

## PROSPECTUS

# CHEPSTOW BLUE PLC

(incorporated in England and Wales with limited liability with registered number 6885556)

**£2,400,000,000 Class A1 Senior Secured Asset Backed Notes due 2043**

**£600,000,000 Class A2 Senior Secured Asset Backed Notes due 2043**

**£1,050,000,000 Class S Secured Asset Backed Notes due 2043**

On 7 August 2009 (or such other date as Chepstow Blue plc (the "**Issuer**") and Lloyds TSB Bank plc (the "**Arranger**" and the "**Originator**") agree, the "**Issue Date**"), the Issuer will issue the £2,400,000,000 Class A1 Senior Secured Asset Backed Notes due 2043 (the "**Class A1 Notes**"), the £600,000,000 Class A2 Senior Secured Asset Backed Notes due 2043 (the "**Class A2 Notes**") and together with the Class A1 Notes, the "**Class A Notes**"), the £1,050,000,000 Class S Secured Asset Backed Notes due 2043 (the "**Class S Notes**") and, together with the Class A Notes, the "**Notes**"). It is a condition of the issue and sale of the Class A Notes that the Class A Notes be issued with at least the following ratings from Standard & Poor's Ratings Group ("**S&P**"): "AAA" and at least the following ratings from Fitch Ratings Limited ("**Fitch**", together with S&P, the "**Rating Agencies**" and each a "**Rating Agency**"): "AAA". The ratings assigned to the Class A Notes by the Rating Agencies address the likelihood of full and timely payment to the Noteholders of all payments of interest on each Payment Date and the likelihood of full and ultimate payment of principal on the Note Maturity Date. The Class S Notes will not be rated. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the applicable Rating Agency.

**CHARGED ASSETS OF THE ISSUER (AS DEFINED BELOW) ARE THE SOLE SOURCE OF PAYMENTS ON THE NOTES. THE NOTES DO NOT REPRESENT AN INTEREST IN, OR OBLIGATIONS OF, AND ARE NOT INSURED OR GUARANTEED BY, ANY OF THE ORIGINATOR, LOANS TRUSTEE, THE NOTE TRUSTEE, THE COLLATERAL ADMINISTRATOR, THE CASH ADMINISTRATOR EACH AGENT OR THE ARRANGER (EACH SUCH PARTY AS DEFINED BELOW), OR ANY OF THEIR RESPECTIVE AFFILIATES.**

**FOR A DISCUSSION OF CERTAIN RISK FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES, SEE "RISK FACTORS".**

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), or the securities laws of any state of the United States and may not be offered or sold within the United States, or to, or for the account or benefit of U.S. Persons (as such term is defined in Regulation S under the Securities Act ("**Regulation S**")) ("**U.S. Persons**") except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and the Investment Company Act. The Issuer has not been and will not be registered under the United States Investment Company Act of 1940, as amended (the "**Investment Company Act**"). Accordingly, the Notes are being offered hereby outside the United States to persons who are neither U.S. Persons nor U.S. residents (within the meaning of the Investment Company Act) in offshore transactions in reliance on Regulation S. The Notes are subject to certain restrictions on their offering, transferability and resale as set forth in "*Subscription and Sale*".

Notes	Aggregate Principal Amount	Interest Rate	Issue Price	Note Maturity Date	Credit Enhancement
A1	£2,400,000,000	3 month LIBOR + 0.15%	100%	November 2043	Class S Notes
A2	£600,000,000	3 month LIBOR + 0.15%	100%	November 2043	
S	£1,050,000,000	Variable interest amount	100%	November 2043	N/A

On the Issue Date, the Notes will be issued to and subscribed for by the Originator and part of the proceeds of subscription received by the Issuer will be paid by the Issuer to the Originator as part of the consideration for vesting in the Issuer the Investor Interest (as defined herein). It is expected that the Class A Notes will each be represented on issue by a global note in registered form (the "**Global Notes**" and each a "**Global Note**"). The Issuer will maintain a register, to be kept on the Issuer's behalf by the Registrar, in which the Global Notes are registered in the name of a common depository (the "**Common Depository**") on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking *société anonyme* ("**Clearstream**"). Each of Euroclear and Clearstream, Luxembourg will record the beneficial interests in the Global Notes ("**Book Entry Interests**"). Book Entry Interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained in book entry form by Euroclear or Clearstream, Luxembourg, and their respective participants. Except in the circumstances described under "*Summary of Provisions relating to Notes in Global Form - Issuance of Individual Note Certificates*", the Class A Notes will not be available in definitive registered form. Individual Note Certificates will be issued in registered form only. The Class S Note will be issued in definitive registered form (the "**Class S Individual Note Certificate**").

The Prospectus has been approved by the *Autoriteit Financiële Markten* (the "**Financial Regulator**"), as competent authority under the Prospectus Directive (as defined below). The Financial Regulator only approves this Prospectus as meeting the requirements imposed under Dutch and EU law pursuant to the Prospectus Directive. Application has also been made to admit the Class A Notes for listing and trading on Euronext Amsterdam by NYSE Euronext ("**Euronext Amsterdam**"). Euronext Amsterdam is a "regulated market" for the purposes of the Investment Services Directive (Directive 93/22/EC).

This Prospectus has been filed with and approved by the Financial Regulator as required by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**"). Upon approval of this Prospectus by the Financial Regulator, this Prospectus will be filed with the Companies Registration Office in accordance with Regulation 38(1)(b) of the Prospectus Regulations.

This document constitutes a "**Prospectus**" for the purposes of the Prospectus Directive.

LLOYDS TSB BANK PLC  
Arranger

**This Prospectus is dated 5 August 2009**

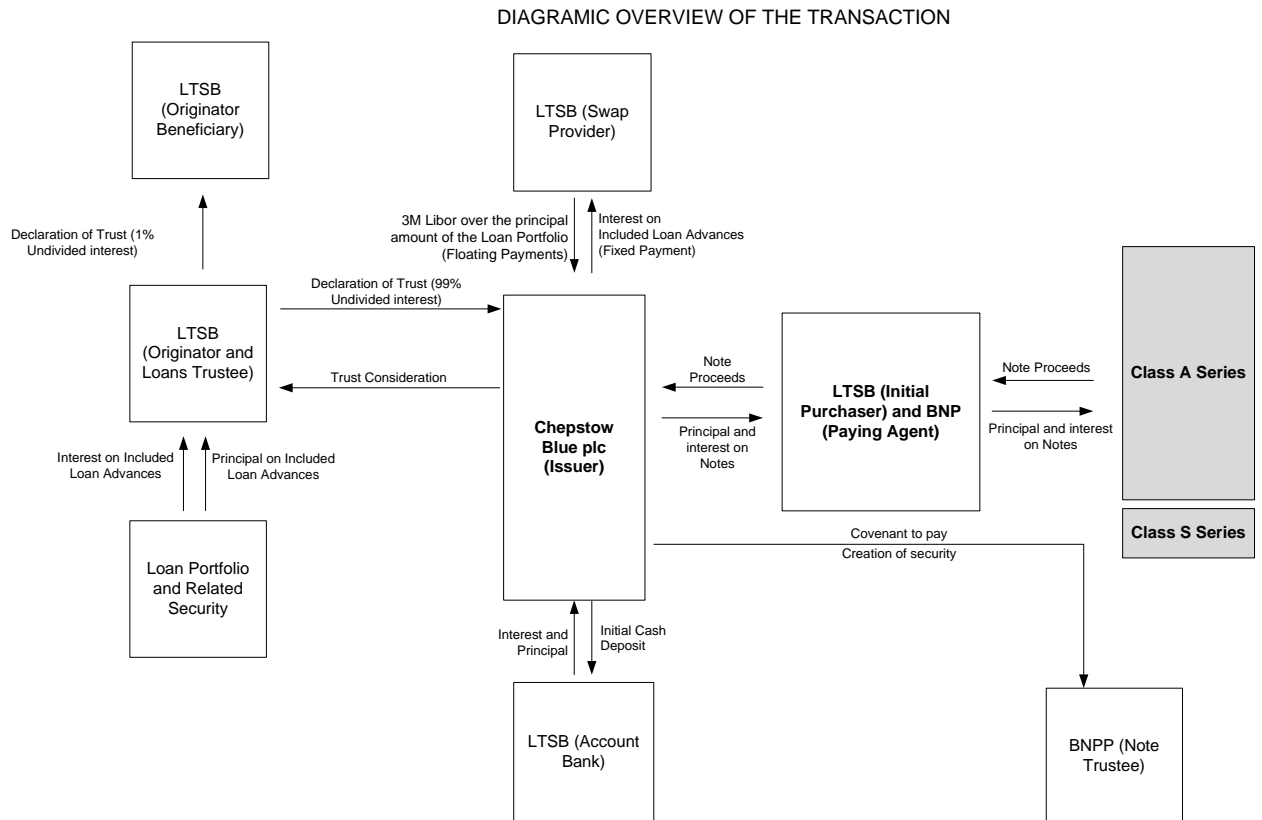
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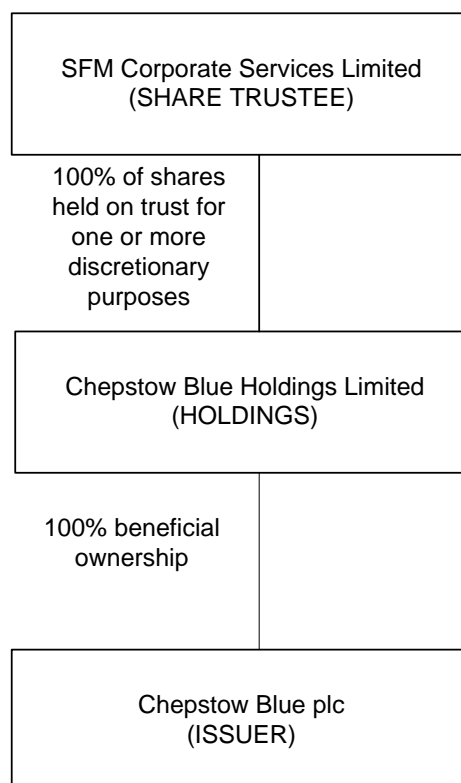
## SUMMARY

*This summary must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of the Prospectus as a whole, including any supplement thereto. Civil liability will only attach to the Issuer, if the summary is misleading, inaccurate or inconsistent when read together with other parts of the Prospectus. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.*

## DIAGRAMMATIC OVERVIEW OF THE TRANSACTION



## OWNERSHIP STRUCTURE



The ownership structure illustrates the ownership structure of the special purpose companies that will be parties to the transaction, as follows:

- The Issuer is beneficially owned by Holdings.
- The entire issued share capital of Holdings is held on trust by the Share Trustee under the terms of a discretionary trust for one or more discretionary purposes.
- None of the Issuer, Holdings or the Share Trustee are either owned, controlled, managed, directed or instructed, whether directly or indirectly, by either Originator or any member of the group of companies containing the Originators.

## TRANSACTION OVERVIEW

*The following paragraphs contain a summary of certain principal features of the issue of the Notes and the underlying assets. This summary does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by, the detailed information set out elsewhere in this Prospectus. Prospective investors are urged to read carefully the full text of the Prospectus for a more precise description of the Notes, the Portfolio and the Transaction Documents.*

## PARTIES

<b>Issuer and Issuer Beneficiary</b>	Chepstow Blue plc, a public limited company incorporated under the laws of England and Wales with registered number 6885556 and having its registered office at 35 Great St Helen's, London EC3A 6AP
<b>Originator</b>	Lloyds TSB Bank plc, a company incorporated in England and Wales with limited liability (registered number 00002065) acting through its office at 25 Gresham Street, London EC2V 7HN.
<b>Originator Beneficiary</b>	Lloyds TSB Bank plc, a company incorporated in England and Wales with limited liability (registered number 00002065) acting through its office at 25 Gresham Street, London EC2V 7HN.
<b>Loans Trustee</b>	Lloyds TSB Bank plc, a company incorporated in England and Wales with limited liability (registered number 00002065) acting through its office at 25 Gresham Street, London EC2V 7HN.
<b>Swap Provider</b>	Lloyds TSB Bank plc, a company incorporated in England and Wales with limited liability (registered number 00002065) acting through its office at 25 Gresham Street, London EC2V 7HN.
<b>Collateral Administrator</b>	Lloyds TSB Bank plc, a company incorporated in England and Wales with limited liability (registered number 00002065) acting through its office at 25 Gresham Street, London EC2V 7HN.
<b>Cash Administrator</b>	Bank of Scotland plc, a company incorporated in Scotland with limited liability (registered number SC327000) having its registered office at The Mound, Edinburgh, EH1 1YZ and acting through its office at Citymark, 150 Fountainbridge, Edinburgh EH3 9PE.
<b>Issuer Account Bank</b>	Lloyds TSB Bank plc, a company incorporated in England and Wales with limited liability (registered number 00002065) acting through its office at 25 Gresham Street, London EC2V 7HN.
<b>Agent Bank</b>	BNP Paribas Securities Services, Luxembourg Branch, a bank incorporated and organised under the laws of France as a <i>société anonyme</i> , having its registered office at 3, Rue d'Antin, 75002, Paris, France, acting through its Luxembourg office at 33, rue de Gasperich, Howald-Hesperange L-2085 Luxembourg.
<b>Principal Paying Agent</b>	BNP Paribas Securities Services, Luxembourg Branch, a bank incorporated and organised under the laws of France as a <i>société anonyme</i> , having its registered office at 3, Rue d'Antin, 75002, Paris, France, acting through its Luxembourg office at 33, rue de

<b>UK Paying Agent</b>	Gasperich, Howald-Hesperange L-2085 Luxembourg.  BNP Paribas Securities Services, London Branch, a bank incorporated and organised under the laws of France as a <i>société anonyme</i> , having its registered office at 3, Rue d'Antin, 75002, Paris, France, acting through its London Branch at 55 Moorgate, London EC2R 6PA.
<b>Registrar</b>	BNP Paribas Securities Services, Luxembourg Branch, a bank incorporated and organised under the laws of France as a <i>société anonyme</i> , having its registered office at 3, Rue d'Antin, 75002, Paris, France, acting through its Luxembourg office at 33, rue de Gasperich, Howald-Hesperange L-2085 Luxembourg.
<b>Note Trustee</b>	BNP Paribas Trust Corporation UK Limited, a company incorporated in England and Wales with limited liability (registered number 04042668), having its registered office at 55 Moorgate, London EC2R 6PA.
<b>Corporate Services Provider</b>	Structured Finance Management Limited a company incorporated in England and Wales with limited liability (registered number 3853947) acting through its office at 35 Great St. Helen's, London, EC3A 6AP.

## THE NOTES

<b>General</b>	The Notes will be issued by the Issuer on the Issue Date and will be constituted pursuant to the Note Trust Deed and on the terms and subject to the Conditions.
<b>Form of the Notes</b>	<p>The Class A Notes will be in registered form and each sub-class of Notes will be represented by a global note ("<b>Global Note</b>"), which will be registered in the name of the Common Depositary on or about the Issue Date. Individual Note Certificates will only be available in certain limited circumstances.</p> <p>The Class S Notes will be in registered form and will be represented by the Class S Individual Note Certificate.</p>

Class	Principal Amount	Denominations	Interest Rate	S&P Rating	Fitch Rating	Note Maturity Date	ISIN
Class A1	£2,400,000,000	£ 50,000	3 month LIBOR + 0.15%	AAA	AAA	November 2043	XS0445087702
Class A2	£600,000,000 <sup>1</sup>	£ 50,000	3 month LIBOR + 0.15%	AAA	AAA	November 2043	XS0445087884
Class S	£1,050,000,000	£ 50,000	Variable interest amount	Unrated	Unrated	November 2043	N/A

<b>Status</b>	The Notes constitute direct, secured, limited recourse obligations of the Issuer. The Class A Notes will rank in priority to the Class S Notes. Notes of each class will rank <i>pari passu</i> and rateably without any preference among themselves.
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<b>Security</b>	Pursuant to the Note Trust Deed the Issuer will create in favour of the Note Trustee for the benefit of the Note Trustee, the Noteholders and other Secured Creditors first ranking English law security interests over, amongst other things, its Investor Interest in the Loans Trust, its interests in the Transaction Documents and the Issuer Accounts as security for, among other
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<sup>1</sup> Pursuant to and in accordance with the conditions set out in Condition 20 (*Further Notes*), further Class A2 Notes may be issued from time to time.

things, the payment of amounts due to Noteholders in respect of the Notes.

#### **Interest**

The Class A Notes will bear interest at the rate specified in the table above, payable quarterly in arrear on each Payment Date commencing on 20<sup>th</sup> November 2009 in respect of the Interest Period ending on each such Payment Date. The Class A Notes will bear interest on their Principal Amount Outstanding. The Class S Notes will bear interest at a variable amount calculated in the manner described in Condition 3.7 (*Interest*).

Subject to the above provisions in respect of interest on the Class A Notes, Payment Dates are 20<sup>th</sup> of February, May, August and November in each year commencing on 20<sup>th</sup> November 2009. If a Payment Date does not fall on a Business Day, such Payment Date will, for all purposes, be the succeeding Business Day.

Failure on the part of the Issuer to pay any Class A Interest Payment due and payable pursuant to Condition 4 (*Interest*) and the relevant Priority of Payments shall not be an Event of Default unless and until such failure continues for a period of more than ten Business Days.

#### **Available Revenue Funds**

"**Available Revenue Funds**" means, in respect of any Payment Date, the amount calculated by the Cash Administrator on the Determination Date immediately preceding such Payment Date equal to the sum of (without double counting):

- (a) the Interest Proceeds including, for the avoidance of doubt, any interest credited to the Issuer Accounts (other than the Swap Collateral Account) during the relevant Collection Period but excluding (i) an amount from the Revenue Receipts that shall be paid to the Originator in respect of Deferred Consideration or Excess AMM Consideration and (ii) an amount from the Revenue Receipts that shall be paid to the Originator as a result of the relevant Monthly Reconciliation;
- (b) amounts applied in accordance with paragraphs (i) and (ii) of the Pre-Acceleration Principal Priority of Payments on such date;
- (c) payments (if any) to be received from the Swap Provider on such Payment Date under the Swap Agreement (other than any payment of collateral received by or on behalf of the Issuer in relation to a downgrade of the Swap Provider),

*provided that* the Issuer Profit Amount once allocated to the Issuer Profit Ledger pursuant to the relevant Priority of Payments shall no longer form part of Available Revenue Funds.

#### **Available Principal Funds**

"**Available Principal Funds**" means, in respect of any Payment Date, the amount calculated by the Cash Administrator on the Determination Date immediately preceding such Payment Date equal to the sum of the Principal Proceeds paid into the Principal Account during the relevant Collection Period excluding (i) an amount from the Principal Receipts that shall be paid to the

Originator in respect of Deferred Consideration or Excess AMM Consideration and (ii) an amount from the Principal Receipts that shall be paid to the Originator as a result of the relevant Monthly Reconciliation.

## Priorities of Payments

### *Pre-Acceleration Revenue Priority of Payments*

On each Payment Date prior to the service of an Acceleration Notice, the Issuer shall apply all Available Revenue Funds as at the immediately preceding Determination Date in the following order but, in each case, only to the extent that there are funds available for that purpose and all payments of a higher priority have been made in full:

- (i) *first*, any Note Trustee Fees and Expenses up to an amount equal to the Senior Expenses Cap;
- (ii) *second*, in or towards payment, *pari passu* and *pro rata*, of all amounts then due and payable by the Issuer in respect of any expenses incurred in connection with (a) all amounts then due and payable by the Issuer in respect of any Administrative Expenses up to an amount equal to the Administrative Expenses Cap and (b) to the payment of the Issuer Profit Amount;
- (iii) *third*, in or towards payment of Fixed Payment due and payable to the Swap Provider;
- (iv) *fourth*, in or towards payment to the Swap Provider of any Swap Settlement Payments or Swap Replacement Payments in respect of the Swap Agreement, as applicable, to the extent amounts paid out of the Swap Termination Account are insufficient to meet such Swap Settlement Payments or Swap Replacement Payments;
- (v) *fifth*, in or towards payment of all amounts then due and payable by the Issuer in respect of Issuer's liability (if any) to tax;
- (vi) *sixth*, in or towards payment of *pari passu* and *pro rata*, the Class A Interest Payments then due and payable by the Issuer on the Class A Notes;
- (vii) *seventh*, in the event that the Class A Overcollateralisation Test was not satisfied on the Determination Date immediately preceding the relevant Payment Date, in payment to the redemption of the Class A Notes to the extent necessary to cause the Class A Overcollateralisation Test to be met if recalculated following such payment;



- (viii) *eighth*, in the event that the balance standing to the credit of the Deposit Account is below £367,500,000 on the Determination Date immediately preceding the relevant Payment Date, in or towards payment to the Deposit Account to the extent necessary to cause the balance standing to the credit of such Deposit Account to be equal to £367,500,000 following such payment;
- (ix) *ninth*, in or towards payment of any Note Trustee Fees and Expenses that remain unpaid pursuant to paragraph (i) above;
- (x) *tenth*, in or towards payment, *pari passu* and *pro rata*, of any Administrative Expenses that remain unpaid pursuant to paragraph (ii) above;
- (xi) *eleventh*, in or towards payment of any Defaulted Swap Settlement Payment due and any costs due to the Swap Provider with respect thereto and not paid out of the Swap Termination Account; and
- (xii) *twelfth*, the excess (if any) to be paid in respect of interest on the Class S Notes, *pari passu* and *pro rata*.

*Pre-Acceleration Principal Priority of Payments*

On each Payment Date prior to the service of an Acceleration Notice, the Issuer shall apply the Available Principal Funds and, in relation to item (ii) below only, funds released from the Deposit Account, in the following order but, in each case, only to the extent that there are funds available for that purpose and all payments of a higher priority have been made in full:

- (i) *first*, in or towards payment of any Revenue Shortfall Amount on such date which shall form part of the Available Revenue Funds on such date.

For the purposes of the above and the Post-Acceleration Priority of Payments, there will be a "**Revenue Shortfall**" on a Determination Date if the Cash Administrator determines that:

(A) in respect of the Pre-Acceleration Revenue Priority of Payments, the Available Revenue Funds on the Payment Date immediately succeeding such Determination Date (excluding for these purposes (1) any Available Principal Funds to be applied as part of the Available Revenue Funds on such date and (2) amounts calculated taking into account amounts which may be released from the Deposit Account) will be insufficient to meet the Issuer's obligations under paragraph (i) through (including) (vi) of the Pre-Acceleration Revenue Priority of Payments; or

(B) in respect of the Post-Acceleration Priority of Payments, the Available Revenue Funds on the Payment Date immediately succeeding such Determination Date (excluding for these purposes (1) any Available Principal Funds to be applied as part of the Available Revenue Funds on such date and (2) amounts calculated taking into account amounts which may be released from the Deposit Account) will be insufficient to meet the Issuer's obligations under paragraph (i) through (including) (iv) of the Post-Acceleration Priority of Payments,

(the total amount of such insufficiency, being the "**Revenue Shortfall Amount**");

- (ii) *second*, to the extent that there remains any Revenue Shortfall after the application of Available Principal Funds under item (i) above, in or towards payment of any such remaining Revenue Shortfall Amount on such date from funds released from the Deposit Account for such purposes;
- (iii) *third*, during the Replenishment Period at the direction of the Collateral Administrator (acting on behalf of the Issuer) (a) in the acquisition of the beneficial interest in additional Included Loan Advances (subject to the satisfaction of the Replenishment Criteria), (b) in the payment of any Additional Trust Consideration or any Deferred Consideration due and payable as a result of a Further Advance being made by the Originator, or (c) to the credit of the Principal Account pending acquisition of the beneficial interest in additional Included Loan Advances at a later date, in each case in accordance with and subject to the provisions of the Originator Trust Deed and the Administration Agreement;
- (iv) *fourth*, during the Replenishment Period, in or towards payment to the Deposit Account to increase the amount standing to the credit of the Deposit Account to £367,500,000;
- (v) *fifth*, in or towards redemption of the Class A Notes on a *pro rata* and *pari passu* basis; and
- (vi) *sixth*, any amounts remaining in or towards payment in respect of the Class S Notes on a *pro rata* and *pari passu* basis in accordance with Condition 5.14 (*Redemption of Class S Notes*).

#### *Post-Acceleration Priority of Payments*

Available Revenue Funds, Available Principal Funds and, in certain circumstances only, funds released from the Deposit Account or, as the case may be, the net proceeds of enforcement of the Security over the Charged Assets of the Issuer will be applied by the Issuer or, following the service of an Acceleration Notice, the Note Trustee (a) on the Note Maturity Date, (b) on such other date on which the Class A Notes are redeemed in full pursuant to Condition 5 (*Redemption*) or (c) on and following

the delivery date of an Acceleration Notice, in accordance with the following order of priority but in each case only to the extent that all payments of a higher priority have been made in full:

- (i) *first*, to the payment of any due and unpaid Note Trustee Fees and Expenses;
- (ii) *second*, in payment on a *pro rata* and *pari passu* basis of (a) due and unpaid Administrative Expenses (b) payment of taxes owing by the Issuer which became due and payable in the current tax year as certified by an Authorised Officer of the Issuer to the Note Trustee, if any and (c) to the payment of the Issuer Profit Amount;
- (iii) *third*, to the payment on a *pro rata* and *pari passu* basis of any Swap Settlement Payments due to the Swap Provider (other than Defaulted Swap Settlement Payments), in each case to the extent not paid from funds available in the Swap Termination Account;
- (iv) *fourth*, to the payment of *pro rata* and *pari passu* the Class A Interest Payments then due and payable by the Issuer on the Class A Notes;
- (v) *fifth*, to the redemption on a *pro rata* and *pari passu* basis of the Class A Notes;
- (vi) *sixth*, in or towards payment of any Defaulted Swap Settlement Payment due and any costs due to the Swap Provider with respect thereto and not paid out of the Swap Termination Account; and
- (vii) *seventh*, any remaining proceeds, in or towards payments in respect of the Class S Notes (subject to Condition 5.14 (*Redemption of the Class S Notes*)),

*provided that*, in relation to items (i) to (and including) (iv) above and other than in respect of a Note Maturity Date or any other date on which the Class A Notes are redeemed in full or the date on which the Aggregate Principal Balance of the Included Loan Advances becomes zero, the Note Trustee shall apply the Available Revenue Funds first and to the extent of any Revenue Shortfall, the Note Trustee may use (i) any Available Principal Funds, and (ii) funds released from the Deposit Account for the purposes of covering such Revenue Shortfall.

#### **Issuer Accounts**

The Cash Administrator on behalf of the Issuer shall open the following accounts with the Issuer Account Bank on or before the Issue Date:

- (i) Principal Account;
- (ii) Interest Account;
- (iii) Payment Account;
- (iv) Swap Account;

- (v) Note Proceeds Account; and
- (vi) Deposit Account.

From time to time, as required pursuant to the terms of the Swap Agreement, the Issuer may open one or more Swap Termination Account and Swap Collateral Account.

The operation of these accounts is set out in more detail in Condition 8.2 (*Payment to and from the Issuer Accounts*).

## **Redemption**

Payments of principal on the Notes will be made in the following circumstances as more fully described in Condition 5 (*Redemption*) as follows:

- (i) on the Note Maturity Date when the Notes will fall due for redemption in full in accordance with Condition 5.1 (*Final Redemption*);
- (ii) on each Payment Date prior to the Note Maturity Date, to the extent there are Available Principal Funds in accordance with the Pre-Acceleration Principal Priority of Payments until the Principal Amount Outstanding of the Notes has been redeemed in full or in an amount equal to that available pursuant to (vii) of the Pre-Acceleration Revenue Priority of Payments as a result of a breach of the Class A Overcollateralisation Test, in each case in accordance with Condition 5.2 (*Mandatory Early Redemption*);
- (iii) following the reacquisition of the Investor Interest and the Originator Interest in a Non-Credit Impaired Obligation by the Originator in accordance with Condition 5.3 (*Mandatory Early Redemption in part upon receipt of Issuer Surrender Receipt*);
- (iv) subject to certain conditions being met, on each Payment Date prior to the Note Maturity Date on which the Class S Noteholder exercises a Call Option as described in Condition 5.7 (*Optional Redemption in whole upon the exercise of a Call Option*), the Notes of each Class shall be redeemed in whole by the Issuer at their Principal Amount Outstanding on such Payment Date;
- (v) subject to certain conditions being met, upon the occurrence of certain taxation events as described in Condition 5.8 (*Optional Redemption in whole for taxation reasons*), the Notes shall be redeemed in whole.

Each class of Notes will mature, and principal thereon will become due and payable, at their Principal Amount Outstanding on the Note Maturity Date, in each case, unless redeemed or repaid prior thereto. The average life of each class of Notes is expected to be shorter than the number of years from the Issue Date until the Note Maturity Date. See "*Risk Factors — Average Life and Prepayment Considerations*".

**No Gross-Up Obligation**

If, as a result of any change in laws or regulations affecting taxation or the interpretation or application of such laws or regulations on or after the Issue Date, the Issuer is required to withhold or deduct amounts payable on the Notes on account of tax, the Issuer will not be obliged to gross-up any such payment obligation and this will not constitute an Event of Default.

**Enforcement**

Acceleration of the Notes following an Event of Default may not result in early redemption of the Notes. Although the Note Trustee may, and shall if directed by Noteholders in accordance with the Conditions, serve an Acceleration Notice following an Event of Default, the Note Trustee will only be able to dispose of the Investor Interest to the Originator pursuant to the terms of the Call Option Agreement and as such, in such situations, the Notes may not be redeemed until the Note Maturity Date, if at all. See "*Risk Factors — The ability of the Issuer to redeem the Notes in the event of their acceleration prior to the Note Maturity Date is limited*".

**Limited Recourse**

The Issuer shall have no assets available to make any payments in respect of the Notes or (unless specifically provided otherwise in this Prospectus) to meet any other obligations of the Issuer under the Transaction Documents other than Available Funds actually received and available for use prior to each Payment Date. Payments on the Notes are in all circumstances subordinate to the payment of certain fees, expenses and liabilities of the Issuer and shall only be paid subject to and in accordance with the Priority of Payments.

If at any time following:

- (a) the occurrence of either (i) the Note Maturity Date or any earlier date upon which all of the Notes of each Class are due and payable; or (ii) the Security becoming enforceable in accordance with Condition 12 (*Enforcement*); and
- (b) Realisation (as defined in the Conditions) of the Charged Assets 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 as set out in the Note Trust Deed,

the proceeds of such Realisation are insufficient, after payment of all other claims ranking in priority in accordance with the applicable Priority (or Priorities) 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 ranking 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.

**Governing Law**

The Notes, the Conditions, the Originator Trust Deed, the Note Trust Deed and each Transaction Document shall be governed by English law.

**Listing and Admission to Trading**

The Prospectus has been approved by the Financial Regulator, as competent authority under the Prospectus Directive. The Financial Regulator only approves this Prospectus as meeting the requirements imposed under Dutch and EU law pursuant to the Prospectus Directive. Application has been made to Euronext Amsterdam for the Class A Notes to be admitted for listing and trading on Euronext Amsterdam. See "*General Information*".

**Selling Restrictions**

Subject to certain exceptions, the Notes may not be sold or delivered, directly or indirectly, within the United States or its possessions or to US persons. These restrictions and other restrictions on the sale and delivery of the Notes in various jurisdictions are specified under "*Subscription and Sale*" below.

**LOANS TRUST****Loans Trust**

Pursuant to the terms of the Originator Trust Deed, the Originator will declare a trust for the benefit of the Issuer and Lloyds TSB Bank plc (in its capacity as the Originator Beneficiary) over its entitlement to the Included Loan Advances, Further Advances made in respect of Included Loan Advances which are Delayed Draw Obligations and their Related Security (the trust declared by the Originator being the "**Loans Trust**"). The beneficial interests of the Issuer and the Originator Beneficiary under the Loans Trust are fixed undivided interests, respectively called the "**Investor Interest**" and the "**Originator Interest**". The Investor Interest in the Loans Trust will result in an amount equal to 99 per cent. of the amounts received by the Loans Trustee in respect of the Included Loan Advances and any Related Security being paid to the Issuer. The Originator Interest in the Loans Trust will result in an amount equal to 1 per cent. of the amounts received by the Loans Trustee in respect of the Included Loan Advances being paid to the Originator.

As part of the consideration for the declaration of the Loans Trust and the granting of the Investor Interest as at the Issue Date the Issuer will have an obligation to pay the Initial Trust Consideration to the Originator. The Issuer and the Originator have agreed that the Issuer will (i) issue the Notes on the Issue Date and (ii) (if required) following the Issue Date, pay certain amounts of Deferred Consideration to the Originator to the extent that the Initial Trust Consideration is not paid in full on the Issue Date.

#### **Related Security**

All the Included Loan Advances to be included in the Portfolio are secured by first ranking legal charges over properties located in England or Wales (each such charge, a "**Mortgage**" and each property the subject of a Mortgage, a "**Mortgaged Property**").

Some of the Mortgages for the Included Loan Advances constitute "all moneys charges" in that they stand as security for other indebtedness a Borrower owes or may owe to LTSB from time to time which is not part of the Loans Trust Property (such as business loans) ("**Associated Debt**") as well as for Included Loan Advances which do form part of the Loans Trust Property (each such Mortgage an "**All Moneys Mortgage**" and together, the "**All Moneys Mortgages**"). An All Moneys Mortgage will be enforceable on the occurrence of a default by an Obligor either under an Included Loan Advance or any Associated Debt secured by the relevant All Moneys Mortgage (see "*The Loans Trust - All Moneys Mortgages*").

#### **Further Advances**

To the extent that any Obligor requests a further drawing in respect of a Delayed Draw Obligation and the Originator makes such advance (a "**Further Advance**"), such Further Advance will automatically form part of the Loans Trust Property on the Addition Date (as defined below). Upon the grant of a Further Advance, the Issuer will be under an obligation to pay an amount equal to the Additional Trust Consideration (as defined below) in respect of such Further Advance. The Additional Trust Consideration payable by the Issuer may be paid by the Issuer (i) from the proceeds of the issuance of Further Notes or (ii) during the Replenishment Period, from funds allocated in accordance with the Pre-Acceleration Principal Priority of Payments. To the extent that the Additional Trust Consideration is not paid in full on the Addition Date, Deferred Consideration shall be payable in respect of such Further Advance as described in more detail in "*The Loans Trust - Deferred Consideration*" below.

"**Addition Date**" means (i) in respect of a Further Advance, the date on which such Further Advance is made by the Originator to an Obligor or (ii) in respect of a Replenishment Loan, the date on which the Originator declares a trust over its interest in a Replenishment Loan in favour of the Issuer and the Originator Beneficiary.

"**Additional Trust Consideration**" means an amount equal to (i) in respect of a Replenishment Loan, 99 per cent. of the Aggregate Principal Balance of such Replenishment Loan plus an amount equal to the Replenishment Loan Accrued Interest Payment or (ii) in respect of a Further Advance, 99 per cent. of the Aggregate Principal Balance of such Further Advance plus

an amount equal to the Further Advance Accrued Interest Payment, to be paid by the Issuer, or the Cash Administrator on the Issuer's behalf, in accordance with the Originator Trust Deed.

### **Deferred Consideration**

As part of the Trust Consideration and if required, the Issuer will pay Deferred Consideration to the Originator, consisting of certain amounts payable as determined by the Originator (or the Cash Administrator on its behalf) in accordance with the Originator Trust Deed. The Issuer's obligation to pay the Deferred Consideration will arise where on the Issue Date or, as applicable, the Addition Date, the amount of Initial Trust Consideration or, as the case may be, Additional Trust Consideration paid by the Issuer to the Originator, in respect of an Included Loan Advance (which, for the avoidance of doubt, shall include a Replenishment Loan or, as the case may be, a Further Advance), is less than an amount equal to 99 per cent. of the Aggregate Principal Balance of such Included Loan Advances (plus accrued but unpaid interest in respect thereof) on the relevant Issue Date or, as the case may be, the Addition Date.

The Issuer shall pay to the Originator an amount in relation to any Deferred Consideration pursuant to the terms of the Originator Trust Deed and the Administration Agreement, as set in more detail in "*The Loans Trust*".

"**Trust Consideration**" means the aggregate of the Initial Trust Consideration, any Excess AMM Consideration and the Additional Trust Consideration and, to the extent that the Initial Trust Consideration and/or the Additional Trust Consideration is not paid in full on the Issue Date and/or the relevant Addition Date, the Deferred Consideration.

### **Multi Loan Advances**

The Originator may grant more than one facility to the relevant Obligor under the Loan Agreement from time to time (collectively, the "**Loan Facilities**") and may designate some (but not all) of the Loan Facilities as Included Loan Advances. In this case, the Originator will retain the legal and beneficial entitlement to the Loan Facilities which have not been designated as Included Loan Advances (such Loan Facilities, the "**Non-Included Loan Advances**"). In the event that an Obligor of multiple Loan Facilities, (a "**Multi-Advance Obligor**"), makes a payment under the relevant Loan Agreement (which, for the avoidance of doubt, shall not include any enforcement proceeds received by the Loans Trustee in respect of the enforcement of the Related Security in relation to such Loan Facilities):



- (a) if the Multi-Advance Obligor has the right, pursuant to the Loan Agreement, to designate which Loan Facility such payment shall be allocated to and exercises this right or the relevant Loan Agreement has provided for the allocation of such payment, the amount received from such Multi-Advance Obligor shall be allocated in accordance with the instructions of the Multi-Advance Obligor or, as the case may be, in accordance with the terms of the relevant Loan Agreement;
- (b) if the Multi-Advance Obligor does not have the right pursuant to the Loan Agreement, to designate which Loan Facility such payment shall be allocated to or has the right but fails to exercise such right, the Originator shall allocate the amount received from such Multi-Advance Obligor in accordance with the Servicing Standards.

## **Replenishment**

During the Replenishment Period, the Collateral Administrator (on behalf of the Issuer) may use funds allocated in accordance with the Pre-Acceleration Principal Priority of Payments (i) to acquire a beneficial interest in additional loan advances, subject to the satisfaction of the Replenishment Criteria and (ii) to pay any Additional Trust Consideration or Deferred Consideration due in respect of a Further Advance.

On each Determination Date during the Replenishment Period, the Cash Administrator (on behalf of the Issuer) shall inform the Collateral Administrator of the amounts available to the Issuer in the relevant Interest Period which may be used for the acquisition of a beneficial interest in additional loan facilities or, as the case may be, for the payment of Deferred Consideration in respect of such additional loan facilities. If the Originator has legal and beneficial entitlement to additional loan advances (which are not subject to the Loans Trust) over which it is willing to add in the Loans Trust for the benefit of the Issuer (in consideration of the payment by the Issuer of the Additional Trust Consideration and, if required, the Deferred Consideration), the Originator shall liaise with the Collateral Administrator and provide the Collateral Administrator with such information as is required by the Collateral Administrator (or that the Collateral Administrator needs to provide to the Cash Administrator) to determine, *inter alia*, whether the Replenishment Criteria would be met if such loan advances became part of the Loans Trust on the Addition Date.

If the Collateral Administrator determines that the addition of such loan advances to the Loans Trust on the Addition Date would satisfy the Replenishment Criteria, the Originator shall make an offer to include such loan advances in the Loans Trust in favour of the Issuer and the Originator Beneficiary. The Issuer (or the Collateral Administrator on its behalf) will accept this offer by instructing the Cash Administrator to pay the Additional Trust Consideration on or before the Addition Date using the amounts available in accordance with the Pre-Acceleration Principal Priority of Payments. To the extent that the Additional Trust Consideration is not paid in full on the Addition Date, Deferred Consideration shall be payable in respect of such Replenishment Loan as described in more detail in "*The Loans Trust - Trust Consideration*" below.

If the Issuer, or the Collateral Administrator on behalf of the Issuer, accepts the offer, the Originator shall add such additional Included Loan Advances in the Loans Trust and such additional Included Loan Advances shall be subject to the Loans Trust on the Addition Date.

**Loan Terms Amendments and Related Security Adjustment**

Subject to certain restrictions as set out below, the Originator will have the right, at the request of an Obligor, to vary certain of the financial terms and conditions of any of the Included Loan Advances (including, *inter alia*, interest rate type, margin, length of term, amortisation schedule, covenanted interest cover ratio, covenanted LTV Ratio, repayment type and repayment frequency) (any such variation being a "**Loan Terms Amendment**") or make adjustments to the Related Security, including the substitution, replacement or release of one or more Mortgaged Properties from the security for a Loan (other than on full redemption) (any such adjustment being a "**Related Security Adjustment**"), provided that the Originator may, in certain circumstances, be obliged to reacquire the beneficial interest in an Included Loan Advance in relation to which a Loan Terms Amendment and/or a Related Security Adjustment was made (see "*Reacquisition of Beneficial Interest in the Included Loan Advances*" below).

In respect of certain Loan Terms Amendment or Related Security Adjustment, the Originator shall obtain Rating Agency Confirmation (as described in more detail in "*The Loans Trust – Loan Terms Amendments*" and "*The Loans Trust – Related Security Adjustment*" below).

**Reacquisition of the beneficial interest in Included Loan Advances**

Following the declaration of the Loans Trust, the Originator may (and in some circumstances shall) reacquire the beneficial interest in the relevant Included Loan Advances pursuant to the Call Option Agreement in the following circumstances:

(i) the Originator may reacquire the beneficial interest in relevant Included Loan Advances if the Originator notifies the Beneficiaries and the Cash Administrator that it has determined that some or all of the Included Loan Advances may be refinanced on terms more advantageous than those provided by the Notes (including in circumstances where the Class S Noteholders have exercised their call option); or

(ii) the Originator may reacquire the beneficial interest in the relevant Included Loan Advances if the Originator intends to sell, sub-participate, dispose of or enter any analogous transaction with respect to any Included Loan Advance or part thereof to a third party if such action is necessary or desirable from the point of view of a reasonably prudent lender; or

(iii) the Originator may reacquire the beneficial interest in the relevant Included Loan Advances if the Originator's short-term senior unsecured debt rating has been downgraded below "A-1" by S&P (or, where no short-term unsecured debt rating by S&P is available and the long-term rating of the Originator is available, below "A" by S&P) or "F1" by Fitch (or, where no short-term unsecured debt rating by Fitch is available and the long-term rating of the Originator is available, below "A" by Fitch); or

(iv) the Originator may reacquire the beneficial interest in the relevant Included Loan Advances if the relevant Included Loan Advance has become a Credit Impaired Obligation; or

**"Credit Impaired Obligation"** means any Included Loan Advance which, (i) in the opinion of the Collateral Administrator (a) has a significant risk of declining in credit quality and, with the lapse of time, may become a Defaulted Obligation, or (b) is declining in credit quality, or (ii) is a Defaulted Obligation; or

(v) the Originator shall reacquire the beneficial interest in the relevant Included Loan Advances (whether it is a Credit Impaired Obligation or a Non-Credit Impaired Obligation) if it is determined that (a) any Asset Warranty given by the Originator pursuant to the Originator Trust Deed in respect of the Included Loan Advances was breached at the Issue Date, or as the case may be, the Addition Date, or, in respect of a Loan Terms Amendment or Related Security Adjustment, any Repeating Asset Warranty given by the Originator was breached on the date on which the relevant Loan Terms Amendment or Related Security Adjustment was made and (b) any Restricted Loan Terms Amendment or, as the case may be, Restricted Related Security Adjustment, was made by the Originator in respect of an Included Loan Advance without obtaining a Rating Agency Confirmation from S&P, as more particularly described in more detail in *"The Loans Trust – Loan Terms Amendments"* and *"The Loans Trust – Related Security Adjustment"* below .

In the above circumstances, upon payment of the Reacquisition Proceeds by the Originator to the Loans Trustee, the Issuer and the Originator Beneficiary (as Beneficiaries of the Loans Trust) will agree to jointly surrender their respective beneficial interests in the relevant Included Loan Advances and thereby cause the whole of the beneficial interest in the relevant Included Loan Advances to be removed from the Loans Trust Property and to vest once again exclusively in the Originator (including any unpaid interest as at the date of completion of such reacquisition). An amount equal to 99 per cent. of the Reacquisition Proceeds received by the Loans Trustee shall be paid to the Issuer by the Loans Trustee in consideration of the surrender by the Issuer of its beneficial interest in the relevant

Included Loan Advances (the amount in question being the "**Issuer Surrender Receipt**" with respect to the relevant Included Loan Advances). An amount equal to 1 per cent. of the Reacquisition Proceeds received by the Loans Trustee shall be paid to the Originator Beneficiary by the Loans Trustee in consideration of the surrender by the Originator Beneficiary of its beneficial interest in the relevant Included Loan Advances (the amount in question being the "**Originator Surrender Receipt**" with respect to the relevant Included Loan Advances).

If the Originator reacquires the beneficial interest in a Non-Credit Impaired Obligation in circumstances described in (i), (ii) or (iii) above, the Issuer Surrender Receipt shall be used by the Issuer to redeem the Notes in accordance with Condition 5.3 (*Mandatory Early Redemption in part upon receipt of Issuer Surrender Receipt*).

**"Non-Credit Impaired Obligation"** means an Included Loan Advance other than a Credit Impaired Obligation.

If the Originator reacquires the beneficial interest in circumstances described in (iv) in respect of Credit Impaired Obligations or in circumstances described in (v) above, the Issuer Surrender Receipt may be used by the Issuer:

(A) during the Replenishment Period, to acquire a beneficial interest in additional loans, subject to the satisfaction of the Replenishment Criteria and in accordance with the other conditions for Replenishment (as described above); or

(B) following the expiry of the Replenishment Period, to redeem the Notes in accordance with Condition 5.2 (*Mandatory Early Redemption*).

Following the reacquisition of the beneficial interest in an Included Loan Advance by the Originator, the Originator (or the Collateral Administrator on its behalf) shall notify the Rating Agencies.

**Class A Overcollateralisation Test**

The Class A Overcollateralisation Test will be satisfied on any Measurement Date if the Class A Overcollateralisation Ratio exceeds the Class A Overcollateralisation Test Threshold, as set out in more detail in "*The Portfolio*" below.

**Beneficiaries of the Loans Trust**

The Loans Trust has two beneficiaries, being the Issuer in respect of the Investor Interest and the Originator Beneficiary (together with the Issuer, the "**Beneficiaries**") in respect of the Originator Interest. Cashflows in relation to Principal Receipts and Revenue Receipts and amounts representing set-offs by Obligors (if any) and defaults in relation to Included Loan Advances will be allocated to the Investor Interest and the Originator Interest in accordance with the Originator Trust Deed. See "*The Loans Trust*" for a more detailed description.

**Originator Powers of Attorney**

The Issuer will not have any direct relationship with, and will not be able directly to enforce any of the obligations of, any Obligor. However, the Originator will grant to the Issuer an irrevocable power of attorney to permit the Issuer (the "**Originator Power of Attorney**"), upon the occurrence of

certain events, to take certain actions in the name of the Originator to ensure performance by the Originator of its obligations under the Originator Trust Deed. See *"The Loans Trust"* for a more detailed description.

#### **Collection Account**

Collections from Obligor and other borrowers are currently paid to various collection accounts (the "**Collection Accounts**") operated by Lloyds TSB Bank plc (the "**Collection Account Bank**"). The Originator shall, on a daily basis, transfer all amounts expected to be received on such date pursuant to the terms of the relevant Loan Agreements which would be allocable to the Included Loan Advances, from the relevant Collection Account to the Interest Account, in respect of Revenue Receipts and to the Principal Account, in respect of Principal Receipts, in each case corresponding to the Investor Interest under the Loans Trust. Amounts expected to be received by the Originator on such date which would be allocable to the Included Loan Advances corresponding to the Originator Interest under the Loans Trust shall be paid to the Originator.

On each Monthly Reconciliation Date, the Cash Administrator (on behalf of the Originator) shall determine (A) the amounts actually received from Obligor during the Monthly Period allocable to Included Loan Advances corresponding to the Investor Interest under the Loans Trust and (B) the amounts transferred from the Collection Accounts to the relevant Issuer Account during the Monthly Period (taking into account amounts representing the Deferred Consideration transferred by the Cash Administrator to the Originator (the "**Monthly Reconciliation**")). In the event that there is a positive difference between the amount of (B) and the amount of (A), the difference (being the "**Reconciliation Amount**") shall be transferred from the relevant Issuer Account to the relevant Collection Account on such Monthly Reconciliation Date (or vice versa if there is a negative difference).

The Cash Administrator shall determine the portion of the Reconciliation Amount allocable to Principal Receipts, which shall be paid to or, as the case may be, from the Principal Account, and the portion allocable to Revenue Receipts, which shall be paid to or, as the case may be, from the Interest Account, subject always to the availability of funds.

"**Monthly Period**" means, for each Monthly Reconciliation Date, the preceding calendar month provided that the first Monthly Period shall commence on the Issue Date.

"**Monthly Reconciliation Date**" means the 5<sup>th</sup> of each calendar month provided that if such day is not a Business Day, the Monthly Reconciliation Date shall be the immediately succeeding Business Day and the first Monthly Reconciliation Date shall be 5 September 2009.

Should the rating of the Collection Account Bank be downgraded by Fitch or S&P to below the Collection Account Bank Required Rating, the Originator shall, within 30 calendar days of such downgrade, designate an account at a suitable account bank as the substitute account (the "**Substitute Collection Account**") and transfer all funds standing to the

credit of the Collection Accounts in respect of Included Loan Advances to such Substitute Collection Account. Following such substitution, the Obligors will be notified by the Originator to make payments directly into such Substitute Collection Account. If the Originator fails to designate a Substitute Collection Account and/or transfer all funds standing to the credit of the Collection Accounts to such Substitute Collection Account and/or notify the Obligors to make payment directly to such substitute Collection Account, a Power of Attorney Event will occur and the Issuer shall procure such transfer and/or notification pursuant to the Originator Power of Attorney within 60 calendar days of the occurrence of the Power of Attorney Event.

## **TRANSACTION DOCUMENTS**

### **Originator Trust Deed**

Pursuant to the Originator Trust Deed, the Originator will declare a trust over its entitlement to the Included Loan Advances and their Related Security whereby the Loans Trustee will hold legal title to the Included Loan Advances and their Related Security each in its capacity as trustee on behalf of the Issuer and the Originator Beneficiary.

### **Call Option Agreement**

Pursuant to the Call Option Agreement, the Originator, the Issuer and the Originator Beneficiary will agree the circumstances under which the Originator may re-acquire the beneficial interest in the relevant Included Loan Advances.

### **Administration Agreement**

The Originator, the Issuer and following the service of an Acceleration Notice, the Note Trustee will appoint the Collateral Administrator and the Cash Administrator to carry out certain duties and related administrative functions as described in the Administration Agreement. The Cash Administrator will, following receipt from the Originator of amounts corresponding to the Investor Interest, calculate, allocate and pay such amounts on behalf of the Issuer in accordance with the Conditions and shall maintain all required records, ledgers, books and accounts in relation to such calculation, allocation and payment.

The Collateral Administrator is required to advise the Issuer on the purchase of the Replenishment Loans and the evaluation of whether the Portfolio Criteria, Replenishment Criteria and/or the Eligibility Criteria, as the case may be, are met and is required to administer the Included Loan Advances on behalf of the Originator. See "*Collateral Administration and Cash Administration*" below

### **Swap Agreement**

The Issuer will enter into the Swap Agreement with the Swap Provider in order to hedge the basis mismatch between the Included Loan Advances and the Notes, as described in more detail in "*Hedging Arrangements*" below.

### **Other Transaction Documents**

In addition to the documents referred to above, the Issuer will enter into additional documents in connection with the issue of the Notes including, amongst others, the Incorporated Terms Memorandum, the Note Trust Deed, the Agency Agreement, the Account Bank Agreement, the Corporate Services Agreement and the Note Purchase Agreement.

## **RISK FACTORS**

### **1. INTRODUCTION**

An investment in the Notes of any class involves certain risks, including risks relating to the Charged Assets securing such Notes and risks relating to the structure and rights of such Notes and the related arrangements. Prospective investors should carefully consider the following risk factors, in addition to the matters set forth elsewhere in this Prospectus, prior to investing in any Notes. Terms not defined in this section and not otherwise defined above have the meanings set out in the Conditions.

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.

None of the Issuer, the Originator, the Loans Trustee, the Arranger, the Note Trustee, the Collateral Administrator, the Cash Administrator, the Agents, the Swap Provider or any other party to the Transaction Documents has an obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date of this Prospectus or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

### **2. GENERAL RISKS**

#### **2.1 *Investments in the Notes are subject to the risk associated with an investment in the underlying portfolio of loans***

Pursuant to the Originator Trust Deed, the Issuer will receive a beneficial interest in a portfolio of loans with certain risk characteristics, restrictions and guidelines as described below under "*Risks relating to the Collateral - the Portfolio*". There can be no assurance that the Issuer's investment objectives with respect to such loans will be achieved, that the Noteholders receive the full or any amounts payable by the Issuer under the Notes or that they will receive any return on their investment in the Notes. An investor in the Notes may potentially suffer principal losses on its investment in the Notes. Prospective investors are therefore advised to review this entire Prospectus carefully and should consider, among other things, the risk factors set out herein before deciding whether to invest in the Notes. Except as is otherwise stated below, such risk factors are generally applicable to all classes of Notes, although the degree of risk associated with each class of Notes will vary in accordance with the position of such class of Notes in the Priority of Payments.

None of the Originator, the Originator Beneficiary, the Loans Trustee, the Arranger, the Note Trustee, the Collateral Administrator, the Cash Administrator, the Swap Provider or the Agents undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Originator, the Originator Beneficiary, the Loans Trustee, the Arranger, the Note Trustee, the Collateral Administrator, the Cash Administrator or the Agents which is not included in this Prospectus.

#### **2.2 *No Direct Interest***

##### ***Beneficial Interest in Included Loan Advances Only***

The Issuer will not have any direct or exclusive interest in the Included Loan Advances. The Included Loan Advances will not be assigned legally or equitably or otherwise transferred to the Issuer and legal

title to the Included Loan Advances will remain with, or shall continue to be held on behalf of, the Originator (in its capacity as Loans Trustee). The Issuer will have a fixed undivided interest in the Loans Trust Property which does not give it exclusive entitlement to any particular asset (or to any severable part of an asset) within the Loans Trust Property. In its capacity as trustee of the Loans Trust, the Loans Trustee will hold its interests in the Included Loan Advances on trust for the benefit of the Issuer and the Originator Beneficiary. However, the Issuer will not have any direct entitlement under the Loans Trust to the Included Loan Advances and neither the Issuer nor the Note Trustee:

- (a) will have a direct contractual relationship with any Obligor under any Included Loan Advance;
- (b) will have the right to assert claims or effect remedies directly against the Obligors; or
- (c) will have any rights to vote in respect of a decision of the lenders or give any instructions to the Obligor in respect of any Included Loan Advance,

unless the Originator Beneficiary joins with the Issuer in calling for the legal title to the Included Loan Advances.

In addition, the Originator will not grant the Issuer, the Loans Trustee, the Note Trustee or any other entity any security interest over any Included Loan Advance.

*Limitations on Enforcing Included Loan Advances Against Obligors and the Originator Powers of Attorney*

In the event of defaults by Obligors under the Included Loan Advances, the Issuer will have rights solely against the Loans Trustee under the Loans Trust secured in favour of the Note Trustee and will have no rights against Obligors. Only the Originator will be entitled to take any remedial action in respect of the relevant Included Loan Advances or to exercise any votes permitted to be taken or given thereunder.

The Originator Power of Attorney will allow the Issuer to act in the name of the Originator (as lender of record) to take actions to enforce the Included Loan Advances against the Obligors and to collect the proceeds of Loans Trust Property upon the occurrence of a Power of Attorney Event (see "*The Loans Trust and the Loans Trustee — Originator Powers of Attorney*" for further detail and certain definitions used in this paragraph). The Issuer has received legal advice (subject to certain reservations) to the effect that the Issuer may exercise its powers under the Originator Power of Attorney following the occurrence of a Power of Attorney Event without the leave of the court under English insolvency laws. There can be no assurance, however, that a court would reach the same conclusion or that leave, if required, would be granted. In the event that the Issuer is unable to exercise its powers under the Originator Power of Attorney, the Issuer would not be able to take actions to, amongst other things, enforce the Included Loan Advances against the Obligors and the Noteholders may suffer a loss as a result of that. See "*The Loans Trust – Originator Powers of Attorney*" for more information on the actions the Issuer can take pursuant to the Originator Power of Attorney.

**2.3      *Structural Issues Relating to Portfolio***

In the event of the insolvency of the Originator or an Obligor, an Obligor which also has a deposit with the Originator or to which the Originator owes other obligations may attempt to satisfy its payment obligation in respect of the Included Loan Advance by setting off its deposit or other obligations against such payment obligation.

Substantially all of the Loans contained in the Portfolio are subject to provisions contained in the relevant Loan Agreement pursuant to which the relevant Obligor expressly agrees to make payments in respect of the Loans thereunder without set-off or counterclaim.

**"Loan Agreement"** means a facility agreement in relation to an Included Loan Advance entered into between the relevant Obligor and, amongst others, the Originator, whether syndicated or bilateral, as amended and/or restated from time to time;

Notwithstanding the previous paragraph, however, under English law, certain mandatory set-off provisions under applicable insolvency laws would continue to be available to an Obligor on its insolvency or the insolvency of the Originator if, contrary to the way in which the Loans Trust has been



structured, the Originator Trust Deed was held to be in breach of a transfer restriction in the underlying Included Loan Advance.

Therefore, if (1) (outside of an insolvency) an Included Loan Advance either (a) does not contain an agreement or undertaking to pay without set-off or (b) it does contain an agreement or undertaking to pay without set-off, but such provision were determined to be unenforceable, or (2) a court determined that such mandatory set-off provisions were available so as to enable an Obligor to set off amounts owing by the Originator against its payment obligations, then in either case an Obligor which also had a deposit with the Originator or to which the Originator owes other obligations might be able to set-off such deposit or such other obligations against its obligations in respect of an Included Loan Advance, in which case Principal Receipts and/or Revenue Receipts in respect of such Included Loan Advance could be diminished and consequently Noteholders could suffer a loss.

#### *Restrictions on Transfer in Included Loan Advances and No Removal of Lloyds TSB Bank plc as Loans Trustee*

Certain of the Included Loan Advances contain restrictions on transfer that may limit or restrict the transfer, assignment or assignation of the Included Loan Advances. The Loans Trust has been structured with the intention that such limitations or restrictions are not contravened by the declaration of the Loans Trust. Such limitations or restrictions on transfer, assignment or assignation and the provisions of the Originator Trust Deed will not permit the appointment of a substitute trustee under the Loans Trust, even in the event of a default by Lloyds TSB Bank plc of its obligations as Loans Trustee. Accordingly, unless a Power of Attorney Event has occurred, Lloyds TSB Bank plc is the only entity capable of enforcing the Included Loan Advances. However, additionally, under the Originator Powers of Attorney, the Issuer may enforce, in certain limited circumstances and in the name of Lloyds TSB Bank plc, the rights of Lloyds TSB Bank plc to, among other things, collect the relevant Included Loan Advances.

#### **2.4 Notes may not be suitable investments for all investors**

Prospective purchasers of the Notes of any class should ensure that they understand the nature of such Notes and the extent of their exposure to risk, that they have sufficient knowledge, experience and access to professional advisors to make their own legal, tax, accounting and financial evaluation of the merits and risks of investment in such Notes and that they consider the suitability of such Notes as an investment in the light of their own circumstances and financial condition.

#### **2.5 Limited Resources of the Issuer**

The funds available to the Issuer to pay its expenses on any Payment Date are limited as provided in the relevant Priority of Payments. In the event that such funds are not sufficient to pay the expenses incurred by the Issuer, the ability of the Issuer to operate effectively may be impaired, and it may not be able to defend or prosecute legal proceedings brought against it or which it might otherwise bring to protect its interests or be able to pay the expenses of legal proceedings against persons it has indemnified.

#### **2.6 Administration of Loans Trust**

##### *Reliance on Administration of Loans Trust by Originator*

None of the Issuer or the Note Trustee has any legal interest in the Included Loan Advances and the Originator will not be, and will not be deemed to be, acting as the agent or trustee of the Issuer in connection with the exercise of, or the failure to exercise, any of the rights or powers of the Originator arising under or in connection with its holding of any such Included Loan Advances (although the Originator will be the Loans Trustee).

The Issuer will be dependent upon the Originator's performance of its obligations under the Originator Trust Deed in order to receive amounts due from Obligors under Included Loan Advances. Any such Revenue Receipts and/or Principal Receipts in relation to Included Loan Advances are held by the Loans Trustee in accordance with the Originator Trust Deed. While such amounts are held in a Collection Account, such amounts are not held subject to any security interest and the Issuer and the Note Trustee will accordingly have an unsecured claim against the Originator in respect of its beneficial interest in Collections then on deposit in the Collection Accounts. However, in the event that the ratings of the Collection Account Bank fall below the Collection Account Bank Required Ratings, there will be an

obligation on the Originator to transfer the Collection Account to another account bank which has the Collection Account Bank Required Ratings.

#### *Ability to Change Terms of an Included Loan Advance or Dispose of Included Loan Advances*

The Originator may, as lender of record for each Included Loan Advance, act with respect to such transactions in the same manner as if the Originator were acting in its own commercial interests in relation to each Included Loan Advance and without regard to whether any such action might have an adverse effect on the Issuer or the Noteholders or any other person. In particular, the Originator may, subject to transfer or assignment restrictions in the relevant Loan Agreement arrange for the sale or sub-participation of any Included Loan Advance or part thereof which the Originator would otherwise sell or sub-participate in the ordinary course of the management of its corporate loan portfolio, as if it held the benefit of such Included Loan Advance entirely for its own account, including in circumstances where the Originator reasonably considers that the credit quality of such Included Loan Advance has declined or has a significant risk of declining.

In such event, the beneficial interest in the relevant Included Loan Advance would, following payment to the Loans Trustee by the Originator of the Reacquisition Proceeds in respect thereof in accordance with the Originator Trust Deed, be surrendered by the Issuer and the Originator Beneficiary and would no longer form part of the Loans Trust and the Originator will then immediately on-sell or sub-participate such Included Loan Advance to the relevant third party.

Following such disposal or sub-participation, the Issuer Surrender Receipt shall be credited by the Loans Trustee to the Principal Account and Interest Account as the case may be.

#### *Syndicated Loan Facilities*

A number of the Included Loan Advances are drawn under facilities which are syndicated or are capable of being syndicated or which have multiple lenders, in respect of which the exercise of remedies and the taking of other actions against Obligor (including the granting of amendments and waivers) may be subject to the vote of a certain percentage of the lenders thereunder (measured by the amount of outstanding Advances or commitments). In respect of certain of the Included Loan Advances, the Originator may not have a sufficient interest to direct compliance by the Obligor with the terms of the Included Loan Advances, to object to certain changes to the applicable Included Loan Advances that may be agreed to by the other lenders or to require the enforcement of the Included Loan Advances or any related security. In addition, a bank other than the Originator may act as agent for the lenders. In such cases, the Originator are dependent upon the actions taken by the agent for the lenders as well as other lenders in enforcing the terms of the relevant Included Loan Advance against the relevant Obligor. Under syndicated loans in which a bank other than either of the Originator acts as agent for the lenders under the relevant Included Loan Advance, the Originator in most circumstances will not have the ability to take enforcement actions directly against the Obligor under the Included Loan Advance without the involvement of the agent, and accordingly the ability of the Issuer to take enforcement actions directly against such Obligor will be similarly limited in the event that it takes action under the Originator Powers of Attorney.

#### *Collectability of Included Loan Advances*

The collectability of the Included Loan Advances is subject to credit risks and will generally fluctuate in response to, among other things, general economic conditions, the financial conditions of Obligor and related factors. Included Loan Advances included in the Portfolio which comply with the Eligibility Criteria on the Issue Date but which subsequently cease to comply with the Eligibility Criteria may not be removed from the Portfolio and advances thereunder which are subject of the Loans Trust may not cease to be subject of the Loans Trust. To the extent that a loss is suffered in relation to any Included Loan Advance, there may be insufficient funds available to the Issuer to enable the Issuer to meet payments to Noteholders in full and the Noteholders may suffer a loss.

#### *Continued Relationship of the Originator with Obligor under Advances and Conflicts of Interest*

The Originator and their affiliates may accept deposits from, make loans or otherwise extend credit to, and generally engage in any kind of commercial or investment banking or other business transactions with, any existing Obligor or its affiliates. The Originator and their affiliates may have entered into and

may from time to time enter into business transactions with Obligors or their respective affiliates and may or may not hold other obligations of or have business relationships with any existing Obligor or its affiliates. Such obligations or relationships may or may not comprise Included Loan Advances.

Various potential and actual conflicts of interest may arise from the activities of the Originator and/or their affiliates in connection with the transactions contemplated by this Prospectus. Among other things, the Originator and/or their affiliates may have other loans, equity positions or other relationships with Obligors or their affiliates as outlined above. These loans, equity positions and other relationships may give rise to interests that are different from or adverse to the interests of the Noteholders. There are no restrictions in the relevant agreements on such loans or relationships and the Originator shall not be obliged to have regard for the interests of the Loans Trustee, the Issuer or the Noteholders in its business transactions with Obligors or their affiliates.

### **3. RISKS RELATING TO THE NOTES**

#### **3.1 *The Notes are limited recourse obligations of the Issuer***

The Issuer will have no assets available to make any payment in respect of the Notes other than Available Funds actually received prior to the relevant Payment Date and available for use to make payments in respect of the Notes in accordance with the relevant Priority of Payments, subject to any payment of fees and expenses payable by the Issuer. There is no guarantee the Available Funds will be sufficient to make the requisite payments in respect of the Notes. Failure by the Issuer to make payment in respect of the Class A Notes (subject to any grace periods) will constitute a default by the Issuer. Subject to the grace periods set out in the Conditions, the Issuer will be under no obligation to make any payment to the Noteholders at any time after the Note Maturity Date. If on the Note Maturity Date, subject to the grace periods set out in the Conditions, after payment of all claims ranking in priority to amounts due under the Notes and realisation and distribution of all Charged Assets, the Issuer has insufficient funds to make payments due in respect of any Notes, then the Issuer shall not be liable for any shortfall arising and any such shortfall shall cease to be due and payable. Such shortfall will be borne first by Class S Noteholders and thereafter by Class A Noteholders.

#### **3.2 *Notes are payment obligations of the Issuer only***

The Notes are limited recourse obligations of the Issuer only and will not be obligations or responsibilities of, or guaranteed by, any other person. In particular, the Notes will not be obligations or responsibilities of, or guaranteed by, any of the Transaction Parties or any entity in the same group of entities as, or affiliated with, any of such persons or any other person other than the Issuer and none of any such persons will accept any liability whatsoever to Noteholders.

#### ***Non-Petition***

In addition, with the exception of the Note Trustee, none of the Noteholders, or any other Secured Creditor (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, reorganisation, arrangement, insolvency, winding-up, liquidation or other proceedings under any applicable bankruptcy or similar laws in connection with any obligations of the Issuer relating to the Notes or the Note Trust Deed or otherwise owed to the Noteholders, save for lodging a claim in the liquidation of the Issuer which is initiated by another party, or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer, nor shall any of them have a claim arising in respect of the share capital of the Issuer.

#### ***Corporate Obligations Only***

In addition, none of the Noteholders or other Secured Creditors (nor any other person acting on behalf of any of them) shall have any recourse against any director, shareholder or officer of the Issuer in respect of any obligations, covenant or agreement entered into or made by the Issuer pursuant to the Conditions, the Note Trust Deed or any other document relating to the Notes to which the Issuer is a party or any notice or documents which it is requested to deliver hereunder or thereunder.

**3.3 *Interest Payments and Principal Payments on the Class A Notes are subordinated to certain other obligations of the Issuer***

Payments in respect of the Class A Notes rank junior to certain other payment obligations of the Issuer. Although the Issuer expects that the payments under the loans in the Portfolio will suffice for the Issuer to be able to pay all amounts payable in priority to the Class A Notes (including certain fees, expenses and other liabilities of the Issuer) and to pay all amounts due in respect of the Class A Notes, there is no assurance that this will be the case. In such instance the Issuer could be left with insufficient funds to pay the full amount of the Class A Interest Payments or the principal payments on the Class A Notes, as the case may be. Please note however that the Issuer may utilise Principal Proceeds and amounts standing to the credit of the Deposit Account to cover Revenue Shortfalls.

For further information on the priority of payments and the priority of fees, expenses and other liabilities, see "*Terms and Conditions of the Notes — Condition 7 (Priority of Payments)*".

**3.4 *Amount and Timing of Payments***

Investment in the Notes of any class involves a degree of risk arising from fluctuations in the amount and timing of receipt of the principal and interest on the Included Loan Advances by or on behalf of the Issuer and the amounts of the claims of creditors of the Issuer ranking in priority to the holders of each class of the Notes. In particular, prospective purchasers of such Notes should be aware that the amount and timing of payments of the principal and interest on the Included Loan Advances will depend upon the detailed terms of the documentation relating to each of the Included Loan Advances and on whether or not any Obligor thereunder defaults in its obligations.

**3.5 *Payments under the Class S Notes are subordinated to certain other obligations of the Issuer, including payment claims under the Class A Notes***

On each Payment Date, the entitlement of the holders of the Class S Notes to receive payments is subordinated to the entitlement of the holders of the Class A Notes. Before an Acceleration Notice has been served interest payments on the Class S Notes are subordinated to Class A Interest Payments and principal payments on the Class S Notes are subordinated to principal payments on the Class A Notes. Following service of an Acceleration Notice, payments of interest and principal on the Class S Notes are subordinated to payments of both interest and principal on the Class A Notes. Further, the entitlement of the holders of the Class S Notes to payments of interest and principal is subordinated to the obligations of the Issuer to pay certain fees, expenses and other liabilities on each Payment Date.

In the event of any redemption in full or acceleration of the Class A Notes, the Class S Notes will also be subject to automatic redemption/acceleration and the Charged Assets may, in either case, be liquidated. Liquidation of the Charged Assets at such time or any other remedies pursued by the Note Trustee upon enforcement of the security over the Charged Assets could be adverse to the interests of the Class S Noteholders. To the extent that any losses are incurred by the Issuer in respect of any Charged Assets, such losses will be borne first by the Class S Noteholders and then by the Class A Noteholders. Remedies pursued by the Class A Noteholders could be adverse to the interests of the Class S Noteholders.

For further information on the priority of payments and the priority of fees, expenses and other liabilities, see "*Terms and Conditions of the Notes — Condition 7 (Priority of Payments)*".

**3.6 *Conflicts of Interest Among Noteholders***

Subject to the Conditions and the Note Trust Deed the Note Trustee shall have regard to the interests of each class of the Noteholders as a class. The Note Trustee shall have regard to the interests of the Class A Noteholders if, in the Note Trustee's opinion, there is a conflict between the interests of the Class A Noteholders and the Class S Noteholders. In addition, the Note Trust Deed provides that, so long as any of the Notes remains outstanding, the Note Trustee shall, as regards all the powers, trusts, authorities, duties and discretions vested in it by the Note Trust Deed, have no regard to the interests of any Secured Creditor other than the Noteholders.

### 3.7 *Recent Events in the Collateralised Debt Obligation "CDOs") and Leveraged Finance Markets*

In late 2006 the sub-prime mortgage loan market in the United States commenced a period characterised by a large number of borrower defaults. Prior to the commencement of such period, a significant volume of sub-prime mortgage loans had been securitised and, in turn sub-prime mortgage backed securities had been sold to CDOs of asset-backed securities ("ABS") and other investment funds. As a result of the deterioration of the US sub-prime mortgage loan market, CDOs of ABS and other investment funds that invested in US sub-prime mortgage-backed securities began experiencing significant losses which has triggered a series of events that resulted in severe liquidity crisis in the global credit markets from the summer of 2007. Among the sectors of the global credit markets that are experiencing particular difficulty due to the current lack of liquidity are the CDO and leveraged finance markets including CDO vehicles and other investment funds with little or no exposure to sub-prime mortgages and/or to the United States.

There exist significant additional risks for the Issuer and investors as a result of the current liquidity crisis. These risks include, among others, (i) the possibility that, on or after the Issue Date, the price at which assets can be sold will have deteriorated from their effective purchase price and (ii) the increased illiquidity of the Notes as there is currently little or no secondary trading in CDO securities. These additional risks may affect the returns on the Notes to investors or the market for the Notes, as applicable.

In addition, the current crisis has stalled the primary and secondary markets for a number of financial products including leveraged loans. As a result, there exists a large volume of leveraged loans which remain on the books of the relevant arranging banks that have not yet been sold to investors, including CDOs of leveraged loans or other investment vehicles. In addition, while it is anticipated that new loans entered into after the date of the onset of the liquidity crisis will have a different set of covenants imposed on the relevant obligors (as compared with those loans entered into prior to the onset of the liquidity crisis), the ability of private equity sponsors and leveraged loan arrangers to effectuate new leveraged buy-outs may be partially or significantly limited to the secondary market. The impact of the crisis on the primary and secondary markets may adversely affect the ability of the Loans Trustee to perform their role in relation to the Portfolios and ultimately, the returns on the Notes to investors.

In the event that certain sectors of the global credit markets begin to recover, there can be no assurance that the CDO or leveraged finance markets will recover at the same time or to the same degree as such other recovering global credit market sectors.

### 3.8 *Limited Liquidity and Restrictions on Transfer*

There is currently a very limited market for notes representing collateralised debt obligations similar to the Notes and there is currently no market for the Notes themselves. There can be no assurance that any secondary market for any of the Notes will develop or, if a secondary market does develop, that it will provide the Noteholders with liquidity of investment or that it will continue for the life of such Notes.

Investors should note that the market for the Notes will be affected by, amongst other things, supply and demand for the Notes, and that, accordingly, it should not be assumed that there will be a significant correlation between the market value of the Notes and the market value of the Portfolio. Prospective investors should be aware that the market value of the Notes may be affected by events in the capital and credit markets which may have an effect on the market value of Included Loan Advances and similar structured securities generally, as well as events in the capital and credit markets that may affect the Portfolio or the Issuer.

In addition, the liquidity of any trading market (should any develop) in the Notes may be adversely affected by changes in the overall market for investment and non-investment grade securities. If such a trading market were to develop, the Notes could trade at prices that may be higher or lower than the initial offering price depending on many factors including prevailing interest rates and the market for similar securities.

Consequently, a purchaser must be prepared to hold such Notes for an indefinite period of time or until the Note Maturity Date. The Notes are subject to certain transfer restrictions and can be transferred only to certain transferees. Such restrictions on the transfer of the Notes may further limit their liquidity.

Although application has been made for the Notes to be admitted to trading on Euronext Amsterdam in accordance with the Prospectus Directive, there can be no assurance that admission to Euronext Amsterdam will be achieved or, if achieved, will be maintained.

### **3.9 *Volatility of the Class S Notes***

The Class S Notes represent a leveraged investment in the underlying Included Loan Advances. Accordingly, it is expected that changes in the market value of the Class S Notes will be greater than changes in the market value of the underlying Included Loan Advances, which themselves are subject to credit, liquidity, interest rate and other risks. Utilisation of leverage is a speculative investment technique and involves certain risks to investors and will generally magnify the Class S Noteholders' opportunities for gain and risk of loss.

### **3.10 *The ability of the Issuer to redeem the Notes in the event of their acceleration prior to the Note Maturity Date is limited***

If the Notes were to be accelerated for any reason prior to the Note Maturity Date, the Issuer would be required to redeem the Principal Amount Outstanding owed under the Notes without having received payments in relation to the Investor Interest. Further, the Issuer's ability to realise funds from the Investor Interest is limited as the Originator is the legal owner of any of the Included Loan Advances. See "*The Loans Trust*". As a result, even upon the acceleration of the Notes as a result of an Event of Default (including a Trust Pay Out Event), the amount of Available Funds on each Payment Date may not change and would be distributed as before in accordance with the relevant Priority of Payments. It is therefore highly likely that the Issuer would not be able to redeem in full (and possibly not in part) the Principal Amount Outstanding owed under the Notes and its inability to redeem the Notes might continue until the Note Maturity Date. Consequently, a purchaser of the Notes must be prepared to hold any Notes until the Note Maturity Date.

### **3.11 *Noteholders' Resolutions***

The Note Trust Deed includes provisions for the passing of an Extraordinary Resolution (whether at a Noteholders' meeting by way of vote or by Written Resolution) of the Noteholders in respect of (among any other matters) amendments to the Conditions of the Notes and/or the Note Trust Deed. Such provisions include, among other things, (i) quorum requirements for the holding of Noteholders' meetings and (ii) voting thresholds required to pass Extraordinary Resolutions at such meetings (or through Written Resolutions). The quorum required for a meeting of Noteholders convened to vote on an Extraordinary Resolution other than regarding a Reserved Matter is one or more person(s) holding or representing a majority of the Principal Amount Outstanding of the Notes then Outstanding in that class or those classes. The quorum at an adjourned meeting is one Noteholder. The quorum required for a meeting of Noteholders convened to vote on an Extraordinary Resolution relating to a Reserved Matter (which must be proposed separately to each class of Noteholders) will be one or more person(s) holding or representing at least 75 per cent. of the Principal Amount Outstanding of the Notes then Outstanding in the relevant class or classes. The quorum at an adjourned meeting to vote on an Extraordinary Resolution relating to a Reserved Matter is one or more person(s) holding or representing not less than 33 1/3 per cent of the Principal Amount Outstanding of the Notes then Outstanding in the relevant class or classes. It should however be noted that amendments may still be effected and waivers may be granted in respect of such provisions in circumstances where not all Noteholders agree with the terms thereof and any amendments or waivers once passed in accordance with the provisions of the Conditions and the provisions of the Note Trust Deed will be binding on all such dissenting Noteholders. See Condition 14 (*Meetings of Noteholders*) and the more detailed provisions of the Note Trust Deed.

Notwithstanding the requirements set out above, any amendments to, or waivers in respect of, Condition 7 (*Priority of Payments*), Condition 15 (*Modification and Waiver*) of the Conditions, or Clause 7.2 (*Modification*) of the Note Trust Deed, shall be subject to approval in writing of such proposed amendment by the Swap Provider.

### **3.12 *Voting Rights upon an Event of Default and Enforcement***

Subject to the Conditions of the Notes, if an Event of Default occurs and is continuing, the Note Trustee may, at its discretion, and shall, if so directed by an Extraordinary Resolution of the holders of the Most Senior Class or directed in writing by holders of at least 25 per cent. in aggregate of the Principal Amount

Outstanding of the Most Senior Class of Notes then outstanding, give notice to the Issuer that all the Notes are to be immediately due and payable. Subject to the Conditions of the Notes, the Note Trustee may (**provided that** it is indemnified and/or secured to its satisfaction) at its discretion without further notice institute such proceedings as it thinks fit to enforce its rights under the Note Trust Deed, in respect of the Notes of each class and under the Transaction Documents and, pursuant and subject to the terms of the Note Trust Deed at any time after the Charged Assets has become enforceable, realise and/or otherwise liquidate or sell the Charged Assets in whole or in part and/or take such action as may be permitted under applicable laws against any Obligor in respect of the Charged Assets and/or take any other action to enforce the security over the Charged Assets. See Condition 11 (*Events of Default*) and Condition 12 (*Enforcement*).

**3.13     *Payments under the Notes will not be grossed up in the event that tax on such payments must be withheld***

In the event that any withholding tax or other deduction for tax is imposed on payments of interest on the Notes, the holders of the Notes will not be entitled to receive grossed-up amounts to compensate for such withholding tax and no Event of Default shall occur as a result of any such withholding or deduction.

**3.14     *The future ratings of the Class A Notes are not assured and may be limited in scope***

It is a condition of the issue and sale of the Notes that the Class A Notes be rated by S&P and Fitch as set out above. The rating assigned to the Class A Notes by S&P and Fitch addresses the likelihood of full and timely payment to the Noteholders of all payments of interest on each Payment Date and the likelihood of full and ultimate payment of principal on the Note Maturity Date. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors. A rating is not a recommendation to buy, sell or hold the Class A Notes, in as much as such rating does not comment as to market price or suitability for a particular investor. There is no assurance that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the Rating Agency if, in their judgment, circumstances in the future so warrant. In the event that a rating initially assigned to the Class A Notes is subsequently lowered or withdrawn for any reason, no person or entity is obliged to provide any additional support or credit enhancement with respect to such Notes and the market value of such Notes is likely to be adversely affected.

**3.15     *Average Life and Prepayment Considerations***

The average life of the Notes of each class may be different than the number of years until their Note Maturity Date. No assurance can be made as regards the exact average life of any of the Notes. Average life refers to the average amount of time that will elapse from the date of issue of each class of Notes until amounts in respect of principal of such Notes have been paid to the holder thereof. The average life of the Notes of each class will be affected by, among other factors: (a) the structure of the Notes (including payment priorities) and the Replenishment Period, (b) the characteristics of the Included Loan Advances, including the existence and ability to exercise and frequency of exercise of any early termination rights or transfer rights or other similar right and the amount and timing of receipt of Early Repayment Amounts (as defined in the Conditions) and/or recoveries received in respect of an Included Loan Advance, (c) the extent of reacquisition of the beneficial interest in the Loans Trust Property in accordance with the Originator Trust Deed and Call Option Agreement and (d) mandatory or optional redemption of the Notes. The allocation of amounts received from Multi-Advance Obligors advances not subject to the Loans Trust in priority to the Included Loan Advances may result in the average life of the Notes being longer than it would be if such amounts were allocated *pari passu* or to Included Loan Advances in priority to advances not subject to the Loans Trust.

**3.16     *Other Commercial Relationships of the Parties Involved and Conflicts of Interest***

The Originator, the Loans Trustee, the Arranger, the Note Trustee, the Swap Provider, the Collateral Administrator, the Cash Administrator, the Agents and/or any of their Affiliates, as well as the other parties to the Transaction acting in their respective capacities, shall not, by virtue of acting in any such capacity, be deemed to have other duties or responsibilities other than as expressly provided with respect to each such capacity. In particular, to the extent that Lloyds TSB Bank plc and/or its Affiliates acts in any of the above capacities with respect to the Issuer, the interests of Lloyds TSB Bank plc and its Affiliates may at times conflict with the interests of Noteholders and/or other Transaction Parties as a result of acting in a number of different capacities. As of the Issue Date, the Issuer expects that Lloyds

TSB Bank plc and its Affiliates will act in a number of capacities, including Arranger, Collateral Administrator, the Cash Administrator, Loans Trustee, Originator and Swap Provider.

Any party to the Transaction and any of its Affiliates may have entered or may enter into business dealings with each other or with third parties from which they may derive revenues and profits in addition to any fees stated in the various documents, without any duty to account therefor and may from time to time be in possession of certain information (confidential or otherwise) and/or opinions which information and/or opinions might, if known by other parties (or individuals responsible for monitoring or advising the Issuer) or any Noteholder, affect decisions made by it (or them), including with respect to an investment in the Notes. Notwithstanding this, none of the parties to the Transaction including the Arranger nor any of their Affiliates shall have any duty or obligation to notify the Issuer, the Note Trustee, any Noteholder or any other party to the Transaction thereof (save as expressly provided in the Transaction Documents).

The parties to the Transaction and their respective Affiliates may also have ongoing relationships with each other and may own securities or other obligations issued by them or deal in any obligation of another party to the Transaction or its Affiliates and may accept deposits from, make loans or otherwise extend credit to, and generally engage in any kind of commercial or investment banking, investment management or other business transactions with each other and may act with respect to such transactions in the same manner as if the Transaction Documents, the Transaction and the Notes did not exist.

Any party to the Transaction, other than the Issuer, may purchase Notes from time to time and their interests may conflict with those of other Noteholders. As a consequence of these or other such relationships, potential or actual conflicts of interest may exist and/or arise in relation to the Transaction.

**3.17 *Performance under the Notes depends on, among other things, the performance of third parties***

The performance of any investment in the Notes will in part be dependent upon the performance by third parties of their respective obligations under the Transaction Documents, including without limitation the Originator, the Loans Trustee, any Swap Provider, any Agent, the Collateral Administrator, the Cash Administrator and the Note Trustee. Notwithstanding that such performance is contractually required, no assurance can be given with respect to the performance of such obligations. There can be no certainty that, in the event that any such third party needs to be replaced, a replacement party can be found to take over their responsibilities or that such replacement party will agree to do so on identical terms of those agreed with the outgoing party. Furthermore, the liability of any such party, the extent to which the Issuer may make a claim in the event of inadequate performance or non-performance may be limited by the provisions of the relevant contract (such as to fraud, wilful default or negligence). In such case, the ability of the Issuer to recover damages incurred may be reduced, which would in turn affect the amount available to make payments under the Notes.

**3.18 *Originator as Noteholder***

On the Issue Date, the Notes will be issued by the Issuer and subscribed for by the Originator and part of the proceeds of subscription paid by the Originator to the Issuer will be paid by the Issuer to the Originator as part of the consideration for vesting in the Issuer the Investor Interest. For so long as these Notes are held by the Originator, it will be entitled to all of the rights to which the holders of such Notes are entitled (including, without limitation, voting rights). The Originator's interests, with respect to the holding of such Notes, will be different from that of other Noteholders to the extent there are other Noteholders. So long as the Originator continues to hold the Notes, in the exercise of the rights to which it is entitled under the Notes, it will be in its interests to minimise any adverse impact or potential adverse impact on itself and its Affiliates. Such interests of the Originator may conflict with the interests of other Noteholders.

**3.19 *Book-Entry Interests***

Unless and until Individual Note 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 Note Trust Deed. After payment to the Principal Paying Agent, the Issuer will not have responsibility or liability for the payment of interest, principal or other amounts to Euroclear or Clearstream, Luxembourg or to holders or beneficial owners of Book-Entry Interests.



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 Noteholder of the Global Notes under the Note Trust Deed while the Class A 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 Note Trust Deed.

Payments of principal and interest on, and other amounts due in respect of, the Global Notes will be made by the Principal Paying Agent to the Common Depositary in the case of the Global Notes. Upon receipt of any payment from the Principal Paying Agent, Euroclear and Clearstream, Luxembourg, as applicable, will promptly credit participants' accounts with payment in amounts proportionate to their respective ownership of Book-Entry Interests as shown on their records. The Issuer expects that payments by participants or indirect payments to owners of Book-Entry Interests held through such participants or indirect participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers registered in "street name", and will be the responsibility of such participants or indirect participants. None of the Issuer, the Note Trustee, 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 Note 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, holders of Book-Entry Interests will be restricted to acting through Euroclear and Clearstream, Luxembourg unless and until Individual Note 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 Note Trust Deed.

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

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

### 3.20 *Denomination*

The Notes are issued in the denominations of £50,000 per Note. However, for so long as the Class A Notes are represented by Global Notes, and Euroclear and Clearstream, Luxembourg so permit, the Class A Notes shall be tradeable in minimum nominal amounts of £50,000 and integral multiples of £1,000 thereafter.

If Individual Note Certificates are required to be issued in respect of the Class A Notes represented by Global Notes, they will only be printed and issued in denominations of £50,000 and any amount in excess thereof in integral multiples of £1,000 up to and including £99,000. No Individual Note Certificates will be issued with a denomination above £99,000. Accordingly, if Individual Note Certificates are required to be issued in respect of the Global Notes, a Noteholder holding an interest in a Global Note of less than the minimum authorised denomination at the relevant time may not receive an Individual Note Certificate in respect of such holding and may need to purchase a principal amount of the relevant class or sub-class of Class A Notes such that their holding amounts to the minimum authorised denomination. If Individual Note Certificates are issued in respect of the Global Notes, Noteholders should be aware that Individual

Note Certificates which have a denomination that is not an integral multiple of the minimum authorised denomination or for any amount in excess thereof in integral multiples of £1,000 up to and including £99,000 may be illiquid and difficult to trade.

#### **4. RISKS RELATING TO THE COLLATERAL**

##### **4.1 *The Portfolio***

This Prospectus does not contain any information regarding the individual Included Loan Advances on which the Notes will be ultimately secured from time to time.

Pursuant to the Originator Trust Deed, the Loans Trustee will hold the Investor Interest and the Originator Interest in a trust over a portfolio of Included Loan Advances for the benefit of the Issuer and the Originator Beneficiary. The Investor Interest forms part of the Charged Assets and the Charged Assets is subject to credit, liquidity and interest rate risks.

Neither the Issuer nor the Arranger has made any investigation into the Obligors of the Included Loan Advances. The value of the Portfolio may fluctuate from time to time (as a result of substitution or otherwise). Fluctuations in the value of the Portfolio will result in fluctuations in the value of the Investor Interest. None of the Issuer, the Originator, the Originator Beneficiary, the Loans Trustee, the Note Trustee, the Arranger, the Collateral Administrator, the Cash Administrator, the Swap Provider, any Agent or any of their Affiliates are under any obligation to maintain the value of the Included Loan Advances or the Investor Interest at any particular level. None of the Issuer, the Originator, the Originator Beneficiary, the Loans Trustee, the Note Trustee, the Arranger, the Collateral Administrator, the Cash Administrator, the Swap Provider, any Agent or any of their Affiliates has any liability to the Noteholders as to the amount or value of, or any decrease in the value of, the Included Loan Advances or Investor Interest from time to time. Purchasers of any of the Notes will not have an opportunity to evaluate for themselves the relevant economic, financial and other information regarding any transfer of such Investor Interest in any Included Loan Advance by the Issuer to the Originator in accordance with the Originator Trust Deed and the consequent removal of any such Included Loan Advance from the Loans Trust.

The market value of the Included Loan Advances will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, international political events, developments or trends in any particular industry and the financial condition of the borrowers or guarantors or issuers, as the case may be, of the Included Loan Advances. The lower rating of below investment grade loans reflects a greater possibility that adverse changes in the financial condition of an Obligor or guarantor or in general economic conditions or both may impair the ability of the relevant Obligor to make payments of principal or interest or the relevant guarantor to make payments under its guarantee. Such investments may be speculative.

The financial markets periodically experience substantial fluctuations. No assurance can be made that the conditions giving rise to such price fluctuations and limited liquidity will not occur, subsist or become more acute following the Issue Date. A decrease in the market value of the Included Loan Advances would adversely affect the proceeds of sale that could be obtained upon the sale of the Included Loan Advances by the Originator, which could affect the amount of the Issuer Surrender Receipt received by the Issuer and could ultimately affect the ability of the Issuer to pay in full or redeem the Notes.

Subject to the Conditions of the Notes, following the delivery of an Acceleration Notice, the Note Trustee may, at its discretion, and shall, if so directed by an Extraordinary Resolution of the holders of the Most Senior Class, provided that it is indemnified and/or secured to its satisfaction, without further notice institute such proceedings as it thinks fit to realise and/or otherwise liquidate or sell the Charged Assets in whole or in part and/or take such action as may be permitted under applicable laws against any Obligor in respect of the Charged Assets and/or take any other action to enforce the security over the Charged Assets. The restriction on the Note Trustee's ability to enforce the Security could adversely affect the proceeds of enforcement that would otherwise have been available to the Noteholders.

##### **4.2 *Nature of the Included Loan Advances***

The Included Loan Advances which form the Loans Trust Property will be subject to credit, liquidity, interest rate risks, general economic conditions, operational risks, structural risks, the condition of

financial markets, political events, developments or trends in any particular industry, changes in prevailing interest rates and periods of adverse performance.

#### 4.3 ***Concentration Risk***

Although no significant concentration with respect to any particular Obligor is expected to exist at the Issue Date, the concentration of the Portfolio in any one Obligor would subject the Notes to a greater degree of risk with respect to defaults by such Obligor, and the concentration of the Portfolio in any one industry, region or country could subject the Notes to a greater degree of risk with respect to economic downturns relating to such industry, region or country. See "*The Portfolio*".

#### 4.4 ***Interest Rate Risk***

The Class A Notes bear interest at floating rates based on LIBOR. However, the amount or proportion of the Included Loan Advances being used to pay the Notes that bear interest at floating rates based on LIBOR may not correspond to the amount or proportion of the Notes that bear interest on such basis, and there will be no requirement as to the amount or proportion of the Included Loan Advances securing the Notes that must bear interest on a particular basis.

In the case of the Class A Notes, which will bear interest at a rate based on LIBOR for the period from one Payment Date (or, in the case of the first Interest Period, the Issue Date) to the next Payment Date, there may be a floating/fixed rate or basis mismatch between the Class A Notes and the underlying fixed rate Included Loan Advances and there may be a timing mismatch between the Class A Notes and the floating rate Included Loan Advances as the interest rate on such floating rate Included Loan Advances may adjust more frequently or less frequently, on different dates and based on different indices than the interest rates on the Class A Notes. As a result of such mismatches, a change in the level of LIBOR could adversely impact the ability of the Issuer to make payments on the Class A Notes. A Swap Agreement to hedge interest rate exposure in respect of the Portfolio of Included Loan Advances will be entered into. However, swap transactions to hedge such interest rate exposure in respect of each individual Included Loan Advance will not be entered into. Although a Swap Agreement will be entered into in respect of the Included Loan Advances losses may be incurred in the event of a default or termination event under such Swap Agreement.

The Issuer's ongoing payment obligations under such Swap Agreement (including termination payments) may be significant. The payments associated with such hedging arrangements generally rank senior to payments on the Notes.

The Issuer will depend upon the Swap Provider to perform its obligations under the Swap Agreement entered into to cover its interest rate exposure. If the Swap Provider or Issuer defaults or becomes unable to perform due to insolvency or otherwise, or as a result of certain termination events, the Issuer may not receive payments it would otherwise be entitled to from such Swap Provider to cover its interest rate exposure.

#### 4.5 ***Swap Provider Risk***

In the event that any Swap Provider does not pay the amount payable under the Swap Agreement when due, Available Funds may be less than would otherwise be the case. In addition, if the Swap Agreement is terminated, the Cash Administrator (on behalf of the Issuer) may be obliged to use Available Funds to pay a termination payment, including any default or breakage costs, under such Swap Agreement. Either situation could result in less Available Funds than would otherwise be the case and result in reduced payments to Noteholders.

Furthermore, if any Swap Provider were to default in respect of its obligations under the 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. 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 the event of the insolvency of the 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 Included Loan Advances.

To mitigate this risk, under the terms of the Swap Agreement, in the event that the relevant short-term ratings of the Swap Provider are downgraded by a Rating Agency below the Required Swap Rating, the Swap Provider will, in accordance with the terms of the Swap Agreement, be required to elect to take certain remedial measures within the time frame stipulated in the Swap Agreement and at its own cost which may include providing collateral for its obligations under the Swap Agreement, arranging for its obligations under the Swap Agreement to be transferred to an entity with the Required Swap Rating, procuring another entity with the Required Swap Rating to become co-obligor or guarantor, as applicable, in respect of its obligations under the Swap Agreement or such other action that would result in the relevant Rating Agency continuing the then current rating of the Notes or restoring it to the level prior to the downgrade event.

#### **4.6 *Confidentiality; Limitations on Available Information***

The Originator may have been required to enter into one or more confidentiality agreements regarding certain information received with respect to the Included Loan Advances, the Obligors thereof and/or certain other parties relating to such Included Loan Advances. As a result, the ability of the Originator, the Loans Trustee, the Issuer, or the Collateral Administrator on behalf of the Issuer or the Note Trustee, to provide certain information to Noteholders regarding the Included Loan Advances may be restricted or limited.

#### **4.7 *Default by Obligors in paying amounts due on Included Loan Advances***

Obligors may default on their obligations due under the Included Loan Advances. Various factors influence Included Loan Advance delinquency rates, prepayment rates 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, political developments and government policies. Other factors in Obligors' financial circumstances may affect the ability of Obligors to repay the Included Loan Advances:

- (a) the primary source of funds for an Obligor from which it will meet its payment obligations under its Loan Agreement is the rents payable to it by its tenants. There can be no assurance that sufficient rents will be received to enable an Obligor to meet its payment obligations under its Loan Agreement;
- (b) a dwelling may remain un-tenanted whilst a tenant for that dwelling is found or a tenant occupying a dwelling from time to time could fail to pay the rent then falling due. Many reasons exist for dwellings being untenanted;
- (c) a tenant may refuse to pay rent as a result of a breach by an Obligor of its obligations as a landlord under a tenancy agreement, including a failure to perform essential repairs to the relevant property, although as far as the RSL Obligors are concerned such Obligors are regulated by the Tenant Services Authority (or its successor) in a manner intended to make such outcome unlikely;
- (d) in respect of the RSL Obligors, a proportion of the rent received by such Obligors is derived from housing benefit payable by the local authority in whose area the property is situated. The reduction or termination of housing benefit or changes in the way such benefit is paid may accordingly have an adverse impact on the level of rent received;
- (e) an Obligor may have other preferential creditors which are paid before the Originator and this would affect the ability of an Obligor to meet its payment obligations under its Loan Agreement;
- (f) the RSL Obligors may also experience the effect of substantial delay in the payment of housing benefit while the local authority establishes a new claimant's entitlement thereto;

- (g) in respect of the RSL Obligors, the timely payment of housing benefit may be adversely affected through industrial action or other action or inaction by the relevant local authority or by changes imposed by central Government;
- (h) the inability of each RSL Obligor to effectively collect rents, repair and maintain its properties which are part of the Related Security ("**Mortgaged Properties**"), maintain insurance coverage, evict non-paying tenants and re-let its Mortgaged Properties may adversely affect the amount of rents collected and result in such Obligor defaulting in its payment obligations to the Originator under the Included Loan Advance, although the Obligors are regulated by the Tenant Services Authority (or their successors) such as to ensure that this is not likely to occur;
- (i) the security created by the Obligors in favour of the Originator may be invalid to the extent the relevant Obligor was insolvent at time of grant and, to the extent that any security is created by an Obligor over rents receivable from tenants, this will only be equitable security as no notice of such security will be given to any tenants. However, this risk is mitigated by the relevant Eligibility Criteria on that at the time of entry into the relevant Loan Agreement and granting of the legal charge the relevant Obligor was not insolvent;
- (j) rental levels in relation to rented properties of RSL Obligors are heavily regulated by rules set down by the Tenant Services Authority (or its successor);
- (k) RSL Obligors also generate revenue from their housing for sale programmes (which includes shared ownership and outright sales) and are, therefore, exposed to market risk, in relation to housing for sale, including both demand and pricing risks;
- (l) In England and Wales RSL Obligors receive social housing grant funding through the Homes and Community Agency (or its successor), the government agency that invests in new affordable homes. Due to the nature of grant funding, there is a risk that the subsidy will reduce over time, a risk that future grant funding could be withdrawn if the RSL Obligors fail to comply with the Tenant Services Authority's (or its successor') regulatory framework or if development performance falls below agreed levels in terms of delivery of its approved development programme and a risk that grant funding may be required to be repaid in certain circumstances. Any such reduction in, withdrawal of or repayment of grant funding could adversely impact the future development of the RSL Obligors;
- (m) the ability of a RSL Obligor to sell a Mortgaged Property given as security for a Included Loan Advance may be adversely affected by an administrator being appointed to such Obligor or the 28 day moratorium (which will become 28 working days following the entry into force of the relevant provisions of the Housing and Regeneration Act 2008) imposed on the disposal of any land held by a housing association under Section 42 of the Housing Act 1996, which moratorium may be extended with the consent of all a housing association's secured creditors (which will change to "the consent of each secured creditor whom the regulator is able to locate after reasonable enquiries" following the entry into force of the relevant provisions of the Housing and Regeneration Act 2008) During the moratorium, the consent of (in England and Wales) the Tenant Services Authority is required for the disposal of any land;
- (n) some housing associations in the United Kingdom have diversified their businesses away from the sole provision of rented housing. These other activities may expose housing associations to additional risks if management lacks expertise in these other activities; and
- (o) in England and Wales the Tenant Services Authority (or its successor) have powers to intervene in the affairs of registered social landlords in order to protect the interests of tenants and to preserve the housing stock of a housing association within the social housing sector and within the regulatory regime of the Tenant Services Authority (or its successor). For example, the Tenant Services Authority (or its successor) have powers

to direct an enquiry into the affairs of a registered social landlord and may as a result of such an enquiry direct the registered social landlord to make a transfer of land.

## 5. RISKS RELATING TO THE ISSUER

### 5.1 *The Issuer is a special purpose entity. Interest Payments and Principal Payments under the Notes are conditional upon receipt of the necessary funds by the Issuer and Noteholders will have no recourse against the other parties to the Transaction*

The Issuer is a special purpose entity and during the term of the Transaction will not have any assets (excluding any share capital and minor transaction fees) other than the claims under the Charged Assets. If the Issuer does not receive funds under such claims, it will not be in a position to meet its obligations under the Notes. In such case, Noteholders will have no claims or other recourse against the other parties to the Transaction.

### 5.2 *English Law Security and Insolvency Considerations*

The Issuer will enter into the Note Trust Deed 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.

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

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

In addition, it should be noted that, to the extent that the assets of the Issuer are subject only to a floating charge (including any fixed charge recharacterised by the courts as a floating charge), in certain circumstances under the provisions of section 176A of the Insolvency Act 1986 (the "**Insolvency Act**"), certain floating charge realisations which would otherwise be available to satisfy the claims of secured creditors under the Note Trust Deed may be used to satisfy any claims of unsecured creditors. While certain of the covenants to be given by the Issuer in the Transaction Documents will be intended to ensure it has no significant creditors other than the secured creditors under the Note Trust Deed, 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).

Whether a fixed security interest expressed to be created by the Note Trust Deed will be upheld under English law as a fixed security interest rather than floating security will depend, among other things, on whether the Note Trustee has the requisite degree of control under the Transaction Documents over the Issuer's ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the Note Trustee in practice. In particular, it is likely that the Note Trustee does not exert sufficient control over the accounts of the Issuer for the charges over those accounts to take effect as fixed charges. In addition, any assignment, charge or security granted over an asset which is expressed to be a fixed charge may be characterised as a floating charge if the proceeds thereof are paid into a bank account over which the Note Trustee is not deemed to have sufficient control as may be the case in this transaction.

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

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

#### *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 would be reduced by the amount of all, or a significant proportion of, any liquidation expenses.

#### *Effect of Insolvency of the Originator on the Loans Trust*

English law recognises that, on any insolvency of a trustee, property held in trust by the insolvent entity as trustee belongs to the beneficiaries of the relevant trust and is not available for distribution among creditors of the insolvent entity, acting other than in its capacity as trustee of the relevant trust. However, to the extent that a Loans Trust was not validly constituted (for example certain Included Loan Advances were not sufficiently identified or capable of being separated from property retained by the Originator), the Included Loan Advances may be available for distribution among the creditors of the Originator generally. Furthermore, regardless of whether the Loans Trust was validly constituted, any property

which is not clearly identifiable as trust property at the time that the Issuer is tracing into it (for example it has been dissipated by the Originator or co-mingled with its property) may also be available for distribution among the creditors of the Originator generally. The Originator Trust Deed details the Included Loan Advances and distinguishes them in all cases from related rights retained by the Originator.

## 6. OTHER LEGAL AND REGULATORY RISKS

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

Following the issue of proposals from the Basel Committee on Banking Supervision for reform of the 1988 Capital Accord, a framework has been developed which places enhanced emphasis on market discipline and sensitivity to risk. An updated version of the text of the proposed framework was published in November 2005 under the title "Basel II: International Convergence of Capital Management and Capital Standards: a Revised Framework" (the "**Framework**"). The Framework is being implemented in stages (partly from year-end 2006 and the most advanced from year-end 2007). However, the Framework is not self-implementing and, accordingly, implementation dates in participating countries are dependent on the relevant national implementation process in those countries. As and when implemented, the Framework may affect risk-weighting of the Notes for investors who are subject to capital adequacy requirements that follow the Framework. Consequently, investors should consult their own advisers as to the consequences to and effect on them of the application of the Framework and any relevant implementing measures. Proposals and guidelines for implementing the Framework in certain participating jurisdictions are still in development and no predictions can be made as to the precise effects of potential changes on any investor or otherwise.

### 6.2 *Banking Act 2009*

Under the Banking Act 2009 (the "**Banking Act**") substantial powers have been granted to HM Treasury, the Bank of England and the UK Financial Services Authority (the "**FSA**" and, together with HM Treasury and the Bank of England, the "**Authorities**") as part of the special resolution regime (the "**SRR**"). These powers enable the Authorities to deal with and stabilise UK-incorporated institutions with permission to accept deposits pursuant to Part IV of the Financial Services and Markets Act 2000 ("**FSMA**") (such as the Originator, the Loans Trustee, the Swap Provider, the Issuer Account Bank, the Collection Account Bank, the Collateral Administrator and the Cash Administrator) (each a "**relevant entity**") that are failing or are likely to fail to satisfy the threshold conditions (within the meaning of section 41 of the FSMA). The SRR consists of three stabilisation options: (i) transfer of all or part of the business of the relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a "bridge bank" wholly-owned by the Bank of England; and (iii) temporary public ownership of the relevant entity. HM Treasury may also take a parent company of a relevant entity into temporary public ownership where certain conditions are met. The Banking Act also provides for two new insolvency and administration procedures for relevant entities.

Certain ancillary powers include the power to modify certain contractual arrangements in certain circumstances. It is possible that one of the stabilisation options could be exercised prior to the point at which any application for an insolvency or administration order with respect to the relevant entity could be made.

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

If an instrument or order were to be made under the Banking Act in respect of any of the relevant entities 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). As a result, the making of an instrument or order in respect of any of the relevant entities may affect the ability of the Issuer to meet its obligations in respect of the Notes. While there is provision for compensation in certain circumstances under the Banking Act, there can be no assurance that Noteholders would recover compensation promptly and equal to any loss actually incurred.

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

### 6.3 *Change of law*

The structure of the transaction and, inter alia, the issue of the Notes and the ratings which will be assigned to them 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.

### 6.4 *The Welfare Reform Act 2007*

Pursuant to the Welfare Reform Act 2007, the UK government introduced a reform of housing benefits for private tenants. Under this reform, a local housing allowance, which was introduced nationally on 7 April 2008, is paid directly to individual claimants in most cases, as opposed to the previous system where payments were usually made to landlords through local authorities. As a result of this reform, the Obligors are exposed to greater risk that private tenants on local housing allowance will fail to pay rent in full or fail to pay rent in full on a timely basis, which creates increased liquidity risk for the Obligors.

The UK government does not currently plan to extend local housing allowance to social housing, though it aims to encourage social housing tenants to take greater personal responsibility for managing their own rent payments. If the local housing allowance was extended to social housing, the Obligors would be exposed to a greater risk that the tenants of the social housing would fail to pay rent in full or would fail to pay rent in full on a timely basis which would also create a greater liquidity risk for the Obligors.

### 6.5 *European Monetary Union*

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

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

### 6.6 *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. 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 new regime.

Prospective Noteholders should note that if the Issuer did not fall to be taxed under the new 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.

#### **6.7 *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, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

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

On 13 November 2008 the European Commission published a proposal for amendments to the Directive, which included a number of suggested changes which, if implemented, would broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

### **7. PROJECTIONS, FORECASTS AND ESTIMATES**

Any projections, forecasts and estimates provided to prospective purchasers of the Notes are forward looking statements. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialise or will vary significantly from actual results. Accordingly, the projections are only an estimate. Actual results may vary from the projections, and the variations may be material.

Some important factors that could cause actual results to differ materially from those in any forward looking statements include changes in interest rates, market, financial or legal uncertainties, the timing of acquisitions of the Portfolio, differences in the actual allocation of the Portfolio among asset categories from those assumed, mismatches between the timing of accrual and receipt of Interest Proceeds and Principal Proceeds from the Portfolio, and the effectiveness of the Swap Agreement, among others.

None of the Issuer, the Originator, the Loans Trustee, the Arranger, the Collateral Administrator, the Cash Administrator, the Note Trustee, the Swap Provider, the Agents or any of their respective Affiliates has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in

economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

## SECURITY ARRANGEMENTS

Subject to and under the terms of the Note Trust Deed, the Issuer with full title guarantee as continuing security for the payment or discharge of the Secured Amounts will, subject to the right of redemption of the Issuer, create the following security interest in favour of the Note Trustee for itself and on trust for the other Secured Creditors:

- (a) a first fixed charge over the Issuer's present and future rights, title and interest (and all entitlements or benefits relating thereto) in and to each Permitted Investment and any other investments, in each case held by the Issuer from time to time (where such rights are contractual rights other than contractual rights, the assignment of which would require the consent of a third party), including, without limitation, all monies received in respect thereof, all dividends and distributions paid or payable thereon, all property paid, distributed, accruing or offered at any time thereon, thereto or in respect thereof or in substitution therefore and the proceeds of sale, repayment and redemption thereof;
- (b) a first fixed charge over the Issuer's right, title and interest (and all entitlements or benefits relating thereto) in and to the Investor Interest in the Loans Trust, and any other investments, in each case held by or on behalf of the Issuer, where such assets are contractual rights not assigned by way of security pursuant to paragraph (a) above including, without limitation, all monies received in respect thereof, all dividends and distributions paid or payable thereon, all property paid, distributed, accruing or offered at any time thereon, thereto or in respect thereof or in substitution therefore and the proceeds of sale, repayment and redemption thereof;
- (c) a first fixed charge over the Issuer's right, title and interest in and to the Issuer Accounts (and, in the case of the Swap Collateral Account, only to the extent applied in satisfaction of termination payments due to the Issuer following the designation of an early termination date under the Swap Agreement) and any other bank or other accounts in which the Issuer may at any time have or acquire any benefit;
- (d) an assignment by way of security of the Issuer's right, title and interest in and to each Transaction Document (other than the Note Trust Deed and the Note Purchase Agreement);
- (e) a first fixed charge over all monies held from time to time by the Principal Paying Agent on behalf of the Issuer for payment of principal, interest or other amounts on the Notes;
- (f) an assignment by way of security the Issuer's present and future rights under the Swap Agreement and the Swap Transaction entered into thereunder (including the Issuer's rights under any guarantee or credit support annex entered into pursuant to the Swap Agreement; **provided that** such assignment by way of security shall not in any way restrict the release of collateral granted thereunder in whole or in part at any time pursuant to the terms thereof); and
- (g) a first floating charge over the whole of the Issuer's undertaking and all the Issuer's property, assets and rights whatsoever and wheresoever present and future including, without limitation, the Issuer's uncalled capital.

Paragraph 14 of Schedule B1 to the Insolvency Act 1986 applies to the floating charge created pursuant to the Note Trust Deed.

The floating charge created by the Note Trust Deed shall be postponed to any valid fixed charges which remain outstanding under the Note Trust Deed from time to time and any rights of the Issuer to deal with the assets subject to the floating charge shall be expressly subject to any restrictions placed on dealing with those assets contained in any fixed charge over the same.

## HEDGING ARRANGEMENTS

### Introduction

The interest rates on some of the Included Loan Advances in the Portfolio are payable by reference to bases other than Three-Month Sterling LIBOR and determined on different dates. However, the interest rates payable by the Issuer with respect to the Notes are calculated by reference to Three-Month Sterling LIBOR set on a LIBOR Determination Date.

To hedge against the possible variance between:

- (a) the variable rates of interest payable on the Included Loan Advances in the Portfolio and the dates on which those rates are set; and
- (b) Three-Month Sterling LIBOR, set on the relevant Determination Date,

the Issuer, on or about the Issue Date, will enter into the Swap Agreement with the Swap Provider.

The Swap Agreement will govern the terms of the swap transaction (the "**Swap Transaction**") documented under a swap confirmation.

### *The Swap Agreement*

Under the Swap Agreement:

- (i) the Swap Provider shall have an obligation to pay:
  - (a) on each Payment Date, an amount determined by applying the relevant rate for Three-Month Sterling LIBOR (plus 15 bps) to the amount equal to the Funded Aggregate Principal Balance of the Included Loan Advances plus amounts standing to the credit of the Principal Account which are available for investment in Replenishment Loans and/or Further Advances as determined at the first Business Day of such Interest Period and the Day Count Fraction (the "**Floating Payment**"),
  - (b) on the relevant Addition Date, in respect of any Replenishment Loan, an amount equal to A multiplied by B where:  
  
A = the Investor Interest in the amount of accrued unpaid interest in respect of such Replenishment Loan, and  
  
B = 1 minus the Nominal Deferred Consideration Percentage on such date in respect of such Replenishment Loan,  
  
(the "**Replenishment Loan Accrued Interest Payment**"),
  - (c) on the relevant date on which the Deferred Consideration is paid by the Issuer in respect of a Further Advance, an amount equal to the accrued unpaid interest in respect of such Further Advance corresponding to the amount of Deferred Consideration paid by the Issuer (the "**Further Advance Accrued Interest Payment**") and, for the avoidance of doubt, if the Additional Trust Consideration in respect of a Further Advance is paid by the Issuer in full on the Addition Date, no Further Advance Accrued Interest Payment will be payable by the Swap Provider,
  - (d) on the Issue Date, in respect of the Initial Loans Trust Property, an amount equal to the amount of accrued unpaid interest in respect of such Initial Loans Trust Property on such date (the "**Initial Accrued Interest Payment**"),
- (ii) on each Payment Date in an Interest Period during the term of the Swap Agreement, the Issuer shall have an obligation to pay the Revenue Receipts received by the Issuer during the relevant Collection Period (the "**Fixed Payment**") to the Swap Provider.

The Floating Payment will be included in the Available Revenue Funds and will be applied on the relevant Payment Date according to the Pre-Acceleration Revenue Priority of Payments or the Post-Acceleration Priority of Payments (as applicable).

The Replenishment Loan Accrued Interest Payment or the Further Advance Accrued Interest Payment will not be included in Available Funds but shall be retained in the Swap Account as part of the Additional Trust Consideration and shall then be paid by the Cash Administrator on behalf of the Issuer to the Originator. The Initial Accrued Interest Payment shall be paid by the Cash Administrator on behalf of the Issuer to the Originator on the Issue Date as part of the Initial Trust Consideration.

Under the terms of the Swap Agreement, in the event that the relevant ratings of the Swap Provider are downgraded by a Rating Agency below the Required Swap Rating, the Swap Provider will, in accordance with the terms of the Swap Agreement, be required to elect to take certain remedial measures within the time frame stipulated in the Swap Agreement and at its own cost which may include providing collateral for its obligations under the Swap Agreement, arranging for its obligations under the Swap Agreement to be transferred to an entity with the Required Swap Rating, procuring another entity with the Required Swap Rating to become co-obligor or guarantor, as applicable, in respect of its obligations under the Swap Agreement or such other action that would result in the relevant Rating Agency continuing the then current rating of the Notes or restoring it to its level prior to the downgrade event.

#### **Termination of the Swap Agreement**

A Swap Agreement may be terminated by the Swap Provider in certain circumstances including, but not limited to, the following:

- (a) if there is a failure by the Issuer to pay amounts due under the Swap Agreement and any grace period has expired;
- (b) if certain insolvency events occur with respect to the Issuer (as set out in the Swap Agreement);
- (c) if a change of law results in it becoming unlawful for one of the parties to perform one or more of its obligations under the Swap Agreement;
- (d) in certain circumstances, if a deduction or withholding for or on account of taxes is imposed either (i) on payment of the Floating Payment which results in the Swap Provider being obliged to gross up its payments under the terms of the Swap Agreement, or (ii) on payment of the Fixed Payment;
- (e) if all the Notes are to be redeemed in full, but not in part, pursuant to Condition 5 (*Redemption*); and
- (f) if the Note Trustee serves an Acceleration Notice on the Issuer pursuant to Condition 11 (*Events Of Default*) of the Notes.

A Swap Agreement may be terminated by the Issuer in certain circumstances, including but not limited to, the following:

- (a) if an Event of Default or Termination Event (as defined in the Swap Agreement) has occurred in respect of the Swap Provider under the Swap Agreement and any applicable grace period has expired including, but not limited to:
  - (i) if certain insolvency events occur with respect to the Swap Provider;
  - (ii) if a breach of a provision of the Swap Agreement by the Swap Provider is not remedied within the applicable grace period;
  - (iii) if a change of law results in it becoming unlawful for one of the parties to perform one or more of its obligations under the Swap Agreement; and
- (b) if the Swap Provider is downgraded and fails to comply with the requirements of the downgrade provisions contained in the Swap Agreement.

Upon an early termination of the Swap Agreement, the Issuer or the Swap Provider may be liable to make a swap termination payment to the other. Such swap termination payment will be calculated and paid in Sterling. The amount of any such swap termination payment will be based on the market value of the Swap Agreement which is being terminated as determined on the basis of quotations sought from leading dealers as to the payment required to be made in order to enter into a transaction that would have the effect of preserving the economic equivalent of the respective payment obligations of the parties (or based upon a good faith determination of one of the party's total losses and costs (or gains) if an insufficient number of quotations can be obtained or if basing the valuation on quotations would not produce a commercially reasonable result) and will include any unpaid amounts that became due and payable prior to the date of termination. If the Issuer is required to make such payment to the Swap Provider then the Issuer may not have sufficient funds to make payments due in respect of the Notes and to the extent that one or more comparable replacement swap transactions cannot be entered into, the Issuer will be exposed on a continuing basis to the possible variance between the variable rates payable on the Included Loan Advances in the Portfolio and Three-Month Sterling LIBOR and the Issuer may have insufficient funds to make payments due on the Notes on an ongoing basis.

The Swap Provider may, subject to certain conditions specified in the Swap Agreement, transfer its obligations under the Swap Agreement to another entity **provided that** such entity has the Required Swap Rating.

The Swap Provider will be obliged to gross up payments made by it to the Issuer under the Swap Agreement if withholding taxes are imposed on such payments, although in such circumstances the Swap Provider may terminate the Swap Agreement early. The Issuer will not be obliged to gross up payments made by it to the Swap Provider under the Swap Agreement if withholding taxes are imposed on such payments, however the Swap Provider may have the right to terminate such Swap Agreement in such circumstances. If either the Swap Provider or the Issuer terminates any Swap Agreement then the Issuer may be required to pay (or entitled to receive) a swap termination payment. In such case, payment by the Issuer of such swap termination payment may affect amounts available to the Issuer to pay interest and principal on the Notes.

For the purposes of the above provisions, "**Required Swap Rating**" means that the unsecured and unsubordinated debt obligations of the relevant entity are rated no lower than:

(i) "F1" (short-term) by Fitch and "A" (long-term) by Fitch; (ii) "A-1" by S&P (short-term) (or if such relevant entity has no short-term S&P rating, "A+" by S&P (long-term)) or (iii) or such other ratings which are consistent with the relevant published criteria of the relevant Rating Agency from time to time.

#### **Swap Agreement - Credit Support Annex**

On or around the Issue Date, the Swap Provider and the Issuer will enter into a 1995 ISDA Credit Support Annex (Bilateral Form – Transfer) (the "**Credit Support Annex**") in support of the obligations of the Swap Provider under the Swap Agreement. Pursuant to the terms of such Credit Support Annex, if at any time the Swap Provider is required to provide collateral in respect of any of its obligations under the Swap Agreement, the Credit Support Annex will provide that, from time to time, subject to the conditions specified in the Credit Support Annex and the Swap Agreement, the Swap Provider will make transfers of collateral to the Issuer in respect of its obligations under the Swap Agreement and the Issuer will be obliged to return such collateral in accordance with the terms of the Credit Support Annex.

The Issuer will keep any collateral received from the Swap Provider pursuant to the Credit Support Annex in separate cash and/or securities accounts (the "**Swap Collateral Account**"). The Issuer may only make payments or transfers utilising any monies and securities held in the Swap Collateral Account if such payments and transfers are made in accordance with the terms of the Credit Support Annex. Amounts standing to the credit of the Swap Collateral Account will not, upon enforcement of the Security, be available to the Secured Creditors generally and may only be applied in satisfaction of amounts owing by the Swap Provider, or to be repaid to the Swap Provider, in accordance with the terms of the Swap Agreement. There may be circumstances where no amount is owing by the Swap Provider. In such circumstances the transferred collateral must be returned to the Swap Provider.

The Swap Agreement will be governed by English Law.

## THE PORTFOLIO

### Introduction

Pursuant to the Originator Trust Deed, the Originator will declare a trust over a Portfolio which consists of Included Loan Advances and their Related Security as described below in the section "*The Loans Trust*". During the Replenishment Period, additional loan advances may be added to the Portfolio subject to the satisfaction of the Replenishment Criteria. Following the expiry of the Replenishment Period, the Portfolio will be static and no additional advances will be included in the Portfolio other than any changes resulting from permitted reacquisitions or other dealings with the Loans Trust Property.

The Portfolio will include the Included Loan Advances, some of which Included Loan Advances may be Delayed Draw Obligations, and their Related Security. In respect of such Delayed Draw Obligations, the Loans Trust Property on the Issue Date shall represent the relevant Funded and Unfunded Amounts of such Delayed Draw Obligations which have been designated as such as at the Issue Date. To the extent that any Further Advances are made, such Further Advances will automatically form part of the Loans Trust Property for the benefit of the Issuer and the Originator Beneficiary pursuant to the terms of the Originator Trust Deed and the Issuer shall pay the Additional Trust Consideration, or as the case may be, the Deferred Consideration.

### Description of the Portfolio

Pursuant to the Originator Trust Deed the Issuer will acquire a fixed undivided 99% beneficial interest in the trust over Included Loan Advances with an Aggregate Principal Balance of £3,682,500,000 and their Related Security on the Issue Date (the "**Initial Portfolio**"). As of the Issue Measurement Date, each Included Loan Advance included in the Initial Portfolio, or as appropriate, the Portfolio as a whole will satisfy the Eligibility Criteria set out below.

The Included Loan Advances were selected from a portfolio of loans to Social Housing providers, Registered Social Landlords (RSL) in the United Kingdom. The Included Loan Advances are originated by Lloyds TSB PACS Corporate Department in the normal course of its business.

The Initial Portfolio has characteristics that demonstrates the capacity to produce funds to service any payments due and payable on the Notes.

### Portfolio Selection

On the Issue Measurement Date the Initial Loans Trust Property is expected to be comprised of 159 Included Loan Advances to 82 Obligors.

The underlying Obligors in the transaction are Registered Social Landlords (a "**RSL Obligor**" or "**Obligor**" and collectively the "**Obligors**").

The underlying RSL Included Loan Advances are fully secured and collateralised on the Issue Date by a fixed charge on completed housing units ranking senior to any government grant that the RSL benefits from.

As at the Issue Date, S&P credit estimates have been obtained for each Obligor. Fitch has performed credit opinions on a selection of Obligors in the Initial Loans Trust Property.

### Key Features of the Initial Loans Trust Property

Certain characteristics of the Initial Loans Trust Property set forth below and refer to the composition of the portfolio as at the Issue Measurement Date. The composition of the Portfolio will vary over time in accordance with the replenishment procedures set out in this Prospectus and as a result, the characteristics of the Initial Loans Trust Property set forth below are not necessarily indicative of the characteristics of the Portfolio at any subsequent time.

The Included Loan Advances are secured by fixed charges on residential assets predominantly valued on an Existing Use Value - Social Housing ("**EUV-SH**") and Market Value - subject to tenancies ("**MV-STT**") valuation bases. These cash flow based valuations provide minimum valuation loan to value cover ratios of 100% for EUV-SH and 110% for MV-STT. In the vast majority of cases, loan to value ratios



exceed these levels. In some cases Existing Use Value-Social Housing plus Sales ("EUV-SH+S"), Open Market Value ("OMV") and Market Value-Vacant Possession ("MV-VP") valuation bases are also applied. The minimum loan to value cover ratios are 125% for EUV-SH+S, 110% for OMV and 133% for MV-VP.

As of the Issue Measurement Date, the Initial Loans Trust Property had the following characteristics:

***Interest Cover Measure***

<b>Interest Cover Measure</b>	<b>No. of Advances</b>	<b>Total</b>	<b>% of Total Balance<sup>2</sup></b>
Operating Surplus/Interest > 1.05x Average over 3 years	2	27,500,000	0.6%
Operating Surplus/Interest > 1.10x average over 3 years	2	90,271,226	1.8%
LSVT	22	693,095,507	14.2%
Net Operating Surplus / Interest >1.00x average over 3 years.	3	84,202,174	1.7%
Net Operating Surplus / Interest >1.05x average over 3 years.	9	346,500,000	7.1%
Net Operating Surplus / Interest >1.10x average over 3 years.	4	139,774,824	2.9%
Net Surplus / Interest > 1.10x	1	22,735,000	0.5%
Net Surplus / Interest > 1.10x average over 3 years.	1	74,154,012	1.5%
Net Surplus / Interest >1.10x average over 3 years.	3	31,862,000	0.7%
Operating Surplus / Interest > 1.00x	11	253,026,493	5.2%
Operating Surplus / Interest > 1.00x average over 3 years.	11	476,718,825	9.8%
Operating Surplus / Interest > 1.05x	2	35,813,000	0.7%
Operating Surplus / Interest > 1.05x average over 3 years.	34	1,527,366,974	31.3%
Operating Surplus / Interest > 1.05x over preceeding 3 years.	7	70,369,152	1.4%
Operating Surplus / Interest > 1.10x	8	153,000,000	3.1%
Operating Surplus / Interest > 1.10x average over 3 years.	19	535,984,209	11.0%
Operating Surplus / Interest > 1.25x average over 3 years.	1	3,225,176	0.1%
Operating Surplus / Int. > 1.10x	1	14,843,000	0.3%
Operating Surplus plus Interest Receivable / Interest > 1.05x	1	15,274,474	0.3%
Operating Surplus plus Interest Receivable / Interest > 1.20x	1	14,469,365	0.3%
Operating Surplus plus Interest Receivable / Interest > 1.25x	2	5,000,000	0.1%
Other	14	267,314,589	5.5%
<b>Grand Total</b>	<b>159.00</b>	<b>4,882,500,000.00</b>	<b>100%</b>

***Total Advances (Drawn plus Committed)***

<b>Lower Limit</b>	<b>Upper Limit</b>	<b>No. of Advances</b>	<b>Total Amount</b>	<b>% of total Balance<sup>2</sup></b>
0	10,000,000	44	220,402,569	4.5%
10,000,000	20,000,000	36	543,084,247	11.1%
20,000,000	30,000,000	25	642,315,305	13.2%
30,000,000	40,000,000	14	500,958,805	10.3%
40,000,000	50,000,000	9	412,016,387	8.4%
50,000,000	60,000,000	7	399,076,959	8.2%
60,000,000	70,000,000	4	270,080,000	5.5%
70,000,000	80,000,000	9	700,362,421	14.3%
80,000,000	90,000,000	4	335,590,641	6.9%
90,000,000	100,000,000	4	390,000,000	8.0%
100,000,000	110,000,000	0	-	0.0%
110,000,000	120,000,000	1	118,029,940	2.4%
120,000,000	130,000,000	0	-	0.0%

<sup>2</sup> Total Balance takes into account all outstanding advances and committed but undrawn further advances, each as of the Issue Measurement Date.

***Total Advances (Drawn plus Committed)***

Lower Limit	Upper Limit	No. of Advances	Total Amount	% of total Balance <sup>2</sup>
130,000,000	140,000,000	0	-	0.0%
140,000,000	150,000,000	0	-	0.0%
150,000,000	160,000,000	1	150,582,727	3.1%
160,000,000	170,000,000	0	-	0.0%
170,000,000	180,000,000	0	-	0.0%
180,000,000	190,000,000	0	-	0.0%
190,000,000	200,000,000	1	200,000,000	4.1%
<b>Grand Total</b>		<b>159</b>	<b>4,882,500,000</b>	<b>100%</b>

***Advances based on Balance on Issue Measurement Date***

Lower Limit	Upper Limit	No. of Advances	Total Amount	%
0	10,000,000	69	333,004,921	9.1%
10,000,000	20,000,000	32	479,137,681	13.1%
20,000,000	30,000,000	20	526,553,343	14.4%
30,000,000	40,000,000	10	369,991,670	10.1%
40,000,000	50,000,000	8	359,617,752	9.8%
50,000,000	60,000,000	4	229,196,772	6.3%
60,000,000	70,000,000	5	323,077,838	8.8%
70,000,000	80,000,000	5	381,033,304	10.4%
80,000,000	90,000,000	2	169,420,899	4.6%
90,000,000	100,000,000	2	190,080,000	5.2%
100,000,000	110,000,000	1	107,415,000	2.9%
110,000,000	120,000,000	0	-	0.0%
120,000,000	130,000,000	0	-	0.0%
130,000,000	140,000,000	0	-	0.0%
140,000,000	150,000,000	0	-	0.0%
150,000,000	160,000,000	0	-	0.0%
160,000,000	170,000,000	0	-	0.0%
170,000,000	180,000,000	0	-	0.0%
180,000,000	190,000,000	0	-	0.0%
190,000,000	200,000,000	1	195,525,000	5.3%
<b>Grand Total</b>		<b>159</b>	<b>3,664,054,180.23</b>	<b>100.0%</b>

***Further Expected Advances (Based on committed but not drawn as at Issue Measurement Date)***

Lower Limit	Upper Limit	No. of Advances	Total Amount	%
0	10,000,000	119	280,541,808	23.0%
10,000,000	20,000,000	19	296,964,740	24.4%
20,000,000	30,000,000	12	279,702,188	23.0%
30,000,000	40,000,000	5	169,733,558	13.9%
40,000,000	50,000,000	3	131,103,526	10.8%
50,000,000	60,000,000	0	-	0.0%
60,000,000	70,000,000	1	60,400,000	5.0%
70,000,000	80,000,000	0	-	0.0%
80,000,000	90,000,000	0	-	0.0%
90,000,000	100,000,000	0	-	0.0%
100,000,000	110,000,000	0	-	0.0%
110,000,000	120,000,000	0	-	0.0%
120,000,000	130,000,000	0	-	0.0%

***Further Expected Advances (Based on committed but not drawn as at Issue Measurement Date)***

Lower Limit	Upper Limit	No. of Advances	Total Amount	%
130,000,000	140,000,000	0	-	0.0%
140,000,000	150,000,000	0	-	0.0%
150,000,000	160,000,000	0	-	0.0%
160,000,000	170,000,000	0	-	0.0%
170,000,000	180,000,000	0	-	0.0%
180,000,000	190,000,000	0	-	0.0%
190,000,000	200,000,000	0	-	0.0%
<b>Grand Total</b>		<b>159</b>	<b>1,218,445,820</b>	<b>100.0%</b>

***Failing Margin (bps)***

Lower Limit	Upper Limit	No. of Advances	Total Amount	% of Total Balance <sup>2</sup>
0	10	6	188,915,366	3.9%
10	15	2	67,500,000	1.4%
15	20	35	1,276,094,931	26.1%
20	25	36	1,383,066,982	28.3%
25	30	15	597,620,920	12.2%
30	35	10	302,383,343	6.2%
35	40	14	267,952,572	5.5%
40	45	5	64,625,322	1.3%
45	50	10	203,617,748	4.2%
50	55	2	15,782,638	0.3%
55	60	0	-	0.0%
60	65	0	-	0.0%
65	70	2	32,154,262	0.7%
70	75	4	25,511,576	0.5%
75	80	3	10,367,086	0.2%
80	85	1	3,462,903	0.1%
85	90	0	-	0.0%
90	95	0	-	0.0%
95	100	5	183,112,122	3.8%
100	150	7	154,987,781	3.2%
150	200	2	105,344,447	2.2%
200	250	0	-	0.0%
<b>Grand Total</b>		<b>159</b>	<b>4,882,500,000</b>	<b>100%</b>

***Region***

Region	Asset ID Region	No. of Advances	Total Amount	% of Total Balance <sup>2</sup>
Central	42	1	32,369,000	0.7%
London	41	31	1,321,493,000	27.1%
London & South East	41	2	79,248,000	1.6%
Midlands	42	25	743,963,000	15.2%
Midlands & South East	42	3	50,000,000	1.0%
Midlands, South East & South West	42	2	30,442,000	0.6%
Midlands/South	42	3	200,000,000	4.1%
National	43	10	213,506,000	4.4%
North	44	19	347,445,000	7.1%
North East	44	8	183,500,000	3.8%
North West	44	1	38,000,000	0.8%

## Region

Region	Asset ID Region	No. of Advances	Total Amount	% of Total Balance <sup>2</sup>
Peterborough	42	1	55,000,000	1.1%
South	47	5	51,735,000	1.1%
South East	47	28	922,789,000	18.9%
South East/West	47	3	37,900,000	0.8%
South West	47	8	348,650,000	7.1%
South West/South East	47	1	94,000,000	1.9%
South/Midlands	47	1	49,500,000	1.0%
Wales	48	7	82,960,000	1.7%
<b>Grand Total</b>		<b>159.00</b>	<b>4,882,500,000.00</b>	<b>100.0%</b>

## Lloyds TSB Corporate Master Scale Rating

Lloyds TSB Corporate Master Scale Rating	No. of Facilities	Total Amount	% of Total Balance <sup>2</sup>
4	11	351,304,054	7.2%
5	119	3,738,510,386	76.6%
6	29	792,685,560	16.2%
<b>Grand Total</b>	<b>159</b>	<b>4,882,500,000.00</b>	<b>100%</b>

## Governing Law

Each of the Included Loan Advances is governed by English law.

## Eligibility Criteria

Each Included Loan Advance shall, on the Issue Date, be required to satisfy each of the eligibility criteria set out below (collectively, the "**Eligibility Criteria**" and each, an "**Eligibility Criterion**") *provided that* for the purpose of the percentage calculations the sum of the Funded Aggregate Principal Balances of the Included Loan Advances will be assumed to be £4.8825 billion:

1. the Included Loan Advances were selected from a portfolio of loans to Social Housing providers, Registered Social Landlords (RSL) in the United Kingdom. The Included Loan Advances are originated by Lloyds TSB PACS Corporate Department in the normal course of its business.
2. each Obligor is a customer of the Originator.
3. each RSL Obligor, falls under the jurisdiction of the Tenant Services Authority (or an authority equivalent thereto) and is guided by The Housing and Regeneration Act 2008, the Housing Associations Act 1985 and the Housing Act 1996, each as amended from time to time.
4. each Included Loan Advance to a RSL Obligor has a minimum S&P rating of BB and, in respect of Replenishment Loans only, a minimum Fitch rating of BB.
5. each Included Loan Advance to a RSL Obligor has a minimum S&P pre-haircut recovery rate of 70%
6. maximum S&P Non-investment Grade (NIG) concentration for Included Loan Advances to a RSL Obligor of 1.45% with a minimum recovery of 80% S&P assigned pre-haircut recovery rate. If the minimum S&P assigned pre-haircut recovery rate is between 75% and 80% the maximum S&P NIG concentration is 1.15%. If the minimum S&P assigned pre-haircut recovery rate is between 70% and 75% the maximum S&P NIG concentration is 0.95%.
7. maximum S&P BBB- concentration for Included Loan Advances to a RSL Obligor of 2.10% with a minimum recovery of 80% S&P assigned pre-haircut recovery rate. If the minimum S&P assigned pre-haircut recovery rate is between 75% and 80% the maximum S&P BBB-

concentration is 1.65%. If the minimum S&P assigned pre-haircut recovery rate is between 70% and 75% the maximum S&P BBB- concentration is 1.35%

8. maximum S&P BBB concentration for Included Loan Advances to a RSL Obligor of 2.60% with a minimum recovery of 80% S&P assigned pre-haircut recovery rate. If the minimum S&P assigned pre-haircut recovery rate is between 75% and 80% the maximum S&P BBB concentration is 2.05%. If the minimum S&P assigned pre-haircut recovery rate is between 70% and 75% the maximum S&P BBB concentration is 1.70%.
9. maximum S&P BBB+ concentration for Included Loan Advances to a RSL Obligor of 2.60% with a minimum recovery of 75% S&P assigned pre-haircut recovery rate. If the minimum S&P assigned pre-haircut recovery rate is between 70% and 75% the maximum S&P BBB+ concentration is 2.10%.
10. maximum S&P A- or higher concentration for Included Loan Advances to RSL Obligors of 2.60% with a minimum recovery of 70% S&P assigned pre-haircut recovery rate.
11. the maximum Funded Aggregate Principal Balance of an Included Loan Advance to an RSL Obligor is £125,000,000 except that in respect of up to 5 RSL Obligors:
  - (a) up to 2 RSL Obligors may, with respect to each of such RSL Obligor, constitute 4.10% provided that:
    - (i) the minimum S&P assigned rating to such RSL Obligor is BBB; and provided further that for each such RSL Obligor the minimum S&P assigned pre-haircut recovery rate is 87%; or
    - (ii) the minimum S&P assigned rating to such RSL Obligor is BBB+ and provided further that for each such RSL Obligor the minimum S&P assigned pre-haircut recovery rate is 82%; or
    - (iii) the minimum S&P assigned rating to such RSL Obligor is A- and provided further that for each such RSL Obligor the minimum S&P assigned pre-haircut recovery rate is 75%; or
    - (iv) the minimum S&P assigned rating to such RSL Obligor is A+ and provided further that for each such RSL Obligor the minimum S&P assigned pre-haircut recovery rate is 70%;
  - (b) up to 1 RSL Obligors may, with respect to such RSL Obligor, constitute 3.10% provided that:
    - (i) the minimum S&P assigned rating to such RSL Obligor is BBB and provided further that for each such RSL Obligor the minimum S&P assigned pre-haircut recovery rate is 82%; or
    - (ii) the minimum S&P assigned rating to such RSL Obligor is A- and provided further that for each such RSL Obligor the minimum S&P assigned pre-haircut recovery rate is 75%; or
    - (iii) the minimum S&P assigned rating to such RSL Obligor is A+ and provided further that for each such RSL Obligor the minimum S&P assigned pre-haircut recovery rate is 70%; and
  - (c) up to 2 RSL Obligors may, with respect to such RSL Obligor, constitute 2.90% provided that:
    - (i) the minimum S&P assigned rating to such RSL Obligor is BBB and provided further that for each such RSL Obligor the minimum S&P assigned pre-haircut recovery rate is 82%; or

- (ii) the minimum S&P assigned rating to such RSL Obligor is A- and provided further that for each such RSL Obligor the minimum S&P assigned pre-haircut recovery rate is 75%; or
  - (iii) the minimum S&P assigned rating to such RSL Obligor is A+ and provided further that for each such RSL Obligor the minimum S&P assigned pre-haircut recovery rate is 70%.
- 12. the minimum Funded Aggregate Principal Balance of an Included Loan Advance is £100,000.
- 13. the Originator's decision to participate in the Included Loan Advances was made in accordance with its credit and collection policies.
- 14. no Obligor of an Included Loan Advance is subject to an Insolvency Event at the time the Loan Agreement was entered into.
- 15. there is no moratorium or suspension of payment in relation to an Obligor.
- 16. each Included Loan Advance is a senior debt obligation originated by a bank or credit institution.
- 17. no event of default has occurred in relation to the Included Loan Advances in accordance with the terms of the relevant Loan Agreement.
- 18. the Originator has not received notice of any subsisting, threatened or pending disputes, litigation, defences, counterclaims, enforcement procedures with respect to the Included Loan Advances and their Related Security which would be reasonably likely to materially affect the performance by an Obligor of its obligations relating to such Included Loan Advance and the related Loan Agreement.
- 19. in respect of Included Loan Advances which are syndicated loan advances, the terms of the relevant Loan Agreement contain procedures for decision making.
- 20. the remaining term of such Included Loan Advances does not exceed 40 years and its stated maturity is no later than the Note Maturity Date.
- 21. to the best of the Originator's knowledge after making due enquiries, there are no active negotiations to Restructure the Included Loan Advances.
- 22. the Originator is not aware of any material inaccuracy in information provided with respect to the Included Loan Advances and the Included Loan Advances are not capable of being converted or exchanged into another type of obligation.
- 23. the credit committee of the Originator has approved the Included Loan Advances.
- 24. the Included Loan Advances must have a S&P rating of BB or better and a S&P assigned pre-haircut recovery rate equal to or above 70% assigned by S&P.
- 25. The MV – STT valuation in respect of each Included Loan Advances is at least 110%, where applicable.
- 26. The EUV – SH valuation in respect of each Included Loan Advances is at least 100%, where applicable.
- 27. EUV-SH + S valuation in respect of each Included Loan Advance is at least 125%, where applicable.
- 28. The MV-VP valuation in respect of each Included Loan Advance is at least 133%, where applicable.
- 29. The OMV valuation in respect of each Included Loan Advance is at least 110%, where applicable.

For the purposes of the Eligibility Criteria:

**"Registered Social Landlords"** means (i) entities that are independent housing organisations registered with the Tenant Services Authority under the Housing Act 1996 which may be Industrial and Provident Societies, registered charities or companies incorporated under the Companies Acts or (ii) a company incorporated under the Companies Act for the purposes of funding an entity falling within (i) above.

**"Restructure"** means, in respect of a relevant Loan Agreement, any one or more of the following actions taken by the Originator and agreed between the Originator and the relevant Obligor, which are not expressly provided for under the terms of the Loan Agreement: (a) reduction in the rate or amount of interest payable or the amount of scheduled interest accruals; (b) reduction in the amount of principal or premium payable at maturity or at the scheduled redemption date; (c) postponement or deferral of a date or dates for either the payment or accrual of interest or the payment of principal or premium; (d) change in the ranking in priority of payment of any obligation causing the obligations of the Obligor under the Loan Agreement to be subordinated to any other obligations of the relevant Obligor; or (e) any change in the currency or composition of any payment of interest or principal from Sterling to any other currency, in each case that results in a value adjustment or other similar debit to the profit and loss account of Originator, *provided that*, notwithstanding the above provisions, none of the following shall constitute a Restructure: (i) the payment in euros of interest and principal in relation to the Loan Agreement following the adoption of the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union; (ii) the occurrence of, agreement to or announcement of any of the events described in (a) to (e) above due to an administrative adjustment, accounting adjustment or tax adjustment or other technical adjustment occurring in the ordinary course of business; and (iii) the occurrence of, agreement to or announcement of any of the events described in (a) to (e) above in circumstances where such event does not directly or indirectly result from a deterioration in the creditworthiness or financial condition of the relevant Obligor.

#### Portfolio Criteria

The Portfolio shall, on the Issue Date, be required to satisfy the following criteria (the **"Portfolio Criteria"**) *provided that* for the purposes of these calculations the sum of the Funded Aggregate Principal Balances of Included Loan Advances will be assumed to be £4.8825 billion:

1. the sum of the Funded Aggregate Principal Balance of all Included Loan Advances may not exceed £4.8825 billion.
2. the weighted average S&P pre-haircut portfolio recovery rate should be at least 75%.
3. not more than 2.0% of the Included Loan Advances may consist of loan advances rated BB or worse by S&P.
4. not more than 5.0% of the Included Loan Advances may consist of loan advances rated BB+ or worse by S&P.
5. not more than 30.0% of the Included Loan Advances may consist of loan advances rated BBB- or worse by S&P.
6. not more than 50.0% of the Included Loan Advances may consist of loan advances rated BBB or worse by S&P.
7. not more than 85.0% of the Included Loan Advances may consist of loan advances rated BBB+ or worse by S&P.
8. the sum of the Funded Aggregate Principal Balance of the largest 6 Obligors (by reference to their respective Funded Aggregate Principal Balance) shall constitute no more than 19.6%.
9. the following maximum exposure by S&P Asset ID shall apply:

Asset ID	Region
41.	London, London & South East – Maximum 31%

Asset ID	Region
42.	Midlands, Midlands South East, South West, Central, Peterborough – Maximum 28%
43.	National – Maximum 10%
44.	North – Maximum 17%
46.	Scotland – Maximum 5%
47.	South (East/West/Midlands) – Maximum 32%
48.	Wales – Maximum 7%

### Replenishment of the Portfolio

During the Replenishment Period, the Collateral Administrator (on behalf of the Issuer) may add additional Included Loan Advances in the Portfolio (by accepting the vesting of the beneficial interest in such additional Included Loan Advances on behalf of the Issuer) pursuant to the terms of the Administration Agreement and the Originator Trust Deed, subject to the satisfaction of the following criteria (the "**Replenishment Criteria**"):

1. the sum of the Funded Aggregate Principal Balance of all Included Loan Advances may not exceed £4.8825 billion.
2. the Eligibility Criteria have been met by such additional Included Loan Advances on the Addition Date.
3. the Portfolio Criteria must be satisfied following such replenishment *provided that*, to the extent that the Portfolio Criteria were already in breach prior to such replenishment as a result of amortisation or removal of an Included Loan Advance or mergers or other consolidation of two or more RSL Obligors, such replenishment shall not cause the Portfolio Criteria to be breached further.
4. the Servicing Standards of the Originator must be complied with.
5. Class A Overcollateralisation Test must be satisfied following such replenishment.
6. The S&P synthetic rated overcollateralisation test as advised by S&P (the **S&P SROC Test**) following a replenishment must be a positive figure greater than or equal to 100 per cent or, if the S&P SROC Test immediately prior to the replenishment is less than 100 per cent, such replenishment does not cause the S&P SROC Test to be a smaller percentage value.
7. a Fitch credit estimate will be obtained for which the minimum Fitch rating of BB is required and a credit estimate of S&P is obtained on the Addition Date for which the minimum rating is BB and which will include a corresponding recovery rate and regional classification as confirmed by S&P.
8. the Loan Agreement of such additional Included Loan Advance shall not entitle the relevant Obligor to exercise any lien, right of set-off or counterclaim against the Originator in respect of any amounts payable under the relevant Loan Agreement.

In the event that an Included Loan Advance is removed from the Loans Trust pursuant to the Call Option Agreement (as to which, see "*The Loans Trust – Disposal of Loans Trust Property and Reacquisition of Beneficial Interest in the Included Loan Advances*" below) and the Collateral Administrator (on behalf of the Issuer) decides to substitute a non-securitised loan advance for an Included Loan Advance, the Collateral Administrator shall procure that the Originator reacquires the beneficial interest in such Included Loan Advance in accordance with the terms of the Call Option Agreement. During the Replenishment Period, the Issuer Surrender Receipt shall then be available to the Issuer for the addition of loan advances to the Portfolio as set out above.



**"Servicing Standards"** means an obligation of the Originator, pursuant to the terms of the Originator Trust Deed, to

- (a) in the ordinary course of its business, acting as a prudent commercial lender, collect payments from Obligors under the relevant Included Loan Advances and continue to administer such Included Loan Advances in the same manner and with the standard of skill, care and diligence the Originator applies to its other loans to RSL Obligors, beneficially owned and administered by it, with a view to the timely collection of all sums due under each Included Loan Advance;
- (b) (i) comply with all applicable laws, rules, regulations and orders with respect to servicing and collection of the Included Loan Advances; (ii) exercise or enforce or refrain from exercising or enforcing its rights arising in respect of Included Loan Advances pursuant to the terms of the relevant Loan Agreement; (iii) agree to or refuse any amendment or waiver of the terms applicable to any Included Loan Advances; and (iv) at all times act in compliance with the terms of the relevant Loan Agreement, the provisions of the Originator Trust Deed and the other Transaction Documents;
- (c) refrain from taking any action, or omit to take any action, likely to impair the interest of the Beneficiaries in the Loans Trust Property or the value of any Included Loan Advances except any action or omission undertaken in accordance with the standards set out in (a) and (b) above shall not breach this paragraph (c); and
- (d) on the occurrence of an event of default under an Included Loan Advance, in the ordinary course of its business and acting as a prudent lender, ensure the maximisation of recovery of funds taking into account:
  - (i) the likelihood of recovery of amounts due in respect of that Included Loan Advance;
  - (ii) the timing of recovery; and
  - (iii) the costs of recovery,

in each case, in accordance with the terms of the relevant Loan Agreement in particular in relation to an Included Loan Advance which is a syndicated loan, in accordance with the provisions set out in the relevant Loan Agreement in relation to decision making and sharing between lenders.

### **Servicing of the Loans Trust Property**

Pursuant to the Originator Trust Deed, the Originator has responsibility for servicing the Included Loan Advances it originated. The Originator's servicing obligation include, *inter alia*, maintaining the loan file in a location identified to the Issuer and taking all reasonable steps to preserve and maintain the loan file for the Issuer and to ensure the safekeeping of the loan file. The Originator will also collect in the Collection Accounts payments from Obligors under the Included Loans Advances, re-locate the Collection Accounts to a banking institution with the Collection Account Bank Required Rating in the event that the Collection Account Bank is downgraded to a rating below the Collection Account Bank Required Rating, pay the proceeds of all Included Loan Advances to the relevant Issuer Account in accordance with the provisions of the Transaction Documents, provide information to the Cash Administrator for the Investor Reports, notify the Issuer and the Cash Administrator of any material breaches of any of the Eligibility Criteria by the Originator.

Following a Power of Attorney Event, the Issuer or its delegate or agent may (a) take any action as is reasonably required to preserve, exercise and/or enforce any of the Originator's rights under or pursuant to the relevant Included Loan Advances and (b) take any action in relation to the Loans Trust Property as the Issuer (or its delegate or agent) reasonably considers necessary for the protection or enforcement of the Issuer's rights thereunder.

In the event that the Originator proposes to make a sale, disposal, sub-participation to a third party or re-acquisition in relation to an Included Loan Advance or part thereof (as to which see "*The Loans Trust*" below), the Loans Trustee will procure that the Reacquisition Proceeds received from the Originator are transferred to the Issuer (corresponding to the Investor Interest) and the Originator Beneficiary (corresponding to the Originator Interest).

Promptly upon the due date for receipt in the relevant Collection Account of Revenue Receipts and Principal Receipts, the Cash Administrator on behalf of the Originator shall (a) identify such Collections, as relating to one or more Included Loan Advances (b) allocate such Collections between principal and interest and (c) transfer such amounts from the Collection Account to the relevant Issuer Account corresponding to the Investor Interest and the Originator Beneficiary corresponding to the Originator Interest. On each Monthly Reconciliation Date, the Cash Administrator on behalf of the Originator shall calculate any Reconciliation Amount and the proportion of such amount that is in respect of Principal Receipts and Revenue Receipts.

### **Originator Credit and Collection Policies**

The following is a description of the PACS Corporate Department within Lloyds TSB as well as its loan origination process and monitoring procedures as at the date of this Prospectus.

The Lloyds TSB PACS Corporate Department (Public And Community Sector; "**PACS**") is a specialist team within the corporate markets department of Lloyds TSB ("**Corporate Markets**") that meets the banking needs of publicly funded, or regulated not-for-profit organisations. Although increasingly run as businesses, these organisations have a different ethos being focused on providing a public community service or benefit and this requires a different approach to their banking. Operating in specific sectors, PACS adds value by combining expert knowledge of the markets with the Bank's wider product range in order to provide customers with tailored and responsive solutions to their unique needs.

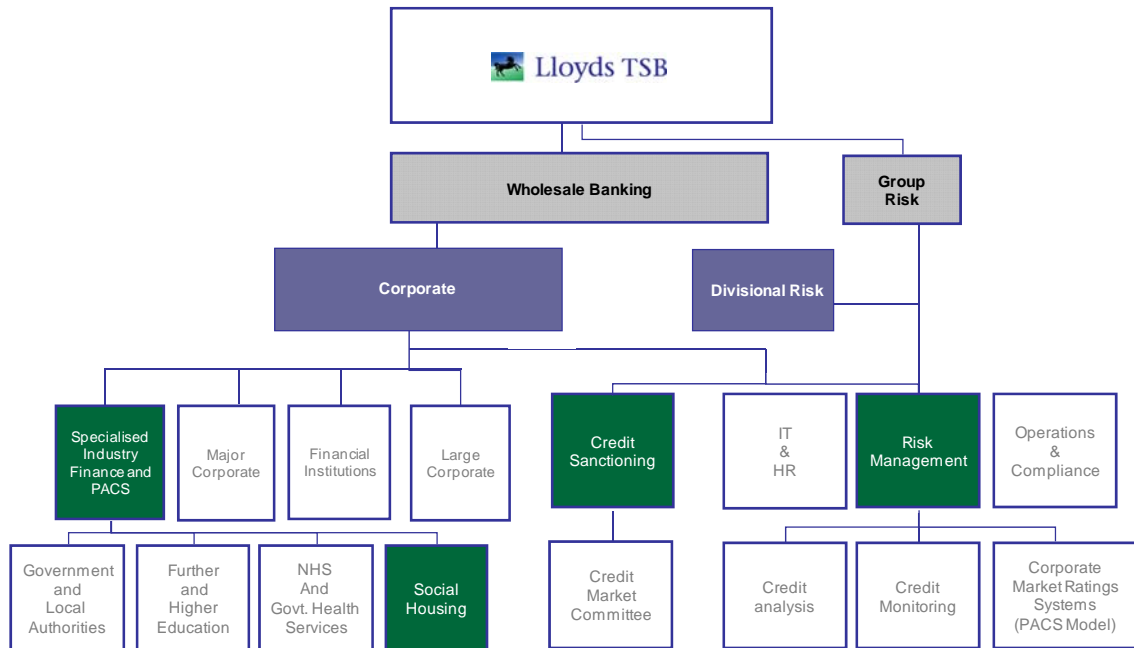
Lloyds TSB is one of the top lenders to the Social Housing sector with approximately £9 billion of commitments. Private sector lending to the sector totalled approximately £55 billion and is expected to increase through to 2012.

PACS has a long established team of Originator, relationship directors and dedicated support staff with a combined 120 years of experience in the sector. PACS operates across the UK in sectors which are publicly funded and regulated or provide a service to the community. Combining sector expertise and local knowledge PACS has operating regional teams across the UK managing circa 900 relationships. In addition, Lloyds TSB has a team of industry specialists who are well connected to RSL executives and governing boards, RICS Approved Valuers, regulators, financial/treasury advisors and legal professionals.

Planned private lending to the RSL sector is earmarked at circa £8.4 billion over the next three years. A key objective for the sector is to increase the stock supply of social housing. Currently less than 100,000 homes are being built compared to the 250,000 per year that are required in the UK. Lloyds TSB sees this as an important growth opportunity for the sector and its business.

PACS' activities (including Social Housing) fall under the Corporate Markets division, part of Wholesale Banking and PACS includes the following areas: Social Housing, Further and Higher Education, Government and Local Authorities and National Health Service and Government Health Services. The PACS Origination team is separated from the credit sanctioning and risk management functions in order to improve rigour and independence in assessing and monitoring transactions' risks.

Please see below for a schematic overview:



The credit policy of Lloyds TSB Corporate underpins its loan origination process and its basic principles of credit policy are centred around:

- Manage its risk exposures appropriately seeking an optimal balance between risk and reward;
- Adapt a prudent, through the cycle approach to lending, supported by a robust structure for credit management, and to segregate credit responsibilities from business development and sales;
- Adopt centrally a policy of portfolio management to monitor asset growth, quality and profitability while identifying and managing concentrations of risk;
- Comply with all of the regulatory and legislative requirements relating to credit risk with particular attention to the relevant sections of the FSA's Prudential Source Book.

### Loan Origination

New lending to RSLs is originated through regional Public & Community Sector (PACS) offices. The PACS teams are specialist bankers dedicated to serving customers with a not-for-profit ethos. The bank considers the strength of relationship a key element in any business transaction thus ensures only specialists are involved in meeting the needs of RSLs.

The Relationship teams conduct business within agreed geographic parameters and against industry specific credit and lending policies which are regularly updated. RSL lending has tended to be long term with funding costs a key sensitivity. As such, the relationship team usually includes a 'Financial Markets' specialist to advise on interest rate risk management. Credit partners are invited to meet customers for the larger and/or more complex transactions.

The role of the Relationship Directors is to present written business proposals to the independent but specialist credit partners. The Relationship Director input is primarily focused on outlining the transaction and assessing the management of the obligor. The credit partner then writes a formal credit proposal balancing risk and reward issues and sets the obligor credit rating. This report is then considered by a credit sanctioner and, if new business, also by the Head of Social Housing. Relationship Directors do not have any material delegated authority to lend. The level of credit sanctioner depends on the size of the lending. Larger proposals will require submission to credit committee.

Based on the credit policy of Lloyds TSB Corporate, LTSB has a rigorous framework in place to ensure appropriate loan origination. The process consists of the following steps:

- (a) Identification of lending need: the target market is easily identified given there are very few new entrants; most are already clients of Lloyds TSB and the bank maintains regular contact with prospects. Financial advisors or customers directly will contact Lloyds TSB to quote on new tenders.
- (b) Early Warning of Business: in relation to large or more complex transactions, early discussions on the RSL's credit standing, a review of the RSL's requirements and its compliance with the credit policy. In addition, pricing, risk management and other products are assessed as well as the use of risk weighted capital and return for the bank.
- (c) Negotiation with external parties: draft and negotiate a term sheet with transaction terms and conditions and negotiate with customers and advisors. Usually these loans are bilateral but with a sell-down clause.
- (d) Execution and internal application for limits: credit proposal finalised including accounts (audited and management), forecasts (up to 35 years) and business plan. An assessment is made of management and the obligor will receive a Lloyds TSB internal rating. The Origination team deals with the transaction's parties and obtains/formalises the transaction documentation.

Risk analysis: the lending proposition is assessed by the Credit Management Centre ("CMC")

- (e) ). The CMC analyst prepares an independent report covering all risk/reward aspects. In addition, an assessment of the business is made in terms of financial risks, sensitivity of business plan to adverse assumptions and appropriateness of covenants.
- (f) Approval process and sanctioning: depending on commitment's size and risk profile, lending propositions are analysed and discussed by the relevant credit official/credit committee. The lending decision is made in compliance with the applicable lending authorities.
- (g) Post-sanctioning credit monitoring: credit monitoring activities such as annual review of facilities, CMC analysis of management accounts e.g. compliance with covenants, regular on-site visits and client meetings. Proactive management of sector risk using extensive industry contacts and knowledge.

### **Internal Credit Rating Process**

All PACS transactions are rated using bespoke rating models fine tuned to assess credit quality of all Social Housing transactions. The models have been approved for usage by Divisional Risk for regulatory capital purposes.

The PACS Social Housing Credit Rating Model is based around the following 4 drivers:

- (a) Business Environment (such as long term demographics, market rental levels v/s existing use rental levels, demand in area, living environment, competition)
- (b) Management and Governance (such as management strategy, profiles and competence, growth targets, management information systems, timeliness of information etc.)
- (c) Financial Management (such as prudent financial plan, treasury management, interest and cash flow cover, debt repayment, liquidity and arrears ratio, Debt Service Cover Ratio)
- (d) Operational Management (such as housing/university stock condition and future maintenance/planned costs, average number of repairs per unit, stock turnover, management of arrears and void periods)

Industry credit ratings are then translated across to a bank wide credit rating system.

## **Credit Committees**

The vast majority of transactions are dual sanctioned between the respective Relationship Director and Credit Managers or Directors. Delegated credit authority is provided by the Divisional Credit Committee to Credit Managers and Directors and updated from time to time. More senior and experienced directors are given higher dual signing authority. Where facility limits exceed £400m, transactions may be sanctioned directly with the Divisional Credit Committee. The process for assessing and analysing proposals being forwarded to Divisional Credit Committee is exactly the same as if facilities were sanctioned under a dual sanctioning authority.

## **Servicing of Loans**

Under Corporate Markets' credit policy management framework there are clear benchmarks for sound credit decisions and the promotion of a balanced and managed approach to the identification and mitigation of credit risk. Importantly, it clearly defines customer relationship and credit managers' respective credit responsibilities.

All lending particulars are recorded on bank systems to allow effective monitoring and control of risk. The CMC ensures there are independent checks made on loan drawings and monitoring ongoing loan and financial covenant performance. Whilst the loans are substantially long term it is a requirement that each of them is formally reviewed at least once a year.

All lending is assigned to the Relationship Manager/Director, who maintains an ongoing relationship with the individual customer, and is subject to regular review, with the customer, on at least an annual basis. Furthermore, different internal committees are set up to review and revise credit policy and to manage risk at portfolio level (quarterly), while on a monthly basis the overall objectives of the Corporate Markets business are reviewed.

Ultimately, Lloyds TSB Corporate Markets is subject to independent Divisional oversight including, amongst other things, regular reviews of lending under the control of individual relationship managers, focusing on quality of the lending portfolio and individual lending decisions, and observance of credit policy and other lending directions.

## **Customer Debt Management Procedures**

Obligors in the RSL sector operate in a strictly regulated environment in the UK, and the likelihood of default is mitigated through a strong government framework. None of the 1900+ obligors have defaulted since the regulatory framework was set up and since private sector lending grew strongly since 1989 except for one technical default, which did not result in any loss to lenders.

This single isolated default case was Ujima; Ujima RSL was set up in 1977 to address social housing shortage within inner London suburbs. The association operated in over 19 London boroughs and was the recipient of significant government grants. It was the beneficiary of approximately £300 million of public sector funding and a further £200 million in private funding. Ujima was the first and only RSL ever to default. This isolated occurrence was co-ordinated between private lenders and the regulator and enabled strong intervention by the Housing Corporation and led to strengthening of regulatory provisions under The Housing and Regeneration Act 2008.

The following is a sequence of events that occurred between May 2007 and January 2008 leading to a final transfer to London and Quadrant Housing Association:

- (a) Early governance and management indicators in 2005 provided the first signs of concern. In 2006 Ujima embarked on an ambitious site acquisition plan that overstretched its financial and managerial resources;
- (b) The Housing Corporation did not receive timely and accurate information. The old powers of the Housing Corporation did not provide a sufficiently strong process for timely information compliance. As a result the "traffic lights" could not be updated;
- (c) In late 2007 the Housing Corporation placed Ujima into supervision after a long history of information non-compliance and financial mismanagement came to light;

- (d) In December 2007, Ujima presented a winding-up petition to Court (unable to meet debts as they fell due);
- (e) In January 2008 the creditors accepted the Housing Corporation's proposal that the assets and liabilities of Ujima be transferred to London & Quadrant, one of England's largest RSLs. The Housing Corporation managed Ujima's liabilities and obligations by being actively involved and transferring it to a better managed RSL as soon as it became aware;
- (f) Whilst there were no problems in the underlying stock that Ujima possessed, it proved that the Housing Corporation is a pro-active regulator that will step in to protect both tenants and lenders.

The Ujima case highlighted the weakness in the legislation whereby the Housing Corporation did not have the right to step in when timely information was not provided. The new Housing & Regeneration Act, which came into effect from December 2008 and extends to England and Wales only, awards the regulator the power to conduct short notice inspections to speed up action taking. In addition, the rigour of the regulation has been strengthened by separating investment and regulation. As a result under the new act the Tenant Services Agency ("TSA") will address regulation and the Homes and Community Agency ("HCA") will address investment and funding.

Lloyds TSB, as part of its loan servicing process, seeks to prevent and manage loan deterioration. In the Social Housing sector, the tight regulatory framework means it is extremely unusual for the Business Support Unit ("BSU") to become actively involved. As such, there have been no instances of needing to act of an Event of Default and/or realising security.

BSU is the specialist business unit responsible for handling the management of higher risk and selected underperforming lending relationships across all Wholesale and International Banking units. Its objective is to support and turnaround underperforming obligors so as to protect value for the bank, to align remuneration with increased risk and wherever possible to preserve value for stakeholders. The team is based in London with additional staff spread principally through 3 main regional offices (Bristol, Birmingham and Leeds) to provide UK and European cover.

BSU collaborated with PACS in managing the Ujima relationship in order to minimise risk and potential losses. No RSL relationships are currently managed with BSU. Customer Debt Management, the recovery unit within Lloyds TSB that provides debt recovery services for Wholesale and International Banking, takes responsibility for lending relationships where the customer has entered into a formal insolvency process or has ceased trading and the bank needs to recover its exposure through the realisation of collateral. BSU is an autonomous profit centre and business targets are value driven.

It is the objective to identify under-performance at an early stage by PACS. The recovery strategy is to optimise "turnarounds" back to "mainstream" within two years from transfer and starts with identifying the action necessary. This may result in a BSU Shadow role or a full transfer to BSU. It is the bank's policy to early transfer to Business Support of both relationship and credit responsibilities.

## **DESCRIPTION OF THE SOCIAL HOUSING SECTOR**

### **Description of The Social Housing Sector**

#### ***Introduction***

The social housing sector provides housing for those without access to the means to adequately provide it for themselves and approximately 3.7 million households in England (18% of all households in England) comprise the social rented sector, based on 2007 Labour Force Survey data. Of those, approximately 60 per cent. were tenants of local authorities and approximately 1.5 million were tenants of housing associations.

The existence and size of the social housing sector is largely due to government initiatives and government funding and support for housing associations over the last three decades.

#### ***Background to the Social Housing Sector***

In England the provision of social housing can be traced at least back to the almshouses (some said to have been founded in the twelfth century), which still provide accommodation for over 30,000 households. Organisations with the characteristics of modern housing associations have existed, and have provided and managed, social housing since the early nineteenth century.

Through the course of the last two centuries, as a succession of Acts of Parliament shows, the government has become increasingly involved in social housing. In the twentieth century that involvement increasingly acquired a financial dimension. From 1919 onwards the expansion in social housing has been largely supported by central government subsidy for its construction; and the Housing Act 1930 and the Unemployment Assistance Act 1934 were important steps in assisting the poor to meet the cost of housing by providing a form of financial support.

The Housing Act 1964 created the Housing Corporation, a statutory body subject to the control of the Department for Communities and Local Government and prepared the way for the present framework for the sector which has developed through the Housing Acts of 1974, 1980 and 1985, the Housing Associations Act 1985, the Housing Acts of 1988, 1996 and 2004 and the Housing and Regeneration Act 2008 (the "**HRA**").

#### ***The Role of the Housing Corporation***

From 1964 the Housing Corporation promoted and assisted in the development of housing associations, in England and Wales, including registered social landlords, with the power to make Loans to them, compulsorily to purchase land for them, and to intervene and take action if any gets into difficulty. Subsequent Acts of Parliament expanded its role and added to its powers so that it is regarded as the regulatory authority for the sector. It maintains the register of "social landlords" (in which those who were registered housing associations under the Housing Associations Act 1985 are now registered under the Housing Act 1996). Its "section 9 consent", named after that section of the Housing Associations Act 1985 (now section 9 of the Housing Act 1996), is required for all secured borrowings by registered social landlords. Through its administration of the grant system the Housing Corporation directs new social housing development in accordance with its assessments of long term housing demand. It published standards for expenditure on management and maintenance of social housing stock and monitored the performance, both operationally and financially, of registered social landlords. Under the Housing Act 1996 it had extensive powers to obtain information, and extended rights to propose and (with the consent of affected secured creditors) to take action should a registered social landlord be threatened with insolvency or the enforcement of any security which it has given.

With effect from 1 December 2008 the HRA abolished the Housing Corporation and formed its replacement through two new statutory bodies, the Homes and Communities Agency (the "**HCA**") and the Tenant Services Authority (the "**TSA**"). The functions of the Housing Corporation, which related to investment in housing, is now undertaken by the HCA and the Housing Corporation's regulatory functions including the giving of Section 9 consent are now carried out by the TSA.

### ***Housing Act 1996***

Together with the orders made under it the Housing Act 1996 contemplates the extension of and extends the statutory framework which has governed the activities of registered housing associations in England and Wales under the Housing Associations Act 1985, which it largely replaced (as that Act replaced the Housing Act 1974).

As a result of the Housing Act 1996 "registered housing associations" under the Housing Associations Act 1985 became "registered social landlords". Plans are being drawn up to name RSLs "Registered Providers".

### ***Registered Social Landlords***

Apart from the fact that it exists to provide social housing, a defining characteristic of a housing association, and an absolute requirement if the housing association is registered with the TSA, is that it must not trade for profit. Under the HRA 2008 it will be possible for profit-making organisations to be registered, however all RSLs will automatically be registered as not-for-profit registered providers. Registration with the TSA makes the housing association subject to the supervision and control of the TSA. It also entitles the housing association to certain privileges, including eligibility for money from public sources. To be eligible for registration with the HCA a housing association must be a registered charity, or a society registered with the Financial Services Authority under the Industrial and Provident Societies Act 1965 or a company under the Companies Act.

Some housing associations are registered charities and most are Industrial and Provident Societies registered with the Financial Services Authority or companies limited by guarantee registered with the Registrar of Companies. Registration as an Industrial and Provident Society can be with charitable or non-charitable rules. Files held at the FSA Mutuals Register on each registered social landlord which is an Industrial and Provident Society are publicly accessible and contain details of that housing association's rules, rule changes, annual returns and accounts, and any floating charges registered over its assets.

Once the sections of the HRA relating to eligibility are brought into force the eligibility criteria for registration will change in relation to English bodies. To be registered under the HRA four conditions will need to be satisfied. First the entity applying will need to be an English body within the meaning of section 79 of the HRA. This definition is broader than under the Housing Act 1996 as in addition to the three eligible classes of body detailed above it includes a community land trust owning land in England and any other person who is not a Welsh body and who makes available or intends to make available accommodation in England. Secondly, in order for the English body to be registered it will need to be, or must intend to become, a provider of social housing in England. Thirdly, the body will need to satisfy any relevant criteria set by the TSA as to financial situation, constitution and other arrangements for its management. Lastly, the English body must not fall into one of the exceptions to registration detailed in section 113 of the HRA, namely is or is controlled by a local housing authority or a county council.

### ***Charities***

An Industrial and Provident Society which is also a charity does not have to register with the Charity Commissioners (Section 3A(2) and Schedule 2 of the Charities Act 1993, as amended by the Charities Act 2006) and is known as an "exempt charity". However the Charity Commissioners do have certain powers in relation to exempt charities. These include the power to authorise dealing with property that would otherwise be outside the powers of the charity in question and the power concurrently with the High Court to make schemes for the administration of a charity.

### ***Housing Act 2004***

The Housing Act 2004 impacts on social housing most noticeably through changes to the Right To Buy scheme (designed to halt potential abuse of the scheme), the extension of the power of the Housing Corporation to give social housing grants to non-registered social landlords and an extension to the Right to Acquire scheme.



### ***The Management of Housing Associations which are Registered Social Landlords***

Each registered social landlord is controlled by a management committee (or board) of typically, unpaid, voluntary members, often professional people, with no pecuniary interest (which is a statutory requirement pursuant to Housing Act 1996 Schedule 1 Part 1) either in the association itself or in any third party which it employs. However, board members of some of the largest and more complex RSLs are now paid positions reflecting the size and complexity of these organisations. Training is provided to members from various sources.

Paid officers, usually headed by a Chief Executive, are responsible for the day to day running of each association. The relevant senior officers report on a regular basis to the members, often through subcommittees with delegated authority to deal with particular matters or geographic areas. It is normal practice now for the larger associations to have independent, internal audit teams which have direct reporting access to the members.

### ***Management of Properties***

Housing management is one of the core functions of registered social landlords and specialised systems have been developed for its performance. Generally, these are based around housing officers each of whom is responsible for a specific pool of properties and whose responsibilities extend from letting to rent collection and will include the provision of assistance to tenants in the claiming of housing benefit. The TSA provides a specification of housing management requirements. The TSA monitors the housing management performance of registered social landlords. A succession of independent surveys have recorded a high level of satisfaction among housing association tenants with the management service provided.

### ***Maintenance of Properties***

The efficacy of housing association expenditure on maintenance was attested by the results of the English House Condition Survey (the "ECHS") between 2002 and 2008. In 2008 the English House Condition Survey merged with the Survey of English Housing to form the English Housing Survey (the "EHS"). The physical survey formerly undertaken in the ECHS is now part of the EHS. The most recent published survey of the ECHS (carried out in 2006 and published in November 2008) found registered social landlord properties provide the highest level of decent homes of all tenures, including owner occupation, and to be largely well maintained. Non-decent homes are characterised by failing to meet either the current statutory minimum standard for housing, or being in a state of disrepair, or in need of modernisation, or providing insufficient thermal comfort. The Government proposed in the Green Paper published on 23 July 2007 to bring 95 per cent. of social housing up to a decent standard by 2010. Progress in achieving this is presently being monitored by the Tenant Services Authority (TSA).

Currently, the TSA also monitors maintenance performance. Section 3 of the Regulatory Code imposes extensive requirements in respect of maintenance on registered social landlords. They should, among other things, maintain their housing stock in a lettable condition that exceeds the statutory minimum requirements; provide effective, efficient and responsive repair services to their residents with published service standards; and priority is given to having the necessary investment in the future of their stock.

### ***The Housing and Regeneration Act 2008***

The HRA received Royal Assent on 22 July 2008 and became effective on 1 December 2008. The HRA has had a significant impact on the legislative framework surrounding the social housing sector in England. In particular, the HRA, enables the abolition of the Housing Corporation and in so doing creates two new organisations, the HCA and the TSA.

Under the Part 1 of the HRA, as appointed on 8 September 2008, the HCA's objectives are: (a) to improve the supply and quality of housing in England; (b) to secure the regeneration or development of land or infrastructure in England; (c) to support in other ways the creation, regeneration or development of communities in England or their continued wellbeing; and (d) to contribute to sustainable development and good design. The HRA also abolishes the Urban Regeneration Agency and the Commission for the New Towns, which operated under the joint name of English Partnerships. Once fully in force the HRA, in conjunction with the SI 2008/2839, will provide for the HCA to take on the functions of the English Partnerships together with certain functions of the Housing Corporation related to investment in Housing.

Under Part 2 of the HRA the TSA was created as the new social housing regulator. Once in force, Part 2 of the Act will broadly replicate the system under Part 1 of the Housing Act 1996 for the regulation of Registered Social Landlords ("**RSLs**") (Part 1 of the Housing Act 1996 will continue to operate in respect of Welsh RSLs). Under the HRA, as appointed on 8 September 2008, the objectives of the TSA include: (a) to encourage and support a supply of well-managed social housing, of appropriate quality, sufficient to meet reasonable demands; (b) to ensure that registered providers of social housing perform their functions efficiently, effectively and economically; and (c) to encourage investment in social housing. To achieve these objectives the TSA will have the power to award financial assistance to facilitate the management of social housing, to publish advice and to promote awareness of the TSAs functions among tenants of social housing.

The preceding paragraphs is in no way intended to give a comprehensive and detailed summary of the HRA and how it will affect the social housing sector and its surrounding legislative framework. Prospective investors are urged to seek advice and to consult their professional advisers as to the possible consequences of the HRA and how it will affect the social housing sector in general.

## THE LOANS TRUST

Pursuant to the terms of the Originator Trust Deed, the Originator will declare a trust for the benefit of the Issuer and the Originator Beneficiary over its entitlement to the Included Loan Advances and their Related Security in favour of the Issuer and the Originator Beneficiary (the trust declared by the Originator being the "**Loans Trust**"). The beneficial interest of the Issuer under the Loans Trust is referred to as the "Investor Interest" and is a fixed undivided interest in the Loans Trust Property. The beneficial interest of the Originator Beneficiary under the Loans Trust is referred to herein as the "Originator Interest" and is a fixed undivided interest in the Loans Trust Property. The Investor Interest in the Loans Trust will result in an amount equal to 99 per cent. of the amounts received by the Loan Trustee in respect of the Included Loan Advances and any Related Security being paid to the Issuer. The Originator Interest in the Loans Trust will result in an amount equal to 1 per cent. of the amounts received by the Loan Trustee in respect of the Included Loan Advances and any Related Security being paid to the Originator Beneficiary.

### All Moneys Mortgages

Some of the Mortgages for the Included Loan Advances constitute All Moneys Mortgages. An All Moneys Mortgage will be enforceable on the occurrence of a default by an Obligor either under an Included Loan Advance or any Associated Debt secured by the relevant All Moneys Mortgage.

As the Loans Trust is declared over the whole of the Related Security, the proceeds of enforcement of any All Moneys Mortgage will form part of the Loans Trust Property of the relevant Loans Trust. The Originator Beneficiary and the Issuer Beneficiary are entitled to fixed undivided shares of the Loans Trust Property so far as referable to Included Loan Advances which are subject to the Loans Trust. However, those fixed shares will not necessarily apply to proceeds of enforcement of All Moneys Mortgages where such proceeds are referable in whole or in part to Associated Debt. Upon enforcement of an All Moneys Mortgage in respect of an Included Loan Advance, the Excess AMM Consideration (if any) will be paid directly by the Issuer to the Originator outside the Priorities of Payment in accordance with the Originator Trust Deed after the enforcement proceeds have been transferred to the relevant Issuer Account corresponding to the Investor Interest (as to which see "*Collections and Allocations of Collections*" below).

"**Excess AMM Consideration**" shall, on any Allocation Date, be the aggregate of the AMM Excess (if any) received into the relevant Issuer Account on that Allocation Date.

"**AMM Excess**" shall be an amount equal to the greater of (i) the total amount allocated to the Issuer representing the Investor Interest in respect of the enforcement proceeds received in respect of an All Moneys Mortgage *minus* the Funded Aggregate Principal Balance in respect of the relevant Included Loan Advance to which such All Moneys Mortgage applies and (ii) zero.

### Trust Consideration

As part of the consideration for the declaration of the Loans Trust and the granting of the Investor Interest as at the Issue Date, the Issuer will have an obligation to pay the Initial Trust Consideration to the Originator. The Issuer and the Originator have agreed that the Issuer will (i) issue the Notes on the Issue Date and (ii) (if required) following the Issue Date, pay certain amounts of Deferred Consideration to the Originator, in satisfaction of the Issuer's obligation to pay the Initial Trust Consideration. As part of the Trust Consideration and if required, the Issuer will pay Deferred Consideration to the Originator, consisting of certain amounts payable as determined by the Originator (or the Cash Administrator on its behalf) in accordance with the Originator Trust Deed. The Issuer's obligation to pay the Deferred Consideration will arise where on the Issue Date or, as applicable, the Addition Date, the amount of Initial Trust Consideration or, as the case may be, Additional Trust Consideration paid by the Issuer to the Originator, in respect of an Included Loan Advance (which, for the avoidance of doubt, shall include a Replenishment Loan or, as the case may be, a Further Advance), is less than an amount equal to 99 per cent. of the Aggregate Principal Balance of such Included Loan Advances (plus accrued but unpaid interest in respect thereof) on the Issue Date or, as the case may be, the Addition Date.

The amount of "**Deferred Consideration**" due and payable on any Business Day shall be:

- (a) an amount equal to the Investor Interest in the Aggregate Principal Balance of the relevant Included Loan Advance (including any Replenishment Loan or Further Advance) (plus accrued but unpaid interest in respect thereof) on the Issue Date or, as the case may be, the Addition Date, *minus*
- (b) the amount of Initial Trust Consideration or, as the case may be, Additional Trust Consideration, in respect of such Included Loan Advance paid by the Issuer on the Issue Date or, as the case may be, the Addition Date and any Deferred Consideration paid previously in respect of such Included Loan Advance.

In respect of an Included Loan Advance (which, for the avoidance of doubt, shall include any Further Advance and Replenishment Loan on and following the relevant Addition Date) in respect of which Deferred Consideration is payable by the Issuer to the Originator, on each Business Day on which Principal Receipts are due to be received by the Loans Trustee, following the transfer by the Cash Administrator on behalf of the Originator of an amount of such Principal Receipts which correspond to the Investor Interest to the Principal Account of the Issuer, the Cash Administrator shall determine, in accordance with the provisions of the Originator Trust Deed and the Administration Agreement, the relevant Nominal Deferred Consideration Percentage in respect of such Included Loan Advance, the Applied Deferred Consideration Percentage in respect of such Included Loan Advance and the Applied Deferred Consideration that shall be paid to the Originator from the Principal Account and shall, immediately following such determination, transfer such Applied Deferred Consideration to the Originator.

For the purpose of this paragraph, the "**Nominal Deferred Consideration Percentage**" in respect of an Included Loan Advance shall be a percentage determined by the Cash Administrator on any Business Day calculated by reference to (i) the total amount of Deferred Consideration due and payable by the Issuer in respect of such Included Loan Advance on such date divided by (ii) an amount equal to the Investor Interest in the Aggregate Principal Balance in respect of such Included Loan Advance on such date, provided that, if an Included Loan Advance has become a Defaulted Obligation since the previous determination date and if as a result of which the Aggregate Principal Balance in respect of such Included Loan Advance has been reduced, on such date, the total amount of Deferred Consideration due and payable by the Issuer in respect of such Included Loan Advance which has become a Defaulted Obligation shall be reduced by an amount determined by the Cash Administrator by reference to the same percentage of the reduction of the Aggregate Principal Balance on such date.

The "**Applied Deferred Consideration Percentage**" in respect of an Included Loan Advance shall be determined by the Cash Administrator on any Business Day being the greater of (a) the Nominal Deferred Consideration Percentage and (b) 100 per cent.

The "**Applied Deferred Consideration**" in respect of an Included Loan Advance shall be an amount determined by the Cash Administrator on any Business Day being equal to the lower of (a) the Applied Deferred Consideration Percentage multiplied by the amount of Principal Receipts related to such Included Loan Advance (including any related Further Advance) transferred to the Issuer corresponding to the Investor Interest and (b) the actual amount of Deferred Consideration due and payable by the Issuer on the relevant date of determination, provided that for an Included Loan Advance which has become a Defaulted Obligation, the Applied Deferred Consideration Percentage referred to in item (a) shall be the Nominal Deferred Consideration Percentage in respect of such Included Loan Advance from (and including) the date on which such Included Loan Advance has become a Defaulted Obligation.

In relation to the Revenue Receipts in respect of an Included Loan Advance where Deferred Consideration is payable by the Issuer to the Originator, where such Revenue Receipts have been transferred to the Interest Account of the Issuer on any Business Day corresponding to the Investor Interest under the Loans Trust, the Cash Administrator shall determine, in accordance with the provisions of the Originator Trust Deed and the Administration Agreement, an amount from Revenue Receipts that shall be paid to the Originator from the Interest Account of the Issuer by reference to the Nominal Deferred Consideration Percentage in respect of such Included Loan Advance and shall, immediately following such determination, transfer an amount that represents such portion of the Revenue Receipts to the Originator.

Where the Applied Deferred Consideration Percentage is higher than the Nominal Deferred Consideration Percentage, the Cash Administrator shall recalculate the Nominal Deferred Consideration Percentage

immediately after the relevant Applied Deferred Consideration is paid to the Originator and the amount of Deferred Consideration outstanding, until the total Deferred Consideration is paid in full. Revenue Receipts and Principal Receipts representing the Deferred Consideration determined and transferred as described above shall be paid outside the relevant Priority of Payments.

In addition to the above and for the avoidance of doubt, Deferred Consideration in relation to Further Advances may be paid by the Issuer using the proceeds of the issuance of Further Notes by the Issuer and, during the Replenishment Period, from funds available to it in accordance with the Pre-Acceleration Principal Priority of Payments and, following such payment, the Cash Administrator shall calculate the amount of Deferred Consideration owing in respect of a Further Advance (if any).

Following the enforcement of any All Moneys Mortgages, the Issuer may also have to pay Excess AMM Consideration to the Originator.

### **Replenishment and Further Advances**

To the extent that any Further Advances are made they will automatically form part of the Loans Trust Property on the Addition Date. Upon the grant of a Further Advance, the Issuer will be under an obligation to pay the Additional Trust Consideration and, to the extent that the Additional Trust Consideration is not paid in full, Deferred Consideration in respect of such Further Advance. The Additional Trust Consideration payable by the Issuer may be paid by the Issuer (i) from the proceeds of the issuance of Further Notes and (ii) during the Replenishment Period, from funds allocated in accordance with the Pre-Acceleration Principal Priority of Payments. To the extent that the Additional Trust Consideration is not paid in full on the Addition Date, Deferred Consideration shall be payable in respect of such Further Advance calculated in a manner described in the above "*Loans Trust - Trust Consideration*".

On each Determination Date during the Replenishment Period, the Cash Administrator (on behalf of the Issuer) shall inform the Collateral Administrator of the amounts available to the Issuer in the relevant Interest Period which may be used for the acquisition of a beneficial interest in additional loan advances or, as the case may be, for the payment of Deferred Consideration in respect of such additional loan facilities. If the Originator has legal and beneficial entitlement to additional loan advances (which are not subject to the Loans Trust) over which it is willing to add to the Loans Trust for the benefit of the Issuer (in consideration of the payment by the Issuer of the Additional Trust Consideration and, if required, the Deferred Consideration) and the Originator Beneficiary, the Originator shall liaise with the Collateral Administrator and provide the Collateral Administrator with such information as is required by the Collateral Administrator (or that the Collateral Administrator needs to provide to the Cash Administrator) to determine, *inter alia*, whether the Replenishment Criteria would be met if such loan advances became part of the Loans Trust on the Addition Date. If the Collateral Administrator determines that the addition of such loan advances to the Loans Trust on the Addition Date would satisfy the Replenishment Criteria, the Originator shall make an offer to add such loan advances to the Loans Trust. The Issuer (or the Collateral Administrator on its behalf) will accept this offer by instructing the Cash Administrator to pay the Additional Trust Consideration on or before the Addition Date using the amounts available in accordance with the Pre-Acceleration Principal Priority of Payments. To the extent that the Additional Trust Consideration is not paid in full on the Addition Date, Deferred Consideration shall be payable in respect of such Replenishment Loan calculated in a manner described in the above "*Loans Trust - Trust Consideration*".

If the Issuer, or the Collateral Administrator on behalf of the Issuer, accepts the offer, the Originator shall declare a trust over such additional Included Loan Advances and such additional Included Loan Advances shall be subject to the Loans Trust on the Addition Date.

### **Loan Terms Amendments**

Subject to certain restrictions set out below, the Originator will have the right, at the request of an Obligor, to vary certain of the financial terms and conditions of any of the Included Loan Advances (including, *inter alia*, interest rate type, margin, length of term, amortisation schedule, covenanted interest cover ratio, covenanted LTV Ratio, repayment type and repayment frequency) (any such variation being a "**Loan Terms Amendment**"), provided that, the Originator may, in certain circumstances, be obliged to reacquire the beneficial interest in an Included Loan Advance in relation to which a Loan Terms

Amendment was made (see "*Disposal of Loan Trust Property and Re-acquisition of Beneficial Interest in the Included Loan Advances*" below).

Prior to making any of the Loan Terms Amendments listed below (the "**Restricted Loan Terms Amendments**"), the Originator shall determine whether, in its reasonable opinion, the relevant Restricted Loan Terms Amendment, if made, would have a negative effect on the credit rating of the relevant Included Loan Advance. If the Originator determines that such Restricted Loan Terms Amendment will have a negative effect on the credit rating of the relevant Included Loan Advance, the Originator shall not make such amendment. If the Originator determines that such Restricted Loan Terms Amendment will not have a negative effect on the credit rating of the relevant Included Loan Advance, the Originator may make such amendment *provided that* the Originator (or the Collateral Administrator on its behalf) shall obtain a Rating Agency Confirmation from S&P prior to such amendment. The Restricted Loan Terms Amendments are:

- (i) any amendments relating to the contractual asset coverage ratio in respect of an Included Loan Advance which will result in the amended contractual asset coverage ratio falling below the contractual asset coverage ratio prior to such amendment;
- (ii) any amendments relating to the contractual interest cover ratio in respect of an Included Loan Advance which will result in the amended contractual interest coverage ratio falling below the contractual interest coverage ratio prior to such amendment (save in relation to a Permitted LSVT Amendment);
- (iii) any amendment to the term of the Included Loan Advance, if such amendment would result in the term of the Included Loan Advance being less than five years prior to the Note Maturity Date;
- (iv) any amendment that, in the reasonable opinion of the Originator, would negatively impact the credit risk and recovery prospects of an Included Loan Advance;
- (v) any amendment that, in the reasonable opinion of the Originator, would impact the ability of the Issuer to pay interest and principal due on the Class A Notes;
- (vi) any amendment that would result in the inclusion of forgiveness of debt provision in respect of all or part of the principal amount ultimately due in respect of an Included Loan Advance;
- (vii) any amendment that would result in the repayment of principal pursuant to the relevant Loan Agreement being made other than in cash;
- (viii) any amendment to the manner in which interest payable is calculated pursuant to the relevant Loan Agreement;
- (ix) any amendment which permits the Originator to allow interest payments in respect of an Included Loan Advance which are non-deferrable to become deferrable; or
- (x) any amendments which in the reasonable opinion of the Originator would have material adverse effect on the interest of the Beneficiaries.

For the purposes of the above,

"**LSVTs**" means Loan Agreements that have been made available by the Originator to an Obligor in the context of a large scale voluntary transfer.

"**Permitted LSVT Amendment**" means, in relation to LSVTs, where the interest coverage ratio is subject to amendment on an annual basis in accordance with the relevant business plan and provided that the amendments as a result of such business plan are amendments which a reasonable and prudent lender lending to RSLs would make.

#### **Related Security Adjustments**

Subject to certain restrictions set out below, the Originator will have the right, at the request of an Obligor, to make adjustments to the Related Security, including the substitution, replacement or release of one or more Mortgaged Properties from the security for a Loan (other than on full redemption) (any such

adjustment being a "**Related Security Adjustment**"), provided that, the Originator may, in certain circumstances, be obliged to reacquire the beneficial interest in an Included Loan Advance in relation to which a Related Security Adjustment was made (see "*Disposal of Loan Trust Property and Re-acquisition of Beneficial Interest in the Included Loan Advances*" below).

Prior to making any of the following Related Security Adjustment (the "**Restricted Related Security Adjustment**"), the Originator (or the Collateral Administrator on its behalf) shall obtain a Rating Agency Confirmation from S&P:

- (i) any adjustments that would have a material adverse impact on the geographic diversification of the Portfolio and the nature and value of the Mortgaged Properties in the Portfolio;
- (ii) any adjustment that would result in the breach of the asset coverage ratio in respect of the relevant Loan Agreement immediately following each adjustment; or
- (iii) any adjustment which in the reasonable opinion of the Originator would have material adverse effect on the interest of the Beneficiaries.

### **Collections and Allocations of Collections**

Collections from Obligor and other borrowers are currently paid to the Collection Accounts operated by the Collection Account Bank. The Originator shall, on a daily basis, transfer all amounts expected to be received on such date which would be allocable to the Investor Interest in Included Loan Advances, pursuant to the terms of the relevant Loan Agreements, from the relevant Collection Account to the Interest Account, in respect of Revenue Receipts and to the Principal Account, in respect of Principal Receipts, amounts allocable to the Originator Interest shall be retained by the Originator.

On each Monthly Reconciliation Date, the Cash Administrator (on behalf of the Originator) shall determine (A) the amounts actually received from Obligor during the Monthly Period allocable to Included Loan Advances and corresponding to the Investor Interest under the Loans Trust and (B) the amounts transferred from the Collection Accounts to the relevant Issuer Account during the Monthly Period (taking into account amounts representing the Deferred Consideration transferred by the Cash Administrator to the Originator). In the event that there is a positive difference between the amount of (B) and the amount of (A), the Reconciliation Amount shall be transferred from the relevant Issuer Account to the relevant Collection Account on such Monthly Reconciliation Date (or vice versa if there is a negative difference). The Cash Administrator shall determine the portion of the Reconciliation Amount allocable to Principal Receipts, which shall be paid to or, as the case may be, from the Principal Account, and the portion allocable to Revenue Receipts, which shall be paid to or, as the case may be, from the Interest Account, subject always to the availability of funds.

In the event that a Multi-Advance Obligor makes a payment under the relevant Loan Agreement (which, for the avoidance of doubt, shall not include any enforcement proceeds received by the Loans Trustee in respect of the enforcement of the Related Security in relation to such Loan Facilities):

- (a) if the Multi-Advance Obligor has the right, pursuant to the Loan Agreement, to designate which Loan Facility such payment shall be allocated to and exercises this right or the relevant Loan Agreement has provided for the allocation of such payment, the amount received from such Multi-Advance Obligor shall be allocated in accordance with the instructions of the Multi-Advance Obligor or, as the case may be, in accordance with the terms of the relevant Loan Agreement;
- (b) if the Multi-Advance Obligor does not have the right, pursuant to the Loan Agreement, to designate which Loan Facility such payment shall be allocated to or has the right and does not exercise this right, the Originator shall allocate the amount received from such Multi-Advance Obligor in accordance with the Servicing Standards.

Should the rating of the Collection Account Bank be downgraded by Fitch or S&P to below the Collection Account Bank Required Rating, the Originator shall, within 30 calendar days of such downgrade, designate an account at a suitable account bank as the Substitute Collection Account and transfer all funds standing to the credit of the Collection Account in respect of Included Loan Advances to such Substitute Collection Account. Following such substitution, the Obligor will be notified by the

Originator to make payments directly into such Substitute Collection Account. If the Originator fails to designate a Substitute Collection Account and/or transfer all funds standing to the credit of the Collection Accounts to such Substitute Collection Account and/or notify the Obligors to make payments directly into such Substitute Collection Account, a Power of Attorney Event will occur and the Issuer shall procure such transfer pursuant to the Originator Power of Attorney within 60 calendar days of the occurrence of the Power of Attorney Event.

The Collateral Administrator on behalf of the Originator is required to advise the Issuer and the Cash Administrator of (i) collections to be distributed to the Issuer corresponding to the Investor Interest which represent Principal Receipts and of collections which represent Revenue Receipts on the date on which such Principal Receipts and Revenue Receipts are due to be received by the Originator in the Collection Account and (ii) any Reconciliation Amount and the proportion of such amount representing Principal Receipts and/or Revenue Receipts.

On the same Business Day on which Principal Receipts and Revenue Receipts are due to be received by the Originator or on which the Originator receives enforcement proceeds in relation to an All Moneys Mortgage (such date, the "**Allocation Date**"), the Originator shall, in accordance with the Originator Trust Deed, transfer (i) amounts that correspond to the Investor Interest from the relevant Collection Account to the Interest Account of the Issuer (in respect of the Revenue Receipts) and Principal Account of the Issuer (in respect of the Principal Receipts) and (ii) amounts that correspond to the Originator Interest to the Originator Beneficiary.

In accordance with the Originator Trust Deed, in the event that, in respect of any Defaulted Obligation, the total amounts received by the Loans Trustee (whether as a result of enforcement action being taken or otherwise) are less than the principal amount outstanding in respect of such Defaulted Obligation (such difference a "**Principal Shortfall**"), and in the reasonable business judgment of the Originator, such Principal Shortfall will not be recoverable from the relevant Obligor, neither the Originator nor any other person (including Lloyds TSB Bank plc in its capacity as Loans Trustee) will be required to pay to the Issuer (or any other person) any amounts on account of such Principal Shortfall and such Defaulted Obligation will cease to be a Loans Trust Property. The Collateral Administrator shall establish and maintain a ledger (the "**Principal Write-Off Ledger**") on which amounts of Principal Shortfalls shall be recorded from time to time.

#### **Disposal of Loans Trust Property and Re-acquisition of Beneficial Interest in the Included Loan Advances**

Following the declaration of the Loans Trust, the Originator may (and in some circumstances shall) reacquire the beneficial interest in the Included Loan Advances pursuant to the Call Option Agreement in the following circumstances:

- (i) the Originator may reacquire the beneficial interest in relevant Included Loan Advances if the Originator notifies the Beneficiaries and the Cash Administrator that it has determined that some or all of the Included Loan Advances may be refinanced on terms more advantageous than those provided by the Notes (including in circumstances where the Class S Noteholders have exercised their call option), or
- (ii) the Originator may reacquire the beneficial interest in the relevant Included Loan Advances if the Originator intends to sell, sub-participate, dispose of or enter any analogous transaction with respect to any Included Loan Advance or part thereof to a third party if such action is necessary or desirable from the point of view of a reasonably prudent lender; or
- (iii) the Originator may reacquire the beneficial interest in the relevant Included Loan Advance if the Originator's short-term senior unsecured debt rating has been downgraded below "A-1" by S&P (or, where no short-term unsecured debt rating by S&P is available and the long-term rating of the Originator is available, below "A" by S&P) or "F1" by Fitch (or, where no short-term unsecured debt rating by Fitch is available and the long-term rating of the Originator is available, below "A" by Fitch); or
- (iv) the Originator may reacquire the beneficial interest in the relevant Included Loan Advances if the relevant Included Loan Advance has become a Credit Impaired Obligation; or



- (v) the Originator shall reacquire the beneficial interest in the relevant Included Loan Advances (whether it is a Credit Impaired Obligation or a Non-Credit Impaired Obligation) if it is determined that (a) any Asset Warranty given by the Originator pursuant to the Originator Trust Deed in respect of the Included Loan Advances was breached at the Issue Date, or as the case may be, the Addition Date or, in respect of a Loan Terms Amendment or Related Security Adjustment, any Repeating Asset Warranty given by the Originator was breached on the date on which the relevant Loan Terms Amendment or Related Security Adjustment was made and (b) any Restricted Loan Terms Amendment or, as the case may be, Restricted Related Security Adjustment, was made by the Originator in respect of an Included Loan Advance without obtaining a Rating Agency Confirmation from S&P.

In the above circumstances, upon payment of the Reacquisition Proceeds by the Originator to the Loans Trustee, the Issuer and the Originator Beneficiary (as Beneficiaries of the Loans Trust) will agree to jointly surrender their respective beneficial interest in the relevant Included Loan Advances and thereby cause the whole of the beneficial interest in the relevant Included Loan Advances to be removed from the Loans Trust Property and to vest once again exclusively in the Originator (including any unpaid interest as at the date of completion of such reacquisition). The Issuer Surrender Receipt shall be paid to the Issuer by the Loans Trustee in consideration of the surrender by the Issuer of its beneficial interest in the relevant Included Loan Advances. The Originator Surrender Receipt shall be paid to the Originator Beneficiary by the Loans Trustee in consideration of the surrender by the Originator Beneficiary of its beneficial interest in the relevant Included Loan Advances.

If the Originator reacquires the beneficial interest in a Non-Credit Impaired Obligation in circumstances described in (i), (ii) or (iii) above, the Issuer Surrender Receipt shall be used by the Issuer to redeem the Notes in accordance with Condition 5.3 (*Mandatory Early Redemption in part upon receipt of Issuer Surrender Receipt*).

If the Originator reacquires the beneficial interest in circumstances described in (iv) in respect of Credit Impaired Obligations or in circumstances described in (v) above, the Issuer Surrender Receipt may be used by the Issuer (A) during the Replenishment Period, to acquire a beneficial interest in additional loans, subject to the satisfaction of the Replenishment Criteria and in accordance with the other conditions for Replenishment (see summary above) or (B) following the expiry of the Replenishment Period, to redeem the Notes in accordance with Condition 5.2 (*Mandatory Early Redemption*).

In the event that the Originator reacquires the beneficial interest in an Included Loan Advance the Originator (or the Collateral Administrator on its behalf) shall notify the Rating Agencies.

The Originator will have no other liability for breach of any Asset Warranty in respect of the Included Loan Advances other than the obligation to reacquire the relevant beneficial interest.

The Beneficiaries have directed the Loans Trustee to accept a surrender of their beneficial entitlements to any Included Loan Advance and its Related Security whenever required in order to effect a re-acquisition in accordance with the Call Option Agreement.

Following payment by the Originator of the Reacquisition Proceeds to the Issuer and the Originator Beneficiary, the whole of the beneficial interests in the relevant Included Loan Advances and their Related Security will be surrendered to the Originator and such Included Loan Advances and their Related Security will thereupon be released from all of the terms of the Loans Trust. The relevant Included Loan Advances and their Related Security will then once again be solely legally and beneficially owned by the Originator, will no longer be held on trust as the Loans Trust Property and will be electronically identified by the Originator as no longer comprising the Loans Trust Property.

### **Trust Pay Out Events**

The following shall constitute "**Trust Pay Out Events**":

- (a) the Originator shall become unable for any reason to create a beneficial interest in Included Loan Advances under the Loans Trust or the Loans Trustee is unable to act as trustee in the manner contemplated in the Originator Trust Deed;

- (b) a change in law or its interpretation or administration results in the Loans Trustee becoming liable to make any material payment on account of tax in relation to the Investor Interest;
- (c) failure on the part of the Loans Trustee:
  - (i) to make any payment or deposit required by the terms of the Originator Trust Deed on or before the date occurring seven business days after the date such payment or deposit is required to be made other than as a result of a technical or administrative error, or
  - (ii) duly to observe or perform in any material respect any covenants or agreements by which the Loans Trustee is bound and which failure has a material adverse effect on the Investor Interest and which continues unremedied for a period of 60 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Loans Trustee, as the case may be, by the Issuer, and continues to affect materially and adversely the Investor Interest for such period;
- (d) the Issuer becomes an "investment company" within the meaning of the Investment Company Act.

### **Representations and Warranties**

The Originator Trust Deed contains representations and warranties to be given by the Originator to the Beneficiaries in relation to (i) each Included Loan Advance and its Related Security on the Issue Date (ii) each Further Advance and each Replenishment Loan on the relevant Addition Date and (iii) (in respect of certain Asset Warranties) each Included Loan Advance which is subject to a Loan Terms Amendment or Related Security Adjustment to be repeated on the date of such Loan Terms Amendment or Related Security Adjustment (the "**Repeating Asset Warranties**"). Neither the Issuer nor the Note Trustee has carried out or will carry out any searches, inquiries or independent investigations of the type which a prudent purchaser or mortgagee would normally be expected to carry out. Each is relying entirely on the Originator's representations and warranties under the Originator Trust Deed. Subject to agreed exceptions and materiality qualifications, the Originator's material representations and warranties in respect of the Included Loan Advances (which shall include any Further Advance and Replenishment Loan) under the Originator Trust Deed include warranties as to the following:

- (a) satisfaction of the Eligibility Criteria and Portfolio Criteria on the Issue Date and that of the Replenishment Criteria on the Addition Date;
- (b) good title to, and absolute unencumbered legal and beneficial ownership of all property, interests, rights and benefits (subject to prior encumbrances that are permitted pursuant to the Loan Agreements) subject to the declaration of trust by the Originator pursuant to the terms of the Originator Trust Deed in relation to each Included Loan Advance and its Related Security;
- (c) in the event that interest on a Included Loan Advance is payable subject to any deduction or withholding, such Loan Agreement contains a provision obliging the Obligor to gross up amounts paid so that the amount paid to the Originator is no less than the amount that would have been paid to the Originator if the Obligor were not obliged to make such deduction or withholding;
- (d) no Obligor is an "individual" as defined in section 189(1) of the Consumer Credit Act 1974 or for the purposes of the definition of "personal data" pursuant to section 1 of the Data Protection Act 1998;
- (e) each Included Loan Advance is secured by a first legal Mortgage over residential property in England or Wales, subject to any prior encumbrances that are permitted pursuant to the Included Loan Advance terms and noted in initial variations;
- (f) no Obligor is entitled to exercise any lien, right of set-off or counterclaim against the Originator in respect of any amounts payable under the relevant Loan Agreement nor to render such Loan Agreement unenforceable in whole or in part, subject to qualifications and exceptions that have been made in individual cases by the Originator acting as a reasonably prudent commercial lender; and

- (g) there are no provisions in the Loan Agreements that prohibit the Originator declaring a trust over its interest in the relevant Included Loan Advances and Related Security,
- (the "**Asset Warranties**" and each an "**Asset Warranty**").

### **Originator Powers of Attorney**

The Originator has, in connection with the creation of the Loans Trust, granted to the Issuer an Originator Power of Attorney to permit the Issuer, upon the occurrence of certain Power of Attorney Events described below, to take certain actions in the name of the Originator to ensure the performance by the Loans Trustee of its obligations under the Originator Trust Deed, including its covenants to enforce its rights under the Included Loan Advances and Related Security and to collect repayments in respect of the Included Loan Advances and Related Security in the ordinary course of its business and remit the proceeds relating to the Investor Interest to itself. Under the terms of the Originator Powers of Attorney, the Issuer may appoint a delegate to exercise its rights, powers and discretions under the Originator Powers of Attorney. In accordance with the terms of the Note Trust Deed and the Administration Agreement, the Issuer has appointed each of the Note Trustee, the Collateral Administrator and the Cash Administrator as its delegate for the purposes of exercising its rights, powers and discretions under the Originator Powers of Attorney.

A "**Power of Attorney Event**" means:

- (a) The Originator, unless it has received Rating Agency Confirmation in relation to such action, consents or takes any corporate action in relation to the appointment of a receiver, administrator, examiner, administrative receiver, provisional liquidator, liquidator, trustee in sequestration, judicial factor or similar officer of it, relating to all or substantially all of its revenues and assets or an order of the court is made for its sequestration, winding up, dissolution, administration, examinership, or insolvent reorganisation or a receiver, administrator, examiner, administrative receiver, provisional liquidator, liquidator, trustee in sequestration, judicial factor or similar officer of it, relating to all or substantially all of its revenues and assets is appointed;
- (b) A member of the board of directors of the Originator shall admit in writing that the Originator is unable to pay its debts as they fall due or the Originator makes a general assignment, assignation or trust for the benefit of or a scheme, arrangement or composition with its creditors or voluntarily suspends payment of its obligations with a view to the general readjustment or rescheduling of its indebtedness; or
- (c) The Originator is in material breach of its obligations to enforce the terms of any Included Loan Advance pursuant to the provisions of the Originator Trust Deed (including a breach of its obligation to transfer the Collection Account within the agreed time period following the downgrade of the Collection Account Bank below the Collection Account Bank Required Ratings or to notify the Obligors pursuant to the terms of the Originator Trust Deed).

There will be three areas of permitted activity covered by the Originator Powers of Attorney following the occurrence of a Power of Attorney Event:

- (a) Actions enforcing a change of the Collection Account arrangement in relation to Obligors including the replacement of the Collection Account by a Substitute Collection Account and notifying the Obligors in respect of such Substitute Collection Account and, in relation to which, the Issuer shall not be required to seek any further consent or authorisation from Lloyds TSB Bank plc (in any capacity) to conduct such actions,
- (b) Taking action against Obligors pursuant to the terms of the relevant Loan Agreement in the name of the Originator if the Originator fails to do so within the specified time. The Issuer will be required to take action against the relevant Obligor under the Originator Power of Attorney to make collections under the Included Loan Advances, whether by enforcement of the terms of the Included Loan Advance or otherwise. The Issuer may, without any further consent or authorisation from Lloyds TSB Bank plc (in any capacity), take any such course of action as the Issuer considers to be necessary or desirable in relation to the collection of amounts relating to, or the enforcement of, any Included Loan Advance or Obligor or its sub-delegate; and

- (c) Actions which involve matters fundamental to the constitution of the Loans Trust or allocation of Loans Trust Property, where the Issuer in consultation with the Note Trustee may take such actions as are required to protect and preserve the Investor Interest and to ensure that the Issuer receives its allocation of Principal Receipts and Revenue Receipts, provided any such actions are not materially prejudicial to the interests of the Beneficiaries,

*provided that*, the Originator Power of Attorney does not entitle the Issuer (without the consent of the Originator) to take action in respect of the included Loan Advances which would result in such Included Loan Advances being sold to a third party prior to the delivery of an Acceleration Notice.

## COLLATERAL ADMINISTRATION AND CASH ADMINISTRATION

### Introduction

The Collateral Administrator and the Cash Administrator will manage funds received in accordance with the Administration Agreement. The Cash Administrator and the Collateral Administrator will act as agents of the Originator and the Issuer (and at any time after any Event of Default or Potential Event of Default shall have occurred, which shall not have been waived by the Note Trustee or remedied to its satisfaction, the Note Trustee) and will take instructions from each of them, as appropriate.

The Collateral Administrator is required to advise the Issuer on the purchase of the Replenishment Loans including an evaluation of whether the Portfolio Criteria, Replenishment Criteria and/or the Eligibility Criteria, as the case may be, will be met. On each Determination Date during the Replenishment Period, the Collateral Administrator shall inform the Originator and the Cash Administrator of the amounts available to the Issuer in the relevant Interest Period which may be used for the acquisition of a beneficial interest in additional loan advances. If the Originator has legal and beneficial title to additional loan advances (which are not subject to the Loans Trust) over which it is willing to add to the Loans Trust for the benefit of the Issuer (in consideration of the payment by the Issuer of the Additional Trust Consideration and, if required, the Deferred Consideration) and the Originator Beneficiary, the Originator shall liaise with the Collateral Administrator and provide the Collateral Administrator with such information as is required by the Collateral Administrator to determine, *inter alia*, whether the Replenishment Criteria would be met if such loan advances became part of the Loans Trust on the Addition Date. If the Collateral Administrator determines that the addition of such loan advances to the Loans Trust on the Addition Date would satisfy the Replenishment Criteria, the Originator shall make an offer to add such loan advances to the Loans Trust in favour of the Issuer and the Originator Beneficiary. The Issuer (or the Collateral Administrator on its behalf) will accept this offer and the Issuer shall instruct the Cash Administrator to pay the Additional Trust Consideration on or before the Addition Date using the amounts available in accordance with the Pre-Acceleration Principal Priority of Payments.

The Collateral Administrator shall administer the Included Loan Advances and the Cash Administrator shall administer the collections in respect thereof on behalf of the Originator including keeping a record of amounts received by the Loans Trustee from the relevant Obligors in respect of Included Loan Advances.

Under the Administration Agreement, the Cash Administrator is required amongst other things:

- (i) to establish the Issuer Accounts in the name of the Issuer for the purpose of receiving such funds transferred to the Issuer,
- (ii) to collate the information acquired by it in relation to the Notes,
- (iii) to prepare and distribute to Noteholders the Investor Reports,
- (iv) to effect payments into and out of the Issuer Accounts,
- (v) to carry out calculations,
- (vi) to effect payments in accordance with the relevant Priority of Payments,
- (vii) to calculate and transfer the Reconciliation Amount,
- (viii) to calculate the Class A Overcollateralisation Test,
- (ix) to assist the Collateral Administrator, following a request by the Collateral Administrator, in determining whether the Eligibility Criteria, Portfolio Criteria and the Replenishment Criteria (as appropriate) are satisfied.
- (x) to determine, allocate and procure the transfer of amounts received by the Loans Trustee in respect of the Included Loan Advances to an Issuer Account (corresponding to the Investor Interest) and to the Originator Beneficiary (corresponding to the Originator Interest), and

- (xi) to calculate the Excess AMM Consideration, the Nominal Deferred Consideration Percentage, the Applied Deferred Consideration Percentage, the Applied Deferred Consideration and the aggregate Deferred Consideration paid in respect of Included Loan Advances.

#### **Termination of the appointment of the Collateral Administrator and/or the Cash Administrator**

The Originator, the Issuer or the Note Trustee (at any time after any Event of Default or Potential Event of Default shall have occurred, which shall not have been waived by the Note Trustee or remedied to its satisfaction), either at its discretion or as directed by the Noteholders of the Most Senior Class acting by Extraordinary Resolution, may by written notice terminate the appointment of the Collateral Administrator, and/or the Cash Administrator, upon the occurrence of any of the following:

- (i) a default by the Collateral Administrator or the Cash Administrator (as appropriate) in ensuring the payment on the due date of any payment required to be made by it under the Administration Agreement and such default not being remedied during the specified cure period (other than to the extent such default is due to (a) a technical or administrative default over which the Collateral Administrator or the Cash Administrator has no control or (b) any default by the Issuer, the Originator or a third party (including any Swap Provider));
- (ii) the Collateral Administrator's or the Cash Administrator's (as appropriate) wilful default, bad faith, gross negligence, or fraud in the performance of or material breach of its obligations under the Administration Agreement;
- (iii) it is or will become unlawful for the Collateral Administrator or the Cash Administrator (as appropriate) to perform or comply with any of its obligations under the Transaction Documents;
- (iv) the failure of any representation, warranty, certification or statement made or delivered by the Collateral Administrator or Cash Administrator (as appropriate) in or pursuant to the Administration Agreement to be correct in any material respect when made and, if capable of remedy, the Collateral Administrator or Cash Administrator (as appropriate) fails (within 30 days of the Collateral Administrator or Cash Administrator (as appropriate) discovering, or being notified of, such error, whichever occurs first) to take such action so that such representation, warranty, certification or statement (after giving effect to such action) is correct in all material respects to the reasonable satisfaction of the Issuer or, as applicable, the Note Trustee
- (v) the Collateral Administrator or the Cash Administrator (as appropriate) being prevented or severely hindered for a period of 60 days or more from complying with its obligations as a result of force majeure and the force majeure continues for 30 calendar days after the Issuer or the Note Trustee has given notice of the force majeure; or
- (vi) any Insolvency Event occurs in respect of the Collateral Administrator or the Cash Administrator (as appropriate).

*provided that*, if any of the events specified in (i) to (vi) inclusive occurs in respect of the Collateral Administrator but not the Cash Administrator the Collateral Administrator's appointment may be terminated and the Issuer or, at any time after any Event of Default or Potential Event of Default shall have occurred, which shall not have been waived by the Note Trustee or remedied to its satisfaction, the Note Trustee may terminate the appointment of the Collateral Administrator, or the Originator may terminate the appointment of the Collateral Administrator;

and *provided further that* if any of the events specified in (i) to (vi) inclusive occurs in respect of the Cash Administrator but not the Collateral Administrator, the Cash Administrator's appointment may be terminated and the Issuer or, at any time after any Event of Default or Potential Event of Default shall have occurred, which shall not have been waived by the Note Trustee or remedied to its satisfaction, the Note Trustee may terminate the appointment of the Cash Administrator or the Originator may terminate the appointment of the Cash Administrator

If any of the events specified in (i) to (vi) inclusive above occurs, the Collateral Administrator or, as the case may be, the Cash Administrator shall, upon becoming aware of the occurrence of such event, give prompt written notice thereof to the Issuer, the Originator, the Note Trustee and the Noteholders.

The Collateral Administrator, the Cash Administrator, the Originator or the Issuer (with the written consent of the Note Trustee) may also terminate the Administration Agreement upon not less than 60 days' prior written notice.

Where the appointment of the Collateral Administrator or Cash Administrator (as appropriate) is terminated, the Originator, the Issuer or (at any time after any Event of Default or Potential Event of Default shall have occurred, which shall not have been waived by the Note Trustee or remedied to its satisfaction) the Note Trustee shall appoint a successor Collateral Administrator or Cash Administrator (as appropriate) prior to the termination of the outgoing Collateral Administrator or Cash Administrator (as appropriate) become effective. In the event that a successor Collateral Administrator or Cash Administrator (as appropriate) is not so appointed, the outgoing Collateral Administrator or Cash Administrator (as appropriate) may, with the consent of the Note Trustee, appoint a reputable Collateral Administrator or Cash Administrator (as appropriate) with relevant experience in European structured finance securities as successor Collateral Administrator or Cash Administrator (as appropriate). However, for an entity to be appointed as successor Collateral Administrator or Cash Administrator (as appropriate) it must have the experience and capabilities to perform the services to be performed by the Collateral Administrator or Cash Administrator (as appropriate) under the Administration Agreement and the relevant Rating Agency Confirmation has been received.

### **Account Bank Agreement**

Under the Account Bank Agreement, the Issuer Account Bank will, at the request of the Cash Administrator on behalf of the Issuer, open and maintain the relevant Issuer Account. Amounts standing to the credit of an Issuer Account (except for the Swap Collateral Account) from time to time may be invested by the Cash Administrator in Permitted Investments denominated in the same currency as the relevant Issuer Account from which the applicable amounts are drawn for investment and for the avoidance of doubt the balance standing to the credit of any Issuer Account shall include any such Permitted Investments from time to time.

The Issuer Account Bank shall at all times be financial institutions having a short-term senior unsecured debt rating of "A-1" by S&P (or, where no short term unsecured debt rating by S&P is available and a long term rating of the account bank is available, at least "A" by S&P) and "F1" by Fitch (or "A" (long-term) by Fitch if the relevant entity does not have a short-term rating) or such other ratings that are consistent with the publish criteria of the relevant Rating Agency (the "**Issuer Account Bank Required Rating**"). In the event that the Issuer Account Bank no longer satisfies the Issuer Account Bank Required Rating or such other ratings that are consistent with the publish criteria of the relevant Rating Agency, it shall notify the Issuer, the Cash Administrator and the Note Trustee as soon as practicable and the Issuer, with the consent of the Note Trustee, shall use reasonable endeavours to procure that a replacement Account Bank, satisfying the Issuer Account Bank Required Rating is appointed in accordance with the provisions of the Account Bank Agreement within 30 calendar days.

The Administration Agreement and the Account Bank Agreement will be governed by English law.

## TERMS AND CONDITIONS OF THE NOTES

The issue of £2,400,000,000 Class A1 Senior Secured Asset Backed Notes due 2043, the "**Class A1 Notes**", the £600,000,000 Class A2 Senior Secured Asset Backed Notes due 2043 (the "**Class A2 Notes**" and together with the Class A1 Notes, the "**Class A Notes**"), the £1,050,000,000 Class S Secured Asset Backed Notes due 2043 (the "**Class S Notes**" and together with the Class A Notes, the "**Notes**") by Chepstow Blue plc (the "**Issuer**") was authorised by a resolution of the board of directors of the Issuer dated 3 August 2009. The Notes are constituted by a trust deed (together with all other documents or agreements entered into from time to time by the Issuer in order to grant security over any of the Charged Assets to the Note Trustee, the "**Note Trust Deed**") dated on or about the Issue Date between (amongst others) the Issuer and BNP Paribas Trust Corporation UK Limited in its capacity as note trustee (the "**Note Trustee**" which expression shall include all Persons for the time being the note trustee or note trustees under the Note Trust Deed) for itself and for the other Secured Creditors.

These Conditions include summaries of, and are subject to, the detailed provisions of the Note Trust Deed (which includes the forms of the Notes). The following agreements will be entered into in relation to the Notes in addition to the Note Trust Deed:

- (a) an agency agreement dated on or about the Issue Date (the "**Agency Agreement**") between, among others, the Issuer, BNP Paribas Securities Services, Luxembourg Branch, a bank incorporated and organised under the laws of France as a *société anonyme* having its registered office at 3, Rue d'Antin 75002, Paris, France, acting through its Luxembourg Branch at 33, rue de Gasperich, Howald-Hesperange L-2085 Luxembourg, as principal paying agent (the "**Principal Paying Agent**", which term shall include any successor or substitute principal paying agent appointed pursuant to the terms of the Agency Agreement), as agent bank (the "**Agent Bank**", which term shall include any successor or substitute agent bank as may be appointed pursuant to the terms of the Agency Agreement) and as registrar (the "**Registrar**") and which terms shall include an successor or substitute registrar appointed pursuant to the terms of the Agency Agreement and BNP Paribas Securities Services, London Branch as UK paying agent (the "**UK Paying Agent**", which term shall include any successor or substitute paying agent with its Specified Office in London appointed pursuant to the terms of the Agency Agreement) and the Note Trustee;
- (b) an administration agreement dated on or about the Issue Date (the "**Administration Agreement**") between, among others, the Issuer, the Note Trustee, Lloyds TSB Bank plc as Collateral Administrator (the "**Collateral Administrator**" and which term shall include any successor or replacement Collateral Administrator appointed pursuant to the terms of the Administration Agreement) and Bank of Scotland plc as Cash Administrator (the "**Cash Administrator**" and which term shall include any successor or replacement Cash Administrator appointed pursuant to the terms of the Administration Agreement);
- (c) a corporate services agreement dated on or about the Issue Date (the "**Corporate Services Agreement**") between the Issuer and Structured Finance Management Limited as corporate services provider (the "**Corporate Services Provider**");
- (d) an originator trust deed on or about the Issue Date (the "**Originator Trust Deed**") between the Issuer and Lloyds TSB Bank plc as loans trustee (the "**Loans Trustee**"), Originator and Originator Beneficiary;
- (e) a call option agreement on or about the Issue Date (the "**Call Option Agreement**") between the Originator, the Issuer and Originator Beneficiary;
- (f) an account bank agreement dated on or about the Issue Date (the "**Account Bank Agreement**") between the Issuer and Lloyds TSB Bank plc as the account bank (the "**Issuer Account Bank**", which term shall include any successor or substitute account bank as the case may be appointed pursuant to the terms of the Account Bank Agreement);
- (g) ISDA Master Agreement (Multicurrency Cross-Border) entered into between the Issuer and the Swap Provider (as defined below) dated on or about the Issue Date (the "**Swap Agreement**"), together with the Schedule, Confirmations and the Credit Support Annex (each as defined therein) relating thereto, entered into between the Issuer and the Swap Provider, as amended,



supplemented, novated or replaced from time to time and including any guarantee thereof entered into pursuant to the terms thereof and including any replacement swap agreement entered into in replacement thereof); and

- (h) an incorporated terms memorandum dated on or about the Issue Date (the "**Incorporated Terms Memorandum**") by the Transaction Parties.

Upon and following the issuance of any Further Notes pursuant to Condition 20 (*Further Notes*), references to Class A Notes in these Conditions shall be deemed to include such Further Notes.

The holders of each class of Notes are entitled to the benefit of, are bound by and are deemed to have notice of, all the provisions of the Note Trust Deed and are deemed to have notice of all the provisions of the Agency Agreement, the Originator Trust Deed, the Call Option Agreement, the Administration Agreement, the Account Bank Agreement, the Swap Agreement, the Corporate Services Agreement and the Incorporated Terms Memorandum.

Copies of the Note Trust Deed, the Agency Agreement, the Originator Trust Deed, the Call Option Agreement, the Administration Agreement, the Account Bank Agreement, the Swap Agreement, the Corporate Services Agreement and the Incorporated Terms Memorandum are available for inspection during usual business hours at the registered office of the Issuer and at the Specified Office of the Principal Paying Agent for the time being.

In these terms and conditions, the following terms shall have the following meanings:

**"Acceleration Notice"** means a notice delivered by the Note Trustee to the Issuer in accordance with Condition 11 (*Events of Default*) which declares the Notes to be immediately due and payable.

**"Accrued Interest Payments"** means a payment by the Swap Provider to the Issuer which shall be used by the Issuer to pay that part of the Trust Consideration allocable to accrued but unpaid interest on an Included Loan Advance at the date on which the Issuer acquires the Investor Interest in such Included Loan Advance.

**"Addition Date"** means (i) in respect of a Further Advance, the date on which such Further Advance is made by the Originator to an Obligor or (ii) in respect of a Replenishment Loan, the date on which the Originator declares a trust over its interest in a Replenishment Loan in favour of the Issuer and the Originator Beneficiary.

**"Additional Trust Consideration"** means an amount equal to (i) in respect of the Replenishment Loan, 99 per cent. of the Aggregate Principal Balance of such Replenishment Loan plus an amount equal to the Replenishment Loan Accrued Interest Payment or (ii) in respect of a Further Advance, 99 per cent. of the Aggregate Principal Balance of such Further Advance plus an amount equal to the Further Advance Accrued Interest Payment, to be paid by the Issuer, or the Cash Administrator on the Issuer's behalf, in accordance with the Originator Trust Deed.

**"Adjusted Funded Aggregate Principal Balance"** means, in respect of a Defaulted Obligation, an amount equal to the Funded Aggregate Principal Balance of such Defaulted Obligation multiplied by the lower of the Fitch Recovery Rate and the S&P Recovery Rate in respect of such Defaulted Obligation.

**"Administrative Expenses"** means, collectively, all fees, costs and expenses, including payments in respect of any indemnity, due and payable by the Issuer on a *pro rata* basis, to or on account of:

- (a) the formation of the Issuer and any annual return, filing, registration and registered office fees,
- (b) the Corporate Services Provider under the Corporate Services Agreement (including to the directors of the Issuer in respect of any directors fees (if any)),
- (c) the Agents, the Collateral Administrator, the Cash Administrator under the Administration Agreement, the Loans Trustee under the Originator Trust Deed or any other Transaction Document,
- (d) Euronext Amsterdam and any listing agent,

- (e) each Rating Agency,
- (f) the auditors and legal counsel of the Issuer,
- (g) any further fees, costs and expenses of the Issuer including, without limitation, any custodial fees (other than any amounts payable under the Swap Agreement),
- (h) any amounts necessary to ensure the orderly dissolution of the Issuer; and
- (i) any applicable value added tax required to be paid by the Issuer in respect of any of the foregoing.

**"Administrative Expenses Cap"** means for each Cap Annual Period, £200,000 per annum as at the Determination Date immediately preceding the applicable Annual Anniversary Date or, in the case of the first Cap Annual Period, the Issue Date.

**"Advance"** each amount paid or otherwise made available to the Obligors pursuant to an Included Loan Advance.

**"Affiliate"** means in relation to any party, a holding company, subsidiary or fellow subsidiary of such party or body corporate in which such party is substantially interested.

**"Agents"** means collectively, the Principal Paying Agent, the Registrar, the Issuer Account Bank and the Agent Bank and each, an **"Agent"**.

**"Aggregate Principal Balance"** means in relation to any Included Loan Advance as at any given date, the aggregate of:

- (a) the original principal amount advanced to the relevant Obligor and any Further Advances on or before the given date to the relevant Obligor secured or intended to be secured by the Related Security;
- (b) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been properly capitalised in accordance with the relevant Loan Agreement or with the relevant Obligor's consent and added to the amounts owed by the Obligor under such Loan Agreement; and
- (c) any other amount not included in (A) or (B) above (other than accrued and unpaid Interest) which is due or has accrued (whether or not due) and which has not been paid by the relevant Obligor and has not been capitalised in accordance with any relevant Loan Agreement or with the relevant Obligor's consent but which is owed by the Obligor under such Loan Agreement,

as at the end of the Business Day immediately preceding that given date, less any repayment or payment of any of the foregoing made on or before the end of the Business Day immediately preceding that given date and excluding any Further Advance committed to be made but not made by the end of the Business Day immediately preceding that given date.

**"All Moneys Mortgage"** means a Mortgage constituting an all moneys charge standing as security for any indebtedness an Obligor owes or may owe to the Originator from time to time other than the relevant Included Loan Advance.

**"AMM Excess"** shall be an amount equal to the greater of (i) the total amount allocated to the Issuer representing the Investors Interest in respect of the enforcement proceeds received in respect of an All Moneys Mortgage *minus* the Funded Aggregate Principal Balance in respect of the relevant Included Loan Advance to which such All Moneys Mortgage applies and (ii) zero.

**"Ancillary Rights"** means in relation to a Right, all ancillary rights, accretions and supplements to such Right, including, without limitation, any guarantees or indemnities in respect of such Right.

**"Annual Anniversary Date"** means the Payment Date falling in August of each year.

**"Applied Deferred Consideration"** in respect of an Included Loan Advance shall be an amount determined by the Cash Administrator on any Business Day being equal to the lower of (a) the Applied Deferred Consideration Percentage multiplied by the amount of Principal Receipts related to such Included Loan Advance (including any related Further Advance) transferred to the Issuer corresponding to the Investor Interest and (b) the actual amount of Deferred Consideration due and payable by the Issuer on the relevant date of determination, provided that for an Included Loan Advance which has become a Defaulted Obligation, the Applied Deferred Consideration Percentage referred to in item (a) shall be the Nominal Deferred Consideration Percentage in respect of such Included Loan Advance from (and including) the date on which such Included Loan Advance has become a Defaulted Obligation.

**"Applied Deferred Consideration Percentage"** in respect of an Included Loan Advance shall be determined by the Cash Administrator on any Business Day being the greater of (a) the Nominal Deferred Consideration Percentage and (b) 100 per cent.

**"Arranger"** means Lloyds TSB Bank plc in its capacity as arranger under the Note Purchase Agreement.

**"Associated Debt"** means any indebtedness an Obligor owes or may owe to the Originator from time to time which is not an Included Loan Advance but which is secured by an All Moneys Mortgage.

**"Authorised Denomination"** means £50,000 and any amount in excess thereof in integral multiples of £1,000 up to and including £99,000.

**"Authorised Officer"** means, with respect to the Issuer, any Director of the Issuer or person who is authorised to act for the Issuer in matters relating to, and binding upon, the Issuer.

**"Available Funds"** means, on any Determination Date, the aggregate of Available Revenue Funds and Available Principal Funds.

**"Available Principal Funds"** means, in respect of any Payment Date, the amount calculated by the Cash Administrator on the Determination Date immediately preceding such Payment Date equal to the sum of the Principal Proceeds paid into the Principal Account during the relevant Collection Period excluding (i) an amount from the Principal Receipts that shall be paid to the Originator in respect of Deferred Consideration or Excess AMM Consideration and (ii) an amount from the Principal Receipts that shall be paid to the Originator as a result of the relevant Monthly Reconciliation.

**"Available Revenue Funds"** means, in respect of any Payment Date, the amount calculated by the Cash Administrator on the Determination Date immediately preceding such Payment Date equal to the sum of (without double counting):

- (a) the Interest Proceeds including, for the avoidance of doubt, any interest credited to the Issuer Accounts (other than the Swap Collateral Account) during the relevant Collection Period but excluding (i) an amount from the Revenue Receipts that shall be paid to the Originator in respect of Deferred Consideration or Excess AMM Consideration and (ii) an amount from the Revenue Receipts that shall be paid to the Originator as a result of the relevant Monthly Reconciliation;
- (b) amounts applied in accordance with paragraphs (i) and (ii) of the Pre-Acceleration Principal Priority of Payments on such date;
- (c) payments (if any) to be received from the Swap Provider on such Payment Date under the Swap Agreement (other than any payment of collateral received by or on behalf of the Issuer in relation to a downgrade of the Swap Provider)

*provided that* the Issuer Profit Amount once allocated to the Issuer Profit Ledger pursuant to the relevant Priority of Payments shall no longer form part of Available Revenue Funds.

**"Benefit"** in respect of any asset, agreement, property or right (each a **"Right"** for the purpose of this definition) held, assigned, conveyed, transferred, charged, sold or disposed of by any person shall be construed so as to include:

- (a) all right, title, interest and benefit, present and future, actual and contingent (and interests arising in respect thereof) of such person in, to, under and in respect of such Right and all Ancillary Rights in respect of such Right;

- (b) all monies and proceeds payable or to become payable under, in respect of, or pursuant to such Right or its Ancillary Rights and the right to receive payment of such monies and proceeds and all payments made including, in respect of any bank account, all sums of money which may at any time be credited to such bank account together with all interest accruing from time to time on such money and the debts represented by such bank account;
- (c) the benefit of all covenants, undertakings, representations, warranties and indemnities in favour of such person contained in or relating to such Right or its Ancillary Rights;
- (d) the benefit of all powers of and remedies for enforcing or protecting such person's right, title, interest and benefit in, to, under and in respect of such Right or its Ancillary Rights, including the right to demand, sue for, recover, receive and give receipts for proceeds of and amounts due under or in respect of or relating to such Right or its Ancillary Rights; and
- (e) all items expressed to be held on trust for such person under or comprised in any such Right or its Ancillary Rights, all rights to deliver notices and/or take such steps as are required to cause payment to become due and payable in respect of such Right and its Ancillary Rights, all rights of action in respect of any breach of or in connection with any such Right and its Ancillary Rights and all rights to receive damages or obtain other relief in respect of such breach.

**"Block Voting Instruction"** means, in relation to any Meeting, a document in the English language issued by the Registrar:

- (a) certifying that:
  - (i) certain specified Notes (each a **"Blocked Note"**) have been blocked in an account with a clearing system and will not be released until the conclusion of the Meeting;
  - (ii) each registered Holder of certain specified Notes (each a **"Relevant Note"**) or a duly authorised person on its behalf has instructed the Registrar that the votes attributable to such Relevant Note held by it are to be cast in a particular way on each resolution to be put to the Meeting; and

in each case that, during the period of 48 hours before the time fixed for the Meeting, such instructions may not be amended or revoked;
- (b) listing the principal amount of Blocked Notes and Relevant Notes, distinguishing for each resolution between those in respect of which instructions have been given to vote for, or against, the resolution; and
- (c) authorising a named individual or individuals to vote in respect of the Blocked Notes and the Relevant Notes in accordance with such instructions.

**"Business Day"** means a day on which commercial banks are open for business in London, Luxembourg and Amsterdam.

**"Call Option"** has the meaning given to such term in Condition 5.7 (*Optional Redemption in whole upon exercise of Call Option*).

**"Cap Annual Period"** means the period from the Issue Date to (and including) the first Annual Anniversary Date and, thereafter, each successive twelve-month period running from (but excluding) an Annual Anniversary Date to (and including) the immediately following Annual Anniversary Date.

**"Charged Assets"** means any and all of the Issuer's assets comprised in the Security.

**"Class"** shall be a reference to a class of the Notes being the Class A Notes and the Class S Notes and **"Classes"** shall be construed accordingly.

**"Class A Interest Payment"** means the interest payments in relation to the Class A Notes.

**"Class A Note Rate"** means LIBOR plus 0.15 per cent per annum.

**"Class A Noteholders"** means the holders of the Class A Notes.

**"Class A Overcollateralisation Ratio"** means on each Measurement Date, the ratio (expressed as a percentage) obtained by dividing:

- (a) the sum of
  - (i) the Funded Aggregate Principal Balance of each Included Loan Advance (other than a Defaulted Obligation); plus
  - (ii) the Adjusted Funded Aggregate Principal Balance of each Included Loan Advance which is a Defaulted Obligation; plus
  - (iii) any amounts standing to the credit of (i) the Principal Account which is available for the acquisition of a beneficial interest in Replenishment Loans and (ii) the Deposit Account.
- by
- (b) the Principal Amount Outstanding of the Class A Notes.

**"Class A Overcollateralisation Test"** will be satisfied on any Measurement Date if the Class A Overcollateralisation Ratio exceeds the Class A Overcollateralisation Test Threshold.

**"Class A Overcollateralisation Test Threshold"** means 125 per cent..

**"Class S Interest Payment"** means the interest payments in relation to the Class S Notes.

**"Class S Noteholders"** means the holders of the Class S Notes.

**"Clearstream"** means Clearstream Banking S.A., Luxembourg.

**"Collection Accounts"** means the account or accounts operated by the Collection Account Bank into which amounts received by the Originator from Obligor in relation to the Included Loan Advances are deposited.

**"Collection Account Bank"** means Lloyds TSB Bank plc or any successor collection account bank.

**"Collection Account Bank Required Rating"** means a short-term senior unsecured debt rating of "A-1" by S&P (or, where no short term unsecured debt rating by S&P is available and the long-term rating of the account bank is available, at least A+ by S&P) and "F1" by Fitch (or, where no short term unsecured debt rating by Fitch is available and the long-term rating of the account bank is available, at least A by Fitch) or such other ratings that are consistent with the published criteria of the relevant Rating Agency.

**"Collections"** means Principal Receipts and Revenue Receipts.

**"Collection Period"** means each consecutive three calendar months immediately prior to a Payment Date and the first Collection Period shall commence from the Issue Date to (and including) the last calendar day of October 2009.

**"Conditions"** means the terms and conditions to be endorsed on the Notes in, or substantially in, the form scheduled to the Note Trust Deed as the same may be modified from time to time in accordance with the Note Trust Deed.

**"Credit Impaired Obligation"** means any Included Loan Advance which, (i) in the opinion of the Collateral Administrator (a) has a significant risk of declining in credit quality and, with the lapse of time, may become a Defaulted Obligation, or (b) is declining in credit quality, or (ii) is a Defaulted Obligation.

**"Credit Support Annex"** means the 1995 ISDA Credit Support Annex (Bilateral Form – Transfer) entered into on or around the Issue Date by the Swap Provider and the Issuer.

**"Day Count Fraction"** means the actual number of days in an Interest Period divided by 365 (or 366 in a leap year).

**"Defaulted Obligation"** means an Included Loan Advance:

- (a) in respect of which there has occurred and is continuing a default with respect to the payment of interest or principal, (i) disregarding any grace periods applicable thereto or (ii) in the case of any Included Loan Advance in respect of which the Originator has certified to the Note Trustee in writing that, to the knowledge (based on publicly available information) of the Originator, such default has resulted from non-credit related causes, for the lesser of three (3) Business Days and any grace period applicable thereto, in each case which default entitles the holders thereof, with notice or passage of time or both, to accelerate the maturity of all or a portion of the principal amount of such obligation, but only until such default has been cured;
- (b) in respect of which any bankruptcy, insolvency or receivership proceeding has been initiated in connection with the Obligor under such Included Loan Advance;
- (c) in respect of which the Originator becomes aware (based on publicly available information) that the Obligor thereunder is in default as to payment of principal and/or interest on another obligation, save for obligations constituting trade debts which the applicable Obligor is disputing in good faith, (and such default has not been cured), but only if both such other obligation and the Included Loan Advance are full recourse, unsecured obligations and the other obligation is senior to, or *pari passu* with, the Included Loan Advance in right of payment; or
- (d) that the Originator, acting on behalf of the Issuer, determines in its reasonable business judgment, the credit quality of the Obligor of such Included Loan Advance has significantly deteriorated such that the Originator has a reasonable expectation of payment default as of the next scheduled payment date with respect to such Included Loan Advance,

**provided that** in each case, the Originator will only act on publicly available information.

**"Defaulted Swap Settlement Payments"** means any amount payable to the Swap Provider upon termination of the Swap Agreement following the occurrence of (a) an Event of Default (as defined in the Swap Agreement) in respect of which the Swap Provider was the Defaulting Party (as defined in the Swap Agreement) or (b) a Termination Event (as defined in the Swap Agreement) in respect of the Swap Provider occurring as a result of a failure by the Swap Provider to take necessary action following the downgrade of its rating by one of the Rating Agencies to maintain or restore the ratings assigned to the Notes by such Rating Agency.

**"Deferred Consideration"** means:

- (a) an amount equal to the Investor Interest in the Aggregate Principal Balance of the relevant Included Loan Advances (including any Replenishment Loans or Further Advances) (plus accrued but unpaid interest in respect thereof) on the Issue Date or, as the case may be, the Addition Date, minus
- (b) the amount of Initial Trust Consideration or, as the case may be, Additional Trust Consideration, in respect of an Included Loan Advance paid by the Issuer on the Issue Date or, as the case may be, the Addition Date and any Deferred Consideration paid previously in respect of such Included Loan Advance.

**"Delayed Draw Obligation"** means an Included Loan Advance in relation to which the Originator may be required to make one or more future advances to the Obligor thereunder and which does not permit re-borrowing of any amounts previously repaid; **provided that** any such Included Loan Advance will cease to be a Delayed Draw Obligation when the Unfunded Amount with respect to such Delayed Draw Obligation expires, is terminated or reduced to zero.

**"Deposit Account"** means an account in such name opened by the Issuer and maintained with the Issuer Account Bank to be operated in accordance with Condition 8.2 (*Payments to and from the Issuer Accounts*) and the Account Bank Agreement.

**"Determination Date"** means five Business Days prior to each Payment Date or, in the case of the Note Maturity Date, five Business Days prior to the Note Maturity Date.

**"Early Repayment Amount"** means, in the event of an early termination of an Included Loan Advance, all amounts due under the applicable Included Loan Advance.

**"Early Prepayment Charge"** means, to the extent levied by the Originator, any charge or fee which the conditions applicable to an Included Loan Advance require the relevant Obligor to pay if, during a specified period after drawdown agreed between the Originator and the Obligor, it makes a principal repayment in addition to the contractual payment then due under the Included Loan Advance;

**"EC Treaty"** means the Treaty establishing the European Community signed in Rome on 25 March 1957, as amended from time to time, including by the Treaty on European Union signed in Maastricht on 7 February 1992.

**"EU"** means the European Union.

**"euro"** and **"€"** denote the single unified currency that was introduced in participating member states of the European Union on 1 January 1999.

**"Euroclear"** means Euroclear Bank S.A./N.V..

**"European Economic Area"** means the European Union and Iceland, Norway and Liechtenstein.

**"Eurosystème"** means the central banking system for the euro.

**"Euro-zone"** means the region comprising member states of the European Union that have adopted the single currency, the euro, in accordance with the EC Treaty.

**"Events of Default"** means each of the events listed in Condition 11 (*Events of Default*).

**"Excess AMM Consideration"** shall on any Allocation Date be the aggregate of the AMM Excess (if any) received into an applicable Collection Account on that Allocation Date;

**"Extraordinary Resolution"** means a resolution passed at a meeting of Noteholders of any class or classes (whether originally convened or resumed following an adjournment) duly convened and held in accordance with the provisions for meetings of Noteholders scheduled to the Note Trust Deed by a majority of more than 66 2/3 per cent. of the votes cast.

**"Final Discharge Date"** means the date on which the Note 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 subject to the limited recourse provisions of the Transaction Documents.

**"Fitch"** means Fitch, Inc. and Fitch Ratings Ltd and any subsidiary of either of them together with any successor in interest to any such person.

**"Fitch Recovery Rate"** means the recovery rate described in the Administration Agreement.

**"Fixed Payment"** means any amount scheduled to be paid to a Swap Provider by the Issuer under the Swap Agreement excluding any Swap Settlement Payments or any Swap Replacement Payments.

**"Floating Payment"** means any amount scheduled to be paid to the Issuer by the Swap Provider under the Swap Agreement, excluding any Swap Provider Termination Payment.

**"Form of Proxy"** means, in relation to any Meeting, a document in the English language available from the Registrar signed by a Noteholder or, in the case of a corporation, executed under its seal or signed on its behalf by a duly authorised officer and delivered to the Registrar not later than 48 hours before the time fixed for such Meeting, appointing a named individual or individuals to vote in respect of the Notes held by such Noteholder.

**"FSMA"** means the United Kingdom Financial Services and Markets Act 2000 (as amended).

**"Funded Amount"** means drawn amounts under any Included Loan Advance.

**"Funded Aggregate Principal Balance"** means on any date the Investor Interest in the Aggregate Principal Balance in relation to an Included Loan Advance minus any Deferred Consideration payable by the Issuer in respect of such Included Advance.

**"Further Advance"** means any further advance or other increase drawn down by an Obligor following the Issue Date in respect of an Included Loan Advance pursuant to the terms of the relevant Loan Agreement.

**"Further Advance Accrued Interest Payment"** means on the relevant date on which the Deferred Consideration is paid by the Issuer in respect of a Further Advance, an amount equal to the accrued unpaid interest in respect of such Further Advance corresponding to the amount of Deferred Consideration paid by the Issuer.

**"Further Notes"** means Notes issued pursuant to and in accordance with Condition 20 (*Further Notes*) which shall be designated Class A Notes and following the issue of any Further Notes, references to Class A Notes in these Conditions shall be deemed to include such Further Notes.

**"Global Note Certificate"** means any global note certificate issued in respect of the Class A Notes.

**"Guarantee"** means each guarantee in support of the obligations of a Obligor under an Included Loan Advance.

**"Holdings"** means Chepstow Blue Holdings Limited in its capacity as shareholder of the Issuer.

**"Included Loan Advance"** means any loan advance (including for the avoidance of doubt, any Replenishment Loan or Further Advance) and all proceeds thereof which form part of the Loans Trust Property in accordance with the Originator Trust Deed excluding any waiver fees, late payment fees, commitment fees, syndication fees and all other fees and commissions received by the Originator in respect of such Included Loan Advance which shall not form part of the Loans Trust Property.

**"Individual Note Certificates"** means any individual note certificates issued in respect of the Notes.

**"Initial Accrued Interest Payment"** means an amount equal to the amount of accrued unpaid interest in respect of the Initial Loans Trust Property on the Issue Date.

**"Initial Deposit Amount"** means an amount equal to £367,500,000.

**"Initial Loans Trust Property"** means the Loans Trust Property on the Issue Date.

**"Initial Trust Consideration"** means the consideration which is paid by the Issuer to the Originator on the Issue Date in relation to the Portfolio equal to 99 per cent. of the Aggregate Principal Balance of the Initial Portfolio at the close of business on the Business Day immediately preceding the Issue Date plus an amount equal to the Initial Accrued Interest Payment.

**"Insolvency Event"** means, with respect to a company:

- (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) the value of the assets of such company is less than the amount of its liabilities, taking into account its contingent and prospective liabilities; or
- (c) a moratorium is declared in respect of any indebtedness of such company; or
- (d) 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
- (e) 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; or
- (ii) an encumbrancer (excluding, in relation to the Issuer, the Note Trustee or any Receiver) taking possession of the whole or any part of the undertaking or assets of such company which is not discharged or otherwise ceases to apply within 14 days; 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 or assignation 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, in relation to the Issuer, by the Note Trustee or any Receiver); or
- (f) any procedure or step is taken, or any event occurs, analogous to those set out in (a) to (e) above, in any jurisdiction.

**"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 by an Extraordinary Resolution of the holders of the Most Senior Class), provisional liquidator, administrator, examiner, administrative 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 Account"** means an account in such name opened by the Issuer and maintained with the Issuer Account Bank to be operated in accordance with Condition 8.2 (*Payments to and from the Issuer Accounts*) and the Account Bank Agreement.

**"Interest Period"** means each period commencing on (and including) a Payment Date and ending on (and excluding) the following Payment Date; provided that the first Interest Period shall commence on (and include) the Issue Date and end on (and exclude) the immediately following Payment Date and, in relation to a LIBOR Determination Date, the **"Related Interest Period"** means the Interest Period next commencing on such LIBOR Determination Date.

**"Interest Proceeds"** means all amounts standing to the credit of the Interest Account from time to time.

**"Investor Interest"** means the 99% fixed undivided beneficial interest in the Included Loan Advances acquired by the Issuer pursuant to the Originator Trust Deed;

**"Investor Report"** means the report to be produced by the Cash Administrator and delivered to Noteholders every three months in accordance with the Administration Agreement and made available upon written request to any Noteholder requesting it from the registered office of the Issuer or the Specified Office of the Principal Paying Agent.

**"ISDA Master Agreement"** means the International Swaps and Derivatives Association Inc., Master Agreement 1992 (Multi-Currency Cross Border) Edition.

**"Issue Date"** means 7 August 2009 (or such other date as the Issuer and the Arranger may agree).

**"Issue Measurement Date"** means 31 May 2009.

**"Issuer"** means Chepstow Blue plc, a public company registered in England and Wales with company number 6885556 whose registered office is at 35 Great St. Helen's, London, EC3A 6AP.

**"Issuer Account Bank Required Rating"** means a short-term senior unsecured debt rating of "A-1" by S&P (or, where no short term unsecured debt rating by S&P is available and the long-term rating of the

account bank is available, at least A+ by S&P) and "F1" by Fitch (or, where no short term unsecured debt rating by Fitch is available and the long-term rating of the account bank is available, at least A by Fitch) or such other ratings that are consistent with the published criteria of the relevant Rating Agency.

**"Issuer Accounts"** means, collectively, the Principal Account, Interest Account, Payment Account, Swap Account, Note Proceeds Account, Deposit Account, Swap Termination Account and Swap Collateral Account and each, an **"Issuer Account"**.

**"Issuer Beneficiary"** means the Issuer in its capacity as a beneficiary of the Loans Trust.

**"Issuer Covenants"** means the covenants made by the Issuer under the Incorporated Terms Memorandum.

**"Issuer Profit Amount"** means an amount as described by the Directors of the Issuer which shall be £4,200 on each of the Payment Dates falling in 2009 and 2010 and thereafter £1,000 per annum, credited in equal portions on each Payment Date to the Issuer Profit Ledger of the Interest Account and to be retained by the Issuer as profit in respect of the business of the Issuer.

**"Issuer Profit Ledger"** means the ledger opened by the Cash Administrator and designated the Issuer Profit Ledger in the Interest Account.

**"Issuer's Jurisdiction"** means England and Wales except for the purpose of United Kingdom taxation when it shall mean the United Kingdom.

**"Issuer Surrender Receipt"** means an amount equal to 99 per cent. of the Reacquisition Proceeds received by the Loans Trustee which shall be paid to the Issuer by the Loans Trustee in consideration of the surrender by the Issuer of its beneficial interest in the relevant Included Loan Advances.

**"Liabilities"** means, in respect of any person, any losses, damages, costs, charges, awards, claims, demands, expenses, judgments, actions, proceedings or other liabilities whatsoever and fees and expenses of any legal advisors or accounting or investment banking firms employed by the Note Trustee under the Note Trust Deed and any Taxes and penalties incurred by that person on a full indemnity basis.

**"LIBOR"** for each Interest Period means the rate for deposits in sterling for a period of three months which appears on Reuters Page LIBOR 01 as of 11:00 a.m. (London time) on the LIBOR Determination Date (other than the first Interest Period, which will be determined by a linear interpolation of the rate for deposits in sterling for a period of three months and four months), all as determined by the Agent Bank. If Reuters Page LIBOR 01 is not available or if no such quotation appears thereon, in each case as at such time, the Agent Bank shall request the Reference Banks selected by it to provide the Agent Bank with its offered quotation (expressed as a percentage rate per annum) for three-month deposits in sterling at approximately 11:00 a.m. (London time) on the relevant LIBOR Determination Date (other than the first Interest Period, which will be determined by a linear interpolation of the rate for deposits in sterling for a period of three months and four months) to prime banks in the London inter-bank market for the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time. If two or more of the selected Reference Banks provide the Agent Bank with such offered quotations, LIBOR for such Interest Period shall be the arithmetic mean of such offered quotations (rounded if necessary to the nearest one thousandth of a percentage point, with 0.000005 being rounded upwards). If on the relevant LIBOR Determination Date fewer than two of the selected Reference Banks provide the Agent Bank with such offered quotations, LIBOR for such Interest Period shall be the rate per annum which the Agent Bank determines as being the arithmetic mean (rounded if necessary to the nearest one thousandth of a percentage point, with 0.000005 being rounded upwards) of the rates communicated to (and at the request of) the Agent Bank by major banks in London, selected by the Agent Bank, at approximately 11:00 a.m. (London time) on such LIBOR Determination Date for loans in sterling to leading European banks for such Interest Period and in an amount that is representative for a single transaction in that market at that time.

**"LIBOR Determination Date"** means, for each Interest Period, the first Business Day of such Interest Period and, in respect of the first Interest Period, the Issue Date.

**"Loans Trust"** means the trust constituted by the Originator pursuant to the Originator Trust Deed over the Included Loan Advances originated by Originator.

**"Loans Trust Property"** means:

- (a) all of the Originator's Benefit in, to and under all Included Loan Advances;
- (b) all of the Originator's Benefit in, to and under all monies due or to become due in payment of such Included Loan Advances, comprising accrued and unpaid Revenue Receipts, Principal Receipts and Reacquisition Proceeds (not including commitment fees or other fees payable as at the date of inclusion in the Loans Trust of such Included Loan Advances or Early Prepayment Charges);
- (c) all of the Originator's Benefit in, to and under all monies relating to such Revenue Receipts, Principal Receipts and Reacquisition Proceeds (whether on deposit in the Collection Accounts or otherwise) and income, if any, earned on such monies (not including commitment fees or other fees payable) as at the date of inclusion in the Loans Trust of such Included Loan Advance or Early Prepayment Charges;
- (d) all of the Originator's Benefit in and to all Related Security;
- (e) all of the Originator's Benefit in, to and under the Loan Agreements to the extent related to the Included Loan Advances and capable of being the subject of the Loans Trust (including, without limitation, rights in respect of any insurance, Guarantee, security, or collateral in relation thereto and rights to direct the agent to exercise certain powers in relation to any Syndicated Loan); and
- (f) all proceeds of enforcement of All Moneys Mortgages which secure any Included Loan Advance (including any such proceeds which relate to Associated Debt).

**"LTV Ratio"** means, on any date of determination, the relevant LTV ratio calculated in accordance with the relevant Loan Agreement, provided that, if the Loan Agreement does not provide for such calculation, it will mean the ratio, expressed as a percentage, of the Aggregate Principal Balance of an Included Loan Advances or, in the case of a syndicated loan, the aggregate of all loans made pursuant to the relevant Loan Agreement (including to other syndicate members) on such date of determination to the most recent open market valuation of the relevant Mortgaged Property.

**"Measurement Date"** means:

- (a) the Issue Date;
- (b) the date on which Further Notes are issued in accordance with Condition 20 (*Further Notes*);
- (c) the Addition Date;
- (d) each Determination Date; and
- (e) with reasonable (and not less than two Business Days') notice, any Business Day requested by holders of the majority of the Principal Amount Outstanding of the Most Senior Class of Notes or any Rating Agency.

**"Meeting"** means a meeting of Noteholders of any class or classes (whether originally convened or resumed following an adjournment).

**"Monthly Period "** means, for each Monthly Reconciliation Date, the preceding calendar month provided that the first Monthly Period shall commence on the Issue Date.

**"Monthly Reconciliation Date"** means the 5<sup>th</sup> of each calendar month provided that if such day is not a Business Day, the Monthly Reconciliation Date shall be the immediately succeeding Business Day and the first Monthly Reconciliation Date shall be 5 September 2009.

**"Mortgage"** means a first fixed charge by way of legal mortgage securing an Included Loan Advance.

**"Most Senior Class"** means the Class A Notes whilst they remain outstanding and thereafter the Class S Notes.

**"Nominal Deferred Consideration Percentage"** in respect of an Included Loan Advance shall be a percentage determined by the Cash Administrator on any Business Day calculated by reference to (i) the total amount of Deferred Consideration due and payable by the Issuer in respect of such Included Loan Advance on such date divided by (ii) an amount equal to the Investor Interest in the Aggregate Principal Balance in respect of such Included Loan Advance on such date, provided that, if an Included Loan Advance has become a Defaulted Obligation since the previous determination date and if as a result of which the Aggregate Principal Balance in respect of such Included Loan Advance has been reduced, on such date, the total amount of Deferred Consideration due and payable by the Issuer in respect of such Included Loan Advance which has become a Defaulted Obligation shall be reduced by an amount determined by the Cash Administrator by reference to the same percentage of the reduction of the Aggregate Principal Balance on such date.

**"Non-Credit Impaired Obligation"** means an Included Loan Advance other than a Credit Impaired Obligation.

**"Note Maturity Date"** means the Payment Date falling in November 2043.

**"Note Principal Payment"** means, on any Payment Date and in relation to any class of Notes, the amount, determined by the Cash Administrator on behalf of the Issuer in accordance with the Priority of Payments, available to redeem such class of Notes, divided by the number of Notes in that class.

**"Note Proceeds Account"** means an account in such name opened by the Issuer and maintained with the Issuer Account Bank to be operated in accordance with Condition 8.2 (*Payments to and from the Issuer Accounts*) and the Account Bank Agreement.

**"Note Purchase Agreement"** means the note purchase agreement dated on or about the Issue Date between, amongst others, the Arranger and the Issuer.

**"Note Trustee Fees and Expenses"** means the fees (including, without limitation, legal fees), costs, claims, indemnities, charges, disbursements, liabilities and expenses and all other amounts payable by the Issuer to the Note Trustee and any receiver, agent or delegate appointed by it pursuant to the Note Trust Deed or any other Transaction Document from time to time.

**"Noteholders"** means the holders of the Notes from time to time.

**"Notes"** means the Class A Notes and the Class S Notes.

**"Obligor"** means, in respect of an Included Loan Advance, the borrower thereunder or issuer thereof or, in either case, the guarantor thereof.

**"Originator"** means Lloyds TSB Bank plc.

**"Originator Beneficiary"** means the Originator in its capacity as a beneficiary of the Loans Trust.

**"Originator Interest"** means the 1% fixed undivided beneficial interest of the Originator Beneficiary in the Included Loan Advances granted to the Originator Beneficiary pursuant to the Originator Trust Deed;

**"Outstanding"** means, in relation to the Notes, all the Notes other than:

- (a) those Notes which have been redeemed in full and cancelled in accordance with the Conditions;
- (b) those Notes in respect of which the date for redemption, in accordance with the relevant Conditions, has occurred and the redemption moneys (including premium (if any) and all interest payable in respect thereof and any interest payable under the relevant Conditions after such date) have been duly paid to the Note Trustee or to the Principal Paying Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the relative Noteholders in accordance with Condition 21 (*Notices*) of the Conditions) and remain available for payment against presentation of the relevant Notes;
- (c) those Notes which have become void under Condition 16 (*Prescription*) of the Conditions;

- (d) those Notes, if any, which have been purchased and surrendered for cancellation pursuant to Condition 17 (*Replacement of Note Certificates*) and notice of the cancellation of which has been given to the Note Trustee;

**provided that** for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of the Noteholders of a class, an Extraordinary Resolution in writing as envisaged by Schedule 4 (*Provisions for Meetings of Noteholders*) of the Note Trust Deed and any direction or request by the holders of the Notes of any class or classes;
- (ii) the determination of how many and which of the relevant Notes are for the time being Outstanding for the purposes of Clauses 11 (*Enforcement of Security*), 18 (*Appointment, Retirement and Removal of Note Trustee*) and 7 (*Waiver, Determination and Modification*) of the Note Trust Deed, Schedule 4 (*Provisions for Meetings of Noteholders*) of the Note Trust Deed and Conditions 11 (*Events of Default*), 12 (*Enforcement*) and 14 (*Meetings of Noteholders*); and
- (iii) any discretion, power or authority (whether contained in this Note Trust Deed or vested by operation of law) which the Note Trustee is required, expressly or implicitly, 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, for the benefit of, or on behalf of, the Issuer and not cancelled shall (unless and until ceasing to be so held) be deemed not to remain Outstanding.

**"Payment Account"** means an account in such name opened by the Issuer and maintained with the Issuer Account Bank to be operated in accordance with Condition 8.2 (*Payments to and from the Issuer Accounts*) and the Account Bank Agreement.

**"Payment Date"** means 20<sup>th</sup> of February, May, August and November in each year, commencing on 20<sup>th</sup> November 2009 and ending on the Note Maturity Date or, if such date is not a Business Day, the succeeding Business Day.

**"Permitted Investments"** means (i) sterling denominated government securities paying a fixed rate of interest or (ii) sterling demand or time deposits, certificates of deposit, in each case at the applicable market rate (provided such rate is not greater than the par value of the relevant debt obligation) for the relevant time period at that time provided that in all cases:

- (a) 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 is rated at least "A-1" by S&P and at least "F1" by Fitch" or such other ratings that are consistent with the published criteria of the relevant Rating Agency;
- (b) such investment is due to mature prior to the following Payment Date; and
- (c) no investments will be acquired if they would be subject to withholding tax whilst held in the name of the Issuer.

**"Person"** includes any person, individual, firm, company, corporation, government, state or agency of a state or any undertaking (within the meaning of section 1161(1) of the Companies Act 2006) or other association (whether or not having separate legal personality) or any two or more of the foregoing.

**"Portfolio"** means the Included Loan Advances and the Related Security and all collections and receipts derived therefrom from time to time.

**"Post-Acceleration Priority of Payments"** means the priority of payments described in Condition 7.3 (*Post-Acceleration Priority of Payments*).

**"Potential Event of Default"** means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition would constitute an Event of Default.

**"Pre-Acceleration Revenue Priority of Payments"** means the priority of payments set out in Condition 7.1 (*Payment Date Pre-Acceleration Revenue Priority of Payments*).

**"Pre-Acceleration Principal Priority of Payments"** means the priority of payments set out in Condition 7.2 (*Payment Date Pre-Acceleration Principal Priority of Payments*).

**"Principal Account"** means an account in such name opened by the Issuer and maintained with the Issuer Account Bank to be operated in accordance with Condition 8.2 (*Payments to and from the Issuer Accounts*) and the Account Bank Agreement.

**"Principal Amount Outstanding"** means, on any day:

- (a) in relation to a Note, the principal amount of that Note upon issue less the aggregate amount 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, the aggregate of the amount in (a) in respect of all Notes Outstanding in such 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 Proceeds"** means all amounts standing to the credit of the Principal Account from time to time.

**"Principal Receipts"** means all amounts transferred by the Originator to the Issuer under items (i) and (ii) of Condition 8.2.1 (*Payments to and from the Issuer Accounts - Principal Account*).

**"Priority of Payments"** means, together, the Pre-Acceleration Revenue Priority of Payments, the Pre-Acceleration Principal Priority of Payments and the Post-Acceleration Priority of Payments.

**"Priority Payments"** has the meaning set out in Condition 5.7 (*Optional Redemption in whole upon the exercise of a Call Option*).

**"Prospectus"** means this prospectus issued in connection with the listing of the Class A Notes on Euronext Amsterdam, dated on or about 5 August 2009 in respect of the Notes.

**"Prospectus Directive"** means Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the Prospectus to be Published When Securities Are Offered to the Public or Admitted to Trading and Amending Directive 2001/34/EC, and includes any relevant implementing measure in each Relevant Member State.

**"Proxy"** means, in relation to any Meeting, a person appointed to vote under a Block Voting Instruction other than:

- (a) any person whose appointment has been revoked and in relation to whom the Principal Paying Agent has been notified in writing of such revocation by the time which is 48 hours before the time fixed for such Meeting; and
- (b) any person appointed to vote at a Meeting which has been adjourned for want of a quorum and who has not been re-appointed to vote at the Meeting when it is resumed.

**"Purchased Accrued Interest"** means, with respect to any Collection Period, all payments of interest and proceeds of sale received during such Collection Period in relation to any Included Loan Advance, in each case, to the extent that such amounts represent accrued and/or capitalised interest in respect of such Included Loan Advance, which was acquired at the time of acquisition thereof in accordance with the Pre-Acceleration Principal Priority of Payments.

**"Rating Agency"** means each of S&P and Fitch.

**"Rating Agency Confirmation"** means receipt of written confirmation from the relevant Rating Agency that the relevant action, determination or appointment will not result in the reduction or withdrawal of any

of the ratings then assigned to the Notes rated by the Rating Agency ***provided that*** the relevant Rating Agency shall not be obliged to issue a Rating Agency Confirmation and in circumstances where a Rating Agency is not willing to issue a Rating Agency Confirmation due to its then prevailing policy regarding the issue of Rating Agency Confirmations, an authorised signatory of the Issuer (or the Collateral Administrator on its behalf) has certified in writing to the Note Trustee that, in its opinion (and where the relevant Rating Agency was prepared to consult with the Issuer (or the Collateral Administrator, as applicable) this opinion is based on consultation with such Rating Agency) such amendment would not cause the ratings of the Notes to be reduced or withdrawn by such Rating Agency and ***provided further that*** a Rating Agency Confirmation from Fitch shall not be required but Fitch shall be notified of the proposed action, determination or appointment.

**"Reacquisition Proceeds"** means all proceeds received upon the reacquisition of the Issuer's Investor Interest and the Originator Beneficiary's Originator Interest in any Included Loan Advances by the Originator, excluding any Reacquisition Proceeds representing accrued interest designated as Revenue Receipts by the Cash Administrator in accordance with the Administration Agreement, *provided that* no such designation may be made in respect of:

- (a) Purchased Accrued Interest; or
- (b) proceeds representing accrued interest received in respect of any Defaulted Obligation unless and until (x) the principal of such Defaulted Obligation has been repaid in full and (y) any Purchased Accrued Interest in relation to such Defaulted Obligation has been paid), but including, any fees received upon such sale or other disposition and any recoveries received in respect of any Defaulted Obligation up to its principal amount outstanding and in each case (if applicable) net of any amounts expended by or payable by the Originator in connection with the sale, disposition or termination of such Included Loan Advance,

*provided further that*, the amount of the Reacquisition Proceeds shall be no less than the Aggregate Principal Balance of such Included Loan Advance together with accrued but unpaid interest.

**"Receiver"** means any receiver, manager, receiver or manager, or administrative receiver appointed in respect of the Issuer by the Note Trustee in accordance with the provisions of the Note Trust Deed.

**"Redemption Date"** means the scheduled date of redemption of the Notes pursuant to Condition 5.7 (*Optional Redemption in whole upon the exercise of a Call Option*) or Condition 5.8 (*Optional Redemption in whole for taxation reasons*) as applicable.

**"Reference Banks"** means four major banks in the Euro-zone inter-bank market selected by the Agent Bank for the purposes of determining LIBOR.

**"Refund"** means any receipt or payment received from a Taxing Authority for or on account of Tax.

**"Related Security"** means, in relation to an Included Loan Advance, the security for the repayment of that Included Loan Advance including the relevant Mortgage or other type of security and, in respect of any syndicated loan, means the rights of the Originator to the security for the repayment of such syndicated loan and all other matters applicable thereto which, as part of the Portfolio, form part of the Loans Trust Property pursuant to the Originator Trust Deed.

**"Regulation S"** means Regulation S under the Securities Act.

**"Relevant Member State"** means each member state of the European Economic Area that has implemented the Prospectus Directive.

**"Replenishment Criteria"** means the replenishment criteria set out in Schedule 3 (*Eligibility Criteria, Portfolio Criteria and Replenishment Criteria*) to the Originator Trust Deed.

**"Replenishment Loan Accrued Interest Payment"** in respect of any Replenishment Loan, means on the relevant Addition Date an amount equal to A multiplied by B where:

A = the Investor Interest in the amount of accrued unpaid interest in respect of such Replenishment Loan, and

B = 1 minus the Nominal Deferred Consideration Percentage on such date in respect of such Replenishment Loan.

**"Replenishment Loans"** means any Included Loan Advance in respect of which the Originator has declared a trust in accordance with the provisions of the Originator Trust Deed in favour of the Issuer and the Originator Beneficiary after the Issue Date but prior to the expiry of the Replenishment Period in accordance with the Replenishment Criteria (and excluding any Further Advance).

**"Replenishment Period"** means a period from and including the Issue Date up to and including the earliest of (i) the Payment Date falling in August 2012 or (ii) the date on which an Acceleration Notice is served or (iii) the date on which a Trust Pay Out Event occurs.

**"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 reduce 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 any payment in respect of the Notes of any class on redemption or maturity; (b) (except in accordance with Condition 19 (*Substitution of Issuer*) and Clause 8 (*Substitution*) of the Note 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 of Noteholders or the majority required to pass an Extraordinary Resolution; or (f) to amend this definition.

**"Revenue Receipts"** means:

- (a) all cash payments of interest in respect of the Investor Interest in the Included Loan Advances (including recoveries on Defaulted Obligations allocated as Revenue Receipts by the Collateral Administrator); and
- (b) all accrued interest included in any Issuer Surrender Receipt that is designated by the Collateral Administrator (acting on behalf of the Issuer) as Revenue Receipts pursuant to the Administration Agreement, which are allocable to the Investor Interest.

**"Revenue Shortfall"** has the meaning given thereto in Condition 7.2 (*Payment Date Pre-Acceleration Principal Priority of Payments*).

**"Secured Amounts"** means the aggregate of all moneys and liabilities (present or future or actual or contingent) 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 Note Trustee in its own capacity, any Receiver appointed by the Note Trustee in its own capacity, the Noteholders, the Loans Trustee, the Agents, the Collateral Administrator, the Cash Administrator, the Corporate Services Provider and the Swap Provider.

**"Securities Act"** means the United States Securities Act of 1933, as amended.

**"Security"** means the security created in favour of the Note Trustee pursuant to the Note Trust Deed.

**"Senior Expenses Cap"** means for each Cap Annual Period, £200,000 per annum as at the Determination Date immediately preceding the applicable Annual Anniversary Date, or, in the case of the first Cap Annual Period, the Issue Date.

**"S&P"** means Standard & Poor's Ratings Group, a division of the McGraw Hill Companies and any successor or successors thereto.

**"S&P Recovery Rate"** means the recovery rate as described in the Administration Agreement.

**"Specified Office"** means, in relation to the Principal Paying Agent, the Registrar and the Agent Bank, 33 rue de Gasperich, Howald-Hesperange, C-2085 Luxembourg and, in relation to the UK Paying Agent, 55 Moorgate, London EC2R 6PA.



**"Swap Account"** means an account in such name opened by the Issuer and maintained with the Issuer Account Bank to be operated in accordance with Condition 8.2 (*Payments to and from the Issuer Accounts*) and the Account Bank Agreement.

**"Swap Agreement"** means an ISDA Master Agreement (together with the Schedule, Confirmation and Credit Support Annex) entered into by the Issuer and the Swap Provider (or its successor) in order to hedge the interest rate exposure of the Issuer in connection with the issue of the Notes.

**"Swap Collateral Account"** means an account in such name opened by the Issuer and maintained with the Issuer Account Bank to be operated in accordance with Condition 8.2 (*Payments to and from the Issuer Accounts*) and the Account Bank Agreement.

**"Swap Collateral"** means any collateral received from the Swap Provider pursuant to the Credit Support Annex which may be in the form of cash and/or securities.

**"Swap Provider"** means the swap counterparty under the Swap Agreement and any successor thereof pursuant to such Swap Agreement.

**"Swap Provider Termination Payment"** means any amount payable by a Swap Provider to the Issuer under the Swap Agreement upon termination of the Swap Agreement.

**"Swap Replacement Payment"** means any amount payable by the Issuer to a replacement Swap Provider (if any) upon entry into a Swap Replacement Transaction which is replacing the Swap Agreement which was terminated.

**"Swap Replacement Receipt"** means any amount payable to the Issuer by a replacement Swap Provider (if any) upon entry into a Swap Replacement Transaction which is replacing the Swap Agreement which was terminated.

**"Swap Replacement Transaction"** means an ISDA Master Agreement (together with the Schedule, Confirmation and Credit Support Annex) entered into by the Issuer in accordance with the provisions of the Administration Agreement upon termination of the existing Swap Agreement, on substantially the same terms as such terminated Swap Agreement, that preserves for the Issuer the economic effect of the terminated Swap Agreement, subject to such amendments thereto as may be agreed by the Note Trustee and in respect of which Rating Agency Confirmation is obtained.

**"Swap Settlement Payment"** means any unscheduled amount payable to the Swap Provider under the Swap Agreements (including any termination or modification payment) excluding any Defaulted Swap Settlement Payments.

**"Swap Termination Account"** means the account of the Issuer with the Issuer Account Bank into which Swap Replacement Receipts and (save where a Swap Replacement Transaction cannot be entered into) Swap Provider Termination Payments will be paid.

**"Syndicated Loan"** means an Included Loan Advance originated by a facility agent on behalf of the Originator as one of the syndicate lenders.

**"Tax"** shall, unless the context otherwise requires, 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 Taxing Authority and **"Taxes"**, **"taxation"**, **"taxable"** and comparable expressions shall be construed accordingly.

**"Tax Deduction"** means any deduction or withholding imposed by a Taxing Authority for or on account of any Tax.

**"Taxing Authority"** means any government, state, municipal, local federal or other fiscal, revenue, customs or excise authority, body or official anywhere in the world.

**"Transaction"** means the issuance of the Notes by the Issuer and payment of the proceeds of such issuance as contemplated by these Conditions.

**"Transaction Documents"** means, collectively, the Agency Agreement, the Administration Agreement, the Originator Trust Deed, the Originator Power of Attorney, the Call Option Agreement, the Corporate Services Agreement, the Swap Agreement, the Note Purchase Agreement, the Account Bank Agreement, the Incorporated Terms Memorandum, the Note Trust Deed and any other document designated as such by the Issuer and the Note Trustee, and a reference to any of the above shall be to each as it may be modified and/or amended and/or supplemented from time to time.

**"Transaction Parties"** means the parties to the Transaction Documents and **"Transaction Party"** means any one of them.

**"Trust Consideration"** means the aggregate of the Initial Trust Consideration, the Additional Trust Consideration, any Excess AMM Consideration and, to the extent that the Initial Trust Consideration and/or the Additional Trust Consideration is not paid in full on the Issue Date and/or the relevant Addition Date, the Deferred Consideration.

**"Trust Pay Out Event"** has the meaning given to it in the Originator Trust Deed.

**"Unfunded Amount"** means an undrawn amount under any Delayed Draw Obligation.

**"Voter"** means, in relation to any Meeting, a Proxy or a Noteholder; provided, however, that any Noteholder which has appointed a Proxy under a Block Voting Instruction or Form of Proxy shall not be a **"Voter"** except to the extent that such appointment has been revoked and the Registrar notified in writing of such revocation at least 48 hours before the time fixed for such Meeting;

**"Wind-up Costs"** means (i) the Issuer's operating expenses arising from the day immediately following the Note Maturity Date to the Final Discharge Date and (ii) the fees, costs and expenses payable by the Issuer to the Note Trustee, the Loans Trustee, the Agents, the Corporate Services Provider, the Cash Administrator and the Collateral Administrator.

**"Written Resolution"** means a resolution in writing signed by or on behalf of 66 2/3 per cent. of the Holders of the relevant class of Notes for the time being Outstanding who for the time being are entitled to receive notice of a meeting 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.

## 1. **Form and Denomination**

1.1 **Form and Denomination:** The Class A Notes are in registered form and will initially be represented by global notes in registered form (**"Global Notes"**). Individual Note Certificates will only be issued in the circumstances specified in the Global Notes and if issued will be in Authorised Denominations. Each Individual Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. The Class S Note will be in definitive registered form (the **"Class S Individual Note Certificate"**).

## 2. **Register, Title and Transfers**

2.1 **Register:** The Registrar will maintain a register (the **"Register"**) in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the **"Holder"** of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and **"Noteholder"** shall be construed accordingly.

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

Title to a Note represented by an Individual Note Certificate or a Class S Note shall only pass by and upon registration in the Register provided that no transferee shall be registered as a new Class S Noteholder unless such transferee has certified to the Registrar that it is a Qualifying

Noteholder. The Individual Note Certificates may be transferred in whole (but not in part) upon the surrender of the relevant Individual Note Certificate, with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar. All transfers of such Individual Note Certificates are subject to any restrictions on transfer set forth on such Individual Note Certificates and the detailed regulations concerning transfers in the Agency Agreement.

**"Qualifying Noteholder"** means:

- (a) a person which is beneficially entitled to interest in respect of the Class S Notes and is:
  - (i) a company resident in the United Kingdom for United Kingdom tax purposes;
  - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which will bring into account payments of interest in respect of the Class S Notes in computing the chargeable profits (for the purposes of Chapter 2 of Part 2 of the Corporation Tax Act 2009 (the "CTA") of that company; or
  - (iii) a partnership each member of which is:
    - (A) a company resident in the United Kingdom; or
    - (B) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which will bring into account in computing its chargeable profits (for the purposes of Chapter 2 of Part 2 of the CTA) the whole of any share of a payment of interest in respect of the Class S Notes that falls to it by reason of sections 1259 to 1266 (inclusive) of the CTA; or
- (b) a person which falls within any of the other descriptions in section 935 or 936 of the Income Tax Act 2007 ("**ITA 2007**") and satisfies any conditions set out therein in order for the interest to be an excepted payment for the purposes of section 930 ITA 2007.

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

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

The Notes are not issuable in bearer form.

- 2.3 **Transfers:** Subject to Conditions 2.2 (*Title*), 2.6 (*Closed periods*) and 2.7 (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar, together with such evidence as the Registrar may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.
- 2.4 **Registration and delivery of Note Certificates:** Within five business days of the surrender of a Note Certificate in accordance with Condition 2.3 (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the

purpose by such relevant Holder. In this Condition, "business day" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar has its Specified Office.

- 2.5 **No charge:** The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- 2.6 **Closed periods:** Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.
- 2.7 **Regulations concerning transfers and registration:** All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Note Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.
3. **Status, Ranking, Security and Issuer Covenants**
- 3.1 **Status:** The Notes of each class constitute direct, secured, limited recourse obligations of the Issuer.
- 3.2 **Ranking:** The Notes of each class will at all time rank *pari passu* and rateably without any preference among themselves.
- 3.3 **Sole Obligations:** The Notes are obligations solely of the Issuer and are not obligations of, or guaranteed by, any of the other Transaction Parties.
- 3.4 **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 S Notes in accordance with the relevant Priority of Payments.
- 3.5 **Priority of Principal Payments:** Payments of principal on the Class A Notes will at all times rank in priority to payments of principal on the Class S Notes in accordance with the relevant Priority of Payments.
- 3.6 **Security:** Subject to and under the Note Trust Deed, the Issuer has created the Security in favour of the Note Trustee for itself and on trust for the other Secured Creditors as security for the Secured Amounts:
- (a) a first fixed charge over the Issuer's present and future rights, title and interest (and all entitlements or benefits relating thereto) in and to each Permitted Investment and any other investments, in each case held by the Issuer from time to time (where such rights are contractual rights other than contractual rights, the assignment of which would require the consent of a third party), including, without limitation, all monies received in respect thereof, all dividends and distributions paid or payable thereon, all property paid, distributed, accruing or offered at any time thereon, thereto or in respect thereof or in substitution therefore and the proceeds of sale, repayment and redemption thereof;
  - (b) a first fixed charge over the Issuer's right, title and interest (and all entitlements or benefits relating thereto) in and to the Investor Interest in the Loans Trust, and any other investments, in each case held by or on behalf of the Issuer, where such assets are contractual rights not assigned by way of security pursuant to paragraph (a) above including, without limitation, all monies received in respect thereof, all dividends and distributions paid or payable thereon, all property paid, distributed, accruing or offered at any time thereon, thereto or in respect thereof or in substitution therefore and the proceeds of sale, repayment and redemption thereof;
  - (c) a first fixed charge over the Issuer's right, title and interest in and to the Issuer Accounts (and, in the case of the Swap Collateral Account, only to the extent applied in satisfaction of termination payments due to the Issuer following the designation of an

early termination date under the Swap Agreement) and any other bank or other accounts in which the Issuer may at any time have or acquire any benefit;

- (d) an assignment by way of security of the Issuer's right, title and interest in and to each Transaction Document (other than the Note Trust Deed and the Note Purchase Agreement);
- (e) a first fixed charge over all monies held from time to time by the Principal Paying Agent on behalf of the Issuer for payment of principal, interest or other amounts on the Notes;
- (f) an assignment by way of security the Issuer's present and future rights under the Swap Agreement and the Swap Transaction entered into thereunder (including the Issuer's rights under any guarantee or credit support annex entered into pursuant to the Swap Agreement; provided that such assignment by way of security shall not in any way restrict the release of collateral granted thereunder in whole or in part at any time pursuant to the terms thereof); and
- (g) a first floating charge over the whole of the Issuer's undertaking and all the Issuer's property, assets and rights whatsoever and wheresoever present and future including, without limitation, the Issuer's uncalled capital.

The Security will become enforceable in accordance with Condition 12 (*Enforcement*).

- 3.7 **Issuer Covenants:** Save as permitted by the Transaction Documents, the Issuer Covenants contain certain covenants in favour of the Note Trustee from the Issuer which, amongst other things, restrict the ability of the Issuer to create or incur any indebtedness, dispose of assets or change the nature of its business. So long as any Note remains outstanding, the Issuer shall comply with the Issuer Covenants.

#### 4. **Interest**

##### *Class A Notes*

- 4.1 **Accrual of Interest:** Each Class A Note bears interest on its Principal Amount Outstanding at the Class A Note Rate from (and including) the Issue Date.
- 4.2 **Interest Payments:** Interest on each Class A Note is payable in arrear on each Payment Date from (and including) the Payment Date falling in November 2009.
- 4.3 **Cessation of Interest:** Each Class A Note shall cease to bear interest from its due date for repayment unless, upon due surrender, payment of the principal is improperly withheld or refused, in which case, it will continue to bear interest in accordance with this Condition 4 (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 has notified the Noteholders of such class that it has received all sums due in respect of the Notes of such class up to such seventh day (except to the extent that there is any subsequent default in payment).
- 4.4 **Calculation of Class A Interest Payment:** On or as soon as practicable after each LIBOR Determination Date, the Issuer shall calculate (or shall cause the Agent Bank to calculate) the Class A Interest Payment payable on each Class A Note for the related Interest Period. The Class A Interest Payment payable in respect of each Class A Note shall be calculated by applying the Class A Note Rate to the Principal Amount Outstanding of the Class A Notes and multiplying the product by the Day Count Fraction and dividing the resulting figure by the number of Class A Notes outstanding, in each case rounding the resulting figure to the nearest £ 0.01 (£ 0.005 being rounded upwards).

- 4.5 **Calculation period of less than an Interest Period:** Whenever it is necessary to compute an amount of interest in respect of any Note for a period of less than an Interest Period, such interest shall be calculated by reference to the number of days in the relevant period divided by 365.
- 4.6 **Notification of Class A Note Rate, Class A Interest Payment and Payment Date:** As soon as practicable after each LIBOR Determination Date, the Agent Bank will cause:
- (a) the Class A Note Rate for the related Interest Period;
  - (b) the Class A Interest Payment for the related Interest Period; and
  - (c) the Payment Date immediately following the related Interest Period;
- to be notified to the Issuer, the Note Trustee, the Principal Paying Agent, the Cash Administrator and, for so long as the Class A Notes are listed on Euronext Amsterdam.
- 4.7 **Publication of Class A Note Rate, Class A Interest Payment and Payment Date:** As soon as practicable after receiving each notification of the Class A Note Rate, the Class A Interest Payment and the Payment Date in accordance with Condition 4.6 (*Notification of Class A Note Rate, Class A Interest Payment and Payment Date*) the Issuer or the Cash Administrator on its behalf will cause such Class A Note Rate, Class A Interest Payment and the next following Payment Date to be published in accordance with Condition 21 (*Notices*).
- 4.8 **Amendments to Publications:** The Class A Note Rate, the Class A Interest Payment and the 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.
- 4.9 **Determination or Calculation by Note Trustee:** If the Agent Bank does not at any time for any reason determine the Class A Note Rate and the Class A Interest Payment in accordance with this Condition 4, the Note Trustee may (but without any liability to any person accruing to the Note Trustee as a result) calculate the Class A Note Rate and the Class A Interest Payment in the manner specified in this Condition 4, and any such determination and/or calculation shall be deemed to have been made by the Agent Bank.
- 4.10 **Notification of Availability for Payment:** The Issuer or the Cash Administrator on its behalf shall cause notice of the availability for payment of any Class A Interest Payment arrears in respect of a class of Notes (and the date of payment thereof in respect of such class) to be published in accordance with Condition 21 (*Notices*).

*Class S Notes*

- 4.11 **Accrual and Interest Payments:** Each Class S Note shall receive by way of interest excess amounts (if any) equal to the Available Revenue Funds remaining following payments made in priority to the Class S Noteholders in accordance with the Pre-Acceleration Revenue Priority of Payments or, after delivery of an Acceleration Notice, the proceeds of enforcement remaining following payments made in priority to the Class S Noteholders in acceptance with the Post-Acceleration Priority of Payments.

*Class A Notes and Class S Notes*

- 4.12 **Notifications etc. to be Final:** All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Agent Bank, the Reference Banks or the Note Trustee will (in the absence of manifest error) be binding on the Issuer, the Agent Bank, the Reference Banks, the Note Trustee and the Noteholders. No liability to any such person will attach to the Agent Bank, the Reference Banks or the Note Trustee in connection with the with the exercise or non-exercise by them of their powers, duties and discretions under this Condition 4.

5. **Redemption**

- 5.1 **Final Redemption:** Unless previously redeemed and cancelled as provided in this Condition 5, the Issuer shall redeem the Class A Notes at their Principal Amount Outstanding plus any accrued but unpaid interest on the Note Maturity Date and shall redeem the Class S Notes on the Note Maturity Date at the lower of (a) their Principal Amount Outstanding and (b) each Class S Note's *pro rata* share of the Available Principal Funds available on the Note Maturity Date for redemption of the Class S Notes in accordance with the Priority of Payments.
- 5.2 **Mandatory Early Redemption:** The Notes shall be redeemed in whole or in part (*pro rata* and *pari passu* amongst themselves) on each Payment Date in an amount equal to the Available Principal Funds available for such purpose in accordance with the Pre-Acceleration Principal Priority of Payments until each class of Notes has been redeemed in full or, in the event that the Class A Overcollateralisation Test has not been met on such Payment Date, in an amount to be applied for such purpose in accordance with the Pre-Acceleration Revenue Priority of Payments.
- 5.3 **Mandatory Early Redemption in part upon receipt of Issuer Surrender Receipt:** Upon receipt of the Issuer Surrender Receipt by the Issuer from the Originator in respect of the Non-Credit Impaired Obligations in accordance with the provisions of the Call Option Agreement, the Cash Administrator on behalf of the Issuer shall (i) redeem, *pari passu*, the Class A Notes at their Principal Amount Outstanding and (ii) pay accrued but unpaid interest (in respect of the part of the Class A Notes which will be redeemed), on the Payment Date immediately following the date on which the Issuer Surrender Receipt is received, provided that:
- (a) if such Issuer Surrender Receipt is received by the Issuer during the Replenishment Period, such Issuer Surrender Receipt shall not form part of the Available Principal Funds for the purposes of the Pre-Acceleration Principal Priority of Payments and shall be applied by the Cash Administrator (on behalf of the Issuer) in redemption of the Class A Notes;
  - (b) if such Issuer Surrender Receipt is received by the Issuer after the expiry of the Replenishment Period, such Issuer Surrender Receipt shall form part of the Available Principal Funds for the purposes of the Pre-Acceleration Principal Priority of Payments and shall be applied in accordance with Condition 5.2 (*Mandatory Early Redemption*) above.
- 5.4 **Calculation of Note Principal Payment and Principal Amount Outstanding:** On (or as soon as practicable after) each Determination Date, the Issuer shall calculate (or cause the Cash Administrator to calculate):
- (a) the aggregate of any Note Principal Payment due in relation to each class of Notes on the Payment Date immediately succeeding such Determination Date; and
  - (b) the Principal Amount Outstanding of each Note in each class on the Payment Date immediately succeeding such Determination Date (after deducting any Note Principal Payment due to be made on that Payment Date in relation to such class).
- 5.5 **Calculations final and binding:** Each calculation by or on behalf of the Issuer shall (in the absence of any manifest error) be final and binding on all persons.
- 5.6 **Notice of Calculation:** The Issuer or the Cash Administrator on its behalf will cause each calculation of a Note Principal Payment and Principal Amount Outstanding in relation to each class to be notified immediately after calculation to the Note Trustee, the Agents and, for so long as the Class A Notes are listed on Euronext Amsterdam and will immediately cause details of each calculation of a Note Principal Payment and Principal Amount Outstanding in relation to each class to be published in accordance with Condition 21 (*Notices*) by not later than each Payment Date.
- 5.7 **Optional Redemption in whole upon the exercise of a Call Option:** Subject to Condition 5.9 (*Conditions to Optional Redemption*), the Issuer shall redeem all (but not some only) of the Notes of each class on any Payment Date ***provided that*** in respect of an optional redemption following

the exercise of the call option available to the Originator upon the downgrade of its ratings below "A-1" by S&P (or, where no short-term unsecured debt rating by S&P is available and the long-term rating of the Originator is available, below "A+" by S&P) or "F1" by Fitch (or, where no short-term unsecured debt rating by Fitch is available and the long-term rating of the Originator is available, below "A" by Fitch) (the "**Ratings Call Option**") the Issuer shall redeem all (but not some only) of the Notes of each class on the Business Day upon which the Issuer Surrender Receipt is received by the Issuer and *provided further that:*

- (a) sufficient Available Principal Funds are available to (A) redeem the Class A Notes in whole at their Principal Amount Outstanding, plus any accrued but unpaid interest and (B) pay all amounts in priority thereto under the relevant Priority of Payments (the "**Priority Payments**"); and
- (b) other than in respect of redemption following a Ratings Call Option, the Class S Noteholders have by Extraordinary Resolution elected that the Notes of their respective Classes be redeemed ("**Call Option**"). The Class S Notes will be redeemed in whole in an amount equal to the then remaining Available Principal Funds available to be distributed to the Class S Noteholders in accordance with the relevant Priority of Payments following payment of the Priority Payments.

5.8 **Optional Redemption in whole for taxation reasons:** Subject to Condition 5.9 (*Conditions to Optional Redemption*), the Issuer shall redeem all (but not some only) of the Class A Notes at their Principal Amount Outstanding plus any accrued but unpaid interest on any Payment Date and all (but not some only) of the Class S Notes in an amount equal to the then remaining Available Principal Funds available to be distributed to the Class S Noteholders, in each case, in accordance with the relevant Priority of Payments following payment of the Priority Payments:

- (a) after the date on which the Issuer is or will be subject to Tax in an accounting period on an amount which materially exceeds the aggregate Issuer Profit Amount during that accounting period; or
- (b) after the date on which the total amount payable in respect of interest in relation to the Included Loan Advances is or will be reduced in aggregate by more than six per cent. as a result of a Tax Deduction as determined by the Cash Administrator including following compensation pursuant to a "gross-up" provision in the relevant Loan Agreement and taking into account any tax Refund the Loans Trustee reasonably expects to obtain; or
- (c) after the date on which any United Kingdom Tax is imposed on or suffered by the Loans Trust or the Loans Trustee in respect of any income, profits or gains arising in respect of the Loans Trust or the Loans Trust Property; or
- (d) subject to Clause 8.3 of the Note Trust Deed (*Substitution for Taxation Reasons*), after the date on which, by virtue of a change in the Tax law of the Issuer's Jurisdiction (or the application or official interpretation of such Tax law), any payment of principal or interest on the Notes becomes subject to withholding tax,

if the Class A Noteholders or the Class S Noteholders, in each case electing by Extraordinary Resolution, elect that the Notes of their respective class are to be redeemed, subject to the following:

- (i) that prior to giving any such notice, the Issuer has provided to the Note Trustee:
  - (A) a legal opinion (in form and substance satisfactory to the Note Trustee), opining on the relevant change in Tax law; and
  - (B) a certificate signed by two directors of the Issuer to the effect that it will have the funds on the relevant Payment Date, not subject to the interest of any other person, required to redeem the Class A Notes pursuant to this Condition 5 and meet its payment obligations of a higher priority under the Priority of Payments; and



- (C) in the case of paragraphs (a) and (b) above only, a certificate signed by two directors of the Issuer to the effect that relevant event described in (a) - (d) above cannot be avoided.

5.9 **Conditions to Optional Redemption:**

(a) **Conditions to Redemption**

A redemption of the Notes pursuant to Condition 5.7 (*Optional Redemption in whole upon the exercise of a Call Option*) or Condition 5.8 (*Optional Redemption in whole for taxation reasons*) may only occur if, to the satisfaction of the Note Trustee, (i) the Issuer has, in the Payment Account, on the date on which the notice to redeem is given, or (ii) will have in the Payment Account by the day which is at least one Business Day prior to the scheduled Redemption Date, sufficient funds to enable to it pay in full all amounts required to be paid under Condition 5.7 (*Optional Redemption in whole upon the exercise of a Call Option*), or Condition 5.8 (*Optional Redemption in whole for taxation reasons*), as applicable (in each case such amount being the "**Minimum Proceeds Amount**").

If an amount equal to the Minimum Proceeds Amount is not credited to the Issuer Account on the date on which notice is proposed to be given, notice to redeem the Notes pursuant to Condition 5.7 (*Optional Redemption in whole upon the exercise of a Call Option*) or Condition 5.8 (*Optional Redemption in whole for taxation reasons*) may not be given unless the Note Trustee is satisfied that:

- (i) the Originator has entered into a binding sale agreement or agreements with (A) one or more financial institutions (which term shall include for the avoidance of doubt any entity or institution which has issued or is to issue notes secured on a portfolio of collateral loan or debt securities) which (or whose guarantor under such obligations) has a short-term senior unsecured credit rating from S&P of A-1 (or if such rating is not available from such Rating Agency, in respect of which Rating Agency Confirmation has been received) and/or (B) (subject to Rating Agency Confirmation) one or more funds or other investment vehicles established for the purpose of acquiring assets similar to the Portfolio, in each case, with settlement dates in respect of the Included Loan Advances on or prior to two Business Days immediately preceding the scheduled Redemption Date, and
- (ii) the Expected Net Proceeds which shall be held by the Issuer in immediately available funds not later than two Business Days immediately prior to the scheduled Redemption Date will equal or exceed the applicable Minimum Proceeds Amount.

The "**Expected Net Proceeds**" shall be the sum of:

- (A) in respect of each Included Loan Advance, the Issuer Surrender Receipt; and
- (B) the sum of the balances of the Issuer Accounts (to the extent not payable to any entity other than the Issuer); and
- (C) amounts scheduled to be received by the Issuer under any Swap Agreement prior to the Redemption Date.

(b) **Mechanics of Redemption:**

Following calculation of the applicable Minimum Proceeds Amount, such other redemption calculations required to be made pursuant to the Administration Agreement shall be notified to the Originator, the Loans Trustee, the Issuer, the Cash Administrator, the Note Trustee and the Principal Paying Agent, whereupon the Issuer shall notify the Noteholders in accordance with Condition 21 (*Notices*) of such amounts.

Exercise of a redemption pursuant to Condition 5.7 (*Optional Redemption in whole upon the exercise of a Call Option*), or Condition 5.8 (*Optional Redemption in whole for taxation reasons*) shall be effected by delivery of a notice to the Principal Paying Agent by the Issuer and given in the form of a notice as set out in Schedule 1 (*Redemption Notice*) of the Agency Agreement not more than 60 nor less than 5 Business Days prior to the applicable date of redemption of the Notes.

The Issuer shall give the Originator, the Loans Trustee, the Note Trustee, the Cash Administrator, the Swap Provider and the Principal Paying Agent notice of the Redemption Date, and the Principal Paying Agent (on behalf of the Issuer) shall give the Noteholders not more than 60 and not less than 5 Business Days notice of its intention to redeem the Notes. The Issuer shall deposit, or cause to be deposited, the funds required for an optional redemption of the Notes in accordance with Condition 5.7 (*Optional Redemption in whole upon the exercise of a Call Option*) or Condition 5.8 (*Optional Redemption in whole for taxation reasons*) in the Payment Account on or before the Business Day prior to the Redemption Date.

- 5.10 **Conclusiveness of certificates and legal opinions:** Any certificate and legal opinion given by or on behalf of the Issuer or the Swap Provider (as applicable) pursuant to Condition 5.8 (*Optional Redemption in whole for taxation reasons*) may be relied on by the Note Trustee without further investigation and shall be conclusive and binding on the Noteholders and on the other Secured Creditors.
- 5.11 **Notice irrevocable:** Any such notice from the Issuer as is referred to in Condition 5.7 (*Optional Redemption in whole upon the exercise of a Call Option*) or Condition 5.8 (*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 in respect of each Class A Note together with all accrued but unpaid interest thereon and in accordance with the Priority of Payments in respect of each Class S Note. Failure to so redeem the Notes following service of any notice referred to in Condition 5.7 (*Optional Redemption in Whole upon the exercise of a Call Option*) or Condition 5.8 (*Optional Redemption in Whole for Taxation Reasons*) shall be treated as an Event of Default.
- 5.12 **Issuer may not purchase Notes:** The Issuer may not purchase Notes.
- 5.13 **Cancellation of redeemed Note Certificates:** All Note Certificates will be cancelled forthwith by the Issuer upon redemption in full of the Notes which they represent and no such Note Certificates may be reissued or resold.
- 5.14 **Redemption of Class S Notes:** Notwithstanding any other provisions of the Conditions or the Note Trust Deed, prior to the date on which all of the Included Loan Advances have been liquidated, all of the Charged Assets have been realised and all amounts standing to the credit of the Issuer Accounts (other than the Swap Collateral Account) are to be finally distributed to the Noteholders, for the purpose of calculations, all references herein and therein to the Class S Notes being redeemed in full or at their Principal Amount Outstanding or to receiving any payment in accordance with the relevant Priority of Payments or otherwise shall be amended to the effect that the Class S Notes shall be redeemed in an amount equal to the lower of the funds available for such redemption purposes and the then Principal Amount Outstanding of the Class S Notes less £1 such that on aggregate £1 principal amount of the Class S Notes remains Outstanding at all times after such redemption and thereafter any amounts received which are to be applied in redemption of the Class S Notes pursuant hereto which are in excess of the Principal Amount Outstanding of the Class S Notes minus £ 1 thereof, shall constitute interest payable in respect of the Class S Notes and shall not be applied in redemption of the Principal Amount Outstanding thereof.

6. **Limited Recourse and Non-Petition**

6.1 **Limited Recourse**

If at any time following:

- (a) the occurrence of either:
  - (i) the Note Maturity Date or any earlier date upon which all of the Notes of each Class are due and payable; or
  - (ii) the Security becoming enforceable in accordance with Condition 12 (*Enforcement*); and
- (b) Realisation of the Charged Assets 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 as set out in the Note Trust Deed,

the proceeds of such Realisation are insufficient, after payment of all other claims ranking in priority in accordance with the applicable priority (or priorities) 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 ranking 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:

"**Realisation**" shall mean, in relation to any Charged Assets, 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 Assets including (without limitation) through sale or through performance by an obligor.

6.2 **Exclusion of Other Limited Recourse**

Notwithstanding any other provision contained in these Conditions or in the Transaction Documents, no such provision other than Condition 6.1 (*Limited Recourse*) above shall limit or in any way reduce the amount of interest that would otherwise be payable by the Issuer under any Note, if and to the extent that such limitation or reduction is to any extent to be determined by reference to the results of any business or part of a business or the value of any property.

- 6.3 In addition, none of the Noteholders of any class nor any of the other Secured Creditors shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenant or agreement entered into or made by the Issuer pursuant to the terms of these Conditions, the Note Trust Deed or any other document relating to the Notes to which the Issuer is a party or any notice or documents which it is requested to deliver hereunder or thereunder.

6.4 **Non Petition**

None of the Noteholders of any class, nor the other Secured Creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, examinership, reorganisation, arrangement, insolvency, winding-up or liquidation proceedings or other proceedings under any applicable bankruptcy or similar law in connection with any obligations of the Issuer relating to the Notes of any class, the Note Trust Deed or otherwise owed to the Secured Creditors, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

7. **Priority of Payments**

7.1 **Payment Date Pre-Acceleration Revenue Priority of Payments:** On each Payment Date prior to the service of an Acceleration Notice, the Issuer shall apply all Available Revenue Funds as at the immediately preceding Determination Date in the following order of priority but, in each case, only to the extent that there are funds available for that purpose and all payments of a higher priority have been made in full:

- (i) *first*, any Note Trustee Fees and Expenses up to an amount equal to the Senior Expenses Cap;
- (ii) *second*, in or towards payment, *pari passu* and *pro rata*, of all amounts then due and payable by the Issuer in respect of any expenses incurred in connection with (a) all amounts then due and payable by the Issuer in respect of any Administrative Expenses up to an amount equal to the Administrative Expenses Cap and (b) to the payment of the Issuer Profit Amount;
- (iii) *third*, in or towards payment of Fixed Payment due and payable to the Swap Provider;
- (iv) *fourth*, in or towards payment to the Swap Provider of any Swap Settlement Payments or Swap Replacement Payments in respect of the Swap Agreement, as applicable, to the extent amounts paid out of the Swap Termination Account are insufficient to meet such Swap Settlement Payments or Swap Replacement Payments;
- (v) *fifth*, in or towards payment of all amounts then due and payable by the Issuer in respect of Issuer's liability (if any) to tax;
- (vi) *sixth*, in or towards payment of *pari passu* and *pro rata*, the Class A Interest Payments then due and payable by the Issuer on the Class A Notes;
- (vii) *seventh*, in the event that the Class A Overcollateralisation Test was not satisfied on the Determination Date immediately preceding the relevant Payment Date, in payment to the redemption of the Class A Notes to the extent necessary to cause the Class A Overcollateralisation Test to be met if recalculated following such payment;
- (viii) *eighth*, in the event that the balance standing to the credit of the Deposit Account is below £367,500,000 on the Determination Date immediately preceding the relevant Payment Date, in or towards payment to the Deposit Account to the extent necessary to cause the balance standing to the credit of such Deposit Account to be equal to £367,500,000 following such payment;
- (ix) *ninth*, in or towards payment of any Note Trustee Fees and Expenses that remain unpaid pursuant to paragraph (i) above;
- (x) *tenth*, in or towards payment, *pari passu* and *pro rata*, of any Administrative Expenses that remain unpaid pursuant to paragraph (ii) above;
- (xi) *eleventh*, in or towards payment of any Defaulted Swap Settlement Payment due and any costs due to the Swap Provider with respect thereto and not paid out of the Swap Termination Account; and
- (xii) *twelfth*, the excess (if any) to be paid in respect of interest on the Class S Notes, *pari passu* and *pro rata*.

7.2 **Payment Date Pre-Acceleration Principal Priority of Payments:** On each Payment Date prior to the service of an Acceleration Notice, the Issuer shall apply the Available Principal Funds in the following order of priority but, in each case, only to the extent that there are funds available for that purpose and all payments of a higher priority have been made in full:

- (i) *first*, in or towards payment of any Revenue Shortfall Amount on such date which shall form part of the Available Revenue Funds on such date.

For the purposes of the above and the Post-Acceleration Priority of Payments, there will be a "**Revenue Shortfall**" on a Determination Date if the Cash Administrator determines that:

(A) in respect of the Pre-Acceleration Revenue Priority of Payments, the Available Revenue Funds on the Payment Date immediately succeeding such Determination Date (excluding for these purposes (1) any Available Principal Funds to be applied as part of the Available Revenue Funds on such date and (2) amounts calculated taking into account amounts which may be released from the Deposit Account) will be insufficient to meet the Issuer's obligations under paragraph (i) through (including) (vi) of the Pre-Acceleration Revenue Priority of Payments; or

(B) in respect of the Post-Acceleration Priority of Payments, the Available Revenue Funds on the Payment Date immediately succeeding such Determination Date (excluding for these purposes (1) any Available Principal Funds to be applied as part of the Available Revenue Funds on such date and (2) amounts calculated taking into account amounts which may be released from the Deposit Account) will be insufficient to meet the Issuer's obligations under paragraph (i) through (including) (iv) of the Post-Acceleration Priority of Payments,

(the total amount of such insufficiency, being the "**Revenue Shortfall Amount**");

- (ii) *second*, to the extent that there remains any Revenue Shortfall after the application of Available Principal Funds under item (i) above, in or towards payment of any such remaining Revenue Shortfall Amount on such date from funds released from the Deposit Account for such purposes;
- (iii) *third*, during the Replenishment Period at the direction of the Collateral Administrator (acting on behalf of the Issuer) (a) in the acquisition of the beneficial interest in additional Included Loan Advances (subject to the satisfaction of the Replenishment Criteria), (b) in the payment of any Additional Trust Consideration or any Deferred Consideration due and payable as a result of a Further Advance being made by the Originator, or (c) to the credit of the Principal Account pending acquisition of the beneficial interest in additional Included Loan Advances at a later date, in each case in accordance with and subject to the provisions of the Originator Trust Deed and the Administration Agreement;
- (iv) *fourth*, during the Replenishment Period, in or towards payment to the Deposit Account to increase the amount standing to the credit of the Deposit Account to £367,500,000;
- (v) *fifth*, in or towards redemption of the Class A Notes on a pro rata and *pari passu* basis; and
- (vi) *sixth*, any amounts remaining in or towards payment in respect of the Class S Notes on a pro rata and *pari passu* basis in accordance with Condition 5.14 (*Redemption of Class S Notes*).

7.3 **Post-Acceleration Priority of Payments:** On the Note Maturity Date or such other date on which the Class A Notes are redeemed in full or on and following delivery of an Acceleration Notice, the Issuer shall apply all Available Revenue Funds, Available Principal Funds and, in certain circumstances only, funds released from the Deposit Account or, as the case may be, the net proceeds of enforcement of the Security over the Charged Assets of the Issuer will be applied by the Note Trustee in the following order of priority but, in each case, only to the extent that there are funds available for that purpose and all payments of a higher priority have been made in full:

- (i) *first*, to the payment of any due and unpaid Note Trustee Fees and Expenses;
- (ii) *second*, in payment on a pro rata and *pari passu* basis of (a) due and unpaid Administrative Expenses (b) payment of taxes owing by the Issuer which became due

and payable in the current tax year as certified by an Authorised Officer of the Issuer to the Note Trustee, if any and (c) to the payment of the Issuer Profit Amount;

- (iii) *third*, to the payment on a pro rata and *pari passu* basis of any Swap Settlement Payments due to the Swap Provider (other than Defaulted Swap Settlement Payments), in each case to the extent not paid from funds available in the Swap Termination Account;
- (iv) *fourth*, to the payment of pro rata and *pari passu* the Class A Interest Payments then due and payable by the Issuer on the Class A Notes;
- (v) *fifth*, to the redemption on a pro rata and *pari passu* basis of the Class A Notes;
- (vi) *sixth*, in or towards payment of any Defaulted Swap Settlement Payment due and any costs due to the Swap Provider with respect thereto and not paid out of the Swap Termination Account; and
- (vii) *seventh*, any remaining proceeds, in or towards payments in respect of the Class S Notes (subject to Condition 5.14 (*Redemption of the Class S Notes*)),

provided that, in relation to items (i) to (and including) (iv) above and other than in respect of a Note Maturity Date or any other date on which the Class A Notes are redeemed in full or the date on which the Aggregate Principal Balance of the Included Loan Advances becomes zero, the Note Trustee shall apply the Available Revenue Funds first and to the extent of any Revenue Shortfall, the Note Trustee may use (i) any Available Principal Funds, and (ii) funds released from the Deposit Account for the purposes of covering such Revenue Shortfall.

## 8. Issuer Accounts

### 8.1 Establishment of Issuer Accounts:

The Issuer shall, prior to the Issue Date, establish the following accounts with the Issuer Account Bank:

- (i) Principal Account;
- (ii) Interest Account;
- (iii) Payment Account;
- (iv) Swap Account;
- (v) Note Proceeds Account; and
- (vi) Deposit Account.

From time to time, as required pursuant to the terms of the Swap Agreement, the Issuer may open one or more Swap Termination Account and Swap Collateral Account.

Amounts standing to the credit of an Issuer Account (except for the Swap Collateral Account) from time to time may be invested by the Cash Administrator in Permitted Investments denominated in the same currency as the relevant Issuer Account from which the applicable amounts are drawn for investment and for the avoidance of doubt the balance standing to the credit of any Issuer Account shall include any such Permitted Investments from time to time.

### 8.2 Payments to and from the Issuer Accounts

#### 8.2.1 Principal Account

- (a) The Issuer or the Cash Administrator on its behalf will procure that the following amounts are paid into the Principal Account promptly upon receipt thereof:
- (i) all principal payments received in respect of any Included Loan Advances, including, without limitation (in each case without double counting):
    - (1) amounts received in respect of any maturity, scheduled amortisation or mandatory prepayment on an Included Loan Advance;
    - (2) unscheduled principal receipts received as a result of optional redemptions and prepayments (including any acceleration);
    - (3) recoveries on Defaulted Obligations allocated as Principal Receipts by the Collateral Administrator and any other principal payments with respect to Included Loan Advances in either case to the extent not included in the Issuer Surrender Receipt;
    - (4) on a Monthly Reconciliation Date, any Reconciliation Amount in respect of Principal Receipts payable by the Originator;
    - (5) all amounts remaining in the Swap Termination Account following payment of any Swap Replacement Payment and any Swap Settlement Payments; and
    - (6) any other principal payments with respect to Included Loan Advances (to the extent not included in the Issuer Surrender Receipt);
  - (ii) other than in circumstances described in Condition 5.9 (*Conditions to Optional Redemption*) all Issuer Surrender Receipt received in respect of the re-acquisition by the Originator of the Investor Interest in any Included Loan Advances other than those designated as Revenue Receipts;
  - (iii) any interest accrued and proceeds received in respect of Permitted Investments in respect to the Principal Account or in respect of the balance of the Principal Account during the relevant Collection Period; and
  - (iv) all monies standing to the credit of the Deposit Account (as at the Note Maturity Date or such other date on which the Class A Notes are redeemed in full or the date on which the Aggregate Principal Balance of the Included Loan Advances becomes zero);
- (b) The Issuer or the Cash Administrator on its behalf shall procure payment of the following amounts (and shall ensure that payment of no other amount is made, save to the extent otherwise permitted above) out of the Principal Account:
- (i) on or prior to the second Business Day prior to each Payment Date, all Principal Proceeds standing to the credit of the Principal Account to the Principal Ledger of the Payment Account to the extent required for disbursement pursuant to the Pre-Acceleration Principal Priority of Payments, save for amounts deposited after the end of the related Collection Period and save for (x) any Principal Proceeds designated by the Collateral Administrator (on behalf of the Issuer) for the acquisition of an interest in additional loan advances during the Replenishment Period in accordance with the Replenishment Criteria, (y) monies to be

transferred to the Deposit Account pursuant to the Pre-Acceleration Principal Priority of Payments, and (z) an amount equal to the Issuer Surrender Receipt received by the Issuer from the Loans Trustee in respect of the acquisitions by the Originator of Non-Credit Impaired Obligations during the Replenishment Period which shall be applied by the Cash Administrator towards redemption of the Class A Notes in accordance with Condition 5.3 (*Mandatory Early Redemption in part upon receipt of Issuer Surrender Receipt*) **provided that** no such payment shall be made to the extent that such amounts are not required to be distributed pursuant to the relevant Priority of Payments on such Payment Date;

- (ii) at any time during the Replenishment Period in accordance with the terms of, and to the extent permitted under, the Administration Agreement, in the acquisition of Included Loan Advances;
- (iii) on a Monthly Reconciliation Date, any Reconciliation Amount in respect of Principal Receipts payable by the Issuer which shall be paid to the Originator;
- (iv) following the enforcement of the Security over the Charged Assets, all monies standing to the credit of the Principal Account to the relevant Payment Account as directed by the Note Trustee for application in accordance with the Post-Acceleration Priority of Payments;
- (v) any interest accrued and proceeds received in respect of Permitted Investments in respect to the Principal Account or in respect of the balance of the Principal Account during the relevant Collection Period to be paid into the Interest Account;
- (vi) an amount equal to the Issuer Surrender Receipt received by the Issuer from the Loans Trustee in respect of the acquisitions by the Originator of Non-Credit Impaired Obligations during the Replenishment Period which shall be paid to the Payment Account (and then applied by the Cash Administrator towards redemption of the Class A Notes in accordance with Condition 5.3 (*Mandatory Early Redemption in part upon receipt of Issuer Surrender Receipt*)); and
- (vii) at any time, payments to the Originator in respect of Deferred Consideration or Excess AMM Consideration.

#### 8.2.2 *Interest Account*

The Cash Administrator shall maintain an Issuer Profit Ledger in respect of the Interest Account and shall record on such ledger amounts to be credited or debited in accordance with the provisions below.

- (a) The Issuer or the Cash Administrator on its behalf will procure that the following amounts are credited to the Interest Account promptly upon receipt thereof (in each case without double counting):
  - (i) all Revenue Receipts;
  - (ii) an amount equal to the Issuer Profit Amount received by the Issuer in accordance with the relevant Priority of Payment and transferred from the Payment Account to be credited to the Issuer Profit Ledger;
  - (iii) an amount equal to the Floating Payments received by the Issuer under the Swap Agreement and transferred from the Swap Account;
  - (iv) on a Monthly Reconciliation Date, any Reconciliation Amount in respect of Revenue Receipts payable by the Originator; and



- (v) any interest accrued and proceeds received in respect of Permitted Investments in respect to the Interest Account or any interest credited to an Issuer Account (other than the Swap Collateral Account) in respect of balances standing to the credit of such Issuer Account during the relevant Collection Period.
- (b) The Issuer or the Cash Administrator on its behalf shall procure payment of the following amounts (and shall ensure that payment of no other amount is made, save to the extent otherwise permitted above) out of the Interest Account:
  - (i) on or prior to the second Business Day prior to each Payment Date, all Interest Proceeds standing to the credit of the Interest Account including interest earned on the balance of the Interest Account) shall be transferred:
    - (A) for so long as a Swap Agreement is in place, to the Swap Account for payment to the Swap Provider;
    - (B) to the Interest Ledger of the Payment Account for disbursement pursuant to the Pre-Acceleration Revenue Priority of Payments (other than on any date on which the Notes are to be redeemed in full)

save for amounts deposited after the end of the related Collection Period;

  - (ii) on a Monthly Reconciliation Date, any Reconciliation Amount in respect of Revenue Receipts payable by the Issuer which shall be paid to the Originator; and
  - (iii) following each Payment Date, the Issuer Profit Amount to be retained in the Issuer Profit Ledger or, at the direction of the Cash Administrator, transferred to the Payment Account for payment as a dividend to Holdings; and
  - (iv) at any time, payment to Originator in respect of Deferred Consideration or Excess or AMM Consideration.

#### 8.2.3 *Swap Account*

- (a) The Issuer or the Cash Administrator on its behalf will procure that the following amounts are credited to the Swap Account promptly upon receipt thereof:
  - (i) on each Payment Date (prior to termination of the Swap Agreement) all Revenue Receipts from the Interest Account to be applied as the Fixed Payment pursuant to the Swap Agreement;
  - (ii) all Floating Payments and Accrued Interest Payments received from the Swap Provider under the Swap Agreement.
- (b) The Issuer or the Cash Administrator on its behalf shall procure payment of the following amounts (and shall ensure that payment of no other amount is made, save to the extent otherwise permitted above) out of the Swap Account:
  - (i) (prior to termination of the Swap Agreement) on each Payment Date Revenue Receipts to be transferred to an account nominated by the Swap Provider;
  - (ii) (if the Swap Agreement is terminated without a replacement swap transaction) all monies standing to the credit to be transferred to the Interest Ledger of the Payment Account;

- (iii) all Floating Payments received from the Swap Provider under the Swap Agreement and any interest earned on the balance of the Swap Account to be transferred to the Interest Account; and
- (iv) Accrued Interest Payments received from the Swap Provider under the Swap Agreement to be transferred to the Originator as Additional Trust Consideration.

#### 8.2.4 *Note Proceeds Account*

- (a) The Issuer or the Cash Administrator on its behalf will procure that an amount equal to the gross proceeds of issue of the Notes remaining are credited to the relevant Note Proceeds Account.
- (b) The Issuer or the Cash Administrator on its behalf shall procure payment of the following amounts (and shall ensure that payment of no other amount is made, save to the extent otherwise permitted above) out of the relevant Note Proceeds Account:
  - (i) on the Issue Date, in the acquisition of Investor Interest in respect of the Included Loan Advances and on the Addition Date, in the acquisition of an Investor Interest in respect of Further Advances;
  - (ii) on the Issue Date, an amount equal to the Initial Deposit Amount to the Deposit Account; and
  - (iii) any interest accrued and proceeds received in respect of the balance of the Note Proceeds Account during the relevant Collection Period to be paid into the Interest Account.

#### 8.2.5 *Payment Account*

The Issuer Account Bank shall maintain a principal ledger (the “**Principal Ledger**”) and an interest ledger (the “**Interest Ledger**”) in respect of the Payment Account and shall record on such ledger amounts to be credited or debited from the Payment Account in accordance with the following provisions:

- (a) The Issuer or the Cash Administrator on its behalf will procure that, on or prior to the second Business Day prior to each Payment Date, all amounts standing to the credit of each of the Issuer Accounts which are required to be transferred to the Payment Account pursuant to Condition 8.2 (*Payments to and from the Issuer Accounts*) are so transferred upon receipt thereof; and
- (b) on such Payment Date, the Cash Administrator shall cause the Issuer Account Bank to make such payment in accordance with the applicable Priority of Payments.

In addition, on or prior to the date on which the Notes are redeemed in full in accordance with Condition 5.7 (*Optional Redemption in whole upon the exercise of a Call Option*) or 5.8 (*Optional Redemption in whole for taxation reasons*), all monies available for redemption shall be transferred to the Payment Account pursuant to Condition 5.9 (*Conditions of Optional Redemption*). No amounts shall be transferred to or withdrawn from a Payment Account at any other time or in any other circumstances, save that all interest accrued and received in respect of Permitted Investments in respect to the Payment Account or interest accrued on the Payment Account shall be credited to the Interest Account.

#### 8.2.6 *Swap Termination Account*

- (a) The Issuer or the Cash Administrator on its behalf will procure that all Swap Provider Termination Payment and all Swap Replacement Receipts due to the

Issuer in respect of the Swap Agreement shall, promptly on receipt thereof, be deposited in the Swap Termination Account;

- (b) The Issuer or the Cash Administrator on its behalf will procure payment of the following amounts (and shall ensure that payment of no other amount is made) out of the Swap Termination Account:
  - (i) at any time, in the case of any Swap Provider Termination Payment and all Swap Replacement Receipts paid into the Swap Termination Account, in payment of amounts payable by the Issuer upon entry into a replacement Swap Agreement in accordance with the Administration Agreement or upon termination of the Swap Agreement (including any Swap Replacement Payments and/or Swap Settlement Payments but excluding any Defaulted Swap Settlement Payments);
  - (ii) following the Issuer's entry into a Swap Replacement Transaction and the payment of any Swap Replacement Payment or Swap Settlement Payment, all amounts remaining in the Swap Termination Account shall be transferred to the Principal Account; and
  - (iii) any interest accrued and proceeds received in respect of the balance of the Swap Termination Account during the relevant Collection Period to be paid into the Interest Account.

#### 8.2.7 *Swap Collateral Account*

- (a) The Issuer or the Cash Administrator on its behalf will procure that all Swap Collateral pledged pursuant to the Credit Support Annex shall be deposited in the Swap Collateral Account; and
- (b) All Swap Collateral so deposited and interest in respect thereof shall be held and released pursuant to the terms of the Credit Support Annex in respect of which it was deposited.

#### 8.2.8 *Deposit Account*

- (a) The Issuer or the Cash Administrator on its behalf will procure that the following amounts are credited to the Deposit Account promptly upon receipt thereof:
  - (i) on the Issue Date, an amount equal to the Initial Deposit Amount to be transferred from the Note Proceeds Account; and
  - (ii) on each Payment Date, an amount to be transferred from the Principal Account under item (iv) of the Pre-Acceleration Principal Priority of Payment.
  - (iii) on each Payment Date, an amount to be transferred from the Interest Account under item (viii) of the Pre-Acceleration Revenue Priority of Payment.
- (b) The Issuer or the Cash Administrator on its behalf will procure payment of the following amounts (and shall ensure that payment of no other amount is made) out of the Deposit Account:
  - (i) on or prior to the second Business Day prior to each Payment Date, an amount determined by the Cash Administrator to be transferred to the Interest Ledger of the Payment Account in accordance with the Pre-Acceleration Principal Priority of Payment or an amount determined by the Note Trustee to be transferred to the Interest Ledger of the Payment Account in accordance with the Post-Acceleration Priority of Payment for the purposes of covering certain Revenue Shortfall;

- (ii) Any interest accrued and proceeds received in respect of the balance of the Deposit Account during the relevant Collection Period shall be paid into the Interest Account; and
- (iii) on the Note Maturity Date or such other date on which the Class A Notes are redeemed in full or the date on which the Aggregate Principal Balance of the Included Loan Advances becomes zero, all monies standing to the credit of the Deposit Account to the Principal Account.

## 9. **Payments**

- 9.1 **Principal:** Payments of principal shall be made by cheque drawn in sterling or, upon application by a Holder of Note 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 and (and in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- 9.2 **Interest:** Payments of interest shall be made by cheque drawn in sterling or, upon application by a Holder of Note 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 in London and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- 9.3 **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.
- 9.4 **Business Days:** In this Condition 9, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in London and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).
- 9.5 **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 Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- 9.6 **Record date:** Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.
- 9.7 **Notifications to be final:** All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition, whether by the Reference Banks (or any of them), the Principal Paying Agent, the Agent Bank or the Note Trustee shall (in the absence of any manifest error) be binding on the Issuer and all Noteholders and (in the absence of any manifest error) no liability to the Note Trustee, the Noteholders shall attach to the Reference Banks, the Agents, or the Note Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions under this Condition 9.

## 10. **Taxation**

- 10.1 **Tax Deductions:** All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any Taxes imposed, levied, collected, withheld or assessed by the Issuer's Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, unless the Issuer, the Note Trustee or the Principal Paying Agent (as the case may be) are required by law to make any Tax Deduction. In that event, the Issuer, the Note Trustee or the Principal Paying Agent (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.

10.2 **No payment of additional amounts:** None of the Issuer, the Note Trustee nor the Principal Paying Agent will be obliged to pay any additional amounts to the Noteholders as a result of any such Tax Deduction.

10.3 **Taxing Jurisdiction:** If the Issuer becomes subject at any time to any taxing jurisdiction other than the Issuer's Jurisdiction, references in these Conditions to the Issuer's Jurisdiction shall be construed as references to the Issuer's Jurisdiction and/or such other jurisdiction.

10.4 **Tax Deduction not Event of Default:** Notwithstanding that the Note Trustee, the Issuer or the Principal Paying Agent are required to make a Tax Deduction this shall not constitute an Event of Default.

## 11. Events of Default

11.1 **Events of Default:** Subject to the other provisions of this Condition 11, each of the following events shall be treated as an "**Event of Default**":

11.1.1 *Non-payment:* the Issuer fails to pay any amount of principal in respect of the Most Senior Class of Notes within ten Business Days of the due date for payment of such principal in accordance with Condition 5 (*Redemption*) or fails to pay any amount of interest in respect of the Most Senior Class of Notes within ten Business Days of the due date for payment of such interest in accordance with Condition 4 (*Interest*) (**provided that** such grace period shall be fifteen Business Days if the non-payment is due to a technical or administrative error); or

11.1.2 *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 Transaction Documents or in respect of the Issuer Covenants and such default (a) is certified by the Note Trustee as being incapable of remedy or (b) being a default which is, in the opinion of the Note Trustee, capable of remedy, remains unremedied for 30 days after the Note Trustee has given written notice of such default to the Issuer; or

11.1.3 *Insolvency Event:* an Insolvency Event occurs in relation to the Issuer; or

11.1.4 *Representations and Warranties:* any representation or warranty of the Issuer made in the Note Trust Deed or in any certificate in writing delivered pursuant thereto is incorrect in any material respect when made, and continuance of such breach of representation or warranty continues for a period of 30 calendar days after notice thereof is given to the Issuer (copied to the Loans Trustee) by the Note Trustee; or

11.1.5 *Unlawfulness:* 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 the Transaction Documents.

11.2 **Delivery of Acceleration Notice:** If an Event of Default occurs and is continuing, the Note Trustee may at its discretion and shall, if so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes or so directed in writing by the holders of at least 25 per cent. in aggregate of the Principal Amount Outstanding of the Most Senior Class of Notes then outstanding, deliver an Acceleration Notice to the Issuer (copied to the Originator, the Loans Trustee, the Collateral Administrator, the Cash Administrator, the Agents, the Swap Provider, the Issuer Account Bank and, so long as any of the Class A Notes remain outstanding, the Rating Agency).

11.3 **Conditions to delivery of Acceleration Notice:** Notwithstanding Condition 11.2 (*Delivery of Acceleration Notice*) the Note Trustee shall not be obliged to deliver an Acceleration Notice unless:

11.3.1 in the case of the occurrence of any of the events mentioned in Condition 11.1.2 (*Breach of other obligations*) or Condition 11.1.5 (*Representations and Warranties*), the Note

Trustee shall have certified in writing that the happening of such event is in its opinion materially prejudicial to the interests of the Most Senior Class; and

11.3.1 it shall have been indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

11.4 **Consequences of delivery of Acceleration Notice:** Upon the delivery of an Acceleration Notice, the Notes of each class shall become immediately due and payable without further action or formality at their Principal Amount Outstanding and thereafter, all funds held in the Issuer Accounts shall, as amongst each Secured Creditor, be applied in accordance with the priority set forth in Condition 7.3 (*Post-Acceleration Priority of Payments*).

## 12. **Enforcement**

12.1 **Proceedings:** Subject to Condition 12.2 (*Restrictions on Enforcement of Security*), the Note Trustee may at its discretion and without further notice, institute such proceedings as it thinks fit to enforce its rights under the Note Trust Deed in respect of the Notes of each class and under the other Transaction Documents and at any time after the delivery of an Acceleration Notice, the Note Trustee may, at its discretion and without further notice, take such steps as it may think fit to enforce the security, but it shall not be bound to do so unless so directed by an Extraordinary Resolution of the Noteholders of the Most Senior Class of Notes and in any such case, only if it shall have been indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

12.2 **Restrictions on Enforcement of Security:** The Note Trustee may only take action to enforce the security under the Note Trust Deed over the Charged Assets and realise and/or otherwise liquidate or sell the Charged Assets if an Acceleration Notice has been delivered and the security under the Note Trust Deed has become enforceable and:

- (a) the Event of Default which gave rise to the Acceleration Notice was a non-payment of principal or interest due in respect of the Most Senior Class of Notes; or
- (b) a sufficient amount would be realised to allow payment in full of all amounts owing to the Noteholders of Most Senior Class of Notes after payment of all other claims ranking in priority to the Most Senior Class of Notes in accordance with the Post-Acceleration Priority of Payments; or
- (c) the Note 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 and/or opinion of an investment bank or other financial adviser selected by the Note Trustee, (and if the Note Trustee is unable to obtain such advice having made reasonable efforts to do so this Condition 12.2(c) 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 Class A Notes after payment of all other claims ranking in priority to the Class A Notes in accordance with the Post-Acceleration Priority of Payments *provided that* the Note Trustee shall not be bound to make the determination contained in Condition 12.2(b) above unless the Note Trustee shall have been indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing; or
- (d) it has been directed to do so by the holders of the Most Senior Class of Notes, acting by Extraordinary Resolution.

12.3 **Third Party Rights:** No person shall have any right to enforce any Condition or any provision of the Note Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

13. **No action by Noteholders, or any other Secured Creditor**

13.1 Only the Note Trustee may pursue the remedies available under the general law or under the Note Trust Deed 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 Note Trustee where expressly provided for in these Conditions) are entitled:

- (a) otherwise than as permitted by these Conditions, to direct the Note Trustee to enforce the Security or take any proceedings against the Issuer to enforce the Security; or
- (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; or
- (c) until the date falling two years and one day 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.

14. **Meetings of Noteholders**

14.1 **Convening:** The Note 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 Note Trust Deed, which modification may be made if sanctioned by an Extraordinary Resolution.

14.2 **Separate and combined meetings:** The Note Trust Deed provides that:

- (a) an Extraordinary Resolution which in the opinion of the Note 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 Note 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 combined meeting of the Noteholders of all such classes of Notes as the Note Trustee shall determine in its absolute discretion; and
- (c) an Extraordinary Resolution which in the opinion of the Note Trustee affects the Noteholders of more than one class 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.

14.3 **Request from Noteholders:** A meeting of Noteholders of a particular class may be convened by the Note Trustee or the Issuer at any time and must be convened by the Note Trustee (subject to its being indemnified and/or secured to its satisfaction) upon the request in writing of Noteholders of a particular class holding not less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes of that class then Outstanding.

14.4 **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 two or more person(s) holding or representing a majority of the Principal Amount Outstanding of the Notes then Outstanding in that class or those classes or, at any adjourned meeting, two or more person(s) being or representing Noteholders of that class or those classes, whatever the Principal Amount Outstanding of the Notes then Outstanding 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 two or more person(s) holding or representing at least 75 per cent. of the Principal Amount Outstanding of the Notes then Outstanding in the relevant class or classes or, at any adjourned meeting, one or more persons holding or representing not less than 33 1/3 per cent. of the Principal Amount Outstanding of the Notes then Outstanding in the relevant class or classes.

In respect of Conditions 14.4(a) and (b) above, while all the Outstanding Notes of any class are represented by a Global Note, a single Voter appointed in relation thereto or being the holder of the Notes thereby represented shall be deemed to be two votes for the purpose of forming a quorum.

#### 14.5 **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 the other class of Notes (to the extent that there are Notes then Outstanding 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 the other class of Notes (if any) ranking senior to such class (to the extent that there are Notes then Outstanding ranking senior to such class) unless the Note Trustee considers that the interests of the holders of each of the other classes of Notes ranking senior to such class would not be materially prejudiced by such Extraordinary Resolution; 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 Note 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 duly convened and held as aforesaid shall also be binding upon the holders of all the other classes of Notes irrespective of the effect thereon.

#### 14.6 **Resolutions in writing:** A Written Resolution shall take effect as if it were an Extraordinary Resolution.

#### 15. **Modification and Waiver**

##### 15.1 **Modification:** The Note Trustee may at any time and from time to time, without the consent or sanction of the Noteholders or any other Secured Creditor, concur with the Issuer and any other relevant parties in making:

- (a) any modification to these Conditions, the Note Trust Deed (other than in respect of a Reserved Matter or any provisions of the Note Trust Deed referred to in the definition of a Reserved Matter), the Notes or the other Transaction Documents in relation to which its consent is required which, in the opinion of the Note Trustee, it may be proper to make and will not be materially prejudicial to the holders of the Most Senior Class of Notes and subject to Rating Agency Confirmation;
- (b) any modification to these Conditions, the Note Trust Deed or the other Transaction Documents in relation to which its consent is required, if, in the opinion of the Note Trustee, such modification is of a formal, minor or technical nature, or is made to correct a manifest error; or
- (c) any modification to a Swap Agreement as a result of any downgrade in a Swap Provider **provided that** Rating Agency Confirmation has been received in respect of such modification.



- 15.2 **Waiver:** In addition, the Note 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 Note Trust Deed, 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 Note Trustee, the holders of the Most Senior Class will not be materially prejudiced by such waiver and subject to Rating Agency Confirmation.
- 15.3 **Restriction on power to waive:** The Note Trustee shall not exercise any powers conferred upon it by Condition 15.2 (*Waiver*) in contravention of any express direction by an Extraordinary Resolution of the holders of the Most Senior Class 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, but so that no such direction or request shall affect (a) 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 Notes then Outstanding has, by Extraordinary Resolution, so authorised its exercise.
- 15.4 **Notification:** Unless the Note 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 Condition 21 (*Notices*) and the other Transaction Documents, as soon as practicable after it has been made.
- 15.5 **Binding Nature:** Any authorisation, waiver, determination or modification referred to in Condition 15.1 (*Modification*) or Condition 15.2 (*Waiver*) shall be binding on the Noteholders and the other Secured Creditors.

16. **Prescription**

16.1 **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.

16.2 **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.

17. **Replacement of Note Certificates**

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

18. **Note Trustee and Agents**

18.1 **Note Trustee's right to Indemnity:** Under the Transaction Documents, the Note 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 Note Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

18.2 **Note Trustee not responsible for loss or for monitoring:** The Note Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of the Charged Assets or any documents of title thereto being uninsured or inadequately insured or being held by any person on behalf of the Note Trustee. The Note Trustee shall not be responsible for monitoring the compliance by any of the other Transaction Parties with their obligations under the Transaction Documents.

18.3 **Regard to classes of Noteholders:** In the exercise of its powers and discretions under these Conditions and the Note Trust Deed, the Note 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) have regard only to the holders of the Most Senior Class and will not have regard to any lower ranking class of Notes nor to the interests of the other Secured Creditors except to ensure the application of the Issuer's funds after the delivery of an Acceleration Notice in accordance with the Post-Acceleration Priority of Payments.

18.4 **Regard to sub-classes of Noteholders:** The Note Trust Deed provides that:

- (a) an Extraordinary Resolution which, in the opinion of the Note Trustee affects the interests of the holders of one sub class only of the Notes shall be deemed to have been duly passed if passed at a separate meeting of the holders of the Notes of that sub class so affected;
- (b) an Extraordinary Resolution which, in the opinion of the Note Trustee affects the interests of the holders of more than one sub class of the Class A Notes but does not give rise to a conflict of interest between the holders of any sub classes of the Class A Notes so affected, shall be deemed to have been duly passed if passed at a single meeting of the holders of the Class A Notes of all sub classes so affected; and
- (c) an Extraordinary Resolution which, in the opinion of the Note Trustee affects the interests of the holders of more than one sub class of the Class A Notes, and gives or may give rise to a conflict of interest between the holders of one sub class of the Class A Notes so affected and the holders of another sub class of the Class A Notes so affected,

shall be deemed to have been duly passed if passed at separate meetings of the holders of each sub-class of the Class A Notes so affected.

The Note Trust Deed contains similar provisions in relation to directions by way of Extraordinary Resolution from the Class S Noteholders upon which the Trustee is bound to act.

18.5 **Principal Paying Agent solely agent of Issuer:** In acting under the Agency Agreement and in connection with the Notes, the Principal Paying Agent acts solely as agent of the Issuer and (to the extent provided therein) the Note Trustee and does not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

18.6 **Maintenance of Agents:** The Issuer shall at all times maintain a principal paying agent and an agent bank. Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 21 (*Notices*).

19. **Substitution of Issuer**

19.1 **Substitution of Issuer:** The Note Trustee shall, subject to such amendment of the Note Trust Deed and such other conditions as the Note Trustee may require (at the direction of both classes of Noteholders (each such direction to be given by Extraordinary Resolution) but without the consent of any other Secured Creditor, subject to such further conditions as are specified in the Note Trust Deed (including the Rating Agency Confirmation)), in certain situations including without limitation in the event that the Issuer has or will on the occasion of the next payment due in respect of the Notes of any Class become obliged by law to withhold or account for tax so that it would be unable to make payment of the full amount then due, agree with the Issuer to the substitution of a substitute special purpose entity in a jurisdiction acceptable to the Rating Agency in place of the Issuer (or of any previous substituted company under the Note Trust Deed) as the principal debtor in respect of the Note Trust Deed, the Notes, the Transaction Documents and the Secured Amounts and of any other company.

19.2 **Notice of Substitution of Issuer:** Not later than fourteen days after any substitution of the Issuer in accordance with this Condition 19, the substitute entity shall cause notice of such substitution to be given to the Noteholders in accordance with Condition 21 (*Notices*) and the other Secured Creditors under the other Transaction Documents.

19.3 **Change of Law:** In the case of a substitution pursuant to this Condition 19, the Note Trustee shall agree to a change of the law governing the Notes and/or any of the Transaction Documents **provided that** such change and the proposed law is at the direction of both classes of Noteholders (each class acting by Extraordinary Resolution) but without the consent of any other Secured Creditor.

19.4 **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.

20. **Further Notes**

The Issuer may on each Payment Date up to and including the Payment Date falling in August 2010, by written notice to the Note Trustee at least 30 calendar days prior to such proposed Payment Date, create and issue Further Notes having the same terms and conditions as existing Class A2 Notes (subject as provided below) and which shall be consolidated and form a single series with the Outstanding Notes of such Class A2 Notes (unless otherwise provided), and will use the proceeds of sale thereof to acquire an Investor Interest in the Loans Trust Property, provided that two Authorised Officers of the Issuer confirm in writing to the Note Trustee that the following conditions are met:

- (i) the terms (other than the date of issuance, the issue price and the date from which interest will accrue) of such Further Notes must be identical to the terms of the previously issued Class A2 Notes;

- (ii) (so long as the existing Class A Notes are listed on Euronext Amsterdam) the Further Notes to be issued are in accordance with the requirements of Euronext Amsterdam and are listed on Euronext Amsterdam (for so long as the guidelines of Euronext Amsterdam so requires);
- (iii) such additional issuances are in accordance with all applicable laws including, without limitation, the securities and banking laws and regulations of England and Wales;
- (iv) the Issuer shall use the proceeds of the Further Notes to acquire the beneficial interest in Further Advances made by the Originator in respect of a Delayed Draw Obligation;
- (v) the aggregate principal amount of all Further Notes to be issued on such date is not less than £10,000,000;
- (vi) the issuance of such Further Notes would not result in the aggregate amount of Class A Notes issued by the Issuer from time to time exceeding £4.2 billion and Rating Agency Confirmation has been received in respect of the issuance of such Further Notes; and
- (vii) persons who are independent of the Issuer (within the meaning of regulation 2(1) of the Taxation of Securitisation Companies Regulations 2006) are obliged to subscribe for more than 50 per cent. (by Principal Amount Outstanding) of such Notes for their own account.

References in these Conditions to the "Notes" include (unless the context requires otherwise) any other notes issued pursuant to this Condition 20 (*Further Notes*) and forming a single series with the Notes. Any further securities forming a single series with Notes constituted by the Note Trust Deed or any deed supplemental to it shall, and any other securities shall subject to the aforementioned Conditions, be constituted by a deed supplemental to the Note Trust Deed.

## 21. Notices

### 21.1 **Valid Notices:** Any notice to Noteholders shall be validly given if such notice is:

- (a) prior to the Issue of any Individual Note Certificates and so long as the Global Notes are held on behalf of Euroclear and/or Clearstream, upon delivery of the relevant notice to Euroclear and/or Clearstream for communication by them to Noteholders; or
- (b) following the issue of Individual Note Certificates in such English language newspaper or newspapers as may be previously approved in writing by the Note Trustee and as has been notified to the Noteholders in such manner as the Note Trustee shall require,

and, for so long as the Class A Notes are listed on Euronext Amsterdam, in respect of notice to Class A Noteholders, in accordance with the relevant requirements thereof.

### 21.2 **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 applicable date of delivery of the relevant notice to Euroclear and Clearstream (as applicable).

### 21.3 **Other Methods:** The Note 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 Euronext Amsterdam on which the Class A Notes are then listed and **provided that** notice of such other method is given to the Noteholders in such manner as the Note Trustee shall require.

22. **Governing Law and Jurisdiction**

22.1 **Governing law:** The Note Trust Deed and the Notes and all matters arising from or connected with the Notes are governed by, and shall be construed in accordance with, English law.

22.2 **Jurisdiction:** The courts of England are to have exclusive jurisdiction to settle any dispute arising from or connected with the Notes and the Transaction Documents governed by English law (including a dispute relating to non-contractual obligations or disputes 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 governed by English law may be brought in such courts. The Issuer has in each of the Transaction Documents governed by English law irrevocably submitted to the jurisdiction of such courts.

## SUMMARY OF PROVISIONS RELATING TO NOTES IN GLOBAL FORM

The Class A Notes will be represented on issue by beneficial interests in one or more permanent global certificates of such Class (each, a "**Global Note**") in fully registered form, without interest coupons or principal receipts, which will be deposited on or about the Issue Date with, and registered in the name of a Common Depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Beneficial interests in a Global Certificate may only be held through, and transfers thereof will only be effected through, records maintained by Euroclear or Clearstream, Luxembourg at any time. See "*Book-Entry Clearance Procedures*".

The nominal amount of Class A Notes represented by the Global Notes shall be the aggregate amount from time to time entered in the records of Clearstream, Luxembourg and/or Euroclear. The records of Clearstream, Luxembourg and/or Euroclear (the records that each of Clearstream, Luxembourg and/or Euroclear holds for its customers which reflect the amount of such customer's interest in the Class A Notes) shall be conclusive evidence of the nominal amount of Class A Notes represented by the Global Notes and, for these purposes, a statement issued by Clearstream, Luxembourg and/or Euroclear (which statement shall be made available to the bearer upon request) stating the nominal amount of Class A Notes represented by the Global Notes at any time shall be conclusive evidence of the records of Clearstream, Luxembourg and/or Euroclear at that time.

### Issuance of Individual Note Certificates

The Global Note will become exchangeable in whole, but not in part, for individual note certificates ("**Individual Note Certificates**") if (a) both Euroclear and Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business and do so cease business and no alternative clearing system satisfactory to the Note Trustee is available; (b) any of the circumstances described in Condition 11 (*Events of Default*) occurs or; (c) 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 or administration by a revenue authority or a court or in the application of such laws or regulations, which becomes effective on or after the Issuer Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding for or on account of tax from any payment in respect of the Notes which would not be required were the Notes in definitive registered form.

Whenever the Global Note is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Note will contain provisions which modify the Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of certain of those provisions:

- (i) *Notices*: Notwithstanding Condition 21 (*Notices*), while any of the Notes are represented by a Global Note and the Global Notes are deposited with the Common Depositary, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with the Condition 21 (*Notices*) on the date of delivery to Euroclear and Clearstream.
- (ii) *Note Trustee's Powers*: In considering the interests of Noteholders while any of the Notes are represented by a Global Note and the Global Note is deposited with the Common Depositary, the Note Trustee may have regard to any information provided to it by Euroclear or Clearstream.

- (iii) *Meetings:* The holder of each Global Note will be treated as being one person for the purposes of any quorum requirement of, or the right to demand a poll at, a meeting of holders of each class of the Notes, as the case may be, and, at any such meeting, as having one vote in respect of each £1,000 principal amount of Notes for which the Global Note may be exchanged.
- (iv) *Prescription:* Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by a Global Note will become void unless application for payment is made within a period of ten years (in the case of principal) and five years (in the case of interest) from the date on which any payment first becomes due.

## BOOK-ENTRY CLEARANCE PROCEDURES

The information set out below has been obtained from sources that the Issuer believes to be reliable, but prospective investors are advised to make their own enquiries as to such procedures. In particular, such information is subject to any change in or interpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect and investors wishing to use the facilities of any of the Clearing Systems are therefore advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Note Trustee, the initial purchaser of the Class A Notes or any Agent party to the Agency Agreement (or any Affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act), will have any responsibility for the performance by the Clearing Systems or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described below.

### **Euroclear and Clearstream, Luxembourg**

Custodial and depositary links have been established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Class A Notes and cross-market transfers of the Class A Notes associated with secondary market trading. (See "*Settlement and Transfer of Notes*" below).

### ***Euroclear and Clearstream, Luxembourg***

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Certificates directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**") and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

### ***Book-Entry Ownership***

Each Global Certificate will have an ISIN and a Common Code and will be registered in the name of, and deposited with, a Common Depositary on behalf of, Euroclear and Clearstream, Luxembourg.

### ***Relationship of Participants with Clearing Systems***

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg, as the holder of a Note represented by a Global Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes represented by a Global Certificate, the Common Depositary by whom such Class A Note is held, will immediately credit the relevant participants' or accountholders' accounts in the relevant Clearing System with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note Certificate as shown on the records of the relevant Clearing System or its nominee. The Issuer also expects that payments by Direct Participants in any Clearing System to owners of beneficial interests in any Global Note Certificate held through such Direct Participants in any Clearing System will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Class A Notes for so long as the Class A Notes are represented by such Global Note Certificate and the obligations of the Issuer will be



discharged by payment to the registered holder, as the case may be, of such Global Note Certificate in respect of each amount so paid. None of the Issuer, the Note Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

#### *Settlement and Transfer of Notes*

Subject to the rules and procedures of each applicable Clearing System, purchases of Notes held within a Clearing System must be made by or through Direct Participants, which will receive a credit for such Notes on the Clearing System's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from any Clearing System of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction. Transfers of ownership interests in Notes held within the Clearing System will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes unless and until interests in any Global Note Certificate held within a Clearing System is exchanged for Individual Note Certificates.

No Clearing System has knowledge of the actual Beneficial Owners of the Notes held within such Clearing System and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the Clearing Systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

#### *Trading between Euroclear and/or Clearstream, Luxembourg Participants:*

Secondary market sales of book-entry interests in the Class A Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Class A 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.

#### *Pre-issue Trades Settlement:*

It is expected that delivery of Class A Notes will be made against payment therefor on the Issue Date thereof, which could be more than three Business Days following the date of pricing. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and purchasers of Class A Notes who wish to trade Notes between the date of pricing and the relevant Issue Date should consult their own adviser.

## THE ISSUER

### *Introduction*

Chepstow Blue plc, being the Issuer was incorporated in England and Wales on 23 April 2009 (registered number 6885556) as a public limited company under the Companies Acts 1985 and 2006 (as amended). The registered office of the Issuer is c/o Structured Finance Management Limited, 35 Great St Helen's, London EC3A 6AP. The telephone number of the Issuer's registered office is + 44 (0)207 398 6300. The authorised share capital of the Issuer comprises 50,000 ordinary shares of £1 each. The issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, 49,998 shares of £1 each, partly-paid up in cash of 25p each and 2 fully paid shares of £1 each, all of which are beneficially owned by Holdings (see "*Holdings*" below).

The rights of Holdings as shareholder of the Issuer are contained in the articles of association of the Issuer. Holdings will comply with the articles of association of the Issuer and English law in exercising its rights as shareholder.

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

The principal objects of the Issuer are set out in clause 4 of its Memorandum of Association. The Issuer was established solely for the purpose of issuing the Notes. The activities of the Issuer will be restricted by its Memorandum and Articles of Association and the Transaction Documents and will be limited to the issues of the Notes, the exercise of related rights and powers and other activities referred to herein or reasonably incidental thereto.

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

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

The Issuer has not engaged, since its incorporation, in any material activities other than those incidental to its registration as a public company under the Companies Act 1985 and to the proposed issues of the Notes and the authorisation and implementation 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. As at the date of this Prospectus, no statutory accounts have been prepared or delivered to the Registrar of Companies on behalf of the Issuer. The accounting reference date of the Issuer is 31 December and the first statutory accounts of the Issuer will be drawn up to 31 December 2009.

### *Directors*

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

<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
Claudia Wallace	35 Great St Helen's, London EC3A 6AP	Director

The directors 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>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
Claudia Wallace	35 Great St Helen's, London EC3A 6AP	Director
John Paul Nowacki	35 Great St Helen's, London EC3A 6AP	Director
Paivi Helena Whitaker	35 Great St Helen's, London EC3A 6AP	Director
Cane Valentine Pickersgill (Alternate Director)	35 Great St Helen's, London EC3A 6AP	Transaction Manager
Debra Parsall (Alternate Director)	35 Great St Helen's, London EC3A 6AP	Transaction Manager

The business addresses for each of the directors of Structured Finance Management Limited is 35 Great St Helen's, London EC3A 6AP.

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

There are no conflicts of interest between any duties to the Issuer of its directors and their private interests or duties.

The Issuer has no loan capital, borrowings or material contingent liabilities (including guarantees) as at the date of this Prospectus. There has been no material change in the capitalisation, indebtedness or contingent liabilities or guarantees since the date of incorporation of the Issuer.

As at the date of this Prospectus, the Issuer has not commenced operations and no financial statements have been produced by the Issuer.

## HOLDINGS

### Introduction

Holdings was incorporated in England and Wales on 16 March 2009 (registered number 6847424) as a private limited company under the Companies Acts 1985 and 2006 (as amended). The registered office of Holdings is c/o Structured Finance Management Limited 35 Great St Helen's, London EC3A 6AP. The authorised share capital of Holdings comprises 100 ordinary shares of £1 each. The issued share capital of Holdings comprises one ordinary share of £1. SFM Corporate Services Limited (the "**Share Trustee**") holds the issued share on trust under a discretionary trust for one or more discretionary purposes. Neither the Originator nor any company connected with the Originator can direct the Share Trustee and no such company has any control, direct or indirect, over Holdings or the Issuer. Holdings holds the entire beneficial interest in the issued share capital of the Issuer.

The principal objects of Holdings are set out in clause 3 of its Memorandum of Association.

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

### Directors

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

<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
Claudia Wallace	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:

<b>Name</b>	<b>Business Address</b>	<b>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
Claudia Wallace	35 Great St Helen's, London EC3A 6AP	Director
John Paul Nowacki	35 Great St Helen's, London EC3A 6AP	Director
Paivi Helena Whitaker	35 Great St Helen's, London EC3A 6AP	Director
Cane Valentine Pickersgill	35 Great St Helen's, London EC3A 6AP	Transaction Manager
Debra Parsall	35 Great St Helen's, London EC3A 6AP	Transaction Manager

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.

Holdings has no employees.

**THE ORIGINATOR, THE ORIGINATOR BENEFICIARY, THE LOANS TRUSTEE, THE  
COLLATERAL ADMINISTRATOR, THE ISSUER ACCOUNT BANK AND THE SWAP  
PROVIDER**

**LTSB as the Originator, the Originator Beneficiary, the Loans Trustee, the Collateral Administrator, the Issuer Account Bank and the Swap Provider**

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

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

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

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

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

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

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

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

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

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

## THE CASH ADMINISTRATOR

Bank of Scotland plc ("**BOS**") (incorporated in Scotland with limited liability, registration number SC327000) is a leading UK based financial services group providing a wide range of banking and financial services, primarily in the UK, to personal and corporate customers. The registered office of Bank of Scotland is located at The Mound, Edinburgh EH1 1YZ, Scotland.

Its main business activities are retail, commercial and corporate banking. The main businesses of BOS are split into three divisions, UK Retail Banking, Wholesale and Wealth and International. Services provided by Retail include the provision of banking and other financial services to personal customers and mortgages. Wholesale provides banking and related services for major UK and multinational corporates and financial institutions, and small and medium-sized UK businesses. It also provides asset finance to personal and corporate customers, manages BOS's activities in financial markets through its treasury function and provides banking and financial services overseas. Services provided by Wealth and International include the provision of private banking, fund management services and International Banking.

BOS was originally established in 1695 as The Governor and Company of the Bank of Scotland by an Act of the Parliament of Scotland. On 17 September 2007, in accordance with the provisions of the HBOS Group Reorganisation Act 2006 (the "**Act**"), The Governor and Company of the Bank of Scotland registered as a public limited company under the Companies Act 1985 under the name of Bank of Scotland plc. On the same day, under the Act, the business activities, assets (including investments in subsidiaries) and liabilities of The Governor and Company of the Bank of Scotland, Capital Bank plc, Halifax plc and HBOS Treasury Services plc transferred to BOS.

Following the acquisition of HBOS plc by Lloyds Banking Group plc (formerly Lloyds TSB Group plc) on 16 January 2009, BOS is now a directly owned and controlled subsidiary of HBOS plc who in turn is directly owned and controlled by Lloyds Banking Group plc.

#### **THE NOTE TRUSTEE, THE PRINCIPAL PAYING AGENT AND THE UK PAYING AGENT**

BNP Paribas Trust Corporation UK Limited, a company registered in England and Wales (registered number 04042668) having its registered office at 55 Moorgate, London, EC2R 6PA, will be appointed as note trustee (in such capacity, the "**Note Trustee**") under the Note Trust Deed at the Issue Date.

BNP Paribas Securities Services, Luxembourg Branch, a bank incorporated and organised under the laws of France as a *société anonyme* having its registered office at 3, Rue d'Antin 75002, Paris, France, acting through its Luxembourg Branch at 33, rue de Gasperich, Howald-Hesperange L-2085 Luxembourg, will be appointed as principal paying agent (in such capacity, the "**Principal Paying Agent**") under the Agency Agreement at the Issue Date.

BNP Paribas Securities Services, London Branch, a bank incorporated and organised under the laws of France as a *société anonyme* having its registered office at 3, Rue d'Antin 75002, Paris, France, acting through its, London Branch at 55 Moorgate, London EC2R 6PA will be appointed as UK paying agent (in such capacity, the "**UK Paying Agent**") under the Agency Agreement at the Issue Date.



## UNITED KINGDOM TAXATION

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Class A Notes. It is based on current law and the practice of Her Majesty's Revenue and Customs ("**HMRC**"), which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of the Class A Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Class A Notes. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Class A Noteholders who are in any doubt as to their tax position should consult their professional advisers. Class A Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Class A Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Class A Notes. In particular, Class A Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Class A Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

### **Interest on the Notes**

#### *Payment of Interest on the Notes*

Payments of interest on the Class A Notes may be made without deduction or withholding for or on account of United Kingdom income tax **provided that** the Class A Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the "**Act**"). Securities will be regarded as "listed on a recognised stock exchange" for this purpose if they are admitted to trading on an exchange designated as a recognised stock exchange by an order made by the Commissioners for HMRC and they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange.

Euronext Amsterdam is a recognised stock exchange. The Issuer's understanding of current HMRC practice is that securities which are officially listed and admitted to trading on the main market of that stock exchange may be regarded as "listed on a recognised stock exchange" for these purposes.

In all cases falling outside the exemption described above, interest on the Class A Notes may be paid without withholding or deduction for or on account of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply.

### **Provision of Information**

Class A Noteholders should note that where any interest on Class A Notes is paid to them (or to any person acting on their behalf) by the Issuer or any person in the United Kingdom acting on behalf of the Issuer (a "**paying agent**"), or is received by any person in the United Kingdom acting on behalf of the relevant Class A Noteholder (other than solely by clearing or arranging the clearing of a cheque) (a "**collecting agent**"), then the Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HMRC details of the payment and certain details relating to the Class A Noteholder (including the Class A Noteholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Class A Noteholder is resident in the United Kingdom for United Kingdom taxation purposes. In certain circumstances, the details provided to HMRC may be passed by HMRC to the tax authorities of certain other jurisdictions.

The provisions referred to above may also apply, in certain circumstances, to payments made on redemption of any Class A Notes which constitute "deeply discounted securities" for the purposes of section 18 of the Taxes Management Act 1970 (although in this regard HMRC published guidance for the year 2009/2010 indicates that HMRC will not exercise its power to obtain information in relation to such payments in that year).

Information may also be required to be reported in accordance with regulations made pursuant to the EU Savings Directive (see below).

### **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, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

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

On 13 November 2008 the European Commission published a proposal for amendments to the Directive, which included a number of suggested changes which, if implemented, would broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

### **Other Rules relating to United Kingdom Withholding Tax**

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer pursuant to Condition 19 of the Notes and does not consider the tax consequences of any such substitution.

## **USE OF PROCEEDS**

The proceeds of the Notes issued on the Closing Date will be £4,050,000,000. All of the Notes will be transferred on the Issue Date to the Originator and part of the subscription proceeds received by the Issuer will be paid by the Issuer to the Originator as part of consideration for the declaration of trust by the Originator over the Loans Trust Property and the remainder of the subscription proceeds will be used as a cash payment from the Originator which will be deposited in the Deposit Account.

The expected expenses of approximately euro 35,000 in connection with the admission of the Class A Notes to listing and trading on Euronext Amsterdam will be paid by the Originator on the Issuer's behalf.

The proceeds of any Further Notes issued by the Issuer will be used to pay the Additional Trust Consideration (or, as the case may be, the Deferred Consideration) due to the Originator in consideration for the Originator declaring a trust over its interest in Further Advances.

## SUBSCRIPTION AND SALE

### General

The Issuer has undertaken to indemnify and hold harmless the Arranger in respect of any liability incurred in the context of the arranging of the Notes.

In accordance with the terms of the Note Purchase Agreement, the Issuer has agreed to issue the Notes and the Originator has agreed (subject to certain conditions) to subscribe and pay for the Notes on the Issue Date and part of the proceeds of subscription paid by the Originator to the Issuer will be paid by the Issuer to the Originator as part of the consideration for vesting in the Issuer the Investor Interest.

### *Public Offer Selling Restrictions Under the Prospectus Directive*

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), the Originator has represented to and agreed with the Issuer that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer to the public in that Relevant Member State at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities, **provided that** no such offer of Notes shall require the Issuer or any Arranger to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes" to the public in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### *Selling Restrictions Addressing Additional United Kingdom Securities Laws*

The Originator has represented to and agreed with the Issuer, amongst other things, that:

- (a) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (as amended) (the "**FSMA**") with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer.

### *The United States of America*

The Originator has represented to and agreed with, *inter alios*, the Issuer that:

- (a) the Notes, have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States or to or for the account or benefit of U.S. persons (as defined in the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and the Investment Company Act. The Originator has represented and agreed that it has offered or sold, and will offer or sell, any Notes constituting part of its allotment (i) as part of its distribution at any time and (ii) other until 40 days after the later of the commencement of the

offering and the Issue Date, only in accordance with Rule 903 of Regulation S under the Securities Act ("**Regulation S**"). Accordingly, the Originator has represented and agreed that neither it, its affiliates nor any persons acting on its behalf have engaged or will engage in any directed selling efforts with respect to the Notes and it has compiled and will comply with the offering restrictions requirement of Regulation S. The Originator has agreed, that, at or prior to confirmation of sales of any Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the 40-day distribution compliance period a confirmation or notice to substantially the following effect:

"The Notes covered hereby have not been registered under the Securities Act and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, except in either case in accordance with Regulation S. Terms used above have the meaning given to them by Regulation S.

Terms used in this paragraph (a) have the meanings given to them by Regulation S;

- (b) except to the extent permitted under United States Treasury Regulation Section 1.163-5(c)(2)(i)(D) (the "**D Rules**"), (i) it has not offered or sold, and during the restricted period that it will not offer or sell, any Notes to a person who is within the United States or its possessions or to a U.S. Person, and (ii) it has not delivered and will not deliver in definitive form within the United States or its possessions any Notes that are sold during the restricted period;
- (c) it has, and throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes are aware that the Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a U.S. Person, except as permitted by the D Rules;
- (d) if the Originator is a U.S. Person, it has represented that it is acquiring the Notes for the purposes of resale in connection with their original issuance and if it retains Notes for its own account it will only do so in accordance with the requirements of United States Treasury Regulation Section 1.163-5(c)(2)(i)(D)(6);
- (e) with respect to each affiliate of the Originator that acquires from it Notes for the purpose of offering or selling such Notes during the restricted period, the Originator has either (i) repeated and confirmed the representations and agreements contained in paragraphs (b), (c), (d) and (e) on its behalf or (ii) agreed that it will obtain from such affiliate for the benefit of the Issuer the representations and agreements contained in paragraphs (b), (c), (d) and (e); and
- (f) the Originator has represented and agreed that it will obtain from any distributor (within the meaning of United States Treasury Regulation Section 1.163-5(c)(2)(i)(D)(4)(ii)) that purchases any of the Notes from the Originator (except a distributor who is an affiliate of the Originator), for the benefit of the Issuer and the Originator, an agreement to comply with the provisions, representations and agreements contained in paragraphs (b) through (f), as if such distributor were an Originator hereunder.

Terms used in paragraphs (b) through (f) have the meanings given to them by the United States Internal Revenue Code 1986, as amended, and regulations thereunder, including the D Rules. As used in paragraphs (b) through (f) "United States person" means any person who is, for United States federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States of any political subdivision thereof or therein or (iii) an estate the income of which is subject to United States taxation regardless of its source; or a trust (z) that is subject to the supervision of a court within the United States and the control of a United States Person as described in Section 7701(a)(30) of the Code or (y) that has a valid election in effect under applicable United States Treasury regulations to be treated as a United States Person.

### ***The Netherlands***

The Originator represents and agrees that any Notes with a maturity of less than 12 months and a denomination of less than €50,000.00 will only be offered in The Netherlands to professional market parties as defined in the Financial Supervision Act and the decrees issued pursuant thereto.

### **Investor Compliance**

Persons into whose hands this Prospectus comes are required by the Issuer and the Arranger to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

### **Additional representations and restrictions applicable to the Class S Note**

Any holder of the Class S Note may make a transfer of the whole of its Class S Note or create or grant any Encumbrance in respect of such Class S Note if all of the following conditions are satisfied:

- (a) the Class S Noteholder making such transfer or subjecting the Class S Note to such Encumbrance shall be solely responsible for any costs, expenses or taxes which are incurred by the Issuer, the Class S Noteholder or any other person in relation to such transfer or Encumbrance; and
- (b) the transferee is a Qualifying Noteholder.

No Paying Agent shall pay any Class S Interest Payment to the holder of a Class S Note and such holder, shall not be entitled to receive such relevant interest amount on any Payment Date free of any relevant withholding or deduction for or on account of United Kingdom income tax, unless and until it has provided to the Issuer a tax certificate substantially in the form set out in Schedule 3 (*Form of Tax Certificate*) of the Agency Agreement (the "**Tax Certificate**") and the Issuer (or the Cash Administrator on behalf of the Issuer in accordance with the terms of the Administration Agreement) has confirmed in writing to the Principal Paying Agent and the Registrar that such interest amount in respect of the Class S Note can be paid free of any relevant withholding or deduction for or on account of United Kingdom income tax. The Registrar shall upon receipt of such confirmation make a note of such confirmation in the Register.

*Because of the foregoing restrictions, purchasers of the Class S Note are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such securities offered and sold.*

## **IMPORTANT INFORMATION**

### **PRIORITIES OF NOTES**

The Class A Notes will rank *pari passu* and rateably without any preference among themselves for all purposes and in priority to the Class S Notes. The Class S Notes will rank *pari passu* and rateably without any preference among themselves for all purposes but subordinate to the Class A Notes. See Condition 3 (*Status, Ranking, Security and Issuer Covenants*).

### **LIMITED RECOURSE AND NON-PETITION**

The Notes are limited recourse obligations of the Issuer (see Condition 6 (*Limited Recourse and Non-petition*)).

### **RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in this document (save for the information contained in the sections of this document headed "*The Originator, the Originator Beneficiary, the Loans Trustee, the Collateral Administrator, the Cash Administrator, the Issuer Account Bank and the Swap Provider*" and "*The Note Trustee and the Principal Paying Agent*"). To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information. The Arranger does not accept responsibility for the accuracy, adequacy, reasonableness or completeness of the information contained therein. The delivery of this Prospectus at any time does not imply that the information herein is correct at any time subsequent to the date of this Prospectus.

Each of the Originator, the Originator Beneficiary, the Loans Trustee, the Note Trustee, each Agent, the Collateral Administrator, the Cash Administrator, the Issuer Account Bank and the Swap Provider, accepts responsibility for the information contained in this document relating to itself in the sections headed "*The Originator, the Originator Beneficiary, the Loans Trustee, the Collateral Administrator, the Cash Administrator, the Issuer Account Bank and the Swap Provider*" and "*The Note Trustee and the Principal Paying Agent*", as applicable. To the best of the knowledge of each such party, which has taken all reasonable care to ensure such is the case, the relevant information 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 the Originator, the Loans Trustee, the Note Trustee, each Agent, the Collateral Administrator, the Cash Administrator, the Issuer Account Bank or the Swap Provider as to the accuracy or completeness of any information contained in this Prospectus (other than the information relating to each such party) or any other information supplied in connection with the Notes or their sale. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger as to the accuracy or completeness of any information contained in this Prospectus or any other information supplied in connection with the Notes or their sale. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Arranger, the Originator, the Loans Trustee, the Note Trustee, each Agent, the Collateral Administrator, the Cash Administrator, the Swap Provider or the Issuer Account Bank since the date of this Prospectus or that the information contained in this Prospectus is correct as of any time subsequent to its date.

### **DISCLAIMER**

None of the Arranger, the Originator, the Originator Beneficiary, the Loans Trustee, the Collateral Administrator, the Cash Administrator, the Swap Provider (save in respect of the section headed "*The Originator, the Originator Beneficiary, the Loans Trustee, the Collateral Administrator, the Cash Administrator, the Issuer Account Bank and the Swap Provider*"), the Note Trustee and any Agent (save in respect of the section headed "*The Note Trustee and the Principal Paying Agent*") or any other party has separately verified the information contained in this Prospectus and, accordingly, none of the Arranger, the Originator, the Originator Beneficiary, the Loans Trustee, the Collateral Administrator, the Cash Administrator, the Swap Provider (save as described above), the Note Trustee and any Agent (save as described above) or any other party (save for the Issuer as specified above in relation to the acceptance of responsibility) makes any representation, recommendation or warranty, express or implied, regarding

the accuracy, adequacy, reasonableness or completeness of the information contained in this Prospectus or in any further notice or other document which may at any time be supplied in connection with the Notes or their distribution or accepts any responsibility or liability therefor. None of the Arranger, the Originator, the Loans Trustee, the Collateral Administrator, the Cash Administrator, the Swap Provider, the Issuer Account Bank, the Note Trustee and any Agent or any other party undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the aforementioned parties which is not included in this Prospectus.

#### **OFFER/INVITATION/DISTRIBUTION RESTRICTIONS**

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF, OR AN INVITATION BY OR ON BEHALF OF THE ISSUER, THE ORIGINATOR, THE ORIGINATOR BENEFICIARY, THE LOANS TRUSTEE, THE ARRANGER OR ANY OF ITS AFFILIATES, THE COLLATERAL ADMINISTRATOR, THE CASH ADMINISTRATOR, OR ANY OTHER PERSON TO SUBSCRIBE FOR OR PURCHASE ANY OF THE NOTES. THE DISTRIBUTION OF THIS PROSPECTUS AND THE OFFERING OF THE NOTES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. PERSONS INTO WHOSE POSSESSION THIS PROSPECTUS COMES ARE REQUIRED BY THE ISSUER AND THE ARRANGER TO INFORM THEMSELVES ABOUT AND TO OBSERVE ANY SUCH RESTRICTIONS. IN PARTICULAR, THE COMMUNICATION CONSTITUTED BY THIS PROSPECTUS IS DIRECTED ONLY AT PERSONS WHO (I) ARE OUTSIDE THE UNITED KINGDOM AND ARE OFFERED AND ACCEPT THIS PROSPECTUS IN COMPLIANCE WITH SUCH RESTRICTIONS OR (II) ARE PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) (*HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS ETC.*) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2001 OR WHO OTHERWISE FALL WITHIN AN EXEMPTION SET FORTH IN SUCH ORDER SO THAT SECTION 21(1) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 DOES NOT APPLY TO THE ISSUER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS "**RELEVANT PERSONS**"). THIS COMMUNICATION MUST NOT BE DISTRIBUTED TO, ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS COMMUNICATION RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. FOR A DESCRIPTION OF CERTAIN FURTHER RESTRICTIONS ON OFFERS AND SALES OF NOTES AND DISTRIBUTION OF THIS PROSPECTUS, SEE "*PLAN OF DISTRIBUTION*" BELOW.

#### **UNAUTHORISED INFORMATION**

IN CONNECTION WITH THE ISSUE AND SALE OF THE NOTES, NO PERSON IS AUTHORISED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY OR ON BEHALF OF THE ISSUER, THE ORIGINATOR, THE LOANS TRUSTEE, THE ARRANGER, THE NOTE TRUSTEE, THE COLLATERAL ADMINISTRATOR, THE CASH ADMINISTRATOR. THE DELIVERY OF THIS PROSPECTUS AT ANY TIME DOES NOT IMPLY THAT THE INFORMATION CONTAINED IN IT IS CORRECT AS AT ANY TIME SUBSEQUENT TO ITS DATE.

#### **GENERAL NOTICE**

EACH PURCHASER OF THE NOTES MUST COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN EACH JURISDICTION AT ANY TIME IN WHICH IT PURCHASES, OFFERS OR SELLS SUCH NOTES OR POSSESSES OR DISTRIBUTES THIS PROSPECTUS AND MUST OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED FOR THE PURCHASE, OFFER OR SALE BY IT OF SUCH NOTES UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTIONS TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH PURCHASES, OFFERS OR SALES, AND NONE OF THE ISSUER, THE ORIGINATOR, THE LOANS TRUSTEE, THE ARRANGER (OR ANY OF THEIR AFFILIATES), THE NOTE TRUSTEE, THE COLLATERAL ADMINISTRATOR, THE CASH ADMINISTRATOR OR ANY AGENT SPECIFIED HEREIN SHALL HAVE ANY RESPONSIBILITY THEREFOR.



THE NOTES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER APPLICABLE UNITED STATES FEDERAL AND STATE SECURITIES LAWS. INITIAL INVESTORS AND SUBSEQUENT TRANSFEREES OF INTERESTS IN A GLOBAL NOTE WILL BE DEEMED TO HAVE MADE CERTAIN REPRESENTATIONS AND AGREEMENTS AS DESCRIBED HEREIN. ANY RESALE OR OTHER TRANSFER, OR ATTEMPTED RESALE OR OTHER TRANSFER, OF ANY OF THE NOTES THAT IS NOT MADE IN COMPLIANCE WITH THE APPLICABLE TRANSFER RESTRICTIONS WILL BE VOID.

## **GENERAL**

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Note Trustee, the Arranger or any Affiliate of the Arranger to subscribe for, or purchase, any of the Notes in any jurisdiction to any Person to whom it is unlawful to make such an offer or invitation in such jurisdiction. In particular, the Notes are not being offered or sold to any Person in the United Kingdom except in circumstances which will not result in an offer to the public in the United Kingdom within the meaning of the Financial Services and Markets Act 2000 (the "**FSMA**") (as amended) or otherwise than in accordance with such regulations and all other applicable laws.

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

Any individual intending to invest in any investment described in this document should consult his or her professional adviser and ensure that he or she fully understands all the risks associated with making such an investment and has sufficient financial resources to sustain any loss that may arise from it.

In connection with the issue and sale of the Notes, no Person is authorised to give any information or to make any representation not contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date.

## **CURRENCY**

In this Prospectus, unless otherwise specified, references to "**euro**" or "**EUR**" and "**€**" are to the lawful currency of member states of the European Union that adopt the single currency in accordance with the EC Treaty, as amended, references to "**Sterling**", "**pound**" and "**£**" are to the lawful currency of the United Kingdom.

## GENERAL INFORMATION

- (1) Application has been made for the Notes to be admitted to trading on Euronext Amsterdam in accordance with the Prospectus Directive.
- (2) The creation and issue of the Notes has been authorised by a resolution of the board of directors of the Issuer dated 3 August 2009.
- (3) The Notes have been accepted for clearance and settlement through Euroclear and Clearstream under the following Common Codes and have been assigned the following ISINs and Ratings by the Rates Agencies:

	<b>Common Code</b>	<b>ISIN</b>	<b>Rating</b>		<b>Credit Enhancement</b>
			<b>S&amp;P</b>	<b>Fitch</b>	
Class A1 Notes.....	044508770	XS0445087702	AAA	AAA	Class S Notes
Class A2 Notes.....	044508788	XS0445087884	AAA	AAA	Class S Notes
Class S Notes .....	N/A	N/A	Unrated	Unrated	N/A

- (4) There are no governmental, legal or arbitration proceedings, including any which are pending or threatened, of which the Issuer is aware, which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position of the Issuer.
- (5) Since the date of incorporation of the Issuer there has been (i) no significant change in the financial or trading position of the Issuer and (ii) no material adverse change in the financial position or prospects of the Issuer.
- (6) The Issuer has no outstanding loan capital, borrowings, indebtedness or contingent liabilities, nor has the Issuer created any mortgages, charges or given any guarantees.
- (7) Copies of the latest audited annual financial statement of the Issuer will be available free of charge at the Issuer's registered office and the Specified Office of the Principal Paying Agent during normal business hours for as long as any of the Notes are Outstanding. The Issuer will not publish interim financial statements. Copies of the Prospectus and the following documents will be available for inspection in electronic form at the Specified Office of the Principal Paying Agent during normal business hours for as long as any of the Notes are Outstanding: the Memorandum and Articles of Association of the Issuer, the Note Trust Deed, the Agency Agreement, the Corporate Services Agreement, the Administration Agreement, the Account Bank Agreement. Holders of the Notes will also be entitled to inspect the Cash Administrator's statement setting out the amount of Available Funds that were available to the Cash Administrator on any Payment Date and the amounts paid in accordance with the Priority of Payments.
- (8) The Issuer will provide post-issuance transaction information in the form of Investor Reports produced by the Cash Administrator on behalf of the Issuer. The Investor Report will contain information as set out in the Administration Agreement, including but not limited to information relating to the Notes and the Charged Assets.
- (9) The Prospectus has been approved by the Financial Regulator as competent authority under the Prospectus Directive. The Financial Regulator only approves this Prospectus as meeting the requirement imposed under Dutch and EU law pursuant to the Prospectus Directive. Application has been made to Euronext Amsterdam for the Class A Notes to be admitted to listing and trading on its regulated market. Fortis Bank (Nederland) N.V. is acting solely in its capacity as listing agent for the Issuer in connection with the listing of the Class A Notes and is not itself seeking admission of the Class A Notes to the official list of Euronext Amsterdam or to trading on the regulated market of Euronext Amsterdam for the purposes of the Prospectus Directive.

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