. This could adversely affect the Issuer's ability to redeem the Notes.

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

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

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

Advance, Flexible Drawing, Product Switch or Substitution is made and such breach is not remedied within 30 days of receipt by the Seller of a notice from the Issuer that such conditions are not satisfied. There can be no assurance that the Seller will have the financial resources to honour such obligations under the Mortgage Sale Agreement. This may affect the quality of the Loans and their Related Security in the Portfolio and accordingly the ability of the Issuer to make payments due on the Notes.

### ***Certain Regulatory Considerations***

#### ***Mortgages Regulated under the FSMA***

In the United Kingdom, regulation of residential mortgage business by the Financial Services Authority (the "FSA") under the FSMA came into force on 31 October 2004 (the "**Mortgage Regulation Date**"). Subject to certain exemptions, entering into, arranging or advising in respect of or administering Regulated Mortgage Contracts (or agreeing to do any of these things) are regulated activities under the FSMA requiring authorisation and permission from the FSA.

A credit agreement is a "**Regulated Mortgage Contract**" under the FSMA if, at the time it is entered into on or after the Mortgage Regulation Date (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 on land (other than timeshare accommodation) in the UK and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust or by a related person.

The Seller holds authorisation and permission to enter into and to administer and (where applicable) to advise in respect of Regulated Mortgage Contracts. Subject to certain exemptions, brokers will be required to hold authorisation and permission to arrange and, where applicable, to advise in respect of Regulated Mortgage Contracts. The Issuer is not and does not propose to be an authorised person under the FSMA. The Issuer does not require authorisation in order to acquire legal or beneficial title to a Regulated Mortgage Contract. The Issuer does not carry on the regulated activity of administering Regulated Mortgage Contracts by having them administered pursuant to a servicing agreement by an entity having the required FSA authorisation and permission. If such servicing agreement terminates, however, the Issuer 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.

The Issuer will not itself be an authorised person under the FSMA. However, in the event that a mortgage loan is varied, such that a new contract is entered into and that contract constitutes a Regulated Mortgage Contract, then the arrangement of, advice on, administration of and entering into of such variation would need to be carried out by an appropriately authorised entity. In addition, on and after the Mortgage Regulation Date, no variation has been or will be made to the Loans and no Further Advance, Flexible Drawing or Product Switch has been or will be made in relation to a Loan, where it would result in the Issuer arranging or advising in respect of, administering or entering into a Regulated Mortgage Contract or agreeing to carry on any of these activities, if the Issuer would be required to be authorised under the FSMA to do so.

Any credit agreement intended to be a Regulated Mortgage Contract under the FSMA might instead be wholly or partly regulated by the Consumer Credit Act 1974 (the "**CCA**") or treated as such, or unregulated, and any credit agreement intended to be regulated by the CCA or treated as such, or unregulated, might instead be a Regulated Mortgage Contract under the FSMA, because of technical rules on (a) determining whether the credit agreement or any part of it falls within the definition of a Regulated Mortgage Contract and (b) changes to credit agreements.

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

If requirements as to authorisation of lenders and brokers or as to issue and approval of financial promotions are not complied with, a Regulated Mortgage Contract and, if requirements as to issue and approval of financial promotions are not complied with, other "qualifying credit" will be unenforceable

against the borrower except with the approval of a court. In addition, a borrower who is a private person may be entitled to claim damages for loss suffered as a result of any contravention by an authorised person of 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 with the lender. Any such set-off may adversely affect the Issuer's ability to make payments on the Notes. An unauthorised person who administers a Regulated Mortgage Contract entered into on or after the Mortgage Regulation Date may commit a criminal offence, but this will not render the contract unenforceable against the borrower.

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

The Seller will give warranties to the Issuer in the Mortgage Sale Agreement that, among other things, each Loan and its Related Security is enforceable (subject to certain exceptions). If a Loan or its Related Security does not comply with these warranties, and if the default (if capable of remedy) cannot be or is not cured within 30 days, then the Seller will, upon receipt of notice from the Issuer, be required to repurchase all of the relevant Loans secured on the same Property and their Related Security from the Issuer.

Credit agreements that were entered into before the Mortgage Regulation Date, but are subsequently changed such that a new contract is entered into on or after the Mortgage Regulation Date, are regulated under the FSMA where they fall within the definition of "Regulated Mortgage Contract". All Loans originated by the Seller on or after the Mortgage Regulation Date were intended to be Regulated Mortgage Contracts under the FSMA.

#### *Proposed expansion of MCOB regulation*

In November 2009, Her Majesty's Treasury ("**HM Treasury**") published a consultation on introducing a regulated activity of managing Regulated Mortgage Contracts, which is intended to protect consumers when mortgage loans are sold. In March 2010, HM Treasury acknowledged an industry concern that the proposed regulated activity of managing Regulated Mortgage Contracts was drawn too widely and could potentially extend to include the activities of securitisation assignees such as the Issuer. In January 2011, HM Treasury announced its decision not to introduce a regulated activity of managing Regulated Mortgage Contracts but instead to extend the regulated activity of administering Regulated Mortgage Contracts to exercising specified rights such as changing interest rates or taking action to repossess the property. The related legislation is expected to be in place later in 2011.

#### *Proposed changes to the UK regulatory structure*

In July 2010, HM Treasury published a consultation on replacing the FSA with a new Prudential Regulation Authority, which will be responsible for micro-prudential regulation of financial institutions that manage significant risks on their balance sheets, and a new Financial Conduct Authority (the "**FCA**", previously referred to as the Consumer Protection and Markets Authority), which will be responsible for conduct of business. In December 2010, HM Treasury published a consultation on transferring consumer credit regulation from the Office of Fair Trading (the "**OFT**") under the CCA (described below) to the FCA under a regime based on the FSMA.

In February 2011, HM Treasury published a further consultation proposing, among other things, that the FCA will have power to render unenforceable contracts made in contravention of its product intervention rules. This consultation also proposes formalised cooperation between the FCA and the Financial Ombudsman Service (described below) particularly where issues potentially have wider implications, with a view to the FCA requiring affected firms to operate consumer redress schemes. The new regulatory structure is expected to be in place by 1 January 2013.

### *Consumer Credit Act 1974*

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

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

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

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

A court order under section 126 of the CCA is necessary to enforce a land mortgage 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 the lender is liable to the borrower in relation to misrepresentation and breach of contract by a supplier in a transaction financed by a credit agreement that is wholly or partly regulated by the CCA or treated as such, where the credit agreement is or is treated as entered into under pre-existing arrangements, or in contemplation of future arrangements, between the lender and the supplier. The lender may also be entitled to 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 agreement that the borrower has taken with the lender. Any such set-off may adversely affect the Issuer's ability to make payments on the Notes.

### *Consumer Credit Act 2006*

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

Under the CCA, the "extortionate credit" regime has been replaced by an "unfair relationship" test. The "unfair relationship" test applies to all existing and new credit agreements, except Regulated Mortgage Contracts under the FSMA. The test explicitly imposes liability to repay amounts received from a

borrower on both the originator and any assignee such as the Issuer. In applying the "unfair relationship" test, the courts are able to consider a wider range of circumstances surrounding the transaction, including the creditor's conduct before and after making the agreement. There is no statutory definition of the word "unfair" as the intention is for the test to be flexible and subject to judicial discretion. However, the word "unfair" is not an unfamiliar term in UK legislation due to the UTCCR (as defined below).

The courts may, but are not obliged to, look solely to the CCA 2006 for guidance. The FSA "Principles for Businesses" may also be relevant and apply to the way contract terms are used in practice and not just the way they are drafted. Once the debtor alleges that an "unfair relationship" exists, the burden of proof is on the creditor to prove the contrary.

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

The financial limit of £25,000 for CCA regulation has been removed for credit agreements made on or after 6 April 2008, except for certain changes to credit agreements.

To the extent that the credit agreement is regulated by the CCA or treated as such, it is unenforceable for any period when the lender fails to comply with requirements as to default notices. From 1 October 2008, (a) the credit agreement is also unenforceable for any period when the lender fails to comply with further requirements as to annual statements and arrears notices, (b) the borrower is not liable to pay interest or, in certain cases, default fees for any period when the lender fails to comply with further requirements as to post-contract disclosure, and (c) interest upon default fees is restricted to nil until the 29th day after the day on which a prescribed notice is given and then to simple interest. Early repayment charges are restricted by a formula under the CCA, which applies to the extent that the credit agreement is regulated by the CCA or treated as such. A more restrictive formula applies from 11 June 2010.

These changes to the CCA may result in adverse effects on the Issuer's ability to make payment in full on the Notes when due.

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

The Seller will give warranties to the Issuer in the Mortgage Sale Agreement that, among other things, each Loan and its Related Security is enforceable (subject to exceptions). If a Loan or its Related Security does not comply with these warranties, and if the default (if capable of remedy) cannot be or is not cured within 30 days, then the Seller will, upon receipt of notice from the Issuer, be required to repurchase all of the relevant Loans secured on the same Property (together, forming one "**Mortgage Account**") and their Related Security from the Issuer.

#### *EU proposal for a directive on credit agreements relating to residential property*

On 31 March 2011, the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers. The proposed directive applies to: (a) credit agreements secured by a mortgage or comparable security commonly used in a Member State on residential immovable property, or secured by a right relating to residential immovable property; (b) credit agreements the purpose of which is to purchase or retain rights in land or in an existing or proposed residential building; and (c) credit agreements the purpose of which is to renovate residential immovable property and which are outside the Consumer Credit Directive (Directive 2008/48/EC). The proposed

directive does not apply to credit agreements to be repaid from the sale proceeds of an immovable property, or to certain credit granted by an employer to its employees.

The proposed directive requires (among other things): standard information in advertising; standard pre-contractual information; adequate explanations to the borrower on the proposed credit agreement and any ancillary service; calculation of the annual percentage rate of charge in accordance with a prescribed formula; assessment of creditworthiness of the borrower; and a right of the borrower to make early repayment of the credit agreement. The proposed directive also imposes prudential and supervisory requirements for credit intermediaries and non-bank lenders.

Until the proposed directive is considered and adopted by the European Parliament and the Council, and implemented into UK law, it is not possible to tell what effect the directive and the implementation of the directive into UK law would have on the Loans, the Seller, the Issuer, the Servicer and their respective businesses and operations.

#### *Distance Marketing Regulations*

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

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

- (a) the borrower is liable to repay the principal, and any other sums paid by the originator to the borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the borrower sending the 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 are characterised as being cancellable under these regulations, then there could be an adverse effect on the Issuer's receipts in respect of those amounts, affecting the Issuer's ability to make payments in full on the Notes when due.

#### *Unfair Terms in Consumer Contracts Regulations 1994 and 1999*

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

The UTCCR provide that a consumer (which would include a Borrower under all or almost all of the Loans) may challenge a standard term in an agreement on the basis that it is "unfair" within the UTCCR and therefore not binding on the consumer (although the rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term).

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

vary the interest rate and certain terms imposing early repayment charges and mortgage exit administration fees.

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

Under agreements between the FSA and the OFT, most recently in November 2009, the division of responsibility for the enforcement of the UTCCR in loan agreements was agreed to be allocated by them, generally, to the FSA in relation to Regulated Mortgage Contracts under the FSMA originated by lenders authorised by the FSA and to the OFT in relation to other mortgages. In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts, which is relevant to firms authorised and regulated by the FSA in relation to products and services within the FSA's regulatory scope. This statement provides that, for locked-in borrowers (i.e. where the borrower is required to give advance notice, pay a cost or give up a benefit in order to terminate the contract), a lender may consider drafting the contract to permit a change in the contract to be made only where any lock-in clause is not exercised. In the context of the OFT's investigation into credit card default fees, the OFT in April 2006 issued a statement of its view of the principles that credit card issuers should follow in setting default fees, and that the principles are likely to apply to analogous default fees in other contracts such as mortgages. The principles are in essence that terms imposing default fees should not have the object of raising more in revenue than is reasonably expected to be necessary to recover certain limited administrative costs incurred as a result of a borrower's default.

In January 2007, the FSA issued a statement of good practice on mortgage exit administration fees. This statement provides that the lender should ensure that the fee represents in fact the cost of the administration services that the lender provides when a borrower exits the mortgage. The FSA issued a follow-up communication in November 2007 emphasising that this statement should not be interpreted narrowly and, where appropriate, firms should consider applying its principles to other charges. The FSA's MCOB requires that, for Regulated Mortgage Contracts (a) arrears charges represent a reasonable estimate of the cost of the additional administration required as a result of the borrower being in arrears, and (b) from 25 June 2010, the borrower's payments are allocated first towards paying off the balance of any payment shortfall, excluding any interest or charges on that balance.

Whilst the OFT and FSA have powers to enforce the UTCCR, it would be for a court to determine their proper interpretation. The extremely broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any Loans which have been made to Borrowers covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans. If any term of the Loans is found to be unfair for the purpose of the UTCCR, this may adversely affect the ability of the Issuer to make payments to Noteholders on the Notes.

The guidance issued by the FSA and OFT has changed over time and it is possible that it may change in the future. No assurance can be given that any such changes in guidance on the UTCCR will not have a material adverse effect on the Seller, the Issuer and their respective businesses and operations.

#### *Pre-action Protocol for mortgage possession cases*

A new protocol for mortgage possession cases in England and Wales came into force on 19 November 2008 and sets out the steps that judges will expect any lender to take before starting a claim. A number of mortgage lenders have confirmed that they will delay the initiation of repossession action for at least three months after a borrower, who is an owner-occupier, is in arrears. The application of such a moratorium is subject to the wishes of the relevant borrower and may not apply in cases of fraud.

The FSA's MCOB from 25 June 2010 (formerly these were matters of non-binding guidance) prevents, in relation to Regulated Mortgage Contracts: (a) repossessing the property unless all other reasonable attempts to resolve the position have failed, which include considering whether it is appropriate to offer an extension of term or a product switch and (b) automatically capitalising a payment shortfall.

There can be no assurance that any delay in starting and/or completing repossession actions by the Seller would not result in the amounts recovered being less than if the Seller did not allow any such delays (which may ultimately affect the ability of the Issuer to make payments of interest and principal on the Notes when due). The protocol and MCOB requirements for mortgage possession cases may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the Loans may result in lower recoveries and a lower repayment rate on the Notes.

#### *Mortgage Market Review*

The FSA has made changes to MCOB which effectively convert previous guidance on the policies and procedures to be applied by authorised firms (such as the Seller) with respect to forbearance in the context of Regulated Mortgage Contracts into formal mandatory rules. Under the new rules, a firm is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed and, in complying with such restriction, a firm is required to consider whether, given the borrower's circumstances, it is appropriate to take certain actions. Such actions refer to (amongst other things) the extension of the term of the mortgage, product type changes and deferral of interest payments. While the FSA has indicated that it does not expect each forbearance option referred to in the new rules to be explored at every stage of interaction with the borrower, it is clear that the new rules impose mandatory obligations on firms without regard to any relevant contractual obligations or restrictions. As a result, the new rules may operate in certain circumstances to require the Servicer to take certain forbearance-related actions which do not comply with the Transaction Documents (and, in particular, the asset servicing arrangements contemplated by such Transaction Documents) in respect of one or more Loans. No assurance can be made that any such actions will not impact on the Issuer's ability to make payments in full when due on the Notes, although the impact of this will depend on the number of Loans that involve a borrower who experiences payment difficulties.

#### *Financial Ombudsman Service*

Under the 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 Financial Ombudsman Service'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 by which certain complaints relating to breach of the Mortgage Code, the "**CML Code**" issued by the Council of Mortgage Lenders, occurring before the Mortgage Regulation Date 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 Financial Ombudsman Service. As the Financial Ombudsman Service is required to make decisions on the basis of, among other things, the principles of fairness, and may order a money award to a complaining borrower, it is not possible to predict how any future decision of the Financial Ombudsman Service would affect the ability of the Issuer to make payments to Noteholders.

#### *Consumer Protection from Unfair Trading Regulations 2008*

On 11 May 2005, the European Parliament and Council adopted a directive on unfair business-to-consumer commercial practices (the "**Unfair Practices Directive**"). The Unfair Practices Directive was implemented into United Kingdom law through the Consumer Protection from Unfair Trading Regulations 2008 (the "**CPUTRs**"). The CPUTRs came into effect on 26 May 2008 and affect all contracts entered into with persons who are natural persons and acting for purposes outside their respective business. Although the CPUTRs are not concerned solely with financial services, they do apply to the residential mortgage market. The OFT and FSA agreed a concordat, most recently in November 2009, to co-ordinate enforcement action and co-operate regarding the delivery of consumer protection in relation to the CPUTRs.



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

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

In addition to the general prohibition on unfair commercial practices, the CPUTRs contain provisions aimed at aggressive and misleading practices (including, but not limited to: (i) pressure selling; (ii) misleading marketing (whether by action or omission); and (iii) falsely claiming to be a signatory to a code of conduct) and a list of practices which will in all cases be considered unfair. The effect (if any) of the CPUTRs on the Loans, the Seller or the Issuer and their respective businesses and operations will depend on whether those entities engage in any of the practices described in the CPUTRs. Whilst engaging in an unfair commercial practice does not render a contract void or unenforceable, to do so is an offence punishable by a fine and/or imprisonment. In practical terms, the CPUTRs have not added much to the regulatory requirements already in place, such as treating customers fairly and conduct of business rules. Breach of the CPUTRs would initiate intervention by a regulator.

No assurance can be given that the CPUTRs will not adversely affect the ability of the Issuer to make payments to Noteholders.

#### *The Mortgage Repossession (Protection of Tenants etc) Act 2010*

The Mortgage Repossession (Protection of Tenants etc) Act 2010 came into force on 1 October 2010. This Act gives courts in England and Wales the same power to postpone and suspend repossession for up to two months on application by an unauthorised tenant (i.e. a tenant in possession without the lender's consent) as generally exists on application by an authorised tenant. The lender has to serve notice at the property before enforcing a possession order. This Act may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the Loans may result in lower recoveries and a lower repayment rate on the Notes.

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

No assurance can be given that changes will not be made to the regulatory regime and developments described above in respect of the mortgage market in the United Kingdom generally, the Seller's particular sector in that market or specifically in relation to the Seller. Any such action or developments, in particular, but not limited to, the cost of compliance, may have a material adverse effect on the Seller, the Issuer and/or the Servicer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full when due on the Notes.

#### *English law security and insolvency considerations*

The Issuer will enter into the Deed of Charge pursuant to which it will grant the Security in respect of certain of its obligations, including its obligations under the Notes. If certain insolvency proceedings are commenced in respect of the Issuer, the ability to realise the Security may be delayed and/or the value of the Security impaired.

The Insolvency Act allows for the appointment of an administrative receiver in relation to certain transactions in the capital markets. Although there is as yet no case law on how these provisions will be interpreted, it should be applicable to the floating charge created by the Issuer and granted by way of security to the Trustee. However, as this is partly a question of fact, were it not to be possible to appoint an administrative receiver in respect of the Issuer, the Issuer would be subject to administration if it became insolvent which may lead to the ability to realise the Security being delayed and/or the value of the Security being impaired.

In addition, it should be noted that, to the extent that the assets of the Issuer are subject only to a floating charge (including any fixed charge recharacterised by the courts as a floating charge), in certain

circumstances under the Insolvency Act, certain floating charge realisations which would otherwise be available to satisfy the claims of Secured Creditors under the Deed of Charge may be used to satisfy any claims of unsecured creditors. While certain of the covenants given by the Issuer in the Transaction Documents are intended to ensure it has no significant creditors other than the Secured Creditors under the Deed of Charge, it will be a matter of fact as to whether the Issuer has any other such creditors at any time. There can be no assurance that the Noteholders will not be adversely affected by any such reduction in floating charge realisations upon the enforcement of the Security.

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

#### *Fixed charges may take effect under English law as floating charges*

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the Issuer (other than by way of assignment in security) may take effect under English law as floating charges only, if, for example, it is determined that the Trustee does not exert sufficient control over the Charged Property. If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Trustee in respect of the floating charge assets.

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

#### *Liquidation expenses*

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

#### *Validity of priorities of payments*

The validity of contractual priorities of payments such as those contemplated in this transaction has been challenged in the English and U.S. courts. The hearings have arisen due to the insolvency of a secured creditor (in that case a swap counterparty) and have considered whether such payment priorities breach the "anti-deprivation" principle under English and U.S. insolvency law. This principle prevents a party from agreeing to a provision that deprives its creditors of an asset upon its insolvency. It was argued that where a secured creditor subordinates itself to noteholders in the event of its insolvency, that secured creditor effectively deprives its own creditors. The Court of Appeal in *Perpetual Trustee Co Ltd & Anor v BNY Corporate Trustee Services Ltd & Ors* [2009] EWCA Civ 1160, dismissed this argument and

upheld the validity of similar priorities of payment, stating that the anti-deprivation principle was not breached by such provisions. The English Supreme Court in *Belmont Park Investments Pty Limited v BNY Corporate Trustee Services Ltd and Lehman Brothers Special Financing Inc* [2011] UKSC 38, upheld the validity of such priorities of payment under English law.

In parallel proceedings in New York, Judge Peck of the U.S. Bankruptcy Court for the Southern District of New York granted Lehman Brothers Special Finance Inc.'s ("**LBSF**") motion for summary judgement on the basis that the effect was that the provisions do infringe the anti-deprivation principle in a U.S. insolvency. Judge Peck acknowledged that this resulted in the U.S. courts coming to a decision "directly at odds with the judgement of the English Courts". The English Supreme Court granted leave to appeal the Court of Appeal's decision. In New York, however, whilst leave to appeal was granted, the case was settled before an appeal was heard. Notwithstanding the New York settlement, the appeal by one of the appellants, Lehman Brothers Special Financing Inc., against two of the respondents, Belmont Park Investments Pty and BNY Corporate Trustee Services Ltd, in the English courts was heard in early March 2011 and the judgement is awaited. Therefore concerns still remain that the English and U.S. courts will diverge in their approach which, in the case of an unfavourable decision either in England or New York, may adversely affect the Issuer's ability to make payments on the Notes and/or the market value of the Notes. It may also lead to changes in the Rating Agencies' ratings methodologies and/or ratings downgrades. Given the current state of U.S. and English law, this is likely to be an area of continued judicial focus particularly in respect of multi-jurisdictional insolvencies.

#### *Risks relating to the Banking Act 2009*

If an instrument or order were to be made under the Banking Act 2009 in respect of a UK-incorporated institution with permission to accept deposits pursuant to Part IV of the FSMA (such as the Seller, the Principal Swap Provider, the Stand-by Interest Rate Swap Provider, the Account Banks, etc), such instrument or order may (amongst other things) affect the ability of such entities to satisfy their obligations under the Transaction Documents and/or result in modifications to such documents. In particular, modifications may be made pursuant to powers permitting certain trust arrangements to be removed or modified and/or via powers which permit provision to be included in an instrument or order such that the relevant instrument or order (and certain related events) is required to be disregarded in determining whether certain widely defined "default events" have occurred (which events would include certain trigger events included in the Transaction Documents in respect of the relevant entity, including termination events and (in the case of the Seller) trigger events in respect of perfection of legal title to the Loans). As a result, the making of an instrument or order in respect of a relevant entity may affect the ability of the Issuer to meet its obligations in respect of the Notes and may result in a change in the contractual terms applicable to the Notes without the consent of the Noteholders. While there is provision for compensation in certain circumstances under the Banking Act, there can be no assurance that Noteholders would recover compensation promptly and equal to any loss actually incurred. As at the date of this Prospectus, none of the FSA, HM Treasury or the Bank of England have made an instrument or order under the Banking Act 2009 in respect of the relevant entities referred to above and there has been no indication that the FSA, HM Treasury or the Bank of England will make any such instrument or order, but there can be no assurance that this will not change and/or that Noteholders will not be adversely affected by any such instrument or order if made.

In addition, on 8 April 2010, the Building Societies (Financial Assistance) Order 2010 (the "**Financial Assistance Order**") came into force in exercise of certain powers under the Banking Act 2009 for the purpose of modifying the application of the Building Societies Act in certain circumstances to facilitate the provision of relevant financial assistance by HM Treasury, the Bank of England, other central banks of Member States and the European Central Bank (i.e. assistance for the purpose of maintaining the stability of the financial system in the UK). Most significantly, the Financial Assistance Order would permit HM Treasury, the Bank of England, other central banks of Member States or the European Central Bank to provide such assistance without it counting for the purpose of the 50 per cent. limit on a building society's non-member funding. It would also permit the society to create a floating charge over its assets in favour of HM Treasury, the Bank of England, other central banks of Member States and or European Central Bank, as applicable, in respect of such assistance. Because of the new power for a building society to create a floating charge over its assets, the Financial Assistance Order also allows for an administrative receiver to be appointed over the assets of the building society.

### *Legal considerations may restrict certain investments*

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

### *Securitisation Company Tax Regime*

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

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

Investors should note, however, that the TSC Regulations are in short-form and it is expected that advisors will rely significantly upon guidance from the UK tax authorities when advising on the scope and operation of the TSC Regulations including whether any particular company falls within the regime provided for by the TSC Regulations.

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

### *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

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

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

### *European Monetary Union*

It is possible that, prior to the maturity of the Notes, the United Kingdom may become a participating Member State in the European economic and monetary union and that the Euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of the Notes may

become payable in Euro; (ii) law may allow or require the Notes to be redenominated into Euro and additional measures to be taken in respect of such Notes; and (iii) there may no longer be available published or displayed rates for deposits in Sterling used to determine the rates of interest on the Notes or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the Euro could also be accompanied by a volatile interest rate environment which could adversely affect a Borrower's ability to repay its Loan as well as adversely affect investors in the Notes.

#### *Book-Entry Interests*

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

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

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

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

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

The lack of Notes in physical form could also make it difficult for a Noteholder to pledge such Notes if Notes in physical form are required by the party demanding the pledge and hinder the ability of the

Noteholder to recall such Notes because some investors may be unwilling to buy Notes that are not in physical form.

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

#### *Meetings of Noteholders, modification and waiver*

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

The Trust Deed provides that, without the consent or sanction of the Noteholders or any of the other Secured Creditors, the Trustee may:

- (a) concur with the Issuer and/or any other person, in making any modification to the Conditions or the Transaction Documents:
  - (i) (including a Reserved Matter) which, in the opinion of the Trustee, is of a formal, minor or technical nature, or is to correct a manifest error; or
  - (ii) (other than a Reserved Matter) which, in the opinion of the Trustee, will not be materially prejudicial to the interests of the holders of the Most Senior Class of Notes then outstanding,
- (b) authorise or waive, on such terms and conditions (if any) as it may decide, any proposed breach or breach of any Transaction Document, if in the Trustee's opinion, the interests of the holders of the Most Senior Class of Notes then outstanding will not be materially prejudiced thereby; and
- (c) determine that a specified Event of Default or Potential Event of Default shall not be treated as such, if in the Trustee's opinion, the interests of the holders of the Most Senior Class of Notes then outstanding will not be materially prejudiced thereby,

provided always that the Trustee shall not exercise any powers under paragraphs (b) or (c) in contravention of any express direction given by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding or a request or direction in writing made by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding (but no such direction or request shall affect (a) any authorisation, waiver or determination previously given or made; or (b) shall authorise or waive any proposed breach or breach relating to a Reserved Matter unless each Class of Notes, has by Extraordinary Resolution, so authorised its exercise).

The Trustee's power to agree modifications to (i) the Swap Collateral Account Agreements and (ii) the Principal Swap Agreement is subject to the consent of the Stand-by Interest Rate Swap Provider. It should be noted, however, that the Stand-by Interest Rate Swap Provider is a party to certain Transaction Documents including, without limitation, the Cash Management Agreement, the Servicing Agreement, the Mortgage Sale Agreement and the Deed of Charge. As such the prior written consent of the Stand-by Interest Rate Swap Provider shall be required for modifications to such Transaction Documents to which the Stand-by Interest Rate Swap Provider is a party.

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

#### *Change of law*

The structure of the transaction as described in this Prospectus and, *inter alia*, the issue of the Notes and the ratings which are to be assigned to the Notes are based on the law and administrative practice in effect as at the date of this Prospectus as it affects the parties to the transaction and the Portfolio, and having regard to the expected tax treatment of all relevant entities under such law and practice. No assurance can be given as to the impact of any possible change to such law (including any change in regulation which may occur without a change in primary legislation) and practice or tax treatment after the date of this

Prospectus nor can any assurance be given as to whether any such change would adversely affect the ability of the Issuer to make payments under the Notes.

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

In Europe, the U.S. and elsewhere there is increased political and regulatory scrutiny of the asset-backed securities industry. This has resulted in a raft of measures for increased regulation, including, without limitation Article 122a of Directive 2006/48/EC (as amended by Directive 2009/111/EC) referred to as the Capital Requirements Directive ("**CRD 2**") and under Directive 2009/138/EC ("**Solvency II**") which are currently at various stages of implementation and which may have an adverse impact on the regulatory capital charge to certain investors in securitisation exposures and/or the incentives for certain investors to hold asset-backed securities, and may thereby affect the liquidity of such securities. Investors in the Notes are responsible for analysing their own regulatory position and none of the Issuer, the Joint Lead Managers, the Arrangers or the Seller makes any representation to any prospective investor or purchaser of the Notes regarding the regulatory capital treatment of their investment on the Closing Date or at any time in the future.

Investors should be aware of Article 122a of the CRD 2 which applies generally where credit institutions become exposed to the credit risk of a securitisation position under a securitisation established after 31 December 2010 and to notes issued under securitisations established on or before that date from the beginning of 2015 to the extent that new underlying exposures are added or substituted after 31 December 2014. Article 122a of the CRD 2 restricts an EU regulated credit institution from becoming exposed to the credit risk of a securitisation position unless the originator, sponsor or original lender in respect of the relevant securitisation has explicitly disclosed to the EU regulated credit institution that it will retain, on an ongoing basis, a material net economic interest of not less than 5% in respect of certain specified credit risk tranches or exposures as contemplated by Article 122a of the CRD 2. Principality has committed to retain a net economic interest of not less than 5% of the nominal value of the securitised exposures. Article 122a of the CRD also requires an EU regulated credit institution to be able to demonstrate that it has undertaken certain due diligence in respect of, amongst other things, its note position and the underlying exposures and that procedures are established for such activities to be conducted on an ongoing basis, and in particular it has established formal procedures that are appropriate to its trading book and non-trading book and commensurate with the risk profile of their investments in securitised exposures in order to monitor on an ongoing basis and in a timely manner performance information on the exposures underlying their securitisation positions and to analyse and record certain risk characteristics and information in relation to its securitisation positions. Failure to comply with one or more of the requirements set out in Article 122a of the CRD 2 may result in the imposition of a penal regulatory capital charge on the Notes acquired by the relevant investor. Principality has undertaken to comply with its obligations under paragraph 7 of Article 122a of the CRD 2, subject always to any requirement of law, provided that it will not be in breach of such undertaking if it fails to so comply due to events, actions or circumstances beyond its control.

Article 122a of the CRD 2 applies in respect of the Notes, so investors which are EU regulated credit institutions should therefore make themselves aware of the requirements of Article 122a (and any implementing rules of the CRD in relation to a relevant jurisdiction) in addition to any other regulatory requirements applicable to them with respect to their investment in the Notes. Relevant investors are required to independently assess and determine the sufficiency of the information described in this Prospectus and in any investor reports provided in relation to the transaction for the purpose of complying with Article 122a and none of the Issuer, Principality, the Arrangers, the Joint Lead Managers or any other party to the transaction makes any representation that the information described above is sufficient in all circumstances for such purposes.

There remains considerable uncertainty with respect to Article 122a of the CRD 2 and it is not clear what is required to demonstrate compliance to national regulators. Investors who are uncertain as to the requirements that will need to be complied with in order to avoid the additional regulatory capital charges for non-compliance with Article 122a and any implementing rules in a relevant jurisdiction should seek guidance from their regulator. Similar requirements to those set out in Article 122a of the CRD 2 have been or are expected to be implemented for other EU regulated investors (such as investment firms, insurance and reinsurance undertakings, UCITS funds and certain hedge fund managers) in the future.

Article 122a of the CRD 2 and any other changes to the regulation or regulatory treatment of the Notes for some or all investors may negatively impact the regulatory position of individual investors and, in addition, have a negative impact on the price and liquidity of the Notes in the secondary market.

*Implementation of and/or Changes to the Basel II Framework May Affect the Capital and/or the Liquidity Requirements Associated with a Holding of the Notes for Certain Investors*

In 1988, the Basel Committee on Banking Supervision (the “**Basel Committee**” ) adopted capital guidelines that explicitly link the relationship between a bank’s capital and its credit risks. In June 2006 the Basel Committee finalised and published new risk-adjusted capital guidelines (“**Basel II**” ). Basel II includes the application of risk-weighting which depends upon, amongst other factors, the external or, in some circumstances and subject to approval of supervisory authorities, internal credit rating of the counterparty. The revised requirements also include allocation of risk capital in relation to operational risk and supervisory review of the process of evaluating risk measurement and capital ratios.

Basel II has not been fully implemented in all participating jurisdictions. The implementation of the framework in relevant jurisdictions may affect the risk-weighting of the Notes for investors who are or may become subject to capital adequacy requirements that follow the framework. The Basel II framework is implemented in the European Union by the Capital Requirements Directive. Certain amendments have been made to the Capital Requirements Directive, including by Directive 2010/76/EU (the so-called “**CRD III**”), which is required to be implemented by Member States by the end of 2011 and which introduces (amongst other things) higher capital requirements for certain trading book positions and securitisation positions.

It should also be noted that the Basel Committee has approved significant changes to the Basel II framework (such changes being commonly referred to as “**Basel III**” ) and on 1 June 2011 issued its final guidance, which envisages a substantial strengthening of existing capital rules, including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards and a minimum leverage ratio for financial institutions. In particular, the changes include new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (referred to as the Liquidity Coverage Ratio and the Net Stable Funding Ratio). Member countries will be required to implement the new capital standards from January 2013, the new Liquidity Coverage Ratio from January 2015 and the Net Stable Funding Ratio from January 2018. The Basel Committee is also considering introducing additional capital requirements for systemically important institutions. The European authorities have indicated that they support the work of the Basel Committee on the approved changes in general, and the European Commission's corresponding proposals to implement the changes (through amendments to the Capital Requirements Directive known as “**CRD IV**” ) are currently expected to be presented in the second half of 2011. The changes approved by the Basel Committee may have an impact on the capital requirements in respect of the Notes and/or on incentives to hold the Notes for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the Notes.

In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Notes and as to the consequences to and effect on them of any changes to the Basel II framework (including the Basel III changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise.



## **USE OF PROCEEDS**

The Issuer will use the gross proceeds of the Notes to pay the Initial Consideration of £813,999,641.22 payable by the Issuer for the Portfolio to be acquired from the Seller on the Closing Date (see "*The Portfolio - Sale of the Portfolio under the Mortgage Sale Agreement*").

## ISSUER

The Issuer, Friary No. 1 plc, was incorporated in England and Wales on 24 May 2011 (registered number 7645720) and is a public limited company under the Companies Act 2006 (as amended). The registered office of the Issuer is at 35 Great St. Helen's, London EC3A 6AP. The telephone number of the Issuer's registered office is 020 7398 6300.

The issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, 49,998 shares of which are partly paid to £0.25 each and 2 of which are fully paid and all of which are beneficially owned by Holdings (see the section entitled "*Holdings*" below).

The Issuer was established as a special purpose vehicle for the purposes of issuing the Notes. The Issuer has no subsidiaries. The Seller does not own directly or indirectly any of the share capital of Holdings or the Issuer.

The Issuer has not engaged, since its incorporation, in any material activities nor commenced operations other than those incidental to its registration as a public company under the Companies Act 2006 (as amended) and to the proposed issue of the Notes and the authorisation of the other Transaction Documents referred to in this Prospectus to which it is or will be a party and other matters which are incidental or ancillary to the foregoing. Save as disclosed in this Prospectus, the Issuer has no loan capital, borrowings or material contingent liabilities (including guarantees) as at the date of this Prospectus. The Issuer has no employees.

As at the date of this Prospectus, no statutory accounts have been prepared or delivered to the Registrar of Companies on behalf of the Issuer. The accounting reference date of the Issuer is 31 December and the first statutory accounts of the Issuer will be drawn up to 31 December 2011.

Under the Corporate Services Agreement, the Corporate Services Provider will provide to the Issuer certain directors and other corporate services for the Issuer in consideration for the payment of an annual fee to the Corporate Services Provider.

### Directors and secretary

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

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

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

<b>Name</b>	<b>Business address</b>	<b>Principal activities/business occupation</b>
Jonathan Keighley	35 Great St. Helen's, London EC3A 6AP	Director
James Macdonald	35 Great St. Helen's, London EC3A 6AP	Director
Robert Berry	35 Great St. Helen's, London EC3A 6AP	Director
JP Nowacki	35 Great St. Helen's, London EC3A 6AP	Director
Claudia Wallace	35 Great St. Helen's, London EC3A 6AP	Director
Vinoy Nursiah	35 Great St. Helen's, London EC3A 6AP	Director
Helena Whitaker	35 Great St. Helen's, London	Director

<b>Name</b>	<b>Business address</b>	<b>Principal activities/business occupation</b>
Jocelyn Coad	EC3A 6AP 35 Great St. Helen's, London	Director
Debra Parsall	EC3A 6AP 35 Great St. Helen's, London	Company Secretary
Michael Drew	EC3A 6AP 35 Great St. Helen's, London	Company Secretary

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

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

## HOLDINGS

Holdings was incorporated in England and Wales on 23 May 2011 (registered number 7644292) as a private limited company under the Companies Act 2006 (as amended). The registered office of Holdings is 35 Great St. Helen's, London EC3A 6AP. The telephone number of Holdings' registered office is 020 7398 6300.

The issued share capital of Holdings comprises one ordinary share of £1.

The entire beneficial interest in the share of Holdings is beneficially owned by SFM Corporate Services Limited (the "**Share Trustee**") on a discretionary trust for charitable purposes.

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

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

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

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

### Directors

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

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

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

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

Michael Drew

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

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

The accounting reference date of Holdings is 31 December.

## PRINCIPALITY BUILDING SOCIETY

### *The Seller, the Servicer, the Cash Manager, the Principal Swap Provider*

#### Introduction

Principality Building Society ("**Principality**" or the "**Society**") is the seventh largest building society, ranked by total assets, in the United Kingdom with total assets as at 31 December 2010 of £6.3 billion and a network of 51 branches and 13 agency offices. At 31 December 2010, Principality had approximately 544,000 customers (of which approximately 460,000 were investment and approximately 84,000 were mortgage customers).

#### The Society

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

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

The Society is the parent of the Principality Group (defined below); with its registered office and customer support centre located at Principality Buildings, Queen Street, Cardiff CF10 1UA, and its telephone number is (029) 2077 3000.

#### Subsidiaries

Details of the Society's investments in the Principality Group (as defined below) can be found at Note 22 to the Audited Consolidated Accounts of Principality for the year ended 31 December 2010. The contents thereof do not form part of this Prospectus.

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

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

#### Board of Directors

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

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

Director	Role
<b>Dyfrig D.J. John CBE FCIB</b>	<b>Chairman</b>
<b>Christopher P. Rowlands</b>	<b>Deputy Chairman</b>
<b>Peter L. Griffiths OBE ACIB</b>	<b>Chief Executive</b>
<b>W. Guy Thomas BSc (Hons) ACA FCT C.Dir</b>	<b>Group Finance Director</b>

Director	Role
<b>Christopher A. Jones BA</b>	<b>Non-Executive Director</b>
<b>Gordon MacLean BA FCA</b>	<b>Non-Executive Director</b>
<b>Langley Davies BSc (Hons) ACA</b>	<b>Non-Executive Director</b>
<b>Keith Brooks</b>	<b>Non-Executive Director</b>
<b>Graeme Yorston FCIB MBA</b>	<b>Executive Director</b>
<b>Joanne I. Kenrick LLB</b>	<b>Non-Executive Director</b>

A list of each director's principal outside directorships as at 31 December 2010 can be found on pages 16 and 17 of the Society's 2010 Annual Report and Accounts. These outside directorships cover all of the significant principal activities performed by the directors outside of Principality.

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

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

### **Business general**

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

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

### **Mortgage lending activities - Residential**

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

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

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

### **Mortgage lending activities – Nemo**

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

**Mortgage lending activities – Commercial**

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

**Retail funding**

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



## THE PORTFOLIO

### THE LOANS

#### 1. Introduction

The following is a description of some of the characteristics of the mortgage loans currently or previously offered by the Seller and includes details of mortgage loan types, the underwriting process, Lending Criteria and selected statistical information. In selecting which mortgage loans to assign to the Issuer, the Seller has identified the Provisional Portfolio. Each Loan in the Provisional Portfolio incorporates one or more of the features referred to in this section. From the Provisional Portfolio, the Seller will assign a portfolio of Loans and Related Security to the Issuer on the Closing Date.

#### 2. Characteristics of the Loans

##### *Origination of the Loans*

The Loans included in the Provisional Portfolio were all made no earlier than 1 July 2000 and on or before 31 March 2011 and the Seller derived their mortgage lending business at the relevant times from the following sources:

- its branch networks throughout Wales and its bordering counties in England;
- a centralised telephone-based lending operation;
- an internet lending operation; and
- intermediaries that included mortgage brokers and independent financial advisors.

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

##### *Interest Payments*

The Loans in the Portfolio have one or more of the following interest terms:

- **Fixed Rate Loans:** Loans subject to a fixed interest rate for a specified period of time and which at the expiration of that period generally convert to Variable Rate Loans, although the Seller may agree to further periods during which the rate is fixed by way of Product Switch during the life of the Loan. An Early Repayment Charge may be payable in respect of these Loans for a set period of time, which generally corresponds with the term of the fixed interest rate. See "*Early Repayment Charges*" below.
- **Tracker Rate Loans:** Loans subject to a variable rate of interest that is linked to the Bank of England base rate (the "**BoE Base Rate**") plus an additional fixed percentage (the "**Tracker Rate**"), usually for a fixed period but, in some instances, for the life of the Loan (the "**Life Tracker Rate Loans**"). At the end of any fixed period, generally the Loans may convert to Variable Rate Loans or remain as Tracker Rate Loans.
- **Discount Rate Loans:** Loans which allow the Borrower, for a set period of time or for the life of the Loan, to pay interest at a specified discount to the Seller Standard Variable Rate. At the end of the discounted period, generally the Loans convert to a Variable Rate Loan, although the Seller may agree to further periods during which a discounted rate is applied by way of Product Switch during the life of the Loan. An Early Repayment Charge may be payable in respect of these Loans for a set period of time, which generally corresponds with the term of the discounted interest rate. See "*Early Repayment Charges*" below.
- **Capped (BoE Base Rate) Loans:** Tracker Rate Loans which have a rate of interest which will not increase above a specified rate for a set period of time or for the life of the Loan. At the end of the period, generally the Loans convert to a Variable Rate Loan. An Early Repayment Charge may be payable in respect of these Loans for a set period of time, which generally corresponds with the term of the capped interest rate. There are none of these Loans currently in the Provisional Portfolio. See "*Early Repayment Charges*" below.

- **Floored (BoE Base and Discount Rate) Loans:** Tracker Rate Loans or Discount Rate Loans which have a rate of interest which will not decrease below a specified rate for a set period of time but more usually for the life of the Loan. All Variable Rate Loans including those that revert to variable rate are subject to a floor rate of 2% below which the interest rate cannot fall, save for Loans made prior to 28 October 2008, which have no floor.
- **Capped (SVR) Loans:** Variable Rate Loans which have a rate of interest which will not increase above a specified rate for a certain period of time. At the end of the period, generally the Loans convert to a Variable Rate Loan. An Early Repayment Charge may be payable in respect of these Loans for a set period of time. There are none of these Loans currently in the Provisional Portfolio. See "*Early Repayment Charges*" below.
- **Variable Rate Loans:** Loans subject to a rate of interest linked to the Seller Standard Variable Rate, for the life of the Loan or until an alternative product that the Borrower qualifies for is selected by the Borrower. The Standard Variable Rate is set by the Seller by reference to the general level of interest rates and competitor rates in the UK mortgage market. Variable Rate Loans will not usually have an Early Repayment Charge. See "*Early Repayment Charges*" below.

#### *Repayment Terms*

Borrowers typically make payments of interest on, and repay principal of, their Loans using one of the following methods:

- **Repayment Loans:** the Borrower makes monthly payments of both interest and principal so that, when the Loan matures, the Borrower will have repaid the full amount of the principal of the Loan.
- **Interest Only Loans:** the Borrower makes monthly payments of interest but not of principal; when the Loan matures, the entire principal amount of the Loan is still outstanding and the Borrower must repay that amount in one lump sum. Where Loans are interest only, there must be plausible evidence that a suitable repayment mechanism is realistic and in place.
- **Part and Part Loans:** the Borrower is required to repay a portion of the principal amount of the Loan by making monthly payments of both interest and principal and to repay the remaining portion of the principal amount of the Loan in one lump sum when the Loan matures. For that portion of the Loan that is interest only there must be plausible evidence that a suitable repayment mechanism is realistic and in place.

#### *Calculation of Current Balance*

Principality employs the methodology set out below in order to determine the balance of each Loan and the collections in respect of it.

The "**Current Balance**" of a Loan means, on any date, the aggregate balance of the amounts charged to the Borrower's account in respect of a Loan at such date (but avoiding double counting) including:

- (a) the original principal amount advanced to the relevant Borrower and any further amount (including any Flexible Drawings or Further Advance) advanced on or before the given date to the relevant Borrower secured or intended to be secured by the related Mortgage; and
- (b) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent or capitalised in accordance with the Seller's normal charging practices and added to the amounts secured or intended to be secured by the related Mortgage; and
- (c) any other amount (including, for the avoidance of doubt, Accrued Interest and Arrears of Interest) which is due or accrued (whether or not due) and which has not been paid by the relevant Borrower and has not been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent or in accordance with the Seller's normal charging practices but which is secured or intended to be secured by the related Mortgage, as at the end of the Business Day immediately preceding that given date,

less any repayment or payment (including, if permitted, by way of set-off, withholding or counterclaim) of any of the foregoing made on or before the end of the Business Day immediately preceding that given date and excluding any retentions made but not released and any Flexible Drawings or Further Advances committed to be made but not made by the end of the Business Day immediately preceding that given date.

Interest is charged on the Capital Balance of each Loan.

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

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

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

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

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

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

**"Capitalised Arrears"** means for any Loan at any date, amounts (other than amounts in respect of interest) which are overdue in respect of that Loan and which as at that date have been added to the Capital Balance of the Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower.

**"Capitalised Expenses"** means in relation to a Loan, the amount of any expense, charge, fee, premium or payment (excluding any Arrears of Interest) capitalised and added to the Capital Balance of that Loan in accordance with the Mortgage Conditions.

Where used in this Prospectus, the following term has the following meaning:

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

#### *Early Repayment Charges*

If a Borrower wishes to repay the whole of an advance before the time agreed, the Borrower may do so. A Borrower may repay part of an advance before the time agreed provided such partial repayment is not prohibited under the terms of the Loan. In the case of repayment in full, the Borrower must pay to the Seller all sums owing to it in respect of such advance by way of principal, interest and costs (including, if the terms of the advance so provide, an early repayment charge) together with the Seller's expenses

reasonably and properly incurred in connection with such repayment. Not all products offered by the Seller carry an early repayment charge.

Repayment charges will be calculated on the basis provided under the relevant offer of advance in relation to a Loan. In these cases, the Seller retains absolute discretion to waive or enforce early repayment charges in accordance with the Seller's policy from time to time. The amount of any early repayment charges which may become payable on the Loans that are sold to the Issuer will comprise Revenue Receipts.

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

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

#### *Flexible mortgages*

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

#### *Drawdown facility*

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

#### *Payment holiday*

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

#### *Overpayment*

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

#### *Underpayment*

A Borrower may pay less than the monthly payment:

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

#### *Further Advances and Flexible Drawings*

With non-flexible Loans, a Borrower may apply to the Seller for a further amount to be lent to him or her under his or her Loan. This further amount will be secured by the same Property as the Loan, and will be added as a separate sub-account to the Loan. Any Further Advance made by the Seller and purchased by the Issuer will be added to the Current Balance of that Borrower's Loan on the relevant Advance Date.

The aggregate of the outstanding amount of the Loan and the Further Advance may be greater than the original amount of the Loan.

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

#### *Product Switches*

From time to time a Borrower may request, or the Seller or the Servicer (on behalf of the Seller) may offer, in limited circumstances, a variation in the financial terms and conditions applicable to the Borrower's Loan. In addition, in order to promote the retention of Borrowers, the Seller may periodically contact certain Borrowers in respect of the Seller's total portfolio of outstanding residential mortgage Loans in order to encourage a Borrower to review the Seller's other residential mortgage loans and to discuss moving that Borrower to an alternative mortgage product. Any such variation is a Product Switch (as defined in "*Sale of the Portfolio under the Mortgage Sale Agreement – Product Switches, Flexible Drawings, Further Advances and Substitution*" below).

A Loan which is subject to a Product Switch may remain in the Portfolio subject to the terms contained in the Mortgage Sale Agreement. See "*The Portfolio - Sale of the Portfolio under the Mortgage Sale Agreement*".

#### **Underwriting**

The underwriting approach of the Seller has changed over time. Loans in the Portfolio may have been originated in accordance with different underwriting criteria from those set out here, depending on their date of origination. The Seller has always adopted a rigorous manual underwriting assessment and since 2002 supported that by an automated credit scoring system, thus providing a combined scoring and system based approach to lending assessment. This assessment is made with reference to a number of components including:

- (a) credit score: calculation of propensity to default based on a combination of customer supplied, internal performance and credit bureau data; and
- (b) affordability: calculation of an individualised lending amount that reflects the applicant's income and long-term commitments, the credit score and a debt-to-income percentage using a stressed interest rate and an overall income multiplier cap. All Loans are underwritten on an affordability principle and verified by reference to appropriate documentation. Affordability is calculated by reference to gross income and long term commitments, loans, credit cards etc; and
- (c) valuations: are carried out in full on all proposed new Loans. A restricted automated valuation model policy on remortgaging existed between 2007 and 2009 since which time full valuations have been carried out on all business.

The lending system is supported by a mandate structure within the processing up to offer stage, with authority limits varying according to seniority. This delegated authority is restricted to the management level. Completions are a segregated function from the processing function.

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

Lending managers carry out sample checking at offer stage and file checking at completion stage to ensure adherence to the policy and underwriting process. Since late 2010, this is further supported by an independent check by the credit risk team. The Seller's mortgage indemnity guarantee insurers also carry out quarterly audit checks on higher loan-to-value ("**LTV**") cases above 75% to ensure policy adherence.

## Lending Criteria

The following is a summary of the lending criteria (the "**Lending Criteria**") applied by the Seller in originating all its mortgage loans, subject to any underwriting exception (as described below).

It should be noted that the Lending Criteria have changed over time and not all Loans in the Provisional Portfolio will have been originated under these terms. However, the lending criteria relevant to the origination of the Loans in the Provisional Portfolio were substantially similar to those set out below.

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

(a) *Property - location*

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

(b) *Property - Borrower's title*

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

(c) *Property – leasehold term*

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

(d) *Property - valuation*

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

(e) *Property - construction*

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

(f) *Property - occupiers*

Each Borrower must disclose the details of every person (except sons or daughters (who are aged 17 years or over) of the Borrower living with the Borrower) who, at the date upon which the Loan is entered into has attained the age of 17 and is in or about to be in actual occupation of the relevant Property and each such person must either be named as a Borrower or have signed a deed of consent in the form of the pro forma contained in the Standard Documentation which was applicable at the time the mortgage was executed and which has the effect of postponing any present or future rights or interests as he or she may have or acquire over or in respect of the relevant Property, and making such interests subject to the rights, interests and remedies of the Seller under the relevant Mortgage.

(g) *Property – use*

A Loan will not be granted in relation to Property which is used for commercial purposes (other than on an informal basis e.g. use of a room as an office).

(h) *Loan - loan to value ratio*

The LTV is calculated by dividing the initial principal amount advanced at completion of the Loan (excluding any completion fees) by the lesser of the valuation or purchase price of the Property. For the purpose of calculating the applicable LTV, any builder's deposit or incentives are accounted for in the relevant valuation or deducted from the relevant purchase price.

What is an acceptable LTV will depend on the nature of the product and the Borrower (e.g. first time buyers), the value of the Property and the credit rating of the Borrower.

(i) *Loan – repayment methods*

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

(j) *Loan - term*

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

(k) *Borrower - capacity and status*

Borrowers must all be private individuals. Borrowers must have a minimum age of 18 and must have been in employment for the last 3 months or with a single previous employer for at least 12 months or where the Loan continues beyond intended retirement age, the Borrower has sufficient income to service and repay the Loan before the intended age of retirement.

(l) *Borrower - credit history*

The Borrower's credit and employment history may be assessed with the aid of one or more of the following:

- (i) electoral register or other proof of occupancy;
- (ii) full credit search for the previous three years supplied by a credit reference agency;
- (iii) copy of the most recent pay slips, P60s, personal and/or business bank statements, employment contracts and/or confirmation of salary details from employer;
- (iv) historical business accounts (for example if self-employed and or an owner of a limited company), audited by qualified accountants where applicable. However, in respect of the Portfolio, the Seller will warrant that no Borrower is categorised as self-employed; or
- (v) previous mortgage statements.

(m) *Borrower – income and affordability*

A full income and expenditure assessment will be carried out to ensure that the Loan is affordable, at the point of origination and going forwards. Affordability and reasonableness checks are carried out to validate income and expenses.

Lending decisions are based on an assessment of affordability for each individual application. Consideration is given to the lifestyle and spending pattern of applicants and to long-term affordability to allow for future rate increases. FSA guidelines on responsible lending require that lenders no longer rely on standard income multiples across the board. Prior to 2007, the Seller employed standard income multiples as part of its Lending Criteria.

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

(n) *Borrower – Deposit*

Applicants should be able to demonstrate having saved a personal deposit. Applicants with builder or vendor deposit funding are not accepted, although gifts from close relatives are accepted.

For the purposes of this section and where used elsewhere in this Prospectus, the following words shall have the meanings set out below:

**"Prudent Mortgage Lender"** means a prudent residential mortgage lender lending to borrowers in England and Wales who generally satisfies the lending criteria of traditional sources of residential mortgage capital.

#### **Underwriting exception**

On a case-by-case basis the Seller may have determined that, based upon compensating factors, an applicant that did not strictly qualify under its Lending Criteria at that time warranted an underwriting exception. Compensating factors may be considered including, but not limited to, a low LTV ratio, overall affordability position and track record with the organisation. Any such exceptions would have been approved by a mandated underwriter or a management level employee of the Seller.

#### **Interest Only Loans**

In relation to Interest Only Loans, the Seller recommends that the Borrower has a suitable repayment mechanism in place and will only accept a limited range of such vehicles. The Seller will review the repayment mechanism in line with the size of the Loan, applicant's age and income and likelihood of the repayment mechanism accumulating sufficient value to repay the Loan and will decline the application if this repayment mechanism is deemed to be unacceptable. The Seller does not verify or does not require proof that such repayment mechanism is in place rather it assesses the plausibility of such repayment mechanism being in place and does not take security over any investment policies taken out by Borrowers.

#### **Insurance Policies**

##### **(a) *Borrower's Insurance***

It is a condition of each Loan that each Borrower is to effect and maintain (at their own expense) a property insurance policy (or, in the case of leasehold properties, provide full details of such policy to the Seller) in an amount sufficient to recover the reinstatement value of the Property. (Where the Seller discovers a Borrower does not have buildings insurance in place it effects buildings insurance on behalf of the Borrower and debits the Borrower's account for such amount).

##### **(b) *Contingency Insurance***

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

#### **Householders' Contingency Policy**

This policy provides buildings insurance standard type cover as follows:

- cover for loss where the Borrower has failed to arrange buildings insurance cover;
- cover where a landlord of a leasehold property charged to the Seller has failed to insure or inadequately insures;
- cover where landlord arranged insurance of a leasehold property is vitiated by an act of the lessee or any other occupiers of other leasehold flats in the same building;
- subsidence resulting from coal mining activities; and
- subsidence resulting from activities addressed by the Cheshire Brine Pumping (Compensation for Subsidence) Act 1952.

#### **Householders' Freedom of Agency Policy**

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

#### **Selection of the Portfolio**

The Loans in the Portfolio were initially selected from the mortgage loans in the Seller's mortgage book which met the warranties set out in "*Sale of the Portfolio under the Mortgage Sale Agreement – Mortgage*



*Sale Agreement – Representations and Warranties*" and subsequently such initial pool was further reduced using a random selection process.

## SALE OF THE PORTFOLIO UNDER THE MORTGAGE SALE AGREEMENT

### Mortgage Sale Agreement

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

#### *The Portfolio*

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

- (a) £813,999,641.22 as Initial Consideration; and
- (b) an obligation of the Issuer to pay, at a later date, the Deferred Consideration in respect of the sale of the Portfolio.

Any Deferred Consideration will be paid to the Seller in accordance with the Pre-Enforcement Revenue Priority of Payments or, if applicable, the Post-Enforcement Priority of Payments.

The Issuer shall purchase Further Advances and/or Flexible Drawings made by the Seller under a Loan.

#### *Perfection Trigger Events*

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

Legal assignment of the Loans and their Related Security to the Issuer (including, where applicable, their registration or recording in the relevant property register) will be completed as soon as reasonably practicable after the earliest to occur of any of:

- (a) the Seller becomes insolvent or is deemed unable to pay its debts within the meaning of section 123(1)(a) of the Insolvency Act 1986 (as amended) (on the basis that the reference in such section to £750 was read as a reference to £10 million) or section 1(b), (c), (d) or (e) of the Insolvency Act 1986 (as amended) (on the basis that the words "for a sum exceeding £10 million" were inserted after the words "extract registered bond" and "extract registered protest") or applies for or consents to or suffers the appointment of a liquidator or receiver or administrator or building society liquidator or building society special administrator or similar officer over the whole or any substantial part of its undertaking, property, assets or revenues or takes any proceeding under any law for a readjustment or deferment of its obligations or any part thereof or makes or enters into a general assignment or an arrangement or composition with or for the benefit of its creditors generally or a distress, execution or diligence or other process is enforced upon the whole or any substantial part of its undertaking or assets and is not discharged within 60 days); or
- (b) an order is made or an effective resolution is passed or the necessary consent of the Seller's members is given for the winding up or dissolution of the Seller or the authorisation or registration of the Seller is or is proposed to be cancelled, suspended or revoked or anything analogous or similar to any of the foregoing occurs; or
- (c) if the Seller ceases or threatens to cease to carry on its business or substantially the whole of its business,

each of (a), (b) and (c) (except in the case of events occurring for the purposes of or pursuant to a Permitted Transfer as defined below) being a "**Seller Insolvency Event**" and a "**Perfection Trigger Event**".

**Permitted Transfer** means:

- (i) an amalgamation of the Seller and one or more other building societies under section 93 of the Building Societies Act; or
- (ii) a transfer by the Seller of all or substantially all of its engagements (being 90 per cent. or more of the Issuer's engagements including its obligations under the Trust Deed and the Agency Agreement) or (on terms which have previously been approved by an Extraordinary Resolution of the Noteholders) any smaller part of its engagements, in both cases under section 94 of the Building Societies Act; or
- (iii) a transfer by the Seller of its business to a company under sections 97 to 102D of the Building Societies Act (including any transfer of business to a subsidiary of another mutual society pursuant to section 97 of the Building Societies Act (as modified by the Mutual Societies (Transfers) Order 2009 made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007) (the **Funding and Mutual Societies Transfers Act**) or any other order made in the future by HM Treasury under section 3 of the Funding and Mutual Societies Transfers Act); or
- (iv) an alteration in the status of the Seller by virtue of any statute or statutory provision which alters, or permits the alteration of, the status of building societies generally or building societies which meet specified criteria to that of an institution authorised under the FSMA or to a body which is regulated on a similar basis to an institution authorised under the FSMA; or
- (v) any other reconstruction or amalgamation or transfer, in each case the terms of which have previously been approved by an Extraordinary Resolution of the Noteholders.

If the Seller ceases to be assigned a long term unsecured, unsubordinated debt obligation rating from Moody's of at least Baa3 or from Fitch of at least BBB- (or such other long term rating which is otherwise acceptable to the relevant Rating Agency) (a "**Seller Downgrade Event**"), the Seller shall be obliged to prepare the documentation required to perfect legal title to the Loans and Related Security, but shall not be required to give notice of the transfer of the equitable or beneficial interest in the Loans to the Borrowers nor complete any other step necessary to perfect legal title to the Loans or the Related Security to the Issuer.

The title information documents and customer files relating to the Portfolio are currently held by or to the order of the Seller. The Seller has undertaken that, until perfection of the assignments contemplated by the Mortgage Sale Agreement, all the title information documents and customer files relating to the Portfolio which are at any time in its possession or under its control or held to its order will be held to the order of the Issuer or as the Issuer directs.

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

#### *Representations and Warranties*

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

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

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

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

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

#### *Loans*

- (a) the particulars of the Loans set out in the Portfolio Notice are true, complete and accurate in all material respects;
- (b) each Loan was originated by the Seller in the ordinary course of business and was denominated in pounds Sterling upon origination;
- (c) each Loan was originated by the Seller in the ordinary course of business no earlier than 1 July 2000;
- (d) no Loan has a Current Balance of more than £1,000,000;
- (e) prior to the making of each Initial Advance or Further Advance or Flexible Loan Drawing, the Lending Criteria and all preconditions to the making of any Loan were satisfied in all material respects subject only to such exceptions and waivers as made on a case by case basis as would be acceptable to a Prudent Mortgage Lender;
- (f) each Loan and its Related Security satisfied in all material respects subject only to such exceptions and waivers as made on a case by case basis as would be acceptable to a Prudent Mortgage Lender the Seller's Lending Criteria in force at the time of its origination;
- (g) the Lending Criteria are consistent with the criteria that would be used by a Prudent Mortgage Lender;
- (h)
  - (i) each Loan was made and its Related Security taken or received on the terms of the Standard Documentation without any material variation thereto, and nothing has been done subsequently to add to, lessen, modify or otherwise vary the express provisions of any of the same in any material respect;
  - (ii) the brochures, application forms, offers, offer conditions and marketing material distributed by the Seller to the Borrower when offering a Loan to a Borrower:
    - (A) do not conflict in any material respect with the terms applicable to the relevant Loan and its Related Security at the time that the Loan was entered into;
    - (B) do not conflict with and would not prohibit or otherwise limit the terms of, the Transaction Documents or the matters contemplated thereby, including for the avoidance of doubt and without limitation the management of the Loans and their Related Security by the Seller or a delegate of the Seller or the appointment of a new Servicer following the occurrence of a Seller Insolvency Event;
- (i) at least one monthly payment due in respect of each Loan has been paid by the relevant Borrower;
- (j) the Current Balance on each Loan and its Related Security constitute a legal, valid, binding and enforceable debt due to the Seller from the relevant Borrower and the terms of each Loan and its Related Security constitute legal valid, binding and enforceable obligations of the Borrower and

non-cancellable except that enforceability may be limited by bankruptcy, insolvency or other similar laws of general applicability affecting the enforcement of creditors' rights generally and the court's discretion in relation to equitable remedies;

- (k) the rate of interest under each Loan is charged in accordance with the Standard Documentation;
- (l) no agreement for any Loan or any agreement relating to a variation of such Loan, is wholly or partly a "regulated consumer credit agreement" as defined in section 8 of the CCA or treated as such;
- (m) all of the Borrowers are individuals and were aged 18 years or older at the date of entering into the relevant Loan and its Related Security and the identity of each Borrower has been verified by the Seller in accordance with procedures which would be acceptable to a Prudent Mortgage Lender;
- (n) each Loan has a remaining term of less than 30 years as at the Closing Date, Advance Date, Drawings Date, Switch Date or Substitution Date, as relevant;
- (o) each Loan has a remaining term ending no later than 3 years prior to the Final Maturity Date of the Notes;
- (p) each Loan and its Related Security is legal, valid, binding and enforceable and is non cancellable, and subject only in certain appropriate cases to requisite applications for registrations at the Land Registry having been made and which are pending and, in relation to such cases, the Seller is not aware of any caution, notice, inhibition or any other matter that would prevent such registration;
- (q) all approvals, consents and other steps necessary to permit a legal or equitable or beneficial transfer, or a transfer of servicing or other disposal as and in the manner contemplated by the Transaction Documents from the Seller to the Issuer, of the Loans and their related Mortgages to be sold under the Mortgage Sale Agreement have been obtained or taken and there is no requirement in order for the transfer to be effective to obtain the consent of the Borrower before, on or after any equitable or beneficial transfer or before any legal transfer of the Loans and their related Mortgages and such transfer or disposal shall not give rise to any claim by the Borrower against the Issuer, the Trustee or any of their successors in title or assigns;
- (r) no Related Security consists of stock or marketable securities (in either case for the purposes of section 122 of the Stamp Act 1891), chargeable securities (for the purposes of section 99 of the Finance Act 1986) or a **chargeable interest** for the purposes of section 48 of the Finance Act 2003;
- (s) save in respect for Product Switches none of the provisions of the Loans have been waived, altered or modified in any way by the Seller other than:
  - (i) any variation agreed with a Borrower to control or manage arrears on a Loan;
  - (ii) any variation in the maturity date of a Loan;
  - (iii) any variation imposed by statute or as a result of legally binding UK government policy changes or initiatives aimed at assisting home owners in meeting payments on their mortgage loans or any variation in the frequency with which the interest payable in respect of the Loan is charged;
  - (iv) any variation to the interest rate as a result of the Borrowers switching to a different rate;
  - (v) any change to a Borrower under the Loan or the addition of a new Borrower under a Loan; or
  - (vi) any change in the repayment method of the Loan;
- (t) no Loan is a staff loan;

- (u) no agreement for any Loan, whether taken alone or with a related agreement, gives rise to an "unfair relationship" between the creditor and the debtor for the purposes of section 140A to 140D of the CCA;
- (v) no Loan is categorised as a self-certified or a buy-to-let loan under the Seller's Lending Criteria;
- (w) each Loan has been designated as a prime Loan under the Seller's Lending Criteria;
- (x) so far as the Seller is aware, no Borrower is in breach of any obligation under a Loan other than in respect of Monthly Payments;
- (y) no Borrower is categorised as self-employed under the Seller's designated origination policies;
- (z) no Loan is more than one monthly payment in arrears;
- (aa) to the best of the Seller's knowledge, no Borrower had ever filed for bankruptcy, entered into an individual voluntary arrangement or had a county court judgment entered against him on or prior to the date on which the Borrower executed the relevant Mortgage;
- (bb) to the best of the Seller's knowledge, no Borrower had been in arrears with another mortgage lender at any point during the 12 months prior to the date of such Borrower's Initial Advance under its Loan;
- (cc) no Loan had a current LTV greater than 90% as at the Portfolio Cut-Off Date; and
- (dd) no lien or right of set-off or counterclaim or other right of deduction has arisen between any Borrower and the Seller or any other party which would entitle such Borrower to reduce the amount of any payment otherwise due under the Loan.

#### *Mortgages*

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

#### *The Properties*

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

### *Valuers' and Solicitors' Reports*

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

### *Buildings Insurance*

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

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

(the "**Buildings Insurance Policies**" and each a "**Buildings Insurance Policy**") and since origination the Seller has not received notice that any such Property has since become uninsured or, to the extent that the Seller has received such notice, the relevant Property is insured pursuant to the Insurance Policies, or the Seller has arranged separate buildings insurance and changed the premium to the Borrower's account in accordance with the provisions of the Mortgage Conditions;

### *The Seller's Title*

- (a) immediately prior to the purchase of any Loan and the Related Security by the Issuer, and subject to registration at the Land Registry the Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits in relation to the Loans and Related Security agreed to be sold and/or assigned by the Seller to the Issuer pursuant to the Mortgage Sale Agreement free and clear of all Security Interests, claims and equities (including, without limitation, rights of set-off or counterclaim and overriding interests within the meaning of either section 3(xvi) of the Land Registration Act, subject only to the Mortgage Sale Agreement and the Borrower's equity of redemption and the Seller is not in breach of any covenant implied by reason of its selling the relevant Portfolio with full title guarantee (or which would be implied if the relevant Land Registry Transfers in the form set out in the Mortgage Sale Agreement were completed and registered or recorded, as appropriate);
- (b) all steps necessary to perfect the Seller's title to the Related Security were duly taken at the appropriate time or are in the process of being taken, in each case (where relevant) within any applicable priority periods or time limits for registration with all due diligence and without undue delay;
- (c) the Loan Files relating to each of the Loans and their Related Security are held by, or are under the control of:

- (i) the Seller; or
- (ii) the Servicer;
- (d) neither the entry by the Seller into the Mortgage Sale Agreement nor any transfer, assignment or creation of trust contemplated by the Mortgage Sale Agreement affects or will adversely affect any of the Loans and their Related Security and the Seller may freely assign and enter into trust arrangements in respect of all its rights, title, interests and benefits therein as contemplated in the Mortgage Sale Agreement without breaching any term or condition applying to any of them;
- (e) the Seller has not knowingly waived or acquiesced in any breach of any of its rights in respect of a Loan or its Related Security, other than waivers and acquiescence such as a Prudent Mortgage Lender might make on a case by case basis;

#### *Interest Rates payable under the Loans*

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

#### *FSA Regulation*

- (a) in respect of any Loans entered into on or after 31 October 2004, the Seller was authorised by and had permission from the FSA for entering into Regulated Mortgage Contracts as lender at the time that it entered into each such Loan and continues to be so authorised and hold such permission;
- (b) the Seller is authorised by and had permission (and, insofar as applicable, any intermediary is authorised by and had permission) from the FSA for conducting any other regulated activities (as defined in the FSMA) carried on by the Seller (or any such intermediary) in respect of each Loan;
- (c) the Seller has complied with all Regulatory Direction in respect of the Loans, in particular, without limitation, the provisions of MCOB;
- (d) each officer or employee of the Seller in any capacity which involves a controlled function (as defined in the FSA Rules) or involves the supervision of any person or persons so engaged is and was at all relevant times a validly registered **approved person** in accordance with the FSA Rules;
- (e) the Seller has created and maintained all records in respect of the Loans in accordance with the FSA Rules and any other Regulatory Direction;
- (f) to the extent that any of the Loans qualify as **distance contracts** (as defined by Article 2 of the Distance Marketing of Consumer Financial Services Directive) the Seller had complied with the relevant provisions of the Distance Marketing of Consumer Financial Services Directive, as implemented in the United Kingdom;
- (g) all fees and commissions payable to brokers and intermediaries by the Seller were fully disclosed to the relevant Borrowers;

#### *General*

- (a) the Seller has, since the making of each Loan, kept or procured the keeping of full and proper accounts, books and records as are necessary to show all material transactions, payments, receipts, proceedings and notices relating to such Loan and all such accounts, books, and records are up to date in the possession the Seller or held to its order;
- (b) neither the Seller nor as far as the Seller is aware after having made all reasonable enquiries any of its agents has received written notice of any litigation, claim, dispute or complaint (in each case, subsisting, threatened or pending) in respect of any Borrower, Property, Loan, Related Security or Insurance Policy; and
- (c) there are no authorisations, approvals, licences or consents required as appropriate for the Seller to enter into or perform its obligations under the Mortgage Sale Agreement to render the Mortgage Sale Agreement legal, valid, binding, enforceable and admissible in evidence and, with



the exception of sending notification of assignment to the Borrowers, all formal approvals, consents and other steps necessary to permit a legal transfer of the Loan and the Related Security to be sold under this Agreement have been obtained or taken.

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

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

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

*Repurchase by the Seller*

The Seller has agreed in the Mortgage Sale Agreement to repurchase any of the Loans together with their Related Security sold by it to the Issuer in the circumstances described below.

If any of the Loan Warranties given by the Seller are materially breached in respect of any Loan and/or its Related Security or any representation or warranty proves to be materially untrue as at the Closing Date or, in respect of a Further Advance, Flexible Drawing, Product Switch or Substitution as at the Testing Date (as defined below), the Seller will serve a notice promptly, but in any event no later than 5 Business Days following the Closing Date or the relevant Testing Date, on the Issuer in relation thereto. If such breach (where capable of remedy) has not been remedied within 30 days of receipt by the Issuer of such notice from the Seller, the Issuer will serve a repurchase notice on the Seller. The Seller will, repurchase such Loan and its Related Security from the Issuer within 30 days of such repurchase notice being received (or such other date as the Issuer may direct in the repurchase notice, provided that the date so specified by the Issuer shall not be later than 30 days after receipt by the Seller of such repurchase notice). Consideration for such repurchase shall be provided by payment in cash and/or the substitution of equivalent Loan(s) (the **"Substitute Loans"**) such that the aggregate of the Current Balance(s) of the Substitute Loan(s), if any, and the cash payment amount, if any, equals at least the Current Balance(s) of the Loan(s) subject to repurchase.

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

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

*Product Switches, Flexible Drawings, Further Advances and Substitution*

(a) Further Advances

Under the Mortgage Sale Agreement, the Issuer has agreed that the Seller or the Servicer may make an offer to any Borrower for a Further Advance. If a Borrower requests, or the Seller or the Servicer (on behalf of the Seller) offers, a Further Advance under a Loan, the Seller or the Servicer (on behalf of the Seller) will be solely responsible for offering, documenting and funding that Further Advance. Any Further Advance made to a Borrower shall be purchased by the Issuer on the date that the Further Advance is made by the Seller to the relevant Borrower (the **"Advance Date"**). A notice shall be given by the Seller to the Issuer in respect of a Further Advance promptly, but in any event no later than the date falling 5 Business Days following the Testing Date, if it is determined that any of the Further Advance Conditions are not satisfied as at the Testing Date (a **"Notice of Non-Satisfaction of Further Advance Conditions"**).

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

- (a) the Advance Date falls before the Step-Up Date;
- (b) no Event of Default has occurred and is continuing;

- (c) no Seller Insolvency Event has occurred;
- (d) the Advance Date falls before the Transfer Date;
- (e) the Seller's short term unsecured, unsubordinated and unguaranteed debt rating has not fallen below P-2 by Moody's or F2 by Fitch (or such other short term rating acceptable to the relevant Rating Agency);
- (f) if the Seller's short term unsecured, unsubordinated and unguaranteed debt rating has fallen below F1 by Fitch or P-1 by Moody's (or such other lower short term rating acceptable to the relevant Rating Agency) and remains below such ratings, the Seller has provided to the Issuer and the Trustee a valid solvency certificate signed by an authorised signatory of the Seller;
- (g) the purchase of the Further Advance will not result in the aggregate principal balance outstanding of all Further Advances purchased by the Issuer exceeding 10 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date;
- (h) if required, the Swap Agreements may be appropriately varied or, if appropriate, the Issuer may enter into new swaps in order to hedge against the interest rate payable on the Loan subject to the Further Advance and the floating rate of interest payable on the Notes;
- (i) the Current Balance of the Loans comprising the Portfolio, in respect of which the aggregate amount in arrears is more than three times the Monthly Payment then due, is less than 5 per cent. of the aggregate Current Balance of the Loans comprising the Portfolio;
- (j) each Loan and its Related Security which is the subject of the Further Advance complies, as at the Advance Date, with the representations contained in the Mortgage Sale Agreement required to be given on each Advance Date;
- (k) the Class A Principal Deficiency Ledger does not have a debit balance as at the most recent Interest Payment Date after applying all Available Revenue Receipts on that Interest Payment Date;
- (l) the original weighted average LTV ratio calculated as the ratio of X to Y; does not exceed 75 per cent. where:
  - X is the aggregate sum of (a) multiplied by (b) for each of the Loans in the Portfolio where:
    - (a) is the original LTV Ratio calculated by dividing debt previously advanced (including any Further Advances made) by the Original Valuation of a Loan in the Portfolio and
    - (b) is the Current Balance of such Loan in the portfolio
  - Y is the aggregate Current Balances of all the Loans in the Portfolio;
- (m) the current LTV ratio (as measured by the Current Balance of such Loan plus the relevant Further Advance divided by the latest valuation) is less than 90 per cent.;
- (n) the outstanding Current Balance of any Loans in the Portfolio (including any Further Advance) with an interest-only part does not exceed 60 per cent of the aggregate Current Balance of the Loans in the Portfolio; and
- (o) the portion of a Loan which is attributable to a Further Advance after the Transfer Date in an amount equal to such Further Advance will be excluded in the calculation of the notional amount in respect of one of the Swap Transactions in respect of each calculation period for the applicable Swap Transaction which follows the calculation period in which the Further Advance is added to the Portfolio.

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

The Seller must, in relation to the Loan which is subject to the Further Advance, give the representations and warranties in respect of Further Advances set out in the Mortgage Sale Agreement as at the Testing

Date. If no Notice of Non-Satisfaction of Further Advance Conditions has been given by the Seller to the Issuer, or has been so given and subsequently revoked by the Seller, then the Issuer must pay the Further Advance Purchase Price in respect of such Further Advance to the Seller on or prior to the last day of the calendar month following the month in which the relevant Advance Date falls to the extent that the Issuer has sufficient Principal Receipts. The purchase price for the relevant Further Advance shall be an amount equal to the Current Balance of the Further Advance (the "**Further Advance Purchase Price**") and will be paid from Principal Receipts.

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

Neither the Seller nor the Servicer (as applicable) shall be permitted to issue any offer for a Further Advance to any Borrower with a Loan which is delinquent or which is in default.

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

**"Further Advance"** means a further amount lent to a Borrower under his or her Loan after the Closing Date, which amount is secured by the same Property as the Loan.

**"Monthly Payment"** means the amount which the relevant Mortgage Terms require a Borrower to pay on each Monthly Payment Day.

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

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

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

**"Transfer Date"** means, any day on which:

- (i) the Principal Swap Provider fails to make, when due, any payment or delivery pursuant to the Principal Swap Agreement, if such failure is not remedied on or prior to the last day of the applicable grace period after notice is given to the Principal Swap Provider of such failure; or
- (ii) the Principal Swap Provider fails to make, when due, any payment or delivery pursuant to the relevant credit support annex between the Principal Swap Provider and the Stand-by Interest Rate Swap Provider, if such failure is not remedied on or prior to the last day of the applicable grace period and the Stand-by Interest Rate Swap Provider notifies the Principal Swap Provider and the Issuer of the occurrence of such default;
- (iii) the credit support annex under the relevant ISDA Master Agreement between the Principal Swap Provider and the Stand-by Swap Interest Rate Swap Provider is terminated in circumstances

where both parties are "**Affected Parties**" (as such term is defined in that ISDA Master Agreement);

- (iv) a Seller Insolvency Event occurs with respect to the Principal Swap Provider; or
- (v) 30 "**Local Business Days**" have elapsed since the last time the "**Second Rating Trigger Requirements**" did not apply and the Issuer or the Stand-by Interest Rate Swap Provider has received a "**Firm Offer**" to replace the Stand-by Interest Rate Swap Provider under the Stand-by Interest Rate Swap Agreement on the basis that the obligations under the Stand-by Interest Rate Swap Transactions have commenced (all terms in quotations as defined in the Stand-by Interest Rate Swap Agreement).

#### (b) Flexible Drawings

Under the Mortgage Sale Agreement, the Issuer has agreed that the Seller or the Servicer may accept an application from a Borrower for a Flexible Drawing. If a Borrower requests, or the Seller or the Servicer (on behalf of the Seller) offers, a Flexible Drawing under a Loan, the Seller or the Servicer (on behalf of the Seller) will be solely responsible for offering, documenting and funding that Flexible Drawing. Any Flexible Drawing made to a Borrower shall be purchased by the Issuer on the date that the Flexible Drawing is made by the Seller to the relevant Borrower (the "**Drawings Date**"). A notice shall be given by the Seller to the Issuer in respect of a Flexible Drawing, promptly, but in any event no later than the date falling 5 Business Days following the Testing Date if it is determined that any of the Flexible Drawings Conditions are not satisfied as at the Testing Date (a "**Notice of Non-Satisfaction of Flexible Drawings Conditions**").

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

- (a) the Drawings Date falls before the Step-Up Date;
- (b) no Event of Default has occurred and is continuing;
- (c) no Seller Insolvency Event has occurred;
- (d) the Drawings Date falls before the Transfer Date;
- (e) the Seller's short term unsecured, unsubordinated and unguaranteed debt rating has not fallen below P-2 by Moody's or F2 by Fitch (or such other short term rating acceptable to the relevant Rating Agency);
- (f) if the Seller's short term unsecured, unsubordinated and unguaranteed debt rating has fallen below F1 by Fitch or P-1 by Moody's (or such other lower short term rating acceptable to the relevant Rating Agency) and remains below such ratings, the Seller has provided to the Issuer and the Trustee a valid solvency certificate signed by an authorised signatory of the Seller;
- (g) the purchase of the Flexible Drawing will not result in the aggregate principal balance outstanding of all Flexible Drawings purchased by the Issuer exceeding 10 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date;
- (h) if required, the Swap Agreements may be appropriately varied or, if appropriate, the Issuer may enter into new swaps in order to hedge against the interest rate payable on the Loan subject to the Flexible Drawing and the floating rate of interest payable on the Notes;
- (i) the Current Balance of the Loans comprising the Portfolio, in respect of which the aggregate amount in arrears is more than three times the Monthly Payment then due, is less than 5 per cent. of the aggregate Current Balance of the Loans comprising the Portfolio;
- (j) each Loan and its Related Security which is the subject of the Flexible Drawing complies, as at the Drawings Date, with the representations contained in the Mortgage Sale Agreement required to be given on each Drawings Date;

- (k) the Class A Principal Deficiency Ledger does not have a debit balance as at the most recent Interest Payment Date after applying all Available Revenue Receipts on that Interest Payment Date;
- (l) the original weighted average LTV ratio calculated as the ratio of X to Y; does not exceed 75 per cent. where:
  - X is the aggregate sum of (a) multiplied by (b) for each of the Loans in the Portfolio where:
    - (a) is the original LTV Ratio calculated by dividing debt previously advanced (including any Flexible Drawing made) by the Original Valuation of a Loan in the Portfolio and
    - (b) is the Current Balance of such Loan in the portfolio
  - Y is the aggregate Current Balances of all the Loans in the Portfolio;
- (m) the current LTV ratio (as measured by the Current Balance of such Loan plus the relevant Flexible Drawing divided by the latest valuation) is less than 90 per cent.;
- (n) the outstanding Current Balance of any Loans in the Portfolio (including any Flexible Drawings) with an interest-only part does not exceed 60 per cent of the aggregate Current Balance of the Loans in the Portfolio; and
- (o) the portion of a Loan which is the subject of a Flexible Drawing after the Transfer Date in an amount equal to such Flexible Drawing will be excluded in the calculation of the notional amount in respect of one of the Swap Transactions in respect of each calculation period for the applicable Swap Transaction which follows the calculation period in which the Flexible Drawing is added to the Portfolio.

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

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

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

Neither the Seller nor the Servicer (as applicable) shall be permitted to issue any offer for a Flexible Drawing to any Borrower with a Loan which is delinquent or which is in default.

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

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

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

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

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

(c) Product Switches

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

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

each a **"Permitted Variation"**.

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

If a Borrower requests, or the Seller or the Servicer (on behalf of the Seller) offers, a Product Switch under a Loan, the Seller or the Servicer (on behalf of the Seller) will be solely responsible for offering and documenting that Product Switch. Any Loan which has been subject to a Product Switch will remain in the Portfolio after the date that the Product Switch is made (the **"Switch Date"**). A notice shall be given by the Seller to the Issuer in respect of such Product Switch promptly, but in any event no later than the date falling 5 Business Days following the Testing Date, if any it is determined that of the Product Switch Conditions are not satisfied as at the Testing Date (a **"Notice of Non-Satisfaction of Product Switch Conditions"**).

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

- (a) the Switch Date falls before the Step-Up Date;
- (b) no Event of Default has occurred and is continuing;
- (c) no Seller Insolvency Event has occurred;
- (d) the Switch Date falls before the Transfer Date;

- (e) the Seller's short term unsecured, unsubordinated and unguaranteed debt rating has not fallen below P-2 by Moody's or F2 by Fitch (or such other short term rating acceptable to the relevant Rating Agency);
- (f) if the Seller's short term unsecured, unsubordinated and unguaranteed debt rating has fallen below F1 by Fitch or P-1 by Moody's (or such other lower short term rating acceptable to the relevant Rating Agency) and remains below such ratings, the Seller has provided to the Issuer and the Trustee a valid solvency certificate signed by an authorised signatory of the Seller;
- (g) if required, the Swap Agreements may be appropriately varied or, if appropriate, the Issuer may enter into new swaps in order to hedge against the interest rate payable on the Loan subject to the Product Switch and the floating rate of interest payable on the Notes;
- (h) the Product Switch will be effected by such means as would be adopted by the Seller, for the purpose of ensuring the validity and priority of the Loan, were such switch in respect of a loan advanced by the Seller which is not part of the Portfolio;
- (i) the Product Switch will be similar to switches offered to the Seller's mortgage borrowers whose mortgage loans do not form part of the Portfolio;
- (j) the Current Balance of the Loans comprising the Portfolio, in respect of which the aggregate amount in arrears is more than three times the Monthly Payment then due, is less than 5 per cent. of the aggregate Current Balance of the Loans comprising the Portfolio;
- (k) each Loan and its Related Security which is the subject of a Product Switch complies at with the representations contained in the Mortgage Sale Agreement required to be given on each Switch Date;
- (l) the Class A Principal Deficiency Ledger does not have a debit balance as at the most recent Interest Payment Date after applying all Available Revenue Receipts on that Interest Payment Date;
- (m) the outstanding Current Balance of any Loans in the Portfolio (including any Product Switch) with an interest only part does not exceed 60 per cent. of the aggregate Current Balance of the Loans in the Portfolio;
- (n) each Loan which is the subject of a Product Switch will be included in the calculation of the notional amount in respect of one of the Swap Transactions in respect of the calculation period for the applicable Swap Transaction which immediately follows the calculation period in which such Product Switch is made; and
- (o) a Loan which is subject to a Product Switch following the Transfer Date will, in certain circumstances, give rise to a mark-to-market payment under the Stand-by Interest Rate Swap Agreement.

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

The Seller must, in relation to the relevant Loan, give the representations and warranties in respect of Product Switches set out in the Mortgage Sale Agreement as at the Testing Date.

If a Notice of Non-Satisfaction of Product Switch Conditions is served in respect of the Loan subject to such Product Switch, then the Seller will have an obligation to remedy such breach within 30 days after receiving such Notice of Non-Satisfaction of Product Switch Conditions. If such breach is not capable of remedy, or, if capable of remedy, is not remedied within the 30 day period, the Issuer will serve a repurchase notice on the Seller. The Seller must then repurchase the Loan within 30 days of receipt of such repurchase notice (or such other date as the Issuer may direct in the repurchase notice, provided that the date so specified by the Issuer shall not be later than 30 days after receipt by the Seller of such repurchase notice). Consideration for such repurchase shall be provided by payment in cash and/or the substitution of Substitute Loan(s) such that the aggregate of the Current Balance(s) of the Substitute Loan(s), if any, and the cash payment amount, if any, equals at least the Current Balance(s) of the Loans subject to repurchase.

Where in relation to a proposed Further Advance, Flexible Drawing or Product Switch, the Seller or the Servicer (on behalf of the Seller) proposes making a Further Advance, Flexible Drawing or Product Switch (as applicable), the Seller may, despite the Seller not having given (in the case of the Further Advance) a Notice of Non-Satisfaction of Further Advance Conditions, (in the case of the Flexible Drawing) a Notice of Non-Satisfaction of Flexible Drawing Conditions or (in the case of the Product Switch) a Notice of Non-Satisfaction of Product Switch Conditions (as applicable) to the Issuer, as alternatives to selling the Further Advance or the Flexible Drawing to the Issuer or the Loan which is the subject of a Product Switch remaining in the Portfolio (as applicable), elect to repurchase the relevant Loan and its Related Security from the Issuer on or prior to the last day of the calendar month following the calendar month in which the Advance Date, Drawings Date or the Switch Date, (as applicable) falls for a consideration equal to its Current Balance. Any such election must be made prior to the Testing Date following the relevant Advance Date, Drawings Date or Switch Date (as applicable). The Seller must pay to the Issuer the consideration for the relevant Loan and its Related Security which is the subject of a Further Advance, Flexible Drawing or a Product Switch (as applicable) on the last day of the calendar month following the calendar month in which such Further Advance, Flexible Drawing or Product Switch is made.

(d) Substitute Loans

The Seller may offer the Issuer (and the Issuer shall accept) a Substitute Loan as consideration for the repurchase of a Loan which was in breach of any representation or warranty or in respect of which an unrevoked Notice of Non-Satisfaction of Further Advance Conditions, unrevoked Notice of Non-Satisfaction of Flexible Drawings Conditions or unrevoked Notice of Non-Satisfaction of Product Switch Conditions has been given by the Seller to the Issuer. Any Substitute Loan will be assigned to the Issuer unless the Seller has given notice to the Issuer no later than one Business Day prior to the Substitution Date that any of the Substitution Conditions are not satisfied (a "**Notice of Non-Satisfaction of Substitution Conditions**") and such notice has not been revoked by the Seller.

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

- (a) the Substitution Date falls before the Step-Up Date;
- (b) no Event of Default has occurred and is continuing;
- (c) no Seller Insolvency Event has occurred;
- (d) the Seller's short term unsecured, unsubordinated and unguaranteed debt rating has not fallen below P-2 by Moody's or F2 by Fitch (or such other short term rating acceptable to the relevant Rating Agency);
- (e) if the Seller's short term unsecured, unsubordinated and unguaranteed debt rating has fallen below F1 by Fitch or P-1 by Moody's (or such other lower short term rating acceptable to the relevant Rating Agency) and remains below such ratings, the Seller has provided to the Issuer and the Trustee a valid solvency certificate signed by an authorised signatory of the Seller;
- (f) if required, the Swap Agreements may be appropriately varied or, if appropriate, the Issuer may enter into new swaps in order to hedge against the interest rate payable on the Substitute Loan and the floating rate of interest payable on the Notes;
- (g) the Substitute Loan and Related Security constitutes the same ranking and priority security over a Property as the security provided in respect of the relevant repurchased Loan;
- (h) the substitution will not result in the Loan which is assigned or placed in trust, as applicable, being an Excluded Loan; and
- (i) each Substitute Loan will be included in the calculation of the notional amount in respect of one of the Swap Transactions in respect of the calculation period for the applicable Swap Transaction which immediately follows the calculation period in which such Substitute Loan is added to the Portfolio.



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

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

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

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

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

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

#### *Governing Law*

The Mortgage Sale Agreement and any non-contractual obligations arising out or in connection with the Mortgage Sale Agreement will be governed by English law.

## STATISTICAL INFORMATION ON THE PORTFOLIO

The statistical and other information contained in this section has been compiled by reference to the Provisional Portfolio of £824,891,131 as at the Portfolio Cut-Off Date. The Portfolio has been randomly selected from the Provisional Portfolio. A Loan will be removed from the Provisional Portfolio if in the period from (and including) the Portfolio Cut-Off Date to (but excluding) the Closing Date such Loan is repaid in full or if such Loan does not or would not comply with the representations and warranties given by the Seller in the Mortgage Sale Agreement on the Closing Date. The Portfolio of £824,891,131 as at 30 June 2011 was determined on or prior to such date by the Seller in accordance with the procedures as described in "*Selection of the Portfolio*" above.

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

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

The information contained in this section has not been updated to reflect any decrease in the size of the Portfolio from that of the Provisional Portfolio.

Except as otherwise indicated, these tables have been prepared using the Current Balance as at the Portfolio Cut-Off Date. Columns may not add up to the total due to rounding.

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

Total outstanding current balance	£824,891,131
Number of Loans	10,120
Average current loan size	£81,511
Weighted average current LTV	58.01%
Weighted average current seasoning (months)	35.7
Weighted average current interest rate	4.56%
Weighted average original LTV	62.15%
Weighted average remaining term (years)	17.1

Please note that the Portfolio Cut-Off Date is 30 June 2011 (as defined above) and is distinct from the Cut-Off Date which is 1 August 2011.

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

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

## Loan Current Balance (GBP)

	No. of Properties	% of Properties	Total Balance (GBP)	% of Total Balance	WA remaining term	WA current interest
1 – 50000 .....	3,085	30.48	100,244,696.43	12.15	11.98	4.86
50001 – 100000 .....	4,223	41.73	306,099,524.90	37.11	16.96	4.68
100001 – 150000 .....	1,796	17.75	216,918,740.95	26.30	18.31	4.50
150001 – 200000 .....	664	6.56	113,336,077.57	13.74	18.62	4.38
200001 – 250000 .....	248	2.45	54,730,790.79	6.63	18.67	4.23
250001 – 300000 .....	55	0.54	14,738,493.85	1.79	16.30	4.07
300001 – 350000 .....	20	0.20	6,488,860.43	0.79	17.18	4.39
350001 – 400000 .....	13	0.13	4,842,225.36	0.59	18.95	4.39
400001 >= .....	16	0.16	7,491,720.80	0.91	18.35	4.33
<b>Total .....</b>	<b>10,120</b>	<b>100.00</b>	<b>824,891,131.08</b>	<b>100.00</b>	<b>17.06</b>	<b>4.56</b>

Min: 10,006

Max: 563,147

Average: 81,511

## Loan Original Balance (GBP)

	No. of Properties	% of Properties	Total Balance (GBP)	% of Total Balance	WA remaining term	WA current interest
1 – 50000 .....	2,340	23.12	70,546,515.42	8.55	12.08	4.86
50001 – 100000 .....	4,427	43.75	291,370,143.25	35.32	16.73	4.71
100001 – 150000 .....	2,094	20.69	231,582,745.27	28.07	18.04	4.52
150001 – 200000 .....	806	7.96	127,306,649.17	15.43	18.22	4.39
200001 – 250000 .....	313	3.09	64,053,006.61	7.77	18.38	4.29
250001 – 300000 .....	72	0.71	17,029,139.98	2.06	15.91	3.99
300001 – 350000 .....	30	0.30	8,308,996.68	1.01	15.96	4.50
350001 – 400000 .....	17	0.17	5,617,207.45	0.68	17.79	4.42
400001 >= .....	21	0.21	9,076,727.25	1.10	18.86	4.31
<b>Total .....</b>	<b>10,120</b>	<b>100.00</b>	<b>824,891,131.08</b>	<b>100.00</b>	<b>17.06</b>	<b>4.56</b>

Min: 10,200

Max: 700,000

Average: 91,013

## 2. Loan-to-Value Ratios as at the Portfolio Cut-Off Date

The following table shows the range of LTV ratios, which express the Current Balance of the aggregate of Loans in a mortgage account in the Provisional Portfolio as at the Portfolio Cut-Off Date or the date of origination of the Loan, as applicable divided by the valuation as at origination of the Loan or the most recent valuation thereof (including indexed valuations where applicable — see "*The Loans — Lending Criteria — Valuations*"). For the avoidance of doubt, there have been no revaluations for the purposes of the issuance of the Notes and the Original Valuation is the valuation quoted as at the date of the origination of the Loan.

### *Current LTV*

	No. of Properties	% of Properties	Total Balance (GBP)	% of Total Balance	WA remaining term	WA current interest
1 – 50 .....	4,906	48.48	278,163,677.87	33.72	13.72	4.59
51 – 60 .....	1,329	13.13	122,331,186.68	14.83	17.02	4.42
61 – 70 .....	1,420	14.03	146,628,086.09	17.78	18.84	4.43
71 – 80 .....	1,484	14.66	163,893,509.84	19.87	19.14	4.56
81 – 85 .....	572	5.65	66,642,051.33	8.08	19.90	4.79
86 – 90 .....	409	4.04	47,232,619.27	5.73	20.16	4.90
<b>Total .....</b>	<b>10,120</b>	<b>100.00</b>	<b>824,891,131.08</b>	<b>100.00</b>	<b>17.06</b>	<b>4.56</b>

**Min: 1.81%**

**Max: 89.98%**

**Weighted average: 58.01%**

### *Original LTV*

	No. of Properties	% of Properties	Total Balance (GBP)	% of Total Balance	WA remaining term	WA current interest
1 – 50 .....	3,953	39.06	219,806,594.53	26.65	13.45	4.59
51 – 60 .....	1,390	13.74	117,431,626.96	14.24	16.51	4.42
61 – 70 .....	1,443	14.26	138,359,060.53	16.77	17.66	4.36
71 – 80 .....	1,935	19.12	208,001,948.51	25.22	19.05	4.39
81 – 85 .....	470	4.64	50,716,592.61	6.15	20.79	5.23
86 – 90 .....	601	5.94	66,251,061.90	8.03	19.54	5.04
91 – 95 .....	304	3.00	20,527,815.94	2.49	16.92	4.96
96 – 100 .....	24	0.24	3,796,430.10	0.46	20.72	4.87
<b>Total .....</b>	<b>10,120</b>	<b>100.00</b>	<b>824,891,131.08</b>	<b>100.00</b>	<b>17.06</b>	<b>4.56</b>

**Min: 1.01%**

**Max: 96.89%**

**Weighted Average: 62.15%**

## 3. Repayment Type

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

### *Repayment Type*

	No. of Properties	% of Properties	Total Balance (GBP)	% of Total Balance	WA remaining term	WA current interest
Interest .....	2,200	21.74	235,215,535.50	28.51	15.47	4.34
Repayment .....	7,187	71.02	527,691,735.14	63.97	18.20	4.68
Part Interest / Part Repayment .....	733	7.24	61,983,860.44	7.51	13.43	4.41
<b>Total .....</b>	<b>10,120</b>	<b>100.00</b>	<b>824,891,131.08</b>	<b>100.00</b>	<b>17.06</b>	<b>4.56</b>

#### 4. Geographical Distribution of Properties

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

<i>Region</i>						
	<b>No. of Properties</b>	<b>% of Properties</b>	<b>Total Balance (GBP)</b>	<b>% of Total Balance</b>	<b>WA remaining term</b>	<b>WA current interest</b>
Wales .....	4,697	46.41	336,000,861.88	40.73	16.57	4.65
North west .....	1,311	12.95	98,388,160.72	11.93	16.91	4.54
South west .....	768	7.59	70,802,783.90	8.58	16.94	4.51
East Midlands .....	869	8.59	70,126,752.01	8.50	17.71	4.55
North .....	910	8.99	65,708,779.90	7.97	16.83	4.51
Outer metro .....	439	4.34	50,178,808.09	6.08	17.79	4.47
East Anglia .....	471	4.65	48,312,293.52	5.86	17.34	4.45
Other south east .....	390	3.85	47,339,937.69	5.74	17.90	4.51
London .....	215	2.12	34,278,636.73	4.16	19.18	4.37
Other .....	50	0.49	3,754,116.64	0.46	16.75	4.42
<b>Total .....</b>	<b>10,120</b>	<b>100.00</b>	<b>824,891,131.08</b>	<b>100.00</b>	<b>17.06</b>	<b>4.56</b>

#### 5. Interest Rate Type

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

<i>Interest Type</i>						
	<b>No. of Properties</b>	<b>% of Properties</b>	<b>Total Balance (GBP)</b>	<b>% of Total Balance</b>	<b>WA remaining term</b>	<b>WA current interest</b>
Discounted .....	213	2.10	17,355,954.89	2.10	14.98	3.88
Fixed Rate .....	5,997	59.26	490,687,619.21	59.49	17.61	4.94
Tracker .....	1,748	17.27	177,737,002.53	21.55	16.88	3.26
Variable Rate .....	2,162	21.36	139,110,554.45	16.86	15.62	4.99
<b>Total .....</b>	<b>10,120</b>	<b>100.00</b>	<b>824,891,131.08</b>	<b>100.00</b>	<b>17.06</b>	<b>4.56</b>

#### 6. Seasoning of Loans

The following table shows the number of months since the date of origination of the initial advance in respect of a Loan in the Provisional Portfolio as at the Portfolio Cut-Off Date.

<i>Seasoning (months)</i>						
	<b>No. of Properties</b>	<b>% of Properties</b>	<b>Total Balance (GBP)</b>	<b>% of Total Balance</b>	<b>WA remaining term</b>	<b>WA current interest</b>
1 – 12 .....	1,841	18.19	176,400,987.99	21.38	17.94	3.85
13 – 24 .....	2,139	21.14	200,737,764.77	24.34	18.42	4.39
25 – 36 .....	1,639	16.20	131,257,188.48	15.91	17.43	5.07
37 – 48 .....	1,694	16.74	131,084,711.87	15.89	17.00	4.97
49 – 60 .....	567	5.60	43,604,434.68	5.29	16.00	4.78
61 – 72 .....	422	4.17	31,994,926.41	3.88	16.02	4.79
73 – 84 .....	436	4.31	30,089,552.53	3.65	14.95	4.84
85 – 96 .....	521	5.15	32,861,369.44	3.98	14.00	4.78
97 – 108 .....	392	3.87	23,025,054.29	2.79	13.20	4.82
109 – 120 .....	280	2.77	14,863,216.93	1.80	11.65	4.65
121 >= .....	189	1.87	8,971,923.69	1.09	11.21	4.76
<b>Total .....</b>	<b>10,120</b>	<b>100.00</b>	<b>824,891,131.08</b>	<b>100.00</b>	<b>17.06</b>	<b>4.56</b>

**Min: 4.0**

**Max: 131.0**

**Weighted Average: 35.7**

## 7. Remaining Term

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

<i>Remaining Term (years)</i>						
	<b>No. of Properties</b>	<b>% of Properties</b>	<b>Total Balance (GBP)</b>	<b>% of Total Balance</b>	<b>WA remaining term</b>	<b>WA current interest</b>
<=5 .....	701	6.93	30,790,900.31	3.73	3.37	4.53
6 – 10 .....	1,624	16.05	94,488,356.27	11.45	7.98	4.44
11 – 15 .....	2,303	22.76	167,808,939.07	20.34	12.77	4.49
16 – 20 .....	2,781	27.48	245,648,081.26	29.78	17.68	4.59
21 – 25 .....	2,235	22.08	234,440,325.40	28.42	22.72	4.55
26 – 30 .....	476	4.70	51,714,528.77	6.27	27.20	4.94
<b>Total .....</b>	<b>10,120</b>	<b>100.00</b>	<b>824,891,131.08</b>	<b>100.00</b>	<b>17.06</b>	<b>4.56</b>

**Min: 0.2**

**Max: 29.1**

**Weighted Average: 17.1**

## 8. Loan Purpose

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

<i>Loan Purpose</i>						
	<b>No. of Properties</b>	<b>% of Properties</b>	<b>Total Balance (GBP)</b>	<b>% of Total Balance</b>	<b>WA remaining term</b>	<b>WA current interest</b>
Purchase .....	3,327	32.88	287,491,773.37	34.85	19.45	4.65
Remortgage .....	6,793	67.12	537,399,357.71	65.15	15.79	4.52
<b>Total .....</b>	<b>10,120</b>	<b>100.00</b>	<b>824,891,131.08</b>	<b>100.00</b>	<b>17.06</b>	<b>4.56</b>

## 9. Interest Rate

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

<i>Current Interest Rate</i>						
	<b>No. of Properties</b>	<b>% of Properties</b>	<b>Total Balance (GBP)</b>	<b>% of Total Balance</b>	<b>WA remaining term</b>	<b>WA current interest</b>
<= 2.00 .....	73	0.72	4,706,574.86	0.57	12.51	1.52
2.01 – 3.00 .....	791	7.82	80,921,966.49	9.81	16.25	2.86
3.01 – 4.00 .....	1,658	16.38	162,689,531.05	19.72	16.92	3.57
4.01 – 5.00 .....	5,144	50.83	383,561,416.36	46.50	16.91	4.76
5.01 – 6.00 .....	1,805	17.84	147,774,614.50	17.91	18.00	5.64
6.01 – 7.00 .....	645	6.37	44,774,755.27	5.43	17.75	6.29
7.01 – 8.00 .....	4	0.04	462,272.55	0.06	17.80	7.23
<b>Total .....</b>	<b>10,120</b>	<b>100.00</b>	<b>824,891,131.08</b>	<b>100.00</b>	<b>17.06</b>	<b>4.56</b>

**Min: 0.89%**

**Max: 7.39%**

**Weighted Average: 4.56%**

## 10. Property Type

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

<i>Current Interest Rate</i>						
	<b>No. of Properties</b>	<b>% of Properties</b>	<b>Total Balance (GBP)</b>	<b>% of Total Balance</b>	<b>WA remaining term</b>	<b>WA current interest</b>
Bungalow .....	522	5.16	40,837,078.50	4.95	15.37	4.48
Detached .....	2,085	20.60	223,429,474.18	27.09	16.12	4.38
Flat .....	594	5.87	52,762,257.41	6.40	19.38	4.62
Maisonette.....	43	0.42	3,753,317.00	0.46	18.65	4.29
Missing.....	16	0.16	1,754,526.06	0.21	19.32	5.06
Semi .....	3,886	38.40	301,384,384.32	36.54	17.12	4.59
Terrace .....	2,974	29.39	200,970,093.61	24.36	17.72	4.72
<b>Total .....</b>	<b>10,120</b>	<b>100.00</b>	<b>824,891,131.08</b>	<b>100.00</b>	<b>17.06</b>	<b>4.56</b>

## CHARACTERISTICS OF THE UNITED KINGDOM RESIDENTIAL MORTGAGE MARKET

The UK housing market is primarily one of owner-occupied housing, with the remainder in some form of public, private landlord or social ownership. The mortgage market, whereby loans are provided for the purchase of a property and secured on that property, is the primary source of household borrowings in the United Kingdom.

Set out in the following tables are certain characteristics of the United Kingdom mortgage market.

### **Repossession Rate**

The table below sets out the repossession rate of residential properties in the United Kingdom since 1985.

<b>Year</b>	<b>Repossessions (%)</b>	<b>Year</b>	<b>Repossessions (%)</b>	<b>Year</b>	<b>Repossessions (%)</b>
1985	0.25	1994	0.47	2003	0.07
1986	0.30	1995	0.47	2004	0.07
1987	0.32	1996	0.40	2005	0.12
1988	0.22	1997	0.31	2006	0.18
1989	0.17	1998	0.31	2007	0.22
1990	0.47	1999	0.27	2008	0.34
1991	0.77	2000	0.20	2009	0.42
1992	0.69	2001	0.16	2010	0.32
1993	0.58	2002	0.11		

### ***House Price to Earnings Ratio***

The following table shows the ratio for each year of the average annual value of houses compared to the average annual salary in the United Kingdom. The average annual earnings figures are constructed using the Annual Survey of Hours and Earnings referring to median gross weekly earnings in April of each year for those male employees whose earnings were not affected by their absence from work. While this is a good indication of house affordability, it does not take into account the fact that the majority of households have more than one income to support a mortgage loan.

<b>Year</b>	<b>House Price to Earnings Ratio</b>	<b>Year</b>	<b>House Price to Earnings Ratio</b>	<b>Year</b>	<b>House Price to Earnings Ratio</b>
1985.....	4.41	1994.....	4.55	2003.....	7.30
1986.....	4.64	1995.....	4.47	2004.....	7.78
1987.....	4.98	1996.....	4.51	2005.....	7.92
1988.....	5.73	1997.....	4.77	2006.....	7.86
1989.....	6.36	1998.....	5.11	2007.....	8.42
1990.....	5.72	1999.....	5.37	2008.....	8.14
1991.....	5.27	2000.....	5.86	2009.....	7.43
1992.....	4.85	2001.....	5.98	2010.....	7.88
1993.....	4.59	2002.....	6.78		

*Source: Council of Mortgage Lenders*



## HOUSE PRICE INDEX

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

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

Month	Land Registry Index	
	Index	% annual change
February 1995	67.7	0.0
March 1995	67.5	0.0
April 1995	67.3	0.0
May 1995	67.4	0.0
June 1995	67.2	0.0
July 1995	67.4	0.0
August 1995	67.4	0.0
September 1995	67.5	0.0
October 1995	67.4	0.0
November 1995	67.5	0.0
December 1995	67.6	0.0
January 1996	67.6	0.0
February 1996	67.6	(0.1)
March 1996	67.8	0.5
April 1996	68.1	1.1
May 1996	68.6	1.8
June 1996	68.9	2.6
July 1996	69.5	3.2
August 1996	70.1	4.0
September 1996	70.7	4.8
October 1996	71.1	5.5
November 1996	71.6	6.0
December 1996	72.2	6.8
January 1997	72.7	7.5
February 1997	73.2	8.3
March 1997	73.6	8.5
April 1997	74.3	9.1
May 1997	75.1	9.6
June 1997	75.8	10.0
July 1997	76.3	9.7
August 1997	77.0	9.9

	<b>Land Registry Index</b>	
<b>Month</b>	<b>Index</b>	<b>% annual change</b>
September 1997	77.7	9.9
October 1997	78.6	10.5
November 1997	79.2	10.7
December 1997	80.0	10.7
January 1998	80.4	10.7
February 1998	81.1	10.9
March 1998	81.7	11.1
April 1998	82.5	11.1
May 1998	83.0	10.5
June 1998	83.4	9.9
July 1998	83.7	9.8
August 1998	84.1	9.2
September 1998	84.5	8.7
October 1998	84.7	7.8
November 1998	85.0	7.3
December 1998	85.4	6.7
January 1999	85.9	6.7
February 1999	86.9	7.1
March 1999	87.8	7.4
April 1999	88.7	7.5
May 1999	89.7	8.0
June 1999	90.7	8.8
July 1999	91.9	9.8
August 1999	93.5	11.2
September 1999	95.1	12.6
October 1999	96.6	14.0
November 1999	97.6	14.8
December 1999	98.9	15.9
January 2000	100.0	16.4
February 2000	101.9	17.3
March 2000	103.5	17.8
April 2000	105.1	18.5
May 2000	105.9	18.1
June 2000	106.9	17.9
July 2000	107.8	17.3
August 2000	108.6	16.2
September 2000	109.4	15.0
October 2000	110.2	14.1

	<b>Land Registry Index</b>	
<b>Month</b>	<b>Index</b>	<b>% annual change</b>
November 2000	110.9	13.6
December 2000	111.7	12.9
January 2001	112.4	12.4
February 2001	113.4	11.3
March 2001	114.4	10.6
April 2001	115.6	10.0
May 2001	116.9	10.4
June 2001	118.0	10.4
July 2001	119.2	10.6
August 2001	120.4	10.8
September 2001	121.4	11.0
October 2001	122.1	10.8
November 2001	123.3	11.3
December 2001	124.7	11.6
January 2002	126.5	12.6
February 2002	128.2	13.1
March 2002	130.3	13.9
April 2002	132.6	14.7
May 2002	135.1	15.6
June 2002	137.7	16.7
July 2002	140.5	17.9
August 2002	143.0	18.9
September 2002	145.7	20.0
October 2002	148.2	21.3
November 2002	150.4	21.9
December 2002	152.8	22.5
January 2003	154.9	22.5
February 2003	156.7	22.2
March 2003	158.1	21.3
April 2003	159.5	20.3
May 2003	160.6	18.9
June 2003	161.6	17.3
July 2003	162.4	15.6
August 2003	164.0	14.7
September 2003	165.7	13.7
October 2003	167.9	13.3
November 2003	170.0	13.1
December 2003	171.8	12.5

	<b>Land Registry Index</b>	
<b>Month</b>	<b>Index</b>	<b>% annual change</b>
January 2004	173.6	12.1
February 2004	175.6	12.1
March 2004	178.0	12.6
April 2004	180.1	12.9
May 2004	182.5	13.6
June 2004	184.5	14.2
July 2004	186.6	14.9
August 2004	188.6	15.0
September 2004	190.3	14.8
October 2004	192.0	14.4
November 2004	193.0	13.5
December 2004	193.9	12.8
January 2005	194.6	12.1
February 2005	195.7	11.5
March 2005	195.7	9.9
April 2005	195.8	8.7
May 2005	195.2	7.0
June 2005	195.8	6.1
July 2005	195.9	5.0
August 2005	196.2	4.0
September 2005	196.7	3.4
October 2005	197.9	3.1
November 2005	198.9	3.1
December 2005	200.6	3.5
January 2006	201.7	3.6
February 2006	203.4	3.9
March 2006	204.5	4.5
April 2006	205.9	5.2
May 2006	206.8	6.0
June 2006	207.5	6.0
July 2006	208.4	6.4
August 2006	209.6	6.8
September 2006	211.4	7.4
October 2006	213.4	7.8
November 2006	215.1	8.2
December 2006	217.5	8.4
January 2007	219.5	8.8
February 2007	222.2	9.3

	<b>Land Registry Index</b>	
<b>Month</b>	<b>Index</b>	<b>% annual change</b>
March 2007	223.7	9.4
April 2007	225.6	9.6
May 2007	226.9	9.7
June 2007	228.8	10.3
July 2007	229.7	10.2
August 2007	231.6	10.5
September 2007	233.4	10.4
October 2007	234.7	9.9
November 2007	234.3	8.9
December 2007	234.6	7.9
January 2008	235.1	7.1
February 2008	236.0	6.2
March 2008	235.4	5.2
April 2008	235.0	4.2
May 2008	233.6	3.0
June 2008	231.7	1.3
July 2008	228.3	(0.6)
August 2008	225.2	(2.8)
September 2008	221.5	(5.1)
October 2008	217.5	(7.3)
November 2008	212.8	(9.2)
December 2008	209.3	(10.8)
January 2009	207.7	(11.7)
February 2009	206.2	(12.6)
March 2009	204.6	(13.1)
April 2009	203.9	(13.2)
May 2009	204.6	(12.4)
June 2009	206.2	(11.0)
July 2009	207.9	(8.9)
August 2009	210.2	(6.6)
September 2009	213.1	(3.8)
October 2009	215.5	(0.9)
November 2009	216.2	1.6
December 2009	220.4	5.3
January 2010	223.9	7.8
February 2010	227.5	10.3
March 2010	226.2	10.6
April 2010	225.4	10.6

Month	Land Registry Index	
	Index	% annual change
May 2010	225.6	10.3
June 2010	226.5	9.8
July 2010	227.2	9.3
August 2010	228.0	8.5
September 2010	227.9	7.0
October 2010	227.1	5.3
November 2010	225.5	4.3
December 2010	225.5	2.3
January 2011	226.1	1.0
February 2011	227.7	0.1
March 2011	228.0	0.8
April 2011	227.0	0.7
May 2011	225.2	(0.2)
June 2011	223.3	(1.4)

*Source: CML Research (Acadametrics)*

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

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## THE SERVICER

### THE SERVICER

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

This section describes Principality's servicing procedures based on the current Principality mortgage servicing policies. Principality will service the Loans and their Related Security in the Portfolio in accordance with its policies applicable from time to time, but subject to the terms of the Servicing Agreement. For a description of the Servicer's obligations under the Servicing Agreement, see "*The Servicing Agreement*".

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

### SERVICING PROCEDURES

Servicing procedures include:

- Managing of Mortgage Accounts in arrears;
- Issuing redemption statements, processing lump sum payments and early redemption fees;
- Collecting and distributing title deeds and any supporting documents as well as storage of deeds;
- Processing transfers of titles, notices of death, forfeitures of leases, sale and exchange of land, account conversions, term amendments, deed amendments, compensation and enforcement notices;
- Dealing with all types of transactions posting and refunding fees, setting up direct debits, payment date changes and Payment Holidays;
- Dealing with all customer correspondence on other aspects of mortgage loans once the Loan is drawn down, including changes in customer details and changes on the mortgage loan, i.e. product, repayment etc; and
- Notifying Borrowers of changes to interest rates applicable to the Loans.

#### *Payment of Interest and Principal*

Pursuant to the terms and conditions of the Loans, Borrowers must pay the monthly amount required under the terms and conditions of the Loans on or before each monthly instalment due date, within the month they are due. Interest accrues in accordance with the terms and conditions of each Loan and is collected from Borrowers monthly.

### Collections

Payments by Borrowers in respect of amounts due under the Loans will be paid to the Seller. Amounts received by the Seller in respect of the Loans from (and including) the Cut-Off Date that relate to the Loans will be identified on a daily basis (each such aggregate daily amount, a "**Daily Loan Amount**") and the Seller will transfer an amount equal to the Daily Loan Amount into the GIC Account by the next Business Day after that Daily Loan Amount is identified as received by the Seller or, in respect of the period from and including the Cut-Off Date to and including the Closing Day on the next Business Day after the Closing Date.

Borrowers are required to make payments by direct debit or cheque unless otherwise agreed. However, direct debits may be returned unpaid after the due date for payment and, under the Direct Debit Indemnity Scheme, a Borrower may make a claim at any time to his or her bank for a refund of direct debit payments. Similarly, cheques may be returned unpaid by the Borrower's bank.

In each case, the Servicer will be permitted to reclaim from the GIC Account the corresponding amounts previously credited. If a direct debit is returned unpaid in these circumstances, the usual arrears

procedures described in "*The Servicer – Servicing Procedures Arrears and default procedures*" will be taken.

### **Arrears and Default Procedures**

Borrowers who have one month arrears become subject to collection activity by the Servicer. There are three stages to these procedures:

#### *Early Arrears*

At this stage:

- (a) telephone contact is attempted during the day and early evening either at the Borrower's home or work place;
- (b) should such telephone contact prove unsuccessful or details be unavailable, the Borrower is contacted by letter;
- (c) automated arrears letters are issued provided arrears remain outstanding two days after the "profile date" and no diary notes have been set or other automated letters issued within the last 14 days; and
- (d) if no proactive contact or agreement has been achieved after two months, a field agent is instructed to visit the Borrower to attempt resolution.

#### *Arrangement Management*

At this stage:

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

#### *Serious Arrears and litigation*

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

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

### **Back-Up Servicer**

On the Closing Date, the Issuer will appoint the Back-Up Servicer to perform back-up services pursuant to a back-up servicing agreement between, *inter alios*, the Issuer, the Servicer and the Back-Up Servicer dated on or prior to the Closing Date (the "**Back-Up Servicing Agreement**"). Within 120 days of the Closing (the "**Initial Period**"), the Back-Up Servicer undertakes to collect (and the Servicer undertakes to provide) certain information to allow it to prepare its systems and operations to allow it to perform certain services in respect of the Portfolio.

Following the Initial Period, the Back-Up Servicer has agreed to perform certain servicing duties, which include (but are not limited to):

- (a) conducting on-site operational reviews and delivering a report setting out the results thereof;
- (b) running a data mapping process to update the conversion report and load the portfolio on to the Back-Up Servicer's system and create a pool tape extract and reconcile the pool tape extract to the Back-Up Servicer's pool tape; and



- (c) delivering reports to the Issuer confirming the satisfactory load of the Portfolio data onto the Back-Up Servicer's system.

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

## THE SERVICING AGREEMENT

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

### Introduction

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

On the Closing Date, Principality (in such capacity, the "**Servicer**") will be appointed by the Issuer under the Servicing Agreement as its agent to administer the Loans and their Related Security that it will sell to the Issuer in its capacity as Seller. The Servicer will undertake to comply with any proper directions and instructions that the Issuer and/or the Trustee may from time to time give to it in accordance with the provisions of the Servicing Agreement. The Servicer will be required to administer the Loans and their Related Security in the following manner:

- (a) in accordance with the Servicing Agreement; and
- (b) as if the Loans and Mortgages had not been sold to the Issuer but remained with the Seller and in accordance with the Seller's procedures and servicing and enforcement policies as they apply to the Loans from time to time.

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

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

### Powers

Subject to the guidelines for servicing set forth above, each Servicer will have the power, *inter alia*:

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

### Undertakings by the Servicer

The Servicer will undertake, in relation to the Loans and their Related Security that the Seller has sold to the Issuer, among other things, that it will:

- (a) administer the relevant Loans and their Related Security as if the same had not been sold to the Issuer but had remained on the books of the Seller and in accordance with the Seller's procedures and servicing and enforcement policies as they apply to the Loans from time to time;
- (b) provide the services to be undertaken by it under the Servicing Agreement in such manner and with the same level of skill, care and diligence as would a Prudent Mortgage Lender;
- (c) comply with any proper directions, orders and instructions which the Issuer and/or the Trustee may from time to time give to it in accordance with the provisions of the Servicing Agreement;
- (d) maintain all approvals, authorisations, permissions, consents and licenses required for itself in connection with the performance of its duties under the Servicing Agreement, and prepare and submit on a timely basis all necessary applications and requests for any further approvals,

authorisations, permissions, consents and licenses required for itself in connection with the performance of its duties under the Servicing Agreement;

- (e) save as otherwise agreed with the Issuer, provide free of charge to the Issuer and the Seller, office space, facilities, equipment and staff sufficient to fulfil the obligations of the Issuer and the Seller under the Servicing Agreement;
- (f) not knowingly fail to comply with any legal requirements in the performance of its duties under the Servicing Agreement;
- (g) make all payments required to be made by it pursuant to the Servicing Agreement on the due date for payment thereof in Sterling (or as otherwise required under the Transaction Documents) in immediately available funds for value on such day without set-off (including, without limitation, in respect of any fees owed to it) or counterclaim but subject to any deductions required by law;
- (h) use reasonable endeavours to procure that the Seller makes payments in respect of the Loans into the GIC Account not later than one Business Day following receipt of the same by the Seller;
- (i) not without the prior written consent of the Trustee amend or terminate any of the Transaction Documents in any material respect except in accordance with their terms;
- (j) forthwith upon becoming aware of any event which may reasonably give rise to an obligation of the Seller to repurchase any Loan pursuant to the Mortgage Sale Agreement, notify the Issuer and the Seller in writing of such event; and
- (k) ensure that at all times the relevant Loans comply with the material terms of the CCA (to the extent that such relevant Loans are regulated by that Act).

#### **Compensation of the Servicer**

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

#### **Removal or Resignation of a Servicer**

The Issuer (prior to delivery of an Enforcement Notice) with the written consent of the Trustee, or the Trustee itself (following delivery of an Enforcement Notice), (in the case of (a) or (b) below) may at any time and (in the case of (c) below) the Issuer shall at once, upon written notice to the Servicer, terminate the Servicer's rights and obligations on the date specified in the notice if any of the following events (each a "**Servicer Termination Event**") occurs:

- (a) the Servicer defaults in the payment of any amount due under the Servicing Agreement or any other Transaction Documents to which it is party and fails to remedy that default for a period of 30 Business Days after the earlier of becoming aware of the default and receipt of written notice from the Issuer or the Trustee (following delivery of an Enforcement Notice) requiring the default to be remedied; or
- (b) the Servicer fails to comply with any of its other covenants or obligations under the Servicing Agreement or any other Transaction Document to which it is party which in the opinion of the Trustee is materially prejudicial to the interests of the Noteholders and does not remedy that failure within 30 Business Days after the earlier of becoming aware of the failure and receipt of written notice from the Issuer or the Trustee (following delivery of an Enforcement Notice) requiring the failure to be remedied; or
- (c) a Servicer Insolvency Event occurs in relation to the relevant Servicer. (In this context where the Seller is the Servicer, "**Servicer Insolvency Event**" has the same meaning as Seller Insolvency Event (as defined in "*The Portfolio - Sale of the Portfolio under the Mortgage Sale Agreement*")

above but any reference to the Seller shall be deemed to be replaced with a reference to the relevant Servicer.

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

If the appointment of the Servicer is terminated, the Servicer must deliver the title information documents and customer files relating to the Loans and Related Security to, or at the direction of, the Issuer.

Where a substitute servicer is appointed following the occurrence of a Servicer Termination Event, or the voluntary resignation by the Servicer, the Issuer's costs and expenses associated with the transfer of servicing to the substitute servicer (the "**Transfer Costs**") will be paid by the Seller. Where the Seller fails to pay such Transfer Costs, the Issuer shall pay such Transfer Costs in accordance with the Pre-Enforcement Revenue Priority of Payments.

The servicing fee payable to a substitute servicer will be agreed by the Issuer and the substitute servicer prior to its appointment.

### **Right of Delegation by a Servicer**

The Servicer may subcontract or delegate the performance of its duties under the Servicing Agreement, provided that it meets particular conditions, including that:

- (a) the Issuer consents to the proposed subcontracting or delegation;
- (b) written notification has been given to each of the Rating Agencies;
- (c) where the arrangements involve the custody or control of any customer files and/or title information documents, the subcontractor or delegate has executed a written acknowledgement that those customer files and/or title information documents are and will be held to the order of the Issuer and the Trustee;
- (d) where the arrangements involve or may involve the receipt by the subcontractor or delegate of moneys belonging to the Issuer which are to be paid into the GIC Account, the subcontractor or delegate has executed a declaration that any such moneys are held on trust for the Issuer and will be paid forthwith into the GIC Account in accordance with the terms of the Servicing Agreement;
- (e) the subcontractor or delegate has executed a written waiver of any security interest arising in connection with the delegated services;
- (f) the Issuer and the Trustee have no liability for any costs, charges or expenses in relation to the proposed subcontracting or delegation; and
- (g) the subcontractor or delegate has confirmed that it has and will maintain all approvals required for itself in connection with the fulfilment of its obligations under the agreement with the Servicer.

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

### **Liability of the Servicer**

The Servicer has agreed to indemnify each of the Issuer and the Trustee on an after tax basis against all losses, liabilities, claims, expenses or damages incurred as a result of negligence, fraud or wilful default by the Servicer in carrying out its functions as servicer under the Servicing Agreement or any other Transaction Document to which it is party or as a result of a breach by the Servicer of the terms of the Servicing Agreement or the other Transaction Documents to which it is party (in such capacity).

**Governing law**

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

## STAND-BY INTEREST RATE SWAP PROVIDER

### **The Royal Bank of Scotland plc**

The Royal Bank of Scotland plc ("**RBS**") is a wholly-owned subsidiary of The Royal Bank of Scotland Group plc ("**RBSG**"). RBSG and RBS are public limited companies incorporated in Scotland. RBSG is the holding company of a large global banking and financial services group. Headquartered in Edinburgh, RBSG and its subsidiaries consolidated in accordance with International Financial Reporting Standards (together, the "**Group**") operate in the United Kingdom, the United States and internationally through RBSG's three principal subsidiaries, RBS, NatWest and The Royal Bank of Scotland N.V.

HM Treasury currently holds 68.4 per cent. of the issued ordinary share capital of RBSG. On 22 December 2009, RBSG issued £25.5 billion of B Shares to HM Treasury. Following RBSG's issue of £25.5 billion of B Shares to HM Treasury in December 2009, HM Treasury's economic interest in RBSG amounted to approximately 84 per cent. but this was reduced to approximately 83 per cent.

The Group had total assets of £1,453.6 billion and owners' equity of £75.1 billion at 31 December 2010. As at 31 December 2010, the Group's capital ratios were a total capital ratio of 14.0 per cent., a Core Tier 1 capital ratio of 10.7 per cent. and a Tier 1 capital ratio of 12.9 per cent.

RBS and its subsidiaries consolidated in accordance with International Financial Reporting Standards (the "**RBS Group**") had total assets of £1,307.3 billion and owners' equity of £57.0 billion as at 31 December 2010. As at 31 December 2010, the RBS Group's capital ratios were a total capital ratio of 13.6 per cent., a Core Tier 1 capital ratio of 8.4 per cent. and a Tier 1 capital ratio of 10.1 per cent.

## KEY STRUCTURAL FEATURES

### CREDIT ENHANCEMENT AND LIQUIDITY SUPPORT

The Notes are obligations of the Issuer only and will not be the obligations of, or the responsibility of, or guaranteed by, any other party. However, there are a number of features of the transaction which enhance the likelihood of timely receipt of payments by the Noteholders, as follows:

- Available Revenue Receipts are expected to exceed interest due and payable on the Class A Notes and senior costs and expenses of the Issuer (including retaining the Issuer Profit Amount).
- An Income Deficit on any Interest Payment Date may be funded by applying amounts standing to the credit of the General Reserve Fund and a Remaining Income Deficit on any Interest Payment Date may (subject to certain conditions) be funded by applying Principal Receipts and thereafter using amounts standing to the credit of the Liquidity Reserve Fund (if established).
- The payments of interest and principal on the Classes of Notes in Sequential Order and the deferral of interest payments on the Class B Notes where the Issuer has insufficient proceeds.
- Losses allocable to the Classes of Notes in the Principal Deficiency Ledger (firstly to the Class B Principal Deficiency Sub-Ledger and secondly to the Class A Principal Deficiency Sub-Ledger).
- The GIC Account earns interest at a specified rate and amounts credited to the GIC Account may be invested in Authorised Investments.
- A Subordinated Loan is provided by the Subordinated Loan Provider to fund the General Reserve Fund on the Closing Date. Repayment of the Subordinated Loan is subordinated to payments on the Notes.
- The Issuer will enter into the Swap Agreements to hedge against the possible variance between the floating and fixed interest rates due and payable by Borrowers on the Loans and the floating rate interest payments in respect of the Notes.

For the purposes of this paragraph and where used elsewhere in this Prospectus, "**Sequential Order**" means the following order:

- (a) in respect of payments of principal to be made to the Class A Notes themselves (other than following the service of an Enforcement Notice): firstly, to the Class A1 Notes and secondly, to the Class A2 Notes; and
- (b) in respect of payments of interest and principal to be made to the Class A Notes and Class B Notes: firstly, to the Class A Notes and secondly, to the Class B Notes.

Each of these factors is considered in more detail below.

#### ***Credit Support for the Notes provided by Available Revenue Receipts***

It is anticipated that, during the life of the Notes, the interest payable by Borrowers on the Loans will, assuming that all of the Loans are fully performing, be sufficient so that the Available Revenue Receipts will be available to pay the amounts payable under items (a) to (e) of the Pre-Enforcement Revenue Priority of Payments. The actual amount of any excess will vary during the life of the Notes. Two of the key factors determining such variation are the interest rates applicable to the Loans in the Portfolio (as to which, see the section entitled "*Key Structural Features – Credit Enhancement and Liquidity Support – Basis Risk for the Notes*") and the performance of the Portfolio.

Available Revenue Receipts may be applied (after making payments or provisions ranking higher in the Pre-Enforcement Revenue Priority of Payments) on each Interest Payment Date towards reducing any Principal Deficiency Ledger entries (which may arise from (i) Losses on the Portfolio, (ii) the application of Principal Receipts to cover previous Remaining Income Deficits or (iii) drawing from the Liquidity Reserve Fund to cover previous Remaining Income Deficit).

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

***Liquidity support provided by use of General Reserve Fund, Available Principal Receipts and amounts standing to the credit of the Liquidity Reserve Fund (if established) to fund Income Deficit and Remaining Income Deficit***

On each Calculation Date, the Cash Manager will determine whether Available Revenue Receipts are sufficient to pay or provide for payment of items (a) to (f) inclusive of the Pre-Enforcement Revenue Priority of Payments. To the extent that Available Revenue Receipts are insufficient for this purpose, the Cash Manager on behalf of the Issuer shall, on the relevant Interest Payment Date, pay or provide for such Income Deficit by applying amounts standing to the credit of the General Reserve Fund.

If following application of Available Revenue Receipts and amounts standing to the credit of the General Reserve Fund, the Cash Manager determines that there would be a Remaining Income Deficit, the Cash Manager will on the relevant Interest Payment Date and on behalf of the Issuer, pay or provide for such Remaining Income Deficit by firstly applying Available Principal Receipts (if any) and secondly by applying amounts standing to the credit of the Liquidity Reserve Fund (if established).

***Payment of the Notes in Sequential Order and deferral of payments on the Notes***

Payments of interest on the Classes of Notes will be paid in Sequential Order (so that payments on the Class B Notes will be subordinated to payments on the Class A Notes) in accordance with the relevant Priority of Payments. Following the service of an Enforcement Notice by the Trustee, payments of principal on the Class A Notes will, amongst themselves, rank *pro rata* and *pari passu*. At all other times, payments of principal on each sub-Class of the Class A Notes will be made in Sequential Order (so that principal payments will be made *first*, to the Class A1 Notes and, *second*, to the Class A2 Notes) in accordance with the relevant Priority of Payments.

Any shortfall in payments of interest on any Class of Notes (other than the Most Senior Class of Notes) will be deferred until the next Interest Payment Date or such earlier date as interest in respect of such Class of Notes becomes immediately due and repayable in accordance with the Conditions and this will not constitute an Event of Default. On the next Interest Payment Date, the amount of interest scheduled to be paid on a Class of Notes will be increased to take account of any deferral of such amounts for such Class of Notes. The deferral process will continue until the Final Maturity Date of the Notes, at which point, all such deferred amounts (including interest thereon) will become due and payable. However, if there is insufficient money available to the Issuer to pay interest on any Class of Notes, then the relevant Noteholders may not receive all interest amounts.

It is not intended that any surplus will be accumulated in the Issuer, other than, for the avoidance of doubt, the Issuer Profit Amount and amounts standing to the credit of the General Reserve Ledger and the Liquidity Reserve Ledger.

***Losses allocated to the Principal Deficiency Ledger***

On each Calculation Date, the Servicer will determine and notify the Cash Manager of the amount of Losses on the Portfolio which are allocable to the Notes.

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

Losses or debits recorded on the Class A Principal Deficiency Sub-Ledger shall be recorded in respect of the Class A Notes. Losses or debits recorded on the Class B Principal Deficiency Sub-Ledger shall be recorded in respect of the Class B Notes.

Losses and the amount of any Principal Receipts and drawings from the Liquidity Reserve Fund (if established) applied to fund a Remaining Income Deficit will be recorded as a debit to the Principal Deficiency Ledger as follows:



- (a) *first*, to the Class B Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class B Notes; and
- (b) *second*, to the Class A Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class A Notes.

Amounts allocated to the Principal Deficiency Ledger shall be reduced to the extent of Available Revenue Receipts available for such purpose on each Interest Payment Date in accordance with the Pre-Enforcement Revenue Priority of Payments as follows:

- (a) *first*, to the Class A Principal Deficiency Sub-Ledger to reduce the debit balance to zero; and
- (b) *second*, to the Class B Principal Deficiency Sub-Ledger to reduce the debit balance to zero.

Available Revenue Receipts allocated as described above will be applied in or towards redemption of the Notes as Available Principal Receipts in accordance with the Pre-Enforcement Principal Priority of Payments.

On each Interest Payment Date, the Issuer shall also apply any amount standing to the credit of the General Reserve Fund to extinguish or reduce any balance on the Class A Principal Deficiency Sub-Ledger (see "*Liquidity support provided by use of General Reserve Fund and Principal Receipts to fund Income Deficit and Remaining Income Deficit*" above).

#### ***GIC Account***

If, at any time (i) the short term unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank are downgraded below a rating of P-1 by Moody's or F1 by Fitch; (ii) the long-term, unsecured and unsubordinated debt obligations of the Account Bank are downgraded below a rating of A by Fitch; or (iii) the Account Bank has been put on "Rating Watch Negative" by Fitch such that it is treated by Fitch as being rated below such required ratings as specified above (or (in each case) such other short term or long term rating which is otherwise acceptable to the relevant Rating Agency), the Issuer will be required (within 30 days) to transfer (at its own cost) the GIC Account to an appropriately rated bank or financial institution on substantially similar terms to those set out in the Account Bank Agreement, in order to maintain the ratings of the Notes at their then current rating.

All monies held by the Issuer will be deposited in the GIC Account in the first instance. The GIC Account is maintained with the Account Bank. This account is subject to a guaranteed investment contract, under which, the Account Bank has agreed to pay 3 Month LIBOR less a margin in respect of sums in the GIC Account. The Issuer (or the Cash Manager on its behalf) may invest sums standing to the credit of the GIC Account in Authorised Investments.

#### ***Subordinated Loan***

The Issuer will enter into the Subordinated Loan Agreement with the Subordinated Loan Provider on or about the Closing Date. Pursuant to the Subordinated Loan Agreement, the Subordinated Loan Provider will agree to make available to the Issuer the Subordinated Loan on the Closing Date. The Subordinated Loan will be a subordinate ranking loan which will be used by the Issuer to fund the General Reserve Fund on the Closing Date (the "**Advance**"). The amount of the Subordinated Loan on the Closing Date will be £32,560,000.

The Subordinated Loan will bear interest until repaid at a rate of LIBOR for three month Sterling deposits plus 0.5 per cent. per annum. Any unpaid interest will not fall due but will instead be due and payable on the next following Interest Payment Date on which sufficient funds are available to pay the unpaid amount and pending such payment, will itself bear interest. Interest in respect of the Subordinated Loan will be payable by the Issuer on each Interest Payment Date. The Issuer will repay the Advance, on each Interest Payment Date to the extent that it has Available Revenue Receipts to make such payment in accordance with the relevant Priority of Payments or on the Final Maturity Date, and on such other date on which the Class A Notes are redeemed in full from amounts credited to the General Reserve Fund.

The Subordinated Loan Provider will have the right to assign or novate its rights and/or obligations under the Subordinated Loan to a third party at any time.

The Subordinated Loan Agreement and any non-contractual obligations arising out of or in connection with the Subordinated Loan Agreement will be governed by English law.

### ***Swap Agreements***

The interest rate on the Loans in the Portfolio is payable by reference, or linked, to the Standard Variable Rate, the BoE Base Rate and certain fixed rates. However, the interest rate payable by the Issuer with respect to the Notes is an amount calculated by reference to a Three-Month Sterling LIBOR (or interpolated for 5 and 6 month Sterling LIBOR in respect of the first Interest Payment Date).

To hedge against the possible variance between:

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

the Issuer will, on or about the Closing Date, enter into the Principal Swap Agreement with the Principal Swap Provider, being an agreement in the form of a 1992 ISDA Master Agreement (together with a Schedule and Swap Credit Support Annex thereto) and three swap confirmations documenting the swap transactions thereunder. Additionally the Issuer will enter into the Stand-by Interest Rate Swap Agreement with the Stand-by Interest Rate Swap Provider. Upon the occurrence of certain events (including a failure by a Principal Swap Provider to make payments under the Principal Swap Agreement or the occurrence of a Seller Insolvency Event in relation to the Principal Swap Provider), obligations under the Stand-by Interest Rate Swap Agreement will commence.

### ***Cashflows under the Fixed Rate Swap Transaction***

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

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

- (a) the aggregate of the amounts produced by applying, for each of the monthly calculation periods (or in the case of the calculation period starting on the Closing Date, the relevant portion of such monthly calculation period) in the relevant Interest Period which ends on the last day of such Interest Period, Three-Month Sterling LIBOR (or interpolated for 5 and 6 month Sterling LIBOR in respect of the first Interest Payment Date) as determined on the Interest Determination Date for the relevant Interest Period plus a spread to the Fixed Notional Amount, such amount to be calculated on the basis of the day count fraction specified in the Fixed Rate Swap Transaction and in each case for the relevant monthly calculation period (the "**Fixed Interest Period Swap Provider Amount**"); and
- (b) the aggregate of the amounts (the "**Fixed Interest Period Issuer Amount**") produced by applying, for each of the monthly calculation periods (or in the case of the calculation period starting on the Closing Date, the relevant portion of such monthly calculation period) in the relevant Interest Period which ends on the last day of such Interest Period, the weighted average fixed rate of interest (as defined in the Fixed Rate Swap Transaction and as may be adjusted from time to time at the option of the Issuer, subject to the approval of the Fixed Rate Swap Provider and the Rating Agencies) to the Fixed Notional Amount, such amount to be calculated on the basis of the day count fraction specified in the Fixed Rate Swap Transaction and in each case for the relevant monthly calculation period.

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

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

- (i) if a Further Advance or Flexible Drawing is made in respect of a Fixed Rate Loan after the Transfer Date, then the portion of the relevant Fixed Rate Loan(s) attributable to the Further Advance or Flexible Drawing, as the case may be, will be excluded from the calculation of the Fixed Notional Amount; and
- (ii) if a Product Switch or sale (other than pursuant to a Substitution) is made in respect of a Fixed Rate Loan after the Transfer Date (any such Fixed Rate Loan, a "**Relevant Fixed Rate Loan**"), then, a mark-to-market payment with respect to such Fixed Rate Loan(s) will be payable by the Issuer or the Stand-by Interest Rate Swap Provider.

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

*Cashflows under the BBR Swap Transaction*

The Principal Swap Agreement will govern the terms of the base rate swap transaction relating to the Tracker Rate Loans, the Capped (BoE Base Rate) Loans and the Floored (BoE Base Rate) Loans (the "**BBR Swap Transaction**").

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

- (a) the aggregate of the amounts produced by applying for each of the monthly calculation periods (or in the case of the calculation period starting on the Closing Date, the relevant portion of such monthly calculation period) in the relevant Interest Period which ends on the last day of such Interest Period, Three-Month Sterling LIBOR (or interpolated for 5 and 6 month Sterling LIBOR in respect of the first Interest Payment Date) as determined on the Interest Determination Date for the relevant Interest Period minus a spread to the BBR Notional Amount, such amount to be calculated on the basis of the day count fraction specified in the BBR Swap Transaction and in each case for the relevant monthly calculation period (the "**BBR Interest Period Swap Provider Amount**"); and
- (b) the aggregate of the amounts (the "**BBR Interest Period Issuer Amount**") produced by applying, for each of the monthly calculation periods (or in the case of the calculation period starting on the Closing Date, the relevant portion of such monthly calculation period) in the relevant Interest Period which ends on the last day of such Interest Period, the daily weighted average of the BoE Base Rate, as calculated in accordance with the terms of the BBR Swap Transaction, to the BBR Notional Amount, such amount to be calculated on the basis of the day count fraction specified in the BBR Swap Transaction and in each case for the relevant monthly calculation period.

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

The notional amount of the BBR Swap Transaction (the "**BBR Notional Amount**") in respect of each calculation period thereunder will be equal to the aggregate Current Balance, calculated at the end of the calendar month ending during such calculation period, of the Tracker Rate Loans, the Capped (BoE Base Rate) Loans and the Floored (BoE Base Rate) Loans in the Portfolio (the "**BBR Swap Loans**"), *provided that*:

- (i) if a Further Advance or Flexible Drawing is made in respect of a BBR Swap Loan after the Transfer Date, then the portion of the relevant BBR Swap Loan(s) attributable to the Further Advance or Flexible Drawing, as the case may be, will be excluded from the calculation of the BBR Notional Amount; and
- (ii) if a Product Switch or sale (other than pursuant to a Substitution) is made in respect of any BBR Swap Loan after the Transfer Date (any such BBR Swap Loan, a "**Relevant BBR Swap Loan**") then a mark-to-market payment with respect to such Relevant BBR Swap Loan(s) will be payable by the Issuer or the Stand-by Interest Rate Swap Provider.

The BBR Notional Amount for the initial calculation period will be equal to the aggregate Current Balance of the Tracker Rate Loans, the Capped (BoE Base Rate) Loans and the Floored (BoE Base Rate) Loans in the Portfolio on or around the Closing Date.

### *Cashflows under the SVR Swap Transaction*

The Principal Swap Agreement will govern the terms of the standard variable rate swap transaction relating to the Discount Rate Loans, Capped (SVR) Loans and Variable Rate Loans (the "**SVR Swap Transaction**").

Under the SVR Swap Transaction, the following amounts will be calculated each Interest Payment Date:

- (a) the aggregate of the amounts produced by applying for each of the monthly calculation periods (or in the case of the calculation period starting on the Closing Date, the relevant portion of such monthly calculation period) in the relevant Interest Period which ends on the last day of such Interest Period, Three-Month Sterling LIBOR (or interpolated for 5 and 6 month Sterling LIBOR in respect of the first Interest Payment Date) as determined on the Interest Determination Date for the relevant Interest Period plus a spread to the SVR Notional Amount, such amount to be calculated on the basis of the day count fraction specified in the SVR Swap Transaction and in each case for the relevant monthly calculation period (the "**SVR Interest Period Swap Provider Amount**"); and
- (b) the amount (known as the "**SVR Interest Period Issuer Amount**") produced by applying for each of the monthly calculation periods (or in the case of the calculation period starting on the Closing Date, the relevant portion of such monthly calculation period) in the relevant Interest Period which ends on the last day of such Interest Period, the weighted average standard variable rate, as calculated in accordance with the terms of the SVR Swap Transaction, to the SVR Notional Amount, such amount to be calculated on the basis of the day count fraction specified in the SVR Swap Transaction and in each case for the relevant monthly calculation period.

After the Transfer Date, the SVR Interest Period Issuer Amount will be determined by applying the greater of (I) the weighted average standard variable rate, as calculated in accordance with the terms of the SVR Swap Transaction and (II) Three-Month Sterling LIBOR (or interpolated for 5 and 6 month Sterling LIBOR in respect of the first Interest Payment Date) plus a spread for the relevant monthly calculation period to the SVR Notional Amount. Following the Transfer Date, the standard variable rate shall be subject to a minimum amount and cannot be set below this floor.

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

The notional amount of the SVR Swap Transaction (the "**SVR Notional Amount**") in respect of each calculation period thereunder will be equal to the aggregate Current Balance, calculated at the end of the calendar month ending during such calculation period, of the Discount Rate Loans, Capped (SVR) Loans and Variable Rate Loans in the Portfolio (the "**SVR Swap Loans**"), *provided that*:

- (i) if a Further Advance or Flexible Drawing is made in respect of a SVR Swap Loan after the Transfer Date, then the portion of the relevant SVR Swap Loan(s) attributable to the Further Advance or Flexible Drawing, as the case may be, will be excluded from the calculation of the SVR Notional Amount; and
- (ii) if a Product Switch or sale (other than pursuant to a Substitution) is made in respect of any SVR Swap Loan after the Transfer Date (any such SVR Swap Loan, a "**Relevant SVR Swap Loan**") then a mark-to-market payment with respect to the Relevant SVR Swap Loan(s) will be payable by the Issuer or the Stand-by Interest Rate Swap Provider.

The SVR Notional Amount for the initial calculation period will be equal to the aggregate Current Balance of the Discount Rate Loans, Capped (SVR) Loans and Variable Rate Loans in the Portfolio on or around the Closing Date.

Fixed Interest Period Swap Provider Amounts, BBR Interest Period Swap Provider Amounts and SVR Interest Period Swap Provider Amounts are collectively referred to as "**Interest Period Swap Provider Amounts**". Fixed Interest Period Issuer Amounts, BBR Interest Period Issuer Amounts and SVR Interest Period Issuer Amounts are collectively referred to as "**Interest Period Issuer Amounts**".

After these amounts are calculated in respect of each Swap Agreement and in relation to an Interest Payment Date, the following payments will be made on or in respect of that Interest Payment Date: (i) if

the relevant Interest Period Issuer Amount is greater than the relevant Interest Period Swap Provider Amount, then the Issuer will pay the difference to the Swap Provider and (ii) if the relevant Interest Period Swap Provider Amount is greater than the relevant Interest Period Issuer Amount, then the Swap Provider will pay the difference to the Issuer.

If a payment is to be made by the Swap Provider (other than payments to be credited to the relevant Swap Collateral Account), that payment will be included in the Available Revenue Receipts and will be applied on the relevant Interest Payment Date according to the relevant Priority of Payments. If a payment is to be made by the Issuer, it will be made according to the relevant Priority of Payments.

#### *Estimations and Reconciliations*

Where no Servicer Report or other relevant information on the basis of which the notional amount of the Swap Transactions would ordinarily be determined has been received, in respect of any monthly calculation period immediately preceding an Interest Payment Date, the Fixed Rate Notional Amount, the BBR Notional Amount, the SVR Notional Amount, the applicable Fixed Rate under the Fixed Rate Swap Transaction, the applicable BoE Base Rate under the BBR Swap Transaction and the applicable standard variable rate under the SVR Swap Transaction shall be estimated by reference to the change in the notional amount of each Swap Transaction over the three most recent calculation periods thereunder (or, where there are not at least three previous calculation periods, fewer than three calculation periods) or the previous applicable interest rates under the Fixed Rate Swap Transaction, the BBR Swap Transaction or the SVR Swap Transaction, as applicable or other relevant available information.

If a Servicer Report or such other relevant information is delivered in respect of the monthly calculation periods immediately preceding any subsequent Collection Period, then (i) the Fixed Notional Amount, the BBR Notional Amount, the SVR Notional Amount, the applicable Fixed Rate under the Fixed Rate Swap Transaction, the applicable BoE Base Rate under the BBR Swap Transaction and the applicable standard variable rate under the SVR Swap Transaction will be calculated on the basis of the information in such Servicer Report or such other relevant information and (ii) one or more reconciliation payments may be required to be made, either by the Issuer or by the relevant Swap Provider in respect of each Swap Transaction, in order to account for any overpayment(s) or underpayment(s) made in respect of such Swap Transaction during the relevant period of estimations.

#### *Termination of the relevant Swap Agreement*

A Swap Agreement may be terminated early in, *inter alia*, the following circumstances (each, a "**Swap Early Termination Event**"):

- (a) if there is a failure by a party to pay amounts due under the relevant Swap Agreement and any applicable grace period has expired;
- (b) if certain insolvency events occur with respect to a party;
- (c) if a breach of a provision of a Swap Agreement by the relevant Swap Provider or the Issuer is not remedied within the applicable grace period;
- (d) if a change of law results in the obligations of one of the parties becoming illegal;
- (e) in certain circumstances, if a deduction or withholding for or on account of taxes is imposed on payments under a Swap Agreement;
- (f) if the Stand-by Swap Provider is downgraded and fails to comply with the requirements of the downgrade provisions contained in the relevant Swap Agreement and described below in "*Key Structural Features – Ratings Downgrade of the Stand-by Swap Provider*";
- (g) if the Trustee serves an Enforcement Notice on the Issuer pursuant to Condition 13 (*Events of Default*) of the Notes;
- (h) if there is a redemption of the Notes pursuant to Condition 9.3 (*Optional Redemption in whole*) and Condition 9.4 (*Optional redemption in whole for taxation purposes*) of the Notes;

- (i) with respect to the Stand-by Interest Rate Swap Agreement, if any amendment is made to (i) the Swap Collateral Account Agreements or (ii) the Principal Swap Agreement without the prior written consent of the Stand-by Interest Rate Swap Provider (such consent to be given at the Stand-by Interest Rate Swap Provider's sole discretion); and
- (j) with respect to the Stand-by Interest Rate Swap Agreement, if the Issuer transfers its rights and obligations under the Principal Swap Agreement to another party without the prior written consent of the Stand-by Interest Rate Swap Provider (save for an assignment by way of security to the Trustee).

Upon the occurrence of a Swap Early Termination Event either the Issuer or the relevant Swap Provider may be liable to make a termination payment to the other party. This termination payment will be calculated and made in Sterling. The amount of any termination payment will be based on either (i) the market value of the terminated swap based on market quotations of the cost of entering into a swap with the same terms and conditions that would have the effect of preserving the respective full payment obligations of the parties or (ii) loss depending on whether the Issuer is the defaulting, or sole affected, party. Any termination payment due from the Issuer to a Swap Provider will be made first out of amounts standing to the credit of the relevant Swap Collateral Account in accordance with the relevant Swap Collateral Account Priority of Payments and then, to the extent that there are insufficient funds standing to the credit of the relevant Swap Collateral Account for this purpose in accordance with the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement Priority of Payments, as applicable. Any such termination payment could be substantial.

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

#### *Ratings Downgrade of Stand-by Interest Rate Swap Provider*

If, at any time following the Closing Date, the short term or long-term, unsecured and unsubordinated debt obligations of any Stand-by Interest Rate Swap Provider (or its guarantor), as applicable, are downgraded by a Rating Agency below the required ratings specified in the Stand-by Interest Rate Swap Agreement for the Stand-by Interest Rate Swap Provider or the Stand-by Interest Rate Swap Provider (or its guarantor) is put on "Rating Watch Negative" by Fitch such that it is treated by Fitch as being rated below such required ratings, such Stand-by Interest Rate Swap Provider will be required to take certain remedial measures which may include providing collateral for its obligations, arranging for its obligations to be transferred to an entity with the ratings required by the relevant Rating Agency, procuring another entity with ratings required by the relevant Rating Agency to become co-obligor or guarantor in respect of its obligations, or taking such other action as it may agree with the relevant Rating Agency. A failure to take such steps will allow the Issuer to terminate the Stand-by Interest Rate Swap Agreement.

#### *Taxation*

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

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

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

## *Governing Law*

The Swap Agreements and any non-contractual obligations arising out of or in connection with the Swap Agreements will be governed by English law.

## **Replacement of the Stand-by Interest Rate Swap Agreement**

### *Replacement upon early termination*

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

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

## **Swap Credit Support Annex**

On or around the Closing Date, each Swap Provider will enter into a 1995 ISDA Credit Support Annex (Bilateral Form – Transfer) with the Issuer (each a "**Swap Credit Support Annex**") in support of the obligations of that Swap Provider under the relevant Swap Agreement. Pursuant to the terms of each Swap Credit Support Annex, if at any time the relevant Swap Provider is required to provide collateral in respect of any of its obligations under the relevant Swap Agreement, such Swap Credit Support Annex will provide that, from time to time, subject to the conditions specified in the Swap Credit Support Annex and the relevant Swap Agreement, the relevant Swap Provider will make transfers of collateral to the Issuer in respect of its obligations under the relevant Swap Agreement and the Issuer will be obliged to return such collateral in accordance with the terms of the Swap Credit Support Annex.

## **Swap Collateral**

In the event that the Stand-by Interest Rate Swap Provider is required to transfer collateral to the Issuer in respect of its obligations under any Swap Agreement in accordance with the terms of the relevant Swap Credit Support Annex, that collateral (and any interest and/or distributions earned thereon) will be credited to a separate Swap Collateral Account. In addition, upon any early termination of any Swap Agreement or novation of the Stand-by Interest Rate Swap Provider's obligations under such Swap Agreement to a replacement Swap Provider, (i) any Replacement Swap Premium received by the Issuer from a replacement Swap Provider and/or (ii) any termination payment received by the Issuer from the outgoing Swap Provider will be credited to the relevant Swap Collateral Account.

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

- (i) prior to the designation of an Early Termination Date in respect of the relevant Swap Agreement, solely in or towards payment of any Return Amounts, Interest Amounts and Distributions (as defined in the relevant Swap Credit Support Annex), on any day, directly to the relevant Swap Provider in accordance with the terms of the relevant Swap Credit Support Annex;
- (ii) following (1) the designation of an Early Termination Date in respect of the relevant Swap Agreement where (A) such Early Termination Date has been designated following an Event of Default (as defined in the relevant Swap Agreement) in respect of which the Swap Provider is the

Defaulting Party or an Additional Termination Event (as defined in the relevant Swap Agreement) resulting from a ratings downgrade of the Swap Provider and (B) the Issuer enters into a replacement swap agreement in respect of such Swap Agreement on or around the Early Termination Date of such Swap Agreement or (2) any novation of a Swap Provider's obligations to a replacement Swap Provider, on the later of the day on which such replacement swap agreement is entered into and the day on which a Replacement Swap Premium (if any) payable to the Issuer has been received, in the following order of priority:

- (a) *first*, in or towards payment of a Replacement Swap Premium (if any) payable by the Issuer to a replacement swap provider in order to enter into a replacement swap agreement with the Issuer with respect to the Swap Agreement being terminated or novated; and
  - (b) *second*, in or towards payment of any termination payment due to the outgoing Swap Provider; and
  - (c) *third*, the surplus (if any) (a "**Swap Collateral Account Surplus**") on such day to be transferred to the GIC Account;
- (iii) following (1) the designation of an Early Termination Date in respect of the relevant Swap Agreement where (A) such Early Termination Date has been designated otherwise than as a result of one of the events specified at items (ii)(1)(A) above and (B) the Issuer enters into a replacement swap agreement in respect of such Swap Agreement on or around the Early Termination Date of such Swap Agreement or (2) any novation of a Swap Provider's obligations to a replacement Swap Provider, on the later of the day on which such replacement swap agreement is entered into and the day on which a Replacement Swap Premium (if any) payable to the Issuer has been received, in the following order of priority:
- (a) *first*, in or towards payment of any termination payment due to the outgoing Swap Provider;
  - (b) *second*, in or towards payment of a Replacement Swap Premium (if any) payable by the Issuer to a replacement swap provider in order to enter into a replacement swap agreement with the Issuer with respect to the Swap Agreement being terminated or novated; and
  - (c) *third*, the surplus (if any) (a "**Swap Collateral Account Surplus**") on such day to be transferred to the GIC Account;
- (iv) following the designation of an Early Termination Date in respect of the relevant Swap Agreement for any reason where the Issuer does not enter into a replacement swap agreement in respect of such Swap Agreement on or around the Early Termination Date of such Swap Agreement, on any day, in or towards payment of any termination payment due to the outgoing Swap Provider;
- (v) following payments of amounts due pursuant to (iv) above, if amounts remain standing to the credit of a Swap Collateral Account, such amounts may be applied only in accordance with the following provisions:
- (a) *first*, in or towards payment of a Replacement Swap Premium (if any) payable by the Issuer to a replacement swap provider in order to enter into a replacement swap agreement with the Issuer with respect to the Swap Agreement to which such Swap Collateral Account relates; and
  - (b) *second*, the surplus (if any) (a "**Swap Collateral Account Surplus**") remaining after payment of such Replacement Swap Premium to be transferred to the GIC Account,

*provided that* if the Issuer does not enter into a replacement swap agreement with respect to the Swap Agreement to which such Swap Collateral Account relates on or prior to the earlier of:



- (1) the day that is 14 days prior to the date on which the Principal Amount Outstanding of all Classes of Notes is reduced to zero (other than following the occurrence of an Event of Default pursuant to Condition 13); or
- (2) the day on which an Enforcement Notice is given pursuant to Condition 13,

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

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

## CASHFLOWS AND CASH MANAGEMENT

### APPLICATION OF REVENUE RECEIPTS PRIOR TO SERVICE OF AN ENFORCEMENT NOTICE

#### Definition of Revenue Receipts

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

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

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

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

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

#### Definition of Available Revenue Receipts

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

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

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

less:

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

items within paragraphs (i), (ii), (iii), (iv) and (v)) being collectively referred to herein as "**Permitted Withdrawals**", which amounts may be deducted by the Cash Manager on a daily basis from the GIC Account to make payment to the persons entitled thereto.

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

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

**Application of General Reserve Fund Amounts, Principal Receipts and amounts standing to the credit of the Liquidity Reserve Fund (if established) to cover income deficits**

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

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

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

**General Reserve Fund and General Reserve Ledger**

On the Closing Date, a fund will be established called the General Reserve Fund. The General Reserve Fund will be funded on the Closing Date by the Subordinated Loan in the sum of £32,560,000 (the "**General Reserve Required Amount**") (being an amount equal to 4 per cent. of the Principal Amount Outstanding of the Notes as at the Closing Date). The General Reserve Fund will be credited to the GIC Account (with a corresponding credit to the General Reserve Ledger). The Issuer may invest the amounts standing to the credit of the GIC Account in Authorised Investments. See "*Key Structural Features*" above.

The Cash Manager will maintain a ledger pursuant to the Cash Management Agreement to record the balance from time to time of the General Reserve Fund (the "**General Reserve Ledger**").

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

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

#### **Liquidity Reserve Fund and Liquidity Reserve Ledger**

On the date on which Principality ceases to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa2, the Issuer will establish a fund to fund any Remaining Income Deficit, if necessary (the "**Liquidity Reserve Fund**"). The Liquidity Reserve Fund will be credited to the GIC Account (with a corresponding credit to the Liquidity Reserve Ledger). The Issuer may invest the amounts standing to the credit of the GIC Account in Authorised Investments.

The Cash Manager will maintain a ledger pursuant to the Cash Management Agreement to record the balance from time to time of the Liquidity Reserve Fund (the "**Liquidity Reserve Ledger**").

The Issuer will be required to fund the Liquidity Reserve Fund to the Liquidity Reserve Fund Required Amount from Available Principal Receipts in accordance with the Pre-Enforcement Principal Priority of Payments. The Issuer will be required to top up the Liquidity Reserve Fund to the Liquidity Reserve Fund Required Amount on each Interest Payment Date. For more information about the application of the amounts standing to the credit of the Liquidity Reserve Fund, see the section "*Cashflows and Cash Management – Application of General Reserve Fund Amounts, Principal Receipts and amounts standing to the credit of the Liquidity Reserve Fund (if established) to cover income deficits*".

"**Liquidity Reserve Fund Required Amount**" means an amount equal to the greater of (a) 4 per cent. of the Principal Amount Outstanding of the Class A Notes at the beginning of the relevant Interest Period less the amount standing to the credit of the General Reserve Fund as determined by the Cash Manager on the relevant Calculation Date after taking into account the amount of Available Revenue Receipts to be credited to the General Reserve Fund on the Interest Payment Date immediately following such Calculation Date in accordance with the Pre-Enforcement Revenue Priority of Payments and (b) zero.

The Principal Deficiency Ledger will be debited on each Interest Payment Date by an amount equal to the amount drawn from the Liquidity Reserve Fund (if established) to fund any Remaining Income Deficit (after having first applied Principal Receipts in accordance with item (e) of the definition of Available Principal Receipts).

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

On each Interest Payment Date (or in respect of items (a) and (b) below, on any date) prior to the service of an Enforcement Notice by the Trustee on the Issuer, the Cash Manager (on behalf of the Issuer) shall apply or provide for the Available Revenue Receipts together with (in the case of any Income Deficit) any amount standing to the credit of the General Reserve Fund and (in the case of any Remaining Income Deficit) any amounts referred to in paragraph (f) below of the definition of Available Principal Receipts and amounts standing to the credit of the Liquidity Reserve Fund to the extent required to cover any Remaining Income Deficits (after having firstly applied any Principal Receipts (if any)) in the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full) (the "**Pre-Enforcement Revenue Priority of Payments**"):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any fees, costs, charges, liabilities, expenses, indemnity payments and all other amounts then due and payable or to become due and payable in the immediately succeeding Interest Period to the Trustee or any Appointee under the provisions of the Trust Deed and the other Transaction Documents together with (if payable) VAT thereon as provided therein;

- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) any remuneration then due and payable to the Agent Bank, the Registrar and the Paying Agents and any costs, charges, liabilities and expenses then due or to become due and payable in the immediately succeeding Interest Period to them under the provisions of the Agency Agreement, together with (if payable) VAT thereon as provided therein;
  - (ii) any amounts due and payable by the Issuer to third parties and incurred without breach by the Issuer of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and any amounts necessary to provide for any such amounts expected to become due and payable by the Issuer in the immediately succeeding Interest Period and any amounts required to pay or discharge any liability of the Issuer to corporation tax (which cannot be met out of amounts retained by the Issuer as profit under item (i) below);
  - (iii) any amounts then due and payable to the Corporate Services Provider and any costs, charges, liabilities and expenses then due and payable or to become due and payable in the immediately succeeding Interest Period to the Corporate Services Provider under the provisions of the Corporate Services Agreement, together with (if payable) VAT thereon as provided therein; and
  - (iv) any Transfer Costs which the Seller has failed to pay;
- (c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) any amounts due and payable to the Servicer, and any costs, charges, liabilities and expenses then due and payable to the Servicer, or any such amount to become due and payable to the Servicer in the immediately succeeding Interest Period under the provisions of the Servicing Agreement, together with (if payable) VAT thereon as provided therein;
  - (ii) any amounts due and payable to the Back-Up Servicer, and any costs, charges, liabilities and expenses then due and payable to the Back-Up Servicer, or any such amount to become due and payable to the Back-Up Servicer in the immediately succeeding Interest Period under the provisions of the Back-Up Servicing Agreement, together with (if payable) VAT thereon as provided therein;
  - (iii) any amounts due and payable to the Back-Up Servicer Facilitator, and any costs, charges, liabilities and expenses then due and payable to the Back-Up Servicer Facilitator, or any such amount to become due and payable to the Back-Up Servicer Facilitator in the immediately succeeding Interest Period under the provisions of the Servicing Agreement, together with (if payable) VAT thereon as provided therein;
  - (iv) any amounts then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due and payable to the Cash Manager or any such amount to become due and payable to the Cash Manager in the immediately succeeding Interest Period under the provisions of the Cash Management Agreement, together with (if payable) VAT thereon as provided therein;
  - (v) any amounts then due and payable to the Back-Up Cash Manager and any costs, charges, liabilities and expenses then due and payable to the Back-Up Cash Manager or any such amount to become due and payable to the Back-Up Cash Manager in the immediately succeeding Interest Period under the provisions of the Back-Up Cash Management Agreement, together with (if payable) VAT thereon as provided therein; and
  - (vi) any amounts then due and payable to the Account Bank or to a bank at which a Swap Collateral Account is held and any costs, charges, liabilities and expenses then due and payable to the Account Bank or to such bank at which a Swap Collateral Account is held, any such amount to become due and payable to the Account Bank or such bank at which a Swap Collateral Account is held, as applicable, in the immediately succeeding Interest

Period under the provisions of the Account Bank Agreement or agreement governing the operation of a Swap Collateral Account, together with (if payable) VAT thereon as provided therein;

- (d) *fourth*, to pay according to the amount thereof and in accordance with the terms of the relevant Swap Agreement amounts due to the Swap Providers in respect of the Swap Agreements to be applied:
  - (i) *first*, to pay such amounts due to the Stand-by Interest Rate Swap Provider; and
  - (ii) *second*, to pay such amounts due to the Principal Swap Provider,

(in each case, including any termination payment due and payable by the Issuer to the extent not satisfied out of amounts standing to the credit of the relevant Swap Collateral Account and applied in accordance with the relevant Swap Collateral Account Priority of Payments, but excluding any related Swap Subordinated Amounts and any Return Amounts, Interest Amounts and Distributions payable under a Swap Credit Support Annex (as defined in the relevant Swap Credit Support Annex));
- (e) *fifth*, in or towards payment *pro rata* and *pari passu* of:
  - (i) interest due and payable on the Class A1 Notes; and
  - (ii) interest due and payable on the Class A2 Notes;
- (f) *sixth*, to credit the Class A Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon;
- (g) *seventh*, (so long as the Class A Notes will remain outstanding following such Interest Payment Date) to credit the General Reserve Ledger up to the General Reserve Required Amount;
- (h) *eighth*, to pay according to the amount thereof and in accordance with the terms of the relevant Swap Agreement, to any Swap Provider any Swap Subordinated Amount to be applied:
  - (i) *first*, to pay such Swap Subordinated Amounts due to the Stand-by Interest Rate Swap Provider; and
  - (ii) *second*, to pay such Swap Subordinated Amounts due to the Principal Swap Provider;
- (i) *ninth*, to retain the Issuer Profit Amount;
- (j) *tenth*, to credit the Class B Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon;
- (k) *eleventh*, to pay interest due and payable on the Class B Notes (including any Deferred Interest and Additional Interest thereon);
- (l) *twelfth*, to pay all amounts of interest due or accrued (if any) but unpaid and any capitalised interest due to the Subordinated Loan Provider under the Subordinated Loan Agreement;
- (m) *thirteenth*, to pay the principal amounts due and payable to the Subordinated Loan Provider under the Subordinated Loan Agreement;
- (n) *fourteenth*, (so long as any Class A Notes will remain outstanding following such Interest Payment Date) if such Interest Payment Date falls immediately after a Determination Period, then the excess (if any) to be retained in the GIC Account to be applied as Available Revenue Receipts on the next following Interest Payment Date; and
- (o) *fifteenth*, to pay Deferred Consideration due and payable under the Mortgage Sale Agreement to the Seller.

## **APPLICATION OF PRINCIPAL RECEIPTS PRIOR TO SERVICE OF AN ENFORCEMENT NOTICE**

### **Definition of Principal Receipts**

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

**"Capitalised Arrears"** means for any Loan at any date, amounts (other than amounts in respect of interest) which are overdue in respect of that Loan and which as at that date have been added to the Capital Balance of the Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower.

**"Capitalised Expenses"** means in relation to a Loan, the amount of any expense, charge, fee, premium or payment (excluding any Arrears of Interest) capitalised and added to the Capital Balance of that Loan in accordance with the Mortgage Conditions.

### **Definition of Available Principal Receipts**

**"Available Principal Receipts"** means for any Interest Payment Date:

- (a) all Principal Receipts received by the Issuer during the immediately preceding Collection Period (or, if the immediately preceding Collection Period is a Determination Period, Calculated Principal Receipts (excluding in each case an amount to be applied as Available Revenue Receipts in accordance with Condition 8.12(c)(ii) on the relevant Interest Payment Date);
- (b) the amounts (if any) to be credited to the Principal Deficiency Ledger pursuant to items (f) and (j) of the Pre-Enforcement Revenue Priority of Payments on such Interest Payment Date;
- (c) in respect of the first Interest Period only, any funds representing the excess of the proceeds of the issue of the Notes over the Initial Consideration;
- (d) any amount to be applied as Available Principal Receipts in accordance with Condition 8.12(c)(i); and
- (e) on each Interest Payment Date, the amount standing to the credit of the Liquidity Reserve Fund (if applicable) in excess of the Liquidity Reserve Fund Required Amount (to the extent not utilised on such Interest Payment Date to pay amounts due in respect of any Remaining Income Deficit) and on the earlier of the Final Maturity Date and the date on which the Class A Notes are redeemed in full, the amount standing to the credit of the Liquidity Reserve Fund (if applicable) (to the extent not utilised on such Interest Payment Date to pay amounts due in respect of any Remaining Income Deficit),

less:

- (f) the amount of Principal Receipts received by the Issuer during the immediately preceding Collection Period which are to be applied to cover Remaining Income Deficits on such Interest Payment Date; and
- (g) the amount of Principal Receipts to the extent comprised in paragraph (a) above used by the Issuer during the immediately preceding Collection Period to purchase Further Advances and/or Flexible Drawings.

The Issuer shall pay or provide for amounts due under the Pre-Enforcement Revenue Priority of Payments before paying amounts due under the Pre-Enforcement Principal Priority of Payments.

Prior to the service of an Enforcement Notice on the Issuer by the Trustee, the Issuer is required pursuant to the terms of the Cash Management Agreement to apply Available Principal Receipts on each Interest Payment Date in the following order of priority (the "**Pre-Enforcement Principal Priority of Payments**"):

- (a) *first*, following the date on which Principality ceases to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa2 and provided such Interest Payment Date is not the final Interest Payment Date in respect of the Class A Notes, to credit the Liquidity Reserve Ledger up to the Liquidity Reserve Fund Required Amount;
- (b) *second, pro rata and pari passu*, to redeem the Class A1 Notes until the Class A1 Notes have been redeemed in full;
- (c) *third, pro rata and pari passu*, to redeem the Class A2 Notes until the Class A2 Notes have been redeemed in full;
- (d) *fourth, pro rata and pari passu*, to redeem the Class B Notes until the Class B Notes have been redeemed in full; and
- (e) *fifth*, the excess (if any) to be applied as Available Revenue Receipts.

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

Following the service of an Enforcement Notice by the Trustee on the Issuer, the Trustee (or the Cash Manager on its behalf or a Receiver) will apply amounts (other than (i) amounts standing to the credit of the Swap Collateral Accounts, except for any Swap Collateral Account Surplus, and (ii) any amount received by the Issuer in respect of Swap Tax Credits received or recovered following the service of an Enforcement Notice on the Issuer (including, for the avoidance of doubt, on enforcement of the Security) in the following order of priority (the "**Post-Enforcement Priority of Payments**" and, together with the Pre-Enforcement Revenue Priority of Payments and the Pre-Enforcement Principal Priority of Payments, the "**Priority of Payments**"):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any fees, costs, charges, liabilities, expenses, indemnity payments and all other amounts then due and payable to the Trustee or any Appointee, under the provisions of the Trust Deed and the other Transaction Documents, together with (if payable) VAT thereon as provided therein; and
  - (ii) any fees, costs, charges, liabilities, expenses, indemnity payments and all other amounts then due and payable to any Receiver appointed by the Trustee or any Appointee under the provisions of the Deed of Charge and the other Transaction Documents, together with (if payable) VAT thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Agent Bank, the Registrar and the Paying Agents and any costs, charges, liabilities and expenses then due and payable to them under the provisions of the Agency Agreement, together with (if payable) VAT thereon as provided therein; and
  - (ii) any amounts then due and payable to the Corporate Services Provider and any costs, charges, liabilities and expenses then due and payable to the Corporate Services Provider under the provisions of the Corporate Services Agreement, together with (if payable) VAT thereon as provided therein;



- (c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) any amounts due and payable to the Servicer, and any costs, charges, liabilities and expenses then due and payable to the Servicer under the provisions of the Servicing Agreement, together with (if payable) VAT thereon as provided therein;
  - (ii) any amounts due and payable to the Back-Up Servicer, and any costs, charges, liabilities and expenses then due and payable to the Servicer under the provisions of the Back-Up Servicing Agreement, together with (if payable) VAT thereon as provided therein;
  - (iii) any amounts due and payable to the Back-Up Servicer Facilitator, and any costs, charges, liabilities and expenses then due and payable to the Back-Up Servicer Facilitator under the provisions of the Servicing Agreement, together with (if payable) VAT thereon as provided therein;
  - (iv) any amounts then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due and payable to the Cash Manager under the provisions of the Cash Management Agreement, together with (if payable) VAT thereon as provided therein;
  - (v) any amounts then due and payable to the Back-Up Cash Manager and any costs, charges, liabilities and expenses then due and payable to the Back-Up Cash Manager under the provisions of the Back-Up Cash Management Agreement, together with (if payable) VAT thereon as provided therein; and
  - (vi) any amounts then due and payable to the Account Bank or a bank at which a Swap Collateral Account is held and any costs, charges, liabilities and expenses then due and payable to the Account Bank or such bank at which a Swap Collateral Account is held, as applicable, under the provisions of the Account Bank Agreement or other agreement governing the operation of such Swap Collateral Account, together with (if payable) VAT thereon as provided therein;
- (d) *fourth*, to pay according to the amount thereof and in accordance with the terms of the relevant Swap Agreement amounts due and payable to the Swap Providers in respect of the Swap Agreements to be applied:
- (i) *first*, to pay such amounts due to the Stand-by Interest Rate Swap Provider; and
  - (ii) *second*, to pay such amounts due to the Principal Swap Provider,
- (in each case, including any termination payment due and payable by the Issuer to the extent not satisfied out of amounts standing to the credit of the relevant Swap Collateral Account and applied in accordance with the relevant Swap Collateral Account Priority of Payments, but excluding any Swap Subordinated Amounts and any Return Amounts, Interest Amounts and Distributions payable under a Swap Credit Support Annex (as defined in the relevant Swap Credit Support Annex));
- (e) *fifth*, to pay *pro rata* and *pari passu* according to the respective outstanding amounts thereof:
- (i) interest due and payable on the Class A1 Notes; and
  - (ii) interest due and payable on the Class A2 Notes;
- (f) *sixth*, to pay *pro rata* and *pari passu* according to the respective outstanding amounts thereof:
- (i) principal due and payable on the Class A1 Notes;
  - (ii) principal due and payable on the Class A2 Notes;
- (g) *seventh*, interest due and payable on the Class B Notes (including any Deferred Interest and Additional Interest thereon);

- (h) *eighth*, to pay *pro rata* and *pari passu* principal due and payable on the Class B Notes;
- (i) *ninth*, to pay according to the amount thereof and in accordance with the terms of the relevant Swap Agreement, to any Swap Provider any Swap Subordinated Amount to be applied:
  - (i) *first*, to pay such Swap Subordinated Amounts due to the Stand-by Interest Rate Swap Provider; and
  - (ii) *second*, to pay such Swap Subordinated Amounts due to the Principal Swap Provider;
- (j) *tenth*, to pay all amounts of interest due and payable or accrued (if any) but unpaid and any capitalised interest and amounts of principal due to the Subordinated Loan Provider under the Subordinated Loan Agreement;
- (k) *eleventh*, to the Issuer, the Issuer Profit Amount;
- (l) *twelfth*, to pay any amounts required by the Issuer to pay or discharge any liability of the Issuer to corporation tax (which cannot be made out of amounts retained by the Issuer as profit including amounts under item (k) above); and
- (m) *thirteenth*, to pay Deferred Consideration due and payable under the Mortgage Sale Agreement to the Seller.

### **Compensation of the Cash Manager**

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

### **Investor Reports**

The Cash Manager on behalf of the Issuer will publish the monthly investor report detailing, *inter alia*, certain aggregated loan data in relation to the Portfolio. Such investor reports will be published on the Seller's website at [www.principality.co.uk](http://www.principality.co.uk), the first investor report being provided no earlier than the date falling one month from the Closing Date. For the avoidance of doubt, this website and the contents thereof do not form part of this Prospectus.

### **Back-Up Cash Manager**

On the Closing Date, the Issuer and the Cash Manager will appoint the Back-Up Cash Manager to perform certain back-up cash management services pursuant to a back-up cash management agreement between, *inter alios*, the Cash Manager, the Issuer and the Back-Up Cash Manager dated on or prior to the Closing Date (the "**Back-Up Cash Management Agreement**"). Upon the occurrence of the termination of the appointment of the Cash Manager under the Cash Management Agreement, the Back-Up Cash Manager will, on the date falling 7 Business Days from the date on which the Back-Up Cash Manager receives notice of the same, replace the Cash Manager on terms similar to those set out in the Cash Management Agreement.

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

## DESCRIPTION OF THE NOTES IN GLOBAL FORM

### General

The Notes of each Class or sub-Class will be offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and will be represented on issue by one or more Global Notes of such class in fully registered form without interest coupons or principal receipts attached (each a "**Global Note**"). Beneficial interests in a Global Note may only be held through Euroclear or Clearstream, Luxembourg or their participants at any time.

All capitalised terms not defined in this paragraph shall be as defined in the Conditions of the Notes.

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

The Global Notes will be registered in the name of a nominee for the Common Depositary. The Issuer will procure the Registrar to maintain a register in which it will register the nominee for the Common Depositary, as applicable, as the owner of the Global Notes.

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

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

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

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

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

Unless and until Book-Entry Interests in the Global Notes are exchanged for Definitive Certificates, the Global Notes registered in the name of the Common Depositary may not be transferred except as a whole by the Common Depositary to a successor of the Common Depositary.

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

#### **Trading between Euroclear and/or Clearstream, Luxembourg participants**

Secondary market sales of book-entry interests in the notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds and sterling denominated bonds.

#### **Payments on the Global Notes**

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

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

## **Information Regarding Euroclear and Clearstream, Luxembourg**

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

### ***Euroclear and Clearstream, Luxembourg***

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

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

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

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

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

## **Redemption**

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

## **Cancellation**

All Notes redeemed in full will be cancelled forthwith by the Issuer and may not be reissued or resold.

## **Transfers and Transfer Restrictions**

All transfer of Book-Entry Interests will be recorded with the book-entry systems maintained by Euroclear or Clearstream, Luxembourg, as applicable, pursuant to the customary procedures established by each respective system and its Participants.

Beneficial interests in the Global Notes may be held only through Euroclear and Clearstream, Luxembourg. Neither the Global Notes nor any beneficial interest therein may be transferred except in compliance with the transfer restrictions set forth in the legend appearing in the Global Notes.

### **Settlement and transfer of notes**

Subject to the rules and procedures of each applicable clearing system, purchases of notes held within a clearing system must be made by or through Participants, which will receive a credit for such notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the "**beneficial owner**") will in turn be recorded on the Participant's records. Beneficial owners will not receive written confirmation from any clearing system of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct and indirect participant through which such beneficial owner entered into the transaction. Transfers of ownership interests in notes held within the clearing system will be effected by entries made on the books of Participants acting on behalf of beneficial owners. **Beneficial owners will not receive individual notes representing their ownership interests in such notes unless use of the book-entry system for the notes described in this section is discontinued.**

No clearing system has knowledge of the actual beneficial owners of the notes held within such clearing system and their records will reflect only the identity of the direct participants to whose accounts such notes are credited, which may or may not be the beneficial owners. Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

### **Issuance of Definitive Certificates**

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

Any Definitive Certificates issued in exchange for Book-Entry Interests in a Global Note will be registered by the Registrar in such name or names as the Issuer shall instruct the Principal Paying Agent based on the instructions of Euroclear or Clearstream, Luxembourg. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, Luxembourg from their Participants with respect to ownership of the relevant Book Entry Interests. Holders of Definitive Certificates issued in exchange for Book-Entry Interests in a Global Note, as the case may be, will not be entitled to exchange such Definitive Certificate, for Book-Entry Interests in a Global Note. Any Notes issued in definitive form will be issued in registered form only and will be subject to the provisions set forth under "*Transfers and Transfer Restrictions*" above provided that no transfer shall be registered for a period of 15 days immediately preceding any due date for payment in respect of the Note or, as the case may be, the due date for redemption. Definitive Certificates will not be issued in a denomination that is not an integral multiple of the Minimum Denomination or for any amount in excess thereof, in integral multiples of £1,000. As the Notes have a denomination consisting of the Minimum Denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of £100,000 (or its equivalent) that are not integral multiples of £100,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the

Minimum Denomination may not receive a Definitive Certificate in respect of such holding (should Definitive Certificates be issued) and would need to purchase a principal amount of Notes such that its holding amounts to the Minimum Denomination.

#### **Action in Respect of the Global Note and the Book-Entry Interests**

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

#### **Reports**

The Issuer will send to Euroclear and Clearstream, Luxembourg a copy of any notices, reports and other communications received relating to the Issuer, the Global Note or the Book-Entry Interests. Any notice shall be deemed to have been duly given to the relevant Noteholders if sent to the Clearing Systems for communication by them to the holders of the relevant Class of A Notes and shall be deemed to be given on the date on which it was so sent and (so long as the relevant Notes are admitted to trading and listed on the official list of the Irish Stock Exchange) any notice shall also be published in accordance with the relevant guidelines of the Irish Stock Exchange by a notification in writing to the Company Announcements Office of the Irish Stock Exchange. See also Condition 22 (*Notices*) of the Notes.

## TERMS AND CONDITIONS OF THE NOTES

*The following are the terms and conditions of the Notes in the form in which they will be set out in the Trust Deed. If the Notes were to be represented by Definitive Certificates, the Conditions set out on the reverse of each of such Definitive Certificates would be as follows. While the Notes are represented by Global Notes, they will be governed by the same terms and conditions except to the extent that such terms and conditions are appropriate only to securities in definitive form or are expressly varied by the terms of such Global Notes. These terms and conditions are subject to the detailed provisions of the Trust Documents and the other Transaction Documents (as defined below).*

### 1. General

- 1.1 The £229,000,000 Class A1 Mortgage Backed Floating Rate Notes due 2043 (the "**Class A1 Notes**"), the £457,000,000 Class A2 Mortgage Backed Floating Rate Notes due 2043 (the "**Class A2 Notes**" and together with the Class A1 Notes, the "**Class A Notes**") and the £128,000,000 Class B Mortgage Backed Floating Rate Notes due 2043 (the "**Class B Notes**" and, together with the Class A Notes, the "**Notes**") will be issued by Friary No.1 plc (registered number 7645720) (the "**Issuer**") on or about the Closing Date.
- 1.2 The Issuer has agreed to issue the Notes subject to and with the benefit of the terms of the Trust Deed and the Agency Agreement. The security for the Notes is created pursuant to, and on the terms set out in, the Deed of Charge.
- 1.3 The Agency Agreement records certain arrangements in relation to the payment of interest and principal in respect of the Notes.
- 1.4 Certain provisions of these Conditions are summaries of the Trust Documents and the Incorporated Terms Memorandum and the Agency Agreement and are subject to their detailed provisions.
- 1.5 The Noteholders are bound by the terms of the Trust Documents and the Incorporated Terms Memorandum, and are deemed to have notice of all the provisions of the Transaction Documents.
- 1.6 Copies of the Transaction Documents (other than the Subscription Agreement) and the Memorandum and Articles of Association of each of the Issuer and Holdings are available for inspection by Noteholders during normal business hours at the principal office for the time being of the Trustee, being at the date hereof Citigroup Centre, Canada Square, London E14 5LB and at the Specified Offices of each of the Paying Agents, the initial Specified Offices of which are set out below.

### 2. Definitions

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

**"Account Bank"** means Barclays Bank PLC acting in such capacity (or any successor duly appointed);

**"Account Bank Agreement"** means the agreement so named dated on or about the Closing Date between the Issuer, the Cash Manager, the Account Bank, the Back-Up Cash Manager, the Corporate Services Provider and the Trustee;

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

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

**"Agent Bank"** means Citibank, N.A., London Branch in its capacity as agent bank pursuant to the Agency Agreement (or any successor duly appointed);



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

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

**"Authorised Investments"** means:

- (a) Sterling gilt-edged securities; and
- (b) Sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper), provided that in all cases either such investments (i) have been given a short term rating of at least F1+ by Fitch (or such other short term rating which is otherwise acceptable to Fitch), (ii) have a maturity date of 90 days or less and mature on or before the next following Interest Payment Date (unless the Interest Period in respect of such Interest Payment Date is greater than 90 days, in which case the maturity date of the Authorised Investments may be greater than 90 days but less than or equal to the number of days in such Interest Period) or (iii) may be broken or demanded by the Issuer (at no cost to the Issuer) 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 P-1 by Moody's and F1+ by Fitch (and AA- by Fitch (long-term) (if the issuing or guaranteeing entity has a long-term rating) (or such other short term or long term rating which is otherwise acceptable to the relevant Rating Agency) and (iv) have a yield equal to or exceeding the interest rate on the GIC Account (provided that this shall only apply if the interest rate on the GIC Account is equal to or less than LIBOR for three-month sterling deposits);

**"Authorised Signatory"** means, in relation to any Transaction Party, any person who is duly authorised and in respect of whom a certificate has been provided signed by a director or another duly authorised person of such Transaction Party setting out the name and signature of such person and confirming such person's authority to act;

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

**"Available Principal Receipts"** means for any Interest Payment Date:

- (a) all Principal Receipts received by the Issuer during the immediately preceding Collection Period or, if the immediately preceding Collection Period is a Determination Period, Calculated Principal Receipts (excluding in each case an amount to be applied as Available Revenue Receipts in accordance with Condition 8.12(c)(ii) on the relevant Interest Payment Date);
- (b) the amounts (if any) to be credited to the Principal Deficiency Ledger pursuant to items (f) and (j) of the Pre-Enforcement Revenue Priority of Payments on such Interest Payment Date; and
- (c) in respect of the first Interest Period only, any funds representing the excess of the proceeds of the issue of the Notes over the Initial Consideration;
- (d) any amount applied as Available Principal Receipts in accordance with Condition 8.12(c)(i); and
- (e) on each Interest Payment Date, the amount standing to the credit of the Liquidity Reserve Fund (if applicable) in excess of the Liquidity Reserve Fund Required Amount (to the extent not utilised on such Interest Payment Date to pay amounts due in respect of any Remaining Income Deficit) and on the earlier of the Final Maturity Date and the date on which the Class A Notes are redeemed in full, the amount standing to the credit of the Liquidity Reserve Fund (if applicable) (to the extent not utilised on such Interest Payment Date to pay amounts due in respect of any Remaining Income Deficit),

less:

- (f) the amount of Principal Receipts received by the Issuer during the immediately preceding Collection Period which are to be applied to cover Remaining Income Deficits on such Interest Payment Date; and
- (g) the amount of Principal Receipts to the extent comprised in paragraph (a) above used by the Issuer during the immediately preceding Collection Period to purchase Further Advances and/or Flexible Drawings;

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

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

less:

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

(items within paragraphs (i) to (v) being collectively referred to herein as "**Permitted Withdrawals**"), which amounts may be deducted by the Cash Manager on a daily basis from the GIC Account to make payment to the persons entitled thereto;

**"Back-Up Cash Management Agreement"** means the back-up cash management agreement entered into on or about the Closing Date between the Back-Up Cash Manager, the Issuer, the Trustee, the Seller, the Servicer, the Stand-by Interest Rate Swap Provider and the Cash Manager.

**"Back-Up Cash Manager"** means Citibank, N.A., London Branch (or any successor duly appointed);

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

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

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

**"BBR Swap Transaction"** means the swap transaction dated on or about the Closing Date between the Issuer and the Principal Swap Provider, as amended from time to time, and/or any replacement or successive swap transaction or transactions entered into by the Issuer from time to time;

**"Borrower"** means, in relation to a Loan, the individual or individuals specified as such in the relevant Mortgage Conditions together with the individual or individuals (if any) from time to time assuming an obligation to repay such Loan or any part of it;

**"Breach of Duty"** means in relation to any person (other than the Trustee), a wilful default, fraud, illegal dealing, negligence or material breach of any agreement or breach of trust by such person and in relation to the Trustee means a wilful default, fraud, gross negligence or breach of trust by the Trustee;

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

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

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

**"Capitalised Arrears"** means for any Loan at any date, amounts (other than amounts in respect of interest) which are overdue in respect of that Loan and which as at that date have been added to the Capital Balance of the Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower;

**"Capitalised Expenses"** means in relation to a Loan, the amount of any expense, charge, fee, premium or payment (excluding any Arrears of Interest) capitalised and added to the Capital Balance of that Loan in accordance with the Mortgage Conditions;

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

**"Cash Management Agreement"** means the cash management agreement so named entered into on or about the Closing Date between the Cash Manager, the Issuer, the Trustee and the Stand-by Interest Rate Swap Provider or such other cash management agreement as may be entered into between, *inter alios*, a replacement cash manager, the Issuer, the Trustee, the Seller and the

Stand-by Interest Rate Swap Provider (including the Replacement Cash Management Agreement);

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

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

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

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

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

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

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

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

**"Closing Date"** means 11 August 2011, or such other date as the Issuer and the Joint Lead Managers and the Seller may agree;

**"Collection Period"** means each period from (but excluding) the last day in the calendar month immediately preceding a Calculation Date (or, in the case of the first Collection Period, from (and including) the Cut-Off Date) to (and including) the last day in the calendar month immediately preceding the immediately following Calculation Date (or, in the case of the first Collection Period, the last day in the calendar month immediately preceding the first Calculation Date);

**"Collection Period End Date"** means the last day of the calendar month immediately preceding the immediately following Calculation Date;

**"Conditions"** means, in relation to the Notes, the terms and conditions to be endorsed on the Notes in, or substantially in, the form set out in Schedule 2 to the Trust Deed as any of the same may from time to time be modified in accordance with the Trust Deed and any reference to a particular numbered Condition shall be construed in relation to the Notes accordingly;

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

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

**"Cut-Off Date"** means 1 August 2011;

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

**"Deed of Charge"** means the deed of charge so named (and any accession undertaking or documents entered into pursuant to the Deed of Charge) entered into on or about the Closing Date between, *inter alios*, the Issuer and the Trustee;

**"Deferred Consideration"** means the consideration due and payable to the Seller pursuant to the Mortgage Sale Agreement in respect of the sale of the Portfolio, which shall be an amount equal to the amount remaining after making payment of (as applicable):

- (a) the items described in (a) to (n) inclusive of the Pre-Enforcement Revenue Priority of Payments on each Interest Payment Date; or
- (b) the items described in (a) to (l) inclusive of the Post-Enforcement Priority of Payments;

**"Deferred Interest"** shall have the meaning given to such term in Condition 8.11(a) (*Interest Accrual*);

**"Determination Period"** has the meaning given to such term in Condition 8.12(a) (*Determinations and Reconciliations*);

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

**"Enforcement Notice"** means a notice delivered by the Trustee to the Issuer in accordance with Condition 13 (*Events of Default*) which declares the Notes to be immediately due and payable;

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

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

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

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

**"Extraordinary Resolution"** means a resolution passed at a Meeting duly convened and held in accordance with the Provisions for Meetings of Noteholders by a majority of not less than three quarters of the votes cast;

**"Fee and Insurance Receipts"** means payments received by the Issuer directly or from the Seller in respect of which a fee or insurance premium payable by a Borrower has been identified;

**"Final Discharge Date"** means the date on which the Trustee notifies the Issuer and the Secured Creditors that it is satisfied that all the Secured Amounts and/or all other moneys and other liabilities due or owing by the Issuer have been paid or discharged in full;

**"Final Maturity Date"** means the Interest Payment Date falling in October 2043;

**"First Interest Payment Date"** means the Interest Payment Date falling in January 2012;

**"Fitch"** means Fitch Ratings Ltd;

**"Fixed Rate Swap Transaction"** means the swap transaction dated on or about the Closing Date between the Issuer and the Principal Swap Provider, as amended from time to time, and/or any replacement or successive swap transaction or transactions entered into by the Issuer from time to time;

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

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

**"FSMA"** means the Financial Services and Markets Act 2000;

**"Further Advance"** means, in relation to a Loan, any advance of further money after the Closing Date following a request from an existing Borrower following the making of the Loan which is secured by the same Property as the Loan where the Seller has a discretion as to whether to accept that request, but does not include the amount of any retention advanced to the relevant Borrower as part of the Initial Advance after completion of the Mortgage;

**"General Reserve Fund"** means the reserve fund established on the Closing Date which will be initially funded by the Subordinated Loan up to the General Reserve Required Amount and which will subsequently be funded from Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments;

**"General Reserve Required Amount"** means an amount equal to (i) £32,560,000 (being an amount equal to 4 per cent. of the Principal Amount Outstanding of the Notes as at the Closing Date) or (ii) upon redemption of the Class A Notes in full, zero;

**"GIC Account"** means the account in the name of the Issuer held at the Account Bank, or such additional or replacement bank account at such other Account Bank and/or other banks as may for the time being be in place with the prior consent of the Trustee and designated as such;

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

**"Holdings"** means Friary Mortgages Holdings Limited (registered number 7644292), a private limited company incorporated under the laws of England and Wales, whose registered office is at 35 Great St. Helen's, London EC3A 6AP;

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

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

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

**"Insolvency Act"** means the Insolvency Act 1986;

**"Insolvency Official"** means, in relation to a company, a liquidator, (except, in the case of the Issuer, a liquidator appointed for the purpose of a merger, reorganisation or amalgamation the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the holders of the Most Senior Class of outstanding Notes) provisional liquidator, administrator, administrative receiver, receiver, receiver or manager, compulsory or interim manager, nominee, supervisor, trustee, conservator, guardian or other similar officer in respect of such company or in respect of any arrangement, compromise or composition with any creditors or any equivalent or analogous officer under the law of any jurisdiction;

**"Interest Amount"** means in respect of a Note for any Interest Period the amount of interest calculated on the related Interest Determination Date in respect of such Note for such Interest Period by:

- (a) multiplying the Principal Amount Outstanding of such Note on the Interest Payment Date coinciding with such Interest Determination Date by the relevant Note Rate; and
- (b) then multiplying the amount so calculated in paragraph (a) by the relevant Day Count Fraction and rounding the resultant figure to the nearest Minimum Amount;

**"Interest Determination Date"** means each Interest Payment Date or, in the case of the first Interest Period, the Closing Date;

**"Interest Determination Ratio"** means (i) the aggregate Revenue Receipts calculated in the three preceding Servicer Reports divided by (ii) the aggregate of all Revenue Receipts and all Principal Receipts calculated in such Servicer Reports;

**"Interest Payment Date"** means the 21st day of January, April, July and October in each year commencing on the First Interest Payment Date, provided that if any such day is not a Business Day, the Interest Payment Date shall be the immediately succeeding Business Day unless it would as a result fall into the next calendar month, in which case it will be brought forward to the immediately preceding Business Day;

**"Interest Period"** means the period from (and including) an Interest Payment Date (except in the case of the first Interest Period, where it shall be the period from (and including) the Closing Date) to (but excluding) the next succeeding (or first) Interest Payment Date;

**"Issuer"** means Friary No. 1 plc (registered number 7645720), a public limited company incorporated under the laws of England and Wales, whose registered office is at 35 St. Helen's, London EC3A 6AP;

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

**"Issuer Insolvency Event"** in respect of the Issuer means:

- (a) such company is unable or admits its inability to pay its debts as they fall due (after taking into account any grace period or permitted deferral), or suspends making payments on any of its debts; or
- (b) a moratorium is declared in respect of any indebtedness of such company; or
- (c) the commencement of negotiations with one or more creditors of such company with a view to rescheduling any indebtedness of such company other than in connection with any refinancing in the ordinary course of business; or
- (d) any corporate action, legal proceedings or other procedure or step is taken in relation to:
  - (i) the appointment of an Insolvency Official in relation to such company or in relation to the whole or any part of the undertaking or assets of such company except the application to the Court under paragraph 12 or the filing of notice of intention to appoint an administrator under paragraph 26 of Schedule B1 to the Insolvency Act by the Issuer or its directors, or the appointment of an administrative receiver by the Trustee following any such application or notice; or
  - (ii) an encumbrancer (excluding the Trustee or any Receiver) taking possession of the whole or (in the opinion of the Trustee) any substantial part of the undertaking or assets of such company; or
  - (iii) the making of an arrangement, composition, or compromise (whether by way of voluntary arrangement, scheme of arrangement or otherwise) with any creditor of such company, a reorganisation of such company, a conveyance to or assignment for the creditors of such company generally or the making of an application to a court of competent jurisdiction for protection from the creditors of such company generally other than in connection with any refinancing in the ordinary course of business; or
  - (iv) any distress, execution, attachment or other process being levied or enforced or imposed upon or against the whole or any part of the undertaking or assets of such company (excluding by the Trustee or any Receiver); or
- (e) any procedure or step is taken, or any event occurs, analogous to those set out in (a) to (d) above, in any jurisdiction;

**"Issuer Jurisdiction"** means England and Wales (and the United Kingdom, for tax purposes) or such other jurisdiction in which the Issuer or any Issuer substitute (as contemplated by Condition 21 (*Substitution of Issuer*)) is incorporated and/or subject to taxation;

**"Issuer Power of Attorney"** means the power of attorney granted by the Issuer in favour of the Trustee under the Deed of Charge on the Closing Date;

**"Issuer Profit Amount"** means £1,249 on each Interest Payment Date to be credited to the GIC Account and to be retained by the Issuer as profit in respect of the business of the Issuer;

**"Joint Lead Managers"** means The Royal Bank of Scotland plc and UBS Limited;

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

**"LIBOR"** means the London Interbank Offered Rate;

**"Liquidity Reserve Fund"** means a fund to be established on the date on which Principality ceases to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa2 and used to fund any Remaining Income Deficit;

**"Liquidity Reserve Fund Required Amount"** means an amount equal to the greater of (a) 4 per cent. of the Principal Amount Outstanding of the Class A Notes at the beginning of the relevant Interest Period less the amount standing to the credit of the General Reserve Fund as determined by the Cash Manager on the relevant Calculation Date after taking into account the amount of Available Revenue Receipts to be credited to the General Reserve Fund on the Interest Payment Date immediately following such Calculation Date in accordance with the Pre-Enforcement Revenue Priority of Payments and (b) zero;

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

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

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

**"Meeting"** means a meeting of Noteholders of any class or classes (whether originally convened or resumed following an adjournment);

**"Minimum Amount"** means one penny;

**"Minimum Denomination"** means in respect of the Notes represented by the Global Notes and (if issued) the Definitive Certificates will be £100,000 and, for so long as Euroclear and Clearstream, Luxembourg so permit, any amount in excess thereof in integral multiples of £1,000;

**"Moody's"** means Moody's Investors Service Limited and includes any successor to its rating business;



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

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

**"Mortgage Sale Agreement"** means the mortgage sale agreement so named dated on or about the Closing Date between the Seller, the Issuer, the Trustee, the Stand-by Interest Rate Swap Provider, the Back-Up Servicer and the Servicer;

**"Most Senior Class"** means, the Class A Notes whilst they remain outstanding and thereafter the Class B Notes;

**"Note Principal Payment"** means the principal amount redeemable in respect of each Note of a particular class or sub-class, which shall be a proportion of the amount required as at that Interest Payment Date to be applied in redemption of such class or sub-class of Notes on such date equal to the proportion that the Principal Amount Outstanding of the relevant Note bears to the aggregate Principal Amount Outstanding of such class or sub-class of Notes rounded down to the nearest Minimum Amount; provided always that no such Note Principal Payment may exceed the Principal Amount Outstanding of the relevant Note;

**"Note Rate"** for each Interest Period means in respect of each class or sub-class of Notes, the Reference Rate determined as at the related Interest Determination Date plus the Relevant Margin in respect of such class or sub-class;

**"Noteholder"** means the Class A Noteholders and the Class B Noteholders or, where the context otherwise requires, the holders of Notes of a particular class or classes or sub-class or sub-classes, as the case may be;

**"Notices Condition"** means Condition 22 (*Notices*);

**"Notices Details"** means, in relation to any Agent, the provisions set out in Schedule 7 (*Notice Details*) to the Incorporated Terms Memorandum;

**"outstanding"** means, in relation to the Notes, all the Notes other than:

- (a) those which have been redeemed in full and cancelled in accordance with the Conditions;
- (b) those in respect of which the date for redemption, in accordance with the provisions of the Conditions, has occurred and for which the redemption monies (including all interest accrued thereon to such date for redemption) have been duly paid to or to the order of the Trustee or the Principal Paying Agent in the manner provided for in the Agency Agreement (and, where appropriate, notice to that effect has been given to the Noteholders in accordance with the Notices Condition) and remain available for payment in accordance with the Conditions;
- (c) those which have been purchased and surrendered for cancellation as provided in Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*) and notice of the cancellation of which has been given to the Trustee;
- (d) those which have become void under the Conditions;
- (e) those mutilated or defaced Notes which have been surrendered or cancelled and those Notes which are alleged to have been lost, stolen or destroyed and in all cases in respect of which replacement Notes have been issued pursuant to the Conditions; and
- (f) any Global Note, to the extent that it shall have been exchanged for the related Definitive Certificates pursuant to the provisions contained therein and the Conditions;

provided that for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of Noteholders;

- (ii) the determination of how many and which Notes are for the time being outstanding for the purposes of Clause 14 (*Waiver*), Clause 15 (*Modifications*), Clause 18 (*Proceedings and Actions by the Trustee*), Clause 26 (*Appointment of Trustees*) and Clause 27 (*Notice of New Trustee*) of the Trust Deed and Condition 13 (*Events of Default*), Condition 14 (*Enforcement*) and Condition 16 (*Meetings of Noteholders*) and the Provisions for Meetings of Noteholders; and
- (iii) any discretion, power or authority, whether contained in the Trust Deed, or vested by operation of law, which the Trustee is required to exercise in or by reference to the interests of the Noteholders or any of them,

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

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

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

**"Portfolio"** means the portfolio of Loans, the Mortgages, the Related Security and all moneys derived therefrom sold to the Issuer by the Seller on the Closing Date and thereafter in accordance with the terms of the Mortgage Sale Agreement (including pursuant to a substitution);

**"Post-Enforcement Priority of Payments"** means the provisions relating to the order of priority of payments from the GIC Account, set out in Clause 15 (*Post-Enforcement Priority of Payments*) of the Deed of Charge;

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

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

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

**"Principal Amount Outstanding"** means, on any day:

- (a) in relation to a Note, the principal amount outstanding of that Note as at the Closing Date, less the aggregate of any principal payments in respect of that Note which have become due and payable (and been paid) on or prior to that day;
- (b) in relation to a class or sub-class, the aggregate of the amount in (a) in respect of all Notes outstanding in such class or sub-class; and
- (c) in relation to the Notes outstanding at any time, the aggregate of the amount in (a) in respect of all Notes outstanding, regardless of class;

**"Principal Deficiency Ledger"** means the Principal Deficiency Ledger comprising the Class A Principal Deficiency Sub Ledger and the Class B Principal Deficiency Sub Ledger maintained by the Cash Manager on behalf of the Issuer which records on it all deficiencies arising from Losses allocated to the Notes and Principal Receipts and amounts standing to the credit of the Liquidity Reserve Fund (if established) used to pay a Remaining Income Deficit;

**"Principal Ledger"** means the ledger maintained by the Cash Manager on behalf of the Issuer which records all Principal Receipts received by the Issuer and the distribution of the Principal Receipts to pay any Further Advance Purchase Price and/or Flexible Drawing Purchase Price and in accordance with the Pre-Enforcement Principal Priority of Payments or the Post-Enforcement Priority of Payments (as applicable);

**"Principal Paying Agent"** means Citibank, N.A., London Branch in its capacity as principal paying agent in accordance with the terms of the Agency Agreement (or any successor duly appointed);

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

**"Principal Swap Agreement"** means the swap agreement between the Issuer and the Principal Swap Provider dated on or about the Closing Date, consisting of an ISDA Master Agreement together with a Schedule thereto, a credit support annex and three confirmations documenting the Principal Swap Transactions;

**"Principal Swap Provider"** means Principality Building Society and/or any successor or replacement swap provider or providers from time to time under the Principal Swap Agreement;

**"Principal Swap Transactions"** means the Fixed Rate Swap Transaction, the BBR Swap Transaction and the SVR Swap Transaction and/or any replacement(s) thereof and **"Principal Swap Transaction"** means any of them;

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

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

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

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

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

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

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

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

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

**"Reference Rate"** means, on any Interest Determination Date, the floating rate determined by the Agent Bank by reference to the Sterling Screen Rate on such date or if, on such date, the Sterling Screen Rate is unavailable:

- (a) the Rounded Arithmetic Mean of the offered quotations as at or about 11:00 a.m. (London time) on that date of the Reference Banks to major banks for Sterling deposits for the Relevant Period in the London interbank market in the Representative Amount determined by the Agent Bank after request of each of the Reference Banks;
- (b) if, on such date, two or three only of the Reference Banks provide such quotations, the rate determined in accordance with paragraph (a) above on the basis of the quotations of those Reference Banks providing such quotations; or
- (c) if, on such date, one only or none of the Reference Banks provide such a quotation, the Sterling Reserve Reference Rate;

**"Register"** means the register on which the names and addresses of the holders of the Notes and the particulars of the Notes shall be entered and kept by the Issuer at the Specified Office of the Registrar;

**"Registrar"** means the party responsible for the registration of the Notes, which at the Closing Date is Citibank, N.A., London Branch acting in such capacity pursuant to the Agency Agreement (or any successor duly appointed);

**"Related Security"** means, in relation to a Loan, the security for the repayment of that Loan including the relevant Mortgage and all other matters applicable thereto acquired as part of the Portfolio sold to the Issuer pursuant to the Mortgage Sale Agreement including (without limitation):

- (a) the benefit of all affidavits, declarations, consents, renunciations, guarantees, indemnities, waivers and postponements (including, without limitation, deeds of consent relating to the relevant Property) from occupiers and other persons having an interest in or rights in connection with the relevant Property; and
- (b) each right of action of the Seller against any person (including, without limitation, any solicitor, licensed conveyancer, valuer, registrar or registry or other person) in connection with any report, valuation, opinion, certificate or other statement of fact or opinion (including, without limitation, each certificate of title and valuation report) given or received in connection with all or part of any Loan and its Related Security or affecting the decision of the Seller to make or offer to make all or part of the Loan; and
- (c) the benefit of (including, without limitation, the rights as the insured person under and as notations of interest on, and returns of premium and proceeds of claims under) insurance and assurance policies (including, the relevant insurance policies) deposited, charged, obtained, or held in connection with the Loan, Mortgage and/or Property and relevant loan files;

**"Relevant Margin"** means:

- (a) for the Class A1 Notes, 1.40 per cent. per annum up to and excluding the relevant Step-Up Date and thereafter 2.80 per cent. per annum;
- (b) for the Class A2 Notes, 1.80 per cent. per annum up to and excluding the relevant Step-Up Date and thereafter 3.60 per cent. per annum; and
- (c) for the Class B Notes, 0.00 per cent. per annum;

**"Relevant Period"** means, in relation to the first Interest Determination Date, the linear interpolation of five months and six months and, in relation to each subsequent Interest Determination Date, the length in months of the related Interest Period;

**"Relevant Screen"** means a page of the Reuters service or of the Bloomberg service, or of any other medium for the electronic display of data as may be previously approved in writing by the Trustee and as has been notified to the Noteholders in accordance with the Notices Condition;

**"Remaining Income Deficit"** means for each Calculation Date, the extent, if any, by which Available Revenue Receipts are insufficient to pay or provide for payment of items (a) to (e) of the Pre-Enforcement Revenue Priority of Payments after application by the Cash Manager (on behalf of the Issuer) of amounts standing to the credit of the General Reserve Fund;

**"Replacement Cash Management Agreement"** means the replacement cash management agreement scheduled to the Back-Up Cash Management Agreement and entered into in accordance with the Back-Up Cash Management Agreement between the Back-Up Cash Manager (as Cash Manager), the Issuer, the Trustee, the Seller, the Servicer and the Stand-by Interest Rate Swap Provider.

**"Replacement Servicing Agreement"** means the replacement servicing agreement scheduled to the Back-Up Servicing Agreement and entered into in accordance with the Back-Up Servicing Agreement between, *inter alios*, the Issuer, the Back-Up Servicer (as Servicer), the Seller, the Back-Up Servicer Facilitator, the Stand-by Interest Rate Swap Provider and the Trustee.

**"Representative Amount"** means an amount that is representative for a single transaction in the relevant market at the relevant time;

**"Reserved Matter"** means any proposal:

- (a) to change any date fixed for payment of principal or interest in respect of the Notes of any class, to modify the amount of principal or interest due on any date in respect of the Notes of any class or to alter the method of calculating the amount of, or date fixed for, any payment in respect of the Notes of any class;
- (b) (except in accordance with Condition 21 (*Substitution of Issuer*) and Clause 16 (*Substitution*) of the Trust Deed) to effect the exchange, conversion or substitution of the Notes of any class for, or the conversion of such Notes into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed;
- (c) to change the currency in which amounts due in respect of the Notes are payable;
- (d) to alter the priority of payment of interest or principal in respect of the Notes;
- (e) to change the quorum required at any Meeting or the majority required to pass an Extraordinary Resolution; or
- (f) to amend this definition;

**"Revenue Ledger"** means the ledger maintained by the Cash Manager on behalf of the Issuer which records all Revenue Receipts received by the Issuer and distribution of the same in

accordance with the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement Priority of Payments (as applicable);

**"Revenue Receipts"** means (a) payments of interest (excluding Accrued Interest and Arrears of Interest as at the relevant Transfer Date of a Loan) and other fees due from time to time under the Loans and other amounts received by the Issuer in respect of the Loans other than the Principal Receipts, (b) recoveries of interest from defaulting Borrowers under Loans being enforced and (c) recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed;

**"Rounded Arithmetic Mean"** means the arithmetic mean (rounded, if necessary, to the nearest 0.0001 per cent., 0.00005 per cent. being rounded upwards);

**"Screen"** means Reuters Screen LIBOR01; or

- (a) such other page as may replace Reuters Screen LIBOR01 on that service for the purpose of displaying such information; or
- (b) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Trustee) as may replace such screen;

**"Secured Amounts"** means the aggregate of all moneys and Liabilities which from time to time are or may become due, owing or payable by the Issuer to each, some or any of the Secured Creditors under the Notes or the Transaction Documents;

**"Secured Creditors"** means the Trustee in its own capacity, any Receiver or any Appointee appointed by the Trustee, each in its own capacity, the Agent Bank, the Registrar, the Paying Agents, the Corporate Services Provider, the Servicer, any Back-Up Servicer, the Cash Manager or any Back-Up Cash Manager, the Account Bank, any bank at which a Swap Collateral Account is held, the Back-Up Servicer Facilitator, the Swap Provider, the Noteholders, the Subordinated Loan Provider and the Seller (in respect of any Deferred Consideration);

**"Securitisation Regulations"** means the Taxation of Securitisation Companies Regulations 2006(SI 2006/3296)

**"Security"** means the security granted by the Issuer to the Trustee under and pursuant to the Deed of Charge in favour of the Secured Creditors;

**"Seller"** means Principality Building Society acting in its capacity as seller of the Loans and their Related Security to the Issuer pursuant to the Mortgage Sale Agreement;

**"Seller Security Power of Attorney"** means the power of attorney in substantially the same form as that set out in Schedule 8 to the Mortgage Sale Agreement;

**"Servicing Agreement"** means the agreement so named dated on or about the Closing Date between the Issuer, the Seller, the Servicer, the Back-Up Servicer Facilitator, the Stand-by Interest Rate Swap Provider and the Trustee or such other servicing agreement as may be entered into between, *inter alios*, a replacement servicer, the Issuer, the Seller, the Servicer, the Back-Up Servicer Facilitator and the Trustee (including the Replacement Servicing Agreement);

**"Servicer"** means Principality Building Society (or any successor duly appointed);

**"Servicer Report"** means a report to be provided by the Servicer in respect of each Collection Period in accordance with the terms of the Transaction Documents;

**"Share Trustee"** means SFM Corporate Services Limited (registered number 3920255), a company incorporated under the laws of England and Wales, whose principal office is at 35 Great St. Helen's, London EC3A 6AP;

**"Specified Office"** means, in relation to any Agent:

- (a) the office specified against its name in the Notices Details; or
- (b) such other office as such Agent may specify in accordance with Clause 13.8 (*Changes in Specified Offices*) of the Agency Agreement;

**"SPV Criteria"** means the criteria established from time to time by the Rating Agencies for a single purpose company in the Issuer Jurisdiction;

**"Stand-by Interest Rate Swap Agreement"** means the swap agreement between the Issuer and the Stand-by Interest Rate Swap Provider thereunder dated on or about the Closing Date, consisting of an ISDA Master Agreement together with a Schedule thereto, a credit support annex and three confirmations documenting the Stand-by Swap Transactions, as such may be amended from time to time, and/or any successive or replacement swap agreement entered into by the Issuer from time to time;

**"Stand-by Interest Rate Swap Provider"** means The Royal Bank of Scotland plc or any successor or replacement stand-by interest rate swap provider or providers from time to time under the Stand-by Interest Rate Swap Agreement;

**"Stand-by Interest Rate Swap Transaction"** means each of the three forward starting interest rate swap transactions entered into under the Stand-by Interest Rate Swap Agreement which are structured to replace the obligations owed to the Issuer under the Principal Swap Transactions. Upon the occurrence of certain events (including a failure by the Principal Swap Provider to make payments under a Principal Swap Agreement), obligations of the Issuer and the Stand-by Interest Rate Swap Provider under the related Stand-by Interest Rate Swap Transaction will begin;

**"Step-Up Date"** means the Interest Payment Date falling in July 2016;

**"Sterling"** and **"£"** denote the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland;

**"Sterling Reserve Reference Rate"** means on any Interest Determination Date:

- (a) the Rounded Arithmetic Mean of the rates at which deposits in Sterling are offered in the London interbank market at approximately 11:00 a.m. (London time) on the Interest Determination Date by the principal London office of each of four major banks selected by the Agent Bank in its absolute discretion for Sterling loans for the Relevant Period in the Representative Amount to major banks in the London interbank market; or
- (b) if the Agent Bank certifies that it cannot determine such Rounded Arithmetic Mean as aforesaid, the Reference Rate in effect for the Interest Period ending on the Business Day immediately preceding the relevant Interest Determination Date;

**"Sterling Screen Rate"** means, in relation to (i) the first Interest Determination Date, the linear interpolation of the offered quotations for five month sterling deposits and six month sterling deposits, each in the London interbank market displayed on the Screen or (ii) any subsequent Interest Determination Date, the offered quotations for Sterling deposits for the Relevant Period which appears on the Screen as at or about 11:00 a.m. (London time) on that date (rounded upwards if necessary, to five decimal places);

**"Stock Exchange"** means the Irish Stock Exchange Limited;

**"Subordinated Loan"** means the subordinated loan that the Subordinated Loan Provider made available to the Issuer pursuant to the Subordinated Loan Agreement;

**"Subordinated Loan Agreement"** means the subordinated loan agreement so named dated on or about the Closing Date between the Issuer, the Subordinated Loan Provider and the Trustee;

**"Subordinated Loan Provider"** means Principality Building Society in its capacity as subordinated loan provider pursuant to the Subordinated Loan Agreement;

**"Subscription Agreement "** means the subscription agreement so named dated on or about 10 August 2011 between the Issuer, the Seller and the Joint Lead Managers;

**"Substitute Loan"** means a Loan and its Related Security which has been assigned to the Issuer as consideration for the repurchase of a Loan which was found to be in breach of any representation or warranty in accordance with the terms of the Mortgage Sale Agreement;

**"Substituted Obligor"** means a single purpose company incorporated in any jurisdiction that meets the SPV Criteria;

**"Substitution Date"** means the date upon which a Substitute Loan is assigned to the Issuer;

**"SVR Swap Transaction"** means the swap transaction dated on or about the Closing Date between the Issuer and the Principal Swap Provider, as amended from time to time, and/or any replacement or successive swap transaction or transactions entered into by the Issuer from time to time;

**"Swap Agreements"** means the Principal Swap Agreement and the Stand-by Interest Rate Swap Agreement and/or any replacement(s) thereof and **"Swap Agreement"** means any of them;

**"Swap Collateral"** means any cash or securities transferred by any Swap Provider to the Issuer on any date pursuant to the terms of the Swap Credit Support Annex to the applicable Swap Agreement (and any income or distributions earned thereon);

**"Swap Collateral Account"** means any cash and/or securities accounts opened in the name of the Issuer for the purposes of, among other things, posting collateral pursuant to the Swap Agreements;

**"Swap Collateral Account Bank"** means Citibank, N.A., London Branch or any successor appointed from time to time by the Issuer in accordance with the Swap Collateral Account (Cash) Agreement or the Swap Collateral Account (Securities) Agreement;

**"Swap Collateral Account (Cash) Agreement"** means an account agreement dated on or about the Closing Date to be entered into between, *inter alios*, the Issuer and the Swap Collateral Account Bank.

**"Swap Collateral Account (Securities) Agreement"** means a custody agreement dated on or about the Closing Date to be entered into between, *inter alios*, the Issuer and the Swap Collateral Account Bank.

**"Swap Collateral Account Agreements"** means the Swap Collateral Account (Cash) Agreement and the Swap Collateral Account (Securities) Agreement.

**"Swap Collateral Account Priority of Payments"**, in respect of each Swap Collateral Account, has the meaning given thereto in Paragraph 13 (*Swap Collateral Accounts Priority of Payments*) of Schedule 2 (*Cash Management and Maintenance of Ledgers*) to the Cash Management Agreement;

**"Swap Collateral Account Surplus"** means, in respect of a Swap Collateral Account, any surplus amounts remaining after funds standing to the credit of such Swap Collateral Account have been applied in accordance with the relevant Swap Collateral Account Priority of Payments;

**"Swap Credit Support Annex"** means any credit support annex executed in accordance with the provisions of the Swap Agreements;

**"Swap Provider"** means each of the Principal Swap Provider and the Stand-by Interest Rate Swap Provider;

**"Swap Subordinated Amount"** means any amount due to a Swap Provider in connection with an early termination of a Swap Agreement where such termination results from an Event of Default (as defined in the relevant Swap Agreement) in respect of which the Swap Provider is the Defaulting Party or an Additional Termination Event (as defined in the relevant Swap



Agreement) resulting from a ratings downgrade of the Swap Provider, to the extent such amount is not satisfied out of amounts standing to the credit of the relevant Swap Collateral Account and applied in accordance with the relevant Swap Collateral Account Priority of Payments;

**"Swap Tax Credit"** means any amounts relating to tax credits payable by the Issuer to any Swap Provider pursuant to the provisions of the ISDA Schedule to the relevant Swap Agreement;

**"Swap Transactions"** means the Principal Swap Transactions and the Stand-by Interest Rate Swap Transactions;

**"Tax"** shall be construed so as to include any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same, but excluding taxes on net income) imposed or levied by or on behalf of any Tax Authority in the Issuer Jurisdiction and **"Taxes"**, **"taxation"**, **"taxable"** and comparable expressions shall be construed accordingly;

**"Tax Authority"** means any government, state or municipality or any local, state, federal or other authority, body or official anywhere in the world exercising a fiscal, revenue, customs or excise function (including, without limitation, Her Majesty's Revenue and Customs);

**"Tax Deduction"** means any deduction or withholding on account of Tax;

**"Transaction Documents"** means the Account Bank Agreement, the Servicing Agreement, the Back-Up Servicing Agreement, the Agency Agreement, the Cash Management Agreement, the Back-Up Cash Management Agreement, the Corporate Services Agreement, the Deed of Charge (and any documents entered into pursuant to the Deed of Charge), the Swap Agreements, the Swap Collateral Account Agreements, the Issuer Power of Attorney, the Incorporated Terms Memorandum, the Mortgage Sale Agreement, the Seller Security Power of Attorney, the Subscription Agreement, the Subordinated Loan Agreement, the Trust Deed and such other related documents which are referred to in the terms of the above documents or which relate to the issue of the Notes;

**"Transaction Party"** means any person who is a party to a Transaction Document and **"Transaction Parties"** means some or all of them;

**"Treaty"** means the Treaty establishing the European Community, as amended;

**"Trust Deed"** means the deed so named dated on or about the Closing Date between the Issuer and the Trustee and any document expressed to be supplemented to the Trust Deed;

**"Trust Documents"** means the Trust Deed and the Deed of Charge and (unless the context requires otherwise) includes any deed or other document executed in accordance with the provisions of the Trust Deed or (as applicable) the Deed of Charge and expressed to be supplemental to the Trust Deed or the Deed of Charge (as applicable);

**"Trustee"** means Citicorp Trustee Company Limited in its capacity as trustee under the Trust Deed and the Deed of Charge; and

**"Written Resolution"** means a resolution in writing signed by or on behalf of all holders of Notes of the relevant class for the time being outstanding who for the time being are entitled to receive notice of a Meeting in accordance with the Provisions for the Meetings of Noteholders, whether contained in one document or several documents in the same form, each signed by or on behalf of one or more such holders of the Notes;

## 2.2 **Interpretation:** Any reference in the Conditions to:

**"continuing"**, in respect of an Event of Default, shall be construed as a reference to an Event of Default which has not been waived in accordance with the terms of the Conditions or, as the case may be, the relevant Transaction Document;

a **"class"** shall be a reference to a class of the Notes being the Class A Notes or the Class B Notes and **"classes"** shall be construed accordingly and **"sub-class"** shall be a reference to any sub-class

of such class of Notes (including, for the avoidance of doubt, the Class A1 Notes and the Class A2 Notes which are a sub-class of the Class A Notes);

"**including**" shall be construed as a reference to "**including without limitation**", so that any list of items or matters appearing after the word "**including**" shall be deemed not to be an exhaustive list, but shall be deemed rather to be a representative list, of those items or matters forming a part of the category described prior to the word "**including**";

"**indebtedness**" shall be construed so as to include any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;

a "**law**" shall be construed as any law (including common or customary law), statute, constitution, decree, judgement, treaty, regulation, directive, bye-law, order or any other legislative measure of any government, supranational, local government, statutory or regulatory body or court;

a "**person**" shall be construed as a reference to any person, firm, company, corporation, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) of two or more of the foregoing;

"**principal**" shall, where applicable, include premium;

"**redeem**" and "**pay**" shall each include both of the others and "**redeemed**", "**redeemable**" and "**redemption**" and "**paid**", "**payable**" and "**payment**" shall be construed accordingly;

a reference to any person defined as a "**Transaction Party**" in the Conditions shall be construed so as to include its and any subsequent successors and permitted transferees in accordance with their respective interests; and

a "**successor**" of any party shall be construed so as to include an assignee or successor in title of such party and any person who under the laws of the jurisdiction of incorporation or domicile of such party has assumed the rights and obligations of such party under any Transaction Document or to which, under such laws, such rights and obligations have been transferred.

- 2.3 **Transaction Documents and other agreements:** Any reference to any document defined as a Transaction Document or any other agreement or document shall be construed as a reference to such Transaction Document or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, restated, varied, novated, supplemented or replaced.
- 2.4 **Statutes and Treaties:** Any reference to a statute or treaty shall be construed as a reference to such statute or treaty as the same may have been, or may from time to time be, amended or, in the case of a statute, re-enacted.
- 2.5 **Schedules:** Any Schedule to, or Appendix to, a Transaction Document forms part of such Transaction Document and shall have the same force and effect as if the provisions of such Schedule or Appendix were set out in the body of such Transaction Document. Any reference to a Transaction Document shall include any such Schedule or Appendix.
- 2.6 **Headings:** Condition headings are for ease of reference only.
- 2.7 **Sections:** Except as otherwise specified in the Condition, reference in the Conditions to:
- (a) a "**Section**" shall be construed as a reference to a Section of such Transaction Document;
  - (b) a "**Part**" shall be construed as a reference to a Part of such Transaction Document;
  - (c) a "**Schedule**" shall be construed as a reference to a Schedule to such Transaction Document;

- (d) a "**Clause**" shall be construed as a reference to a Clause of a Part or Section (as applicable) of such Transaction Document; and
- (e) a "**Paragraph**" shall be construed as a reference to a Paragraph of a Schedule to such Transaction Document.

## 2.8 Number

In any Transaction Document, save where the context otherwise requires, words importing the singular number include the plural and *vice versa*.

## 3. Form and Denomination

- 3.1 The Notes are in fully registered form in the Minimum Denomination for such Notes, without principal receipts, interest coupons or talons attached.
- 3.2 The Principal Amount Outstanding of the Notes of each class or sub-class initially offered and sold outside the United States to non U.S. persons pursuant to Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**") is represented by one or more global registered notes in fully registered form (the "**Global Notes**") without coupons attached. References herein to the "**Notes**" shall include (i) in relation to any Notes of a class or sub-class represented by a Global Note, units of the Minimum Denomination of such class or sub-class, (ii) any Global Note and (iii) any Definitive Certificate issued in exchange for a Global Note.
- 3.3 For so long as any Notes are represented by a Global Note, transfers and exchanges of beneficial interests in Global Notes and entitlement to payments thereunder will be effected subject to and in accordance with the rules and procedures from time to time of Euroclear Bank S.A./N.V. ("**Euroclear**") or Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"), as appropriate.
- 3.4 For so long as the Notes are represented by a Global Note and Euroclear and Clearstream, Luxembourg so permit, the Notes shall be tradable only in minimal amounts of £100,000 and integral multiples of £1,000 thereafter.
- 3.5 Certificates evidencing definitive registered Notes in an aggregate principal amount equal to the Principal Amount Outstanding of the Global Notes (the "**Definitive Certificates**") will be issued in registered form and serially numbered in the circumstances referred to below. Definitive Certificates, if issued, will be issued in the denomination of £100,000 and any amount in excess thereof in integral multiples of £1,000.
- 3.6 If, while any Notes are represented by a Global Note:
  - (a) in the case of a Global Note held in Euroclear or Clearstream, Luxembourg, Euroclear or Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business or do so cease business and no alternative clearing system satisfactory to the Trustee is available; or
  - (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive registered form and a certificate to such effect signed by an authorised director of the Issuer is delivered to the Trustee,

(each an "**Exchange Event**") the Issuer will issue Definitive Certificates to Noteholders whose accounts with the relevant clearing systems are credited with interests in that Global Note in exchange for those interests within 30 days of the Exchange Event but not earlier than the

Exchange Date. The Global Note will not be exchangeable for Definitive Certificates in any other circumstances.

#### **4. Title**

- 4.1 The person registered in the Register as the holder of any Note will (to the fullest extent permitted by applicable law) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments), as the absolute owner of such Note regardless of any notice of ownership, theft or loss, of any trust or other interest therein or of any writing thereon or, if more than one person, the first named of such persons who will be treated as the absolute owner of such Note.
- 4.2 The Issuer shall cause to be kept at the Specified Office of the Registrar, the Register on which shall be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and of all transfers and redemptions of the Notes.
- 4.3 No transfer of a Note will be valid unless and until entered on the Register.
- 4.4 Transfers and exchanges of beneficial interests in the Global Note and any Definitive Certificates and entries on the Register relating thereto will be made subject to any restrictions on transfers set forth on such Notes and the detailed regulations concerning transfers of such Notes contained in the Agency Agreement, the Trust Deed and the legend appearing on the face of the Notes. In no event will the transfer of a beneficial interest in a Global Note or the transfer of a Definitive Certificate be made absent compliance with the regulations referred to above, and any purported transfer in violation of such regulations shall be void *ab initio* and will not be honoured by the Issuer or the Trustee. The regulations referred to above may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be sent by the Principal Paying Agent in the U.K. or the Registrar to any holder of a Note who so requests (and who provides evidence of such holding where the Notes are in global form) and will be available upon request at the Specified Office of the Registrar or the Principal Paying Agent.
- 4.5 A Definitive Certificate, may be transferred in whole or in part upon the surrender of the relevant Definitive Certificate, together with the form of transfer endorsed on it duly completed and executed, at the Specified Office of the Registrar or the Principal Paying Agent. In the case of a transfer of part only of a Definitive Certificate, a new Definitive Certificate, in respect of the balance remaining will be issued to the transferor by or by order of the Registrar.
- 4.6 Each new Definitive Certificate, to be issued upon transfer of Definitive Certificates will, within five Business Days of receipt of such request for transfer, be available for delivery at the Specified Office of the Registrar or the Principal Paying Agent stipulated in the request for transfer, or be mailed at the risk of the holder entitled to the Definitive Certificate, to such address as may be specified in such request.
- 4.7 Registration of Definitive Certificates on transfer will be effected without charge by or on behalf of the Issuer or the Registrar, but upon payment of (or the giving of such indemnity as the Registrar may require in respect of) any tax or other governmental charges which may be imposed in relation to it.
- 4.8 No holder of a Definitive Certificate, may require the transfer of such Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on such Note.

#### **5. Status and Ranking**

- 5.1 **Status:** The Notes of each class constitute direct, secured and unconditional obligations of the Issuer.
- 5.2 **Ranking:** The Class A1 Notes will at all times rank without preference or priority *pari passu* amongst themselves. The Class A2 Notes will at all times rank without preference or priority *pari passu* amongst themselves. The Class B Notes will at all times rank without preference or priority *pari passu* amongst themselves.

- 5.3 ***Sole Obligations:*** The Notes are obligations solely of the Issuer and are not obligations of, or guaranteed by, any of the other Transaction Parties.
- 5.4 ***Priority of Interest Payments:*** Payments of interest on the Class A Notes will at all times rank in priority to payments of interest on the Class B Notes, in accordance with the Pre-Enforcement Revenue Priority of Payments. Payments of interest on the Class A1 Notes and the Class A2 Notes will rank *pari passu* and *pro rata*.
- 5.5 ***Priority of Principal Payments:*** Payments of principal on the Class A Notes will rank in priority to payments of principal on the Class B Notes.

Payments of principal on the Class A1 Notes will rank in priority to payments of principal on the Class A2 Notes in accordance with the Pre-Enforcement Principal Priority of Payments unless an Enforcement Notice has been served on the Issuer by the Trustee, in which case, payments of principal on the Class A1 Notes and the Class A2 Notes will rank *pari passu* and *pro rata* in accordance with the Post-Enforcement Priority of Payments.

- 5.6 ***Priority of Payments:*** Prior to the delivery of an Enforcement Notice, the Issuer is required to apply Available Revenue Receipts and Available Principal Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments and Pre-Enforcement Principal Priority of Payments (as applicable) and thereafter, in accordance with the Post-Enforcement Priority of Payments.

## 6. Security

- 6.1 ***Security:*** The Notes are secured by the Security.
- 6.2 ***Enforceability:*** The Security will become enforceable upon the delivery by the Trustee of an Enforcement Notice in accordance with Condition 13 (*Events of Default*) and subject to the matters referred to in Condition 14 (*Enforcement*).

## 7. Issuer Covenants

The Issuer makes the Issuer Covenants in favour of the Trustee which, amongst other things, restrict the ability of the Issuer to create or incur any indebtedness (save as permitted in the Trust Deed), dispose of assets or change the nature of its business, without the prior written consent of the Trustee. So long as any Note remains outstanding, the Issuer shall comply with the Issuer Covenants.

## 8. Interest

- 8.1 ***Accrual of Interest:*** Each Note bears interest on its Principal Amount Outstanding, from (and including) the Closing Date.
- 8.2 ***Cessation of Interest:*** Each Note (or, in the case of the redemption of part only of a Note, that part only of such Note) shall cease to bear interest from its due date for redemption unless, upon due presentation, payment of the principal is improperly withheld or refused or default is otherwise made in respect of the payment, in which case, it will continue to bear interest in accordance with this Condition (both before and after judgment) until whichever is the earlier of:
- (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and
  - (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders of such class (in accordance with Condition 22 (*Notices*)) that the full amount payable is available for collection by the Noteholder, provided that on due presentation payment is in fact made.
- 8.3 ***Interest Payments:*** Interest on each Note is payable in Sterling in arrear on each Interest Payment Date commencing on the First Interest Payment Date, in an amount equal to the Interest Amount in respect of such Note for the Interest Period ending on the day immediately preceding such Interest Payment Date.

- 8.4 **Calculation of Interest Amount:** Upon or as soon as practicable after each Interest Determination Date, the Issuer shall calculate (or shall cause the Agent Bank to calculate) the Interest Amount payable on each Note for the related Interest Period.
- 8.5 **Determination of Note Rate, Interest Amount and Interest Payment Date:** The Agent Bank will, on each Interest Determination Date, determine:
- (a) the Note Rate for each class (or sub-class) for the related Interest Period;
  - (b) the Interest Amount for each class (or sub-class) for the related Interest Period; and
  - (c) the Interest Payment Date next following the related Interest Period.
- 8.6 **Publication of Note Rate, Interest Amount and Interest Payment Date:** As soon as practicable after receiving each notification of the Note Rate, the Interest Amount and the Interest Payment Date in accordance with Condition 8.5 (*Determination of Note Rate, Interest Amount and Interest Payment Date*) and in any event no later than the second Business Day thereafter, the Issuer will cause such Note Rate and Interest Amount for each class (or sub-class) and the next following Interest Payment Date to be published in accordance with the Notices Condition.
- 8.7 **Amendments to Publications:** The Note Rate, Interest Amount for each class (or sub-class) and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the relevant Interest Period.
- 8.8 **Determination or Calculation by Trustee:** If the Agent Bank does not at any time for any reason determine the Note Rate or the Interest Amount for each class (or sub-class) in accordance with this Condition 8 (*Interest*), the Trustee may (but without, save in the case of any fraud or negligence by the Trustee, any liability accruing to the Trustee as a result):
- (a) determine the Note Rate for each class (or sub-class) at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described in this Condition), it shall deem fair and reasonable in all the circumstances; and/or
  - (b) calculate the Interest Amount for each class (or sub-class) in the manner specified in this Condition,
- and any such determination and/or calculation shall be deemed to have been made by the Agent Bank. In each case the Trustee may, at the expense of the Issuer, employ an expert to make the determination and any such determination shall be deemed to have been made by the Agent Bank.
- 8.9 **Notifications to be final:** All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 8 (*Interest*), whether by the Reference Banks (or any of them), the Paying Agents, the Registrar, the Agent Bank or the Trustee shall (in the absence of any Breach of Duty, or manifest error) be binding on the Issuer and all Noteholders and (in the absence of any Breach of Duty or manifest error) no liability to the Trustee or the Noteholders shall attach to the Reference Banks, the Agents, the Registrar or the Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions under this Condition 8 (*Interest*).
- 8.10 **Reference Banks and Agent Bank:** The Issuer shall ensure that, so long as any of the Notes remains outstanding there shall at all times be four Reference Banks, an Agent Bank, a Paying Agent and a Principal Paying Agent. In the event of any of the Reference Banks being unable or unwilling to continue to act as a Reference Bank or an Agent being unable or unwilling to continue to act as an Agent, the Issuer shall appoint such other bank as may be previously approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign until a successor approved in writing by the Trustee is appointed by the Issuer. Notice of any change in any of the Reference Banks or Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with the Notices Condition.
- 8.11 **Inteorest Accrual:**

- (a) To the extent that funds available to the Issuer to pay interest on the Notes (other than the Most Senior Class of Notes) on an Interest Payment Date are insufficient to pay the full amount of such interest, payment of the shortfall in respect of such class of Notes ("**Deferred Interest**") will not then fall due but will instead be deferred until the first Interest Payment Date thereafter on which funds are available to the Issuer (after allowing for the Issuer's liabilities of higher priority and subject to and in accordance with these Conditions) to fund the payment of such Deferred Interest to the extent of such available funds.
- (b) Such Deferred Interest will accrue interest ("**Additional Interest**") at the rate of interest applicable from time to time to such Notes and such portion of interest (as determined by this Condition 8 (*Interest*)) and payment of any Additional Interest will also be deferred until the first Interest Payment Date thereafter on which funds are available (subject to and in accordance with these Conditions) to the Issuer to pay such Additional Interest to the extent of such available funds.
- (c) Payment of any amounts of Deferred Interest and Additional Interest shall not be deferred beyond the Final Maturity Date or beyond any earlier date on which each respective class of Notes falls to be redeemed in full in accordance with Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*) and any such amount which has not then been paid in respect of the relevant class of Notes shall thereupon become due and payable in full.

#### 8.12 ***Determinations and Reconciliation***

- (a) In the event that the Cash Manager does not receive a Servicer Report with respect to a Collection Period (each such period being a "**Determination Period**"), then the Cash Manager may use the Servicer Report in respect of the three most recent Collection Periods (or, where there are not at least three previous Servicer Reports, any previous Servicer Reports) for the purposes of calculating the amounts available to the Issuer to make payments, as set out in this Condition 8.12 (*Determinations and Reconciliation*). When the Cash Manager receives the Servicer Report relating to the Determination Period, it will make the reconciliation calculations and reconciliation payments as set out in Condition 8.12(c). Any (i) calculations properly done on the basis of such estimates in accordance with Conditions 8.12(b) and/or 8.12(c); (ii) payments made under any of the Notes and Transaction Documents in accordance with such calculations; and (iii) reconciliation calculations and reconciliation payments made as a result of such reconciliation calculations, each in accordance with Condition 8.12(b) and/or 8.12(c), shall be deemed to be done, in accordance with the provisions of the Transaction Documents, will in themselves not lead to an Event of Default and no liability will attach to the Cash Manager in connection with the exercise by it of its powers, duties and discretion for such purposes.
- (b) Where, in respect of any Determination Period the Cash Manager shall:
  - (i) determine the Interest Determination Ratio by reference to the three most recently received Servicer Reports (or, where there are not at least three previous Servicer Reports, any previous Servicer Reports received in the preceding Collection Periods);
  - (ii) calculate the Revenue Receipts for such Determination Period as the product of (i) the Interest Determination Ratio and (ii) all collections received by the Issuer during such Determination Period (the "**Calculated Revenue Receipts**");
  - (iii) calculate the Principal Receipts for such Determination Period as the product of (i) 1 minus the Interest Determination Ratio and (ii) all collections received by the Issuer during such Determination Period (the "**Calculated Principal Receipts**").
- (c) Following any Determination Period, upon receipt by the Cash Manager of the Servicer Reports in respect of such Determination Period, the Cash Manager shall reconcile the

calculations made in accordance with Condition 8.12(b) above to the actual collections set out in the Servicer Reports by allocating the Reconciliation Amount as follows:

- (i) if the Reconciliation Amount is a positive number, the Cash Manager shall apply an amount equal to the lesser of (i) the absolute value of the Reconciliation Amount and (ii) the amount standing to the credit of the Revenue Ledger, as Available Principal Receipts (with a corresponding debit of the Revenue Ledger);
- (ii) if the Reconciliation Amount is a negative number, the Cash Manager shall apply an amount equal to the lesser of (i) the absolute value of the Reconciliation Amount and (ii) the amount standing to the credit of the Principal Ledger, as Available Revenue Receipts (with a corresponding debit of the Principal Ledger),

*provided that* the Cash Manager shall apply such Reconciliation Amount in determining Available Revenue Receipts and Available Principal Receipts for such Collection Period in accordance with the terms of the Cash Management Agreement and the Cash Manager shall promptly notify the Issuer and the Trustee of such Reconciliation Amount.

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

## **9. Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation**

9.1 ***Final Redemption:*** Unless previously redeemed or purchased and cancelled as provided in this Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*), the Issuer shall redeem the Notes in each class at their Principal Amount Outstanding together with any accrued interest on the Final Maturity Date.

9.2 ***Mandatory Redemption in part:*** On each Interest Payment Date prior to the delivery of an Enforcement Notice, the Issuer is required to apply Available Principal Receipts towards the redemption of the Notes to the extent that there are such amounts available to do so in accordance with the Pre-Enforcement Principal Priority of Payments.

9.3 ***Optional Redemption in whole:*** The Issuer may redeem all (but not some only) of the Notes in each class at their Principal Amount Outstanding on any Interest Payment Date:

- (a) when, on the related Calculation Date, the aggregate of the Principal Amount Outstanding of the outstanding Notes is equal to or less than 10 per cent. of the Principal Amount Outstanding of all of the Notes as at the Closing Date; or
- (b) from and including the Step-Up Date,

subject to the following:

- (a) no Enforcement Notice has been delivered by the Trustee;
- (b) the Issuer has given not more than 60 nor less than 14 days' notice to the Trustee and the Noteholders with a copy to the Stand-by Interest Rate Swap Provider, in accordance with the Notices Condition of its intention to redeem all (but not some only) of the Notes in each class; and
- (c) prior to giving any such notice, the Issuer shall have provided to the Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds on the relevant Interest Payment Date, not subject to the interest of any other person, required to redeem the Notes pursuant to this Condition and meet its payment obligations of a higher priority under the Pre-Enforcement Principal Priority of Payments.



9.4 ***Optional Redemption in whole for taxation reasons:*** The Issuer may redeem all (but not some only) of the Notes in each class at their Principal Amount Outstanding, on any Interest Payment Date:

- (a) after the date on which, by virtue of a change in Tax law (or the application or official interpretation of Tax law), the Issuer is (or the Paying Agents on the Issuer's behalf are) to make any payment in respect of the Notes or a Swap Provider is to make any payment in respect of the relevant Swap Agreement and either the Issuer (or the Paying Agents on the Issuer's behalf) or the Swap Provider, as the case may be, would be required to make a Tax Deduction in respect of such relevant payment; or
- (b) after the date on which, by virtue of a change in the Tax law (or the application or official interpretation of Tax law), the Issuer would be subject to United Kingdom corporation tax otherwise than in accordance with regulations 14 to 21 of the Securitisation Regulations;

subject to the following:

- (c) no Enforcement Notice has been delivered by the Trustee;
- (d) that the Issuer has given not more than 60 nor less than 14 days' notice to the Trustee and the Noteholders, with a copy to the Stand-by Interest Rate Swap Provider, in accordance with the Notices Condition of its intention to redeem all (but not some only) of the Notes in each class; and
- (e) that prior to giving any such notice, the Issuer (or in respect to Condition (a), any Swap Provider (if applicable)) has provided to the Trustee:
  - (i) in the case of 9.4(a) above only, a legal opinion (in form and substance satisfactory to the Trustee) from a firm of lawyers in the applicable jurisdiction (approved in writing by the Trustee), opining on the relevant change in Tax law; and
  - (ii) in the case of 9.4(a) above only, a certificate signed by two directors of the Issuer or, in the case of the current Swap Provider, an Authorised Signatory to the effect that the obligation to make a Tax Deduction cannot be avoided; and
  - (iii) in the case of 9.4(a) above(a) and 9.4(b) above only, a certificate signed by an authorised director of the Issuer to the effect that it will have the funds on the relevant Interest Payment Date, not subject to the interest of any other person, required to redeem the Notes pursuant to this Condition and meet its payment obligations of a higher priority under the Pre-Enforcement Principal Priority of Payments.

9.5 ***Calculation of Note Principal Payment, Principal Amount Outstanding and Pool Factor:*** On each Calculation Date, the Issuer shall calculate (or cause the Cash Manager to calculate):

- (a) the aggregate of any Note Principal Payment due in relation to each class on the Interest Payment Date immediately succeeding such Calculation Date;
- (b) the Principal Amount Outstanding of each Note in each class on the Interest Payment Date immediately succeeding such Calculation Date (after deducting any Note Principal Payment due to be made on that Interest Payment Date in relation to such class); and
- (c) the fraction expressed as a decimal to the sixth point (the "**Pool Factor**"), of which the numerator is the Principal Amount Outstanding of a Note of that class (as referred to in Condition 9.5(b) above) and the denominator is the principal amount of that Note on issue expressed as an entire integer.

9.6 ***Calculations final and binding:*** Each calculation by or on behalf of the Issuer of any Note Principal Payment, the Principal Amount Outstanding of a Note of each class and the Pool Factor

shall in each case (in the absence of any Breach of Duty or manifest error) be final and binding on all persons.

9.7 ***Trustee to determine amounts in case of Issuer default:*** If the Issuer does not at any time for any reason calculate (or cause the Cash Manager to calculate) any Note Principal Payment, the Principal Amount Outstanding in relation to each class or the Pool Factor in accordance with this Condition, such amounts may be calculated by the Trustee (without, in the absence of fraud or negligence, any liability accruing to the Trustee as a result) in accordance with this Condition (based on information supplied to it by the Issuer or the Cash Manager) and each such calculation shall be deemed to have been made by the Issuer. In each case, the Trustee may, at the expense of the Issuer employ an expert to make such calculations and any such calculations shall be deemed to have been made by the Issuer.

9.8 ***Conclusiveness of certificates and legal opinions:*** Any certificate and legal opinion given by or on behalf of the Issuer or, as the case may be, the current Swap Provider pursuant to Condition 9.3 (*Optional Redemption in whole*) and Condition 9.4 (*Optional Redemption in whole for taxation reasons*) may be relied on by the Trustee without further investigation, without liability to any other person and shall be conclusive and binding on the Noteholders, the Trustee and on the other Secured Creditors.

9.9 ***Notice irrevocable:*** Any such notice as is referred to in Condition 9.3 (*Optional Redemption in whole*) or Condition 9.4 (*Optional Redemption in whole for taxation reasons*) shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Notes to which such notice relates at their Principal Amount Outstanding if effected pursuant to Condition 9.3 (*Optional Redemption in whole*) or Condition 9.4 (*Optional Redemption in whole for taxation reasons*) and in an amount equal to the Note Principal Payment in respect of each Note calculated as at the related Calculation Date if effected pursuant to Condition 9.2 (*Mandatory Redemption in part*).

9.10 ***Cancellation or redeemed Notes:*** All Notes redeemed in full will be cancelled forthwith by the Issuer and may not be reissued or resold.

## 10. **Limited Recourse**

10.1 If at any time following:

- (a) the occurrence of either:
  - (i) the Final Maturity Date or any earlier date upon which all of the Notes of each class are due and payable; or
  - (ii) the service of an Enforcement Notice; or
- (b) realisation of the Charged Property and application in full of any amounts available to pay amounts due and payable under the Notes in accordance with the applicable Priority of Payments; and

the proceeds of such Realisation are insufficient, after payment of all other claims ranking in priority in accordance with the applicable Priority of Payments, to pay in full all amounts then due and payable under any class of Notes then the amount remaining to be paid (after such application in full of the amounts first referred to in (b) above) under such class of Notes (and any class of Notes junior to that class of Notes) shall, on the day following such application in full of the amounts referred to in (b) above, cease to be due and payable by the Issuer. For the purposes of this Condition 10, "**Realisation**" means, in relation to any Charged Property, the deriving, to the fullest extent practicable, (in accordance with the provisions of the Transaction Documents) of proceeds from or in respect of such Charged Property including (without limitation) through sale or through performance by an obligor.

## 11. **Payments**

11.1 ***Principal and interest:*** Payments of principal and interest shall be made by cheque drawn in Sterling or, upon application by a Noteholder to the Specified Office of the Principal Paying

Agent not later than the fifteenth day before the due date for payment, by transfer to an account in Sterling, maintained by the payee with a bank in London and (in the case of final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Notes at the Specified Office of any Paying Agent in accordance with the terms of the Agency Agreement.

- 11.2 **Record date:** Each payment in respect of a Note will be made to the person shown as the Noteholder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Noteholder in the Register at the opening of business on the relevant Record Date. The person shown in the Register at the opening of business on the relevant Record Date in respect of a Note shall be the only person entitled to receive payments in respect of Notes represented by such Note and the Issuer will be discharged by payment to, or to the order of, such person in respect of each amount so paid.
- 11.3 **Payments subject to fiscal laws:** All payments in respect of the Notes are subject in each case to any applicable fiscal or other laws and regulations. No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- 11.4 **Partial Payments:** If a Principal Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note.
- 11.5 **Payments on Business Days:** If the due date for payment of any amount in respect of any Note is not a Business Day, then the holder shall not be entitled to payment until the next succeeding Business Day and no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Note.
12. **Taxation**
- 12.1 **Payments free of Tax:** All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for or on account of, any Taxes imposed, levied, collected, withheld or assessed by the Issuer Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, unless the Issuer, the Trustee or the Paying Agents (as the case may be) are required by law to make any Tax Deduction. In that event, the Issuer, the Trustee or the Paying Agents (as the case may be) shall make such payments after such Tax Deduction and shall account to the relevant authorities for the amount so withheld or deducted.
- 12.2 **No payment of additional amounts:** Neither the Issuer, the Trustee nor the Paying Agents will be obliged to pay any additional amounts to the Noteholders as a result of any such Tax Deduction.
13. **Events of Default**
- 13.1 **Events of Default:** Subject to the other provisions of this Condition, each of the following events shall be treated as an "**Event of Default**":
- (a) *Non-payment:* the Issuer fails to pay any amount of principal in respect of the Most Senior Class of Notes within seven days following the due date for payment of such principal or fails to pay any amount of interest in respect of the Most Senior Class of Notes within fourteen days following the due date for payment of such interest (provided that, for the avoidance of doubt, a deferral of interest in respect of a Class of Notes (other than the Class A Notes) in accordance with Condition 8.11 (*Interest Accrual*) shall not constitute a default in the payment of such interest for the purposes of this Condition 13 (*Events of Default*)); or
  - (b) *Breach of other obligations:* the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Most Senior Class of Notes, the Issuer Covenants, the Trust Deed, the Deed of Charge or any of the other Transaction Documents and such default (a) is, in the opinion of the Trustee, incapable of remedy or (b) is, in the opinion of the Trustee, capable of remedy, but remains unremedied for 30

days or such longer period as the Trustee may agree after the Trustee has given written notice of such default to the Issuer; or

- (c) an Issuer Insolvency Event occurs; or
- (d) it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or Trust Documents or any of the other Transaction Documents.

13.2 ***Delivery of Enforcement Notice:*** If an Event of Default occurs and is continuing, the Trustee may at its discretion and shall:

- (a) if so requested in writing by the holders of at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of Notes outstanding; or
- (b) if so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes outstanding;

deliver an Enforcement Notice to the Issuer, with a copy to the Stand-by Interest Rate Swap Provider.

13.3 ***Conditions to delivery of Enforcement Notice:*** Notwithstanding Condition 13.2 (*Delivery of Enforcement Notice*) the Trustee shall not be obliged to deliver an Enforcement Notice unless:

- (a) in the case of the occurrence of any of the events mentioned in Condition 13.1(b) (*Breach of other obligations*) the Trustee shall have certified in writing that the happening of such event is in its opinion materially prejudicial to the interests of the Noteholders of the Most Senior Class of Notes outstanding; and
- (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

13.4 ***Consequences of delivery of Enforcement Notice:*** Upon the delivery of an Enforcement Notice, the Notes of each class shall become immediately due and payable, without further action or formality, at their Principal Amount Outstanding together with any accrued interest.

## 14. **Enforcement**

14.1 ***Proceedings:*** The Trustee may, at its discretion and without further notice, institute such steps, actions, proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes of each class (including these Conditions), the Deed of Charge or under the other Transaction Documents or to enforce the Security, but it shall not be bound to do so unless:

- (a) so requested in writing by the holders of in aggregate at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of outstanding Notes; or
- (b) so directed by an Extraordinary Resolution of the Noteholders of the Most Senior Class of outstanding Notes,

and in any such case, only if it shall have been indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

14.2 ***Directions to the Trustee:*** If the Trustee shall take any action described in Condition 14.1 (*Proceedings*) it may take such action without having regard to the effect of such action on individual Noteholders or any other Secured Creditor, provided that so long as any of the Most Senior Class of Notes are outstanding, the Trustee shall not, and shall not be bound to, act at the request or direction of the Noteholders of any other class of Notes unless:

- (a) to do so would not, in its opinion, be materially prejudicial to the interests of the Noteholders of the classes of Notes ranking senior to such other class; or

- (b) (if the Trustee is not of that opinion) such action is sanctioned by an Extraordinary Resolution of the Noteholders of the Notes ranking senior to such other class.

14.3 **Restrictions on disposal of Issuer's assets:** If an Enforcement Notice has been delivered by the Trustee otherwise than by reason of non-payment of any amount due in respect of the Notes, the Trustee will not be entitled to dispose of the Charged Property or any part thereof (apart from amounts or securities standing to the credit of the Swap Collateral Accounts in accordance with the relevant Swap Collateral Account Priority of Payment) unless either:

- (a) the Cash Manager confirms to the Trustee that having regard to the amount to be received from the proposed disposal of the Charged Property (as notified to the Cash Manager) such amount would be sufficient to allow payment in full of all amounts owing to the Noteholders of each class after payment of all other claims ranking in priority to the Notes in accordance with the Post-Enforcement Priority of Payments, at all times having regard to amounts due and owing at the time of confirmation; or
- (b) the Trustee is of the opinion, which shall be binding on the Noteholders and the other Secured Creditors, reached after considering at any time and from time to time the advice of an investment bank or other financial adviser selected by the Trustee, (and if the Trustee is unable to obtain such advice having made reasonable efforts to do so this Condition 14.3(b) shall not apply) that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts due in respect of the Notes of each class after payment of all other claims ranking in priority to the Notes in accordance with the Post-Enforcement Priority of Payments; and
- (c) the Trustee shall not be bound to make the determination contained in Condition 14.3(b) unless the Trustee shall have been indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

14.4 **Third Party Rights:** No person shall have any right to enforce any Condition or any provision of the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

## 15. **No action by Noteholders or any other Secured Creditor**

15.1 Only the Trustee may pursue the remedies available under the general law or under the Trust Documents to enforce the Security and no Noteholder or other Secured Creditor shall be entitled to proceed directly against the Issuer to enforce the Security. In particular, none of the Noteholders or any other Secured Creditor (nor any person on its or their behalf, other than the Trustee where appropriate) are entitled:

- (a) otherwise than as permitted by these Conditions, to direct the Trustee to enforce the Security or take any proceedings against the Issuer to enforce the Security;
- (b) to take or join any person in taking any steps against the Issuer for the purpose of obtaining payment of any amount due by the Issuer to such Noteholders or any other Secured Creditors;
- (c) until the date falling two years after the Final Discharge Date, to initiate or join any person in initiating any insolvency proceeding in relation to the Issuer; or
- (d) to take or join in the taking of any steps or proceedings which would result in the Priority of Payments not being observed.

## 16. **Meetings of Noteholders**

16.1 **Convening:** The Trust Deed contains "*Provisions for Meetings of Noteholders*" for convening separate or combined meetings of Noteholders of any class to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed, which modification may be made if sanctioned by an Extraordinary Resolution.

- 16.2 ***Separate and combined meetings:*** The Trust Deed and the Deed of Charge provide that:
- (a) an Extraordinary Resolution which in the opinion of the Trustee affects the Notes of only one class shall be transacted at a separate meeting of the Noteholders of that class;
  - (b) an Extraordinary Resolution which in the opinion of the Trustee affects the Noteholders of more than one class of Notes but does not give rise to an actual or potential conflict of interest between the Noteholders of one class of Notes and the holders of another class of Notes shall be transacted either at separate meetings of the Noteholders of each such class or at a single meeting of the Noteholders of all such classes of Notes as the Trustee shall determine in its absolute discretion; and
  - (c) an Extraordinary Resolution which in the opinion of the Trustee affects the Noteholders of more than one class of Notes and gives rise to any actual or potential conflict of interest between the Noteholders of one class of Notes and the Noteholders of any other class of Notes shall be transacted at separate meetings of the Noteholders of each such class.
- 16.3 ***Request from Noteholders:*** A meeting of Noteholders of a particular class may be convened by the Trustee or the Issuer at any time and must be convened by the Trustee (subject to its being indemnified and/or secured and/or prefunded to its satisfaction) upon the request in writing of Noteholders of a particular class holding not less than ten per cent. of the aggregate Principal Amount Outstanding of the outstanding Notes of that class.
- 16.4 ***Quorum:*** The quorum at any meeting convened to vote on:
- (a) an Extraordinary Resolution, other than regarding a Reserved Matter, relating to a meeting of a particular class or classes of the Notes will be one or more persons holding or representing, in aggregate, a majority of the Principal Amount Outstanding of the outstanding Notes in that class or those classes or, at any adjourned meeting, one or more persons being or representing Noteholders of that class or those classes, whatever the Principal Amount Outstanding of the outstanding Notes so held or represented in such class or classes; and
  - (b) an Extraordinary Resolution relating to a Reserved Matter (which must be proposed separately to each class of Noteholders) will be one or more persons holding or representing in aggregate 75 per cent. of the Principal Amount Outstanding of the outstanding Notes in the relevant class or classes or, at any adjourned meeting, one or more persons holding or representing not less than in aggregate 25 per cent. of the Principal Amount Outstanding of the outstanding Notes in the relevant class or classes.
- 16.5 ***Relationship between Classes:***
- In relation to each class of Notes:
- (a) no Extraordinary Resolution involving a Reserved Matter that is passed by the holders of one class of Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other classes of Notes (to the extent that there are outstanding Notes in each such other classes);
  - (b) no Extraordinary Resolution to approve any matter other than a Reserved Matter of any class of Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other classes of Notes ranking senior to such class (to the extent that there are outstanding Notes ranking senior to such class); and
  - (c) any resolution passed at a Meeting of Noteholders of one or more classes of Notes duly convened and held in accordance with the Trust Deed shall be binding upon all Noteholders of such class or classes, whether or not present at such Meeting and whether or not voting and, except in the case of a meeting relating to a Reserved Matter, any resolution passed at a meeting of the holders of the Most Senior Class of Notes duly convened and held as aforesaid shall also be binding upon the holders of all the other classes of Notes.

16.6 **Resolutions in writing:** A Written Resolution shall take effect as if it were an Extraordinary Resolution.

## 17. **Modification and Waiver**

17.1 **Modification:** the Trustee may at any time and from time to time, without the consent or sanction of the Noteholders or any other Secured Creditors, concur with the Issuer and any other relevant parties in making:

- (a) any modification to these Conditions, the Trust Documents, the Notes or the other Transaction Documents in relation to which its consent is required (other than in respect of a Reserved Matter or any provisions of the Trust Documents referred to in the definition of a Reserved Matter) which, in the opinion of the Trustee, will not be materially prejudicial to the holders of the Most Senior Class of outstanding Notes; or
- (b) any modification to these Conditions, the Trust Documents or the other Transaction Documents in relation to which its consent is required, if, in the opinion of the Trustee, such modification is of a formal, minor or technical nature or is made to correct a manifest error,

provided that, in respect of any changes to (i) the Swap Collateral Account Agreements or (ii) the Principal Swap Agreement, the written consent of the Stand-by Interest Rate Swap Provider is required. Any modifications made pursuant to this Condition 17.1 shall be notified by the Issuer (or the Cash Manager on its behalf) to the Stand-by Interest Rate Swap Provider three Business Days prior to such modifications taking effect, provided that, the failure by the Issuer (or the Cash Manager on its behalf) to deliver such notice will not affect the validity of the modifications when effected, provided that, for the avoidance of doubt, the prior written consent of the Stand-by Interest Rate Swap Provider shall be required for modifications to Transaction Documents to which the Stand-by Interest Rate Swap Provider is a party or in respect of which such consent is otherwise required pursuant to this Condition 17.1.

17.2 **Waiver:** In addition, the Trustee may, without the consent of the Noteholders or any other Secured Creditor concur with the Issuer or any other relevant parties in authorising or waiving any proposed breach or breach of the covenants or provisions contained in the Trust Documents, the Notes or any of the other Transaction Documents (including an Event of Default or Potential Event of Default) if, in the opinion of the Trustee, the holders of the Most Senior Class of outstanding Notes will not be materially prejudiced by such waiver.

17.3 **Restriction on power to waive:** The Trustee shall not exercise any powers conferred upon it by Condition 17.2 (*Waiver*) in contravention of any express direction by an Extraordinary Resolution of the holders of the Most Senior Class of outstanding Notes or of a request or direction in writing made by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of outstanding Notes, but so that no such direction or request (a) shall affect any authorisation, waiver or determination previously given or made or (b) shall authorise or waive any such proposed breach or breach relating to a Reserved Matter unless the holders of each class of outstanding Notes have, by Extraordinary Resolution, so authorised its exercise.

17.4 **Notification:** Unless the Trustee otherwise agrees, the Issuer shall cause any such authorisation, waiver, modification or determination to be notified to the Noteholders and the other Secured Creditors in accordance with the Notices Condition and the Transaction Documents, as soon as practicable after it has been made.

17.5 **Binding Nature:** Any authorisation, waiver, determination or modification referred to in Condition 17.1 (*Modification*) or Condition 17.2 (*Waiver*) shall be binding on the Noteholders and the other Secured Creditors.

## 18. **Prescription**

18.1 **Principal:** Claims for principal in respect of Notes shall become void where application for payment is made more than ten years after the due date therefor.

- 18.2 **Interest:** Claims for interest in respect of Notes, shall become void where application for payment is made more than five years after the due date therefor.
19. **Replacement of Notes**
- If any Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, subject to all applicable laws, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.
20. **Trustee and Agents**
- 20.1 **Trustee's right to Indemnity:** Under the Transaction Documents, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid or reimbursed for any Liabilities incurred by it in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.
- 20.2 **Trustee not responsible for loss or for monitoring:** The Trustee is not responsible for any loss, expense or liability which may be suffered as a result of the Charged Property or any documents of title thereto being uninsured or inadequately insured or being held by or to the order of the Servicer or by any person on behalf of the Trustee (as applicable). The Trustee shall not be responsible for monitoring the compliance by any of the other Transaction Parties with their obligations under the Transaction Documents.
- 20.3 **Regard to classes of Noteholders:** In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will:
- (a) have regard to the interests of each class of Noteholders as a class and will not be responsible for any consequence for individual Noteholders as a result of such holders being domiciled or resident in, or otherwise connected in any way with, or subject to the jurisdiction of, a particular territory or taxing jurisdiction; and
  - (b) in the event of a conflict of interests of holders of different classes have regard only to the interests of the holders of the Most Senior Class of outstanding Notes and will not have regard to any lower ranking class of Notes nor, prior to the redemption in full of the Notes, to the interests of the other Secured Creditors except to ensure the application of the Issuer's funds after the delivery of an Enforcement Notice in accordance with the Post-Enforcement Priority of Payments.
- 20.4 **Paying Agents solely agents of Issuer:** In acting under the Agency Agreement and in connection with the Notes, the Paying Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.
- 20.5 **Initial Paying Agents:** The Issuer reserves the right (with the prior written approval of the Trustee) to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or agent bank and additional or successor paying agents at any time, having given not less than 30 days notice to such Agent **provided that** there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such directive.
21. **Substitution of Issuer**
- 21.1 **Substitution of Issuer:** The Trustee may, without the consent of the Noteholders or any other Secured Creditor, subject to:
- (a) the consent of the Issuer;
  - (b) the approval of the Rating Agencies in relation thereto; and



(c) such further conditions as are specified in the Trust Deed,

agree to the substitution of a Substituted Obligor in place of the Issuer as the principal debtor in respect of the Trust Documents, the Transaction Documents, the Notes and the Secured Amounts.

21.2 **Notice of Substitution of Issuer:** Not later than fourteen days after any substitution of the Issuer in accordance with this Condition, the Substituted Obligor shall cause notice of such substitution to be given to the Noteholders and the other Secured Creditors in accordance with the Notices Condition and the other relevant Transaction Documents.

21.3 **Change of Law:** In the case of a substitution pursuant to this Condition, the Trustee may in its absolute discretion agree, without the consent of the Noteholders or the other Secured Creditors to a change of the law governing the Notes and/or any of the Transaction Documents provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the holders of the Most Senior Class of outstanding Notes, provided that the Rating Agencies are notified. For the avoidance of doubt, a Transaction Document cannot be amended without the agreement of all the parties thereto.

21.4 **No indemnity:** No Noteholder shall, in connection with any such substitution, be entitled to claim from the Issuer any indemnification or payment in respect of any tax consequence of any such substitution upon individual Noteholders.

## 22. Notices

22.1 **Valid Notices:** Any notice to Noteholders shall be validly given to the relevant Noteholders if sent to the Clearing Systems for communication by them to the holders of the relevant Class of Notes and shall be deemed to be given on the date on which it was so sent and (so long as the relevant Notes are admitted to trading and listed on the official list of the Irish Stock Exchange) any notice shall also be published in accordance with the relevant guidelines of the Irish Stock Exchange by a notification in writing to the Company Announcements Office of the Irish Stock Exchange.

22.2 **Date of publication:** Any notices so published shall be deemed to have been given on the date on which it was so sent or, as the case may be, on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required or on the Relevant Screen or on the applicable date of delivery of the relevant notice to Euroclear and Clearstream, Luxembourg (as applicable).

22.3 **Other Methods:** The Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or to a class or category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the Stock Exchange on which the Notes are then listed and provided that notice of such other method is given to the Noteholders in such manner as the Trustee shall require.

## 23. Governing Law and Jurisdiction

23.1 **Governing law:** The Transaction Documents and the Notes and all non-contractual obligations arising from or connected with them are governed by, and shall be construed in accordance with, English law.

23.2 **Jurisdiction:** The Courts of England are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes and the Transaction Documents (including a dispute relating to non-contractual obligations or a dispute regarding the existence, validity or termination of any of the Notes or the Transaction Documents or the consequences of their nullity) and accordingly any legal action or proceedings arising out of or in connection with the Notes and/or the Transaction Documents may be brought in such Courts. The Issuer has in each of the Transaction Documents to which it is a party irrevocably submitted to the jurisdiction of such Courts.

## TAX TREATMENT ON THE NOTES

### United Kingdom Taxation

**The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating only to United Kingdom withholding tax treatment of payments of principal and interest in respect of Notes. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.**

### Interest on the Notes

#### 1. *Payment of Interest on the Notes*

Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007. The Irish Stock Exchange is a recognised stock exchange. The Notes will satisfy this requirement if they are officially listed in Ireland in accordance with provisions corresponding to those generally applicable in EEA states and are admitted to trading on the main market of the Irish Stock Exchange. Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest; provided that HM Revenue and Customs (HMRC) has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20%). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Noteholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

#### 2. *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of 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 or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU

countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

## SUBSCRIPTION AND SALE

The Royal Bank of Scotland plc and UBS Limited (together, the "**Joint Lead Managers**") have, pursuant to a subscription agreement dated on or about the date hereof amongst the Seller, the Joint Lead Managers and the Issuer (the "**Subscription Agreement**"), agreed with the Issuer (subject to certain conditions) to subscribe and pay for (i) £169,000,000 of the Class A1 Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A1 Notes and (ii) £131,000,000 of the Class A2 Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A2 Notes.

In the Subscription Agreement the Seller undertakes (i) to hold a material net economic interest pursuant to paragraphs (a) to (d) (as applicable) of Article 122a(1) of Directive 2006/48/EC until maturity of the Notes and (ii) to provide investor information in the form of the investor reports to investors, subject always to any requirement of law, provided that the Seller will not be in breach of such undertaking if the Seller fails to so comply due to events, actions or circumstances beyond the Seller's control. The information made available by the Seller pursuant to this undertaking can be viewed by Noteholders on the Seller's website at [www.principality.co.uk](http://www.principality.co.uk). For the avoidance of doubt, this website and the contents thereof do not form part of this Prospectus.

Principality has, pursuant to the Subscription Agreement, agreed with the Issuer (subject to certain conditions) to subscribe and pay for (i) £60,000,000 of the Class A1 Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A1 Notes; (ii) £326,000,000 of the Class A2 Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A2 Notes; and (iii) 100 per cent. of the Class B Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class B Notes as at the date hereof.

Principality may enter into the Securities Lending Transaction with one or more of the Arrangers or a third party with respect to a portion of the Class A Notes which it will purchase.

The Issuer has agreed to indemnify Principality and the Joint Lead Managers against certain liabilities and to pay certain costs and expenses in connection with the issue of the Notes.

Other than admission of the Notes to the Official List and the admission to trading on the Irish Stock Exchange's regulated market, no action has been taken by the Issuer, the Joint Lead Managers or Principality, which would or has been intended to permit a public offering of the Notes, or possession or distribution of this Prospectus or other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

This Prospectus does not constitute, and may not be used for the purpose of, an offer or a solicitation by anyone to subscribe for or purchase any of the Notes in or from any country or jurisdiction where such an offer or solicitation is not authorised or is unlawful.

### **United Kingdom**

Each of the Joint Lead Managers and Principality has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Each of the Joint Lead Managers and Principality Building Society has acknowledged that, save for having obtained the approval of the Prospectus as a prospectus in accordance with Part VI of the FSMA, having applied for the admission of the Notes to the Official List and admission to trading on the Irish Stock Exchange, no further action has been or will be taken in any jurisdiction by the Joint Lead Managers or Principality that would, or is intended to, permit a public offering of the Notes, or possession or distribution of the Prospectus or any other offering material in relation to the Notes, in any country or jurisdiction where such further action for that purpose is required.

## United States

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to an exemption from registration requirements. Accordingly, the Notes are being offered outside the United States to persons other than U.S. persons (as defined in and pursuant to Regulation S of the Securities Act).

Each of the Joint Lead Managers and Principality has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes as part of its distribution at any time or otherwise until 40 days after the later of the commencement of the offering of the Notes and the closing date within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each affiliate or other dealer (if any) to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account of, U.S. persons.

## France

Each of the Joint Lead Managers and Principality has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Prospectus, or any other offering material relating to the Notes, and that such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*), other than individuals all as defined in, and in accordance with, Articles L.411-1, L.411-2, and D.411-1 to D.411-3 of the French *Code monétaire et financier*.

## Ireland

Each of the Joint Lead Managers has represented and agreed that it has not made and will not make an offer of any Notes to the public in Ireland, except that it may make an offer of Notes to the public in Ireland:

- (a) in the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in Ireland or, if approved by the competent authority of a home EEA Member State of the Issuer, which has been notified to the competent authority in Ireland, in either case in accordance with the Prospectus (Directive 2003/71/EC) Regulations 2005 and ending on the date which is 12 months after the date of such publication; or
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, the corporate purpose of which is solely to invest in securities; or
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43,000,000; and (3) an annual net turnover of more than EUR 50,000,000, all as shown in its last annual or consolidated accounts; or
- (d) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Lead Managers for any such offer; or
- (e) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression “**offer to the public**” in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for any Notes, as the same may be varied in Ireland by any measure implementing the Prospectus Directive in Ireland, and the expression “**Prospectus Directive**” means Directive 2003/71/EC and includes any relevant implementing measure in Ireland.

**General**

Each of the Joint Lead Managers and Principality has undertaken that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in respect of the Notes in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

## LISTING AND GENERAL INFORMATION

- (a) It is expected that the admission of the Notes to the Official List and the admission of the Notes to trading on the Irish Stock Exchange's regulated market will be granted on or around 11 August 2011.
- (b) None of the Issuer or Holdings is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or Holdings respectively is aware), since 24 May 2011 (being the date of incorporation of the Issuer) and 23 May 2011 (being the date of incorporation of Holdings) which may have, or have had in the recent past, significant effects upon the financial position or profitability of the Issuer or Holdings (as the case may be).
- (c) The auditors of the Issuer are Deloitte LLP. Deloitte LLP is a member of the Institute of Chartered Accountants in England and Wales. No statutory or non-statutory accounts within the meaning of sections 434 and 435 of the Companies Act 2006 (as amended) in respect of any financial year of the Issuer have been prepared. So long as the Notes are admitted to trading on the Irish Stock Exchange's regulated market, the most recently published audited annual accounts of the Issuer from time to time shall be filed with the Irish Stock Exchange and shall be available at the Specified Office of the Principal Paying Agent in London. The Issuer does not publish interim accounts.
- (d) Since the date of its incorporation, the Issuer has not entered into any contracts or arrangements not being in the ordinary course of business.
- (e) The issue of the Notes was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 22 July 2011.
- (f) The following Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following ISIN and Common Codes:

<u><b>Class of Notes</b></u>	<u><b>ISIN</b></u>	<u><b>Common Code</b></u>
Class A1	XS0652305854	065230585
Class A2	XS0652306407	065230640
Class B	XS0652306589	065230658

- (g) From the date of this Prospectus and for so long as the Notes are listed on the Irish Stock Exchange's regulated market, copies of the following documents may be inspected in physical and/or electronic form at the registered office of the Trustee during usual business hours, on any weekday (public holidays excepted):
  - (i) the Memorandum and Articles of Association of each of the Issuer and Holdings;
  - (ii) copies of each of the Transaction Documents (other than the Subscription Agreement).
- (h) The Cash Manager on behalf of the Issuer will publish the monthly investor report detailing, *inter alia*, certain aggregated loan data in relation to the Portfolio. Such investor reports will be published on the Seller's website at <http://www.principality.co.uk/> or following the appointment of the Back-Up Cash Manager to perform the cash management services at <http://www.sf.citidirect.com>, the first investor report being provided no earlier than the date falling one month from the Closing Date. For the avoidance of doubt, the above websites and the contents thereof do not form part of this Prospectus. Investor reports will also be made available to the Seller, the Swap Providers and the Rating Agencies. Other than as outlined above, the Issuer does not intend to provide post-issuance transaction information regarding the Notes or the Loans.
- (i) The Issuer confirms that the Loans backing the issue of the Notes have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. Investors are advised that this confirmation is based on the information available to the Issuer at the date of this Prospectus and may be affected by the future performance of such assets backing

the issue of the Notes. Investors are advised to review carefully any disclosure in the Prospectus together with any amendments or supplements thereto.

- (j) The total expenses to be paid in relation to admission of the Notes to the Official List and trading on the regulated market of the Irish Stock Exchange are estimated to be approximately £5,000.
- (k) The language of the Prospectus is English. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of the Prospectus.



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