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## OFFERING CIRCULAR

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### First Flexible No.4 plc

(incorporated in England and Wales with limited liability under the Companies Act 1985  
with registered number 4176542)

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**£460,000,000 Class A Mortgage Backed Floating Rate Notes due 2036**

**Issue price: 100%**

**£35,000,000 Class M Mortgage Backed Floating Rate Notes due 2036**

**Issue Price: 100%**

**£5,000,000 Class B Mortgage Backed Floating Rate Notes due 2036**

**Issue price: 100%**

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The £460,000,000 Class A Mortgage Backed Floating Rate Notes due 2036 (the "**Class A Notes**") will be issued by First Flexible No.4 plc (the "**Issuer**") together with the £35,000,000 Class M Mortgage Backed Floating Rate Notes due 2036 (the "**Class M Notes**") and the £5,000,000 Class B Mortgage Backed Floating Rate Notes due 2036 (the "**Class B Notes**") and together with the Class A Notes and the Class M Notes, the "**Notes**").

Interest on the Notes is payable monthly in arrear on the first Business Day (as defined in Condition 4(b) of the Class A Notes, the Class M Notes and the Class B Notes) of each calendar month in each year, subject to adjustment as provided in this document (each such day an "**Interest Payment Date**"), save for the first payment of interest which will be made in respect of the period commencing on (and including) the Issue Date (as defined below) and ending on (but excluding) the Interest Payment Date falling in September 2001. Interest on the Notes is payable at an annual rate equal to the sum of the London Interbank Offered Rate ("**LIBOR**") for one month sterling deposits (or, in the case of the first Interest Period (as defined below), at an annual rate obtained by linear interpolation of LIBOR for one month sterling deposits and LIBOR for two month sterling deposits) plus a margin of 0.27% per annum in relation to the Class A Notes until the Interest Payment Date falling in July 2008 (the "**Coupon Step Up Date**") and thereafter 0.54% per annum, 0.85% per annum in relation to the Class M Notes until the Coupon Step Up Date and thereafter 1.70% per annum and 1.80% per annum in relation to the Class B Notes until the Coupon Step Up Date and thereafter 2.80% per annum.

The Notes of each class will be subject to mandatory redemption in part from time to time on each Interest Payment Date (other than any Interest Payment Date on which the Notes of such class are redeemed in full or any Interest Payment Date on which the Potential Redemption Amount (as defined in Condition 5(b) of the Class A Notes, the Class M Notes and the Class B Notes below) applicable to all or such class of Notes is zero). The mandatory redemption in part will be in an amount calculated in accordance with the provisions set out in Condition 5(b) of the Class A Notes, the Class M Notes and the Class B Notes. In certain other circumstances, and at certain times, all (but not some only) of the Class A Notes, the Class M Notes and the Class B Notes may be redeemed at the option of the Issuer (see Conditions 5(d), 5(e) and 5(f) of the Class A Notes, the Class M Notes and the Class B Notes). Unless previously redeemed, the Class A Notes, the Class M Notes and the Class B Notes will mature on the Interest Payment Date falling in July 2036.

Payments in respect of the Notes will be subject to any applicable withholding taxes and neither the Issuer nor any Paying Agent will be obliged to pay additional amounts in relation thereto.

The Class M Notes will be secured by the same security which will secure the Class A Notes, but in the event of the security being enforced the Class A Notes will rank in priority to the Class M Notes. The Class B Notes will be secured by the same security which will secure the Class A Notes and Class M Notes, but in the event of the security being enforced the Class A Notes and the Class M Notes will rank in priority to the Class B Notes. Each of the Class A Notes, the Class M Notes and the Class B Notes respectively will rank *pari passu* in point of security without preference or priority amongst themselves.

The right to payment of interest and principal on the Class M Notes will be subordinated to the right to payment of interest and principal on the Class A Notes and may be limited as described below in Condition 2 of the Class M Notes. As a result, no assurance is given as to the amount (if any) of interest or principal on the Class M Notes which may actually be paid on any Interest Payment Date. The right to payment of interest and principal on the Class B Notes will be subordinated to the right to payment of interest and principal on the Class A Notes and the Class M Notes and may be limited as described below in Condition 2 of the Class B Notes. As a result, no assurance is given as to the amount (if any) of interest or principal on the Class B Notes which may actually be paid on any Interest Payment Date.

Application has been made to the Financial Services Authority in its capacity as the competent authority for listing in the United Kingdom (the "**UK Listing Authority**") for the Notes to be admitted to the Official List of the UK Listing Authority (the "**Official List**"). Application has also been made to London Stock Exchange plc (the "**London Stock Exchange**") for the Notes to be admitted to trading on the London Stock Exchange's market for listed securities. Admission to the Official List together with admission to trading on the London Stock Exchange's market for listed securities constitute admission to official listing on a stock exchange. Copies of this document, which comprises listing particulars, have been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of the Financial Services Act 1986.

The Notes will be obligations of the Issuer. The Notes will not be obligations of, or the responsibility of, or guaranteed by, any person other than the Issuer. In particular, the Notes will not be obligations of, or the responsibility of, or guaranteed by, Arianty No.1 plc ("**Arianty**"), Britannic Money plc ("**Britannic Money**"), Britannic plc ("**Britannic**"), First Active plc ("**First Active**"), Nomura International plc ("**Nomura**"), Barclays Bank PLC ("**Barclays**"), the other Managers (as defined below) or The Chase Manhattan Bank (the "**Trustee**"). No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by Arianty, Britannic Money, First Active, Britannic, Nomura, Barclays, the other Managers or the Trustee.

The Class A Notes are expected, on issue, to be assigned an AAA rating by Fitch Ratings Limited ("**Fitch**") and an AAA rating by Standard and Poor's Ratings Services, a division of the McGraw Hill Companies Inc. ("**S&P**") and, together with Fitch, the "**Rating Agencies**"). The Class M Notes are expected, on issue, to be assigned an A rating by Fitch and an A rating by S&P. The Class B Notes are expected, on issue, to be assigned a BBB rating by Fitch and a BBB rating by S&P. 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 Rating Agencies.

The Notes of each class will each initially be represented by a temporary global note in bearer form (each a "**Temporary Global Note**"), without coupons (the "**Coupons**") or talons (the "**Talons**"), which is expected to be deposited with The Chase Manhattan Bank as common depository (the "**Common Depository**") for Euroclear S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on or about 26 July 2001 (the "**Issue Date**"). Each such Temporary Global Note will be exchangeable not earlier than 4 September 2001, upon certification of non-US beneficial ownership for interests in a permanent global note in bearer form (a "**Permanent Global Note**"), without Coupons or Talons, (together with each Temporary Global Note, the "**Global Notes**") for the relevant class of Notes. Save in certain limited circumstances, Notes in definitive form will not be issued in exchange for the Global Notes.

Particular attention is drawn to the section entitled "**Certain Special Considerations**".

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**Barclays Capital**

**JPMorgan**

**Barclays Capital**

**Nomura International plc**

**The Royal Bank of Scotland**

**Nomura International plc**

Class A Managers

Class M and Class B Managers

The Issuer accepts responsibility for the information contained in this document. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The information relating to Arianty No.1 plc in the section so named has been produced from information provided by Arianty. The information relating to Britannic Money plc and First Active plc in the sections so named has been produced from information provided by Britannic Money. The information relating to Britannic plc in the section so named has been produced from information provided by Britannic. The information relating to Barclays Bank PLC in its capacity as the Redraw Facility Provider, the GIC Provider, a Swap Counterparty and a Cap Provider in the section entitled "Barclays Bank PLC" has been produced from information provided by Barclays Bank PLC. The information relating to Morgan Guaranty Trust Company of New York, London branch in its capacity as a Swap Counterparty, a LIBOR Swap Provider and a Cap Provider in the section entitled "Morgan Guaranty Trust Company of New York, London branch" has been produced from information provided by Morgan Guaranty Trust Company of New York, London branch. The information relating to The Royal Bank of Scotland plc in its capacity as a Base Rate Swap Provider in the section entitled "The Royal Bank of Scotland plc" has been produced from information provided by The Royal Bank of Scotland plc.

No person is authorised to give any information or to make any representation concerning the issue of the Notes other than those contained in this document. Nevertheless, if any such information is given or representation made, it must not be relied upon as having been authorised by the Issuer, Arianty, Britannic Money, First Active, Britannic, the Trustee, Nomura, Barclays or the other Managers (as defined under "Subscription and Sale" below) or any of their respective affiliates or advisers. Neither the delivery of this document nor any offer, sale, allotment or solicitation made in connection with the offering of the Notes shall, in any circumstances, create any implication or constitute a representation that there has been no change in the affairs of the Issuer or in the other information contained herein since the date hereof. Neither the Trustee, Nomura, Barclays or any of the other Managers nor any of their respective affiliates or advisers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this document. Each person receiving this document acknowledges that such person has not relied on Nomura, Barclays, any of the other Managers or any other person affiliated with Nomura, Barclays or any of the other Managers in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the Issuer and the terms of the offering and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment. Neither Nomura, Barclays nor any of the other Managers undertakes to review the financial condition or affairs of the Issuer nor to advise any investor or potential investor in the Notes of any information coming to the attention of Nomura, Barclays or any of the other Managers.

This document does not constitute an offer of, or an invitation by or on behalf of, the Issuer, Arianty, Britannic Money, First Active, Britannic, the Trustee, Nomura or Barclays or any of the other Managers, to subscribe for or purchase any of the Notes. The distribution of this document and the offering of the Notes in certain jurisdictions may be restricted by law. No representation is made by the Issuer, Arianty, Britannic Money, First Active, Britannic, the Trustee, Nomura, Barclays or any of the other Managers that this document may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and none of them assumes any responsibility for facilitating any such distribution or offering. In particular, save for obtaining the approval of this document as listing particulars by the UK Listing Authority and delivery of this document to the Registrar of Companies in England and Wales, no action has been taken by the Issuer, Arianty, Britannic Money, First Active, Britannic, Nomura, Barclays or any of the other Managers which would permit a public offering of the Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this document nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document comes are required by the Issuer, Nomura, Barclays and the other Managers to inform themselves about and to observe any such restrictions.

The Notes have not been and will not be registered under the US Securities Act of 1933, as amended (the "Securities Act") and comprise Notes in bearer form that are subject to US tax law requirements. Subject

to certain exceptions, Notes may not be offered, sold or delivered within the United States or to any US persons. For a more complete description of certain restrictions on the offering, sale and delivery of Notes and distribution of this document, see "Subscription and Sale" below.

References in this document to "£", "pounds" or "sterling" are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland.

References in this document to "euros" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union and the Treaty of Amsterdam.

IN CONNECTION WITH THE ISSUE OF THE NOTES, NOMURA MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILISE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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## SUMMARY

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The information in this Summary should be read in conjunction with, and is qualified in its entirety by references to, the detailed information contained elsewhere in this document.

- The Issuer:** First Flexible No.4 plc (the “**Issuer**”) intends to acquire residential mortgages from Arianty No.1 plc (“**Arianty**”) on the Issue Date, such acquisition to be financed by the issue of the Notes. The issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, all of which are paid up as to one quarter, 49,999 of which are held by Arianty Holdings Limited and 1 of which is held by Arianty Services Limited on trust for Arianty Holdings Limited. The issued share of Arianty Holdings Limited is held by SPV Management Limited pursuant to a declaration of trust dated 29 September 2000 on trust ultimately for charitable purposes.
- The Servicer:** Britannic Money plc (“**Britannic Money**”) will not be responsible for payment of principal or interest on the Notes but will perform certain functions, principally that of the Servicer (as defined under “Servicing” below) of the Mortgage Pool (as defined under “The Mortgage Pool” below) on behalf of the Issuer and the Trustee. The Servicer may delegate such functions although it remains liable to the Issuer for the performance of those functions.
- The Trustee:** The Chase Manhattan Bank (the “**Trustee**”), pursuant to a trust deed (the “**Trust Deed**”) to be entered into on the Issue Date between the Issuer and the Trustee will be appointed as trustee to represent, *inter alia*, the interests of the holders of the Notes. The Trustee’s function will be to act in accordance with its powers and responsibilities set out in the Trust Deed subject to the limitations, rights and indemnifications contained in the Trust Deed.
- The Notes:** £460,000,000 Class A Mortgage Backed Floating Rate Notes due 2036 (the “**Class A Notes**”), £35,000,000 Class M Mortgage Backed Floating Rate Notes due 2036, (the “**Class M Notes**”) and £5,000,000 Class B Mortgage Backed Floating Rate Notes due 2036 (the “**Class B Notes**” and, together with the Class A Notes and the Class M Notes, the “**Notes**”), in each case to be constituted by the Trust Deed.
- Interest:** The interest rates applicable to the Notes from time to time will be determined by reference to LIBOR for one month sterling deposits (or, in the case of the first Interest Period, at an annual rate obtained by linear interpolation of LIBOR for one month sterling deposits and LIBOR for two month sterling deposits) plus margins which will differ for each class of Notes.
- The margins applicable to each class of Notes, and the Interest Periods (as defined in Condition 4(b) of the Class A Notes, the Class M Notes and the Class B Notes) for which such margins apply, will be as set out below:
- Class A Notes: 0.27% per annum up to and including the Interest Payment Date falling in July 2008 (the “**Coupon Step Up Date**”) and thereafter 0.54% per annum;
- Class M Notes: 0.85% per annum up to and including the Coupon Step Up Date and thereafter 1.70% per annum; and

Class B Notes: 1.80% per annum up to and including the Coupon Step Up Date and thereafter 2.80% per annum.

Interest is payable in sterling, monthly in arrear on the first day of each calendar month in each year or, if such day is not a day (other than a Saturday or Sunday) on which banks are generally open for business in the City of London (a "**Business Day**"), on the immediately succeeding Business Day (each such day an "**Interest Payment Date**"), save for the first payment of interest which will be made in respect of the period commencing on (and including) the Issue Date and ending on (but excluding) the Interest Payment Date falling in September 2001.

**Estimated Average  
Lives of Class A Notes,  
Class M Notes and Class B Notes:**

The average lives of the Notes cannot be accurately predicted, as the actual rate of redemption of the Mortgages (as defined under "The Mortgages" below) and a number of other relevant factors are unknown. Calculations of the estimated average lives can be made based on certain assumptions, including the rate at which the Mortgages are repaid, whether and how often borrowers of Mortgages (the "**Borrowers**") exercise their option to redraw a portion of the principal of their mortgage loans, the likelihood of early amortisation, whether the Issuer exercises any of its options to redeem the Notes set out in Condition 5 of the Class A Notes, the Class M Notes and the Class B Notes and the extent to which the Issuer acquires Pre-Funded Mortgages, Further Mortgages and Further Advances (each as defined below). Based on the assumptions referred to under "Estimated Average Lives of the Class A Notes, the Class M Notes and the Class B Notes" below, the average life of the Class A Notes is estimated to range from 5.0 years to 5.4 years, the average life of the Class M Notes is estimated to be 6.9 years and the average life of the Class B Notes is estimated to be 6.9 years.

**Withholding Tax:**

Payments of interest and principal will be subject to any applicable withholding taxes and neither the Issuer nor any Paying Agent will be obliged to pay additional amounts in relation thereto.

**Form and Denomination:**

Each Note (which will be in the denomination of £10,000, subject to *pro rata* redemption of Notes of the same class) will initially be represented by a single Temporary Global Note in bearer form. Each Temporary Global Note will be exchangeable, subject as provided under "Description of the Class A Notes – Terms and Conditions of the Class A Notes" (the "**Class A Conditions**"), "Description of the Class M Notes – Terms and Conditions of the Class M Notes" (the "**Class M Conditions**") and "Description of the Class B Notes – Terms and Conditions of the Class B Notes" (the "**Class B Conditions**") for a Permanent Global Note in bearer form. The Permanent Global Notes will not be exchangeable for definitive notes save in certain limited circumstances (see "Description of the Class A Notes", "Description of the Class M Notes" and "Description of the Class B Notes" below).

**Redemption and Purchase:**

- (i) *Optional Redemption*
- (a) The Issuer may, at its option, redeem all (but not some only) of the Notes at their Principal Amount Outstanding (as defined in Condition 5 of the Class A Conditions, the Class M Conditions and the Class B Conditions) in the event of certain tax changes affecting the Notes, the Issuer or the Mortgages comprising the Mortgage Pool (as defined in "The Mortgage Pool" below) at any time.

- (b) The Issuer may, at its option, redeem all (but not some only of each class of Notes) or (provided that in the case of a redemption of the Class M Notes, all the Class A Notes have been redeemed in full and that in the case of a redemption of the Class B Notes, all the Class A Notes and Class M Notes have been redeemed in full) any class of the Notes at their Principal Amount Outstanding on the Interest Payment Date falling in July 2008 or on any Interest Payment Date falling thereafter.
- (c) The Issuer may, at its option, redeem all (but not some only of each class of Notes) or (provided that in the case of a redemption of the Class M Notes, all the Class A Notes have been redeemed in full and that in the case of a redemption of the Class B Notes, all the Class A Notes and the Class M Notes have been redeemed in full) any class of Notes at their Principal Amount Outstanding on any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes is equal to or less than 10% of the aggregate principal amount of such Notes on the Issue Date.
- (d) The Issuer may, at its option redeem all (but not some only of each class of Notes) or (provided that in the case of a redemption of the Class M Notes, all the Class A Notes have been redeemed in full and that in the case of a redemption of the Class B Notes, all the Class A Notes and the Class M Notes have been redeemed in full) any class of Notes at their Principal Amount Outstanding on the second Interest Payment Date after any Determination Date on which it is determined that the aggregate amount of Redraws made by Borrowers during the immediately preceding Collection Period (as defined below) exceeds the sum of (a) the amount of Principal Collections (as defined below) available for the purpose of purchasing the right to repayment of Redraws in accordance with the Priority of Payments (as defined below), and (b) the lower of (i) the Available Facility under the Redraw Facility (in each case as defined below) and (ii) the aggregate Principal Amount Outstanding of the Class A Notes (in the case of a redemption of the Class M Notes) or the aggregate Principal Amount Outstanding of the Class A Notes and the Class M Notes (in the case of a redemption of the Class B Notes).

The Issuer shall provide Noteholders with no more than 30 nor less than 20 days notice of its intention to redeem all or any class of Notes on any Interest Payment Date.

*(ii) Redemption in Part*

Prior to enforcement, each class of Notes will be subject to redemption in part on each Interest Payment Date in accordance with the Priority of Payments (other than any Interest Payment Date on which the Notes of such class are redeemed in full or any Interest Payment Date on which the Redemption Amount (as defined below) applicable to all or such class of Notes is zero).

*(iii) Final Redemption*

Unless previously redeemed, the Notes will mature on the Interest Payment Date falling in July 2036.

*(iv) Purchase*

The Issuer shall not purchase any Notes.

## Security for the Notes:

The Notes will be obligations of the Issuer only. Pursuant to a deed of charge and assignment to be entered into between, *inter alia*, the Issuer and the Trustee (the “**Deed of Charge**”), the Notes will be secured, *inter alia*, by:

- (i) a first fixed equitable charge or mortgage or (in relation to Mortgages secured on properties in Scotland (“**Scottish Mortgages**”)) assignment in security in favour of the Trustee over the Issuer’s right, title, interest and benefit present and future in the Mortgages and other collateral security relating to the Mortgages;
- (ii) an equitable assignment by way of first fixed security in favour of the Trustee of the Issuer’s interest in certain buildings policies, life policies, contingency policies and mortgage indemnity policies (the “**Insurance Contracts**”) to the extent that they relate to the Mortgages;
- (iii) an assignment by way of first fixed security in favour of the Trustee of the benefit of the servicing agreement to be entered into between the Issuer, Arianty, First Active, Britannic Money and the Trustee (the “**Servicing Agreement**”), the mortgage sale agreement to be entered into between Arianty, Britannic Money, First Active, the Issuer and the Trustee (the “**Mortgage Sale Agreement**”), the Scottish Trust, the Agency Agreement, the Guaranteed Investment Contract, the Redraw Facility Agreement, the Declaration of Trust, the Bank Agreement, the Start-Up Loan Agreement, the Interest Rate Swaps, the Interest Rate Caps, the Base Rate Swaps, the LIBOR Swaps, the Master Definitions Schedule (all as defined below) and such other documents as are expressed to be subject to the charges under the Deed of Charge (all such documents together the “**Transaction Documents**”);
- (iv) a first fixed equitable charge in favour of the Trustee over the Issuer’s beneficial interest in the Trust Accounts, the Transaction Account and the Reserve Account (each as defined in “Credit Structure” below), and any other bank account of the Issuer from time to time and over the Permitted Investments (as defined in “Credit Structure” below); and
- (v) a first floating charge in favour of the Trustee (ranking after the security referred to in (i) to (iv) above) over the whole of the undertaking, property, assets and rights of the Issuer ((i) to (v) together the “**Security**”).

The Class A Notes, the Class M Notes and the Class B Notes will be constituted by the Trust Deed and will share the same security but in the event of the Security being enforced the Class A Notes will rank in priority to the Class M Notes and the Class B Notes and the Class M Notes will rank in priority to the Class B Notes.

## Start-Up Loan:

The Issuer will enter into a start-up loan agreement (the “**Start-Up Loan Agreement**”) with Britannic Money (the “**Start-Up Loan Provider**”) pursuant to which a loan (the “**Start-Up Loan**”) will be made available by Britannic Money to the Issuer in six tranches. The purpose of each tranche of the Start-Up Loan is specified in “Credit Structure – Start-Up Loan” below.

## Reserve Account:

Amounts standing to the credit of the Reserve Account may be invested under the Guaranteed Investment Contract (as defined in “Credit Structure – Guaranteed Investment Contract” below)



or in Permitted Investments. Amounts of interest earned on amounts standing to the credit of the Reserve Account shall be credited to the Transaction Account on or before each Interest Payment Date and applied in accordance with the Priority of Payments.

**Reserve Fund:**

A Reserve Fund (as defined in “Credit Structure – Reserve Fund” below) will be established on the Issue Date using a tranche of the Start-Up Loan. All amounts representing a credit balance in the Reserve Ledger may be applied to meet items (i) to (vii) of the Priority of Payments provided that (A) whilst there are Class A Notes outstanding, the Reserve Fund shall only be applied to pay interest on the Class M Notes to the extent that such drawing does not result in the amount standing to the credit of the Reserve Fund being less than (1) £3,000,000 or (2) the outstanding principal amount of the Class A Notes and (B) whilst there are Class M Notes outstanding, the Reserve Fund shall only be applied to pay interest on the Class B Notes to the extent that such drawing does not result in the amount standing to the credit of the Reserve Fund being less than (1) £3,000,000 or (2) the aggregate outstanding principal amount of the Class A Notes and the Class M Notes. The Reserve Fund shall be replenished on each Interest Payment Date in accordance with the Priority of Payments up to the Reserve Fund Required Amount. If at any time the amount standing to the credit of the Reserve Fund exceeds the Reserve Fund Required Amount, the amount of such excess shall be debited from the Reserve Fund and credited to the Transaction Account for application in accordance with the Priority of Payments.

**Hedge Reserve:**

A Hedge Reserve (as defined in “Credit Structure – Interest Rate Hedging”) will be established on the Issue Date using a tranche of the Start-Up Loan. All amounts representing a credit balance in the Hedge Reserve will be available to cover cash shortfalls arising as a result of the Interest Rate Caps not being perfect hedges. On each Interest Payment Date, any amounts relating to Interest Rate Caps that have expired shall be debited from the Hedge Reserve and credited to the Transaction Account for application in accordance with the Priority of Payments.

**Base Rate Reserve:**

A Base Rate Reserve (as defined in “Credit Structure – Base Rate Reserve” below) will be established using a tranche of the Start-Up Loan. All amounts representing a credit balance in the Base Rate Reserve will be available to cover any shortfalls resulting from the base rate applicable to Base Rate Linked Mortgages (as defined in “The Provisional Mortgage Pool – Rate of Interest” below) in respect of which no Base Rate Swaps (as defined in “Credit Structure – Interest Rate Hedging” below) have been entered into being set at a level more than 0.15% below Note LIBOR in respect of any Interest Period. The base rate applicable to Base Rate Linked Mortgages is the Bank of England repo rate set from time to time by the Monetary Policy Committee of the Bank of England (the “**Bank of England Base Rate**”). The Base Rate Reserve shall be replenished on each Interest Payment Date in accordance with the Priority of Payments up to the Base Rate Reserve Required Amount (as defined in “Credit Structure – Base Rate Reserve” below). If on any Interest Payment Date the amount standing to the credit of the Base Rate Reserve exceeds the Base Rate Reserve Required Amount, the amount of such excess shall be debited from the Base Rate Reserve and credited

to the Transaction Account for application in accordance with the Priority of Payments.

**Discount Reserve:**

A Discount Reserve (as defined in "Credit Structure – Discount Reserve" below) will be established on the Issue Date using a tranche of the Start-Up Loan. All amounts representing a credit balance in the Discount Reserve will be available to cover the aggregate of any Expected Differentials (as defined in "Credit Structure – Discount Reserve" below) resulting from Discounted Mortgages (as defined in "The Provisional Mortgage Pool – Rate of Interest" below). Each time a Pre-Funded Mortgage comprising a Discounted Mortgage is acquired by the Issuer, the Loan Expected Differential (as defined in "Credit Structure – Discount Reserve" below) arising from the future discount of such Pre-Funded Mortgage shall be credited to the Discount Reserve using amounts drawn under the Start-Up Loan. The Discount Reserve shall be replenished by the Issuer on each Interest Payment Date to cover the Expected Differentials arising from future discounts on any Further Mortgages, Substitute Mortgages and Further Advances which are or relate to Discounted Mortgages purchased on such Interest Payment Date by crediting the Discount Reserve and debiting the Transaction Account in accordance with the Priority of Payments. On each Interest Payment Date, the aggregate amount of any Loan Expected Differentials (as defined in "Credit Structure-Discount Reserve" below) allocated to Discounted Mortgages which have redeemed in the immediately preceding Interest Period shall be debited from the Discount Reserve and credited to the Transaction Account for application in accordance with the Priority of Payments.

**Permitted Investments:**

The Servicer will be entitled to invest cash from time to time standing to the credit of the Transaction Account and the Reserve Account in Permitted Investments (as defined in "Credit Structure – Permitted Investments" below) provided that each such Permitted Investment matures on or prior to the Interest Payment Date on which the cash represented by such Permitted Investment is required by the Issuer and that such investments are in the same currency as that of the cash used to make such investments. Permitted Investments shall not include investments in equity securities.

**Potential Redemption Amount:**

The "**Potential Redemption Amount**" will be determined on each Determination Date as follows:

- (a) the aggregate amount of Redemptions, Prepayments, enforcement proceeds, recoveries and insurance proceeds (to the extent they relate to principal) received during the immediately preceding Collection Period in respect of the Mortgages ("**Principal Collections**"); plus
- (b) principal losses realised upon completion of the enforcement and recovery process in relation to the Mortgages during the immediately preceding Collection Period; less
- (c) the aggregate principal amount of Redraws the right to repayment of which are to be purchased by the Issuer on the immediately succeeding Interest Payment Date; plus
- (d) the amount by which the aggregate principal amount outstanding under the Redraw Facility is expected to increase on the immediately succeeding Interest Payment

Date as a result of the purchase of the right to repayment of Redraws; plus

- (e) an amount equal to the Principal Deficiency (as defined in “Credit Structure – Use of Ledgers” below) recorded on the previous Determination Date,

Provided that the Potential Redemption Amount shall never be less than zero.

“**Redemptions**” means scheduled principal payments plus full and part principal repayments (including enforcement and insurance proceeds) under a Mortgage where the Borrower Loan Limit (as defined below) irrevocably reduces as a result of repayment ahead of the repayment plan used by Britannic Money to provide a baseline for the repayment of the Mortgage.

“**Prepayments**” means part principal repayments under a Mortgage where the Borrower Loan Limit (as defined below) does not change following prepayment ahead of the repayment plan used by Britannic Money to provide a baseline for the repayment of the Mortgage.

**Priority of Payments  
– Pre-Enforcement:**

On each Interest Payment Date, the monies standing to the credit of the Transaction Account (save for any monies standing to the credit of the Pre-Funded Ledger applied or to be applied in purchasing Pre-Funded Mortgages), the monies representing a credit balance in the Reserve Ledger (save that such monies may only be applied to meet items (i) to (vii) below), all monies advanced under the Redraw Facility (save that such monies may only be applied to purchase the right to repayment of Redraws under item (ix) below or to rollover existing advances under the Redraw Facility), any Threshold Amount Deposit made on the immediately preceding Determination Date, all amounts received from the Swap Counterparties and/or the Cap Providers and/or the LIBOR Swap Providers, under an Interest Rate Swap and/or Interest Rate Cap and/or a LIBOR Swap, all amounts received from the Base Rate Swap Providers under a Base Rate Swap, all amounts representing a credit balance in the Hedge Reserve transferred from the Reserve Account to the Transaction Account, all amounts representing a credit balance in the Base Rate Reserve transferred from the Reserve Account to the Transaction Account and all amounts representing a credit balance in the Discount Reserve transferred from the Reserve Account to the Transaction Account will, after making payment of or providing for Excluded Items (as defined under “Excluded Items” below), until enforcement of the Security for the Notes, be applied (save as the payee may otherwise agree) in making the following payments or provisions in the following order of priority (the “**Priority of Payments**”):

- (i) to pay or provide for the remuneration payable to the Trustee and any fees, costs, charges, liabilities and expenses incurred by it under the provisions of the Trust Deed, the Deed of Charge and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;
- (ii) to pay or provide for amounts due and/or which will become due prior to the next Interest Payment Date to the Paying Agent and Agent Bank under the Agency Agreement;

- (iii) to pay or provide for *pari passu* and *pro rata* (a) amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable or expected to become due and payable by the Issuer on or after such Interest Payment Date by the Issuer to third parties and incurred without breach by the Issuer of its obligations under the Transaction Documents and not provided for payment elsewhere and (b) the Issuer's liability or possible liability for corporation tax;
- (iv) to pay or provide for the servicing fee payable to the Servicer on such Interest Payment Date (inclusive of value added tax, if any) together with costs and expenses which are payable or expected to become payable to the Servicer under the Servicing Agreement prior to the next Interest Payment Date;
- (v) to pay *pari passu* and *pro rata*:
  - (a) all amounts payable by the Issuer to the Swap Counterparties and/or the Base Rate Swap Providers and/or the LIBOR Swap Providers pursuant to the Interest Rate Swaps and/or the Base Rate Swaps and/or the LIBOR Swaps (other than in respect of termination payments following an event of default in respect of an Interest Rate Swap or a Base Rate Swap or a LIBOR Swap where the relevant Swap Counterparty or the relevant Base Rate Swap Provider or the relevant LIBOR Swap Provider is the defaulting party under the relevant Interest Rate Swap or, as the case may be, the relevant Base Rate Swap or, as the case may be, the relevant LIBOR Swap);
  - (b) all amounts payable under the Redraw Facility other than in respect of principal; and
  - (c) all amounts payable in respect of the Class A Notes other than in respect of principal on the Class A Notes;
- (vi) subject to an M Note Trigger Event not occurring on that Interest Payment Date, to pay all amounts payable in respect of the Class M Notes other than in respect of principal on the Class M Notes;
- (vii) subject to a B Note Trigger Event not occurring on that Interest Payment Date, to pay all amounts payable in respect of the Class B Notes other than in respect of principal on the Class B Notes;
- (viii) to credit the Reserve Fund up to the Reserve Fund Required Amount (as defined in "Credit Structure – Reserve Fund" below);
- (ix) to pay for the purchase by the Issuer of the rights to repayment of Redraws;
- (x) to repay all principal amounts outstanding under the Redraw Facility;
- (xi) to fund the purchase by the Issuer of Further Advances up to an amount equal to the lower of (a) the Potential Redemption Amount less amounts applied in accordance with item (x) above and (b) the aggregate amount of Redemptions received during the immediately preceding

Collection Period less amounts applied in accordance with item (x) above;

- (xii) during the Substitution Period only, to fund the purchase by the Issuer of Further Mortgages up to the lower of (a) the Potential Redemption Amount less amounts applied in accordance with items (x) and (xi) above; and (b) the aggregate amount of Redemptions received during the immediately preceding Collection Period less amounts applied in accordance with items (x) and (xi) above;
- (xiii) to allocate an amount to be applied in redeeming the Notes equal to the greater of zero and the difference between (a) the Potential Redemption Amount and (b) the sum of the amounts applied under items (x) , (xi) and (xii) above;
- (xiv) if an M Note Trigger Event occurs on such Interest Payment Date, to pay all amounts payable in respect of the Class M Notes other than in respect of principal on the Class M Notes;
- (xv) if a B Note Trigger Event occurs on such Interest Payment Date, to pay all amounts payable in respect of the Class B Notes other than in respect of principal on the Class B Notes;
- (xvi) to credit *pari passu* and *pro rata* (a) the Base Rate Reserve up to the Base Rate Reserve Required Amount and (b) the Hedge Reserve up to the Hedge Reserve Required Amount;
- (xvii) to fund the purchase by the Issuer of hedges that may be required in order to preserve a rate at least equal to the Threshold Rate (as defined in “Credit Structure – Threshold Rate” below) in respect of Pre-Funded Mortgages, Further Mortgages, Substitute Mortgages or Further Advances purchased on such Interest Payment Date (see “The Mortgage Pool” below);
- (xviii) to credit the Discount Reserve in an amount equal to the aggregate Loan Expected Differentials arising from Discounts on Further Mortgages, Substitute Mortgages or Further Advances purchased on such Interest Payment Date (see “The Mortgage Pool” below);
- (xix) to make any termination payments payable to the Swap Counterparties or the Base Rate Swap Providers or the LIBOR Swap Providers pursuant to the Interest Rate Swaps or, as the case may be, the Base Rate Swaps or, as the case may be, the LIBOR Swaps following an event of default in respect of an Interest Rate Swap or, as the case may be, a Base Rate Swap or, as the case may be, a LIBOR Swap where the relevant Swap Counterparty or, as the case may be, the relevant Base Rate Swap Provider or, as the case may be, the relevant LIBOR Swap Provider is the defaulting party under the relevant Interest Rate Swap or, as the case may be, the relevant Base Rate Swap or, as the case may be, the relevant LIBOR Swap;

and provided that there is no Principal Deficiency on such Interest Payment Date and that no Event of Default has occurred:

- (xx) to pay amounts repayable to the Servicer in respect of any Threshold Amount Deposit (as defined in “Credit Structure

- Threshold Rate” below) which the Servicer elects to release;
- (xxi) to pay amounts payable in respect of the Start-Up Loan other than in respect of principal on the Start-Up Loan;
- (xxii) to pay amounts payable in respect of principal under the Start-Up Loan;
- (xxiii) to pay *pari passu* and *pro rata* (a) sums due to Arianty as Arianty Deferred Purchase Consideration (as defined in “Credit Structure – Deferred Purchase Consideration” below), (b) sums due to Britannic Money as Britannic Money Deferred Purchase Consideration (as defined in “Credit Structure – Deferred Purchase Consideration” below) and (c) sums due to First Active as First Active Deferred Purchase Consideration (as defined in “Credit Structure – Deferred Purchase Consideration” below); and
- (xxiv) to make dividend payments to shareholders of the Issuer.

**M Note Trigger Event:**

If there are Class A Notes outstanding an “**M Note Trigger Event**” will occur on an Interest Payment Date if on such Interest Payment Date, on the assumption that an M Note Trigger Event does not occur, the application of funds in accordance with the Priority of Payments will give rise to a Principal Deficiency which exceeds the then Principal Amount Outstanding of the Class M Notes and the Class B Notes on such Interest Payment Date.

**B Note Trigger Event**

If there are Class A Notes or Class M Notes outstanding, a “**B Note Trigger Event**” will occur on an Interest Payment Date if on such Interest Payment Date, on the assumption that a B Note Trigger Event does not occur, the application of funds in accordance with the Priority of Payments will give rise to a Principal Deficiency which exceeds the then Principal Amount Outstanding of the Class B Notes on such Interest Payment Date.

**Redemption Amount:**

The amount allocated for redemption of the Notes under item (xiii) of the Priority of Payments (the “**Redemption Amount**”) will be divided into a “Class A Redemption Amount”, a “Class M Redemption Amount” and a “Class B Redemption Amount”. During a Class M Principal Lock Out, the Class A Redemption Amount will equal the Redemption Amount and the Class M Redemption Amount and the Class B Redemption Amount will be zero. During a Class B Principal Lock Out, the Redemption Amount will be divided between the Class A Redemption Amount and the Class M Redemption Amount (on a *pro rata* basis and subject to a Class M Principal Lock Out not having occurred) and the Class B Redemption Amount will be zero.

A “**Class M Principal Lock Out**” shall occur on any Interest Payment Date (i) during the period up to (and including) the earlier of the Interest Payment Date on which all Class A Notes are redeemed in full and the Interest Payment Date falling five years after the end of the Substitution Period (the “**Class M Principal Lock Out Period**”), (ii) where on such Interest Payment Date the sum of the Reserve Fund, the aggregate Principal Amount Outstanding (as defined in Condition 5 of the Class M Conditions) of the Class M Notes and the aggregate Principal Amount Outstanding (as defined in Condition 5 of the Class B Conditions) of the Class B Notes as a percentage of the sum of the aggregate Principal Amount Outstanding of the Class A Notes, Class M Notes and Class B Notes is not at least twice that

same percentage as at the Issue Date, (iii) where a Principal Deficiency exists on such Interest Payment Date (iv) where the aggregate principal balance of Mortgages in respect of which there are arrears of an amount greater than £100 is greater than 2.5% of the then aggregate principal balance of the Mortgages comprised in the Mortgage Pool, in each case as at the immediately preceding Determination Date or (v) where the sum of the Principal Amount Outstanding of the Class M Notes and the Principal Amount Outstanding of the Class B Notes on such Interest Payment Date is less than two times the principal balance of the largest Mortgage or group of Mortgages in the name of a single Borrower as at the immediately preceding Determination Date.

A “**Class B Principal Lock Out**” shall occur on any Interest Payment Date (i) during the period up to (and including) the earlier of the Interest Payment Date on which all Class A Notes and Class M Notes are redeemed in full and the Interest Payment Date falling five years after the end of the Substitution Period (the “**Class B Principal Lock Out Period**”) (ii) where on such Interest Payment Date the sum of the Reserve Fund and the aggregate Principal Amount Outstanding (as defined in Condition 5 of the Class B Conditions) of the Class B Notes as a percentage of the sum of the aggregate Principal Amount Outstanding of the Class A Notes, the Class M Notes and the Class B Notes is not at least twice that same percentage as at the Issue Date, (iii) where a Principal Deficiency exists on such Interest Payment Date, (iv) where the aggregate principal balance of Mortgages in respect of which there are arrears of an amount greater than £100 is greater than 2.5% of the then aggregate principal balance of the Mortgages comprised in the Mortgage Pool, in each case as at the immediately preceding Determination Date, or (v) where the Principal Amount Outstanding of the Class B Notes on such Interest Payment Date is less than two times the principal balance of the largest Mortgage or group of Mortgages in the name of a single Borrower as at the immediately preceding Determination Date.

If no Class M Principal Lock Out and no Class B Principal Lock Out applies on an Interest Payment Date and there are Class A Notes outstanding, the Redemption Amount will be divided between the Class A Redemption Amount, the Class M Redemption Amount and the Class B Redemption Amount in such amounts as would maintain the then current ratio of Class A Notes to Class M Notes to Class B Notes. If on any Interest Payment Date there are no Class A Notes outstanding, the Redemption Amount will be divided between the Class M Redemption Amount (subject to a Class M Principal Lock Out not having occurred) and the Class B Redemption Amount (subject to a Class B Principal Lock Out not having occurred) in such amounts as would maintain the then current ratio of the Class M Notes to Class B Notes. If on any Interest Payment Date there are no Class A Notes or Class M Notes outstanding, the Class B Redemption Amount shall equal the whole of the Redemption Amount.

**Excluded Items:**

The following items (“**Excluded Items**”) may be paid or provided for prior to the allocation of sums under the Priority of Payments:

- (i) certain monies which properly belong to third parties (such as monies owing to any party in respect of reimbursement for direct debit recalls),

- (ii) on the Interest Payment Date following the Issue Date, amounts payable to Arianty under the Mortgage Sale Agreement in respect of reconciliations of the amounts paid in respect of the purchase of the Mortgages on the Issue Date, and
- (iii) where the Issuer is unable to purchase the right to repayment of Redraws and/or Further Advances made with respect to one or more Mortgages on any Interest Payment Date (such Redraws and/or Further Advances continuing to be funded by Britannic Money or First Active, as the case may be, on the basis that the Issuer holds each relevant Mortgage on trust for itself and Britannic Money or First Active, as the case may be, each party's interest being proportionate to the funding provided by it), the aggregate of Britannic Money's or First Active's, as the case may be, *pro rata* share of amounts received in respect of each such Mortgage during the immediately preceding Collection Period.

**Priority of Payments  
– Post-Enforcement:**

After the Trustee has given notice to the Issuer pursuant to Condition 9 of the Class A Notes, the Class M Notes and the Class B Notes, declaring the Notes to be due and payable, no rights to repayment of Redraws, Further Advances, Pre-Funded Mortgages or Further Mortgages may be purchased and the Trustee shall, after making payment of or providing for Excluded Items, use the money received in respect of the Mortgages including proceeds of the enforcement of the Security and monies standing to the credit of the Transaction Account and the Reserve Account and the Issuer's share of monies standing to the credit of the Trust Accounts to make payments in the following order of priority pursuant to and in accordance with, and as set out more fully in, the Deed of Charge:

- (i) first, to pay the remuneration then due and payable to the Trustee and any fees, costs, charges, liabilities and expenses incurred by the Trustee or any receiver appointed by the Trustee under the provisions of the Trust Deed, the Deed of Charge and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;
- (ii) second, to pay the remuneration then due and payable to the Agent Bank and the Paying Agents and any fees, costs, charges, liabilities and expenses incurred by them or by the Account Bank under the Bank Agreement (each as defined in the Class A Conditions and in the Class B Conditions) and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;
- (iii) third, to pay or provide for *pari passu* and *pro rata* (a) amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable or expected to become due and payable by the Issuer to third parties and incurred without breach by the Issuer of its obligations under the Transaction Documents and not provided for payment elsewhere and (b) the Issuer's liability or possible liability for corporation tax;



- (iv) fourth, in or towards satisfaction of any fees due and payable to the Servicer and any costs, charges, expenses and liabilities incurred by the Servicer;
- (v) fifth, to pay *pari passu* and *pro rata* (a) all amounts due under the Interest Rate Swaps, (b) all amounts due under the Base Rate Swaps, (c) all amounts due under the LIBOR Swaps, (d) all amounts due under the Redraw Facility and (e) interest and principal and all other amounts due and payable in respect of the Class A Notes;
- (vi) sixth, to pay interest and principal and all other amounts due and payable in respect of the Class M Notes;
- (vii) seventh, to pay interest and principal and all other amounts due and payable in respect of the Class B Notes;
- (viii) eighth, to pay any interest and principal amounts due and payable under the Start-Up Loan Agreement;
- (ix) ninth, to pay *pro rata* and *pari passu* (a) sums due to Arianty as Arianty Deferred Purchase Consideration, (b) sums due to Britannic Money as Britannic Money Deferred Purchase Consideration and (c) sums due to First Active as First Active Deferred Purchase Consideration; and
- (x) tenth, to pay the surplus (if any) to the shareholders of the Issuer by way of dividends.

**Substitution Period:**

Unless shortened by the Issuer (upon giving notice to the Trustee, the Servicer, the Class A Noteholders, the Class M Noteholders and the Class B Noteholders), the period commencing on (and including) the Issue Date and ending on the earlier of:

- (i) the Interest Payment Date falling in July 2004;
- (ii) enforcement of the Security in accordance with Condition 10 of the Class A Conditions, the Class M Conditions and the Class B Conditions;
- (iii) removal of Britannic Money as the Servicer in accordance with the Servicing Agreement and no replacement Servicer having been appointed in accordance with the Servicing Agreement;
- (iv) the date on which the Notes are redeemed in full; or
- (v) the date on which the Redraw Facility becomes fully drawn;

shall be designated the “**Substitution Period**”.

On any Interest Payment Date during the Substitution Period, the Issuer shall be entitled to purchase Further Mortgages (as defined in “The Mortgage Pool – Further Mortgages” below) in accordance with the Priority of Payments, to the extent that Arianty offers the same for sale and if, *inter alia*, the sum of (i) the aggregate outstanding principal balances of the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date, (ii) the aggregate outstanding principal balances of the Further Mortgages and Further Advances to be purchased on such Interest Payment Date and (iii) the aggregate Potential Redraw Amount (as defined in “The Mortgages” below) with respect to both the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date and the Further Mortgages and the Further Advances to be

purchased on such Interest Payment Date does not equal or exceed the sum of (i) the aggregate outstanding principal balances of the Mortgages comprising the Mortgage Pool on the Determination Date immediately preceding the last Interest Payment Date (ii) the aggregate outstanding principal balances of the Further Mortgages and the Further Advances purchased on the last Interest Payment Date and (iii) the aggregate Potential Redraw Amount with respect to the Mortgages comprising the Mortgage Pool on the Determination Date immediately preceding the last Interest Payment Date and the Further Mortgages and Further Advances purchased on the last Interest Payment Date.

For further criteria relating to the purchase of Further Mortgages, see "The Mortgage Pool – Further Mortgages" below.

**Redraw Facility:**

The Issuer will enter into a sterling revolving credit facility (the "**Redraw Facility**") which term will include any extended or replacement facility) with Barclays Bank PLC (the "**Redraw Facility Provider**") which term will include any replacement Redraw Facility Provider). The Redraw Facility may be utilised by the Issuer on any Interest Payment Date to fund the purchase of rights to repayment of Redraws (including Payment Holidays) (as defined below) with respect to Mortgages owned by the Issuer up to an amount calculated on such Interest Payment Date as the lower of (a) the difference between the Redraw Facility Limit (as defined below) and the aggregate amount of advances outstanding under the Redraw Facility which will not be repaid on such Interest Payment Date (the "**Available Facility**") and (b) the aggregate Principal Amount Outstanding of the Class A Notes. Amounts may only be drawn under the Redraw Facility if there are no amounts available for the purpose of purchasing the right to repayment of Redraws in accordance with the Priority of Payments. The initial maximum aggregate amount that can be drawn at any time under the Redraw Facility is £58 million (the "**Redraw Facility Limit**") which limit may be varied on any Interest Payment Date by agreement between the Issuer, the Trustee, the Redraw Facility Provider and the Servicer (as agent of the Issuer), provided that the Rating Agencies have given prior written confirmation that such variation will not adversely affect the then current rating of the Notes. The Redraw Facility Provider will not be obliged to advance funds beyond such initial maximum aggregate amount.

The commitment of the Redraw Facility Provider under the Redraw Facility will expire on the Interest Payment Date falling in July 2036 subject to the Notes not having been redeemed earlier or enforcement of the Security in accordance with Condition 10 of the Class A Notes, the Class M Notes and the Class B Notes not having occurred (the "**Redraw Commitment Expiry Date**").

**Redraws:**

On each Interest Payment Date while Notes are outstanding, Britannic Money's or First Active's, as the case may be, rights with respect to any Redraws made by Borrowers during the immediately preceding Collection Period shall be assigned to the Issuer by Britannic Money or First Active, as the case may be, and the Issuer shall be obliged to purchase such rights up to an aggregate amount (the "**Maximum Redraw Amount**") equal to the amount available for such purpose in accordance with the Priority of Payments on such Interest Payment Date (including the amount of the Available Facility at such time under the

Redraw Facility). A Payment Holiday is deemed to be a Redraw in respect of the increase in the principal balance of the Mortgage as a result of the capitalisation of the relevant Borrower's Overpayments (as defined under "The Mortgage Pool – The Provisional Mortgage Pool" below) in an amount equal to the Minimum Monthly Payments (as defined under "The Mortgage Pool – The Provisional Mortgage Pool" below) such Borrower would have had to make had the Borrower not taken a Payment Holiday.

**Covenants:**

The Issuer will be subject to covenants including a negative pledge and an undertaking not to engage in any activity other than the ownership of the Mortgages and certain other assets, the exercise of related rights and powers and other activities referred to herein or reasonably incidental thereto and to provide the Trustee with an annual certificate confirming amongst other things that no Event of Default (as defined in the Class A Conditions, the Class M Conditions and the Class B Conditions) or potential Event of Default has occurred.

**The Mortgages:**

All the Mortgages met certain lending criteria at the time of origination (see "The Mortgage Pool-Lending Policy" below) and were originated by Britannic Money or First Active. Britannic Money and First Active, as applicable, transferred the beneficial interest in the Mortgages to Arianty pursuant to a mortgage sale agreement dated 21 December 2000 between, *inter alia*, Britannic Money, First Active and Arianty (the "**Origination Mortgage Sale Agreement**").

As at the date immediately prior to (i) the Issue Date (in respect of the Initial Mortgages) and (ii) the date on which the Issuer purchases Pre-Funded Mortgages, Further Mortgages or Substitute Mortgages, the beneficial interest in the relevant Mortgage will reside with Arianty and legal title in the relevant Mortgages will be held by Britannic Money or First Active. Pursuant to the Mortgage Sale Agreement, the Issuer will be given the right to call for legal title to the Mortgages from Britannic Money or First Active, as applicable, in certain circumstances. On the Issue Date, in respect of the Initial Mortgages and on any other date that the Issuer purchases Pre-Funded Mortgages, Further Mortgages or Substitute Mortgages from Arianty, the Issuer shall purchase all of Arianty's interest in the relevant Mortgage.

The Provisional Mortgage Pool comprises Standard Variable Mortgages, Base Rate Linked Mortgages, LIBOR Linked Mortgages, Fixed Rate Mortgages and Capped Rate Mortgages (see "The Provisional Mortgage Pool – Rate of Interest" below). For a specified period of time some of these Mortgages may also be Discounted Mortgages.

Repayment terms under each Mortgage differ according to the repayment type. The Provisional Mortgage Pool (as defined below) will include Repayment Mortgages, Endowment Mortgages, Pension Mortgages and Interest Only Mortgages (see "The Provisional Mortgage Pool – Repayment Terms" below).

All of the Mortgages are secured by first legal charges or standard securities or mortgages over freehold or leasehold properties located in England or Wales or Scotland or Northern Ireland and relate to either investment properties or owner-occupied properties.

“**Mortgages**” means collectively the Initial Mortgages, the Pre-Funded Mortgages, any Substitute Mortgages and any Further Mortgages.

97.7% of Mortgages by drawn value in the Mortgage Pool as at 30 June 2001 provide the relevant Borrower with the option to redraw a portion of the principal of his Mortgage (or, subject to the consent of Britannic Money or First Active, as the case may be, take a Payment Holiday (as defined in “The Mortgage Pool – The Provisional Mortgage Pool” below)) (“**Redraws**”) if and to the extent that such Borrower has previously made prepayments on its Mortgage in excess of the scheduled principal repayments and has not previously redrawn the whole of such excess payments and provided that the amount of such Redraw is limited to ensure that the outstanding balance of the Mortgage after such Redraw is no greater than the principal balance of the Mortgage which would have been outstanding at such time if the Borrower had made payments in accordance with the repayment plan used by Britannic Money or First Active, as the case may be, to provide a baseline for repayment of the Mortgage. The amount which is capable of being redrawn under a Mortgage is referred to as the “**Potential Redraw Amount**”.

52% of the Mortgages by drawn value in the Mortgage Pool as at 30 June 2001 relate to properties purchased by the relevant Borrower to be occupied by tenants or held as an investment. The conditions of such Mortgages require that these properties will be let under an assured shorthold or short assured tenancy and in all cases that the occupier will have no statutory security of tenure (see “The Mortgage Pool-Investment Home Loans” below). The other 48% of the Mortgages by drawn value in the Mortgage Pool as at 30 June 2001 relate to owner occupied properties.

**Pre-Funded Mortgages:**

To the extent that the proceeds of the Notes exceed the Purchase Price (as defined in “The Mortgage Pool – Sale of Mortgages” below) of the Initial Mortgages purchased, the Issuer shall as soon as practicable purchase further mortgages from Arianty (the “**Pre-Funded Mortgages**”) at any time on or after the Issue Date but no later than the third Interest Payment Date after the Issue Date. Such Pre-Funded Mortgages shall comply with the eligibility criteria applicable to Further Mortgages.

**Pre-Funded Ledger:**

The proceeds of the Notes which exceed the Purchase Price (as defined in “The Mortgage Pool – Sale of Mortgages” below) of the Initial Mortgages shall be credited to a ledger to be established and maintained by the Issuer in the Transaction Account (the “**Pre-Funded Ledger**”). The Issuer (or the Servicer on its behalf) shall use the amounts standing to the credit of the Pre-Funded Ledger to purchase Pre-Funded Mortgages.

Any amounts not applied to purchase Pre-Funded Mortgages on or before the third Interest Payment Date and standing to the credit of the Pre-Funded Ledger shall be treated as Redemptions and shall be applied in accordance with the Priority of Payments.

**Non-Verified Mortgages:**

The Mortgage Sale Agreement permits Mortgages originated by Britannic Money or First Active for which the first payment of principal and/or interest has not been received as at the Issue Date (the “**Non-Verified Mortgages**”) to be sold to the Issuer by Arianty.

To the extent that the Issuer (or the Servicer on its behalf) shall not have been able to verify receipt of the first payment of principal and/or interest by the relevant Borrower prior to the first Interest Payment Date, the Issuer shall, pursuant to the Mortgage Sale Agreement, transfer back such Mortgage to Arianty on such first Interest Payment Date.

**Non-Verified Mortgage Ledger:**

A ledger in respect of amounts due to Arianty under the Mortgage Sale Agreement for Non-Verified Mortgages will be established and maintained by the Issuer in the Transaction Account (the "**Non-Verified Mortgage Ledger**"). An amount equal to the Purchase Price (as defined in "The Mortgage Pool – Sale of Mortgages" below) of the Non-Verified Mortgages will be credited to the Non-Verified Mortgage Ledger from the proceeds of the issue of the Notes. The Issuer (or the Servicer on its behalf) shall use the amounts standing to the credit of the Non-Verified Mortgage Ledger to pay to Arianty the Purchase Price of each Non-Verified Mortgage upon verification that the relevant Borrower has made its first payment of principal and/or interest in respect of such Non-Verified Mortgage. Any amount standing to the credit of the Non-Verified Mortgage Ledger on the first Interest Payment Date shall be treated as Redemptions and shall be applied in accordance with the priority of payment on the first Interest Payment Date.

**Representations and Warranties:**

The Issuer will have the benefit of (i) warranties given by Arianty as at the Issue Date in relation to the Mortgages (or, in the case of Pre-Funded Mortgages, Further Mortgages or Substitute Mortgages, as at the date such Mortgages are acquired by the Issuer) (ii) warranties given by Britannic Money in relation to the Mortgages as at the date of the sale of the Mortgages to Arianty under the Origination Mortgage Sale Agreement (and, in the case of Pre-Funded Mortgages, Further Mortgages or Substitute Mortgages, as at the date such Mortgages were sold to Arianty under the Origination Mortgage Sale Agreement) (iii) warranties given by Britannic Money in relation to the Mortgages in its capacity as administrator pursuant to an administration agreement dated 21 December 2000 between Britannic Money, Arianty and Citicorp Trustee Company Limited (the "**Origination Administration Agreement**") with respect to the period between the date of sale of the Mortgages to Arianty under the Origination Mortgage Sale Agreement and the Issue Date or, in the case of Pre-Funded Mortgages, Further Mortgages or Substitute Mortgages, with respect to the period between the date of sale of the Mortgages to Arianty under the Origination Mortgage Sale Agreement and the date they are acquired by the Issuer. Arianty and/or Britannic Money will be required to either provide a substitute Mortgage (a "**Substitute Mortgage**") in exchange for, or repurchase, any Mortgage with respect to which any warranty made by Arianty and/or Britannic Money proves to be untrue as at the date made and which breach has not been remedied within 30 days of receipt of notice from the Issuer. Such Substitute Mortgage shall comply with the requirements applicable to the Initial Mortgages. Neither Britannic Money nor Arianty may offer a Substitute Mortgage to the Issuer if the aggregate outstanding principal balance of the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date and the aggregate outstanding principal balance of the Substitute Mortgage offered plus the aggregate Potential Redraw Amount with respect to the Mortgages comprising the Mortgage Pool on the immediately

preceding Determination Date and the Substitute Mortgage offered exceeds the sum of (i) the aggregate outstanding principal balances of the Mortgages comprising the Mortgage Pool and (ii) the aggregate Potential Redraw Amount with respect to such Mortgages, each as at the Determination Date immediately preceding the last Interest Payment Date.

Where a Mortgage triggers a warranty breach by both Arianty and Britannic Money (the “**Warrantors**”), the Issuer may claim or, as the case may be, initiate claims against both of the Warrantors or either one of the Warrantors in respect of such breach.

No searches, inquiries or independent investigation of title of the type which a prudent purchaser or mortgagee or heritable creditor would normally be expected to carry out have been or will be made by the Issuer or the Trustee, each of whom is relying entirely upon the warranties set out in the Mortgage Sale Agreement. Mortgages complying with the eligibility criteria applicable to the Initial Mortgages (as amended or varied with the prior written confirmation of the Rating Agencies that such amendment or variation will not cause the downgrade of the then current rating of the Notes) may be acquired by the Issuer from Arianty during the Substitution Period (each a “**Further Mortgage**”). The Issuer shall only purchase such Further Mortgages to the extent that Principal Collections are available for the purpose in accordance with the Priority of Payments.

**Servicing:**

Britannic Money will be appointed under the terms of a servicing agreement (the “**Servicing Agreement**”) as agent for the Issuer and the Trustee, *inter alia*, to administer the Mortgage Pool, including the collection of payments under the Mortgages, the operation of the arrears procedures and the setting of interest rates under the Mortgages (in its capacity as such, the “**Servicer**”). The Servicer is obliged under the Servicing Agreement to report on a monthly basis to the Trustee and the Issuer on the Mortgage Pool and the administration of the Mortgages (see “The Mortgage Pool – Administration of the Mortgage Pool” below).

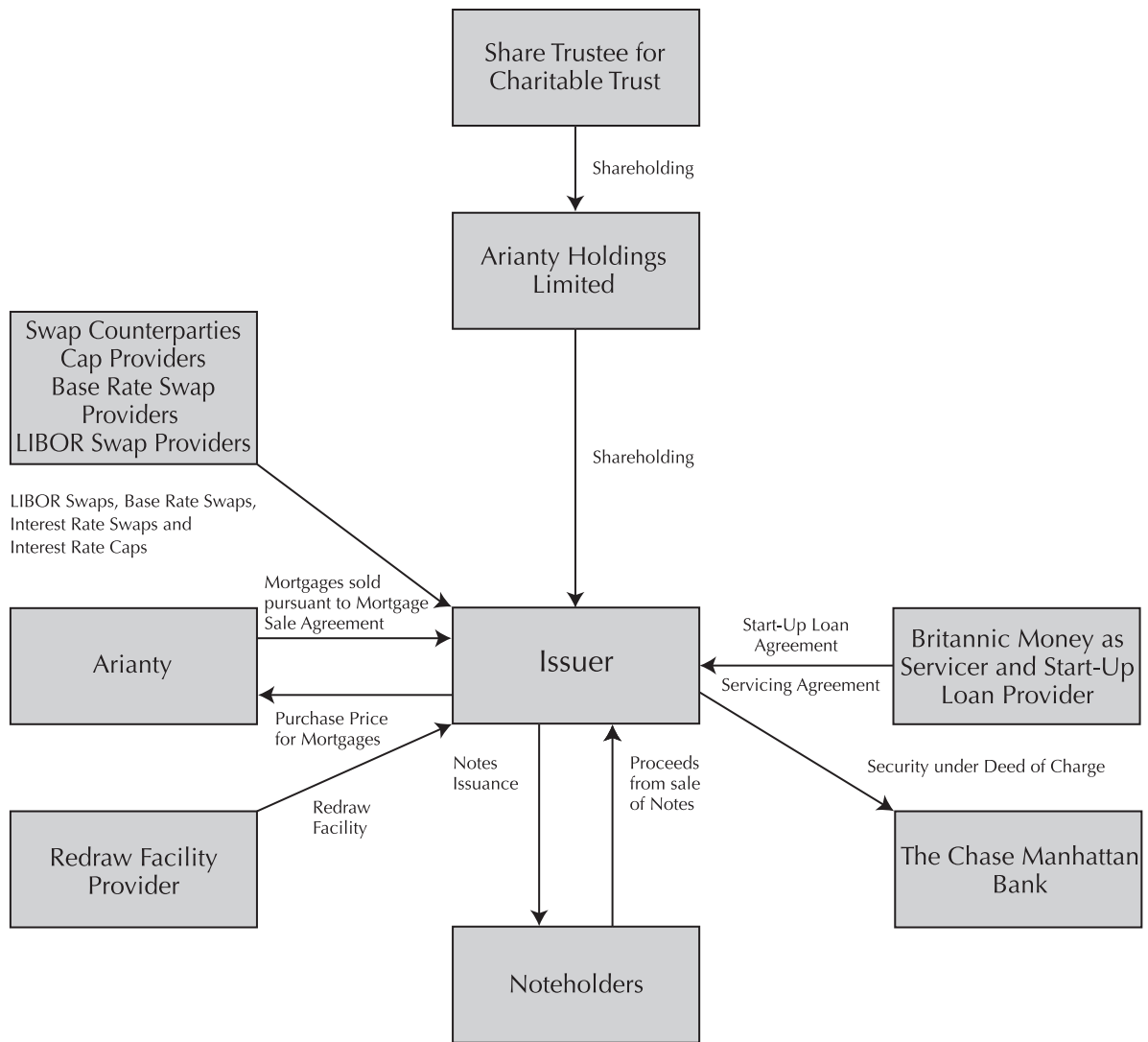
**Interest Rate Hedging:**

Under the Threshold Rate mechanism described under “Credit Structure – Threshold Rate” below, the Servicer is obliged to procure in respect of each Interest Period that the interest expected to be received from the Mortgages in the Mortgage Pool during such Interest Period plus related amounts available as described below is equal to or greater than the amount produced by applying the Threshold Rate (as defined under “Credit Structure – Threshold Rate” below) to the aggregate outstanding balances of the Mortgages in the Mortgage Pool in respect of such Interest Period. Compliance with this requirement will be achieved through a combination of (i) initial hedges entered into with the Swap Counterparties, with the Cap Providers, with the LIBOR Swap Providers and with the Base Rate Swap Providers (each as defined under “Credit Structure – Interest Rate Hedging” below), (ii) reserves established to provide for potential interest shortfalls and (iii) the Servicer’s ability to require the Standard Variable Rate to be set to ensure compliance with the Threshold Rate mechanism.

In the event that a Swap Counterparty or a Base Rate Swap Provider or a LIBOR Swap Provider is required to withhold or deduct from payments due from it to the Issuer an amount in

respect of tax, the relevant Swap Counterparty or, as the case may be, the relevant Base Rate Swap Provider or, as the case may be, the relevant LIBOR Swap Provider will not be required pursuant to the terms of the Interest Rate Swaps or the Base Rate Swaps or the LIBOR Swaps to gross up any payments due to the Issuer. However, the Issuer will in such circumstances have the right to terminate the Interest Rate Swaps or, as the case may be, the Base Rate Swaps or, as the case may be, the LIBOR Swaps and enter into replacement transactions.

## STRUCTURE DIAGRAM





## CERTAIN SPECIAL CONSIDERATIONS

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*The following is a summary of certain aspects of the issue of the Notes about which prospective Noteholders should be aware. The summary is not intended to be exhaustive and prospective Noteholders should read the detailed information set out in the section below entitled "Credit Structure" and elsewhere in this document.*

### **Warranties**

The Issuer will have the benefit of (i) warranties given by Arianty as at the Issue Date in relation to the Mortgages (or, in the case of Pre-Funded Mortgages, Further Mortgages or Substitute Mortgages, as at the date such Mortgages are acquired by the Issuer) (ii) warranties given by Britannic Money in relation to the Mortgages as at the date of the sale of the Mortgages to Arianty under the Origination Mortgage Sale Agreement (or, in the case of Pre-Funded Mortgages, Further Mortgages or Substitute Mortgages, as at the date such Mortgages are acquired by the Issuer) (iii) warranties given by Britannic Money in relation to the Mortgages in its capacity as administrator under the Origination Administration Agreement with respect to the period between the date of sale of the Mortgages to Arianty under the Origination Mortgage Sale Agreement and the Issue Date (or, in the case of Pre-Funded Mortgages, Further Mortgages or Substitute Mortgages, as at the date they are acquired by the Issuer). Neither the Issuer nor the Trustee has undertaken or will undertake any investigations, searches or other actions in respect of the Mortgages, and each will rely instead on the warranties given by Arianty and Britannic Money in the Mortgage Sale Agreement (the "**Warranties**"). The sole remedy (save as described below) of each of the Issuer and the Trustee in respect of a breach of Warranty (see "The Mortgage Pool – Warranties and Repurchase" below) shall be the requirement that Arianty or Britannic Money repurchases or procures the repurchase of, or substitutes or procures the substitution of a similar Mortgage in replacement for, any Mortgage which is the subject of any breach, provided that this shall not limit any other remedies available to the Issuer and/or the Trustee if Arianty and/or Britannic Money fails to repurchase or procure the repurchase of, or substitute or procure the substitution of, a Mortgage when obliged to do so.

Where a Mortgage triggers a warranty breach by both Arianty and Britannic Money (the "**Warrantors**"), the Issuer may claim or, as the case may be, initiate claims against both of the Warrantors or either one of the Warrantors in respect of such breach.

### **Non-Recourse Obligations**

The Notes will be obligations solely of the Issuer and will not be guaranteed by, or be the responsibility of, any other entity. In particular, the Notes will not be obligations of, and will not be guaranteed by Arianty, First Active, Britannic Money, Britannic, the Trustee, Nomura, Barclays, any other Manager, the Swap Counterparties, the Cap Providers, the Base Rate Swap Providers, the LIBOR Swap Providers, the Redraw Facility Provider or the GIC Provider. The Issuer will rely solely on payments in respect of amounts due under the Mortgages, the Reserve Account, the Transaction Account, the Redraw Facility, the Guaranteed Investment Contract and Permitted Investments to enable it to make payments in respect of the Notes.

Upon enforcement of the security for the Notes, the Trustee will have recourse only to the Mortgages and any other assets of the Issuer then in existence, including the Reserve Account, the Guaranteed Investment Contract, the Permitted Investments, the Transaction Account and the Issuer's interest in the Trust Accounts. Other than as provided in the Transaction Documents, the Issuer and the Trustee will have no recourse to Arianty, Britannic Money, Britannic, First Active or any other entity.

If, upon default by Borrowers and after the exercise by the Servicer of all available remedies in respect of the Mortgages, the Issuer does not receive the full amount due from those Borrowers, then Noteholders may receive by way of principal repayment an amount less than the face value of their Notes and the Issuer may be unable to pay in full interest due on the Notes.

### **Collectability of Loans**

The collectability of amounts due under the Mortgages is subject to credit, liquidity and interest rate risks and will generally fluctuate in response to, among other things, market interest rates, general economic conditions, the financial standing of Borrowers, the extent to which Borrowers make prepayments and Redraws under their Mortgages, and other similar factors. Other factors (which may not affect real property values) may have an impact on the ability of Borrowers to repay Mortgages. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies and bankruptcy petitions by Borrowers and could ultimately have an adverse impact on the ability of Borrowers to repay Mortgages.

In addition, the ability of the Issuer to dispose of a property at a price sufficient to repay the amounts outstanding under the relevant Mortgage will depend upon the availability of buyers for the property.

### **Risks of Losses Associated with Declining Property Values**

The security for the Notes consists of, *inter alia*, the Issuer's interest in the Mortgages. This security may be affected by, among other things, a decline in property values. No assurance can be given that values of the properties have remained or will remain at the level at which they were on the dates of origination of the related Mortgages. If the residential property market in the United Kingdom should experience an overall decline in property values, such a decline could in certain circumstances result in the value of the security created by the Mortgages being significantly reduced and, ultimately, may result in losses to the Noteholders if the security is required to be enforced.

### **Risk of Losses Associated with the Condition of the Private Rental Market and Non-Owner Occupied Properties**

As 52% of Mortgages by drawn value in the Mortgage Pool relate to investment properties which are required to be let by the relevant Borrowers, the security for the Notes may also be affected by the condition of the private residential rental market in the United Kingdom. The condition of the market will influence both the ability of the Borrower to find tenants and the level of rental which may be achieved in any letting.

It is intended that non-owner-occupied properties will be let by the relevant Borrower to tenants but there can be no guarantee that each such property will be the subject of an existing tenancy when the relevant Mortgage is acquired by the Issuer or that any tenancy which is granted will subsist throughout the life of the Mortgage and/or that the rental income achievable from tenancies of the relevant property will be sufficient to provide the Borrower with sufficient income to meet the Borrower's obligations in respect of the Mortgage.

Upon enforcement of a Mortgage in respect of a property which is the subject of an existing tenancy, the Servicer may not be able to obtain vacant possession of that property in which case the Servicer will only be able to sell the Property as an investment property with one or more sitting tenants. This may affect the amount which the Servicer could realise upon enforcement of the Mortgage and a sale of the relevant property. However, enforcement procedures in relation to such Mortgages include appointing a receiver of rent, in which case such a receiver must collect any rents payable in respect of such property and apply them accordingly in payment of any interest and arrears accruing under the Mortgage.

### **Geographic Concentration of Mortgaged Properties**

Certain geographic regions will from time to time experience weaker regional economic conditions and housing markets than will other regions and, consequently, will experience higher rates of loss and delinquency on mortgage loans generally. There are concentrations of properties within certain regional areas which may present risk considerations in addition to those generally present for similar mortgage loan asset backed securities without such concentrations. See "The Mortgage Pool – Characteristics of the Provisional Mortgage Pool" below.

### **Endowment Mortgages and Life Cover**

In the case of Endowment Mortgages, although the Borrower is required to take out a policy of endowment life assurance, neither Britannic Money nor Arianty has verified that such a policy of endowment life assurance has been taken out by each Borrower. Neither Britannic Money nor Arianty has taken security over such policy of endowment life assurance.

In relation to all Mortgages, applicants are requested to ensure that they have adequate life cover in place to repay the advance in the event of their death prior to the end of the Mortgage term. Such life cover is not secured in favour of Arianty or Britannic Money.

### **Risk of Losses Associated with Interest Only Mortgages**

Approximately 57.4% of the Mortgages in the Provisional Mortgage Pool by value of drawn balances constitute "**Interest Only Mortgages**" (see "The Mortgage Pool – Characteristics of the Provisional Mortgage Pool" below). Interest Only Mortgages are originated with a requirement that the Borrower pay scheduled interest payments only. There is no scheduled amortisation of principal. Consequently, upon the maturity of an Interest Only Mortgage, the Borrower will be required to make a "bullet" payment that will represent the entirety of the principal amount outstanding. The ability of such a Borrower to repay an

Interest Only Mortgage at maturity frequently may depend on such Borrower's ability to obtain funds from another source, the financial condition of the Borrower, tax laws and general economic conditions at the time.

### **Perfection of Title**

The sale by Arianty to the Issuer of the Mortgages will only be perfected in certain circumstances. In the meantime, neither the Issuer nor the Trustee will acquire legal title to any of the Mortgages. Prior to the Issuer obtaining legal title to the Mortgages, a *bona fide* purchaser from Arianty, Britannic Money and/or First Active for value of any such Mortgage without notice of the interest of the Issuer or the Trustee might obtain a good title free of any such interest. However, the risk of third party claims obtaining priority to the interest of the Issuer or the Trustee will be likely to be limited to circumstances arising from a breach by Arianty, Britannic Money and/or First Active of its contractual obligations or fraud, negligence or mistake on the part of Arianty, Britannic Money and/or First Active. These and other issues relating to title are described further under "Mortgage Pool – Title to the Mortgage Pool" below.

### **Yield and Prepayment Considerations**

The yield to maturity of the Notes of each class will depend on, *inter alia*, the amount and timing of payment of principal (including Prepayments, Redemptions before the end of the mortgage term, Redraws, acquisitions of Further Mortgages, sale proceeds arising on enforcement of a Mortgage, and repurchases or substitutions of Mortgages by Arianty due to, *inter alia*, breaches of any of the Warranties) on the Mortgages and the price paid by the holders of the Notes. Such yield may be adversely affected by a higher or lower than anticipated rate of prepayments on the Mortgages.

It will also be affected by the fact that 97.7% of Mortgages by value of drawn balances in the Mortgage Pool as at 30 June 2001 provide the relevant Borrower with the option to redraw a portion of the principal of its Mortgage (or, subject to the consent of Britannic Money or First Active, as applicable, take a Payment Holiday) ("**Redraws**") if and to the extent that such Borrower has previously made prepayments on its Mortgage in excess of the scheduled principal repayments and has not previously redrawn the whole of such excess payments. However, the amount of such Redraw is limited to ensure that the outstanding balance of the Mortgage after such Redraw is no greater than the principal balance of the Mortgage which would have been outstanding at such time if the Borrower had made payments in accordance with the repayment plan used by Britannic Money or First Active, as applicable, to provide a baseline for repayment of the Mortgage. The Issuer shall be obliged to purchase Redraws up to an amount equal to the sum of (a) amounts available for the purpose in accordance with the Priority of Payments, and (b) the lower of (i) the Available Facility at such time under the Redraw Facility (as defined in "Credit Structure – Redraw Facility" below) and (ii) the aggregate Principal Amount Outstanding of the Class A Notes.

Redemptions before the end of a mortgage term may be as a result of a Borrower voluntarily refinancing or selling the relevant property or as a result of enforcement proceedings under the relevant Mortgages, as well as the receipt of proceeds from buildings insurance and life insurance policies (where relevant). In addition, repurchases of Mortgages required to be made under the Mortgage Sale Agreement will have the same effect as early redemption of such Mortgages.

The rates of Redemption and Prepayment and the amount of Redraws by Borrowers cannot be predicted and is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing, local and regional economic conditions and homeowner mobility. Therefore, no assurance can be given as to the level of Prepayments, Redemptions and Redraws that the Mortgage Pool will experience (see "Estimated Average Lives of the Class A Notes, the Class M Notes and the Class B Notes" below).

### **Set Off**

As described under "The Mortgage Pool – Title to the Mortgage Pool" below, pursuant to the Origination Mortgage Sale Agreement, Britannic Money or First Active, as applicable, made an equitable assignment of the Mortgages to Arianty (or, in relation to Scottish Mortgages, Britannic Money has granted a declaration of trust, as supplemented from time to time in favour of Arianty). Arianty will on the Issue Date make an equitable assignment of all of its interests in the Mortgages except the Scottish Mortgages to the Issuer with legal title in the Mortgages being retained by Britannic Money and First Active, as applicable. In relation to Scottish Mortgages, Britannic Money will, at the direction and with the consent of Arianty, declare a trust over the Scottish Mortgages in favour of the Issuer (the "**Scottish Trust**"). As a result, the rights of the Issuer and the Trustee (as assignees or, in Scotland, as beneficiary or security holder respectively) may be or

become subject to the direct rights of the Borrower against Britannic Money or First Active, as applicable, including rights of set-off existing prior to notification to the Borrowers of the sale of the Mortgages. Such set-off rights may arise, in particular, if Britannic Money or First Active, as the case may be, is unable to advance to a Borrower a Redraw to which the Borrower is contractually entitled (notwithstanding that Britannic Money and First Active covenant in the Mortgage Sale Agreement to Arianty, the Issuer and the Trustee to comply with the terms of each Mortgage). In this event, the relevant Borrower may be able to exercise an equitable right to set off any damages claim arising from Britannic Money's or First Active's, as the case may be, breach of contract against principal and/or interest under the relevant Mortgage as and when it becomes due.

The amount of the Borrower's damages claim will, in many cases, be the cost to the Borrower of finding an alternative source of finance: the Borrower may obtain a loan elsewhere and the damages will be any difference in the borrowing costs together with any consequential losses, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees). If the Borrower is unable to obtain an alternative loan, he may have a damages claim in respect of other losses arising from Britannic Money's or First Active's, as the case may be, breach of contract where there are special circumstances communicated by the Borrower to Britannic Money or First Active, as the case may be, at the time the Mortgage was taken out. In either case, the damages claim will be limited by general legal principles concerning remoteness of loss and mitigation. These include (i) the principle that something which is a real possibility but would only occur in a small minority of cases will not usually fall within the contractual measure of damages, and (ii) the Borrower's duty to mitigate his loss. There is also a practical risk that a Borrower may purport to set-off against his mortgage payments an amount greater than the amount of his damages claim. In such a case, the Issuer will be entitled to take enforcement proceedings against the Borrower, although the period of non-payment by the Borrower is likely to continue until a judgment is obtained.

In addition, a Borrower may have entered or the situation may arise in the future where a Borrower may enter into two or more mortgages with Britannic Money or First Active, as the case may be, two or more of which have been purchased by Arianty and at least one of which is an Investment Home Loan. If Arianty assigns some but not all of these mortgages to the Issuer and Britannic Money or First Active, as the case may be, is subsequently unable to fund a Redraw to which the Borrower is contractually entitled under a mortgage not assigned to the Issuer, the Borrower may still be able to set off the damages claim in respect of such breach against sums due under the Borrower's other mortgages that have been assigned to the Issuer, where the damages claim becomes liquidated before notice of assignment is given to the Borrower.

It is unlikely in practice that the Borrower's damages claim will become liquidated before a notice of the sale of the Mortgages is given to the Borrower as the Issuer and the Trustee are entitled to give notice immediately in the circumstances described in "Title to the Mortgage Pool" above including, *inter alia*, the possible insolvency of Arianty and/or Britannic Money and/or First Active.

In relation to Scottish Mortgages it is arguable that, in the event of such a damages claim arising against Britannic Money, the relevant Borrower would still be entitled to set off the claim against his mortgage payments even after receipt of notice of the making of the Scottish Trust on the basis that the two obligations are interdependent under a single contract and that the Borrower accordingly has a right of retention which will subsist until Britannic Money performs its own obligations under the relevant Scottish Mortgage. Such a right of retention may be excluded by agreement between the parties to the relevant contract however, and it is possible that the mortgage conditions applicable to the Scottish Mortgages are sufficient in their terms to exclude such a right. If this is correct the Borrower's rights to set off will be terminated on receipt of notice of the making of the Scottish Trust as indicated above (except to the extent that any such right existed prior to the giving of the notice).

The exercise of set-off rights by Borrowers will reduce the incoming cash flow to the Issuer during the period of such set-off and, if the aggregate amount set off is sufficiently large, may reduce or prevent payments due under the Notes. The total credit enhancement (see "Credit Structure" below for a discussion of the various enhancements) for the transaction has been established with the Rating Agencies at a level which takes into account this set-off risk.

In addition, Britannic Money and First Active will grant to the Issuer a power of attorney which would (including on the insolvency of Britannic Money or First Active, as applicable) enable the Issuer to advance to Borrowers Redraws on behalf of and in the name of Britannic Money or First Active, as applicable, in an amount up to the Maximum Redraw Amount and Britannic Money and First Active have agreed to assign the right to repayment of such Redraws to the Issuer on the immediately succeeding Interest Payment Date.

## **Value Added Tax Group**

The Issuer has applied to become a member of a value added tax group (the “**VAT Group**”) for the purposes of Section 43 of the Value Added Taxes Act 1994 (the “**VAT Act**”). The VAT Group currently comprises Arianty No.1 plc, Arianty Holdings Limited and Arianty Services Limited.

The representative member of the VAT Group (being the VAT Group member in whose name the registration is made and who is primarily responsible for completing VAT returns and paying/reclaiming VAT on behalf of the VAT Group) is Arianty Services Limited. Each member of the VAT Group is, and the Issuer will be, pursuant to Section 43 of the VAT Act, jointly and severally liable for any VAT (including interest and penalties) due from the representative member to HM Customs & Excise in connection with any VATable supplies made by the VAT Group.

Arianty Services Limited makes supplies which are subject to VAT and the Issuer, Arianty and Arianty Holdings Limited make and/or will make supplies which are not normally subject to VAT, so that each year the representative members’ liability to account for VAT (for which the Issuer will be jointly and severally liable) would not normally exceed the amount of £10,000. The Issuer does not expect that there will be any material change to the amounts of the VAT liability of the VAT Group.

The Issuer has covenanted in Condition 3 of the Class A Conditions, the Class M Conditions and the Class B Conditions to use reasonable endeavours to pursue an application for an exclusion from the VAT Group in certain circumstances, being broadly (i) the failure by the representative member of the VAT Group to fulfil its obligations to HM Customs and Excise, (ii) if there is a material increase in the VAT liabilities of the representative member and in certain other circumstances or (iii) if insolvency or similar proceedings are initiated against the representative member. Such application would terminate the Issuer’s joint and several liability for VAT Group liabilities in relation to amounts due after the date on which such application is accepted by HM Customs & Excise. Such application would not be effective in relieving the Issuer from any VAT liabilities arising before the date of its removal from the VAT Group. Significant delays may occur between such application and its acceptance by HM Customs & Excise, and in some cases HM Customs & Excise may refuse to accept the application so that the applicant remains in the VAT Group despite having applied for its exclusion from the VAT Group.

## CREDIT STRUCTURE

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### FLEXIBLE MORTGAGES

Approximately 97.7% of the Initial Mortgages by value of drawn balances provide Borrowers with the option to make Redraws in the circumstances described in "Summary – The Mortgages" above. On each Interest Payment Date, Britannic Money and/or First Active, as applicable, shall sell the right to repayment of Redraws to the Issuer and the Issuer shall be obliged to purchase such rights up to an aggregate amount (the "**Maximum Redraw Amount**") equal to the sum of (a) amounts available for the purpose in accordance with the Priority of Payments and (b) the lower of (i) the Available Facility at such time under the Redraw Facility and (ii) the aggregate Principal Amount Outstanding of the Class A Notes.

If on any Determination Date, the aggregate amount of Redraws made by Borrowers during the immediately preceding Collection Period exceeds the Maximum Redraw Amount, the Issuer shall at its option be entitled to redeem the Notes in whole (not in part) on the second Interest Payment Date after such Determination Date in accordance with Class A Condition 5(f), Class M Condition 5(f) and Class B Condition 5(f).

### SUBSTITUTION PERIOD

The period commencing on (and including) the Issue Date and ending on the earlier of (i) the Interest Payment Date falling in July 2004, (ii) enforcement of the Security in accordance with Class A Condition 10, Class M Condition 10 and Class B Condition 10, (iii) removal of Britannic Money as Servicer in accordance with the Servicing Agreement and no replacement Servicer having been appointed in accordance with the Servicing Agreement, (iv) the date on which the Notes are redeemed in full and (v) the date on which the Redraw Facility becomes fully drawn, shall be designated the "**Substitution Period**". The Substitution Period is the only period during which Further Mortgages may be sold by Arianty to the Issuer. The Issuer may, by giving no less than 5 Business Days' notice to the Trustee, the Noteholders and the Servicer, elect to shorten the Substitution Period provided that it ends on an Interest Payment Date. The Interest Payment Date to which such notice from the Issuer relates will be the last day of the Substitution Period.

Mortgages which qualify as Further Mortgages shall be subject to various conditions, including interest rate type in order to ensure adequate hedging protection as set out in "The Mortgage Pool – Further Mortgages" below.

Arianty may not offer a Further Mortgage to the Issuer if the aggregate outstanding principal balances of the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date and the outstanding principal balance of the Further Mortgage offered plus the aggregate Potential Redraw Amount with respect to the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date and the Potential Redraw Amount with respect to the Further Mortgage offered is equal to or exceeds the sum of (i) the aggregate outstanding principal balance of the Mortgages comprising the Mortgage Pool and (ii) the aggregate Potential Redraw Amount with respect to such Mortgages, each as at the Determination Date immediately preceding the last Interest Payment Date.

### BORROWER COMMITMENT FEES

As at 30 June 2001, 97.6% by number and 97.7% by value of drawn balances of the Initial Mortgages were Flexible Mortgages (as defined in "The Mortgage Pool" below). As at 30 June 2001, Borrowers of 98.4% by number and 98.8% by value of the Flexible Mortgages were bound to pay a Commitment Fee in the circumstances set out below. If a Borrower under a Flexible Mortgage prepays his Mortgage Loan in excess of the relevant Repayment Plan (as defined in "The Provisional Mortgage Pool – Flexible Mortgages" below) then on any date when the aggregate principal amount of such prepayments less any Redraws made by such Borrower up to such date ("**Net Prepayments**") is greater than a predetermined percentage of the Borrower Loan Limit set by Britannic Money or First Active, as applicable, (such predetermined percentage being no more than 20% as at the Issue Date and the excess over the predetermined percentage of the Borrower Loan Limit being referred to as the "**Excess Amount**"), such Borrower will be obliged to pay a percentage set by Britannic Money or First Active, as applicable, of the Excess Amount by way of an annual commitment fee (the "**Commitment Fee**") (such predetermined percentage being no less than 1% of the Excess Amount). Any Commitment Fee payable by a Borrower will belong to the Issuer, will be credited to the Transaction Account and will be available for application in accordance with the Priority of Payments. Britannic Money or First Active, as applicable, may, but is not obliged to, vary the percentage of the

Borrower Loan Limit used in determining the Excess Amount (but not above 20%) and the size of the Commitment Fee (but not below 1%).

## USE OF LEDGERS

A Principal Deficiency Ledger will be established in order to record the principal deficiency (if any) (a “**Principal Deficiency**”) on the day which is eight Business Days preceding each Interest Payment Date (each a “**Determination Date**”) calculated by deducting from the “**Liabilities**” expected to exist as at close of business on the immediately succeeding Interest Payment Date, the “**Assets**” expected to exist as at close of business on the immediately succeeding Interest Payment Date (after having made all payments in accordance with the Priority of Payments) where “**Liabilities**” means:

- (a) the aggregate Principal Amount Outstanding of the Notes on the last day of the immediately preceding Collection Period; less
- (b) the amount allocated in the Priority of Payments to redemption of the Notes under item (xiii) on the immediately succeeding Interest Payment Date; plus
- (c) the aggregate principal amount outstanding under the Redraw Facility on the last day of the immediately preceding Collection Period; plus
- (d) the amount by which the aggregate principal amount outstanding under the Redraw Facility is expected to increase on the immediately succeeding Interest Payment Date as a result of the purchase of the right to repayment of Redraws; less
- (e) the amount allocated in the Priority of Payments to repayment of principal amounts outstanding under the Redraw Facility under item (x) on the immediately succeeding Interest Payment Date,

and “**Assets**” means:

- (a) the aggregate outstanding principal balances of the Mortgages (including amounts receivable in respect of claims under property related insurance policies) on the last day of the immediately preceding Collection Period; plus
- (b) the aggregate principal amount of the Redraws the right of repayment of which are to be purchased on the immediately succeeding Interest Payment Date; plus
- (c) the amount allocated in the Priority of Payments to purchase Further Advances under item (xi) on the immediately succeeding Interest Payment Date; plus
- (d) the amount allocated in the Priority of Payments to purchase Further Mortgages under item (xii) on the immediately succeeding Interest Payment Date; plus
- (e) the amount standing to the credit of the Pre-Funded Ledger and the Non-Verified Mortgage Ledger, provided that the Principal Deficiency shall never be less than zero.

In addition, ledgers will be established (as described in “Credit Structure – Reserve Account” below) to record the amount from time to time standing to the credit of the Reserve Fund (the “**Reserve Ledger**”), the amount from time to time standing to the credit of the Hedge Reserve (the “**Hedge Reserve Ledger**”), the amount from time to time standing to the credit of the Base Rate Reserve (the “**Base Rate Reserve Ledger**”) and the amount from time to time standing to the credit of the Discount Reserve (the “**Discount Reserve Ledger**”). Furthermore, ledgers will be established (as described in “Credit Structure – Transaction Account” below) to record the amount from time to time available to the Issuer to purchase Pre-Funded Mortgages (the “**Pre-Funded Ledger**”) and the amount from time to time available to the Issuer to pay for the Non-Verified Mortgages (the “**Non-Verified Mortgage Ledger**”).

## THE CLASS M NOTES AND THE CLASS B NOTES

Holders of the Class M Notes (the “**Class M Noteholders**”) will not be entitled to receive any payment of principal if a Class M Principal Lock Out applies.

Holders of the Class B Notes (the “**Class B Noteholders**”) will not be entitled to receive any payment of principal if a Class B Principal Lock Out applies.

The Class A Notes, the Class M Notes and the Class B Notes will be constituted by the Trust Deed and will share the same security although, upon enforcement, the Class A Notes will rank in priority to the Class M Notes and the Class A Notes and the Class M Notes will rank in priority to the Class B Notes.

If on the Interest Payment Date falling in July 2036 or on any prior date after the assets of the Issuer have been exhausted and provided there are no Class A Notes outstanding, there remains a debit balance on the Principal Deficiency Ledger having taken account of any credit balance in the Reserve Account (the **“Adjusted Principal Deficiency”**) then the aggregate principal amount payable on redemption of the Class B Notes shall be their aggregate Principal Amount Outstanding less the Adjusted Principal Deficiency. If the Adjusted Principal Deficiency exceeds the aggregate Principal Amount Outstanding of the Class B Notes, the remaining debit balance on the Principal Deficiency Ledger after such debit balance has been applied to reduce the aggregate principal amount payable on redemption of the Class B Notes to zero, shall be applied to reduce the amount payable on redemption of the Class M Notes.

## TRUST ACCOUNTS

Direct debit payments in respect of amounts due under the Mortgages will be made to an account in the name of Britannic Money at Barclays Bank PLC (the **“Account Bank”**) (the **“Direct Debit Account”**) and other payments in respect of amounts due under the Mortgages will be made to accounts in the name of Britannic Money at the Account Bank and at The Royal Bank of Scotland plc (the **“Non-Direct Debit Accounts”**) and together with the Direct Debit Account, the **“Trust Accounts”**). Britannic Money will execute a declaration of trust in favour of the Issuer (the **“Declaration of Trust”**) declaring a trust over the amounts which relate to the Mortgages which are from time to time standing to the credit of the Trust Accounts.

## TRANSACTION ACCOUNT

Payments in respect of amounts due and amounts received under the Mortgages which are credited to the Trust Accounts will be transferred to an account in the name of the Issuer at the Account Bank (the **“Transaction Account”**) in accordance with the terms of a bank agreement between Britannic Money, The Royal Bank of Scotland plc, the Issuer, the Trustee and the Account Bank (the **“Bank Agreement”**) (i) in respect of direct debit collections, on the Business Day on which they are credited to the Direct Debit Account and (ii) in respect of all other monies, on the day following the Business Day on which they are credited to the Non-Direct Debit Accounts. Amounts standing to the credit of the Transaction Account may be invested in Permitted Investments. The Issuer will establish and maintain on its books and in the Transaction Account two separate ledgers for amounts which are available to it to purchase Pre-Funded Mortgages and amounts which are available to it to pay for the Non-Verified Mortgages.

## RESERVE ACCOUNT

Amounts deposited and standing to the credit of an account in the name of the Issuer at the Account Bank (the **“Reserve Account”**) will be the subject of the Guaranteed Investment Contract (as defined below) or invested in Permitted Investments. Interest earned on amounts standing to the credit of the Reserve Account during each Interest Period shall be credited to the Transaction Account on or before the Interest Payment Date immediately succeeding such Interest Period and applied in accordance with the Priority of Payments. The Issuer will maintain on its books in relation to the Reserve Account ledgers for the Reserve Fund, the Base Rate Reserve, the Discount Reserve and the Hedge Reserve.

## BANK ACCOUNTS

The **“Bank Accounts”** represent the Trust Accounts, the Transaction Account and the Reserve Account. If the rating of the unsubordinated, unguaranteed and unsecured short-term debt of the Account Bank assigned by the Rating Agencies falls below A-1+ from S&P or F-1+ from Fitch (unless the applicable Rating Agency confirms in writing that such event would not cause it to downgrade the then current rating of the Notes) the Servicer will, as soon as it is able, transfer the Bank Accounts to a bank whose unsubordinated, unguaranteed and unsecured short-term debt is so rated.

## REDRAW FACILITY

The Issuer will enter into a sterling revolving credit facility (the **“Redraw Facility”** which term will include any extended or replacement facility) with Barclays Bank PLC (the **“Redraw Facility Provider”**, which term will include any replacement Redraw Facility Provider) which facility may be utilised by the Issuer on any Interest Payment Date to fund the purchase of the right to repayment of Redraws (including Payment Holidays) with respect to Mortgages beneficially owned by the Issuer if there are no amounts available for the purpose of purchasing the right to repayment of Redraws in accordance with the Priority of Payments. The initial maximum aggregate amount that can be drawn at any time under the Redraw Facility is £58 million (the **“Redraw Facility Limit”**) which limit may be varied on any Interest Payment Date by



agreement between the Issuer, the Trustee, the Redraw Facility Provider and the Servicer (as agent of the Issuer) with the prior written consent of the Rating Agencies. The Redraw Facility Provider will not be obliged by any party to advance funds beyond such initial maximum aggregate amount.

On each Interest Payment Date falling prior to the Final Redemption Date of the Notes, Redraws by Borrowers during the immediately preceding Collection Period shall be assigned to the Issuer (so far as not already held by it) by Britannic Money and First Active, as applicable, and the Issuer shall be obliged to purchase the right to repayment of such Redraws (including Payment Holidays) in accordance with the Priority of Payments up to an aggregate amount (the “**Maximum Redraw Amount**”) equal to the sum of (a) the amount of Principal Collections available for such purpose on such Interest Payment Date in accordance with the Priority of Payments and (b) the lower of (i) the Available Facility (as defined below) under the Redraw Facility at such time and (ii) the aggregate Principal Amount Outstanding of the Class A Notes.

Provided that all Principal Collections available for the purpose in accordance with the Priority of Payments have been fully exhausted on each Interest Payment Date, the Issuer shall be entitled to draw an amount up to the then available facility under the Redraw Facility being an amount calculated as the lower of (i) the difference between the Redraw Facility Limit and the aggregate amount of advances outstanding under the Redraw Facility which will not be repaid on such Interest Payment Date (the “**Available Facility**”) and (ii) the aggregate Principal Amount Outstanding of the Class A Notes.

Not later than the Interest Payment Date falling 6 months prior to the Coupon Step Up Date, the Issuer and the Servicer (as agent of the Issuer) shall consult with the Rating Agencies with a view to agreeing a new Redraw Facility Limit (a “**New Redraw Facility Limit**”) to take effect as of the Coupon Step Up Date and the Issuer will request the consent of the Redraw Facility Provider to such New Redraw Facility Limit. If a New Redraw Facility Limit is not approved by the Rating Agencies at least 60 days prior to the Coupon Step Up Date, the Redraw Facility Limit prevailing at such time will continue to apply. If the Redraw Facility Provider fails to consent to the New Redraw Facility Limit, the Redraw Facility Limit prevailing at such time will continue to apply and the Issuer may seek an alternative Redraw Facility Provider willing to provide a redraw facility in an amount equal to the New Redraw Facility Limit.

The commitment of the Redraw Facility Provider under the Redraw Facility will expire on the Interest Payment Date falling in July 2036 subject to the Notes not having been redeemed earlier or enforcement of the Security in accordance with Class A Condition 10, Class M Condition 10 and Class B Condition 10 not having occurred (the “**Redraw Commitment Expiry Date**”).

If at any time the short term unsecured, unguaranteed and unsubordinated debt rating of the Redraw Facility Provider assigned by the Rating Agencies falls below A-1+ from S&P and F-1+ from Fitch (unless the applicable Rating Agency confirms in writing that such event would not cause it to downgrade the then current rating of the Notes (the “**Required Redraw Facility Provider Rating**”) and the Redraw Facility Provider is not replaced by a suitable Redraw Facility Provider with the Required Redraw Facility Provider Rating within 30 days of such downgrade, the Issuer shall request an advance equal to the then Available Facility under the Redraw Facility and shall deposit the proceeds of such Advance in the Reserve Fund until a suitable replacement Redraw Facility Provider has been found.

#### **NON-VERIFIED MORTGAGE LEDGER**

On the Issue Date, the Issuer shall establish a ledger in the Transaction Account (the “**Non-Verified Mortgage Ledger**”) and shall credit the Non-Verified Mortgage Ledger with an amount equal to the Purchase Price (as defined in “The Mortgage Pool – Sale of Mortgages” below) of the Non-Verified Mortgages acquired by the Issuer under the Mortgage Sale Agreement. The Issuer may only utilise the monies standing to the credit of the Non-Verified Mortgage Ledger to pay to Arianty the relevant Purchase Price of each Non-Verified Mortgage upon verified receipt of the first payment of principal and/or interest due from the relevant Borrower. After the Issue Date, no further amounts may be credited to the Non-Verified Mortgage Ledger. Any amounts not applied to pay for the purchase price of Non-Verified Mortgages on or before the first Interest Payment Date shall be treated as Redemptions and shall be applied in accordance with the Priority of Payments on the first Interest Payment Date.

#### **PRE-FUNDING LEDGER**

At any time on or after the Issue Date but no later than the third Interest Payment Date after the Issue Date the Issuer shall purchase further mortgages (each a “**Pre-Funded Mortgage**”) from Arianty subject to each such Pre-Funded Mortgage complying with the eligibility criteria applicable to Further Mortgages. It is a requirement of the Mortgage Sale Agreement that in respect of the Pre-Funded Mortgages sold to the Issuer

by Arianty, Arianty must have verified receipt of the first monthly payment due from the relevant Borrower (and in respect of Pre-Funded Mortgages which are Scottish Mortgages, Britannic Money will at the direction and with the consent of Arianty, declare a supplemental trust over the Scottish Mortgages (each a “**Scottish Supplemental Declaration of Trust**”).

The Issuer may only purchase the Pre-Funded Mortgages utilising monies standing to the credit of the Pre-Funded Ledger. After the Issue Date, no further amounts may be credited to the Pre-Funded Ledger. The amounts standing to the credit of the Pre-Funded Ledger may not be used for any purpose other than for the acquisition of Pre-Funded Mortgages. Any amounts not applied to purchase Pre-Funded Mortgages on or before the third Interest Payment Date shall be treated as Redemptions and shall be applied in accordance with the Priority of Payments on that Interest Payment Date.

## **RESERVE FUND**

The following amounts shall be credited to a fund established in the Reserve Account (the “**Reserve Fund**”):

- (a) on the Issue Date, £7.5 million represented by the amounts drawn under Tranche B of the Start-Up Loan; and
- (b) on any Interest Payment Date following the Issue Date, amounts paid pursuant to item (viii) of the Priority of Payments, up to the Reserve Fund Required Amount.

The Issuer will be obliged to maintain the Reserve Fund at the level of the Reserve Fund Required Amount (as defined below). The Reserve Fund will be available to meet items (i) to (vii) of the Priority of Payments if insufficient funds are available to meet such items under the Priority of Payments provided that (A) whilst there are Class A Notes outstanding, the Reserve Fund shall only be applied to pay interest on the Class M Notes to the extent that such drawing does not result in the amount standing to the credit of the Reserve Fund being less than (1) £3,000,000 or (2) the outstanding principal amount of the Class A Notes and (B) whilst there are Class M Notes outstanding, the Reserve Fund shall only be applied to pay interest on the Class B Notes to the extent that such drawing does not result in the amount standing to the credit of the Reserve Fund being less than (1) £3,000,000 or (2) the aggregate outstanding principal amount of the Class A Notes and the Class M Notes. The “**Reserve Fund Required Amount**” means the amount deposited under Tranche B of the Start-Up Loan. If the Redraw Facility Provider ceases to have the Required Redraw Facility Provider Rating and a suitable replacement with the Required Redraw Facility Provider Rating is not appointed within 30 days, the Reserve Fund Required Amount on such day will be increased by the amount equal to the Available Facility under the Redraw Facility at such time. The Reserve Fund Required Amount shall subsequently be reduced by such amount on the day a Replacement Redraw Facility Provider is appointed.

If at any time the amount standing to the credit of the Reserve Fund exceeds the Reserve Fund Required Amount, the amount of such excess shall be debited to the Reserve Fund and credited to the Transaction Account for application in accordance with the Priority of Payments.

## **BASE RATE RESERVE**

The average spread at which Bank of England Base Rate is expected to set below Note LIBOR has been determined by the Issuer to equal 0.15%. Accordingly, the Issuer will establish a reserve in the Reserve Account (the “**Base Rate Reserve**”) in an initial amount of £50,000 using Tranche E of the Start-Up Loan to cover any shortfalls resulting from the Bank of England Base Rate being set at a level more than 0.15% below Note LIBOR in respect of any Interest Period and arising to the extent that the aggregate outstanding principal balances of any Base Rate Mortgages exceed the total notional balances on all Base Rate Swaps (the “**Unhedged Base Rate Linked Mortgages**”).

Each time Bank of England Base Rate is set at a level more than 0.15% below Note LIBOR in respect of an Interest Period, on the following Interest Payment Date, a portion of the monies standing to the credit of the Base Rate Reserve equal to the amount by which Bank of England Base Rate is lower than 0.15% below Note LIBOR multiplied by the aggregate outstanding principal balances of any Unhedged Base Rate Linked Mortgages as at the previous Interest Payment Date multiplied by the fraction of the actual number of days elapsed in the Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year) will be transferred from the Base Rate Reserve to the Transaction Account and will be available for application in accordance with the Priority of Payments. The Issuer will be obliged to maintain the Base Rate Reserve at the Base Rate Reserve Required Amount under item (xvi) of the Priority of Payments. If on an Interest Payment Date the amount standing to the credit of the Base Rate Reserve

exceeds the Base Rate Reserve Required Amount, the amount of such excess shall be debited to the Base Rate Reserve and credited to the Transaction Account for application in accordance with the Priority of Payments.

The “**Base Rate Reserve Required Amount**” means on the Issue Date and each Interest Payment Date thereafter an amount equal to 0.30% of the aggregate outstanding principal balances (including drawn and undrawn balances) of the Unhedged Base Rate Linked Mortgages.

## **DISCOUNT RESERVE**

On the Issue Date, in respect of each Mortgage which is a Discounted Mortgage, the Issuer will determine the Loan Expected Differential for each Discounted Mortgage in the Initial Mortgage Pool resulting from the Discount over the time period during which the Discount applies and the anticipated Pool Expected Differential. In respect of each Pre-Funded Mortgage which comprises a Discounted Mortgage acquired by or transferred to the Issuer, the Issuer will determine the Loan Expected Differential in respect of such Pre-Funded Mortgage on the date of such acquisition or transfer to the Issuer. On each Determination Date the Issuer will calculate the Loan Expected Differential in respect of any Substitute Mortgages, Further Mortgages or Further Advances to be transferred into the Mortgage Pool on the immediately succeeding Interest Payment Date which are or are in respect of Discounted Mortgages and will calculate the Pool Expected Differential in respect of the Interest Period commencing on the next Interest Payment Date to take into account such new loans or advances and any redemptions of Discounted Mortgages in the immediately preceding Interest Period.

To cover these Expected Differentials resulting from Discounted Mortgages, the Issuer will establish a reserve in the Reserve Account (the “**Discount Reserve**”) using Tranche F of the Start-Up Loan. On each Interest Payment Date (i) a portion of the amount standing to the credit of the Discount Reserve equal to the amount of any Pool Expected Differential determined in respect of the Interest Period ending immediately prior to such Interest Payment Date and (ii) the aggregate amount of any Loan Expected Differentials allocated to Discounted Mortgages which have redeemed in the immediately preceding Collection Period, shall each be debited to the Discount Reserve and credited to the Transaction Account for application in accordance with the Priority of Payments. Under item (xviii) of the Priority of Payments, the Issuer shall on each Interest Payment Date allocate additional amounts to the Discount Reserve to cover Expected Differentials arising from future Discounts on any Further Mortgages, Substitute Mortgages and Further Advances which are or are in respect of Discounted Mortgages being purchased on such Interest Payment Date.

On the Issue Date the Discount Reserve shall be an amount equal to £2,381,000. This amount is calculated by representing the aggregate Loan Expected Differentials in respect of each Discounted Mortgage in the Initial Mortgage Pool. An amount equal to the Loan Expected Differential in respect of each Pre-Funded Mortgage which comprises a Discounted Mortgage shall be credited to the Discount Reserve on the date each such Mortgage is acquired or transferred to the Issuer by utilising proceeds drawn under Tranche F of the Start-Up Loan.

“**Discount**” means the discount below the Reference Rate applicable to a Discounted Mortgage at the relevant time.

“**Effective Interest Margin**” in relation to Discounted Mortgages in the Mortgage Pool will be determined as follows:

- (a) for each Standard Variable Rate Mortgage, the Threshold Margin less the Discount;
- (b) for each Base Rate Linked Mortgage, the margin of that Mortgage over Bank of England Base Rate less 0.15% (where such mortgage is not subject to a Base Rate Swap) less the Discount;
- (c) for each LIBOR Linked Mortgage, the margin of that Mortgage over LIBOR less the Discount;
- (d) for each Capped Mortgage which has been hedged relative to the Threshold Rate, the Threshold Margin less the Discount; and
- (e) for each Fixed Rate Mortgage which has been swapped to the Threshold Rate, the Threshold Margin less the Discount.

“**Expected Differential**” means an amount calculated in respect of each Discounted Mortgage and each Interest Period as the difference between the Threshold Margin and the Effective Interest Margin on such Discounted Mortgage, to the extent such difference is positive, multiplied by the outstanding principal balance in respect of such Discounted Mortgage as of the Interest Payment Date multiplied by the fraction

of the actual number of days elapsed in the succeeding Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year).

“**Loan Expected Differential**” means the aggregate of all Expected Differentials applying to Interest Periods that fall during the discount period for such Mortgage.

“**Pool Expected Differential**” means in relation to an Interest Period, the aggregate of the Expected Differentials in relation to such Interest Period of all Discounted Mortgages in the Mortgage Pool.

“**Reference Rate**” means:

- (a) for each Standard Variable Rate Mortgage, Britannic Money’s standard variable rate;
- (b) for each LIBOR Linked Mortgage, LIBOR plus the margin applicable to the relevant Mortgage as set out in the mortgage documentation entered into with the relevant Borrower;
- (c) for each Base Rate Linked Mortgage, Bank of England Base Rate, plus the margin applicable to the relevant Mortgage as set out in the mortgage documentation entered into with the relevant Borrower;
- (d) for each Capped Mortgage, the rate set out in the mortgage documentation entered into with the relevant Borrower; and
- (e) for each Fixed Rate Mortgage, the rate set out in the mortgage documentation entered into with the relevant Borrower.

“**Threshold Margin**” means the figure expressed as a percentage resulting from the addition of (i) the average total principal balance outstanding of Owner Occupied Loans during the relevant Interest Period multiplied by 1% plus (ii) the average total principal balance outstanding of Investment Home Loans during the relevant Interest Period multiplied by 1.2%, all divided by the average total principal balance outstanding of all Mortgages during that Interest Period. The average total principal balance outstanding in any category of Loan for the purposes of the above calculation shall be calculated by reference to the total principal balance outstanding of such category of Loan on each day during the relevant Interest Period.

#### **THRESHOLD RATE**

So long as any of the Notes are outstanding the Servicer shall be obliged to procure on each Interest Payment Date that the Standard Variable Rate in relation to each Standard Variable Mortgage in the Mortgage Pool is set such that the amount represented by:

- (a) the aggregate of the annual rate of interest applicable on such Interest Payment Date to each Mortgage in the Mortgage Pool multiplied by the principal balance outstanding of such Mortgage on such Interest Payment Date multiplied by the fraction of the actual number of days elapsed in the relevant Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year); plus
- (b) any amount expected to be transferred from the Hedge Reserve into the Transaction Account on the next following Interest Payment Date; plus
- (c) any amount expected to be transferred from the Base Rate Reserve into the Transaction Account on the next following Interest Payment Date; plus
- (d) any amount expected to be transferred from the Discount Reserve into the Transaction Account on the next following Interest Payment Date (the sum of (a) to (d), “**Amount A**”); plus
- (e) any amounts received in respect of Interest Rate Swaps, Interest Rate Caps, LIBOR Swaps and Base Rate Swaps,

is equal to or greater than the amount (“**Amount B**”) produced by multiplying the Threshold Rate with the aggregate outstanding balances of the Mortgages in the Mortgage Pool on such Interest Payment Date and the fraction of the actual number of days elapsed in the relevant Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year). This exercise is linked to the Issuer’s requirements to maintain hedging protection relative to each interest rate type of Mortgages (see “Interest Rate Hedging” below).

Alternatively, the Servicer may procure on such Interest Payment Date that a deposit (the “**Threshold Amount Deposit**”) equal to the amount by which Amount B exceeds Amount A (such amount not to be less than zero) is paid into the Transaction Account. Such deposit is repayable at item (xx) of the Priority of Payments to the extent that it is no longer required to cover such difference.

The “**Threshold Rate**” in respect of an Interest Period means an annual rate of LIBOR as determined in relation to the Notes for such Interest Period plus the Threshold Margin.

## INTEREST RATE HEDGING

The Servicer is obliged to procure in respect of each Interest Period that the interest expected to be received from the Mortgages in the Mortgage Pool during such Interest Period plus related amounts available as described below is equal to or greater than the amount produced by applying the Threshold Rate to the aggregate outstanding principal balances of the Mortgages in the Mortgage Pool in respect of such Interest Period. Compliance with this requirement will be achieved through a combination of hedges entered into with the Swap Counterparties, the Cap Providers, the LIBOR Swap Providers and the Base Rate Swap Providers, reserves established to supplement potential interest shortfalls and the Servicer’s ability to require the Standard Variable Rate to be set in respect of the Standard Variable Mortgages as follows:

- (a) *Standard Variable Mortgages*: The Standard Variable Rate in respect of the Standard Variable Mortgages shall be set as described under “Threshold Rate” above.
- (b) *Fixed Rate Mortgages*: The Issuer will initially enter into a series of interest rate swaps with Morgan Guaranty Trust Company of New York, London branch and/or Barclays Bank PLC and may also enter into interest rate swaps from time to time with such other entity as the Issuer may decide provided that such entity has a rating of at least A-1+ by S&P and F-1+ by Fitch in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (the “**Swap Counterparties**”, each a “**Swap Counterparty**”) to hedge the variance between the fixed rate of interest payable on the Fixed Rate Mortgages and the Threshold Rate (each an “**Interest Rate Swap**” and together the “**Interest Rate Swaps**”). Further Interest Rate Swaps may also be entered into by the Issuer in relation to Pre-Funded Mortgages, Further Mortgages, Substitute Mortgages and Further Advances.
- (c) *Capped Rate Mortgages*: The Issuer will initially purchase a series of interest rate caps (each an “**Interest Rate Cap**” and together the “**Interest Rate Caps**”) from Morgan Guaranty Trust Company of New York, London branch and/or Barclays Bank PLC and may also enter into interest rate caps from time to time with such other entity as the Issuer may decide provided that such entity has a rating of at least A-1+ by S&P and F-1+ by Fitch in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (the “**Cap Providers**”, each a “**Cap Provider**”) to hedge against the Threshold Rate exceeding the capped rate applicable under the relevant Capped Mortgages. Further Caps may also be purchased by the Issuer applying amounts available under item (xvii) of the Priority of Payments in relation to Pre-Funded Mortgages, Further Mortgages, Substitute Mortgages and Further Advances. In conjunction with the purchase of the Interest Rate Caps, the Issuer will establish a reserve (the “**Hedge Reserve**”) using Tranche C of the Start-Up Loan. The Issuer shall maintain the Hedge Reserve at the level of the Hedge Reserve Required Amount (as defined below) under item (xvi) of the Priority of Payments. A certain portion of the monies standing to the credit of the Hedge Reserve will be allocated to each Interest Rate Cap and will be available to cover shortfalls as a result of the related Interest Rate Cap not being a perfect hedge and to the extent required will be transferred on each Interest Payment Date. To the extent that the amount standing to the credit of the Hedge Reserve exceeds the Hedge Reserve Required Amount, the amount of such excess will be transferred from the Hedge Reserve to the Transaction Account and will be available for application in accordance with the Priority of Payments. Amounts relating to an Interest Rate Cap that is expired will be released into the Transaction Account for application in accordance with the Priority of Payments. Further amounts may also be paid into the Hedge Reserve to supplement Interest Rate Caps purchased by the Issuer in relation to Pre-Funded Mortgages, Further Mortgages, Substitute Mortgages and Further Advances.

“**Hedge Reserve Required Amount**” means (a) as at the Issue Date, the initial amount of Tranche C of the Start-Up Loan and (b) as at each Interest Payment Date, an amount equal to such amounts as are required to ensure that the Threshold Margin is maintained in respect of Capped Mortgages.

- (d) *Base Rate Linked Mortgages*: The Issuer will initially enter into a base rate swap with The Royal Bank of Scotland plc and may also enter into base rate swaps from time to time with such other entity as the Issuer may decide provided that such entity has a rating of at least A-1+ by S&P and F-1+ by Fitch in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (the “**Base Rate Swap Providers**”, each a “**Base Rate Swap Provider**”) to hedge the variance between Bank of England Base Rate and Note LIBOR arising from Base Rate Linked Mortgages (each a “**Base Rate Swap**” and together the “**Base Rate Swaps**”). Further base rate swaps may also be entered into by the

Issuer in relation to Pre-Funded Mortgages, Further Mortgages, Substitute Mortgages and Further Advances.

The average spread at which Bank of England Base Rate is expected to set below Note LIBOR has been determined by the Issuer to equal 0.15%. Accordingly, the Issuer will establish a Base Rate Reserve using Tranche E of the Start-Up Loan to cover any shortfalls resulting from Bank of England Base Rate setting at a level more than 0.15% below Note LIBOR in respect of any Interest Period in respect of the Unhedged Base Rate Linked Mortgages. The use of the Base Rate Reserve is described under "Base Rate Reserve" above.

- (e) *LIBOR Linked Mortgages:* LIBOR on the mortgages linked to one month LIBOR and Note LIBOR are fixed on the same day in each month so that no basis risk exists in relation to these mortgages. The Issuer will initially enter into an interest rate swap with Morgan Guaranty Trust Company of New York, London branch and may also enter into interest rate swaps from time to time with such other entity as the Issuer may decide provided that such entity has a rating of at least A-1+ by S&P and F-1+ by Fitch in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (the "**LIBOR Swap Providers**", each a "**LIBOR Swap Provider**") to hedge the variance between three month LIBOR and the Note LIBOR in respect of the Mortgages which are linked to three month LIBOR (each a "**LIBOR Swap**" and together, the "**LIBOR Swaps**").
- (f) *Discounted Mortgages:* On the Issue Date, in respect of each Initial Mortgage which is a Discounted Mortgage the Issuer will determine the Loan Expected Differential resulting from the Discount over the time period during which the Discount applies and the anticipated Pool Expected Differential for the first Interest Period. On each Determination Date the Issuer will calculate the Pool Expected Differential in respect of the Interest Period commencing on the next Interest Payment Date to take into account any Substitute Mortgages or Further Mortgages transferred into the Mortgage Pool on such date and any redemptions of Discounted Mortgages in the immediately preceding Collection Period. To cover the Expected Differentials resulting from Discounted Mortgages, the Issuer will establish a Discount Reserve using Tranche F of the Start-Up Loan. The use of the Discount Reserve is described under "Discount Reserve" above.

Each of the Swap Counterparties, the Cap Providers, the LIBOR Swap Providers and the Base Rate Swap Providers will, on the Issue Date, have a rating in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations of at least A-1+ by S&P and F-1+ by Fitch.

In the event that the short-term, unsecured and unsubordinated debt obligations of the Swap Counterparties, the Cap Providers, the LIBOR Swap Providers or the Base Rate Swap Providers (or each of their successors or assignees) cease to be rated A-1+ by S&P or F-1+ by Fitch and as a result of such downgrade the then current rating of the Notes would be downgraded or placed under review for possible downgrade, then the relevant Swap Counterparty, the relevant Cap Provider, the relevant LIBOR Swap Provider or the relevant Base Rate Swap Provider, as the case may be, shall within 30 days of such downgrade at its own cost either:

- (i) put in place an appropriate mark-to-market collateral agreement satisfactory to the Rating Agencies (which may be based on the credit support documentation published by ISDA, or otherwise, and relates to collateral in the form of cash or securities or both) in support of its obligations under the Interest Rate Swaps and/or Interest Rate Caps and/or LIBOR Swaps and/or Base Rate Swaps in each case provided that the rating assigned to the Notes then outstanding by S&P and Fitch is not adversely affected by the downgrade following such collateral arrangements being put in place; or
- (ii) transfer all of its rights and obligations with respect to the Interest Rate Swaps and/or Interest Rate Caps and/or LIBOR Swaps and/or Base Rate Swaps to a replacement third party whose short-term, unsecured, unguaranteed and unsubordinated debt obligations are rated A-1+ by S&P and F-1+ by Fitch provided that the Rating Agencies confirm that such transfer would not cause a downgrade of the then current rating of the Notes; or
- (iii) procure that its obligations with respect to the Interest Rate Swaps and/or Interest Rate Caps and/or LIBOR Swaps and/or Base Rate Swaps are guaranteed by a third party whose short-term, unsecured, unguaranteed and unsubordinated debt obligations are rated A-1+ by S&P and F-1+ by Fitch.

If the relevant Swap Counterparty, the relevant Cap Provider, the relevant LIBOR Swap Provider or the relevant Base Rate Swap Provider fails to take the measures described above, then the Issuer shall be entitled to terminate the Interest Rate Swaps and/or Interest Rate Caps and/or LIBOR Swaps and/or Base Rate Swaps, the termination value thereof being calculated on the Issuer's side of the market.

In the event that the Issuer is required to withhold or deduct from payments due from it to a Swap Counterparty and/or a LIBOR Swap Provider and/or a Base Rate Swap Provider an amount in respect of tax, the Issuer will not be required pursuant to the terms of the Interest Rate Swaps and/or the LIBOR Swaps and/or the Base Rate Swaps to pay to the relevant Swap Counterparty or the relevant LIBOR Swap Provider or the relevant Base Rate Swap Provider such amounts as are required to ensure that the relevant Swap Counterparty or the relevant LIBOR Swap Provider or the relevant Base Rate Swap Provider receives the same amount that it would have received had such withholding or deduction not been made. In the event that the Issuer is required to withhold or deduct an amount in respect of tax, the relevant Swap Counterparty and/or the relevant LIBOR Swap Provider and/or the relevant Base Rate Swap Provider will be entitled to terminate the Interest Rate Swaps and/or the LIBOR Swaps and/or the Base Rate Swaps.

In the event that a Swap Counterparty and/or a LIBOR Swap Provider and/or a Base Rate Swap Provider is required to withhold or deduct from payments due from it to the Issuer an amount in respect of tax, the relevant Swap Counterparty or the relevant LIBOR Swap Provider or the relevant Base Rate Swap Provider will not be required pursuant to the terms of the Interest Rate Swaps or the LIBOR Swaps or the Base Rate Swaps to pay to the Issuer such amounts as are required to ensure that the Issuer receives the same amount that it would have received had such withholding or deduction not been made. In the event that the relevant Swap Counterparty and/or the relevant LIBOR Swap Provider and/or the relevant Base Rate Swap Provider is required to withhold or deduct an amount in respect of tax, the Issuer will be entitled to terminate the Interest Rate Swaps and/or the LIBOR Swaps and/or the Base Rate Swaps.

The Issuer may not assign its interest in the Interest Rate Swaps, Interest Rate Caps, LIBOR Swaps or the Base Rate Swaps (other than to the Trustee pursuant to the Deed of Charge).

#### **GUARANTEED INVESTMENT CONTRACT**

Pursuant to a guaranteed investment contract (the “**Guaranteed Investment Contract**”), to be entered into on or before the Issue Date between the Issuer and Barclays Bank PLC (the “**GIC Provider**”) the GIC Provider will agree to pay to the Issuer a rate of interest of LIBOR as determined in respect of the Notes (“**Note LIBOR**”) minus 0.175% per annum on the sums deposited in the Reserve Account and which have not been invested in other Permitted Investments between one Interest Payment Date and the next Interest Payment Date.

The Issuer may terminate the Guaranteed Investment Contract and enter into a replacement contract if (i) the Trustee provides its prior written consent to such replacement and the Rating Agencies confirm that such replacement would not cause a downgrade of the then current rating of the Notes and (ii) the value of such replacement contract (taking into account the guaranteed rate of return, any termination fees under the original contract and any fees in respect of the replacement contract) to the Issuer is equal to or greater than the rate under the original contract.

If the rating of the unsubordinated, unsecured and unguaranteed short term debt of the GIC Provider falls below A-1+ from S&P or F-1+ from Fitch then the Servicer will within 30 days of notification of such downgrade (unless the applicable Rating Agency confirms in writing that such investment would not cause it to downgrade the then current rating of the Notes) procure that a bank whose unsubordinated, unsecured and unguaranteed short-term debt is so rated becomes the GIC Provider.

#### **PERMITTED INVESTMENTS**

The Servicer will be entitled to invest cash from time to time standing to the credit of the Transaction Account and the Reserve Account in various investments (such as gilt-edged securities, certificates of deposit, commercial paper and other short term securities or deposits) with or issued by an entity with a short term unsecured, unguaranteed and unsubordinated rating of at least A-1+ from S&P or F-1+ from Fitch or guaranteed by an entity with a short term unsecured, unguaranteed and unsubordinated rating of at least A-1+ from S&P or F-1+ from Fitch (or with any other entity where the applicable Rating Agency confirms in writing that such investment would not cause it to downgrade the then current rating of the Notes) (each a “**Permitted Investment**”) provided that each such Permitted Investment matures on or prior to the Interest Payment Date on which the cash represented by such Permitted Investment is required by the Issuer and that such investments are in the same currency as that of the cash used to make such investments. Permitted Investments shall not include investments in equity securities.

#### **START-UP LOAN**

The Issuer will enter into a loan facility agreement (the “**Start-Up Loan Agreement**”) with Britannic Money on or prior to the Issue Date whereby Britannic Money will provide the Issuer with a term loan

(the “**Start-Up Loan**”). The Start-Up Loan will consist of six tranches. The first tranche of the Start-Up Loan (“**Tranche A**”) will be an amount of £1.756 million and will be used for meeting the costs and expenses of the Issuer arising in respect of the issue of the Notes. The second tranche of the Start-Up Loan (“**Tranche B**”) will be an amount of £7.5 million and will be used in providing the initial funding of the Reserve Fund. The third tranche of the Start-Up Loan (“**Tranche C**”) will be an initial amount of £0.908 million and will be used to establish the Hedge Reserve. The Issuer may, up to the third Interest Payment Date make drawings under Tranche C of the Start-Up Loan from time to time, up to a maximum aggregate amount of £1.180 million. The fourth tranche (“**Tranche D**”) will be an initial amount of £1.757 million to be used to purchase the Interest Rate Caps and to enter into the Interest Rate Swaps. The Issuer may, up to the third Interest Payment Date make drawings under Tranche D of the Start-Up Loan from time to time, up to a maximum aggregate amount of £3.589 million. The fifth tranche of the Start-Up Loan (“**Tranche E**”) will be an amount of £0.050 million and will be used to establish the Base Rate Reserve. The sixth tranche of the Start-Up Loan (“**Tranche F**”) will be an initial amount of up to £2.381 million and will be used to establish the Discount Reserve on the Issue Date and to credit the Discount Reserve in respect of Expected Differentials relating to Pre-Funded Mortgages acquired by the Issuer. The Issuer may up to the third Interest Payment Date make drawings under Tranche F of the Start-Up Loan from time to time, up to a maximum aggregate amount of £3.019 million. Payments of interest and repayments of principal under the Start-Up Loan will be made by the Issuer only in accordance with (and to the extent only that funds are available under) the Priority of Payments.

#### **DEFERRED PURCHASE CONSIDERATION**

On each Interest Payment Date the Issuer shall pay on a *pari passu* and *pro rata* basis by way of deferred purchase consideration under the Mortgage Sale Agreement (i) to Arianty all amounts due in respect of the Initial Mortgages, Pre-Funded Mortgages and Further Mortgages (the “**Arianty Deferred Purchase Consideration**”), (ii) to Britannic Money all amounts due in respect of the Further Advances purchased by the Issuer from Britannic Money (the “**Britannic Money Deferred Purchase Consideration**”) and (iii) to First Active all amounts due in respect of the Further Advances purchased by the Issuer from First Active (the “**First Active Deferred Purchase Consideration**”), in each case to the extent amounts are available for such purpose in accordance with the Priority of Payments.



## DESCRIPTION OF THE CLASS A NOTES

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### GENERAL

£460,000,000 Class A Mortgage Backed Floating Rate Notes due 2036 (the "**Class A Notes**") of First Flexible No. 4 plc (the "**Issuer**") are the subject of a trust deed (the "**Trust Deed**", which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified including the Master Definitions Schedule (as defined under Class A Condition 2(c) incorporated in the Trust Deed) to be entered into on 26 July 2001 (the "**Issue Date**") and made between the Issuer and The Chase Manhattan Bank (the "**Trustee**", which expression includes any further or other trustee of the Trust Deed) as trustee for, *inter alia*, the holders for the time being of the Class A Notes (the "**Class A Noteholders**") and the holders for the time being of the interest coupons relating thereto (the "**Class A Coupons**" which expression includes the talons (the "**Class A Talons**") attached to the Class A Notes except where the context otherwise requires) (the "**Class A Couponholders**"). £35,000,000 Class M Mortgage Backed Floating Rate Notes due 2036 (the "**Class M Notes**") and £5,000,000 Class B Mortgage Backed Floating Rate Notes due 2036 (the "**Class B Notes**" and together with the Class A Notes and the Class M Notes, the "**Notes**") will be issued pursuant to the Trust Deed contemporaneously with the issue of the Class A Notes. The security for the Class A Notes, the Class M Notes and the Class B Notes is created pursuant to, and on the terms set out in, a deed of sub-charge and assignment (the "**Deed of Charge**", which expression includes such deed of sub-charge and assignment as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time modified) to be dated the Issue Date and made between, *inter alia*, the Issuer, Arianty No.1 plc ("**Arianty**"), Britannic Money plc ("**Britannic Money**") and the Trustee. By an agency agreement (the "**Agency Agreement**", which expression includes such Agency Agreement as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) to be dated the Issue Date and made between the Issuer, the Trustee, The Chase Manhattan Bank as agent bank (the "**Agent Bank**" which expression includes any other agent bank appointed in respect of the Class A Notes) and The Chase Manhattan Bank, as principal paying agent (the "**Principal Paying Agent**" and together with any further or other paying agents for the time being appointed in respect of the Class A Notes, the "**Paying Agents**") provision is made for the payment of principal and interest in respect of the Class A Notes. The statements in these Class A Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Agency Agreement and the Deed of Charge.

Copies of the Trust Deed, the Agency Agreement, the Deed of Charge and the other Documents (as defined below) are available for inspection at the principal office for the time being of the Trustee, being at the date hereof at Trinity Tower, 9 Thomas More Street, London E1 9YT and at the specified offices of the Paying Agents. The Class A Noteholders and the Class A Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and are deemed to have notice of all the provisions of the Agency Agreement.

The issue of the Class A Notes was authorised by resolution of the Board of Directors of the Issuer passed on 18 July 2001.

### THE GLOBAL CLASS A NOTES

#### Temporary Global Class A Notes and Permanent Global Class A Notes

The Class A Notes will be initially represented by a temporary bearer global note in the principal amount of £460,000,000 (the "**Temporary Global Class A Note**") without Class A Coupons or Class A Talons. The Temporary Global Class A Note will be deposited on behalf of the subscribers of the Class A Notes with a common depository (the "**Common Depository**") for Euroclear S.A./N.V., as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on the Issue Date. Upon deposit of the Temporary Global Class A Note, Euroclear or Clearstream, Luxembourg will credit each subscriber of Class A Notes represented by such Temporary Global Class A Note with the principal amount of the Class A Notes for which it has subscribed and paid. Interests in the Temporary Global Class A Note will be exchangeable not earlier than 4 September 2001 (the "**Exchange Date**"), provided certification of non-US beneficial ownership by the Class A Noteholders has been received, for interests in a permanent bearer global note (the "**Permanent Global Class A Note**" and, together with the Temporary Global Class A Note, the "**Global Class A Notes**"), without Class A Coupons or Class A Talons.

On the exchange of the Temporary Global Class A Note for the Permanent Global Class A Note, the Permanent Global Class A Note will remain deposited with the Common Depository.

### **Transfers**

Title to the Global Class A Notes will pass by delivery. The Permanent Global Class A Note will only be exchangeable for definitive Class A Notes in the limited circumstances described below. Each of the persons appearing from time to time in the records of Euroclear or Clearstream, Luxembourg as the holder of a Class A Note will be entitled to receive any payment so made in respect of that Class A Note in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg, as appropriate. For so long as any Class A Notes are represented by a Global Class A Note, such Class A Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as appropriate.

For so long as the Class A Notes are represented by a Global Class A Note, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Class A Notes will be entitled to be treated by the Issuer and the Trustee as the holder of such principal amount of Class A Notes. The expressions “**Class A Noteholders**” may be construed accordingly, but without prejudice to the entitlement of the bearer of a Global Class A Note.

### **Payments**

No payment will be made on the Temporary Global Class A Note unless exchange for interest in the Permanent Global Class A Note of the Class A Notes in definitive form is improperly withheld or refused. Principal and interest on a Global Class A Note will be payable against presentation of that Global Class A Note at the specified office of any Paying Agent provided certification of non-US beneficial ownership by the Class A Noteholders has been received by Euroclear or Clearstream, Luxembourg. A record of each payment made on a Global Class A Note, distinguishing between any payment of principal and payment of interest, will be endorsed on that Global Class A Note by the Paying Agents (or the Paying Agent shall procure that such endorsement be made) and such record shall be *prima facie* evidence that the payment in question has been made.

### **Issue of Class A Notes in Definitive Form**

If (i) the Class A Notes become due and repayable pursuant to Class A Condition 9(a) or (ii) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which becomes effective on or after the Issue Date, the Issuer is, or any of the Paying Agents are or will be, required to make any deduction or withholding from any payment in respect of the Class A Notes which would not be required were the Class A Notes in definitive form, then the Issuer will, at its sole cost and expense, issue Class A Notes in definitive form in exchange for the whole outstanding interest in the Permanent Global Class A Notes within 30 days of the occurrence of the relevant event.

Any notice to Class A Noteholders in respect of Class A Notes represented by a Global Class A Note shall be deemed to have been duly given if sent to Euroclear and/or Clearstream, Luxembourg (as applicable) and shall be deemed to have been given on the date on which such notice was so sent.

## TERMS AND CONDITIONS OF THE CLASS A NOTES

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If Class A Notes in definitive form were to be issued, the terms and conditions (subject to amendment and completion) set out on each Class A Note would be as set out below (the “**Class A Conditions**”). While the Class A Notes remain in global form, the same terms and conditions govern such Class A Notes, except to the extent that they are appropriate only to Class A Notes in definitive form.

### 1. FORM, DENOMINATION AND TITLE

- (a) The £460,000,000 Class A Mortgage Backed Floating Rate Notes due 2036 (the “**Class A Notes**”) issued by First Flexible No. 4 plc (the “**Issuer**”) are serially numbered and are issued in bearer form in the denomination of £10,000 each with coupons (“**Class A Coupons**”) and talons (“**Class A Talons**”) attached and a grid endorsed thereon for the recording of all payments of principal in accordance with the provisions of Class A Condition 5.
- (b) Title to the Class A Notes, Class A Coupons and Class A Talons shall pass by delivery. The holder of any Class A Note (each a “**Class A Noteholder**”) and the holder of any Class A Coupon (each a “**Class A Couponholder**”) 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 Class A Note or Class A Coupon, as the case may be, regardless of any notice of ownership, theft or loss, of any trust or other interest therein or of any writing thereon.
- (c) The holder of each Class A Coupon (whether or not the Class A Coupon is attached to the relevant Class A Note) and each Class A Talon in his capacity as such shall be subject to all the provisions contained in the relevant Class A Note.

### 2. STATUS, SECURITY AND PRIORITY

#### Status

- (a) The Class A Notes and the Class A Coupons constitute direct, secured and unconditional obligations of the Issuer and rank (subject to the provisions of Class A Condition 5) *pari passu* without preference or priority amongst themselves.
- (b) The £35,000,000 Class M Mortgage Backed Floating Rate Notes due 2036 (the “**Class M Notes**”) and the £5,000,000 Class B Mortgage Backed Floating Rate Notes due 2036 (the “**Class B Notes**”) and together with the Class A Notes and the Class M Notes, the “**Notes**”) issued by the Issuer on or about 26 July 2001 (the “**Issue Date**”) are subject to a trust deed dated on or about 26 July 2001 between the Issuer and The Chase Manhattan Bank (the “**Trustee**”) (the “**Trust Deed**”) and are secured by the same security which secures the Class A Notes. The Class A Notes rank *pari passu*, without preference or priority amongst themselves, the Class M Notes rank *pari passu* without preference or priority amongst themselves and the Class B Notes rank *pari passu* without preference or priority amongst themselves, but (i) the Class A Notes will rank in priority to the Class M Notes and the Class B Notes and (ii) the Class M Notes will rank in priority to the Class B Notes in the event of the Security (as defined below in Class A Condition 2(d)) being enforced.
- (c) The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of the Class A Noteholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to (i) (for so long as there are any Class A Notes outstanding) the interests of the holders of Class A Notes if, in the Trustee’s opinion, there is a conflict between the interests of (A) the holders of Class A Notes and (B) the holders of Class M Notes and/or (C) the holders of Class B Notes and/or any other Secured Creditors (as defined below) or (ii) (if there are no Class A Notes outstanding) the interests of the holders of Class M Notes if, in the Trustee’s opinion, there is a conflict between the interests of (A) the holders of Class M Notes, (B) the holders of Class B Notes and/or any other Secured Creditors (as defined below) or (iii) (if there are no Class M Notes outstanding) the interests of the holders of Class B Notes, if in the Trustee’s opinion, there is a conflict between the interests of the Class B Noteholders or any other Secured Creditors (as defined below).

#### Security

- (d) As security for the payment of all moneys payable in respect of the Class A Notes and otherwise under the Trust Deed (including the remuneration, expenses and any other claims of the Trustee and any Receiver (as defined below) appointed under the Deed of Charge) and in respect of certain amounts

payable to Britannic Money or its successor acting as Servicer of the mortgages to be purchased by the Issuer on the Issue Date (the “**Initial Mortgages**”) and such Further Mortgages (as defined below) and such mortgages transferred to the Issuer pursuant to the Transaction Documents after the Issue Date (each a “**Substitute Mortgage**” and together with the Initial Mortgages and further mortgage loans purchased by the Issuer from Arianty (the “**Pre-Funded Mortgages**”) at any time on or after the Issue Date but no later than the third Interest Payment Date and Further Mortgages, the “**Mortgages**”), and to certain other beneficiaries from time to time, the Issuer will enter into the Deed of Charge creating the following security (the “**Security**”) in favour of the Trustee for itself and on trust for the other persons expressed to be secured parties thereunder:

- (i) a first fixed equitable charge or mortgage or (in relation to Mortgages secured on properties in Scotland (“**Scottish Mortgages**”)) assignment in security in favour of the Trustee over the Issuer’s right, title, interest and benefit present and future in the Mortgages and other collateral security relating to the Mortgages;
- (ii) an equitable assignment by way of first fixed security in favour of the Trustee of the Issuer’s interest in certain buildings policies, life policies, contingency policies and mortgage indemnity policies (the “**Insurance Contracts**”) to the extent that they relate to the Mortgages;
- (iii) an assignment by way of first fixed security in favour of the Trustee of the benefit of the servicing agreement to be entered into between the Servicer, the Issuer, and the Trustee (the “**Servicing Agreement**”), the mortgage sale agreement to be entered into between, *inter alios*, Arianty, the Issuer and the Trustee (the “**Mortgage Sale Agreement**”), the declaration of trust by Britannic Money in favour of the Issuer in relation to Scottish Mortgages (the “**Scottish Trust**”), the guaranteed investment contract to be entered into between the Issuer, the Trustee and Barclays Bank PLC (the “**Guaranteed Investment Contract**”), the redraw facility agreement to be entered into between the Issuer, the Trustee and Barclays Bank PLC (in such capacity, the “**Redraw Facility Provider**”) (the “**Redraw Facility Agreement**”), the declaration of trust to be entered into and made by Britannic Money in relation to the Trust Accounts (as defined below) (the “**Declaration of Trust**”), the agency agreement to be entered into and made between the Issuer, the Principal Paying Agent, the Trustee and the Agent Bank (the “**Agency Agreement**”), the loan agreement to be entered into and made between the Issuer and Britannic Money (the “**Start-Up Loan**”), the bank agreement to be entered into between, *inter alia*, the Issuer, The Royal Bank of Scotland plc and Barclays Bank PLC (the “**Bank Agreement**”), each interest rate swap agreement (each an “**Interest Rate Swap**” and together the “**Interest Rate Swaps**”) to be entered into and made between the Issuer and Morgan Guaranty Trust Company of New York, London branch, Barclays Bank PLC or any other entity which has a rating of at least A-1+ by S&P and F-1+ by Fitch in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (each a “**Swap Counterparty**” and together, the “**Swap Counterparties**”), each interest rate cap (each an “**Interest Rate Cap**” and together the “**Interest Rate Caps**”) provided by Morgan Guaranty Trust Company of New York, London branch, Barclays Bank PLC or any other entity which has a rating of at least A-1+ by S&P and F-1+ by Fitch in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (each a “**Cap Provider**” and together, the “**Cap Providers**”), each LIBOR-linked interest rate swap agreement (each a “**LIBOR Swap**” and together the “**LIBOR Swaps**”) to be entered into and made between the Issuer and Morgan Guaranty Trust Company of New York, London branch or any other entity which has a rating of at least A-1+ by S&P and F-1+ by Fitch in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (each a “**LIBOR Swap Provider**” and together, the “**LIBOR Swap Providers**”), each base rate swap (each a “**Base Rate Swap**” and together the “**Base Rate Swaps**”) provided by The Royal Bank of Scotland plc or any other entity which has a rating of at least A-1+ by S&P and F-1+ by Fitch in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (each a “**Base Rate Swap Provider**” and together, the “**Base Rate Swap Providers**”) purchased by the Issuer on or around the Issue Date, the Master Definitions Schedule, and such other documents as are expressed to be subject to the charges under the Deed of Charge (all such documents together the “**Transaction Documents**”);
- (iv) a first fixed equitable charge in favour of the Trustee over the Issuer’s beneficial interest in the Trust Accounts, the Transaction Account and the Reserve Account (each as defined below), any other bank account of the Issuer from time to time and over the Permitted Investments (as defined below); and

- (v) a first floating charge in favour of the Trustee (ranking after the security referred to in (i) to (iv) above) over the whole of the undertaking, property, assets and rights of the Issuer.

#### **Priority of Payments Prior to Enforcement**

- (e) On each Interest Payment Date, the monies standing to the credit of the Transaction Account (save for any monies standing to the credit of the Pre-Funded Ledger applied or to be applied in purchasing Pre-Funded Mortgages), the monies representing a credit balance in the Reserve Ledger (save that such monies may only be applied to meet items (i) to (vii) below), all monies advanced under the Redraw Facility (save that such monies may only be applied to purchase the right to repayment of Redraws under item (ix) below or to rollover existing advances under the Redraw Facility), any Threshold Amount Deposit (as defined below) made on the immediately preceding Determination Date, all amounts received from the Swap Counterparties and/or the Cap Providers and/or the LIBOR Swap Providers under an Interest Rate Swap and/or Interest Rate Cap and/or LIBOR Swap, all amounts received from the Base Rate Swap Providers under a Base Rate Swap, all amounts representing a credit balance in the Hedge Reserve transferred from the Reserve Account to the Transaction Account, all amounts representing a credit balance in the Base Rate Reserve transferred from the Reserve Account to the Transaction Account and all amounts representing a credit balance in the Discount Reserve transferred from the Reserve Account to the Transaction Account will, after making payment of or providing for Excluded Items (as defined below), until enforcement of the Security for the Notes, be applied (save as the payee may otherwise agree) in making the following payments or provisions in the following order of priority (the "**Priority of Payments**"):
  - (i) to pay or provide for the remuneration payable to the Trustee and any fees, costs, charges, liabilities and expenses incurred by it under the provisions of the Trust Deed, the Deed of Charge and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;
  - (ii) to pay or provide for amounts due and/or which will become due prior to the next Interest Payment Date to the Paying Agents and Agent Bank under the Agency Agreement;
  - (iii) to pay or provide for *pari passu* and *pro rata* (a) amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable or expected to become due and payable by the Issuer on or after such Interest Payment Date by the Issuer to third parties and incurred without breach by the Issuer of its obligations under the Transaction Documents and not provided for payment elsewhere and (b) the Issuer's liability or possible liability for corporation tax;
  - (iv) to pay or provide for the servicing fee payable to the Servicer on such Interest Payment Date (inclusive of value added tax, if any) together with costs and expenses which are payable or expected to become payable by the Servicer under the Servicing Agreement prior to the next Interest Payment Date;
  - (v) to pay *pro rata* and *pari passu*:
    - (a) all amounts payable by the Issuer to the Swap Counterparties and/or the Base Rate Swap Providers and/or the LIBOR Swap Providers pursuant to the Interest Rate Swaps and/or the Base Rate Swaps and/or the LIBOR Swaps (other than in respect of termination payments following an event of default in respect of an Interest Rate Swap or a Base Rate Swap or a LIBOR Swap where the relevant Swap Counterparty or the relevant Base Rate Swap Provider or the relevant LIBOR Swap Provider is the defaulting party under the relevant Interest Rate Swap or, as the case may be, the relevant Base Rate Swap or, as the case may be, the relevant LIBOR Swap);
    - (b) all amounts payable under the Redraw Facility other than in respect of principal; and
    - (c) all amounts payable in respect of the Class A Notes other than in respect of principal on the Class A Notes;
  - (vi) subject to an M Note Trigger Event not occurring on that Interest Payment Date, to pay all amounts payable in respect of the Class M Notes other than in respect of principal on the Class M Notes;

- (vii) subject to a B Note Trigger Event not occurring on that Interest Payment Date, to pay all amounts payable in respect of the Class B Notes other than in respect of principal on the Class B Notes;
  - (viii) to credit the Reserve Fund up to the Reserve Fund Required Amount;
  - (ix) to pay for the purchase by the Issuer of the right to repayment of Redraws;
  - (x) to repay all principal amounts outstanding under the Redraw Facility;
  - (xi) to fund the purchase by the Issuer of Further Advances up to the lower of (a) the Potential Redemption Amount less amounts applied in accordance with item (x) above and (b) the aggregate amount of Redemptions received during the immediately preceding Collection Period less amounts applied in accordance with item (x) above;
  - (xii) during the Substitution Period only, to fund the purchase by the Issuer of Further Mortgages up to the lower of (a) the Potential Redemption Amount less amounts applied in accordance with items (x) and (xi) above; and (b) the aggregate amount of Redemptions received during the immediately preceding Collection Period less amounts applied in accordance with items (x) and (xi) above;
  - (xiii) to allocate an amount to be applied in redeeming the Notes equal to the greater of zero and the difference between (a) the Potential Redemption Amount (as defined in Class A Condition 5(b)) and (b) the sum of the amounts applied under items (x), (xi) and (xii);
  - (xiv) if an M Note Trigger Event occurs on such Interest Payment Date to pay all amounts payable in respect of the Class M Notes other than in respect of principal on the Class M Notes;
  - (xv) if a B Note Trigger Event occurs on such Interest Payment Date to pay all amounts payable in respect of the Class B Notes other than in respect of principal on the Class B Notes;
  - (xvi) to credit *pari passu* and *pro rata* (a) the Base Rate Reserve up to the Base Rate Reserve Required Amount and (b) the Hedge Reserve up to the Hedge Reserve Required Amount;
  - (xvii) to fund the purchase by the Issuer of hedges that may be required in order to preserve a rate at least equal to the Threshold Rate in respect of Further Mortgages, Substitute Mortgages or Further Advances purchased on such Interest Payment Date;
  - (xviii) to credit the Discount Reserve in an amount equal to the aggregate Loan Expected Differentials arising from Discounts on Further Mortgages, Substitute Mortgages or Further Advances purchased on such Interest Payment Date;
  - (xix) to make any termination payments payable to the Swap Counterparties or the Base Rate Swap Providers or the LIBOR Swap Providers pursuant to the Interest Rate Swaps or, as the case may be, the Base Rate Swaps or, as the case may be, the LIBOR Swaps following an event of default in respect of an Interest Rate Swap or, as the case may be, a Base Rate Swap or, as the case may be, a LIBOR Swap where the relevant Swap Counterparty or, as the case may be, the relevant Base Rate Swap Provider or, as the case may be, the relevant LIBOR Swap Provider is the defaulting party under the relevant Interest Rate Swap or, as the case may be, the relevant Base Rate Swap or, as the case may be, the relevant LIBOR Swap;
- and provided that there is no Principal Deficiency on such Interest Payment Date and that no Event of Default has occurred;
- (xx) to pay amounts repayable to the Servicer in respect of any Threshold Amount Deposit which the Servicer elects to release;
  - (xxi) to pay amounts payable in respect of the Start-Up Loan other than in respect of principal on the Start-Up Loan;
  - (xxii) to pay amounts payable in respect of principal under the Start-Up Loan;
  - (xxiii) to pay *pari passu* and *pro rata* (a) sums due to Arianty as Arianty Deferred Purchase Consideration, (b) sums due to Britannic Money as Britannic Money Deferred Purchase Consideration and (c) sums due to First Active as First Active Deferred Purchase Consideration; and
  - (xxiv) to make dividend payments to shareholders of the Issuer.

For the purposes of these Class A Conditions:

**“Arianty Deferred Purchase Consideration”** means such sums as are paid to Arianty on each Interest Payment Date by way of deferred purchase consideration by the Issuer under the Mortgage Sale Agreement in respect of the Initial Mortgages and Further Mortgages.

**“Available Facility”** means, in relation to the Redraw Facility, on each Interest Payment Date, an amount calculated as the difference between the Redraw Facility Limit and the aggregate amount of advances outstanding under the Redraw Facility which will not be repaid on such Interest Payment Date.

**“B Note Trigger Event”** means the determination by the Servicer as at any Interest Payment Date on which Class A Notes or Class M Notes are outstanding that, on the assumption that a B Note Trigger Event does not occur, the application of funds in accordance with the Priority of Payments will give rise to a Principal Deficiency (as defined in Class A Condition 5(b)) which exceeds the aggregate Principal Amount Outstanding of the Class B Notes on such Interest Payment Date.

**“Bank of England Base Rate”** means the Bank of England repo rate set from time to time by the Monetary Policy Committee of the Bank of England.

**“Base Rate Linked Mortgages”** means Mortgages which are subject to a variable rate of interest set by Britannic Money from time to time, which is linked to the Bank of England Base Rate.

**“Base Rate Reserve”** means the amount recorded in a ledger (the **“Base Rate Reserve Ledger”**) and held in the Reserve Account.

**“Base Rate Reserve Required Amount”** means on the Issue Date and each Interest Payment Date thereafter an amount equal to 0.30% of the aggregate outstanding principal balances (including drawn and undrawn balances) of all Unhedged Base Rate Linked Mortgages.

**“Base Rate Swap”** means any interest rate swap entered into with the Base Rate Swap Provider for the purpose of hedging some or all of the Base Rate Linked Mortgages in the Mortgage Pool.

**“Base Rate Swap Provider”** means The Royal Bank of Scotland plc or such other person who from time to time enters into a Base Rate Swap with the Issuer.

**“Borrower Loan Limit”** means the principal amount of a Borrower’s loan which would have been outstanding at any time if the Borrower had only made the minimum monthly payment agreed with Britannic Money or First Active, as applicable, (the **“Minimum Monthly Payment”**) and had not made any Overpayments.

**“Borrower Mortgage Account”** means each mortgage account held, from time to time, by a Borrower with Britannic Money or First Active, as applicable.

**“Britannic Money Deferred Purchase Consideration”** means such sums as are paid to Britannic Money on each Interest Payment Date by way of deferred purchase consideration by the Issuer under the Mortgage Sale Agreement in respect of Further Advances.

**“Discount”** means the discount below the Reference Rate applicable to a Discounted Mortgage at the relevant time.

**“Discounted Mortgage”** means Mortgages which are at the relevant time subject to a discounted rate of interest for a specified period.

**“Discount Reserve”** means the amount recorded in a ledger (the **“Discount Reserve Ledger”**) and held in the Reserve Account.

**“Effective Interest Margin”** means, in relation to Discounted Mortgages in the Mortgage Pool an amount determined as follows:

- (a) for each Standard Variable Rate Mortgage, the Threshold Margin less the Discount;
- (b) for each Base Rate Linked Mortgage, the margin of that Mortgage over Bank of England Base Rate less 0.15% (where such mortgage is not subject to a Base Rate Swap) less the Discount;
- (c) for each LIBOR Linked Mortgage, the margin of that Mortgage over LIBOR less the Discount.
- (d) for each Capped Mortgage which has been hedged relative to the Threshold Rate, the Threshold Margin less the Discount.

(e) for each Fixed Rate Mortgage which has been swapped to the Threshold Rate, the Threshold Margin less the Discount.

**“Expected Differential”** means an amount calculated in respect of each Discounted Mortgage and each Interest Period as the difference between the Threshold Margin and the Effective Interest Margin on such Discounted Mortgage, to the extent such difference is positive, multiplied by the outstanding principal balance in respect of such Discounted Mortgage as of the Interest Payment Date multiplied by the fraction of the actual number of days elapsed in the succeeding Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year).

**“First Active Deferred Purchase Consideration”** means such sums as are paid to First Active on each Interest Payment Date by way of deferred purchase consideration by the Issuer under the Mortgage Sale Agreement in respect of Further Advances.

**“Further Advances”** means the additional funds advanced to a Borrower by Britannic Money or First Active, as applicable, on the security of his/her Mortgage subject to the satisfaction of certain conditions.

**“Hedge Reserve”** means the amount recorded in a ledger (the **“Hedge Reserve Ledger”**) and held in the Reserve Account.

**“Hedge Reserve Required Amount”** means (a) as at the Issue Date, the initial amount of Tranche C of the Start-Up Loan and (b) as at each Interest Payment Date, an amount equal to such amounts as are required to ensure that the Threshold Margin is maintained in respect of Capped Mortgages.

**“Investment Home Loans”** means loans made to a Borrower to be used to remortgage or acquire properties to let to tenants or hold as an investment.

**“M Note Trigger Event”** means the determination by the Servicer as at any Interest Payment Date on which Class A Notes are outstanding that, on the assumption that an M Note Trigger Event does not occur, the application of funds in accordance with the Priority of Payments will give rise to a Principal Deficiency (as defined in Class A Condition 5(b)) which exceeds the aggregate Principal Amount Outstanding of the Class M Notes and the Class B Notes on such Interest Payment Date.

**“Non-Verified Mortgage Ledger”** means the ledger so entitled and held in the Transaction Account.

**“Owner Occupied Loans”** means loans made to a Borrower to acquire property to be used as their primary place of residence.

**“Overpayment”** means the amount by which a payment made by a Borrower into his/her Borrower Mortgage Account exceeds the Minimum Monthly Payment.

**“Payment Holiday”** means a Borrower’s monthly payments being met by applying Overpayments not previously redrawn by way of capitalisation of such monthly payments.

**“Permitted Investments”** means investments in which the Servicer is entitled to invest from time to time under the terms of the Servicing Agreement.

**“Potential Redraw Amount”** means the amount which is capable of being redrawn by a Borrower under a Mortgage.

**“Pre-Funded Ledger”** means the ledger so entitled and held in the Transaction Account.

**“Prepayments”** means part principal repayments under a Mortgage where the Borrower Loan Limit does not change following repayment ahead of the repayment plan used by Britannic Money or First Active, as applicable, to provide a baseline for the repayment of the Mortgage. For the avoidance of doubt, Prepayments do not include scheduled principal repayments.

**“Receiver”** means a receiver appointed by the Trustee under Clause 10 of the Deed of Charge.

**“Redraw”** means in respect of a Mortgage, a Payment Holiday or a redraw by the relevant Borrower of a portion of the principal of his/her Mortgage if and to the extent that such Borrower has previously made Prepayments on his/her Mortgage in excess of the scheduled principal repayments and has not previously redrawn the whole of such excess payments and provided that the amounts of such Redraw is limited to ensure that the outstanding balance of the Mortgage after such Redraw is no greater than the Borrower Loan Limit;

**“Redraw Facility”** means the sterling revolving credit facility made between the Issuer and the Redraw Facility Provider.



**“Redraw Facility Limit”** means the maximum aggregate amount that can be drawn at any time under the Redraw Facility and which on the Issue Date shall be £58 million and thereafter may be varied on any Interest Payment Date by agreement between the Issuer, the Trustee, the Redraw Facility Provider, the Servicer and the Rating Agencies.

**“Reference Rate”** means:

- (a) for each Standard Variable Rate Mortgage, Britannic Money’s standard variable rate;
- (b) for each LIBOR Linked Mortgage, LIBOR plus the margin applicable to the relevant Mortgage as set out in the mortgage documentation entered into with the relevant Borrower;
- (c) for each Base Rate Linked Mortgage, Bank of England Base Rate, plus the margin applicable to the relevant Mortgage as set out in the mortgage documentation entered into with the relevant Borrower;
- (d) for each Capped Mortgage, the rate set out in the mortgage documentation entered into with the relevant Borrower;
- (e) for each Fixed Rate Mortgage, the rate set out in the mortgage documentation entered into with the relevant Borrower.

**“Required Redraw Facility Provider Rating”** means a short term unsecured, unguaranteed and unsubordinated debt rating of A-1+ from S&P and F-1+ from Fitch.

**“Reserve Account”** means an account in the name of the Issuer at Barclays Bank PLC (the **“Account Bank”**) in which the Reserve Fund is established.

**“Reserve Fund”** means the amount recorded in a ledger (the **“Reserve Ledger”**) and held in the Reserve Account provided that (A) whilst there are Class A Notes outstanding, the Reserve Fund shall only be applied to pay interest on the Class M Notes to the extent that such drawing does not result in the amount standing to the credit of the Reserve Fund being less than (1) £3,000,000 or (2) the outstanding principal amount of the Class A Notes and (B) whilst there are Class M Notes outstanding, the Reserve Fund shall only be applied to pay interest on the Class B Notes to the extent that such drawing does not result in the amount standing to the credit of the Reserve Fund being less than (1) £3,000,000 or (2) the aggregate outstanding principal amount of the Class A Notes and the Class M Notes.

**“Reserve Fund Required Amount”** means an amount equal to the amount deposited under Tranche B of the Start-Up Loan;

**“Secured Creditors”** means each of the Trustee, the Noteholders, the Couponholders, the Servicer, the Redraw Facility Provider, the Start-Up Loan Provider, the GIC Provider, the Account Bank, the Cap Providers, the Swap Counterparties, the Base Rate Swap Providers, the LIBOR Swap Providers and the Principal Paying Agent.

**“Substitution Period”** means the period commencing on (and including) the Issue Date and ending on the earlier of (i) the Interest Payment Date falling in July 2004 (ii) enforcement of the Security in accordance with Condition 10 (iii) removal of Britannic Money as Servicer in accordance with the Servicing Agreement (unless a substitute servicer has been appointed in accordance with the Servicing Agreement) (iv) the date on which the Notes are redeemed in full and (v) the date on which the Redraw Facility becomes fully drawn unless the Issuer elects to shorten the Substitution Period by giving five Business Days’ notice to the Trustee and the Servicer.

**“Threshold Amount Deposit”** means a deposit which may be paid into the Transaction Account on an Interest Payment Date which is equal to the amount by which the amount produced by multiplying the Threshold Rate with the aggregate outstanding balances of the Mortgages in the Mortgage Pool on such Interest Payment Date and the fraction of the actual number of days elapsed in the relevant Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year) exceeds the sum of:

- (a) the aggregate of the annual rate of interest applicable on such Interest Payment Date to each Mortgage in the Mortgage Pool multiplied by the principal balance outstanding of such Mortgage on such Interest Payment Date multiplied by the fraction of the actual number of days elapsed in the relevant Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year), plus
- (b) any amount expected to be transferred from the Hedge Reserve into the Transaction Account on the next following Interest Payment Date; plus
- (c) any amount expected to be transferred from the Base Rate Reserve into the Transaction Account on the next following Interest Payment Date; plus

- (d) any amount expected to be transferred from the Discount Reserve into the Transaction Account on the next following Interest Payment Date; plus
  - (e) any amounts received in respect of Interest Rate Swaps, LIBOR Swaps, Base Rate Swaps and Interest Rate Caps,
- (such amount not to be less than zero).

“**Threshold Margin**” means the figure expressed as a percentage resulting from the addition of (i) the average total principal balance of Owner Occupied Loans during the relevant Interest Period multiplied by 1% plus (ii) the average total principal balance of Investment Home Loans during the relevant Interest Period multiplied by 1.2%, all divided by the average total principal balance outstanding of all Mortgages during that Interest Period. The average total principal balance outstanding in any category of Loan for the purposes of the above calculation shall be calculated by reference to the total principal balance outstanding of such category of Loan on each day during the relevant Interest Period.

“**Threshold Rate**” means in respect of an Interest Period an annual rate of LIBOR as determined in relation to the Notes for such Interest Period plus the Threshold Margin.

“**Transaction Account**” means account number 40927481 in the name of the Issuer at Barclays Bank PLC.

“**Trust Accounts**” means the accounts in the name of Britannic Money held at Barclays Bank PLC and The Royal Bank of Scotland plc in to which payments are made in respect of amounts due and amounts received under the Mortgages.

“**Unhedged Base Rate Linked Mortgages**” means the aggregate outstanding principal balances of Base Rate Linked Mortgages less the total notional balances of all Base Rate Swaps.

#### **Priority of Payments Post-Enforcement**

- (f) On enforcement of the Security, the Trustee is required, after making payment of or providing for Excluded Items, to apply moneys available for distribution in or towards the satisfaction of the following amounts in the following order of priority:
  - (i) first, to pay the remuneration then due and payable to the Trustee and any fees, costs, charges, liabilities and expenses incurred by the Trustee or any receiver appointed by the Trustee under the provisions of the Trust Deed, the Deed of Charge and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;
  - (ii) second, to pay the remuneration then due and payable to the Agent Bank and the Paying Agents and any fees, costs, charges, liabilities and expenses incurred by them or by the Account Bank under the Bank Agreement and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;
  - (iii) third, to pay or provide for *pari passu* and *pro rata* (a) amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable or expected to become due and payable by the Issuer to third parties and incurred without breach by the Issuer of its obligations under the Transaction Documents and not provided for payment elsewhere and (b) the Issuer’s liability or possible liability for corporation tax;
  - (iv) fourth, in or towards satisfaction of any fees due and payable to the Servicer and any costs, charges, expenses and liabilities incurred by the Servicer;
  - (v) fifth, to pay *pari passu* and *pro rata* (a) all amounts due under the Interest Rate Swaps, (b) all amounts due under the Base Rate Swaps, (c) all amounts due under the LIBOR Swaps, (d) all amounts due under the Redraw Facility and (e) interest and principal and all other amounts due and payable in respect of the Class A Notes;
  - (vi) sixth, to pay interest and principal and all other amounts due and payable in respect of the Class M Notes;
  - (vii) seventh, to pay interest and principal and all other amounts due and payable in respect of the Class B Notes;
  - (viii) eighth, to pay any interest and principal amounts due and payable under the Start-Up Loan;
  - (ix) ninth, to pay *pro rata* and *pari passu* (a) sums due to Arianty as Arianty Deferred Purchase Consideration, (b) sums due to Britannic Money as Britannic Money Deferred Purchase

Consideration and (c) sums due to First Active as First Active Deferred Purchase Consideration; and

- (x) tenth, to pay the surplus (if any) to the shareholders of the Issuer by way of dividends.

The Trustee cannot, while any of the Class A Notes are outstanding and there is no subsisting Event of Default under Class A Condition 9, enforce the Security on behalf of the Class M Noteholders, the Class B Noteholders or any other Secured Creditor (whether or not requested to do so by the Class M Noteholders, the Class B Noteholders or such other Secured Creditor) under the Deed of Charge.

The Security will become enforceable upon the occurrence of an Event of Default (as defined in Class A Condition 9(a)) provided that, if the Security has become enforceable otherwise than by reason of a default in payment of any amount due on the Class A Notes or Class A Coupons, the Trustee will not be entitled to dispose of the assets comprised in the Security or any part thereof unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class A Noteholders and the Class A Couponholders or the Trustee is of the opinion, which shall be binding on the Class A Noteholders, the Class A Couponholders and the other Secured Creditors, reached after considering at any time and from time to time the advice of an investment bank or other financial adviser selected by the Trustee, 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 owing to the Class A Noteholders and the Class A Couponholders.

### **3. COVENANTS**

Save with the prior written consent of the Trustee or as provided in or envisaged by any of the Trust Deed, the Deed of Charge, or any of the Transaction Documents (together the “**Documents**”), the Issuer shall not, so long as any Class A Note, Class M Note or Class B Note remains outstanding (as defined in the Trust Deed):

**(a) Negative Pledge**

create or permit to subsist any mortgage, pledge, lien (unless arising by operation of law) or charge upon the whole or any part of its assets, present or future (including any uncalled capital) or its undertaking;

**(b) Restrictions on Activities**

- (i) engage in any activity which is not incidental to any of the activities which the Documents provide or envisage that the Issuer will engage in; or
- (ii) have any subsidiaries or employees or premises;

**(c) Disposal of Assets**

transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein or thereto;

**(d) Equitable Interest**

permit any person other than the Issuer, the Trustee and Britannic Money or First Active in relation to any Redraws or Further Advances funded by either of them to have any equitable interest in any of its assets or undertakings or any interest, estate, right, title or benefit therein;

**(e) Bank Accounts**

have an interest in any bank account, other than the Trust Accounts and the bank accounts maintained pursuant to the Bank Agreement or the Guaranteed Investment Contract;

**(f) Dividends or Distributions**

pay any dividend or make any other distribution to its shareholders or issue any further shares other than pursuant to the Priority of Payments;

**(g) Borrowings**

incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any obligation of any person;

**(h) Merger**

consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;

**(i) Surrender of Group Relief**

offer or consent to surrender to any company any amounts which are available for surrender by way of group relief within Chapter IV of Part X of the Income and Corporation Taxes Act 1988 unless the Issuer first receives by way of consideration for such surrender the payment of an amount calculated by applying to the amount surrendered the rate of corporation tax applicable to the Issuer at the time of surrender;

**(j) Other**

permit the validity or effectiveness of any of the Documents, the Insurance Contracts relating to the Mortgages owned by the Issuer or the priority of the security interests created thereby to be amended, terminated or discharged, or consent to any variation of, or exercise of, any powers of consent or waiver pursuant to the terms of the Trust Deed, these Class A Conditions or any of the Documents, or permit any party to any of the Documents or Insurance Contracts or any other person whose obligations form part of the Security to be released from such obligations, or dispose of any Mortgage save as envisaged in the Documents.

In giving any consent to the foregoing, the Trustee may require the Issuer to make such modifications or additions to the provisions of any of the Documents or may impose such other conditions or requirements as the Trustee may deem expedient (in its absolute discretion) in the interests of the Class A Noteholders, the Class M Noteholders and the Class B Noteholders.

The Issuer shall apply to HM Customs & Excise, and use reasonable endeavours to pursue such application, for its exclusion from the earliest possible date from any group for the purposes of Section 43 of the Value Added Tax Act 1994 (or for the purposes of any act, regulation, order, statutory instrument or directive which, from time to time, may re-enact, replace, amend, vary, codify, consolidate or repeal the Value Added Tax Act 1994) of which it is a member:

- (i) upon any failure by the representative member of such group to fulfil its obligations to HM Customs & Excise;
- (ii) if there is a material increase in the liabilities under such Act of the representative member of such group as a result of a change in circumstances and a failure to implement a suitable alternative structure which would not result in the downgrading of the then current ratings of the Class A Notes, the Class M Notes or the Class B Notes or which is consented to by the Trustee; or
- (iii) if proceedings are initiated against the representative member of such group under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an administration order being granted or administrative receiver or other receiver, liquidator or other similar official being appointed in relation to the representative member of such group or the representative member of such group initiating or consenting to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws.

**4. INTEREST**

**(a) Period of Accrual**

The Class A Note bears interest from (and including) the Issue Date. Each Class A Note shall cease to bear interest from its due date for redemption unless, upon due presentation, payment of the relevant amount of principal is improperly withheld or refused. In such event, interest will continue to accrue thereon in accordance with this Class A Condition (as well after as before any judgment) up to (but excluding) the date on which all sums due in respect of such Class A Note up to that day are received by or on behalf of the relevant Class A Noteholder, or (if earlier) the seventh day after notice is duly given by the Principal Paying Agent to the holder thereof (in accordance with Class A Condition 14) that it has received all sums due in respect of such Class A Note (except to the extent that there is any subsequent default in payment).

Whenever it is necessary to compute an amount of interest in respect of any Class A Note for any period (including any Interest Period (as defined below)), such interest shall be calculated on the basis of actual days elapsed in a 365 day year or a 366 day year if the last day of such period falls in a leap year.

**(b) Interest Payment Dates and Interest Periods**

Interest on the Class A Notes is payable monthly in arrear on the first day of each calendar month in each year (or, if such day is not a Business Day, the immediately succeeding Business Day) (each such day an “**Interest Payment Date**”) save for the first payment of interest which will be made in respect of the period commencing on (and including) the Issue Date and ending on (but excluding) the Interest Payment Date falling in September, 2001. The period from (and including) an Interest Payment Date (or the Issue Date in respect of the first Interest Payment Date) to (but excluding) the next following (or first) Interest Payment Date is called an “**Interest Period**” in these Class A Conditions and “**Business Day**” shall in these Class A Conditions mean a day (other than a Saturday or Sunday) on which banks are open for business in the City of London.

**(c) Rate of Interest**

The rate of interest payable from time to time in respect of the Class A Notes (the “**Rate of Interest**”) and the relevant Interest Amount (as defined in paragraph (d) below) will be determined on the basis of the provisions set out below:

- (i) on each Interest Payment Date or, in the case of the first Interest Period, on the Issue Date (each an “**Interest Determination Date**”) the Agent Bank will determine the offered quotation to leading banks in the London interbank market for one month sterling deposits (or, in the case of the first Interest Period, such rate shall be obtained by linear interpolation of the rate for one month and two month sterling deposits) by reference to the display designated as the British Bankers Association’s Interest Settlement Rate as quoted on the Dow Jones/Telerate Monitor Telerate Screen No. 3750 (or (aa) such other page as may replace Telerate Screen No. 3750 on that service for the purpose of displaying such information or (bb) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Trustee) as may replace the Dow Jones/Telerate Monitor) as at or about 11:00 a.m. (London time) on that date (the “**Screen Rate**”). If the Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks (as defined in paragraph (h) below) to provide the Agent Bank with its offered quotation as at or about 11:00 a.m. (London time) on that date to leading banks for one month sterling deposits (or, in relation to the first Interest Period, one month and two month sterling deposits and a linear interpolation between such rates). The Rate of Interest for such Interest Period shall, subject as provided below, be the Relevant Margin (as defined below) above the Screen Rate or, as the case may be, above the arithmetic mean (rounded if necessary to the nearest 0.0001%, 0.00005% being rounded upwards) of the quotations of three out of five quoting Reference Banks (excluding, if all five quotations are not the same, the Reference Bank with the highest and the Reference Bank with the lowest such quotations) but, if more than one of either or both, only one of the Reference Banks with the highest and/or, as the case may be, only one of the Reference Banks with the lowest such quotations;
- (ii) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only four of the Reference Banks provide such quotations, the Rate of Interest for the relevant Interest Period shall be determined (in accordance with (i) above) on the basis of two out of the four quoting Reference Banks (excluding two on the basis set out in (i) above);
- (iii) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only two or three of the Reference Banks provide such quotations, the Rate of Interest for the relevant Interest Period shall be determined (in accordance with (i) above) on the basis of the quotations of all the quoting Reference Banks (without any exclusion as referred to in (i) above);
- (iv) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only one or none of the Reference Banks provides such a quotation, then the Rate of Interest for the relevant Interest Period shall be the Reserve Interest Rate. The “**Reserve Interest Rate**” shall be the rate per annum which the Agent Bank determines to be either (aa) the Relevant Margin above the arithmetic mean (rounded if necessary to the nearest 0.0001%, 0.00005% being rounded upwards) of the sterling lending rates which leading banks in London (selected by the Agent

Bank in its absolute discretion) are quoting, as at or about 11:00 a.m. (London time) on the relevant Interest Determination Date, for the relevant Interest Period to the Reference Banks or those of them (being at least two in number) to which such quotations are in the sole opinion of the Agent Bank being so made or (bb) if the Agent Bank certifies that it cannot determine such arithmetic mean, the Relevant Margin above the lowest of the sterling lending rates which leading banks in London (selected by the Agent Bank in its absolute discretion) are quoting on the relevant Interest Determination Date, to the leading banks which have their head offices in London for the relevant Interest Period provided that if the Agent Bank certifies as aforesaid and further certifies that none of the banks selected as provided in (b) above is quoting to leading banks as aforesaid, then the Reserve Interest Rate shall be the Rate of Interest in effect for the Interest Period ending on the relevant Interest Determination Date.

For the purpose of the Class A Conditions the “**Relevant Margin**” shall be 0.27% per annum for each Interest Period up to and including the Interest Payment Date falling in July 2008 (the “**Coupon Step Up Date**”) and thereafter 0.54% per annum.

**(d) Determination of Rates of Interest and Calculation of Interest Amounts**

The Agent Bank shall, on each Interest Determination Date, determine and notify the Issuer, the Servicer, the Trustee and the Paying Agents of (i) the Rate of Interest applicable to the Interest Period beginning on and including such Interest Determination Date in respect of the Class A Notes and (ii) the sterling amount (the “**Interest Amount**”) payable in respect of such Interest Period in respect of the Principal Amount Outstanding (as defined in Class A Condition 5(c)).

**(e) Publication of Rate of Interest, Interest Amount and other Notices**

As soon as practicable after receiving notification thereof, the Issuer will cause the Rate of Interest and the Interest Amount applicable to the Class A Notes for each Interest Period and the Interest Payment Date falling at the end of such Interest Period to be notified to each stock exchange (if any) (including, for as long as the Notes are admitted to the Official List, the UK Listing Authority) on which the Class A Notes are then listed and will cause notice thereof to be given to the relevant Class A Noteholders in accordance with Class A Condition 14. The Interest Amount and Interest Payment Date so notified 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 Interest Period.

**(f) Determination or Calculation by Trustee**

If the Agent Bank does not at any time for any reason determine the Rate of Interest and/or calculate the Interest Amount for any Class A Notes in accordance with the foregoing paragraphs, the Trustee shall (i) determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described above), it shall deem fair and reasonable in all the circumstances and/or (as the case may be) (ii) calculate the Interest Amount for the Class A Notes in the manner specified in paragraph (c) above, and any such determination and/or calculation shall be deemed to have been made by the Agent Bank.

**(g) Notifications to be Final**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Class A Condition, whether by the Reference Banks (or any of them) or the Agent Bank or the Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Servicer, the Reference Banks, the Agent Bank, the Trustee and all Class A Noteholders and Class A Couponholders and (in which absence as aforesaid) no liability to the Servicer, the Class A Noteholders or Class A Couponholders shall attach to the Issuer, the Reference Banks, the Agent Bank or the Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions hereunder.

**(h) Reference Banks and Agent Bank**

The Issuer shall ensure that, so long as any of the Class A Notes remains outstanding, there shall at all times be five reference banks (the “**Reference Banks**”) and an Agent Bank. The initial Agent Bank shall be The Chase Manhattan Bank. In the event of the principal London office of any such bank being unable or unwilling to continue to act as a Reference Bank or in the event of The Chase Manhattan Bank being unwilling to act as the Agent Bank, the Issuer shall appoint such other bank as may be previously approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign until a successor approved by the Trustee has been appointed.

## 5. REDEMPTION AND CANCELLATION

### (a) Final Redemption

Unless previously redeemed as provided in this Class A Condition, the Issuer shall redeem the Class A Notes at their Principal Amount Outstanding (as defined below) on the Interest Payment Date falling in July 2036 (the “**Final Redemption Date**”).

The Issuer may not redeem Class A Notes in whole or in part prior to that date except as provided in paragraphs (b), (d), (e) or (f) of this Class A Condition but without prejudice to Class A Condition 9.

### (b) Mandatory Redemption in Part

Subject as provided below, the principal amount redeemable in respect of each Class A Note on an Interest Payment Date (the “**Actual Redemption Amount**”) shall be the Class A Redemption Amount on such Interest Payment Date divided by the number of Class A Notes outstanding on the relevant Interest Payment Date (rounded down to the nearest penny); provided always that no such Actual Redemption Amount may exceed the Principal Amount Outstanding of the relevant Class A Note.

For the purposes of these Class A Conditions:

“**Borrower Loan Limit**” means the principal amount of a Borrower’s loan which would have been outstanding at any time if the Borrower had only made its minimum monthly payments due under the relevant loan and had not made any additional payments or overpayments.

“**Collection Period**” means the period beginning on (and including) a Determination Date (save for the first Collection Period which shall begin on (and include) the Issue Date) and ending on the day immediately preceding the next following Determination Date.

“**Determination Date**” means the day which is eight Business Days prior to an Interest Payment Date.

“**Excluded Items**” means

- (a) certain moneys which properly belong to third parties (such as monies owing to any party in respect of reimbursement for direct debit recalls);
- (b) on the Interest Payment Date following the Issue Date, amounts payable to Arianty under the Mortgage Sale Agreement in respect of reconciliations of the amounts paid in respect of the purchase of the Mortgages on the Issue Date; and
- (c) where the Issuer is unable to purchase the right to repayment of Redraws made with respect to one or more Mortgages on any Interest Payment Date (such Redraws continuing to be funded by Britannic Money or First Active, as applicable, on the basis that the Issuer holds each relevant Mortgage on trust for itself and Britannic Money or First Active, as applicable, each party’s interest being proportionate to the funding provided by it), the aggregate of Britannic Money’s or First Active’s, as applicable, *pro rata* share of amounts received in respect of each such Mortgage during the immediately preceding Collection Period.

“**Potential Redemption Amount**” will be determined on each Determination Date as follows:

- (a) the aggregate amount of Redemptions, Prepayments, enforcement proceeds, recoveries and insurance proceeds (to the extent they relate to principal) received during the immediately preceding Collection Period in respect of the Mortgages (“**Principal Collections**”); plus
- (b) principal losses realised upon completion of the enforcement and recovery process in relation to the Mortgages during the immediately preceding Collection Period; less
- (c) the aggregate principal amount of Redraws the right to repayment of which are to be purchased by the Issuer on the immediately succeeding Interest Payment Date; plus
- (d) the amount by which the aggregate principal amount outstanding under the Redraw Facility is expected to increase on the immediately succeeding Interest Payment Date as a result of the purchase of the right to repayment of Redraws; plus
- (e) an amount equal to the Principal Deficiency recorded on the previous Determination Date, provided that the Potential Redemption Amount shall never be less than zero.

“**Redemptions**” means scheduled principal payments plus full and part principal repayments (including enforcement and insurance proceeds) under a Mortgage where the Borrower Loan Limit (as defined above)

irrevocably reduces as a result of repayment ahead of the repayment plan used by Britannic Money or First Active, as applicable, to provide a baseline for the repayment of the Mortgage.

“**Prepayments**” means part principal repayments under a Mortgage where the Borrower Loan Limit does not change following prepayment ahead of the repayment plan used by Britannic Money or First Active, as applicable, to provide a baseline for the repayment of the Mortgage.

The amount allocated for redemption of the Notes under item (xiii) of the Priority of Payments (the “**Redemption Amount**”) will be divided into a “**Class A Redemption Amount**”, a “**Class M Redemption Amount**” and a “**Class B Redemption Amount**”. During a Class M Principal Lock Out, the Class A Redemption Amount will equal the Redemption Amount and the Class M Redemption Amount and the Class B Redemption Amount will be zero. During a Class B Principal Lock Out, the Redemption Amount will be divided between the Class A Redemption Amount and the Class M Redemption Amount (on a pro rata basis and subject to a Class M Principal Lock Out not having occurred) and the Class B Redemption Amount will be zero.

A “**Class M Principal Lock Out**” shall occur on any Interest Payment Date (i) during the period up to (and including) the earlier of the Interest Payment Date on which all Class A Notes are redeemed in full and the Interest Payment Date falling five years after the end of the Substitution Period (the “**Class M Principal Lock Out Period**”), (ii) where on such Interest Payment Date the sum of the Reserve Fund, the aggregate Principal Amount Outstanding (as defined in Condition 5 of the Class M Conditions) of the Class M Notes and the aggregate Principal Amount Outstanding (as defined in Condition 5 of the Class B Conditions) of the Class B Notes as a percentage of the sum of the aggregate Principal Amount Outstanding of the Class A Notes, the Class M Notes and the Class B Notes is not at least twice that same percentage as at the Issue Date, (iii) where a Principal Deficiency exists on such Interest Payment Date (iv) where the aggregate principal balance of Mortgages in respect of which there are arrears of an amount greater than £100 is greater than 2.5% of the then aggregate principal balance of the Mortgages comprised in the Mortgage Pool, in each case as at the immediately preceding Determination Date and (v) where the sum of the Principal Amount Outstanding of the Class M Notes and the Principal Amount Outstanding of the Class B Notes on such Interest Payment Date is less than two times the principal balance of the largest Mortgage or group of Mortgages in the name of a single Borrower as at the immediately preceding Determination Date.

A “**Class B Principal Lock Out**” shall occur on any Interest Payment Date (i) during the period up to (and including) the earlier of the Interest Payment Date on which all Class A Notes and Class M Notes are redeemed in full and the Interest Payment Date falling five years after the end of the Substitution Period (the “**Class B Principal Lock Out Period**”), (ii) where on such Interest Payment Date the sum of the Reserve Fund and the aggregate Principal Amount Outstanding (as defined in Condition 5 of the Class B Conditions) of the Class B Notes as a percentage of the sum of the aggregate Principal Amount Outstanding of the Class A Notes, the Class M Notes and the Class B Notes is not at least twice that same percentage as at the Issue Date, (iii) where a Principal Deficiency exists on such Interest Payment Date, (iv) where the aggregate principal balance of Mortgages in respect of which there are arrears of an amount greater than £100 is greater than 2.5% of the then aggregate principal balance of the Mortgages comprised in the Mortgage Pool, in each case as at the immediately preceding Determination Date and (v) where the Principal Amount Outstanding of the Class B Notes on such Interest Payment Date is less than two times the principal balance of the largest Mortgage or group of Mortgages in the name of a single Borrower as at the immediately preceding Determination Date.

If no Class M Principal Lock Out and no Class B Principal Lock Out applies on an Interest Payment Date and there are Class A Notes outstanding, the Redemption Amount will be divided between the Class A Redemption Amount, the Class M Redemption Amount and the Class B Redemption Amount in such amounts as would maintain the then current ratio of Class A Notes to Class M Notes to Class B Notes. If on any Interest Payment Date there are no Class A Notes outstanding, the Redemption Amount will be divided between the Class M Redemption Amount (subject to a Class M Principal Lock Out not having occurred) and the Class B Redemption Amount (subject to a Class B Principal Lock Out not having occurred) in such amounts as would maintain the then current ratio of the Class M Notes to the Class B Notes. If on any Interest Payment Date there are no Class A Notes or Class M Notes outstanding, the Class B Redemption Amount shall equal the whole of the Redemption Amount.

“**Principal Deficiency**” means the amount calculated on each Determination Date by deducting from the “**Liabilities**” expected to exist as at close of business on the immediately succeeding Interest Payment Date the “**Assets**” expected to exist as at close of business on the immediately succeeding Interest Payment Date (after having made all payments in accordance with the Priority of Payments),



where “**Liabilities**” means:

- (a) the aggregate Principal Amount Outstanding of the Notes on the last date of the immediately preceding Collection Period; less
- (b) the amount allocated in the Priority of Payments to redemption of the Notes under item (xiii) on the immediately succeeding Interest Payment Date; plus
- (c) the aggregate principal amount outstanding under the Redraw Facility on the last day of the immediately preceding Collection Period; plus
- (d) the amount by which the aggregate principal amount outstanding under the Redraw Facility is expected to increase on the immediately succeeding Interest Payment Date as a result of the purchase of the right to repayment of Redraws; less
- (e) the amount allocated in the Priority of Payments to repayment of principal amounts outstanding under the Redraw Facility under item (x) on the immediately succeeding Interest Payment Date; and

“**Assets**” means:

- (a) the aggregate outstanding principal balances of the Mortgages (including amounts receivable in respect of claims under property related insurance policies) on the last day of the immediately preceding Collection Period; plus
- (b) the aggregate principal amount of the Redraws, the right to repayment of which are to be purchased on the immediately succeeding Interest Payment Date; plus
- (c) the amount allocated in the Priority of Payments to purchase Further Advances under item (xi) on the immediately succeeding Interest Payment Date; plus
- (d) the amount allocated in the Priority of Payments to purchase Further Mortgages under item (xii) on the immediately succeeding Interest Payment Date; plus
- (e) the amount standing to the credit of the Pre-Funded Ledger and the Non-Verified Mortgage Ledger, provided that the Principal Deficiency shall never be less than zero.

In connection with such redemption, the Servicer will on each Determination Date, pursuant to the Servicing Agreement, determine the Potential Redemption Amount, the Class A Redemption Amount, the Class M Redemption Amount and the Class B Redemption Amount.

**(c) Class A Note Principal Payments, Principal Amount Outstanding and Pool Factor**

On (or as soon as practicable after) each Determination Date, the Issuer shall determine (or cause the Servicer to determine) (i) the amount of any Actual Redemption Amount due in respect of each Class A Note on the Interest Payment Date next following such Determination Date, (ii) the principal amount outstanding of each Class A Note on the Interest Payment Date next following such Determination Date (after deducting any Actual Redemption Amount due to be made in respect of that Class A Note on that Interest Payment Date) (the “**Principal Amount Outstanding**”) and (iii) the fraction expressed as a decimal to the sixth point (the “**Pool Factor**”), of which the numerator is the Principal Amount Outstanding of a Class A Note (as referred to in (ii) above) and the denominator is £10,000. Each determination by or on behalf of the Issuer of any Actual Redemption Amount of a Class A Note, the Principal Amount Outstanding of a Class A Note and the Pool Factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

The Principal Amount Outstanding of a Class A Note on any date shall be £10,000 less the aggregate amount of all Actual Redemption Amounts in respect of such Class A Note that have become due and payable since the Issue Date on or prior to such date (whether or not paid).

With respect to the Class A Notes, the Issuer will cause each determination of an Actual Redemption Amount, Principal Amount Outstanding and Pool Factor to be notified forthwith to the Trustee, the Paying Agents, the Agent Bank and (for so long as the Class A Notes are admitted to trading on the London Stock Exchange’s market for listed securities) the London Stock Exchange, and will immediately cause notice of each determination of an Actual Redemption Amount, Principal Amount Outstanding and Pool Factor to be given in accordance with Class A Condition 14 by not later than two Business Days prior to the relevant Interest Payment Date. If no Actual Redemption Amount is due to be made on the Class A Notes on any Interest Payment Date a notice to this effect will be given by or on behalf of the Issuer to the Class A Noteholders in accordance with Class A Condition 14.

If the Issuer does not at any time for any reason determine (or cause the Servicer to determine) with respect to the Class A Notes an Actual Redemption Amount, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this paragraph, such Actual Redemption Amount, Principal Amount Outstanding and Pool Factor may be determined by the Trustee in accordance with this paragraph and each such determination or calculation shall be deemed to have been made by the Issuer. Any such determination shall be binding on the Issuer, the Servicer, the Class A Noteholders and the Class A Couponholders.

**(d) Optional Redemption**

On the Interest Payment Date falling in July 2008 or on any Interest Payment Date falling thereafter and upon giving not more than 30 nor less than 20 days' notice to the Trustee and the Class A Noteholders in accordance with Class A Condition 14, the Issuer may redeem all (but not some only of) the Class A Notes at their Principal Amount Outstanding together with interest accrued thereon provided that, prior to giving any such notice, the Issuer shall have provided to the Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the Class A Notes as aforesaid.

On any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes is equal to or less than 10% of the aggregate principal amount of such Notes at the time such Notes were issued, and upon giving not more than 30 nor less than 20 days notice to the Trustee, the Class A Noteholders, the Class M Noteholders and the Class B Noteholders, the Issuer may redeem all (but not some only of) the Class A Notes and all (but not some only of) the Class M Notes and all (but not some only of) the Class B Notes at their Principal Amount Outstanding together with accrued interest provided that prior to giving any such notice, the Issuer shall have provided the Trustee with a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem Class A Notes, the Class M Notes and the Class B Notes as aforesaid.

**(e) Optional Redemption for Tax Reasons**

If the Issuer at any time satisfies the Trustee immediately prior to the giving of the notice referred to below that either (i) on the next Interest Payment Date the Issuer or any Paying Agent would be required to deduct or withhold from any payment of principal or interest on the Class A Notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest in relation to any of the Mortgages during an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period or (iii) the Issuer would, by virtue of a change in the law (or the application or officially published interpretation thereof) not be entitled to relief for United Kingdom tax purposes for any material amount which is currently relievable and which it is obliged to pay under the Transaction Documents, then the Issuer may, having given not more than 30 nor less than 20 days' notice to the Trustee and the Class A Noteholders in accordance with Class A Condition 14, redeem all (but not some only) of the Class A Notes on any Interest Payment Date at their Principal Amount Outstanding together with interest accrued thereon provided that, prior to giving any such notice, the Issuer shall have provided to the Trustee: (a) a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to the interest of any other person, required to redeem the Class A Notes as aforesaid and (b) a legal opinion (in form and substance satisfactory to the Trustee) from a firm of lawyers in England (approved in writing by the Trustee) opining on the relevant event. Any certificate and legal opinion given by or on behalf of the Issuer may be relied on by the Trustee and shall be conclusive and binding on the Class A Noteholders and Class A Couponholders.

**(f) Other Reasons**

The Issuer may, at its option, upon giving not more than 30 nor less than 20 days notice to the Trustee and the Class A Noteholders redeem all of the Class A Notes at their Principal Amount Outstanding together with interest accrued thereon on the second Interest Payment Date after any Determination Date on which it is determined that the aggregate amount of Redraws made by Borrowers during the Collection Period then ending exceeds the sum of (a) the Principal Collections available for the purpose of purchasing the right to repayment of Redraws in accordance with the Priority of Payments and (b) the lower of (i) the Available Facility under the Redraw Facility and (ii) the aggregate Principal

Amount Outstanding of the Class A Notes (in the case of a redemption of the Class M Notes) or the aggregate Principal Amount Outstanding of the Class A Notes and the Class M Notes (in the case of a redemption of the Class B Notes).

**(g) Notice of Redemption**

Any such notice as is referred to in paragraph (d), (e) or (f) above shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Class A Notes at their Principal Amount Outstanding together with interest accrued thereon.

**(h) Purchase**

The Issuer shall not purchase any Class A Notes or Class A Coupons.

**(i) Cancellation**

All Class A Notes redeemed pursuant to paragraphs (d), (e) or (f) above will be cancelled upon redemption, together with any unmatured Class A Coupons appertaining thereto and attached thereto or surrendered therewith, and may not be resold or re-issued.

**6. PAYMENTS**

- (a)** Payments of principal in respect of the Class A Notes will be made against presentation of the Class A Notes at the specified office of any Paying Agent. Payments of interest in respect of the Class A Notes will (subject as provided in paragraphs (c) and (d) below) be made only against presentation and surrender of the Class A Coupons at the specified office of any Paying Agent. Payments will be made in sterling at the specified office of any Paying Agent by sterling cheque drawn on, or, at the option of the holder, by transfer to a sterling account maintained by the payee with, a branch of a bank in London.
- (b)** Payments of principal and interest in respect of the Class A Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto.
- (c)** Upon the date on which any Class A Note becomes due and payable in full, unmatured Class A Coupons appertaining thereto (whether or not attached to such Class A Note) shall become void and no payment or, as the case may be, exchange shall be made in respect thereof. If the due date for redemption of any Class A Note is not an Interest Payment Date, accrued interest will be paid only against presentation and surrender of such Class A Note.
- (d)** If payment of principal is improperly withheld or refused on or in respect of any Class A Note or part thereof, the interest which continues to accrue in respect of such Class A Note in accordance with Class A Condition 4(a) will be paid against presentation of such Class A Note at the specified office of any Paying Agent.
- (e)** The initial Principal Paying Agent and its initial specified office is listed at the end of these Class A Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent and to appoint additional or other Paying Agents. The Issuer will at all times maintain a paying agent with a specified office in London. The Issuer will cause at least 30 days' notice of any change in or addition to the Paying Agents or their specified offices to be given in accordance with Class A Condition 14.
- (f)** If any Class A Coupon or Class A Note is presented for payment on a day which is not a Business Day, no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Class A Coupon or, as the case may be, such Class A Note.
- (g)** On or after the Interest Payment Date the final Coupon forming part of any Coupon sheet, the Class A Talon forming part of such Coupon sheet may be surrendered at any specified office of the Paying Agent in exchange for a further Coupon sheet (including a further talon but excluding any Coupons which shall have become void).
- (h)** If a Paying Agent makes a partial payment in respect of any Class A Note presented to it for payment, such Paying Agent will endorse on the grid endorsed on such Class A Note (in respect of payments of principal) a statement indicating the amount and date of such payment.

## 7. PRESCRIPTION

Class A Notes shall become void unless presented for payment within a period of 10 years from the relevant date in respect thereof. Class A Coupons (which expression shall not in this Class A Condition include Class A Talons) shall become void unless presented for payment within a period of 5 years from the relevant date in respect thereof. After the date on which a Class A Note or a Class A Coupon becomes void in its entirety, no claim may be made in respect thereof. In this Class A Condition, the “**relevant date**”, in respect of a Class A Note or Class A Coupon, is the date on which a payment in respect thereof first becomes due or (if the full amount of the moneys payable in respect of all the Class A Notes and/or Class A Coupons due on or before that date has not been duly received by the Paying Agents or the Trustee on or prior to such date) the date on which the full amount of such moneys having been so received, notice to that effect is duly given to the Class A Noteholders in accordance with Class A Condition 14.

## 8. TAXATION

All payments in respect of the Class A Notes and Class A Coupons will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer or the relevant Paying Agent (as applicable) is required by applicable law to make any payment in respect of the Class A Notes or Class A Coupons subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Issuer or the relevant Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Paying Agents nor the Issuer will be obliged to make any additional payments to holders of Class A Notes or Class A Coupons in respect of such withholding or deduction.

## 9. EVENTS OF DEFAULT

- (a) The Trustee at its absolute discretion may, and if so requested in writing by the holders of not less than 25% in aggregate of the Principal Amount Outstanding of the Class A Notes or if so directed by or pursuant to an Extraordinary Resolution (as defined in the Trust Deed) of the Class A Noteholders (subject, in each case, to being indemnified to its satisfaction) shall give notice to the Issuer declaring the Class A Notes to be due and repayable at any time after the happening of any of the following events (each an “**Event of Default**”):
- (i) default being made for a period of 10 Business Days in the payment of the principal of or any interest on any Class A Note when and as the same ought to be paid in accordance with these Class A Conditions; or
  - (ii) any Interest Rate Swap or Base Rate Swap being terminated by reason of default in payment on the part of the Issuer for a period of 10 Business Days; or
  - (iii) the Issuer failing duly to perform or observe any other obligation binding upon it under the Class A Notes, the Trust Deed, the Servicing Agreement, the Deed of Charge, or any of the other Transaction Documents and, in any such case (except where the Trustee certifies that, in its opinion, such failure is incapable of remedy when no notice will be required) such failure is continuing for a period of 30 days following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
  - (iv) the Issuer, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in sub-paragraph (v) below, ceasing or, through an official action of the Board of Directors of the Issuer, threatening to cease to carry on business or being unable to pay its debts as and when they fall due or otherwise becomes insolvent; or
  - (v) an order being made or an effective resolution being passed for the winding-up of the Issuer except a winding-up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Class A Noteholders; or
  - (vi) proceedings being otherwise initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition for an administration order) or an administration order being granted or an administrative receiver or other receiver, liquidator or other similar official being appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer, or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the Issuer, or a distress or execution or other

process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and such possession or process (as the case may be) not being discharged or not otherwise ceasing to apply within 14 days, or the Issuer initiating or consenting to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors generally;

Provided that, in the case of each of the events described in sub-paragraph (iii) of this paragraph (a), the Trustee shall have certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class A Noteholders.

- (b) Upon any declaration being made by the Trustee in accordance with paragraph (a) above that the Class A Notes are due and repayable, the Class A Notes shall immediately become due and repayable at their Principal Amount Outstanding together with accrued interest as provided in the Trust Deed.

#### **10. ENFORCEMENT OF CLASS A NOTES**

- (a) At any time after the Class A Notes have become due and repayable and without prejudice to its rights of enforcement in relation to the Security, the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer as it may think fit to enforce payment of the Class A Notes at their Principal Amount Outstanding together with accrued interest, but it shall not be bound to take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution of the Class A Noteholders or so requested in writing by the holders of at least 25% in aggregate of the Principal Amount Outstanding of the Class A Notes; and (b) it shall have been indemnified to its satisfaction. No Class A Noteholder or Class A Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing. The Trustee cannot, while any of the Class A Notes are outstanding, be required to enforce the Security at the request of the holders of Class M Notes, Class B Notes or any other Secured Creditor under the Deed of Charge.
- (b) Notwithstanding the foregoing and so long as any of the Class A Notes remain outstanding, if the Class A Notes have become due and repayable pursuant to Class A Condition 9 otherwise than by reason of a default in payment of any amount due on the Class A Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class A Noteholders, the Class A Couponholders and the other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion 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 owing to the Class A Noteholders, the Class A Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith.

#### **11. MEETINGS OF CLASS A NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION OF PRINCIPAL DEBTOR**

- (a) The Trust Deed contains provisions for convening meetings of Class A Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of such Class A Noteholders of a modification of these Class A Conditions as they relate to the Class A Notes or the provisions of any of the Documents or any other documents the rights and benefits in respect of which are comprised in the Security ("**Other Relevant Documents**"). The quorum at any meeting of Class A Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing in aggregate not less than 75% in Principal Amount Outstanding of the Class A Notes then outstanding or, at any adjourned meeting, two or more persons being or representing Class A Noteholders as they relate to the Class A Notes whatever the Principal Amount Outstanding of the Class A Notes so held or represented except that, at any meeting the business of which includes the sanctioning of a modification which would, *inter alia*, have the effect of altering the date of maturity of the Class A Notes or the day for payment of interest or principal thereon, or the amount of principal or the rate of interest payable in respect of the Class A Notes or the currency of payment (other than pursuant to a redenomination approved by the Trustee pursuant to Class A Condition 15) of the Class A Notes or related Class A Coupons or the priority of payments or the quorum or majority required in relation to this exception (a "**Basic Terms Modification**"), the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing in aggregate not less than 75%, or, at any adjourned such meeting, 25% of the Principal Amount Outstanding of the Class

A Notes then outstanding. An Extraordinary Resolution passed at any meeting of Class A Noteholders shall be binding on all Class A Noteholders whether or not they are present at the meeting, and on all Class A Couponholders. The majority required for an Extraordinary Resolution shall be 75% of the votes cast on that resolution.

The Trust Deed contains provisions limiting the powers of the holders of Class M Notes and Class B Notes, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class A Noteholders. Except in the circumstances set out in (b) below, the Trust Deed imposes no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding on the holders of Class M Notes and Class B Notes, irrespective of the effect on their interests.

- (b) No Extraordinary Resolution to sanction a Basic Terms Modification which would have the effect of altering the date of maturity of the Notes or the date for payment of interest in respect of the Notes, increasing the amount of principal or the rate of interest payable in respect of the Notes, or altering the currency of payment of the Notes, or altering the provisions of the Trust Deed, the Deed of Charge or any other Document or any Other Relevant Document shall take effect unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders, the Class M Noteholders and the Class B Noteholders.
- (c) The Trustee may agree, without the consent of the Class A Noteholders or Class A Couponholders (i) to any modification (except a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of, these Class A Conditions or any of the Documents or any Other Relevant Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Class A Noteholders or Class A Couponholders (ii) to any modification of these Class A Conditions or any of the Documents or any Other Relevant Documents, which, in the Trustee's opinion, is to correct a manifest error or is of a formal, minor or technical nature. The Trustee may also, without the consent of the Class A Noteholders or the Class A Couponholders, determine that any Event of Default shall not, or shall not subject to specified conditions, be treated as such. Any such modification, waiver, authorisation or determination shall be binding on the Class A Noteholders and the Class A Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Class A Noteholders in accordance with Class A Condition 14 as soon as practicable thereafter.
- (d) The Trustee may agree, subject to the consent of the Issuer and to such amendment of these Class A Conditions and of any of the Documents and to such other conditions as the Trustee may require and subject to the relevant provisions of the Trust Deed, but without the consent of the Class A Noteholders or the Class A Couponholders, to the substitution of another body corporate in place of the Issuer as principal debtor under the Trust Deed and the Class A Notes, subject to the Class A Notes being unconditionally and irrevocably guaranteed by the Issuer (unless all or substantially all of the assets of the Issuer are transferred to such body corporate) and to such body corporate being a single purpose vehicle and undertaking itself to be bound by provisions corresponding to those set out in Class A Condition 3. In the case of a substitution pursuant to this paragraph (d), the Trustee may in its absolute discretion agree, without the consent of the Class A Noteholders or the Class A Couponholders, to a change of the law governing the Class A Notes and/or any of the Documents provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Class A Noteholders.
- (e) Where the Trustee is required in connection with the exercise of its powers, trusts, authorities, duties and discretions to have regard to the interests of the Class A Noteholders, it shall have regard to the interests of the Class A Noteholders as one class and, in particular but without prejudice to the generality of the foregoing, the Trustee shall not have regard to, or be in any way liable for, the consequences of such exercise for individual Class A Noteholders or Class A Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise, the Trustee shall not be entitled to require, and no Class A Noteholder or Class A Couponholder shall be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Class A Noteholders or Class A Couponholders.

## **12. INDEMNIFICATION AND EXONERATION OF THE TRUSTEE**

The Trust Deed contains provisions governing the responsibility (and relief from responsibility) of the Trustee and providing for its indemnification in certain circumstances, including provisions relieving it

from taking enforcement proceedings or enforcing the Security unless indemnified to its satisfaction. The Trustee and its related companies are entitled to enter into business transactions with the Issuer, Arianty, Britannic Money, First Active, and/or the related companies of any of them without accounting for any profit resulting therefrom. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Servicer or any agent or related company of the Servicer or by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Trustee.

The Trust Deed provides that the Trustee shall be under no obligation to monitor or supervise compliance by the Issuer, Arianty or Britannic Money, First Active and/or the related companies of any of them with their respective obligations or to make any searches, enquiries or independent investigations of title in relation to any of the properties secured by the Mortgages save as provided under the Transaction Documents.

### **13. REPLACEMENT OF DEFINITIVE CLASS A NOTES, CLASS A COUPONS AND CLASS A TALONS**

If any Class A Note, Class A Coupon or Class A Talon is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office of any Paying Agent. Replacement of any mutilated, defaced, lost, stolen or destroyed Class A Note, Class A Coupon or Class A Talon will only be made on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Class A Notes, Class A Coupons or Class A Talons must be surrendered before new ones will be issued.

### **14. NOTICE TO CLASS A NOTEHOLDERS**

Any notice to the Class A Noteholders shall be validly given if published in the *Financial Times* or, if such newspaper shall cease to be published or timely publication therein shall not be practicable, in such English language newspaper or newspapers as the Trustee shall approve having a general circulation in Europe; Provided that if, at any time, the Issuer procures that information concerned in such notice specifying an Interest Payment Date, Principal Amount Outstanding or Rate of Interest shall appear on a page of the Reuters screen or Bloomberg or any other medium for electronic display of data as may be previously approved in writing by the Trustee (in each case a “**Relevant Screen**”), publication in the *Financial Times* shall not be required with respect to such information. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which (or on the Relevant Screen on which) publication is required.

The Trustee shall be at liberty to sanction some other method of giving notice to the Class A Noteholders or any category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the Notes are then listed and provided that notice of such other method is given to the Class A Noteholders in such manner as the Trustee shall require. The Class A Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Class A Noteholders in accordance with this Class A Condition.

### **15. REDENOMINATION**

Pursuant to the Treaty establishing the European Community as amended by the Treaty on European Union (as amended, the “**Treaty**”), the third stage of European economic and monetary union commenced on 1 January 1999 and the value of the euro as against the currencies of the member states participating in the third stage of European economic and monetary union was irrevocably fixed and the euro became a currency in its own right. The United Kingdom may at some future date participate in the third stage of European economic and monetary union or otherwise participate in European economic and monetary union in a manner with similar effect to such third stage. On an Interest Payment Date falling on or after such date, the Issuer may, on giving notice to the holders of the Class A Notes, and with the prior written consent of the Trustee, redenominate all of the Class A Notes into euros.

### **16. GOVERNING LAW**

The Documents, the Class A Notes and the Class A Coupons are governed by, and shall be construed in accordance with, English law.

### **17. THIRD PARTY RIGHTS**

No person shall have any right to enforce any term or condition of the Class A Notes under the Contracts (Rights of Third Parties) Act 1999.

## DESCRIPTION OF THE CLASS M NOTES

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### GENERAL

£35,000,000 Class M Mortgage Backed Floating Rate Notes due 2036 (the “**Class M Notes**”) of First Flexible No. 4 plc (the “**Issuer**”) are the subject of a trust deed (the “**Trust Deed**”, which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified including the Master Definitions Schedule (as defined under Class M Condition 2(c) incorporated in the Trust Deed) to be entered into on 26 July 2001 (the “**Issue Date**”) and made between the Issuer and The Chase Manhattan Bank (the “**Trustee**”, which expression includes any further or other trustee of the Trust Deed) as trustee for, *inter alia*, the holders for the time being of the Class M Notes (the “**Class M Noteholders**”) and the holders for the time being of the interest coupons relating thereto (the “**Class M Coupons**” which expression includes the talons (“**Class M Talons**”) attached to the Class M Notes except where the context otherwise requires) (the “**Class M Couponholders**”). £460,000,000 Class A Mortgage Backed Floating Rate Notes due 2036 (the “**Class A Notes**”) and £5,000,000 Class B Mortgage Backed Floating rate Notes due 2036 (the “**Class B Notes**” and together with the Class A Notes and the Class M Notes, the “**Notes**”) will be issued pursuant to the Trust Deed contemporaneously with the issue of the Class M Notes. The security for the Class A Notes, the Class M Notes and the Class B Notes is created pursuant to, and on the terms set out in, a deed of sub-charge and assignment (the “**Deed of Charge**”, which expression includes such deed of sub-charge and assignment as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time modified) to be dated the Issue Date and made between, *inter alia*, Arianty No.1 plc (“**Arianty**”), the Issuer, Britannic Money plc (“**Britannic Money**”) and the Trustee. By an agency agreement (the “**Agency Agreement**”, which expression includes such Agency Agreement as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) to be dated the Issue Date and made between the Issuer, the Trustee, The Chase Manhattan Bank as agent bank (the “**Agent Bank**” which expression includes any other agent bank appointed in respect of the Class M Notes) and The Chase Manhattan Bank as principal paying agent (the “**Principal Paying Agent**” and together with any further or other paying agents for the time being appointed in respect of the Class M Notes, the “**Paying Agents**”) provision is made for the payment of principal and interest in respect of the Class M Notes. The statements in these Class M Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Agency Agreement and the Deed of Charge.

Copies of the Trust Deed, the Agency Agreement, the Deed of Charge and the other Documents (as defined below) are available for inspection at the principal office for the time being of the Trustee, being at the date hereof at Trinity Tower, 9 Thomas More Street, London E1 9YT and at the specified offices of the Paying Agents. The Class M Noteholders and the Class M Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and are deemed to have notice of all the provisions of the Agency Agreement.

The issue of the Class M Notes was authorised by resolution of the Board of Directors of the Issuer passed on 18 July 2001.

### THE GLOBAL CLASS M NOTES

#### Temporary Global Class M Notes and Permanent Global Class M Notes

The Class M Notes will be initially represented by a temporary bearer global note in the principal amount of £35,000,000 (the “**Temporary Global Class M Note**”) without Class M Coupons or Class M Talons. The Temporary Global Class M Note will be deposited on behalf of the subscribers of the Class M Notes with a common depository (the “**Common Depository**”) for Euroclear S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) on the Issue Date. Upon deposit of the Temporary Global Class M Note, Euroclear or Clearstream, Luxembourg will credit each subscriber of Class M Notes represented by such Temporary Global Class M Note with the principal amount of the Class M Notes for which it has subscribed and paid. Interests in the Temporary Global Class M Note will be exchangeable not earlier than 4 September 2001 (the “**Exchange Date**”), provided certification of non-US beneficial ownership by the Class M Noteholders has been received, for interests in a permanent bearer global note (the “**Permanent Global Class M Note**” and, together with the Temporary Global Class M Note, the “**Global Class M Notes**”), without Class M Coupons or Class M



Talons. On the exchange of the Temporary Global Class M Note for the Permanent Global Class M Note, the Permanent Global Class M Note will remain deposited with the Common Depository.

### **Transfers**

Title to the Global Class M Notes will pass by delivery. The Permanent Global Class M Note will only be exchangeable for definitive Class M Notes in the limited circumstances described below. Each of the persons appearing from time to time in the records of Euroclear or Clearstream, Luxembourg as the holder of a Class M Note will be entitled to receive any payment so made in respect of that Class M Note in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg, as appropriate. For so long as any Class M Notes are represented by a Global Class M Note, such Class M Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as appropriate.

For so long as the Class M Notes are represented by a Global Class M Note, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Class M Notes will be entitled to be treated by the Issuer and the Trustee as the holder of such principal amount of Class M Notes. The expressions “**Class M Noteholders**” may be construed accordingly, but without prejudice to the entitlement of the bearer of a Global Class M Note.

### **Payments**

No payment will be made on the Temporary Global Class M Note unless exchange for an interest in the Permanent Global Class M Note or for Class M Notes in definitive form is improperly withheld or refused. Principal and interest on a Global Class M Note will be payable against presentation of that Global Class M Note at the specified office of any Paying Agent provided certification of non-US beneficial ownership by the Class M Noteholders has been received by Euroclear or Clearstream, Luxembourg. A record of each payment made on a Global Class M Note, distinguishing between any payment of principal and payment of interest, will be endorsed on that Global Class M Note by the Paying Agents (or the Paying Agent shall procure that such endorsement be made) and such record shall be prima facie evidence that the payment in question has been made.

### **Issue of Class M Notes in Definitive Form**

If (i) the Class M Notes become due and repayable pursuant to Class M Condition 9(a) or (ii) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which becomes effective on or after the Issue Date, the Issuer is, or any of the Paying Agents are or will be, required to make any deduction or withholding from any payment in respect of the Class M Notes which would not be required were the Class M Notes in definitive form, then the Issuer will, at its sole cost and expense, issue Class M Notes in definitive form in exchange for the whole outstanding interest in the Permanent Global Class M Notes within 30 days of the occurrence of the relevant event.

Any notice to Class M Noteholders in respect of Class M Notes represented by a Global Class M Note shall be deemed to have been duly given if sent to Euroclear and/or Clearstream, Luxembourg (as applicable) and shall be deemed to have been given on the date on which such notice was so sent.

## TERMS AND CONDITIONS OF THE CLASS M NOTES

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If Class M Notes in definitive form were to be issued, the terms and conditions (subject to amendment and completion) set out on each Class M Note would be as set out below (the “**Class M Conditions**”). While the Class M Notes remain in global form, the same terms and conditions govern such Class M Notes, except to the extent that they are appropriate only to Class M Notes in definitive form.

### 1. FORM, DENOMINATION AND TITLE

- (a) The £35,000,000 Class M Mortgage Backed Floating Rate Notes due 2036 (the “**Class M Notes**”) issued by First Flexible No. 4 plc (the “**Issuer**”) are serially numbered and are issued in bearer form in the denomination of £10,000 each with coupons (“**Class M Coupons**”) and talons (“**Class M Talons**”) attached and a grid endorsed thereon for the recording of all payments of principal in accordance with the provisions of Class M Condition 5.
- (b) Title to the Class M Notes, Class M Coupons and Class M Talons shall pass by delivery. The holder of any Class M Note (each a “**Class M Noteholder**”) and the holder of any Class M Coupon (each a “**Class M Couponholder**”) 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 Class M Note or Class M Coupon, as the case may be, regardless of any notice of ownership, theft or loss, of any trust or other interest therein or of any writing thereon.
- (c) The holder of each Class M Coupon (whether or not the Class M Coupon is attached to the relevant Class M Note) and each Class M Talon in his capacity as such shall be subject to all the provisions contained in the relevant Class M Note.

### 2. STATUS, SECURITY AND PRIORITY

#### Status

- (a) The Class M Notes and the Class M Coupons constitute direct, secured and unconditional obligations of the Issuer and rank (subject to the provisions of Class M Condition 5) *pari passu* without preference or priority amongst themselves.
- (b) The £460,000,000 Class A Mortgage Backed Floating Rate Notes due 2036 (the “**Class A Notes**”) and the £5,000,000 Class B Mortgage Backed Floating Rate Notes due 2036 (the “**Class B Notes**”) and together with the Class A Notes and Class M Notes, the “**Notes**”) issued by the Issuer on or about 26 July 2001 (the “**Issue Date**”) are subject to a trust deed dated on or about 26 July 2001 between the Issuer and The Chase Manhattan Bank (the “**Trustee**”) (the “**Trust Deed**”) and are secured by the same security which secures the Class M Notes. The Class A Notes rank *pari passu*, without preference or priority amongst themselves, the Class M Notes rank *pari passu* without preference or priority amongst themselves and the Class B Notes rank *pari passu* without preference or priority amongst themselves, but (i) the Class A Notes will rank in priority to the Class M Notes and Class B Notes and (ii) the Class M Notes will rank in priority to the Class B Notes in the event of the Security (as defined below in Class M Condition 2(d)) being enforced.
- (c) The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of the Class M Noteholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to (i) (for so long as there are any Class A Notes outstanding) the interests of the holders of Class A Notes if, in the Trustee’s opinion, there is a conflict between the interests of (A) the holders of Class A Notes and (B) the holders of Class M Notes and/or (C) the holders of the Class B Notes and/or any other Secured Creditors (as defined below) or (ii) (if there are no Class A Notes outstanding) the interests of the holders of Class M Notes if, in the Trustee’s opinion, there is a conflict between the interests of (A) the holders of Class M Notes and (B) the holders of Class B Notes and/or any other Secured Creditors (as defined below) or (iii) (if there are no Class M Notes outstanding) the interests of the holders of Class B Notes if in the Trustee’s opinion there is a conflict between the interests of the Class M Noteholders and/or any other Secured Creditors (as defined below).

#### Security

- (d) As security for the payment of all moneys payable in respect of the Class M Notes and otherwise under the Trust Deed (including the remuneration, expenses and any other claims of the Trustee and any Receiver (as defined below) appointed under the Deed of Charge) and in respect of certain

amounts payable to Britannic Money or its successor acting as Servicer of the mortgages to be purchased by the Issuer on the Issue Date (the “**Initial Mortgages**”) and such Further Mortgages (as defined below) and such mortgages transferred to the Issuer pursuant to the Transaction Documents (as defined below) after the Issue Date (each a “**Substitute Mortgage**” and together with the Initial Mortgages, further mortgage loans purchased by the Issuer from Arianty (the “**Pre-Funded Mortgages**”) at any time on or after the Issue Date but no later than the third Interest Payment Date and Further Mortgages, the “**Mortgages**”) and to certain other beneficiaries from time to time, the Issuer will enter into the Deed of Charge creating the following security (the “**Security**”) in favour of the Trustee for itself and on trust for the other persons expressed to be secured parties thereunder:

- (i) a first fixed equitable charge or mortgage or (in relation to Mortgages secured on properties in Scotland (“**Scottish Mortgages**”)) assignment in security in favour of the Trustee over the Issuer’s right, title, interest and benefit present and future in the Mortgages and other collateral security relating to the Mortgages;
- (ii) an equitable assignment by way of first fixed security in favour of the Trustee of the Issuer’s interest in certain buildings policies, life policies, contingency policies and mortgage indemnity policies (the “**Insurance Contracts**”) to the extent that they relate to the Mortgages;
- (iii) an assignment by way of first fixed security in favour of the Trustee of the benefit of the Servicing Agreement to be entered into between the Servicer, the Issuer, and the Trustee (the “**Servicing Agreement**”), the mortgage sale agreement to be entered into between, *inter alios*, Arianty, the Issuer and the Trustee (the “**Mortgage Sale Agreement**”), the declaration of trust by Britannic Money in favour of the Issuer in relation to Scottish Mortgages (the “**Scottish Trust**”), the guaranteed investment contract to be entered into between the Issuer, the Trustee and Barclays Bank PLC (the “**Guaranteed Investment Contract**”), the redraw facility agreement to be entered into between the Issuer, the Trustee and Barclays Bank PLC (in such capacity, the “**Redraw Facility Provider**”) and the Servicer (the “**Redraw Facility Agreement**”), the declaration of trust to be entered into and made by Britannic Money in relation to the Trust Accounts (as defined below) (the “**Declaration of Trust**”), the agency agreement to be entered into and made between the Issuer, the Principal Paying Agent, the Trustee and the Agent Bank (the “**Agency Agreement**”), the loan agreement to be entered into between the Issuer and Britannic Money (the “**Start-Up Loan**”), the bank agreement to be entered into between, *inter alia*, the Issuer, The Royal Bank of Scotland plc and Barclays Bank PLC (the “**Bank Agreement**”), each interest rate swap agreement (each an “**Interest Rate Swap**” and together the “**Interest Rate Swaps**”) to be entered into between the Issuer and Morgan Guaranty Trust Company of New York, London branch, Barclays Bank PLC or any other entity which has a rating of at least A-1+ by S&P and F-1+ by Fitch in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (each a “**Swap Counterparty**” and together, the “**Swap Counterparties**”), each interest rate cap (each an “**Interest Rate Cap**” and together the “**Interest Rate Caps**”) provided by Morgan Guaranty Trust Company of New York, London branch, Barclays Bank PLC or any other entity which has a rating of at least A-1+ by S&P and F-1+ by Fitch in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (each a “**Cap Provider**” and together the “**Cap Providers**”), each LIBOR-linked interest rate swap agreement (each a “**LIBOR Swap**” and together the “**LIBOR Swaps**”) to be entered into and made between the Issuer and Morgan Guaranty Trust Company of New York, London branch or any other entity which has a rating of at least A-1+ by S&P and F-1+ by Fitch in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (each a “**LIBOR Swap Provider**” and together, the “**LIBOR Swap Providers**”), each base rate swap (each a “**Base Rate Swap**” and together the “**Base Rate Swaps**”) provided by The Royal Bank of Scotland plc or any other entity which has a rating of at least A-1+ by S&P and F-1+ by Fitch in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (each a “**Base Rate Swap Provider**” and together, the “**Base Rate Swap Providers**”) purchased by the Issuer on or around the Issue Date, the Master Definitions Schedule, and such other documents as are expressed to be subject to the charges under the Deed of Charge (all such documents together the “**Transaction Documents**”);
- (iv) a first fixed equitable charge in favour of the Trustee over the Issuer’s beneficial interest in the Trust Accounts, the Transaction Account and the Reserve Account (each as defined below), any other bank account of the Issuer from time to time and over the Permitted Investments (as defined below); and

- (v) a first floating charge in favour of the Trustee (ranking after the security referred to in (i) to (iv) above) over the whole of the undertaking, property, assets and rights of the Issuer.

#### **Priority of Payments Prior to Enforcement**

- (e) On each Interest Payment Date, the monies standing to the credit of the Transaction Account (save for any monies standing to the credit of the Pre-Funded Ledger applied or to be applied in purchasing Pre-Funded Mortgages), the monies representing a credit balance in the Reserve Ledger (save that such monies may only be applied to meet items (i) to (vii) below)) all monies advanced under the Redraw Facility (save that such monies may only be applied to purchase the right to repayment of Redraws under item (ix) below or to rollover existing advances under the Redraw Facility), any Threshold Amount Deposit (as defined below) made on the immediately preceding Determination Date, all amounts received from the Swap Counterparties and/or the Cap Providers and/or the LIBOR Swap Providers under an Interest Rate Swap and/or Interest Rate Cap and/or LIBOR Swap, all amounts received from the Base Rate Swap Providers under a Base Rate Swap, all amounts representing a credit balance in the Hedge Reserve transferred from the Reserve Account to the Transaction Account, all amounts representing a credit balance in the Base Rate Reserve transferred from the Reserve Account to the Transaction Account and all amounts representing a credit balance in the Discount Reserve transferred from the Reserve Account to the Transaction Account will, after making payment of or providing for Excluded Items (as defined below), until enforcement of the Security for the Notes, be applied (save as the payee may otherwise agree) in making the following payments or provisions in the following order of priority (the “**Priority of Payments**”):
  - (i) to pay or provide for the remuneration payable to the Trustee and any fees, costs, charges, liabilities and expenses incurred by it under the provisions of the Trust Deed, the Deed of Charge and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;
  - (ii) to pay or provide for amounts due and/or which will become due prior to the next Interest Payment Date to the Paying Agents and Agent Bank under the Agency Agreement;
  - (iii) to pay or provide for *pari passu* and *pro rata* (a) amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable or expected to become due and payable by the Issuer on or after such Interest Payment Date by the Issuer to third parties and incurred without breach by the Issuer of its obligations under the Transaction Documents and not provided for payment elsewhere and (b) the Issuer’s liability or possible liability for corporation tax;
  - (iv) to pay or provide for the servicing fee payable to the Servicer on such Interest Payment Date (inclusive of value added tax, if any) together with costs and expenses which are payable or expected to become payable by the Servicer under the Servicing Agreement prior to the next Interest Payment Date;
  - (v) to pay *pro rata* and *pari passu*:
    - (a) all amounts payable by the Issuer to the Swap Counterparties and/or the Base Rate Swap Providers and/or the LIBOR Swap Providers pursuant to the Interest Rate Swaps and/or the Base Rate Swaps and/or the LIBOR Swaps (other than in respect of termination payments following an event of default in respect of an Interest Rate Swap or a Base Rate Swap or a LIBOR Swap where the relevant Swap Counterparty or the relevant Base Rate Swap Provider or the relevant LIBOR Swap Provider is the defaulting party under the relevant Interest Rate Swap or, as the case may be, the relevant Base Rate Swap or, as the case may be, the relevant LIBOR Swap);
    - (b) all amounts payable under the Redraw Facility other than in respect of principal; and
    - (c) all amounts payable in respect of the Class A Notes other than in respect of principal on the Class A Notes;
  - (vi) subject to an M Note Trigger Event not having occurred on that Interest Payment Date, to pay all amounts payable in respect of the Class M Notes other than in respect of principal on the Class M Notes;

- (vii) subject to a B Note Trigger Event not having occurred on that Interest Payment Date, to pay all amounts payable in respect of the Class B Notes other than in respect of principal on the Class B Notes;
  - (viii) to credit the Reserve Fund up to the Reserve Fund Required Amount;
  - (ix) to pay for the purchase by the Issuer of the right to repayment of Redraws;
  - (x) to repay all principal amounts outstanding under the Redraw Facility;
  - (xi) to fund the purchase by the Issuer of Further Advances up to the lower of (a) the Potential Redemption Amount less amounts in accordance with item (x) above and (b) the aggregate amount of Redemptions received during the immediately preceding Collection Period less amounts in accordance with item (x) above;
  - (xii) during the Substitution Period only, to fund the purchase by the Issuer of Further Mortgages up to the lower of (a) the Potential Redemption Amount less amounts applied in accordance with items (x) and (xi) above, and (b) the aggregate amount of Redemptions received during the immediately preceding Collection Period less amounts applied in accordance with items (x) and (xi) above;
  - (xiii) to allocate an amount to be applied in redeeming the Notes equal to the greater of zero and the difference between (a) the Potential Redemption Amount (as defined in Class M Condition 5(b)) and (b) the sum of the amounts applied under items (x), (xi) and (xii);
  - (xiv) if an M Note Trigger Event occurs on such Interest Payment Date, to pay all amounts payable in respect of the Class M Notes other than in respect of principal on the Class M Notes;
  - (xv) if a B Note Trigger Event occurs on such Interest Payment Date, to pay all amounts payable in respect of the Class B Notes other than in respect of principal on the Class B Notes;
  - (xvi) to credit *pari passu* and *pro rata* (a) the Base Rate Reserve up to the Base Rate Reserve Required Amount and (b) the Hedge Reserve up to the Hedge Reserve Required Amount;
  - (xvii) to fund the purchase by the Issuer of hedges that may be required in order to preserve a rate at least equal to the Threshold Rate in respect of Further Mortgages, Substitute Mortgages or Further Advances purchased on such Interest Payment Date;
  - (xviii) to credit the Discount Reserve in an amount equal to the aggregate Loan Expected Differentials arising from Discounts on Further Mortgages, Substitute Mortgages or Further Advances purchased on such Interest Payment Date;
  - (xix) to make any termination payments payable to the Swap Counterparties or the Base Rate Swap Providers or the LIBOR Swap Providers pursuant to the Interest Rate Swaps or, as the case may be, the Base Rate Swaps or, as the case may be, the LIBOR Swaps following an event of default in respect of an Interest Rate Swap or, as the case may be, a Base Rate Swap or, as the case may be, a LIBOR Swap where the relevant Swap Counterparty or, as the case may be, the relevant Base Rate Swap Provider or, as the case may be, the relevant LIBOR Swap Provider is the defaulting party under the relevant Interest Rate Swap or, as the case may be, the Base Rate Swap or, as the case may be, the relevant LIBOR Swap;
- and provided that there is no Principal Deficiency on such Interest Payment Date and that no Event of Default has occurred;
- (xx) to pay amounts repayable to the Servicer in respect of any Threshold Amount Deposit which the Servicer elects to release;
  - (xxi) to pay amounts payable in respect of the Start-Up Loan other than in respect of principal on the Start-Up Loan;
  - (xxii) to pay amounts payable in respect of principal under the Start-Up Loan;
  - (xviii) to pay *pari passu* and *pro rata* (a) sums due to Arianty as Arianty Deferred Purchase Consideration, (b) sums due to Britannic Money as Britannic Money Deferred Purchase Consideration and (c) sums due to First Active as First Active Deferred Purchase Consideration; and
  - (xxiv) to make dividend payments to shareholders of the Issuer.

For the purposes of these Class M Conditions:

**“Arianty Deferred Purchase Consideration”** means such sums as are paid to Arianty on each Interest Payment Date by way of deferred purchase consideration by the Issuer under the Mortgage Sale Agreement in respect of the Initial Mortgages and Further Mortgages.

**“Available Facility”** means, in relation to the Redraw Facility, on each Interest Payment Date, an amount calculated as the difference between the Redraw Facility Limit and the aggregate amount of advances outstanding under the Redraw Facility which will not be repaid on such Interest Payment Date.

**“B Note Trigger Event”** means the determination by the Servicer as at any Interest Payment Date on which Class A Notes or Class M Notes are outstanding that, on the assumption that a B Note Trigger Event does not occur, the application of funds in accordance with the Priority of Payments will give rise to a Principal Deficiency (as defined in Class B Condition 5(b) which exceeds the aggregate Principal Amount Outstanding of the Class B Notes on such Interest Payment Date.

**“Bank of England Base Rate”** means the Bank of England repo rate set from time to time by the Monetary Policy Committee of the Bank of England.

**“Base Rate Linked Mortgages”** means Mortgages which are subject to a variable rate of interest set by Britannic Money from time to time, which is linked to the Bank of England Base Rate.

**“Base Rate Reserve”** means the amount recorded in a ledger (the **“Base Rate Reserve Ledger”**) and held in the Reserve Account.

**“Base Rate Reserve Required Amount”** means on the Issue Date and each Interest Payment Date thereafter an amount equal to 0.30% of the aggregate outstanding principal balances (including drawn and undrawn balances) of all Unhedged Base Rate Linked Mortgages.

**“Base Rate Swap”** means any interest rate swap entered into with the Base Rate Swap Provider for the purpose of hedging some or all of the Base Rate Linked Mortgages in the Mortgage Pool.

**“Base Rate Swap Provider”** means The Royal Bank of Scotland plc or such other person who from time to time enters into a Base Rate Swap with the Issuer.

**“Borrower Loan Limit”** means the principal amount of a Borrower’s loan which would have been outstanding at any time if the Borrower had only made the minimum monthly payment agreed with Britannic Money or First Active, as applicable (the **“Minimum Monthly Payment”**) and had not made any Overpayments.

**“Borrower Mortgage Account”** means each mortgage account held, from time to time, by a Borrower with Britannic Money or First Active, as applicable.

**“Britannic Money Deferred Purchase Consideration”** means such sums as are paid to Britannic Money on each Interest Payment Date by way of deferred purchase consideration by the Issuer under the Mortgage Sale Agreement in respect of Further Advances.

**“Discount”** means the discount below the Reference Rate applicable to a Discounted Mortgage at the relevant time.

**“Discounted Mortgage”** means Mortgages which are at the relevant time subject to a discounted rate of interest for a specified period.

**“Discount Reserve”** means the amount recorded in a ledger (the **“Discount Reserve Ledger”**) and held in the Reserve Account.

**“Effective Interest Margin”** means, in relation to Discounted Mortgages in the Mortgage Pool an amount determined as follows:

- (a) for each Standard Variable Rate Mortgage, the Threshold Margin less the Discount;
- (b) for each Base Rate Linked Mortgage, the margin of that Mortgage over Bank of England Base Rate less 0.15% (where such mortgage is not subject to a Base Rate Swap) less the Discount;
- (c) for each LIBOR Linked Mortgage, the margin of that Mortgage over LIBOR less the Discount.
- (d) for each Capped Mortgage which has been hedged relative to the Threshold Rate, the Threshold Margin less the Discount.

(e) for each Fixed Rate Mortgage which has been swapped to the Threshold Rate, the Threshold Margin less the Discount.

**“Expected Differential”** means an amount calculated in respect of each Discounted Mortgage and each Interest Period as the difference between the Threshold Margin and the Effective Interest Margin on such Discounted Mortgage, to the extent such difference is positive, multiplied by the outstanding principal balance in respect of such Discounted Mortgage as of the Interest Payment Date multiplied by the fraction of the actual number of days elapsed in the succeeding Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year).

**“First Active Deferred Purchase Consideration”** means such sums as are paid to First Active on each Interest Payment Date by way of deferred purchase consideration by the Issuer under the Mortgage Sale Agreement in respect of Further Advances.

**“Further Advances”** means the additional funds advanced to a Borrower by Britannic Money or First Active, as applicable on the security of his/her Mortgage subject to the satisfaction of certain conditions.

**“Hedge Reserve”** means the amount recorded in a ledger (the **“Hedge Reserve Ledger”**) and held in the Reserve Account.

**“Hedge Reserve Required Amount”** means (a) as at the Issue Date, the initial amount of Tranche C of the Start-Up Loan and (b) as at each Interest Payment Date, an amount equal to such amounts as are required to ensure that the Threshold Margin is maintained in respect of Capped Mortgages.

**“Investment Home Loans”** means loans made to a Borrower to be used to remortgage or acquire properties to let to tenants or hold as an investment.

**“M Note Trigger Event”** means the determination by the Servicer as at any Interest Payment Date on which Class A Notes are outstanding that, on the assumption that an M Note Trigger Event does not occur, the application of funds in accordance with the Priority of Payments will give rise to a Principal Deficiency (as defined in Class M Condition 5(b) which exceeds the aggregate Principal Amount Outstanding of the Class M Notes and the Class B Notes on such Interest Payment Date.

**“Non-Verified Mortgage Ledger”** means the ledger so entitled and held in the Transaction Account.

**“Owner Occupied Loans”** means loans made to a Borrower to acquire property to be used as their primary place of residence.

**“Overpayment”** means the amount by which a payment made by a Borrower into his/her Borrower Mortgage Account exceeds the Minimum Monthly Payment.

**“Payment Holiday”** means a Borrower’s monthly payments being met by applying Overpayments not previously redrawn by way of capitalisation of such monthly payments.

**“Permitted Investments”** means investments in which the Servicer is entitled to invest from time to time under the terms of the Servicing Agreement.

**“Potential Redraw Amount”** means the amount which is capable of being redrawn by a Borrower under a Mortgage.

**“Pre-Funded Ledger”** means the ledger so entitled and held in the Transaction Account.

**“Prepayments”** means part principal repayments under a Mortgage where the Borrower Loan Limit does not change following repayment ahead of the repayment plan used by Britannic Money or First Active, as applicable to provide a baseline for the repayment of the Mortgage. For the avoidance of doubt, Prepayments do not include scheduled principal repayments.

**“Receiver”** means a receiver appointed by the Trustee under Clause 10 of the Deed of Charge.

**“Redraw”** means in respect of a Mortgage, a Payment Holiday or a redraw by the relevant Borrower of a portion of the principal of his/her Mortgage if and to the extent that such Borrower has previously made Prepayments on his/her Mortgage in excess of the scheduled principal repayments and has not previously redrawn the whole of such excess payments and provided that the amounts of such Redraw is limited to ensure that the outstanding balance of the Mortgage after such Redraw is no greater than the Borrower Loan Limit;

**“Redraw Facility”** means the sterling revolving credit facility made between the Issuer and the Redraw Facility Provider.

**“Redraw Facility Limit”** means the maximum aggregate amount that can be drawn at any time under the Redraw Facility and which on the Issue Date shall be £58 million and thereafter may be varied on any Interest Payment Date by agreement between the Issuer, the Trustee, the Redraw Facility Provider, the Servicer and the Rating Agencies.

**“Reference Rate”** means:

- (a) for each Standard Variable Rate Mortgage, Britannic Money’s standard variable rate;
- (b) for each LIBOR Linked Mortgage, LIBOR plus the margin applicable to the relevant Mortgage as set out in the mortgage documentation entered into with the relevant Borrower;
- (c) for each Base Rate Linked Mortgage, Bank of England Base Rate, plus the margin applicable to the relevant Mortgage as set out in the mortgage documentation entered into with the relevant Borrower;
- (d) for each Capped Mortgage, the rate set out in the mortgage documentation entered into with the relevant Borrower;
- (e) for each Fixed Rate Mortgage, the rate set out in the mortgage documentation entered into with the relevant Borrower.

**“Required Redraw Facility Provider Rating”** means a short term unsecured unguaranteed and unsubordinated debt rating of A-1+ from S&P and F-1+ from Fitch.

**“Reserve Account”** means an account in the name of the Issuer at Barclays Bank PLC (the **“Account Bank”**) in which the Reserve Fund is established.

**“Reserve Fund”** means the amount recorded in a ledger (the **“Reserve Account”**) and held in the Reserve Account provided that (A) whilst there are Class A Notes outstanding, the Reserve Fund shall only be applied to pay interest on the Class M Notes to the extent that such drawing does not result in the amount standing to the credit of the Reserve Fund being less than (1) £3,000,000 or (2) the outstanding principal amount of the Class A Notes and (B) whilst there are Class M Notes outstanding, the Reserve Fund shall only be applied to pay interest on the Class B Notes to the extent that such drawing does not result in the amount standing to the credit of the Reserve Fund being less than (1) £3,000,000 or (2) the aggregate outstanding principal amount of the Class A Notes and the Class M Notes.

**“Reserve Fund Required Amount”** means an amount equal to the amount deposited under Tranche B of the Start-Up Loan;

**“Secured Creditors”** means each of the Trustee, the Noteholders, the Couponholders, the Servicer, the Redraw Facility Provider, the Start-Up Loan Provider, the GIC Provider, the Account Bank, the Cap Providers, the Swap Counterparties, the Base Rate Swap Providers, the LIBOR Swap Providers and the Principal Paying Agent.

**“Substitution Period”** means, the period commencing on (and including) the Issue Date and ending on the earlier of (i) the Interest Payment Date falling in July 2004 (ii) enforcement of the Security in accordance with Condition 10 (iii) removal of Britannic Money as Servicer in accordance with the Servicing Agreement (unless a substitute servicer has been appointed in accordance with the Servicing Agreement) (iv) the date on which the Notes are redeemed in full (v) the date on which the Redraw Facility becomes fully drawn unless the Issuer elects to shorten the Substitution Period by giving 5 Business Days notice to the Trustee and the Servicer.

**“Threshold Amount Deposit”** means a deposit which may be paid into the Transaction Account on an Interest Payment Date which is equal to the amount by which the amount produced by multiplying the Threshold Rate with the aggregate outstanding balances of the Mortgages in the Mortgage Pool on such Interest Payment Date and the fraction of the actual number of days elapsed in the relevant Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year) exceeds the sum of:

- (a) the aggregate of the annual rate of interest applicable on such Interest Payment Date to each Mortgage in the Mortgage Pool multiplied by the principal balance outstanding of such Mortgage on such Interest Payment Date multiplied by the fraction of the actual number of days elapsed in the relevant Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year), plus
- (b) any amount expected to be transferred from the Hedge Reserve into the Transaction Account on the next following Interest Payment Date; plus



- (c) any amount expected to be transferred from the Base Rate Reserve into the Transaction Account on the next following Interest Payment Date; plus
- (d) any amount expected to be transferred from the Discount Reserve into the Transaction Account on the next following Interest Payment Date; plus
- (e) any amounts received in respect of Interest Rate Swaps, LIBOR Swaps, Base Rate Swaps and Interest Rate Caps,

(such amount not to be less than zero).

“**Threshold Margin**” means the figure expressed as a percentage resulting from the addition of (i) the average total principal balance of Owner Occupied Loans during the relevant Interest Period multiplied by 1% plus (ii) the average total principal balance of Investment Home Loans during the relevant Interest Period multiplied by 1.2%, all divided by the average total principal balance outstanding of all Mortgages during that Interest Period. The average total principal balance outstanding in any category of Loan for the purposes of the above calculation shall be calculated by reference to the total principal balance outstanding of such category of Loan on each day during the relevant Interest Period.

“**Threshold Rate**” means in respect of an Interest Period an annual rated LIBOR as determined in relation to the Notes for such Interest Period plus the Threshold Margin.

“**Transaction Account**” means account number 40927481 in the name of the Issuer at Barclays Bank PLC.

“**Trust Accounts**” means the accounts in the name of Britannic Money held at Barclays Bank PLC and The Royal Bank of Scotland plc in to which payments are made in respect of amounts due and amounts received under the Mortgages.

“**Unhedged Base Rate Linked Mortgages**” means the aggregate outstanding principle balances of any Base Rate Linked Mortgages less the total notional balances of all Base Rate Swaps.

#### **Priority of Payments Post-Enforcement**

- (f) On enforcement of the Security, the Trustee is required, after making payment of or providing for Excluded Items, to apply moneys available for distribution in or towards the satisfaction of the following amounts in the following order or priority:
  - (i) first, to pay the remuneration then due and payable to the Trustee and any fees, costs, charges, liabilities and expenses incurred by the Trustee or any receiver appointed by the Trustee under the provisions of the Trust Deed, the Deed of Charge and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;
  - (ii) second, to pay the remuneration then due and payable to the Agent Bank and the Paying Agents and any fees, costs, charges, liabilities and expenses incurred by them or by the Account Bank under the Bank Agreement and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;
  - (iii) third, to pay or provide for *pari passu* and *pro rata* (a) amounts including audit fees and company secretarial expenses (plus value added tax, if any), which are payable or expected to become due and payable by the Issuer to third parties and incurred without breach by the Issuer of its obligations under the Transaction Documents and not provided for payment elsewhere and (b) the Issuer’s liability or possible liability for corporation tax;
  - (iv) fourth, in or towards satisfaction of any fees due and payable to the Servicer and any costs, charges, expenses and liabilities incurred by the Servicer;
  - (v) fifth, to pay *pari passu* and *pro rata* (a) all amounts due under the Interest Rate Swaps, (b) all amounts due under the Base Rate Swaps, (c) all amounts due under the LIBOR Swaps, (d) all amounts due under the Redraw Facility and (e) interest and principal and all other amounts due and payable in respect of the Class A Notes;
  - (vi) sixth, to pay interest and principal and all other amounts due and payable in respect of the Class M Notes;
  - (vii) seventh, to pay interest and principal and all other amounts due and payable in respect of the Class B Notes;

- (viii) eighth, to pay any interest and principal amounts due and payable under the Start-Up Loan ;
- (ix) ninth, to pay *pro rata* and *pari passu* (a) sums due to Arianty as Arianty Deferred Purchase Consideration, (b) sums due to Britannic Money as Britannic Money Deferred Purchase Consideration and (c) sums due to First Active as First Active Deferred Purchase Consideration; and
- (x) tenth, to pay the surplus (if any) to the shareholders of the Issuer by way of dividends.

The Trustee cannot, while any of the Class M Notes are outstanding and there is no subsisting Event of Default under Class M Condition 9, enforce the Security on behalf of the Class M Noteholders or any other Secured Creditor (whether or not requested to do so by the Class M Noteholders or such other Secured Creditor) under the Deed of Charge.

The Security will become enforceable upon the occurrence of an Event of Default (as defined in Class M Condition 9(a)) provided that, if the Security has become enforceable otherwise than by reason of a default in payment of any amount due on the Class M Notes or Class M Coupons, the Trustee will not be entitled to dispose of the assets comprised in the Security or any part thereof unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class M Noteholders and the Class M Couponholders or the Trustee is of the opinion, which shall be binding on the Class M Noteholders, the Class M Couponholders and the other Secured Creditors, reached after considering at any time and from time to time the advice of an investment bank or other financial adviser selected by the Trustee, 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 owing to the Class M Noteholders and the Class M Couponholders.

### 3. COVENANTS

Save with the prior written consent of the Trustee or as provided in or envisaged by any of the Trust Deed, the Deed of Charge, or any of the Transaction Documents (together the “**Documents**”), the Issuer shall not, so long as any Class A Note, Class M Note or Class B Note remains outstanding (as defined in the Trust Deed):

#### (a) Negative Pledge

create or permit to subsist any mortgage, pledge, lien (unless arising by operation of law) or charge upon the whole or any part of its assets, present or future (including any uncalled capital) or its undertaking;

#### (b) Restrictions on Activities

- (i) engage in any activity which is not incidental to any of the activities which the Documents provide or envisage that the Issuer will engage in; or
- (ii) have any subsidiaries or employees or premises;

#### (c) Disposal of Assets

transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein;

#### (d) Equitable Interest

permit any person other than the Issuer, the Trustee and Britannic Money or First Active in relation to any Redraws and Further Advances funded by either of them to have any equitable interest in any of its assets or undertakings or any interest, estate, right, title or benefit therein;

#### (e) Bank Accounts

have an interest in any bank account, other than the Trust Accounts and the bank accounts maintained pursuant to the Bank Agreement or the Guaranteed Investment Contract;

**(f) Dividends or Distributions**

pay any dividend or make any other distribution to its shareholders or issue any further shares other than pursuant to the Priority of Payments;

**(g) Borrowings**

incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any obligation of any person;

**(h) Merger**

consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;

**(i) Surrender of Group Relief**

offer or consent to surrender to any company any amounts which are available for surrender by way of group relief within Chapter IV of Part X of the Income and Corporation Taxes Act 1988 unless the Issuer first receives by way of consideration for such surrender the payment of an amount calculated by applying to the amount surrendered the rate of corporation tax applicable to the Issuer at the time of surrender;

**(j) Other**

permit the validity or effectiveness of any of the Documents, the Insurance Contracts relating to the Mortgages owned by the Issuer or the priority of the security interests created thereby to be amended, terminated or discharged, or consent to any variation of, or exercise of, any powers of consent or waiver pursuant to the terms of the Trust Deed, these Class M Conditions or any of the Documents, or permit any party to any of the Documents or Insurance Contracts or any other person whose obligations form part of the Security to be released from such obligations, or dispose of any Mortgage save as envisaged in the Documents.

In giving any consent to the foregoing, the Trustee may require the Issuer to make such modifications or additions to the provisions of any of the Documents or may impose such other conditions or requirements as the Trustee may deem expedient (in its absolute discretion) in the interests of the Class A Noteholders, the Class M Noteholders and the Class B Noteholders.

The Issuer shall apply to HM Customs & Excise, and use reasonable endeavours to pursue such application, for its exclusion from the earliest possible date from any group for the purposes of Section 43 of the Value Added Tax Act 1994 (or for the purposes of any act, regulation, order, statutory instrument or directive which, from time to time, may re-enact, replace, amend, vary, codify, consolidate or repeal the Value Added Tax Act 1994) of which it is a member:

- (i) upon any failure by the representative member of such group to fulfil its obligations to HM Customs & Excise;
- (ii) if there is a material increase in the liabilities under such Act of the representative member of such group as a result of a change in circumstances and a failure to implement a suitable alternative structure which would not result in the downgrading of the then current ratings of the Class B Notes, Class M Notes or the Class A Notes or which is consented to by the Trustee; or
- (iii) if proceedings are initiated against the representative member of such group under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an administration order being granted or administrative receiver or other receiver, liquidator or other similar official being appointed in relation to the representative member of such group or the representative member of such group initiating or consenting to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws.

**4. INTEREST**

**(a) Period of Accrual**

The Class M Note bears interest from (and including) the Issue Date. Each Class M Note shall cease to bear interest from its due date for redemption unless, upon due presentation, payment of the relevant amount of principal is improperly withheld or refused. In such event, interest will continue to accrue thereon in accordance with this Class M Condition (as well after as before any judgment) up to (but

excluding) the date on which all sums due in respect of such Class M Note up to that day are received by or on behalf of the relevant Class M Noteholder, or (if earlier) the seventh day after notice is duly given by the Principal Paying Agent to the holder thereof (in accordance with Class M Condition 14) that it has received all sums due in respect of such Class M Note (except to the extent that there is any subsequent default in payment).

Whenever it is necessary to compute an amount of interest in respect of any Class M Note for any period (including any Interest Period (as defined below)), such interest shall be calculated on the basis of actual days elapsed in a 365 day year or a 366 day year if the last day of such period falls in a leap year.

**(b) Interest Payment Dates and Interest Periods**

Interest on the Class M Notes is payable monthly in arrear on the first day of each calendar month in each year (or, if such day is not a Business Day, the immediately succeeding Business Day) (each such day an “**Interest Payment Date**”) save for the first payment of interest which will be made in respect of the period commencing on (and including) the Issue Date and ending on (but excluding) the Interest Payment Date falling in September, 2001. The period from (and including) an Interest Payment Date (or the Issue Date in respect of the first Interest Payment Date) to (but excluding) the next following (or first) Interest Payment Date is called an “**Interest Period**” in these Class M Conditions and “**Business Day**” shall in these Class M Conditions mean a day (other than a Saturday or Sunday) on which banks are open for business in the City of London.

**(c) Rate of Interest**

The rate of interest payable from time to time in respect of the Class M Notes (each a “**Rate of Interest**”) and the relevant Interest Amount (as defined in paragraph (d) below) will be determined on the basis of the provisions set out below:

- (i) on each Interest Payment Date or, in the case of the first Interest Period, on the Issue Date (each an “**Interest Determination Date**”) the Agent Bank will determine the offered quotation to leading banks in the London interbank market for one month sterling deposits (or, in the case of the first Interest Period, such rate shall be obtained by linear interpolation of the rate for one month and two month sterling deposits) by reference to the display designated as the British Bankers Association’s Interest Settlement Rate as quoted on the Dow Jones/Telerate Monitor Telerate Screen No. 3750 (or (aa) such other page as may replace Telerate Screen No. 3750 on that service for the purpose of displaying such information or (bb) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Trustee) as may replace the Dow Jones/Telerate Monitor) as at or about 11:00 a.m. (London time) on that date (the “**Screen Rate**”). If the Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks (as defined in paragraph (h) below) to provide the Agent Bank with its offered quotation as at or about 11:00 a.m. (London time) on that date to leading banks for one month sterling deposits (or, in relation to the first Interest Period, one month and two month sterling deposits and a linear interpolation between such rates). The Rate of Interest for such Interest Period shall, subject as provided below, be the Relevant Margin (as defined below) above the Screen Rate or, as the case may be, above the arithmetic mean (rounded if necessary to the nearest 0.0001%, 0.00005% being rounded upwards) of the quotations of three out of five quoting Reference Banks (excluding, if all five quotations are not the same, the Reference Bank with the highest and the Reference Bank with the lowest such quotations) but, if more than one of either or both, only one of the Reference Banks with the highest and/or, as the case may be, only one of the Reference Banks with the lowest such quotations;
- (ii) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only four of the Reference Banks provide such quotations, the Rate of Interest for the relevant Interest Period shall be determined (in accordance with (i) above) on the basis of two out of the four quoting Reference Banks (excluding two on the basis set out in (i) above);
- (iii) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only two or three of the Reference Banks provide such quotations, the Rate of Interest for the relevant Interest Period shall be determined (in accordance with (i) above) on the basis of the quotations of all the quoting Reference Banks (without any exclusion as referred to in (i) above);

- (iv) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only one or none of the Reference Banks provides such a quotation, then the Rate of Interest for the relevant Interest Period shall be the Reserve Interest Rate. The “**Reserve Interest Rate**” shall be the rate per annum which the Agent Bank determines to be either (aa) the Relevant Margin above the arithmetic mean (rounded if necessary to the nearest 0.0001%, 0.00005% being rounded upwards) of the sterling lending rates which leading banks in London (selected by the Agent Bank in its absolute discretion) are quoting, as at or about 11:00 a.m. (London time) on the relevant Interest Determination Date, for the relevant Interest Period to the Reference Banks or those of them (being at least two in number) to which such quotations are in the sole opinion of the Agent Bank being so made or (bb) if the Agent Bank certifies that it cannot determine such arithmetic mean, the Relevant Margin above the lowest of the sterling lending rates which leading banks in London (selected by the Agent Bank in its absolute discretion) are quoting on the relevant Interest Determination Date, to the leading banks which have their head offices in London for the relevant Interest Period provided that if the Agent Bank certifies as aforesaid and further certifies that none of the banks selected as provided in (b) above is quoting to leading banks as aforesaid, then the Reserve Interest Rate shall be the Rate of Interest in effect for the Interest Period ending on the relevant Interest Determination Date.

For the purpose of the Class M Conditions the “**Relevant Margin**” shall be 0.85% per annum for each Interest Period up to and including the Interest Payment Date falling in July 2008 (the “**Coupon Step Up Date**”) and thereafter 1.70% per annum.

**(d) Determination of Rates of Interest and Calculation of Interest Amounts**

The Agent Bank shall, on each Interest Determination Date, determine and notify the Issuer, the Servicer, the Trustee and the Paying Agents of (i) the Rate of Interest applicable to the Interest Period beginning on and including such Interest Determination Date in respect of the Class M Notes and (ii) the sterling amount (the “**Interest Amount**”) payable in respect of such Interest Period in respect of the Principal Amount Outstanding (as defined in Class M Condition 5(c)).

**(e) Publication of Rate of Interest, Interest Amount and other Notices**

As soon as practicable after receiving notification thereof, the Issuer will cause the Rate of Interest and the Interest Amount applicable to the Class M Notes for each Interest Period and the Interest Payment Date falling at the end of such Interest Period to be notified to each stock exchange (if any) (including, for as long as the Notes are admitted to the Official List, the UK Listing Authority) on which the Class M Notes are then listed and will cause notice thereof to be given to the relevant Class M Noteholders in accordance with Class M Condition 14. The Interest Amount and Interest Payment Date so notified 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 Interest Period.

**(f) Determination or Calculation by Trustee**

If the Agent Bank does not at any time for any reason determine the Rate of Interest and/or calculate the Interest Amount for any Class M Notes in accordance with the foregoing paragraphs, the Trustee shall (i) determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described above), it shall deem fair and reasonable in all the circumstances and/or (as the case may be) (ii) calculate the Interest Amount for the Class M Notes in the manner specified in paragraph (c) above, and any such determination and/or calculation shall be deemed to have been made by the Agent Bank.

**(g) Notifications to be Final**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Class M Condition, whether by the Reference Banks (or any of them) or the Agent Bank or the Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Servicer, the Reference Banks, the Agent Bank, the Trustee and all Class M Noteholders and Class M Couponholders and (in which absence as aforesaid) no liability to the Servicer, the Class M Noteholders or Class M Couponholders shall attach to the Issuer, the Reference Banks, the Agent Bank or the Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions hereunder.

(h) **Reference Banks and Agent Bank**

The Issuer shall ensure that, so long as any of the Class M Notes remains outstanding, there shall at all times be five reference banks (the “**Reference Banks**”) and an Agent Bank. The initial Agent Bank shall be The Chase Manhattan Bank. In the event of the principal London office of any such bank being unable or unwilling to continue to act as a Reference Bank or in the event of The Chase Manhattan Bank, being unwilling to act as the Agent Bank, the Issuer shall appoint such other bank as may be previously approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign until a successor approved by the Trustee has been appointed.

5. **REDEMPTION AND CANCELLATION**

(a) **Final Redemption**

Unless previously redeemed as provided in this Class M Condition, the Issuer shall redeem the Class M Notes at their Principal Amount Outstanding (as defined below) on the Interest Payment Date falling in July 2036 (the “**Final Redemption Date**”).

The Issuer may not redeem Class M Notes in whole or in part prior to that date except as provided in paragraphs (b), (d), (e) or (f) of this Class M Condition but without prejudice to Class M Condition 9.

(b) **Mandatory Redemption in Part**

Subject as provided below, the principal amount redeemable in respect of each Class M Note on an Interest Payment Date (the “**Actual Redemption Amount**”) shall be the Class M Redemption Amount on such Interest Payment Date divided by the number of Class M Notes outstanding on the relevant Interest Payment Date (rounded down to the nearest penny); provided always that no such Actual Redemption Amount may exceed the Principal Amount Outstanding of the relevant Class M Note.

For the purposes of these Class M Conditions:

“**Borrower Loan Limit**” means the principal amount of a Borrower’s loan which would have been outstanding at any time if the Borrower had only made its minimum monthly payments due under the relevant loan and had not made any additional payments or overpayments.

“**Collection Period**” means the period beginning on (and including) a Determination Date (save for the first Collection Period which shall begin on (and include) the Issue Date) and ending on the day immediately preceding the next following Determination Date.

“**Determination Date**” means the day which is eight Business Days prior to an Interest Payment Date.

“**Excluded Items**” means

- (a) certain moneys which properly belong to third parties (such as monies owing to any party in respect of reimbursement for direct debit recalls);
- (b) on the Interest Payment Date following the Issue Date, amounts payable to Arianty under the Mortgage Sale Agreement in respect of reconciliations of the amounts paid in respect of the purchase of the Mortgages on the Issue Date; and
- (c) where the Issuer is unable to purchase the right to repayment of Redraws made with respect to one or more Mortgages on any Interest Payment Date (such Redraws continuing to be funded by Britannic Money or First Active, as applicable, on the basis that the Issuer holds each relevant Mortgage on trust for itself and Britannic Money or First Active, as applicable, each party’s interest being proportionate to the funding provided by it), the aggregate of Britannic Money’s or First Active’s, as applicable, *pro rata* share of amounts received in respect of each such Mortgage during the immediately preceding Collection Period.

“**Potential Redemption Amount**” will be determined on each Determination Date as follows:

- (a) the aggregate amount of Redemptions, Prepayments, enforcement proceeds, recoveries and insurance proceeds received (to the extent they relate to principal) during the immediately preceding Collection Period ending in respect of the Mortgages (“**Principal Collections**”); plus
- (b) principal losses realised upon completion of the enforcement and recovery process in relation to the Mortgages during the immediately preceding Collection Period; less
- (c) the aggregate principal amount of Redraws the right to repayment of which are to be purchased by the Issuer on the immediately succeeding Interest Payment Date, less

- (d) the amount by which the aggregate principal amount outstanding under the Redraw Facility is expected to increase on the immediately succeeding Interest Payment Date as a result of the purchase of Redraws; plus
- (e) an amount equal to the Principal Deficiency recorded on the previous Determination Date, provided that the Potential Redemption Amount shall never be less than zero.

“**Redemptions**” means scheduled principal payments plus full and part principal payments (including enforcement and insurance proceeds) under a Mortgage where the Borrower Loan Limit (as defined above) irrevocably reduces as a result of repayment ahead of the repayment plan used by Britannic Money or First Active, as applicable, to provide a baseline for the repayment of the Mortgage.

“**Prepayments**” means part principal repayments under a Mortgage where the Borrower Loan Limit does not change following prepayment ahead of the repayment plan used by Britannic Money or First Active, as applicable, to provide a baseline for the repayment of the Mortgage.

The amount allocated for redemption of the Notes under item (xiii) of the Priority of Payments (the “**Redemption Amount**”) will be divided into a “**Class A Redemption Amount**”, a “**Class M Redemption Amount**” and a “**Class B Redemption Amount**”. During a Class M Principal Lock Out, the Class A Redemption Amount will equal the Redemption Amount and the Class M Redemption Amount and the Class B Redemption Amount will be zero. During a Class B Principal Lock Out, the Redemption Amount will be divided between the Class A Redemption Amount and the Class M Redemption Amount (on a *pro rata* basis and subject to a Class M Principal Lock Out not having occurred) and the Class B Redemption Amount will be zero.

A “**Class M Principal Lock Out**” shall occur on any Interest Payment Date (i) during the period up to (and including) the earlier of the Interest Payment Date on which all Class A Notes are redeemed in full and the Interest Payment Date falling five years after the end of the Substitution Period (the “**Class M Principal Lock Out Period**”), (ii) where on such Interest Payment Date the sum of the Reserve Fund, the aggregate Principal Amount Outstanding (as defined in Condition 5 of the Class M Conditions) of the Class M Notes and the aggregate Principal Amount Outstanding (as defined in Condition 5 of the Class B Conditions) of the Class B Notes as a percentage of the sum of the aggregate Principal Amount Outstanding of the Class A Notes, the Class M Notes and the Class B Notes is not at least twice that same percentage as at the Issue Date, (iii) where a Principal Deficiency exists on such Interest Payment Date (iv) where the aggregate principal balance of Mortgages in respect of which there are arrears of an amount greater than £100 is greater than 2.5% of the then aggregate principal balance of the Mortgages comprised in the Mortgage Pool, in each case as at the immediately preceding Determination Date, and (v) where the sum of the Principal Amount Outstanding of the Class M Notes and the Principal Amount Outstanding of the Class B Notes on such Interest Payment Date is less than two times the principal balance of the largest Mortgage or group of Mortgages in the name of a single Borrower as at the immediately preceding Determination Date.

A “**Class B Principal Lock Out**” shall occur on any Interest Payment Date (i) during the period up to (and including) the earlier of the Interest Payment Date on which all Class A Notes and Class M Notes are redeemed in full and the Interest Payment Date falling five years after the end of the Substitution Period (the “**Class B Principal Lock Out Period**”), (ii) where on such Interest Payment Date the sum of the Reserve Fund and the aggregate Principal Amount Outstanding (as defined in Condition 5 of the Class B Conditions) of the Class B Notes as a percentage of the sum of the aggregate Principal Amount Outstanding of the Class A Notes, the Class M Notes and the Class B Notes is not at least twice that same percentage as at the Issue Date, (iii) where a Principal Deficiency exists on such Interest Payment Date, (iv) where the aggregate principal balance of Mortgages in respect of which there are arrears of an amount greater than £100 is greater than 2.5% of the then aggregate principal balance of the Mortgages comprised in the Mortgage Pool, in each case as at the immediately preceding Determination Date, and (v) where the Principal Amount Outstanding of the Class B Notes on such Interest Payment Date is less than two times the principal balance of the largest Mortgage or group of Mortgages in the name of a single Borrower as at the immediately preceding Determination Date.

If no Class M Principal Lock Out and no Class B Principal Lock Out applies on an Interest Payment Date and there are Class A Notes outstanding, the Redemption Amount will be divided between the Class A Redemption Amount, the Class M Redemption Amount and the Class B Redemption Amount in such amounts as would maintain the then current ratio of Class A Notes to Class M Notes to Class B Notes. If on any Interest Payment Date there are no Class A Notes outstanding, the Redemption Amount will be divided between the Class M Redemption Amount (subject to a Class M Principal Lock Out not having occurred) and the Class B Redemption Amount (subject to a Class B Principal Lock Out not having occurred) in such

amounts as would maintain the then current ratio of the Class M Notes to the Class B Notes. If on any Interest Payment Date there are no Class A Notes or Class M Notes outstanding, the Class B Redemption Amount shall equal the whole of the Redemption Amount.

“**Principal Deficiency**” means the amount calculated on each Determination Date by deducting from the “**Liabilities**” expected to exist as at close of business on the immediately succeeding Interest Payment Date the “**Assets**” expected to exist as at close of business on the immediately succeeding Interest Payment Date (after having made all payments in accordance with the Priority of Payments),

where “**Liabilities**” means:

- (a) the aggregate Principal Amount Outstanding of the Notes on the last date of the immediately preceding Collection Period; less
- (b) the amount allocated in the Priority of Payments to redemption of the Notes under item (xiii) on the immediately succeeding Interest Payment Date; plus
- (c) the aggregate principal amount outstanding under the Redraw Facility on the last day of the immediately preceding Collection Period; plus
- (d) the amount by which the aggregate principal amount outstanding under the Redraw Facility is expected to increase on the immediately succeeding Interest Payment Date as a result of the purchase of the right to repayment of Redraws; less
- (e) the amount allocated in the Priority of Payments to repayment of principal amounts outstanding under the Redraw Facility under item (x) on the immediately succeeding Interest Payment Date; and

“**Assets**” means:

- (a) the aggregate outstanding principal balances of the Mortgages (including amounts receivable in respect of claims under property related insurance policies) on the last day of the immediately preceding Collection Period; plus
- (b) the aggregate principal amount of the Redraws the right to repayment of which are to be purchased on the immediately succeeding Interest Payment Date; plus
- (c) the amount allocated in the Priority of Payments to purchase Further Advances under item (xi) on the immediately succeeding Interest Payment Date; plus
- (d) the amount allocated in the Priority of Payments to purchase Further Mortgages under item (xii) on the immediately succeeding Interest Payment Date; plus
- (e) the amount standing to the credit of the Pre-Funded Ledger and the Non-Verified Mortgage Ledger, provided that the Principal Deficiency shall never be less than zero.

In connection with such redemption, the Servicer will on each Determination Date, pursuant to the Servicing Agreement, determine the Potential Redemption Amount, the Class A Redemption Amount, the Class M Redemption Amount and the Class B Redemption Amount.

No Class M Note may be redeemed in whole or in part until the Class A Notes have been redeemed in full.

**(c) Class M Note Principal Payments, Principal Amount Outstanding and Pool Factor**

On (or as soon as practicable after) each Determination Date, the Issuer shall determine (or cause the Servicer to determine) (i) the amount of any Actual Redemption Amount due in respect of each Class M Note on the Interest Payment Date next following such Determination Date, (ii) the principal amount outstanding of each Class M Note on the Interest Payment Date next following such Determination Date (after deducting any Actual Redemption Amount due to be made in respect of that Class M Note on that Interest Payment Date) (the “**Principal Amount Outstanding**”) and (iii) the fraction expressed as a decimal to the sixth point ( the “**Pool Factor**”), of which the numerator is the Principal Amount Outstanding of a Class M Note (as referred to in (ii) above) and the denominator is £10,000. Each determination by or on behalf of the Issuer of any Actual Redemption Amount of a Class M Note, the Principal Amount Outstanding of a Class M Note and the Pool Factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

The Principal Amount Outstanding of a Class M Note on any date shall be £10,000 less the aggregate amount of all Actual Redemption Amounts in respect of such Class M Note that have become due and payable since the Issue Date on or prior to such date (whether or not paid).



With respect to the Class M Notes, the Issuer will cause each determination of an Actual Redemption Amount, Principal Amount Outstanding and Pool Factor to be notified forthwith to the Trustee, the Paying Agents, the Agent Bank and (for so long as the Class M Notes are admitted to trading on the London Stock Exchange's market for listed securities) the London Stock Exchange, and will immediately cause notice of each determination of an Actual Redemption Amount, Principal Amount Outstanding and Pool Factor to be given in accordance with Class M Condition 14 by not later than two business days prior to the relevant Interest Payment Date. If no Actual Redemption Amount is due to be made on the Class M Notes on any Interest Payment Date a notice to this effect will be given by or on behalf of the Issuer to the Class M Noteholders in accordance with Class M Condition 14.

If the Issuer does not at any time for any reason determine (or cause the Servicer to determine) with respect to the Class M Notes an Actual Redemption Amount, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this paragraph, such Actual Redemption Amount, Principal Amount Outstanding and Pool Factor may be determined by the Trustee in accordance with this paragraph and each such determination or calculation shall be deemed to have been made by the Issuer. Any such determination shall be binding on the Issuer, the Servicer, the Class M Noteholders and the Class M Couponholders.

**(d) Optional Redemption**

On the Interest Payment Date falling in July 2008 or on any Interest Payment Date falling thereafter and upon giving not more than 30 nor less than 20 days' notice to the Trustee and the Class M Noteholders in accordance with Class M Condition 14, the Issuer may redeem all (but not some only of) the Class M Notes at their Principal Amount Outstanding together with accrued interest thereon provided that, prior to giving any such notice, the Issuer shall have provided to the Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the Class M Notes as aforesaid.

On any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes is equal to or less than 10% of the aggregate principal amount of such Notes at the time such Notes were issued, and upon giving not more than 30 nor less than 20 days notice to the Trustee, the Class B Noteholders, the Class M Noteholders and the Class A Noteholders, the Issuer may redeem all (but not some only of) the Class B Notes, all (but not some only of) the Class M Notes and all (but not some only of) the Class A Notes at their Principal Amount Outstanding together with accrued interest provided that prior to giving any such notice, the Issuer shall have provided the Trustee with a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the Class B Notes, the Class M Notes and the Class A Notes as aforesaid.

**(e) Optional Redemption for Tax Reasons**

If the Issuer at any time satisfies the Trustee immediately prior to the giving of the notice referred to below that either (i) on the next Interest Payment Date the Issuer or any Paying Agent would be required to deduct or withhold from any payment of principal or interest on the Class M Notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest in relation to any of the Mortgages during an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period or (iii) the Issuer would, by virtue of a change in the law (or the application or officially published interpretation thereof) not be entitled to relief for United Kingdom tax purposes for any material amount which is currently relievable and which it is obliged to pay under the Transaction Documents, then the Issuer may, having given not more than 30 nor less than 20 days' notice to the Trustee and the Class M Noteholders in accordance with Class M Condition 14, redeem all (but not some only) of the Class M Notes on any Interest Payment Date at their Principal Amount Outstanding provided together with interest accrued thereon provided that, prior to giving any such notice, the Issuer shall have provided to the Trustee: (a) a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to the interest of any other person, required to redeem the Class M Notes as aforesaid and (b) a legal opinion (in form and substance satisfactory to the Trustee) from a firm of lawyers in England (approved in writing by the Trustee) opining on the relevant event. Any certificate and legal opinion given by or on behalf of the Issuer may be relied on by the Trustee and shall be conclusive and binding on the Class M Noteholders and Class M Couponholders.

**(f) Other Reasons**

The Issuer may, at its option, upon giving not more than 30 nor less than 20 days notice to the Trustee and the Class M Noteholders redeem all of the Class M Notes (provided that all Class A Notes have been redeemed in full) at their Principal Amount Outstanding together with interest accrued thereon on the second Interest Payment Date after any Determination Date on which it is determined that the aggregate amount of Redraws made by Borrowers during the Collection Period then ending exceeds the sum of (a) the Principal Collections available for the purpose of purchasing the right to repayment of Redraws in accordance with the Priority of Payments and (b) the lower of (i) the Available Facility under the Redraw Facility and (ii) the aggregate Principal Amount Outstanding of the Class A Notes (in the case of a redemption of the Class M Notes) or the aggregate Principal Amount Outstanding of the Class A Notes and the Class M Notes (in the case of a redemption of the Class B Notes).

**(g) Notice of Redemption**

Any such notice as is referred to in paragraph (d), (e) or (f) above shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Class M Notes at their Principal Amount Outstanding together with interest accrued thereon.

**(h) Purchase**

The Issuer shall not purchase any Class M Notes or Class M Coupons.

**(i) Cancellation**

All Class M Notes redeemed pursuant to paragraphs (d), (e) or (f) above will be cancelled upon redemption, together with any unmatured Class M Coupons appertaining thereto and attached thereto or surrendered therewith, and may not be resold or re-issued.

**(j) Principal Deficiencies**

If on the Interest Payment Date falling in July 2036 or on any prior date after the assets of the Issuer have been exhausted there is a debit balance on the Principal Deficiency Ledger (as defined above) (after taking account of any entries required to be made thereon on such Interest Payment Date and any credit balance in the Reserve Account (the “**Adjusted Principal Deficiency**”)), then notwithstanding any other provision of these Class M Conditions the principal amount payable on redemption of each Class M Note shall be its Principal Amount Outstanding on that date, less the Principal Deficiency (as defined below) applicable to that Class M Note on that date on payment of which the obligations of the Issuer under the relevant Class M Note shall be discharged in full.

**6. PAYMENTS**

- (a)** Payments of principal in respect of the Class M Notes will be made against presentation of the Class M Notes at the specified office of any Paying Agent. Payments of interest in respect of the Class M Notes will (subject as provided in paragraphs (c) and (d) below) be made only against presentation and surrender of the Class M Coupons at the specified office of any Paying Agent. Payments will be made in sterling at the specified office of any Paying Agent by sterling cheque drawn on, or, at the option of the holder, by transfer to a sterling account maintained by the payee with, a branch of a bank in London.
- (b)** Payments of principal and interest in respect of the Class M Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto.
- (c)** Upon the date on which any Class M Note becomes due and payable in full, unmatured Class M Coupons appertaining thereto (whether or not attached to such Class M Note) shall become void and no payment or, as the case may be, exchange shall be made in respect thereof. If the due date for redemption of any Class M Note is not an Interest Payment Date, accrued interest will be paid only against presentation and surrender of such Class M Note.
- (d)** If payment of principal is improperly withheld or refused on or in respect of any Class M Note or part thereof, the interest which continues to accrue in respect of such Class M Note in accordance with Class M Condition 4(a) will be paid against presentation of such Class M Note at the specified office of any Paying Agent.
- (e)** The initial Principal Paying Agent and its initial specified office is listed at the end of these Class M Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any

time to vary or terminate the appointment of the Principal Paying Agent and to appoint additional or other Paying Agents. The Issuer will at all times maintain a paying agent with a specified office in London. The Issuer will cause at least 30 days' notice of any change in or addition to the Paying Agents or their specified offices to be given in accordance with Class M Condition 14.

- (f) If any Class M Coupon or Class M Note is presented for payment on a day which is not a Business Day, no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Class M Coupon or, as the case may be, such Class M Note.
- (g) On or after the Interest Payment Date for the final Coupon forming part of any Coupon sheet, the Class M Talon forming part of such Coupon sheet may be surrendered at any specified office of the Paying Agent in exchange for a further Coupon sheet (including a further talon but excluding any Coupons which shall have become void).
- (h) If a Paying Agent makes a partial payment in respect of any Class M Note presented to it for payment, such Paying Agent will endorse on the grid endorsed on such Class M Note (in respect of payments of principal) a statement indicating the amount and date of such payment.
- (i) If on any Interest Payment Date (other than the Final Redemption Date) the aggregate funds (if any) available to the Issuer for application in or towards the payment of interest due on the Class M Notes are not sufficient to satisfy in full the aggregate amount of interest which would, but for this paragraph (i) otherwise be payable on the Class M Notes on such Interest Payment Date, then notwithstanding any other provision of these Conditions, there shall be payable on the Class M Notes on such Interest Payment Date, by way of interest on each Class M Note a *pro rata* share of such aggregate funds calculated by reference to the ratio borne by the then Principal Amount Outstanding of such Class M Note to the then Principal Amount Outstanding of all Class M Notes and the amount of the shortfall will not be regarded as due until the earliest Interest Payment Date thereafter in respect of which funds are available to the Issuer to pay such amounts.

In any such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the Class M Notes on any Interest Payment Date in accordance with this Condition falls short of the aggregate amount of interest which would otherwise be payable on the Class M Notes on the date pursuant to Condition 4. Such shortfall shall accrue interest during each Interest Period during which it remains outstanding at the Rate of Interest for such Interest Period and a *pro rata* share of such shortfall calculated by reference to the ratio borne by the then Principal Amount Outstanding of each Class M Note and accrued interest thereof shall be aggregated within the amount of, and treated for the purpose of this Condition as if it were, interest due on each Class M Note on the next succeeding Interest Payment Date.

To the extent such a shortfall arises, such unpaid amount (including interest accruing on such shortfall) shall be payable in priority to the payment of interest otherwise due on the next following Interest Payment Date.

## 7. PRESCRIPTION

Class M Notes shall become void unless presented for payment within a period of 10 years from the relevant date in respect thereof. Class M Coupons (which expression shall not in this Class M Condition include Class M Talons) shall become void unless presented for payment within a period of 5 years from the relevant date in respect thereof. After the date on which a Class M Note or a Class M Coupon becomes void in its entirety, no claim may be made in respect thereof. In this Class M Condition, the "**relevant date**", in respect of a Class M Note or Class M Coupon, is the date on which a payment in respect thereof first becomes due or (if the full amount of the moneys payable in respect of all the Class M Notes and/or Class M Coupons due on or before that date has not been duly received by the Paying Agents or the Trustee on or prior to such date) the date on which the full amount of such moneys having been so received, notice to that effect is duly given to the Class M Noteholders in accordance with Class M Condition 14.

## 8. TAXATION

All payments in respect of the Class M Notes and Class M Coupons will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer or the relevant Paying Agent (as applicable) is required by applicable law to make any payment in respect of the Class M Notes or Class M Coupons subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Issuer or the relevant Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be

withheld or deducted. Neither the Paying Agents nor the Issuer will be obliged to make any additional payments to holders of Class M Notes or Class M Coupons in respect of such withholding or deduction.

## 9. EVENTS OF DEFAULT

(a) The Trustee at its absolute discretion may, and if so requested in writing by the holders of not less than 25% in aggregate of the Principal Amount Outstanding of the Class M Notes or if so directed by or pursuant to an Extraordinary Resolution (as defined in the Trust Deed) of the Class M Noteholders (subject, in each case, to being indemnified to its satisfaction) shall give notice to the Issuer declaring the Class M Notes to be due and repayable at any time after the happening of any of the following events (each an “**Event of Default**”):

- (i) default being made for a period of 10 Business Days in the payment of the principal of or any interest on any Class M Note when and as the same ought to be paid in accordance with these Class M Conditions; or
- (ii) any Interest Rate Swap or Base Rate Swap being terminated by reason of default in payment on the part of the Issuer for a period of 10 Business Days; or
- (iii) the Issuer failing duly to perform or observe any other obligation binding upon it under the Class M Notes, the Trust Deed, the Servicing Agreement, the Deed of Charge or any of the other Transaction Documents and, in any such case (except where the Trustee certifies that, in its opinion, such failure is incapable of remedy when no notice will be required) such failure is continuing for a period of 30 days following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
- (iv) the Issuer, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in sub-paragraph (v) below, ceasing or, through an official action of the Board of Directors of the Issuer, threatening to cease to carry on business or being unable to pay its debts as and when they fall due or otherwise becomes insolvent; or
- (v) an order being made or an effective resolution being passed for the winding-up of the Issuer except a winding-up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Class M Noteholders; or
- (vi) proceedings being otherwise initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition for an administration order) or an administration order being granted or an administrative receiver or other receiver, liquidator or other similar official being appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer, or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the Issuer, or a distress or execution or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and such possession or process (as the case may be) not being discharged or not otherwise ceasing to apply within 14 days, or the Issuer initiating or consenting to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors generally;

Provided that, in the case of each of the events described in sub-paragraph (iii) of this paragraph (a), the Trustee shall have certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class M Noteholders.

(b) Upon any declaration being made by the Trustee in accordance with paragraph (a) above that the Class M Notes are due and repayable, the Class M Notes shall immediately become due and repayable at their Principal Amount Outstanding together with accrued interest as provided in the Trust Deed.

## 10. ENFORCEMENT OF CLASS M NOTES

(a) At any time after the Class M Notes have become due and repayable and without prejudice to its rights of enforcement in relation to the Security, the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer as it may think fit to enforce payment of the Class M Notes at their Principal Amount Outstanding together with accrued interest, but it shall not be bound to take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution

of the Class M Noteholders or so requested in writing by the holders of at least 25% in aggregate of the Principal Amount Outstanding of the Class M Notes and (b) it shall have been indemnified to its satisfaction. No Class M Noteholder or Class M Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing. The Trustee cannot, while any of the Class A Notes are outstanding, be required to enforce the Security on behalf of the Class M Noteholders (whether or not requested to do so by such Class M Noteholders), the Class B Noteholders (whether or not requested to do so by such Class B Noteholders) or any other Secured Creditor under the Deed of Charge.

- (b) Notwithstanding the foregoing and so long as any of the Class M Notes remain outstanding, if the Class M Notes have become due and repayable pursuant to Class M Condition 9 otherwise than by reason of a default in payment of any amount due on the Class M Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class M Noteholders, the Class M Couponholders and the other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion 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 owing to the Class M Noteholders, the Class M Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith.

#### 11. MEETINGS OF CLASS M NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION OF PRINCIPAL DEBTOR

- (a) The Trust Deed contains provisions for convening meetings of Class M Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of such Class M Noteholders of a modification of these Class M Conditions as they relate to the Class M Notes or the provisions of any of the Documents or any other documents the rights and benefits in respect of which are comprised in the Security (“**Other Relevant Documents**”). The quorum at any meeting of Class M Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing in aggregate not less than 75% in Principal Amount Outstanding of the Class M Notes then outstanding or, at any adjourned meeting, two or more persons being or representing Class M Noteholders as they relate to the Class M Notes whatever the Principal Amount Outstanding of the Class M Notes so held or represented except that, at any meeting the business of which includes the sanctioning of a modification which would, *inter alia*, have the effect of altering the date of maturity of the Class M Notes or the day for payment of interest or principal thereon, or the amount of principal or the rate of interest payable in respect of the Class M Notes or the currency of payment (other than pursuant to a redenomination approved by the Trustee pursuant to Class M Condition 15) of the Class M Notes or related Class M Coupons or the priority of payments or the quorum or majority required in relation to this exception (a “**Basic Terms Modification**”), the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing in aggregate not less than 75%, or, at any adjourned such meeting, 25% of the Principal Amount Outstanding of the Class M Notes then outstanding. An Extraordinary Resolution passed at any meeting of Class M Noteholders shall be binding on all Class M Noteholders whether or not they are present at the meeting, and on all Class M Couponholders. The majority required for an Extraordinary Resolution shall be 75% of the votes cast on that resolution.

The Trust Deed contains provisions limiting the powers of the holders of Class M Notes and Class B Notes, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class A Noteholders. Except in the circumstances set out in (b) below, the Trust Deed imposes no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding on the Class M Noteholders and Class M Couponholders, irrespective of the effect on their interests. An Extraordinary Resolution passed at any meeting of Class M Noteholders shall not be effective for any purposes unless either (i) the Trustee is of the opinion that it would not be materially prejudicial to the Class A Noteholders or (ii) it is sanctioned by an Extraordinary Resolution of the Class A Noteholders but, subject thereto, it shall be binding on all Class M Noteholders, whether or not they are present at the meeting, and on all Class M Couponholders.

- (b) No Extraordinary Resolution to sanction a Basic Terms Modification which would have the effect of altering the date of maturity of the Notes or the date for payment of interest in respect of the Notes, increasing the amount of principal or the rate of interest payable in respect of the Notes, or altering

the currency of payment of the Notes, or altering the provisions of the Trust Deed, the Deed of Charge or any other Document or any Other Relevant Document shall take effect unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders, the Class M Noteholders and the Class B Noteholders.

- (c) The Trustee may agree, without the consent of the Class M Noteholders or Class M Couponholders (i) to any modification (except a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of, these Class M Conditions or any of the Documents or any Other Relevant Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Class M Noteholders or Class M Couponholders (ii) to any modification of these Class M Conditions or any of the Documents or any Other Relevant Documents, which, in the Trustee's opinion, is to correct a manifest error or is of a formal, minor or technical nature. The Trustee may also, without the consent of the Class M Noteholders or the Class M Couponholders, determine that any Event of Default shall not, or shall not subject to specified conditions, be treated as such. Any such modification, waiver, authorisation or determination shall be binding on the Class M Noteholders and the Class M Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Class M Noteholders in accordance with Class M Condition 14 as soon as practicable thereafter.
- (d) The Trustee may agree, subject to the consent of the Issuer and to such amendment of these Class M Conditions and of any of the Documents and to such other conditions as the Trustee may require and subject to the relevant provisions of the Trust Deed, but without the consent of the Class M Noteholders or the Class M Couponholders, to the substitution of another body corporate in place of the Issuer as principal debtor under the Trust Deed and the Class M Notes, subject to the Class M Notes being unconditionally and irrevocably guaranteed by the Issuer (unless all or substantially all of the assets of the Issuer are transferred to such body corporate) and to such body corporate being a single purpose vehicle and undertaking itself to be bound by provisions corresponding to those set out in Class M Condition 3. In the case of a substitution pursuant to this paragraph (d), the Trustee may in its absolute discretion agree, without the consent of the Class M Noteholders or the Class M Couponholders, to a change of the law governing the Class M Notes and/or any of the Documents provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Class M Noteholders.
- (e) Where the Trustee is required in connection with the exercise of its powers, trusts, authorities, duties and discretions to have regard to the interests of the Class M Noteholders, it shall have regard to the interests of the Class M Noteholders as one class and, in particular but without prejudice to the generality of the foregoing, the Trustee shall not have regard to, or be in any way liable for, the consequences of such exercise for individual Class M Noteholders or Class M Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise, the Trustee shall not be entitled to require, and no Class M Noteholder or Class M Couponholder shall be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Class M Noteholders or Class M Couponholders.

## **12. INDEMNIFICATION AND EXONERATION OF THE TRUSTEE**

The Trust Deed contains provisions governing the responsibility (and relief from responsibility) of the Trustee and providing for its indemnification in certain circumstances, including provisions relieving it from taking enforcement proceedings or enforcing the Security unless indemnified to its satisfaction. The Trustee and its related companies are entitled to enter into business transactions with the Issuer, Arianty, Britannic Money, First Active and/or the related companies of any of them without accounting for any profit resulting therefrom. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Servicer or any agent or related company of the Servicer or by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Trustee.

The Trust Deed provides that the Trustee shall be under no obligation to monitor or supervise compliance by the Issuer, Arianty or Britannic Money, First Active and/or the related companies of any of them with their respective obligations or to make any searches, enquiries or independent investigations of title in relation to any of the properties secured by the Mortgages save as provided under the Transaction Documents.

### **13. REPLACEMENT OF DEFINITIVE CLASS M NOTES, CLASS M COUPONS AND CLASS M TALONS**

If any Class M Note, Class M Coupon or Class M Talon is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office of any Paying Agent. Replacement of any mutilated, defaced, lost, stolen or destroyed Class M Note, Class M Coupon or Class M Talon will only be made on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Class M Notes, Class M Coupons or Class M Talons must be surrendered before new ones will be issued.

### **14. NOTICE TO CLASS M NOTEHOLDERS**

Any notice to the Class M Noteholders shall be validly given if published in the *Financial Times* or, if such newspaper shall cease to be published or timely publication therein shall not be practicable, in such English language newspaper or newspapers as the Trustee shall approve having a general circulation in Europe; Provided that if, at any time, the Issuer procures that information concerned in such notice specifying an Interest Payment Date, Principal Amount Outstanding or Rate of Interest shall appear on a page of the Reuters screen or Bloomberg or any other medium for electronic display of data as may be previously approved in writing by the Trustee (in each case a “**Relevant Screen**”), publication in the *Financial Times* shall not be required with respect to such information. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which (or on the Relevant Screen on which) publication is required.

The Trustee shall be at liberty to sanction some other method of giving notice to the Class M Noteholders or any category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the Notes are then listed and provided that notice of such other method is given to the Class M Noteholders in such manner as the Trustee shall require. The Class M Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Class M Noteholders in accordance with this Class M Condition.

### **15. REDENOMINATION**

Pursuant to the Treaty establishing the European Community as amended by the Treaty on European Union (as amended, the “**Treaty**”), the third stage of European economic and monetary union commenced on 1 January 1999 and the value of the euro as against the currencies of the member states participating in the third stage of European economic and monetary union was irrevocably fixed and the euro became a currency in its own right. The United Kingdom may at some future date participate in the third stage of European economic and monetary union or otherwise participate in European economic and monetary union in a manner with similar effect to such third stage. On an Interest Payment Date falling on or after such date, the Issuer may on giving notice to the holders of the Class M Notes and with the written consent of the Trustee, redenominate all of the Class M Notes into euros.

### **16. GOVERNING LAW**

The Documents, the Class M Notes and the Class M Coupons are governed by, and shall be construed in accordance with, English law.

### **17. THIRD PARTY RIGHTS**

No person shall have any right to enforce any term or condition of the Class M Notes under the Contracts (Rights of Third Parties) Act 1999.

## DESCRIPTION OF THE CLASS B NOTES

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### GENERAL

£5,000,000 Class B Mortgage Backed Floating Rate Notes due 2036 (the “**Class B Notes**”) of First Flexible No. 4 plc (the “**Issuer**”) are the subject of a trust deed (the “**Trust Deed**”, which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified including the Master Definitions Schedule (as defined under Class B Condition 2(c)) incorporated in the Trust Deed) to be entered into on 26 July 2001 (the “**Issue Date**”) and made between the Issuer and The Chase Manhattan Bank (the “**Trustee**”, which expression includes any further or other trustee of the Trust Deed) as trustee for, *inter alia*, the holders for the time being of the Class B Notes (the “**Class B Noteholders**”) and the holders for the time being of the interest coupons relating thereto (the “**Class B Coupons**” which expression includes the talons (“**Class B Talons**”) attached to the Class B Notes except where the context otherwise requires) (the “**Class B Couponholders**”). £460,000,000 Class A Mortgage Backed Floating Rate Notes due 2036 (the “**Class A Notes**”) and £35,000,000 Class M Mortgage Backed Floating Rate Notes due 2036 (the “**Class M Notes**” and together with the Class A Notes and the Class B Notes, the “**Notes**”) will be issued pursuant to the Trust Deed contemporaneously with the issue of the Class B Notes. The security for the Class A Notes, the Class M Notes and the Class B Notes is created pursuant to, and on the terms set out in, a deed of sub-charge and assignment (the “**Deed of Charge**”, which expression includes such deed of sub-charge and assignment as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time modified) to be dated the Issue Date and made between, *inter alia*, Arianty No.1 plc (“**Arianty**”), the Issuer, Britannic Money plc (“**Britannic Money**”) and the Trustee. By an agency agreement (the “**Agency Agreement**”, which expression includes such Agency Agreement as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) to be dated the Issue Date and made between the Issuer, the Trustee, The Chase Manhattan Bank as agent bank (the “**Agent Bank**” which expression includes any other agent bank appointed in respect of the Class B Notes) and The Chase Manhattan Bank as principal paying agent (the “**Principal Paying Agent**” and together with any further or other paying agents for the time being appointed in respect of the Class B Notes, the “**Paying Agents**”) provision is made for the payment of principal and interest in respect of the Class B Notes. The statements in these Class B Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Agency Agreement and the Deed of Charge.

Copies of the Trust Deed, the Agency Agreement, the Deed of Charge and the other Documents (as defined below) are available for inspection at the principal office for the time being of the Trustee, being at the date hereof at Trinity Tower, 9 Thomas More Street, London E1 9YT and at the specified offices of the Paying Agents. The Class B Noteholders and the Class B Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and are deemed to have notice of all the provisions of the Agency Agreement.

The issue of the Class B Notes was authorised by resolution of the Board of Directors of the Issuer passed on 18 July 2001.

### THE GLOBAL CLASS B NOTES

#### Temporary Global Class B Notes and Permanent Global Class B Notes

The Class B Notes will be initially represented by a temporary bearer global note in the principal amount of £5,000,000 (the “**Temporary Global Class B Note**”) without Class B Coupons or Class B Talons. The Temporary Global Class B Note will be deposited on behalf of the subscribers of the Class B Notes with a common depository (the “**Common Depository**”) for Euroclear S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) on the Issue Date. Upon deposit of the Temporary Global Class B Note, Euroclear or Clearstream, Luxembourg will credit each subscriber of Class B Notes represented by such Temporary Global Class B Note with the principal amount of the Class B Notes for which it has subscribed and paid. Interests in the Temporary Global Class B Note will be exchangeable not earlier than 4 September 2001 (the “**Exchange Date**”), provided certification of non-US beneficial ownership by the Class B Noteholders has been received, for interests in a permanent bearer global note (the “**Permanent Global Class B Note**” and, together with the Temporary Global Class B Note, the “**Global Class B Notes**”), without Class B Coupons or Class B Talons.



On the exchange of the Temporary Global Class B Note for the Permanent Global Class B Note, the Permanent Global Class B Note will remain deposited with the Common Depository.

### **Transfers**

Title to the Global Class B Notes will pass by delivery. The Permanent Global Class B Note will only be exchangeable for definitive Class B Notes in the limited circumstances described below. Each of the persons appearing from time to time in the records of Euroclear or Clearstream, Luxembourg as the holder of a Class B Note will be entitled to receive any payment so made in respect of that Class B Note in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg, as appropriate. For so long as any Class B Notes are represented by a Global Class B Note, such Class B Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as appropriate.

For so long as the Class B Notes are represented by a Global Class B Note, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Class B Notes will be entitled to be treated by the Issuer and the Trustee as the holder of such principal amount of Class B Notes. The expressions “**Class B Noteholders**” may be construed accordingly, but without prejudice to the entitlement of the bearer of a Global Class B Note.

### **Payments**

No payment will be made on the Temporary Global Class B Note unless exchange for an interest in the Permanent Global Class B Note or for Class B Notes in definitive form is improperly withheld or refused. Principal and interest on a Global Class B Note will be payable against presentation of that Global Class B Note at the specified office of any Paying Agent provided certification of non-US beneficial ownership by the Class B Noteholders has been received by Euroclear or Clearstream, Luxembourg. A record of each payment made on a Global Class B Note, distinguishing between any payment of principal and payment of interest, will be endorsed on that Global Class B Note by the Paying Agents (or the Paying Agent shall procure that such endorsement be made) and such record shall be *prima facie* evidence that the payment in question has been made.

### **Issue of Class B Notes in Definitive Form**

If (i) the Class B Notes become due and repayable pursuant to Class B Condition 9(a) or (ii) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which becomes effective on or after the Issue Date, the Issuer is, or any of the Paying Agents are or will be, required to make any deduction or withholding from any payment in respect of the Class B Notes which would not be required were the Class B Notes in definitive form, then the Issuer will, at its sole cost and expense, issue Class B Notes in definitive form in exchange for the whole outstanding interest in the Permanent Global Class B Notes within 30 days of the occurrence of the relevant event.

Any notice to Class B Noteholders in respect of Class B Notes represented by a Global Class B Note shall be deemed to have been duly given if sent to Euroclear and/or Clearstream, Luxembourg (as applicable) and shall be deemed to have been given on the date on which such notice was so sent.

## TERMS AND CONDITIONS OF THE CLASS B NOTES

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If Class B Notes in definitive form were to be issued, the terms and conditions (subject to amendment and completion) set out on each Class B Note would be as set out below (the “**Class B Conditions**”). While the Class B Notes remain in global form, the same terms and conditions govern such Class B Notes, except to the extent that they are appropriate only to Class B Notes in definitive form.

### 1. FORM, DENOMINATION AND TITLE

- (a) The £5,000,000 Class B Mortgage Backed Floating Rate Notes due 2036 (the “**Class B Notes**”) issued by First Flexible No. 4 plc (the “**Issuer**”) are serially numbered and are issued in bearer form in the denomination of £10,000 each with coupons (“**Class B Coupons**”) and talons (“**Class B Talons**”) attached and a grid endorsed thereon for the recording of all payments of principal in accordance with the provisions of Class B Condition 5.
- (b) Title to the Class B Notes, Class B Coupons and Class B Talons shall pass by delivery. The holder of any Class B Note (each a “**Class B Noteholder**”) and the holder of any Class B Coupon (each a “**Class B Couponholder**”) 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 Class B Note or Class B Coupon, as the case may be, regardless of any notice of ownership, theft or loss, of any trust or other interest therein or of any writing thereon.
- (c) The holder of each Class B Coupon (whether or not the Class B Coupon is attached to the relevant Class B Note) and each Class B Talon in his capacity as such shall be subject to all the provisions contained in the relevant Class B Note.

### 2. STATUS, SECURITY AND PRIORITY

#### Status

- (a) The Class B Notes and the Class B Coupons constitute direct, secured and unconditional obligations of the Issuer and rank (subject to the provisions of Class B Condition 5) *pari passu* without preference or priority amongst themselves.
- (b) The £460,000,000 Class A Mortgage Backed Floating Rate Notes due 2036 (the “**Class A Notes**”) and the £35,000,000,000 Class M Mortgage Backed Floating Rate Notes due 2036 (the “**Class M Notes**”) and together with the Class A Notes and the Class B Notes, the “**Notes**”) issued by the Issuer on or about 26 July 2001 (the “**Issue Date**”) are subject to a trust deed dated on or about 26 July 2001 between the Issuer and The Chase Manhattan Bank (the “**Trustee**”) (the “**Trust Deed**”) and are secured by the same security which secures the Class B Notes. The Class A Notes rank *pari passu*, without preference or priority amongst themselves, the Class M Notes rank *pari passu* without preference or priority amongst themselves and the Class B Notes rank *pari passu* without preference or priority amongst themselves but (i) the Class A Notes will rank in priority to the Class M Notes and the Class B Notes and (ii) the Class M Notes will rank in priority to the Class B Notes in the event of the Security (as defined below in Class B Condition 2(d)) being enforced.
- (c) The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of the Class B Noteholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to (i) (for so long as there are any Class A Notes outstanding) the interests of the holders of Class A Notes if, in the Trustee’s opinion, there is a conflict between the interests of (A) the holders of Class A Notes and (B) the holders of Class M Notes and/or (C) the holders of Class B Notes and/or any other Secured Creditors (as defined below) or (ii) (if there are no Class A Notes outstanding) the interests of the holders of Class M Notes if, in the Trustee’s opinion, there is a conflict between the interests of (A) the holders of Class M Notes and (B) the holders of Class B Notes and/or any other Secured Creditors (as defined below) or (ii) (if there are no Class A Notes and Class M Notes outstanding) the interests of the holders of Class B Notes, if in the Trustee’s opinion, there is a conflict between the interests of the Class B Noteholders or any other Secured Creditors (as defined below).

#### Security

- (d) As security for the payment of all moneys payable in respect of the Class B Notes and otherwise under the Trust Deed (including the remuneration, expenses and any other claims of the Trustee and any

Receiver (as defined below) appointed under the Deed of Charge) and in respect of certain amounts payable to Britannic Money or its successor acting as Servicer of the mortgages to be purchased by the Issuer on the Issue Date (the “**Initial Mortgages**”) and such Further Mortgages (as defined below) and such mortgages transferred to the Issuer pursuant to the Transaction Documents (as defined below) after the Issue Date (each a “**Substitute Mortgage**” and together with the Initial Mortgages, further mortgage loans purchased by the Issuer from Arianty (the “**Pre-Funded Mortgages**”) at any time on or after the Issue Date but no later than the third Interest Payment Date and Further Mortgages, the “**Mortgages**”) and to certain other beneficiaries from time to time, the Issuer will enter into the Deed of Charge creating the following security (the “**Security**”) in favour of the Trustee for itself and on trust for the other persons expressed to be secured parties thereunder:

- (i) a first fixed equitable charge or mortgage or (in relation to Mortgages secured on properties in Scotland (“**Scottish Mortgages**”)) assignment in security in favour of the Trustee over the Issuer’s right, title, interest and benefit present and future in the Mortgages and other collateral security relating to the Mortgages;
- (ii) an equitable assignment by way of first fixed security in favour of the Trustee of the Issuer’s interest in certain buildings policies, life policies, contingency policies and mortgage indemnity policies (the “**Insurance Contracts**”) to the extent that they relate to the Mortgages;
- (iii) an assignment by way of first fixed security in favour of the Trustee of the benefit of the Servicing Agreement to be entered into between the Servicer, the Issuer, and the Trustee (the “**Servicing Agreement**”), the mortgage sale agreement to be entered into between, *inter alios*, Arianty, the Issuer and the Trustee (the “**Mortgage Sale Agreement**”), the declaration of trust by Britannic Money in favour of the Issuer in relation to Scottish Mortgages (the “**Scottish Trust**”), the guaranteed investment contract to be entered into between the Issuer, the Trustee and Barclays Bank PLC (the “**Guaranteed Investment Contract**”), the redraw facility agreement to be entered into between the Issuer, the Trustee and Barclays Bank PLC (in such capacity, the “**Redraw Facility Provider**”) and the Servicer (the “**Redraw Facility Agreement**”), the declaration of trust to be entered into and made by Britannic Money in relation to the Trust Accounts (as defined below) (the “**Declaration of Trust**”, the agency agreement to be entered into and made between the Issuer, the Principal Paying Agent, the Trustee and the Agent Bank (the “**Agency Agreement**”), the loan agreement to be entered into between the Issuer and Britannic Money (the “**Start-Up Loan**”), the bank agreement to be entered into between, *inter alia*, the Issuer, The Royal Bank of Scotland plc and Barclays Bank PLC (the “**Bank Agreement**”), each interest swap rate agreement (each an “**Interest Rate Swap**” and together the “**Interest Rate Swaps**”) to be entered into between the Issuer and Morgan Guaranty Trust Company of New York, London branch, Barclays Bank PLC or any other entity which has a rating of at least A-1+ by S&P and F-1+ by Fitch in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (each a “**Swap Counterparty**” and together the “**Swap Counterparties**”), each interest rate cap (each an “**Interest Rate Cap**” and together the “**Interest Rate Caps**”) provided by Morgan Guaranty Trust Company of New York, London branch, Barclays Bank PLC or any other entity which has a rating of at least A-1+ by S&P and F-1+ by Fitch in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (each a “**Cap Provider**” and together the “**Cap Providers**”), each LIBOR-linked interest rate swap agreement (each a “**LIBOR Swap**” and together the “**LIBOR Swaps**”) to be entered into and made between the Issuer and Morgan Guaranty Trust Company of New York, London branch or any other entity which has a rating of at least A-1+ by S&P and F-1+ by Fitch in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (each a “**LIBOR Swap Provider**” and together, the “**LIBOR Swap Providers**”), each base rate swap (each a “**Base Rate Swap**” and together the “**Base Rate Swaps**”) provided by The Royal Bank of Scotland plc or any other entity which has a rating of at least A-1+ by S&P and F-1+ by Fitch in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations (each a “**Base Rate Swap Provider**” and together, the “**Base Rate Swap Providers**”), purchased by the Issuer on or around the Issue Date, the Master Definitions Schedule, and such other documents as are expressed to be subject to the charges under the Deed of Charge (all such documents together the “**Transaction Documents**”);
- (iv) a first fixed equitable charge in favour of the Trustee over the Issuer’s beneficial interest in the Trust Accounts, the Transaction Account and the Reserve Account (each as defined below), any other bank account of the Issuer from time to time and over the Permitted Investments (as defined below); and

- (v) a first floating charge in favour of the Trustee (ranking after the security referred to in (i) to (iv) above) over the whole of the undertaking, property, assets and rights of the Issuer.

**(e) Priority of Payments Prior to Enforcement**

On each Interest Payment Date, the monies standing to the credit of the Transaction Account (save for any monies standing to the credit of the Pre-Funded Ledger applied or to be applied in purchasing Pre-Funded Mortgages), the monies representing a credit balance in the Reserve Ledger (save that such monies may only be applied to meet items (i) to (vii) below)) all monies advanced under the Redraw Facility (save that such monies may only be applied to purchase the right to repayment of Redraws under item (ix) below or to rollover existing advances under the Redraw Facility), any Threshold Amount Deposit (as defined below) made on the immediately preceding Determination Date, all amounts received from the Swap Counterparties and/or the Cap Providers and/or the LIBOR Swap Providers under an Interest Rate Swap and/or Interest Rate Cap and/or LIBOR Swap, all amounts received from the Base Rate Swap Providers under a Base Rate Swap, all amounts representing a credit balance in the Hedge Reserve transferred from the Reserve Account to the Transaction Account, all amounts representing a credit balance in the Base Rate Reserve transferred from the Reserve Account to the Transaction Account and all amounts representing a credit balance in the Discount Reserve transferred from the Reserve Account to the Transaction Account will, after making payment of or providing for Excluded Items (as defined below), until enforcement of the Security for the Notes, be applied (save as the payee may otherwise agree) in making the following payments or provisions in the following order of priority (the “**Priority of Payments**”):

- (i) to pay or provide for the remuneration payable to the Trustee and any fees, costs, charges, liabilities and expenses incurred by it under the provisions of the Trust Deed, the Deed of Charge and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;
- (ii) to pay or provide for amounts due and/or which will become due prior to the next Interest Payment Date to the Paying Agents and Agent Bank under the Agency Agreement;
- (iii) to pay or provide for *pari passu* and *pro rata* (a) amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable or expected to become due and payable by the Issuer on or after such Interest Payment Date by the Issuer to third parties and incurred without breach by the Issuer of its obligations under the Transaction Documents and not provided for payment elsewhere and (b) the Issuer’s liability or possible liability for corporation tax;
- (iv) to pay or provide for the servicing fee payable to the Servicer on such Interest Payment Date (inclusive of value added tax, if any) together with costs and expenses which are payable or expected to become payable by the Servicer under the Servicing Agreement prior to the next Interest Payment Date;
- (v) to pay *pro rata* and *pari passu*:
  - (a) all amounts payable by the Issuer to the Swap Counterparties and/or the Base Rate Swap Providers and/or the LIBOR Swap Providers pursuant to the Interest Rate Swaps and/or the Base Rate Swaps and/or the LIBOR Swaps (other than in respect of termination payments following an event of default in respect of an Interest Rate Swap or a Base Rate Swap or a LIBOR Swap where the relevant Swap Counterparty or the relevant Base Rate Swap Provider or the relevant LIBOR Swap Provider is the defaulting party under the relevant Interest Rate Swap or, as the case may be, the relevant Base Rate Swap or, as the case may be, the relevant LIBOR Swap);
  - (b) all amounts payable under the Redraw Facility other than in respect of principal; and
  - (c) all amounts payable in respect of the Class A Notes other than in respect of principal on the Class A Notes;
- (vi) subject to an M Note Trigger Event not having occurred on that Interest Payment Date, to pay all amounts payable in respect of the Class M Notes other than in respect of principal on the Class M Notes;

- (vii) subject to a B Note Trigger Event not having occurred on that Interest Payment Date, to pay all amounts payable in respect of the Class B Notes other than in respect of principal on the Class B Notes;
  - (viii) to credit the Reserve Fund up to the Reserve Fund Required Amount;
  - (ix) to pay for the purchase by the Issuer of the right to repayment of Redraws;
  - (x) to repay all principal amounts outstanding under the Redraw Facility;
  - (xi) to fund the purchase by the Issuer of Further Advances up to the lower of (a) the Potential Redemption Amount less amounts in accordance with item (x) above and (b) the aggregate amount of Redemptions received during the immediately preceding Collection Period less amounts in accordance with item (x) above;
  - (xii) during the Substitution Period only, to fund the purchase by the Issuer of Further Mortgages up to the lower of (a) the Potential Redemption Amount less amounts applied in accordance with items (x) and (xi) above, and (b) the aggregate amount of Redemptions received during the immediately preceding Collection Period less amounts applied in accordance with items (x) and (xi) above;
  - (xiii) to allocate an amount to be applied in redeeming the Notes equal to the greater of zero and the difference between (a) the Potential Redemption Amount (as defined in Class B Condition 5(b)) and (b) the sum of the amounts applied under items (x), (xi) and (xii);
  - (xiv) if an M Note Trigger Event occurs on such Interest Payment Date, to pay all amounts payable in respect of the Class M Notes other than in respect of principal on the Class M Notes;
  - (xv) if a B Note Trigger Event occurs on such Interest Payment Date, to pay all amounts payable in respect of the Class B Notes other than in respect of principal on the Class B Notes;
  - (xvi) to credit *pari passu* and *pro rata* (a) the Base Rate Reserve up to the Base Rate Reserve Required Amount and (b) the Hedge Reserve up to the Hedge Reserve Required Amount;
  - (xvii) to fund the purchase by the Issuer of hedges that may be required in order to preserve a rate at least equal to the Threshold Rate in respect of Further Mortgages, Substitute Mortgages or Further Advances purchased on such Interest Payment Date;
  - (xviii) to credit the Discount Reserve in an amount equal to the aggregate Loan Expected Differentials arising from Discounts on Further Mortgages, Substitute Mortgages or Further Advances purchased on such Interest Payment Date;
  - (xix) to make any termination payments payable to the Swap Counterparties or the Base Rate Swap Providers or the LIBOR Swap Providers pursuant to the Interest Rate Swaps or, as the case may be, the Base Rate Swaps or, as the case may be, the LIBOR Swaps following an event of default in respect of an Interest Rate Swap or, as the case may be, a Base Rate Swap or, as the case may be, a LIBOR Swap where the relevant Swap Counterparty or, as the case may be, the relevant Base Rate Swap Provider or, as the case may be, the relevant LIBOR Swap Provider is the defaulting party under the relevant Interest Rate Swap or, as the case may be, the Base Rate Swap or, as the case may be, the relevant LIBOR Swap;
- and provided that there is no Principal Deficiency on such Interest Payment Date and that no Event of Default has occurred;
- (xx) to pay amounts repayable to the Servicer in respect of any Threshold Amount Deposit which the Servicer elects to release;
  - (xxi) to pay amounts payable in respect of the Start-Up Loan other than in respect of principal on the Start-Up Loan;
  - (xxii) to pay amounts payable in respect of principal under the Start-Up Loan;
  - (xxiii) to pay *pari passu* and *pro rata* (a) sums due to Arianty as Arianty Deferred Purchase Consideration, (b) sums due to Britannic Money as Britannic Money Deferred Purchase Consideration and (c) sums due to First Active as First Active Deferred Purchase Consideration; and
  - (xxiv) to make dividend payments to shareholders of the Issuer.

For the purposes of these Class B Conditions:

**“Arianty Deferred Purchase Consideration”** means such sums as are paid to Arianty on each Interest Payment Date by way of deferred purchase consideration by the Issuer under the Mortgage Sale Agreement in respect of the Initial Mortgages and Further Mortgages.

**“Available Facility”** means, in relation to the Redraw Facility, on each Interest Payment Date, an amount calculated as the difference between the Redraw Facility Limit and the aggregate amount of advances outstanding under the Redraw Facility which will not be repaid on such Interest Payment Date.

**“B Note Trigger Event”** means the determination by the Servicer as at any Interest Payment Date on which Class A Notes or Class M Notes are outstanding that, on the assumption that a B Note Trigger Event does not occur, the application of funds in accordance with the Priority of Payments will give rise to a Principal Deficiency (as defined in Class B Condition 5(b) which exceeds the aggregate Principal Amount Outstanding of the Class B Notes on such Interest Payment Date.

**“Bank of England Base Rate”** means the Bank of England repo rate set from time to time by the Monetary Policy Committee of the Bank of England.

**“Base Rate Linked Mortgages”** means Mortgages which are subject to a variable rate of interest set by Britannic Money from time to time, which is linked to the Bank of England Base Rate.

**“Base Rate Reserve”** means the amount recorded in a ledger (the **“Base Rate Reserve Ledger”**) and held in the Reserve Account.

**“Base Rate Reserve Required Amount”** means on the Issue Date and each Interest Payment Date thereafter an amount equal to 0.30% of the aggregate outstanding principal balances (including drawn and undrawn balances) of all Unhedged Base Rate Linked Mortgages.

**“Base Rate Swap”** means any interest rate swap entered into with the Base Rate Swap Provider for the purpose of hedging some or all of the Base Rate Linked Mortgages in the Mortgage Pool.

**“Base Rate Swap Provider”** means The Royal Bank of Scotland plc or such other person who from time to time enters into a Base Rate Swap with the Issuer.

**“Borrower Loan Limit”** means the principal amount of a Borrower’s loan which would have been outstanding at any time if the Borrower had only made the minimum monthly payment agreed with Britannic Money or First Active, as applicable (the **“Minimum Monthly Payment”**) and had not made any Overpayments.

**“Borrower Mortgage Account”** means each mortgage account held, from time to time, by a Borrower with Britannic Money or First Active, as applicable.

**“Britannic Money Deferred Purchase Consideration”** means such sums as are paid to Britannic Money on each Interest Payment Date by way of deferred purchase consideration by the Issuer under the Mortgage Sale Agreement in respect of Further Advances.

**“Discount”** means the discount below the Reference Rate applicable to a Discounted Mortgage at the relevant time.

**“Discounted Mortgage”** means Mortgages which are at the relevant time subject to a discounted rate of interest for a specified period.

**“Discount Reserve”** means the amount recorded in a ledger (the **“Discount Reserve Ledger”**) and held in the Reserve Account.

**“Effective Interest Margin”** means, in relation to Discounted Mortgages in the Mortgage Pool an amount determined as follows:

- (a) for each Standard Variable Rate Mortgage, the Threshold Margin less the Discount;
- (b) for each Base Rate Linked Mortgage, the margin of that Mortgage over Bank of England Base Rate less 0.15% (where such mortgage is not subject to a Base Rate Swap) less the Discount;
- (c) for each LIBOR Linked Mortgage, the margin of that Mortgage over LIBOR less the Discount.
- (d) for each Capped Mortgage which has been hedged relative to the Threshold Rate, the Threshold Margin less the Discount.
- (e) for each Fixed Rate Mortgage which has been swapped to the Threshold Rate, the Threshold Margin less the Discount.

**“Expected Differential”** means an amount calculated in respect of each Discounted Mortgage and each Interest Period as the difference between the Threshold Margin and the Effective Interest Margin on such Discounted Mortgage, to the extent such difference is positive, multiplied by the outstanding principal balance in respect of such Discounted Mortgage as of the Interest Payment Date multiplied by the fraction of the actual number of days elapsed in the succeeding Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year).

**“First Active Deferred Purchase Consideration”** means such sums as are paid to First Active on each Interest Payment Date by way of deferred purchase consideration by the Issuer under the Mortgage Sale Agreement in respect of Further Advances.

**“Further Advances”** means the additional funds advanced to a Borrower by Britannic Money or First Active, as applicable on the security of his/her Mortgage subject to the satisfaction of certain conditions.

**“Hedge Reserve”** means the amount recorded in a ledger (the **“Hedge Reserve Ledger”**) and held in the Reserve Account.

**“Hedge Reserve Required Amount”** means (a) as at the Issue Date, the initial amount of Tranche C of the Start-Up Loan and (b) as at each Interest Payment Date, an amount equal to such amounts as are required to ensure that the Threshold Margin is maintained in respect of Capped Mortgages.

**“Investment Home Loans”** means loans made to a Borrower to be used to remortgage or acquire properties to let to tenants or hold as an investment.

**“Overpayment”** means the amount by which a payment made by a Borrower into his/her Borrower Mortgage Account exceeds the Minimum Monthly Payment.

**“M Note Trigger Event”** means the determination by the Servicer as at any Interest Payment Date on which Class A Notes are outstanding that, on the assumption that an M Note Trigger Event does not occur, the application of funds in accordance with the Priority of Payments will give rise to a Principal Deficiency (as defined in Class M Condition 5(b) which exceeds the aggregate Principal Amount Outstanding of the Class M Notes and the Class B Notes on such Interest Payment Date.

**“Non-Verified Mortgage Ledger”** means the ledger so entitled and held in the Transaction Account.

**“Owner Occupied Loans”** means loans made to a Borrower to acquire property to be used as their primary place of residence.

**“Payment Holiday”** means a Borrower’s monthly payments being met by applying Overpayments not previously redrawn by way of capitalisation of such monthly payments.

**“Permitted Investments”** means investments in which the Servicer is entitled to invest from time to time under the terms of the Servicing Agreement.

**“Potential Redraw Amount”** means the amount which is capable of being redrawn by a Borrower under a Mortgage.

**“Pre-Funded Ledger”** means the ledger so entitled and held in the Transaction Account.

**“Prepayments”** means part principal repayments under a Mortgage where the Borrower Loan Limit does not change following repayment ahead of the repayment plan used by Britannic Money or First Active, as applicable to provide a baseline for the repayment of the Mortgage. For the avoidance of doubt, Prepayments do not include scheduled principal repayments.

**“Receiver”** means a receiver appointed by the Trustee under Clause 10 of the Deed of Charge.

**“Redraw”** means in respect of a Mortgage, a Payment Holiday or a redraw by the relevant Borrower of a portion of the principal of his/her Mortgage if and to the extent that such Borrower has previously made Prepayments on his/her Mortgage in excess of the scheduled principal repayments and has not previously redrawn the whole of such excess payments and provided that the amounts of such Redraw is limited to ensure that the outstanding balance of the Mortgage after such Redraw is no greater than the Borrower Loan Limit;

**“Redraw Facility”** means the sterling revolving credit facility made between the Issuer and the Redraw Facility Provider.

**“Redraw Facility Limit”** means the maximum aggregate amount that can be drawn at any time under the Redraw Facility and which on the Issue Date shall be £58 million and thereafter may be varied on any Interest Payment Date by agreement between the Issuer, the Trustee, the Redraw Facility Provider, the Servicer and the Rating Agencies.

**“Reference Rate”** means:

- (a) for each Standard Variable Rate Mortgage, Britannic Money’s standard variable rate;
- (b) for each LIBOR Linked Mortgage, LIBOR plus the margin applicable to the relevant Mortgage as set out in the mortgage documentation entered into with the relevant Borrower;
- (c) for each Base Rate Linked Mortgage, Bank of England Base Rate, plus the margin applicable to the relevant Mortgage as set out in the mortgage documentation entered into with the relevant Borrower;
- (d) for each Capped Mortgage, the rate set out in the mortgage documentation entered into with the relevant Borrower;
- (e) for each Fixed Rate Mortgage, the rate set out in the mortgage documentation entered into with the relevant Borrower.

**“Required Redraw Facility Provider Rating”** means a short term unsecured unguaranteed and unsubordinated debt rating of A-1+ from S&P and F-1+ from Fitch.

**“Reserve Account”** means an account in the name of the Issuer at Barclays Bank PLC (the **“Account Bank”**) in which the Reserve Fund is established.

**“Reserve Fund”** means the amount recorded in a ledger (the **“Reserve Account”**) and held in the Reserve Account provided that (A) whilst there are Class A Notes outstanding, the Reserve Fund shall only be applied to pay interest on the Class M Notes to the extent that such drawing does not result in the amount standing to the credit of the Reserve Fund being less than (1) £3,000,000 or (2) the outstanding principal amount of the Class A Notes and (B) whilst there are Class M Notes outstanding, the Reserve Fund shall only be applied to pay interest on the Class B Notes to the extent that such drawing does not result in the amount standing to the credit of the Reserve Fund being less than (1) £3,000,000 or (2) the aggregate outstanding principal amount of the Class A Notes and the Class M Notes.

**“Reserve Fund Required Amount”** means an amount equal to the amount deposited under Tranche B of the Start-Up Loan;

**“Secured Creditors”** means each of the Trustee, the Noteholders, the Couponholders, the Servicer, the Redraw Facility Provider, the Start-Up Loan Provider, the GIC Provider, the Account Bank, the Cap Providers, the Swap Counterparties, the Base Rate Swap Providers, the LIBOR Swap Providers and the Principal Paying Agent.

**“Substitution Period”** means, the period commencing on (and including) the Issue Date and ending on the earlier of (i) the Interest Payment Date falling in July 2004 (ii) enforcement of the Security in accordance with Condition 10 (iii) removal of Britannic Money as Servicer in accordance with the Servicing Agreement (unless a substitute servicer has been appointed in accordance with the Servicing Agreement) (iv) the date on which the Notes are redeemed in full (v) the date on which the Redraw Facility becomes fully drawn unless the Issuer elects to shorten the Substitution Period by giving 5 Business Days notice to the Trustee and the Servicer.

**“Threshold Amount Deposit”** means a deposit which may be paid into the Transaction Account on an Interest Payment Date which is equal to the amount by which the amount produced by multiplying the Threshold Rate with the aggregate outstanding balances of the Mortgages in the Mortgage Pool on such Interest Payment Date and the fraction of the actual number of days elapsed in the relevant Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year) exceeds the sum of:

- (a) the aggregate of the annual rate of interest applicable on such Interest Payment Date to each Mortgage in the Mortgage Pool multiplied by the principal balance outstanding of such Mortgage on such Interest Payment Date multiplied by the fraction of the actual number of days elapsed in the relevant Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year), plus
- (b) any amount expected to be transferred from the Hedge Reserve into the Transaction Account on the next following Interest Payment Date; plus
- (c) any amount expected to be transferred from the Base Rate Reserve into the Transaction Account on the next following Interest Payment Date; plus



- (d) any amount expected to be transferred from the Discount Reserve into the Transaction Account on the next following Interest Payment Date; plus
- (e) any amounts received in respect of Interest Rate Swaps, LIBOR Swaps, Base Rate Swaps and Interest Rate Caps,

(such amount not to be less than zero).

“**Threshold Margin**” means the figure expressed as a percentage resulting from the addition of (i) the average total principal balance of Owner Occupied Loans during the relevant Interest Period multiplied by 1% plus (ii) the average total principal balance of Investment Home Loans during the relevant Interest Period multiplied by 1.2%, all divided by the average total principal balance outstanding of all Mortgages during that Interest Period. The average total principal balance outstanding in any category of Loan for the purposes of the above calculation shall be calculated by reference to the total principal balance outstanding of such category of Loan on each day during the relevant Interest Period.

“**Threshold Rate**” means in respect of an Interest Period an annual rated LIBOR as determined in relation to the Notes for such Interest Period plus the Threshold Margin.

“**Transaction Account**” means account number 40927481 in the name of the Issuer at Barclays Bank PLC.

“**Trust Accounts**” means the accounts in the name of Britannic Money held at Barclays Bank PLC and The Royal Bank of Scotland plc in to which payments are made in respect of amounts due and amounts received under the Mortgages.

“**Unhedged Base Rate Linked Mortgages**” means the aggregate outstanding principal balances of Base Rate Linked Mortgages less the total notional balances of all Base Rate Swaps.

#### **Priority of Payments Post-Enforcement**

- (f) On enforcement of the Security, the Trustee is required, after making payment of or providing for Excluded Items, to apply moneys available for distribution in or towards the satisfaction of the following amounts in the following order or priority:
  - (i) first, to pay the remuneration then due and payable to the Trustee and any fees, costs, charges, liabilities and expenses incurred by the Trustee or any receiver appointed by the Trustee under the provisions of the Trust Deed, the Deed of Charge and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;
  - (ii) second, to pay the remuneration then due and payable to the Agent Bank and the Paying Agents and any fees, costs, charges, liabilities and expenses incurred by them or by the Account Bank under the Bank Agreement and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents;
  - (iii) third, to pay or provide for *pari passu* and *pro rata* (a) amounts including audit fees and company secretarial expenses (plus value added tax, if any), which are payable or expected to become due and payable by the Issuer to third parties and incurred without breach by the Issuer of its obligations under the Transaction Documents and not provided for payment elsewhere and (b) the Issuer’s liability or possible liability for corporation tax;
  - (iv) fourth, in or towards satisfaction of any fees due and payable to the Servicer and any costs, charges, expenses and liabilities incurred by the Servicer;
  - (v) fifth, to pay *pari passu* and *pro rata* (a) all amounts due under the Interest Rate Swaps; (b) all amounts due under the Base Rate Swaps, (c) all amounts due under the LIBOR Swaps, (d) all amounts due under the Redraw Facility and (e) interest and principal and all other amounts due and payable in respect of the Class A Notes;
  - (vi) sixth, to pay interest and principal and all other amounts due and payable in respect of the Class M Notes;
  - (vii) seventh, to pay interest and principal and all other amounts due and payable in respect of the Class B Notes;
  - (viii) eighth, to pay any interest and principal amounts due and payable under the Start-Up Loan ;
  - (ix) ninth, to pay *pro rata* and *pari passu* (a) sums due to Arianty as Arianty Deferred Purchase Consideration, (b) sums due to Britannic Money as Britannic Money Deferred Purchase

Consideration and (c) sums due to First Active as First Active Deferred Purchase Consideration; and

- (x) tenth, to pay the surplus (if any) to the shareholders of the Issuer by way of dividends.

The Trustee cannot, while any of the Class B Notes are outstanding and there is no subsisting Event of Default under Class B Condition 9, enforce the Security on behalf of the Class B Noteholders, or any other Secured Creditor (whether or not requested to do so by the Class B Noteholders or such other Secured Creditor) under the Deed of Charge.

The Security will become enforceable upon the occurrence of an Event of Default (as defined in Class B Condition 9(a)) provided that, if the Security has become enforceable otherwise than by reason of a default in payment of any amount due on the Class B Notes or Class B Coupons, the Trustee will not be entitled to dispose of the assets comprised in the Security or any part thereof unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class B Noteholders and the Class B Couponholders or the Trustee is of the opinion, which shall be binding on the Class B Noteholders, the Class B Couponholders and the other Secured Creditors, reached after considering at any time and from time to time the advice of an investment bank or other financial adviser selected by the Trustee, 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 owing to the Class B Noteholders and the Class B Couponholders.

### **3. COVENANTS**

Save with the prior written consent of the Trustee or as provided in or envisaged by any of the Trust Deed, the Deed of Charge, or any of the Transaction Documents (together the “**Documents**”), the Issuer shall not, so long as any Class A Note Class M Note or the Class B Note remains outstanding (as defined in the Trust Deed):

**(a) Negative Pledge**

create or permit to subsist any mortgage, pledge, lien (unless arising by operation of law) or charge upon the whole or any part of its assets, present or future (including any uncalled capital) or its undertaking;

**(b) Restrictions on Activities**

- (i) engage in any activity which is not incidental to any of the activities which the Documents provide or envisage that the Issuer will engage in; or
- (ii) have any subsidiaries or employees or premises;

**(c) Disposal of Assets**

transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein;

**(d) Equitable Interest**

permit any person other than the Issuer, the Trustee and Britannic Money or First Active (in relation to any Redraws and Further Advances funded by either of them) to have any equitable interest in any of its assets or undertakings or any interest, estate, right, title or benefit therein;

**(e) Bank Accounts**

have an interest in any bank account, other than the Trust Accounts and the bank accounts maintained pursuant to the Bank Agreement or the Guaranteed Investment Contract;

**(f) Dividends or Distributions**

pay any dividend or make any other distribution to its shareholders or issue any further shares other than pursuant to the Priority of Payments;

**(g) Borrowings**

incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any obligation of any person;

**(h) Merger**

consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;

**(i) Surrender of Group Relief**

offer or consent to surrender to any company any amounts which are available for surrender by way of group relief within Chapter IV of Part X of the Income and Corporation Taxes Act 1988 unless the Issuer first receives by way of consideration for such surrender the payment of an amount calculated by applying to the amount surrendered the rate of corporation tax applicable to the Issuer at the time of surrender;

**(j) Other**

permit the validity or effectiveness of any of the Documents, the Insurance Contracts relating to the Mortgages owned by the Issuer or the priority of the security interests created thereby to be amended, terminated or discharged, or consent to any variation of, or exercise of, any powers of consent or waiver pursuant to the terms of the Trust Deed, these Class B Conditions or any of the Documents, or permit any party to any of the Documents or Insurance Contracts or any other person whose obligations form part of the Security to be released from such obligations, or dispose of any Mortgage save as envisaged in the Documents.

In giving any consent to the foregoing, the Trustee may require the Issuer to make such modifications or additions to the provisions of any of the Documents or may impose such other conditions or requirements as the Trustee may deem expedient (in its absolute discretion) in the interests of the Class A Noteholders, the Class M Noteholders and the Class B Noteholders.

The Issuer shall apply to HM Customs & Excise, and use reasonable endeavours to pursue such application, for its exclusion from the earliest possible date from any group for the purposes of Section 43 of the Value Added Tax Act 1994 (or for the purposes of any act, regulation, order, statutory instrument or directive which, from time to time, may re-enact, replace, amend, vary, codify, consolidate or repeal the Value Added Tax Act 1994) of which it is a member:

- (i) upon any failure by the representative member of such group to fulfil its obligations to HM Customs & Excise;
- (ii) if there is a material increase in the liabilities under such Act of the representative member of such group as a result of a change in circumstances and a failure to implement a suitable alternative structure which would not result in the downgrading of the then current ratings of the Class B Notes, the Class M Notes or the Class A Notes or which is consented to by the Trustee; or
- (iii) if proceedings are initiated against the representative member of such group under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an administration order being granted or administrative receiver or other receiver, liquidator or other similar official being appointed in relation to the representative member of such group or the representative member of such group initiating or consenting to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws.

**4. INTEREST**

**(a) Period of Accrual**

The Class B Note bears interest from (and including) the Issue Date. Each Class B Note shall cease to bear interest from its due date for redemption unless, upon due presentation, payment of the relevant amount of principal is improperly withheld or refused. In such event, interest will continue to accrue thereon in accordance with this Class B Condition (as well after as before any judgment) up to (but excluding) the date on which all sums due in respect of such Class B Note up to that day are received by or on behalf of the relevant Class B Noteholder, or (if earlier) the seventh day after notice is duly given by the Principal Paying Agent to the holder thereof (in accordance with Class B Condition 14) that it has received all sums due in respect of such Class B Note (except to the extent that there is any subsequent default in payment).

Whenever it is necessary to compute an amount of interest in respect of any Class B Note for any period (including any Interest Period (as defined below)), such interest shall be calculated on the basis of actual days elapsed in a 365 day year or a 366 day year if the last day of such period falls in a leap year.

**(b) Interest Payment Dates and Interest Periods**

Interest on the Class B Notes is payable monthly in arrear on the first day of each calendar month in each year (or, if such day is not a Business Day, the immediately succeeding Business Day) (each such day an “**Interest Payment Date**”) save for the first payment of interest which will be made in respect of the period commencing on (and including) the Issue Date and ending on (but excluding) the Interest Payment Date falling in September, 2001. The period from (and including) an Interest Payment Date (or the Issue Date in respect of the first Interest Payment Date) to (but excluding) the next following (or first) Interest Payment Date is called an “**Interest Period**” in these Class B Conditions and “**Business Day**” shall in these Class B Conditions mean a day (other than a Saturday or Sunday) on which banks are open for business in the City of London.

**(c) Rate of Interest**

The rate of interest payable from time to time in respect of the Class B Notes (each a “**Rate of Interest**”) and the relevant Interest Amount (as defined in paragraph (d) below) will be determined on the basis of the provisions set out below:

- (i) on each Interest Payment Date or, in the case of the first Interest Period, on the Issue Date (each an “**Interest Determination Date**”) the Agent Bank will determine the offered quotation to leading banks in the London interbank market for one month sterling deposits (or, in the case of the first Interest Period, such rate shall be obtained by linear interpolation of the rate for one month and two month sterling deposits) by reference to the display designated as the British Bankers Association’s Interest Settlement Rate as quoted on the Dow Jones/Telerate Monitor Telerate Screen No. 3750 (or (aa) such other page as may replace Telerate Screen No. 3750 on that service for the purpose of displaying such information or (bb) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Trustee) as may replace the Dow Jones/Telerate Monitor) as at or about 11:00 a.m. (London time) on that date (the “**Screen Rate**”). If the Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks (as defined in paragraph (h) below) to provide the Agent Bank with its offered quotation as at or about 11:00 a.m. (London time) on that date to leading banks for one month sterling deposits (or, in relation to the first Interest Period, one month and two month sterling deposits and a linear interpolation between such rates). The Rate of Interest for such Interest Period shall, subject as provided below, be the Relevant Margin (as defined below) above the Screen Rate or, as the case may be, above the arithmetic mean (rounded if necessary to the nearest 0.0001%, 0.00005% being rounded upwards) of the quotations of three out of five quoting Reference Banks (excluding, if all five quotations are not the same, the Reference Bank with the highest and the Reference Bank with the lowest such quotations) but, if more than one of either or both, only one of the Reference Banks with the highest and/or, as the case may be, only one of the Reference Banks with the lowest such quotations;
- (ii) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only four of the Reference Banks provide such quotations, the Rate of Interest for the relevant Interest Period shall be determined (in accordance with (i) above) on the basis of two out of the four quoting Reference Banks (excluding two on the basis set out in (i) above);
- (iii) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only two or three of the Reference Banks provide such quotations, the Rate of Interest for the relevant Interest Period shall be determined (in accordance with (i) above) on the basis of the quotations of all the quoting Reference Banks (without any exclusion as referred to in (i) above);
- (iv) if, on the relevant Interest Determination Date, the Screen Rate is unavailable and only one or none of the Reference Banks provides such a quotation, then the Rate of Interest for the relevant Interest Period shall be the Reserve Interest Rate. The “**Reserve Interest Rate**” shall be the rate per annum which the Agent Bank determines to be either (aa) the Relevant Margin above the arithmetic mean (rounded if necessary to the nearest 0.0001%, 0.00005% being rounded upwards) of the sterling lending rates which leading banks in London (selected by the Agent Bank in its absolute discretion) are quoting, as at or about 11:00 a.m. (London time) on the

relevant Interest Determination Date, for the relevant Interest Period to the Reference Banks or those of them (being at least two in number) to which such quotations are in the sole opinion of the Agent Bank being so made or (bb) if the Agent Bank certifies that it cannot determine such arithmetic mean, the Relevant Margin above the lowest of the sterling lending rates which leading banks in London (selected by the Agent Bank in its absolute discretion) are quoting on the relevant Interest Determination Date, to the leading banks which have their head offices in London for the relevant Interest Period provided that if the Agent Bank certifies as aforesaid and further certifies that none of the banks selected as provided in (b) above is quoting to leading banks as aforesaid, then the Reserve Interest Rate shall be the Rate of Interest in effect for the Interest Period ending on the relevant Interest Determination Date.

For the purpose of the Class B Conditions the “**Relevant Margin**” shall be 1.80% per annum for each Interest Period up to and including the Interest Payment Date falling in July 2008 (the “**Coupon Step Up Date**”) and thereafter 2.80% per annum.

**(d) Determination of Rates of Interest and Calculation of Interest Amounts**

The Agent Bank shall, on each Interest Determination Date, determine and notify the Issuer, the Servicer, the Trustee and the Paying Agents of (i) the Rate of Interest applicable to the Interest Period beginning on and including such Interest Determination Date in respect of the Class B Notes and (ii) the sterling amount (the “**Interest Amount**”) payable in respect of such Interest Period in respect of the Principal Amount Outstanding (as defined in Class B Condition 5(c)).

**(e) Publication of Rate of Interest, Interest Amount and other Notices**

As soon as practicable after receiving notification thereof, the Issuer will cause the Rate of Interest and the Interest Amount applicable to the Class B Notes for each Interest Period and the Interest Payment Date falling at the end of such Interest Period to be notified to each stock exchange (if any) (including, for as long as the Notes are admitted to the Official List, the UK Listing Authority) on which the Class B Notes are then listed and will cause notice thereof to be given to the relevant Class B Noteholders in accordance with Class B Condition 14. The Interest Amount and Interest Payment Date so notified 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 Interest Period.

**(f) Determination or Calculation by Trustee**

If the Agent Bank does not at any time for any reason determine the Rate of Interest and/or calculate the Interest Amount for any Class B Notes in accordance with the foregoing paragraphs, the Trustee shall (i) determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described above), it shall deem fair and reasonable in all the circumstances and/or (as the case may be) (ii) calculate the Interest Amount for the Class B Notes in the manner specified in paragraph (c) above, and any such determination and/or calculation shall be deemed to have been made by the Agent Bank.

**(g) Notifications to be Final**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Class B Condition, whether by the Reference Banks (or any of them) or the Agent Bank or the Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Servicer, the Reference Banks, the Agent Bank, the Trustee and all Class B Noteholders and Class B Couponholders and (in which absence as aforesaid) no liability to the Servicer, the Class B Noteholders or Class B Couponholders shall attach to the Issuer, the Reference Banks, the Agent Bank or the Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions hereunder.

**(h) Reference Banks and Agent Bank**

The Issuer shall ensure that, so long as any of the Class B Notes remains outstanding, there shall at all times be five reference banks (the “**Reference Banks**”) and an Agent Bank. The initial Agent Bank shall be The Chase Manhattan Bank. In the event of the principal London office of any such bank being unable or unwilling to continue to act as a Reference Bank or in the event of The Chase Manhattan Bank, being unwilling to act as the Agent Bank, the Issuer shall appoint such other bank as may be previously approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign until a successor approved by the Trustee has been appointed.

## 5. REDEMPTION AND CANCELLATION

### (a) Final Redemption

Unless previously redeemed as provided in this Class B Condition, the Issuer shall redeem the Class B Notes at their Principal Amount Outstanding (as defined below) on the Interest Payment Date falling in July 2036 (the “**Final Redemption Date**”).

The Issuer may not redeem Class B Notes in whole or in part prior to that date except as provided in paragraphs (b), (d), (e) or (f) of this Class B Condition but without prejudice to Class B Condition 9.

### (b) Mandatory Redemption in Part

Subject as provided below, the principal amount redeemable in respect of each Class B Note on an Interest Payment Date (the “**Actual Redemption Amount**”) shall be the Class B Redemption Amount on such Interest Payment Date divided by the number of Class B Notes outstanding on the relevant Interest Payment Date (rounded down to the nearest penny); provided always that no such Actual Redemption Amount may exceed the Principal Amount Outstanding of the relevant Class B Note.

#### For the purposes of these Class B Conditions:

“**Borrower Loan Limit**” means the principal amount of a Borrower’s loan which would have been outstanding at any time if the Borrower had only made its minimum monthly payments due under the relevant loan and had not made any additional payments or overpayments.

“**Collection Period**” means the period beginning on (and including) a Determination Date (save for the first Collection Period which shall begin on (and include) the Issue Date) and ending on the day immediately preceding the next following Determination Date.

“**Determination Date**” means the day which is eight Business Days prior to an Interest Payment Date.

“**Excluded Items**” means

(a) certain moneys which properly belong to third parties (such as monies owing to any party in respect of reimbursement for direct debit recalls);

(b) on the Interest Payment Date following the Issue Date, amounts payable to Arianty under the Mortgage Sale Agreement in respect of reconciliations of the amounts paid in respect of the purchase of the Mortgages on the Issue Date; and

(c) where the Issuer is unable to purchase the right to repayment of Redraws made with respect to one or more Mortgages on any Interest Payment Date (such Redraws continuing to be funded by Britannic Money or First Active, as applicable on the basis that the Issuer holds each relevant Mortgage on trust for itself and Britannic Money or First Active, as applicable, each party’s interest being proportionate to the funding provided by it), the aggregate of Britannic Money’s or First Active’s, applicable, pro rata share of amounts received in respect of each such Mortgage during the immediately preceding Collection Period.

“**Potential Redemption Amount**” will be determined on each Determination Date as follows:

(a) the aggregate amount of Redemptions, Prepayments, enforcement proceeds, recoveries and insurance proceeds received (to the extent they relate to principal) during the immediately preceding Collection Period ending in respect of the Mortgages (“**Principal Collections**”); plus

(b) principal losses realised upon completion of the enforcement and recovery process in relation to the Mortgages during the immediately preceding Collection Period; less

(c) the aggregate principal amount of Redraws the right to repayment of which are to be purchased by the Issuer on the immediately succeeding Interest Payment Date, less

(d) the amount by which the aggregate principal amount outstanding under the Redraw Facility is expected to increase on the immediately succeeding Interest Payment Date as a result of the purchase of Redraws; plus

(e) an amount equal to the Principal Deficiency recorded on the previous Determination Date,

provided that the Potential Redemption Amount shall never be less than zero.

“**Redemptions**” means scheduled principal payments plus full and part principal payments (including enforcement and insurance proceeds) under a Mortgage where the Borrower Loan Limit (as defined above)

irrevocably reduces as a result of repayment ahead of the repayment plan used by Britannic Money or First Active, as applicable, to provide a baseline for the repayment of the Mortgage.

“**Prepayments**” means part principal repayments under a Mortgage where the Borrower Loan Limit does not change following prepayment ahead of the repayment plan used by Britannic Money or First Active, as applicable to provide a baseline for the repayment of the Mortgage.

The amount allocated for redemption of the Notes under item (xiii) of the Priority of Payments (the “**Redemption Amount**”) will be divided into a “**Class A Redemption Amount**”, a “**Class M Redemption Amount**” and a “**Class B Redemption Amount**”. During a Class M Principal Lock Out, the Class A Redemption Amount will equal the Redemption Amount and the Class M Redemption Amount and the Class B Redemption Amount will be zero. During a Class B Principal Lock Out, the Redemption Amount will be divided between the Class A Redemption Amount and the Class M Redemption Amount (on a pro rata basis and subject to a Class M Principal Lock Out not having occurred) and the Class B Redemption Amount will be zero.

A “**Class M Principal Lock Out**” shall occur on any Interest Payment Date (i) during the period up to (and including) the earlier of the Interest Payment Date on which all Class A Notes are redeemed in full and the Interest Payment Date falling five years after the end of the Substitution Period (the “**Class M Principal Lock Out Period**”), (ii) where on such Interest Payment Date the sum of the Reserve Fund, the aggregate Principal Amount Outstanding (as defined in Condition 5 of the Class M Conditions) of the Class M Notes and the aggregate Principal Amount Outstanding (as defined in Condition 5 of the Class B Conditions) of the Class B Notes as a percentage of the sum of the aggregate Principal Amount Outstanding of the Class A Notes, Class M Notes and Class B Notes is not at least twice that same percentage as at the Issue Date, (iii) where a Principal Deficiency exists on such Interest Payment Date (iv) where the aggregate principal balance of Mortgages in respect of which there are arrears of an amount greater than £100 is greater than 2.5% of the then aggregate principal balance of the Mortgages comprised in the Mortgage Pool, in each case as at the immediately preceding Determination Date, and (v) where the sum of the Principal Amount Outstanding of the Class M Notes and the Principal Amount Outstanding of the Class B Notes on such Interest Payment Date is less than two times the principal balance of the largest Mortgage or group of Mortgages in the name of a single Borrower as at the immediately preceding Determination Date.

A “**Class B Principal Lock Out**” shall occur on any Interest Payment Date (i) during the period up to (and including) the earlier of the Interest Payment Date on which all Class A Notes and Class M Notes are redeemed in full and the Interest Payment Date falling five years after the end of the Substitution Period (the “**Class B Principal Lock Out Period**”), (ii) where on such Interest Payment Date the sum of the Reserve Fund and the aggregate Principal Amount Outstanding (as defined in Condition 5 of the Class B Conditions) of the Class B Notes as a percentage of the sum of the aggregate Principal Amount Outstanding of the Class A Notes, the Class M Notes and the Class B Notes is not at least twice that same percentage as at the Issue Date, (iii) where a Principal Deficiency exists on such Interest Payment Date, (iv) where the aggregate principal balance of Mortgages in respect of which there are arrears of an amount greater than £100 is greater than 2.5% of the then aggregate principal balance of the Mortgages comprised in the Mortgage Pool, in each case as at the immediately preceding Determination Date, and (v) where the Principal Amount Outstanding of the Class B Notes on such Interest Payment Date is less than two times the principal balance of the largest Mortgage or group of Mortgages in the name of a single Borrower as at the immediately preceding Determination Date.

If no Class M Principal Lock Out and no Class B Principal Lock Out applies on an Interest Payment Date and there are Class A Notes outstanding, the Redemption Amount will be divided between the Class A Redemption Amount, the Class M Redemption Amount and the Class B Redemption Amount in such amounts as would maintain the then current ratio of Class A Notes to Class M Notes to Class B Notes. If on any Interest Payment Date there are no Class A Notes outstanding, the Redemption Amount will be divided between the Class M Redemption Amount (subject to a Class M Principal Lock Out not having occurred) and the Class B Redemption Amount (subject to a Class B Principal Lock Out not having occurred) in such amounts as would maintain the then current ratio of the Class M Notes to the Class B Notes. If on any Interest Payment Date there are no Class A Notes or Class M Notes outstanding, the Class B Redemption Amount shall equal the whole of the Redemption Amount.

“**Principal Deficiency**” means the amount calculated on each Determination Date by deducting from the “**Liabilities**” expected to exist as at close of business on the immediately succeeding Interest Payment Date the “**Assets**” expected to exist as at close of business on the immediately succeeding Interest Payment Date (after having made all payments in accordance with the Priority of Payments),

where “**Liabilities**” means:

- (a) the aggregate Principal Amount Outstanding of the Notes on the last date of the immediately preceding Collection Period; less
- (b) the amount allocated in the Priority of Payments to redemption of the Notes under item (xiii) on the immediately succeeding Interest Payment Date; plus
- (c) the aggregate principal amount outstanding under the Redraw Facility on the last day of the immediately preceding Collection Period; plus
- (d) the amount by which the aggregate principal amount outstanding under the Redraw Facility is expected to increase on the immediately succeeding Interest Payment Date as a result of the purchase of the right to repayment of Redraws; less
- (e) the amount allocated in the Priority of Payments to repayment of principal amounts outstanding under the Redraw Facility under item (x) on the immediately succeeding Interest Payment Date; and

“**Assets**” means:

- (a) the aggregate outstanding principal balances of the Mortgages (including amounts receivable in respect of claims under property related insurance policies) on the last day of the immediately preceding Collection Period; plus
- (b) the aggregate principal amount of the Redraws the right to repayment of which are to be purchased on the immediately succeeding Interest Payment Date; plus
- (c) the amount allocated in the Priority of Payments to purchase Further Advances under item (xi) on the immediately succeeding Interest Payment Date; plus
- (d) the amount allocated in the Priority of Payments to purchase Further Mortgages under item (xii) on the immediately succeeding Interest Payment Date, plus
- (e) the amount standing to the credit of the Pre-Funded Ledger and the Non-Verified Mortgage Ledger, provided that the Principal Deficiency shall never be less than zero.

In connection with such redemption, the Servicer will on each Determination Date, pursuant to the Servicing Agreement, determine the Potential Redemption Amount, the Class A Redemption Amount, the Class M Redemption Amount and the Class B Redemption Amount.

No Class B Note may be redeemed in whole or in part until the Class A Notes and the Class M Notes have been redeemed in full.

**(c) Class B Note Principal Payments, Principal Amount Outstanding and Pool Factor**

On (or as soon as practicable after) each Determination Date, the Issuer shall determine (or cause the Servicer to determine) (i) the amount of any Actual Redemption Amount due in respect of each Class B Note on the Interest Payment Date next following such Determination Date, (ii) the principal amount outstanding of each Class B Note on the Interest Payment Date next following such Determination Date (after deducting any Actual Redemption Amount due to be made in respect of that Class B Note on that Interest Payment Date) (the “**Principal Amount Outstanding**”) and (iii) the fraction expressed as a decimal to the sixth point ( the “**Pool Factor**”), of which the numerator is the Principal Amount Outstanding of a Class B Note (as referred to in (ii) above) and the denominator is £10,000. Each determination by or on behalf of the Issuer of any Actual Redemption Amount of a Class B Note, the Principal Amount Outstanding of a Class B Note and the Pool Factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

The Principal Amount Outstanding of a Class B Note on any date shall be £10,000 less the aggregate amount of all Actual Redemption Amounts in respect of such Class B Note that have become due and payable since the Issue Date on or prior to such date (whether or not paid).

With respect to the Class B Notes, the Issuer will cause each determination of an Actual Redemption Amount, Principal Amount Outstanding and Pool Factor to be notified forthwith to the Trustee, the Paying Agents, the Agent Bank and (for so long as the Class B Notes are admitted to trading on the London Stock Exchange’s market for listed securities) the London Stock Exchange, and will immediately cause notice of each determination of an Actual Redemption Amount, Principal Amount Outstanding and Pool Factor to be given in accordance with Class B Condition 14 by not later than



two business days prior to the relevant Interest Payment Date. If no Actual Redemption Amount is due to be made on the Class B Notes on any Interest Payment Date a notice to this effect will be given by or on behalf of the Issuer to the Class B Noteholders in accordance with Class B Condition 14.

If the Issuer does not at any time for any reason determine (or cause the Servicer to determine) with respect to the Class B Notes an Actual Redemption Amount, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this paragraph, such Actual Redemption Amount, Principal Amount Outstanding and Pool Factor may be determined by the Trustee in accordance with this paragraph and each such determination or calculation shall be deemed to have been made by the Issuer. Any such determination shall be binding on the Issuer, the Servicer, the Class B Noteholders and the Class B Couponholders.

**(d) Optional Redemption**

On the Interest Payment Date falling in July 2008 or on any Interest Payment Date falling thereafter and upon giving not more than 30 nor less than 20 days' notice to the Trustee and the Class B Noteholders in accordance with Class B Condition 14, the Issuer may redeem all (but not some only of) the Class B Notes at their Principal Amount Outstanding together with accrued interest thereon provided that, prior to giving any such notice, the Issuer shall have provided to the Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the Class B Notes as aforesaid.

On any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes is equal to or less than 10% of the aggregate principal amount of such Notes at the time such Notes were issued, and upon giving not more than 30 nor less than 20 days notice to the Trustee, the Class B Noteholders, the Class M Noteholders and the Class A Noteholders, the Issuer may redeem all (but not some only of) the Class B Notes and all (but not some only of) the Class M Notes and all (but not some only of) the Class A Notes at their Principal Amount Outstanding together with accrued interest provided that prior to giving any such notice, the Issuer shall have provided the Trustee with a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the Class B Notes, the Class M Notes and the Class A Notes as aforesaid.

**(e) Optional Redemption for Tax Reasons**

If the Issuer at any time satisfies the Trustee immediately prior to the giving of the notice referred to below that either (i) on the next Interest Payment Date the Issuer or any Paying Agent would be required to deduct or withhold from any payment of principal or interest on the Class B Notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest in relation to any of the Mortgages during an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period or (iii) the Issuer would, by virtue of a change in the law (or the application or officially published interpretation thereof) not be entitled to relief for United Kingdom tax purposes for any material amount which is currently relievable and which it is obliged to pay under the Transaction Documents, then the Issuer may, having given not more than 30 nor less than 20 days' notice to the Trustee and the Class B Noteholders in accordance with Class B Condition 14, redeem all (but not some only) of the Class B Notes on any Interest Payment Date at their Principal Amount Outstanding provided together with interest accrued thereon provided that, prior to giving any such notice, the Issuer shall have provided to the Trustee: (a) a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to the interest of any other person, required to redeem the Class B Notes as aforesaid and (b) a legal opinion (in form and substance satisfactory to the Trustee) from a firm of lawyers in England (approved in writing by the Trustee) opining on the relevant event. Any certificate and legal opinion given by or on behalf of the Issuer may be relied on by the Trustee and shall be conclusive and binding on the Class B Noteholders and Class B Couponholders.

**(f) Other Reasons**

The Issuer may, at its option, upon giving not more than 30 nor less than 20 days notice to the Trustee and the Class B Noteholders redeem all of the Class B Notes (provided that all Class A Notes have been redeemed in full) at their Principal Amount Outstanding together with interest accrued thereon on the second Interest Payment Date after any Determination Date on which it is determined that the

aggregate amount of Redraws made by Borrowers during the Collection Period then ending exceeds the sum of (a) the Principal Collections available for the purpose of purchasing the right to repayment of Redraws in accordance with the Priority of Payments and (b) the lower of (i) the Available Facility under the Redraw Facility and (ii) the aggregate Principal Amount Outstanding of the Class A Notes (in the case of a redemption of the Class M Notes) or the aggregate Principal Amount Outstanding of the Class A Notes and the Class M Notes (in the case of a redemption of the Class B Notes).

**(g) Notice of Redemption**

Any such notice as is referred to in paragraph (d), (e) or (f) above shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Class B Notes at their Principal Amount Outstanding together with interest accrued thereon.

**(h) Purchase**

The Issuer shall not purchase any Class B Notes or Class B Coupons.

**(i) Cancellation**

All Class B Notes redeemed pursuant to paragraphs (d), (e) or (f) above will be cancelled upon redemption, together with any unmatured Class B Coupons appertaining thereto and attached thereto or surrendered therewith, and may not be resold or re-issued.

**(j) Principal Deficiencies**

If on the Interest Payment Date falling in July 2036 or on any prior date after the assets of the Issuer have been exhausted there is a debit balance on the Principal Deficiency Ledger (as defined above) (after taking account of any entries required to be made thereon on such Interest Payment Date and any credit balance in the Reserve Account (the “**Adjusted Principal Deficiency**”)), then notwithstanding any other provision of these Class B Conditions the principal amount payable on redemption of each Class B Note shall be its Principal Amount Outstanding on that date, less the Principal Deficiency (as defined below) applicable to that Class B Note on that date on payment of which the obligations of the Issuer under the relevant Class B Note shall be discharged in full.

**6. PAYMENTS**

- (a)** Payments of principal in respect of the Class B Notes will be made against presentation of the Class B Notes at the specified office of any Paying Agent. Payments of interest in respect of the Class B Notes will (subject as provided in paragraphs (c) and (d) below) be made only against presentation and surrender of the Class B Coupons at the specified office of any Paying Agent. Payments will be made in sterling at the specified office of any Paying Agent by sterling cheque drawn on, or, at the option of the holder, by transfer to a sterling account maintained by the payee with, a branch of a bank in London.
- (b)** Payments of principal and interest in respect of the Class B Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto.
- (c)** Upon the date on which any Class B Note becomes due and payable in full, unmatured Class B Coupons appertaining thereto (whether or not attached to such Class B Note) shall become void and no payment or, as the case may be, exchange shall be made in respect thereof. If the due date for redemption of any Class B Note is not an Interest Payment Date, accrued interest will be paid only against presentation and surrender of such Class B Note.
- (d)** If payment of principal is improperly withheld or refused on or in respect of any Class B Note or part thereof, the interest which continues to accrue in respect of such Class B Note in accordance with Class B Condition 4(a) will be paid against presentation of such Class B Note at the specified office of any Paying Agent.
- (e)** The initial Principal Paying Agent and its initial specified office is listed at the end of these Class B Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent and to appoint additional or other Paying Agents. The Issuer will at all times maintain a paying agent with a specified office in London. The Issuer will cause at least 30 days’ notice of any change in or addition to the Paying Agents or their specified offices to be given in accordance with Class B Condition 14.

- (f) If any Class B Coupon or Class B Note is presented for payment on a day which is not a Business Day, no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Class B Coupon or, as the case may be, such Class B Note.
- (g) On or after the Interest Payment Date for the final Coupon forming part of any Coupon sheet, the Class B Talon forming part of such Coupon sheet may be surrendered at any specified office of the Paying Agent in exchange for a further Coupon sheet (including a further talon but excluding any Coupons which shall have become void).
- (h) If a Paying Agent makes a partial payment in respect of any Class B Note presented to it for payment, such Paying Agent will endorse on the grid endorsed on such Class B Note (in respect of payments of principal) a statement indicating the amount and date of such payment.
- (i) If on any Interest Payment Date (other than the Final Redemption Date) the aggregate funds (if any) available to the Issuer for application in or towards the payment of interest due on the Class B Notes are not sufficient to satisfy in full the aggregate amount of interest which would, but for this paragraph (i) otherwise be payable on the Class B Notes on such Interest Payment Date, then notwithstanding any other provision of these Conditions, there shall be payable on the Class B Notes on such Interest Payment Date, by way of interest on each Class B Note a pro rata share of such aggregate funds calculated by reference to the ratio borne by the then Principal Amount Outstanding of such Class B Note to the then Principal Amount Outstanding of all Class B Notes and the amount of the shortfall will not be regarded as due until the earliest Interest Payment Date thereafter in respect of which funds are available to the Issuer to pay such amounts.

In any such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the Class B Notes on any Interest Payment Date in accordance with this Condition falls short of the aggregate amount of interest which would otherwise be payable on the Class B Notes on the date pursuant to Condition 4. Such shortfall shall accrue interest during each Interest Period during which it remains outstanding at the Rate of Interest for such Interest Period and a *pro rata* share of such shortfall calculated by reference to the ratio borne by the then Principal Amount Outstanding of each Class B Note and accrued interest thereof shall be aggregated within the amount of, and treated for the purpose of this Condition as if it were, interest due on each Class B Note on the next succeeding Interest Payment Date.

To the extent such a shortfall arises, such unpaid amount (including interest accruing on such shortfall) shall be payable in priority to the payment of interest otherwise due on the next following Interest Payment Date.

## 7. PRESCRIPTION

Class B Notes shall become void unless presented for payment within a period of 10 years from the relevant date in respect thereof. Class B Coupons (which expression shall not in this Class B Condition include Class B Talons) shall become void unless presented for payment within a period of 5 years from the relevant date in respect thereof. After the date on which a Class B Note or a Class B Coupon becomes void in its entirety, no claim may be made in respect thereof. In this Class B Condition, the “**relevant date**”, in respect of a Class B Note or Class B Coupon, is the date on which a payment in respect thereof first becomes due or (if the full amount of the moneys payable in respect of all the Class B Notes and/or Class B Coupons due on or before that date has not been duly received by the Paying Agents or the Trustee on or prior to such date) the date on which the full amount of such moneys having been so received, notice to that effect is duly given to the Class B Noteholders in accordance with Class B Condition 14.

## 8. TAXATION

All payments in respect of the Class B Notes and Class B Coupons will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer or the relevant Paying Agent (as applicable) is required by applicable law to make any payment in respect of the Class B Notes or Class B Coupons subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Issuer or the relevant Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Paying Agents nor the Issuer will be obliged to make any additional payments to holders of Class B Notes or Class B Coupons in respect of such withholding or deduction.

## 9. EVENTS OF DEFAULT

- (a) The Trustee at its absolute discretion may, and if so requested in writing by the holders of not less than 25% in aggregate of the Principal Amount Outstanding of the Class B Notes or if so directed by or pursuant to an Extraordinary Resolution (as defined in the Trust Deed) of the Class B Noteholders (subject, in each case, to being indemnified to its satisfaction) shall give notice to the Issuer declaring the Class B Notes to be due and repayable at any time after the happening of any of the following events (each an “**Event of Default**”):
- (i) default being made for a period of 10 Business Days in the payment of the principal of or any interest on any Class B Note when and as the same ought to be paid in accordance with these Class B Conditions; or
  - (ii) any Interest Rate Swap or Base Rate Swap being terminated by reason of default in payment on the part of the Issuer for a period of 10 Business Days; or
  - (iii) the Issuer failing duly to perform or observe any other obligation binding upon it under the Class B Notes, the Trust Deed, the Servicing Agreement, the Deed of Charge or any of the other Transaction Documents and, in any such case (except where the Trustee certifies that, in its opinion, such failure is incapable of remedy when no notice will be required) such failure is continuing for a period of 30 days following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
  - (iv) the Issuer, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in sub-paragraph (v) below, ceasing or, through an official action of the Board of Directors of the Issuer, threatening to cease to carry on business or being unable to pay its debts as and when they fall due or otherwise becomes insolvent; or
  - (v) an order being made or an effective resolution being passed for the winding-up of the Issuer except a winding-up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Class B Noteholders; or
  - (vi) proceedings being otherwise initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition for an administration order) or an administration order being granted or an administrative receiver or other receiver, liquidator or other similar official being appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer, or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the Issuer, or a distress or execution or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and such possession or process (as the case may be) not being discharged or not otherwise ceasing to apply within 14 days, or the Issuer initiating or consenting to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors generally;

Provided that, in the case of each of the events described in sub-paragraph (iii) of this paragraph (a), the Trustee shall have certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class B Noteholders.

- (b) Upon any declaration being made by the Trustee in accordance with paragraph (a) above that the Class B Notes are due and repayable, the Class B Notes shall immediately become due and repayable at their Principal Amount Outstanding together with accrued interest as provided in the Trust Deed.

## 10. ENFORCEMENT OF CLASS B NOTES

- (a) At any time after the Class B Notes have become due and repayable and without prejudice to its rights of enforcement in relation to the Security, the Trustee may, at its discretion and without further notice, take such proceedings against the Issuer as it may think fit to enforce payment of the Class B Notes at their Principal Amount Outstanding together with accrued interest, but it shall not be bound to take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution of the Class B Noteholders or so requested in writing by the holders of at least 25% in aggregate of the Principal Amount Outstanding of the Class B Notes and (b) it shall have been indemnified to its satisfaction. No Class B Noteholder or Class B Couponholder shall be entitled to proceed directly

against the Issuer unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing. The Trustee cannot, while any of the Class A Notes are outstanding or Class M Notes are outstanding be required to enforce the Security on behalf of the Class B Noteholders (whether or not requested to do so by such Class B Noteholders) or any other Secured Creditor under the Deed of Charge.

- (b) Notwithstanding the foregoing and so long as any of the Class B Notes remain outstanding, if the Class B Notes have become due and repayable pursuant to Class B Condition 9 otherwise than by reason of a default in payment of any amount due on the Class B Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class B Noteholders, the Class B Couponholders and the other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion 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 owing to the Class B Noteholders, the Class B Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith.

#### 11. MEETINGS OF CLASS B NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION OF PRINCIPAL DEBTOR

- (a) The Trust Deed contains provisions for convening meetings of Class B Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of such Class B Noteholders of a modification of these Class B Conditions as they relate to the Class B Notes or the provisions of any of the Documents or any other documents the rights and benefits in respect of which are comprised in the Security (“**Other Relevant Documents**”). The quorum at any meeting of Class B Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing in aggregate not less than 75% in Principal Amount Outstanding of the Class B Notes then outstanding or, at any adjourned meeting, two or more persons being or representing Class B Noteholders as they relate to the Class B Notes whatever the Principal Amount Outstanding of the Class B Notes so held or represented except that, at any meeting the business of which includes the sanctioning of a modification which would, *inter alia*, have the effect of altering the date of maturity of the Class B Notes or the day for payment of interest or principal thereon, or the amount of principal or the rate of interest payable in respect of the Class B Notes or the currency of payment (other than pursuant to a redenomination approved by the Trustee pursuant to Class B Condition 15) of the Class B Notes or related Class B Coupons or the priority of payments or the quorum or majority required in relation to this exception (a “**Basic Terms Modification**”), the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing in aggregate not less than 75%, or, at any adjourned such meeting, 25% of the Principal Amount Outstanding of the Class B Notes then outstanding. An Extraordinary Resolution passed at any meeting of Class B Noteholders shall be binding on all Class B Noteholders whether or not they are present at the meeting, and on all Class B Couponholders. The majority required for an Extraordinary Resolution shall be 75% of the votes cast on that resolution.

The Trust Deed contains provisions limiting the powers of the holders of Class M Notes and Class B Notes, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class A Noteholders. Except in the circumstances set out in (b) below, the Trust Deed imposes no such limitations on the powers of the Class A Noteholders (or if there are no Class A Notes outstanding) the Class M Noteholders, the exercise of which will be binding on the Class B Noteholders and Class B Couponholders, irrespective of the effect on their interests. An Extraordinary Resolution passed at any meeting of Class B Noteholders shall not be effective for any purposes unless either (i) the Trustee is of the opinion that it would not be materially prejudicial to the Class A Noteholders (or if there are no Class A Notes outstanding) the Class M Noteholders or (ii) it is sanctioned by an Extraordinary Resolution of the Class A Noteholders (or if there are no Class A Notes outstanding) the Class M Noteholders but, subject thereto, it shall be binding on all Class B Noteholders, whether or not they are present at the meeting, and on all Class B Couponholders.

- (b) No Extraordinary Resolution to sanction a Basic Terms Modification which would have the effect of altering the date of maturity of the Notes or the date for payment of interest in respect of the Notes, increasing the amount of principal or the rate of interest payable in respect of the Notes, or altering the currency of payment of the Notes, or altering the provisions of the Trust Deed, the Deed of Charge

or any other Document or any Other Relevant Document shall take effect unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders, the Class M Noteholders and the Class B Noteholders.

- (c) The Trustee may agree, without the consent of the Class B Noteholders or Class B Couponholders (i) to any modification (except a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of, these Class B Conditions or any of the Documents or any Other Relevant Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Class B Noteholders or Class B Couponholders (ii) to any modification of these Class B Conditions or any of the Documents or any Other Relevant Documents, which, in the Trustee's opinion, is to correct a manifest error or is of a formal, minor or technical nature. The Trustee may also, without the consent of the Class B Noteholders or the Class B Couponholders, determine that any Event of Default shall not, or shall not subject to specified conditions, be treated as such. Any such modification, waiver, authorisation or determination shall be binding on the Class B Noteholders and the Class B Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Class B Noteholders in accordance with Class B Condition 14 as soon as practicable thereafter.
- (d) The Trustee may agree, subject to the consent of the Issuer and to such amendment of these Class B Conditions and of any of the Documents and to such other conditions as the Trustee may require and subject to the relevant provisions of the Trust Deed, but without the consent of the Class B Noteholders or the Class B Couponholders, to the substitution of another body corporate in place of the Issuer as principal debtor under the Trust Deed and the Class B Notes, subject to the Class B Notes being unconditionally and irrevocably guaranteed by the Issuer (unless all or substantially all of the assets of the Issuer are transferred to such body corporate) and to such body corporate being a single purpose vehicle and undertaking itself to be bound by provisions corresponding to those set out in Class B Condition 3. In the case of a substitution pursuant to this paragraph (d), the Trustee may in its absolute discretion agree, without the consent of the Class B Noteholders or the Class B Couponholders, to a change of the law governing the Class B Notes and/or any of the Documents provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Class B Noteholders.
- (e) Where the Trustee is required in connection with the exercise of its powers, trusts, authorities, duties and discretions to have regard to the interests of the Class B Noteholders, it shall have regard to the interests of the Class B Noteholders as one class and, in particular but without prejudice to the generality of the foregoing, the Trustee shall not have regard to, or be in any way liable for, the consequences of such exercise for individual Class B Noteholders or Class B Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise, the Trustee shall not be entitled to require, and no Class B Noteholder or Class B Couponholder shall be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Class B Noteholders or Class B Couponholders.

## **12. INDEMNIFICATION AND EXONERATION OF THE TRUSTEE**

The Trust Deed contains provisions governing the responsibility (and relief from responsibility) of the Trustee and providing for its indemnification in certain circumstances, including provisions relieving it from taking enforcement proceedings or enforcing the Security unless indemnified to its satisfaction. The Trustee and its related companies are entitled to enter into business transactions with the Issuer, Arianty, Britannic Money, First Active and/or the related companies of any of them without accounting for any profit resulting therefrom. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Servicer or any agent or related company of the Servicer or by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Trustee.

The Trust Deed provides that the Trustee shall be under no obligation to monitor or supervise compliance by the Issuer, Arianty, Britannic Money, First Active and/or the related companies of any of them with their respective obligations or to make any searches, enquiries or independent investigations of title in relation to any of the properties secured by the Mortgages save as provided under the Transaction Documents.

### **13. REPLACEMENT OF DEFINITIVE CLASS B NOTES, CLASS B COUPONS AND CLASS B TALONS**

If any Class B Note, Class B Coupon or Class B Talon is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office of any Paying Agent. Replacement of any mutilated, defaced, lost, stolen or destroyed Class B Note, Class B Coupon or Class B Talon will only be made on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Class B Notes, Class B Coupons or Class B Talons must be surrendered before new ones will be issued.

### **14. NOTICE TO CLASS B NOTEHOLDERS**

Any notice to the Class B Noteholders shall be validly given if published in the *Financial Times* or, if such newspaper shall cease to be published or timely publication therein shall not be practicable, in such English language newspaper or newspapers as the Trustee shall approve having a general circulation in Europe; Provided that if, at any time, the Issuer procures that information concerned in such notice specifying an Interest Payment Date, Principal Amount Outstanding or Rate of Interest shall appear on a page of the Reuters screen or Bloomberg or any other medium for electronic display of data as may be previously approved in writing by the Trustee (in each case a “**Relevant Screen**”), publication in the *Financial Times* shall not be required with respect to such information. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which (or on the Relevant Screen on which) publication is required.

The Trustee shall be at liberty to sanction some other method of giving notice to the Class B Noteholders or any category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the Notes are then listed and provided that notice of such other method is given to the Class B Noteholders in such manner as the Trustee shall require. The Class B Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Class B Noteholders in accordance with this Class B Condition.

### **15. REDENOMINATION**

Pursuant to the Treaty establishing the European Community as amended by the Treaty on European Union (as amended, the “**Treaty**”), the third stage of European economic and monetary union commenced on 1 January 1999 and the value of the euro as against the currencies of the member states participating in the third stage of European economic and monetary union was irrevocably fixed and the euro became a currency in its own right. The United Kingdom may at some future date participate in the third stage of European economic and monetary union or otherwise participate in European economic and monetary union in a manner with similar effect to such third stage. On an Interest Payment Date falling on or after such date, the Issuer may on giving notice to the holders of the Class B Notes and with the written consent of the Trustee, redenominate all of the Class B Notes into euros.

### **16. GOVERNING LAW**

The Documents, the Class B Notes and the Class B Coupons are governed by, and shall be construed in accordance with, English law.

### **17. THIRD PARTY RIGHTS**

No person shall have any right to enforce any term or condition of the Class B Notes under the Contracts (Rights of Third Parties) Act 1999.

## USE OF PROCEEDS

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The net proceeds of the issue of the Notes will amount to £498,892,500 and will be applied in the purchase of the Mortgages from Arianty on the Issue Date as set out in “The Mortgage Pool – Introduction” with any remainder to be credited to the Transaction Account or, as the case may be, the Reserve Account to be:

- (a) invested in Permitted Investments;
- (b) applied in the purchase of Pre-Funded Mortgages; and/or
- (c) to pay for the Non-Verified Mortgages upon confirmation of receipt of the first monthly payment from the relevant Borrowers.



## THE ISSUER

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### Introduction

The Issuer was incorporated and registered in England and Wales with registered number 4176542 under the Companies Act 1985 with limited liability as a public limited company on 9 March 2001. The issued share capital of the Issuer comprises 50,000 ordinary shares of £1, paid up as to 25p each of which 49,999 are held by Arianty Holdings Limited and 1 by Arianty Services Limited on trust for Arianty Holdings Limited. The Issuer has no subsidiaries.

### Directors

The Directors of the Issuer and their respective business addresses and principal activities are:

<i>Name</i>	<i>Address</i>	<i>Principal Activities</i>
Martin McDermott	c/o SPV Management Limited 78 Cannon Street, London EC4P 5LN	Corporate Director
Anthony Francis Raikes	c/o SPV Management Limited 78 Cannon Street, London EC4P 5LN	Corporate Director
Paul Robert Rogers	c/o Britannic Money plc Sir Williams Atkins House Ashley Avenue Epsom Surrey KT18 5AS	Finance Director

Robin Gregory Baker and James Patrick Johnston Fairrie of SPV Management Limited have each been appointed as alternate directors for Anthony Francis Raikes and Martin McDermott respectively.

The Secretary of the Issuer is Gillian Margaret Wellman.

The registered office of the Issuer is at Sir William Atkins House, Ashley Avenue, Epsom, Surrey KT18 5AS.

### Activities

On the Issue Date, the Issuer will acquire from Arianty a portfolio of residential mortgages originated by Britannic Money or First Active and sold to Arianty pursuant to the Origination Mortgage Sale Agreement. All Mortgages acquired by the Issuer on such date will be financed by the proceeds of the issue of the Notes. The activities of the Issuer will be restricted by the Class A Conditions, the Class M Conditions and the Class B Conditions and will be limited to the issue of the Notes, the ownership of the Mortgages and other assets referred to herein, the exercise of related rights and powers, and other activities referred to herein or reasonably incidental thereto. The Issuer is registered pursuant to the Data Protection Act 1998.

Substantially all of the above activities will be carried on by Britannic Money on an agency basis under the Servicing Agreement, subject to the rights of the Issuer or the Trustee to revoke the agency upon the occurrence of certain events of default or insolvency or similar events in relation to Britannic Money or, in certain circumstances, following an Event of Default in relation to the Notes.

## CAPITALISATION

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The following table shows the capitalisation of the Issuer as at 23 July 2001, adjusted for the issue of the Notes:

<i>Share Capital</i>	<i>(£)</i>
<b>Authorised</b>	
100,000 Ordinary Shares of £1 each. . . . .	£100,000
<b>Issued</b>	
50,000 Ordinary Shares of £1 each, 25 pence paid . . . . .	£12,500
<i>Borrowings</i>	
Mortgage Backed Floating Rate Notes Due 2036 . . . . .	£500,000,000
Start-Up Loan. . . . .	£14,352,000
Total Capitalisation. . . . .	<u>£514,364,500</u>

The Issuer will enter into the Start-Up Loan (which is secured pursuant to the Deed of Charge and is unguaranteed) with Britannic Money on the Issue Date whereby Britannic Money will provide a total maximum amount of £17,095,000 in respect of fees, costs and expenses of the issue and to fund the Reserve Fund, the Hedge Reserve, the Discount Reserve, the Base Rate Reserve and to purchase Interest Rate Caps and to enter into the Interest Rate Swaps, Base Rate Swaps and LIBOR Swaps.

As at 23 July 2001, save as disclosed herein, the Issuer has no loan capital outstanding or created but unissued, no term loans outstanding and no other borrowings or indebtedness in the nature of borrowing nor any contingent liabilities or guarantees.

## ACCOUNTANTS' REPORT

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The following is the text of a report received by the Directors of the Issuer from KPMG Audit Plc, Chartered Accountants, the auditors of the Issuer.

KPMG Audit Plc  
1 The Embankment  
Neville Street  
Leeds LS1 4DW  
United Kingdom

The Directors  
First Flexible No. 4 plc  
Sir William Atkins House  
Ashley Avenue  
Epsom  
Surrey KT18 5AS

23 July 2001

Dear Sirs

### **First Flexible No. 4 plc**

We report on the financial information set in paragraphs 1 to 2. This financial information has been prepared for inclusion in the Offering Circular dated 23 July 2001 of First Flexible No. 4 plc (the "**Company**").

### *Basis of preparation*

The financial information set out in paragraphs 1 to 2 is based on the financial statements of the Company from incorporation to 23 July 2001 prepared on the basis described in note 2 to which no adjustments were considered necessary].

### *Responsibility*

Such financial statements are the responsibility of the directors of the Company.

The directors of the Company are responsible for the contents of the Offering Circular dated 23 July 2001 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

### *Basis of opinion*

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

### *Opinion*

In our opinion, the financial information gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Company as at the date stated.

## 1. BALANCE SHEET

### Balance sheet as at 23 July 2001

	23 July 2001 £
<i>Current assets</i>	
Cash at bank and in hand . . . . .	12,500
	<u>          </u>
<i>Capital and reserves</i>	
Called up equity share capital . . . . .	12,500
	<u>          </u>

## 2. NOTES

### 2.1 Accounting policies

The financial information has been prepared under the historical cost convention and in accordance with accounting standards currently applicable in the United Kingdom.

### 2.2 Registration

During the period the Company has applied for and obtained registrations as follows:

- Data Protection Act 1998 – Register of Data Controllers – Register of Data Users And Computer Bureaux, registration number Z5337886.

### 2.3 Trading activity

The Company has not traded during the period from incorporation on 9 March 2001 to 23 July 2001, nor did it receive any income, incur any expenses or pay any dividends. Consequently, no profit and loss account has been prepared. No audited financial statements have been made up.

### 2.4 Share Capital

The Company was incorporated and registered as a public limited company on 9 March 2001, with the name of First Flexible No. 4 plc.

On incorporation the authorised share capital of the Company was divided into 100,000 ordinary shares of £1 each.

On 9 March 2001, 49,999 ordinary shares were issued to Arianty Holdings Limited and one share was issued to Arianty Services Limited and were one quarter called-up for a total cash consideration of £12,500.

### 2.5 Auditors

KPMG Audit Plc was appointed as auditor on 22 March 2001.

Yours faithfully

KPMG Audit Plc

## **ARIANTY NO.1 PLC**

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Arianty was incorporated under the name Exchangeaction public limited company and registered in England and Wales under the Companies Act 1985 with limited liability as a public limited company on 14 March 2000. On 26 September 2000 Arianty's name changed from Exchangeaction public limited company to Arianty No.1 plc.

Arianty carries on the business of acquiring, holding and selling pools of mortgages loans.

The issued share capital of Arianty comprises 50,000 shares, of which 49,999 are owned by Arianty Holdings Limited and 1 is owned by SPV Management Limited.

The registered office of Arianty is Sir William Atkins House, 2 Ashley Avenue, Epsom, Surrey KT18 5AS.

## BRITANNIC MONEY PLC

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Britannic Money plc (Company Number 2048895) ("**Britannic Money**") was incorporated under the name of Mortgage Trust Limited and registered in England and Wales under the Companies Act 1985 with private company limited liability status on 21 August 1986. Prior to 29 September 2000, Britannic Money was an indirect wholly owned subsidiary of First Active plc. Pursuant to an agreement between First Active and Britannic Assurance plc ("**Britannic Assurance**") Britannic Assurance became a 60% shareholder in Britannic Money on 29 September 2000.

Britannic Money was acquired by First Active plc from Skandinaviska Enskilda Banken in December 1994. At the date of acquisition, Britannic Money had residential mortgage assets under management of £541million (including £457 million off-balance sheet). Britannic Money was re-registered as a public limited company and its name changed from Mortgage Trust Limited to First Active Financial plc on 4 September 1998 and then to Britannic Money plc on 16 February 2001.

Since incorporation, Britannic Money has become an established centralised lender operating in a variety of niche markets in the United Kingdom. The principal activity has been the origination and servicing of residential first mortgage loans on properties located across the United Kingdom. Growth strategy in recent years has been to continue to operate as a niche provider of mortgages, differentiating products by offering different features from those offered by other lenders, rather than competing on price.

On 6 August 1996, First Active plc acquired The Mortgage Corporation ("**TMC**") another centralised lender, and its 21 securitisation special purpose vehicle sister companies from Salomon Brothers Europe Limited. Total residential mortgages under TMC's management on acquisition were £1,184 million (including £981 million off balance sheet).

In early 1997, due to the close geographical location of Britannic Money to TMC, the two business operations were merged onto one site at Epsom in Surrey. This provided the opportunity to combine the skill sets of the two management teams to enhance and develop First Active plc's business in the United Kingdom.

In July 1998, mortgage assets from 14 of TMC's sister companies were repackaged into a £330 million securitisation issue (TMC Tattenham No.1 PLC), and in April 1999, mortgage assets from the remaining 7 TMC's sister companies were repackaged into a £272 million securitisation issue (TMC Tattenham No. 2 PLC).

In each of November 1999, May 2000 and October 2000 Britannic Money securitised flexible mortgage assets into securitisation issues (First Flexible No.1 plc, First Flexible No. 2 plc and First Flexible No. 3 plc).

At 31 December 2000, Britannic Money had more than £1.9 billion assets owned or under management (including those owned or managed by TMC and its sister companies).

The registered office of Britannic Money is Sir William Atkins House, Ashley Avenue, Epsom, Surrey, KT18 5AS.

## FIRST ACTIVE PLC

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On 7 September 1998, First National Building Society (“**FNBS**”), Ireland’s largest and longest established building society converted into a public limited company called First Active plc (company number 292890) whose registered address is Skehan House, Booterstown, Co. Dublin, Ireland. The entire business, property, rights, undertaking and liabilities of FNBS vested in First Active plc at that date.

First Active plc is regulated by the Central Bank of Ireland and holds a banking licence pursuant to the Irish Central Bank Acts, 1942 to 1998. The Central Bank of Ireland supervises banks on broadly the same basis as building societies.

On 6 October 1998, First Active plc floated on both the Irish and London Stock Exchanges.

On 31 December 2000, First Active plc and its subsidiaries (the “**First Active Group**”) managed consolidated assets which totalled approximately Euro7.598 billion. At 31 December 2000, First Active plc had short/long term international debt ratings from two rating agencies, Moody’s and Fitch of P-2/A3 and F2/A- respectively.

On 29 September 2000, pursuant to an agreement between First Active and Britannic Assurance, Britannic Assurance became a 60% shareholder in Britannic Money with First Active retaining a 40% stake in the enlarged business.

## THE BRITANNIC GROUP

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Britannic plc is the holding company for the Britannic Group of companies, a UK financial services group founded in 1866. Its principal operating subsidiaries are Britannic Assurance plc (life assurance and pensions products), Britannic Asset Management Limited (asset management and unit trusts) and Britannic Retirement Solutions Limited (enhanced annuity and other retirement products). The Britannic Group is regulated by the Financial Services Authority.

A 60% stake in Britannic Money plc was acquired by Britannic Assurance plc on 29 September 2000.

Britannic plc is listed on the Official List of the UK Listing Authority and is traded on the London Stock Exchange and has a market capitalisation of close to £2 billion. The registered office is 1 Wythall Green Way, Wythall Green, Birmingham B47 6WG.



## BARCLAYS BANK PLC

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Barclays Bank PLC is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays Bank PLC is limited. It has its registered and head office at 54 Lombard Street, London EC3P 3AH. Barclays Bank PLC was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 was registered as a company limited by shares under the Companies Act 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985 Barclays Bank PLC was re-registered as a public limited company and its name was changed from "Barclays Bank International Limited" to "Barclays Bank PLC".

Barclays Bank PLC and its subsidiary undertakings (taken together, the "**Barclays Group**") are a United Kingdom based financial services group engaged primarily in the banking, investment banking and investment management businesses. In terms of assets employed, it is one of the largest financial services groups in the United Kingdom. The Barclays Group also operates in many other countries around the world and is one of the leading providers of co-ordinated global services to multi-national corporations and financial institutions in the world's main financial centres. The whole of the issued ordinary share capital of Barclays Bank PLC is owned by Barclays PLC, which is the ultimate holding company of the Group. The short-term unsecured obligations of Barclays Bank PLC are rated A-1+ by S&P, P-1 by Moody's and F-1+ by Fitch and the long-term obligations of Barclays Bank PLC are rated AA+ by Fitch, Aa2 by Moody's and AA by S&P.

As at 31 December 2000, Barclays Bank PLC and its subsidiaries had total assets of £316,190 million, total net loans and advances of £198,536 million, total deposits of £208,724 million and shareholders' funds of £14,679 million (including non-equity reserves of £1,492 million). On 3 August, 2000, Barclays PLC announced an unaudited consolidated profit before taxation for the six months ended 30 June, 2000 of £1,842 million, after charging net credit risk provisions of £380 million. The profit before taxation for the corresponding period of 1999 was £967 million, after net credit risk provisions of £322 million.

On 25 October 2000, Barclays Bank PLC announced that it had completed its acquisition of Woolwich plc. Following completion Woolwich plc and its subsidiary undertakings have become part of the Barclays Group. On 16 January 2001, Barclays PLC and Legal & General Group PLC ("**Legal & General**") announced their intention to form a strategic alliance under which the Barclays Group would, subject to regulatory approval, sell Legal & General branded life, pension (including stakeholder pensions) and investment products through its UK distribution network.

The information contained herein with respect to Barclays Bank PLC relates to and has been obtained from it for use in this document. The delivery of this document shall not create any implication that there has been no change in the affairs of Barclays Bank PLC since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

## MORGAN GUARANTY TRUST COMPANY OF NEW YORK, LONDON BRANCH

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Morgan Guaranty Trust Company of New York, acting through its London Branch (“**Morgan Guaranty**”), is a Swap Counterparty and a Cap Provider. The address for Morgan Guaranty is 60 Victoria Embankment, London EC4Y 0JP.

Morgan Guaranty is a wholly owned bank subsidiary of J.P. Morgan Chase & Co. (the “**Corporation**”), a Delaware corporation whose principal office is located in New York, New York. The Corporation resulted from the merger on December 31, 2000 of J.P. Morgan & Co. Incorporated with The Chase Manhattan Corporation. Morgan Guaranty is a commercial bank offering a wide range of banking services to its customers both domestically and internationally. Its business is subject to examination and regulation by Federal and New York State banking authorities. As of March 31, 2001, Morgan Guaranty and its subsidiaries had total assets of \$246.8 billion, total net loans of \$23.1 billion, total deposits of \$47.2 billion, and stockholder’s equity of \$11.0 billion. As of December 31, 2000, Morgan Guaranty and its subsidiaries had total assets of \$185.8 billion, total net loans of \$24.4 billion, total deposits of \$39.5 billion, and stockholder’s equity of \$10.9 billion. It is currently anticipated that Morgan Guaranty and The Chase Manhattan Bank will merge in October 2001.

The information above relates to and has been obtained from Morgan Guaranty. Morgan Guaranty has not, however, been involved in the preparation of, and does not accept responsibility for this document as a whole. The delivery of this document shall not create any implication that there has been no change in the affairs of Morgan Guaranty since the date of this document, or that the information contained or referred to above is correct as of any time subsequent to the date of this document.

## THE ROYAL BANK OF SCOTLAND PLC

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The Royal Bank of Scotland plc ("**RBS**") acting through its operations at 135 Bishopsgate, London EC2M 3UR will be a Base Rate Swap Provider. RBS is one of the two principal subsidiaries of The Royal Bank of Scotland Group plc (the "**Group**"). The other principal subsidiary of the Group is National Westminster Bank Plc ("**NatWest**"). NatWest became part of the Group on 6 March 2000 when RBS' parent declared its offer unconditional in all respects. The Group is in the process of integrating RBS and NatWest. The Group through NatWest and RBS controls, directs and promotes the operations of various other subsidiary companies and is engaged in a wide range of banking, financial and related activities in the United Kingdom and through the world.

The Group as at 30 June 2000 employed approximately 96,500 full time staff worldwide. Its domestic operations in the United Kingdom are conducted through NatWest and RBS, who are both major London clearing banks. As at 30 June 2000, the international operations were conducted by the Group in the United Kingdom and in about 25 other countries.

The principal businesses of the Group which operate through the authorised institution subsidiaries of RBS and NatWest, have been clustered into the following customer-facing divisions: Retail Banking, Corporate Banking and Financial Markets, Retail Direct, Wealth Management, Manufacturing, Citizens Financial Group, Inc., Ulster Bank Limited and Direct Line Group Limited.

The information above relates to and has been obtained from The Royal Bank of Scotland plc. The Royal Bank of Scotland plc has not, however, been involved in the preparation of, and does not accept responsibility for this document as a whole. The delivery of this document shall not create any implication that there has been no change in the affairs of The Royal Bank of Scotland plc since the date of this document, or that the information contained or referred to above is correct as of any time subsequent to the date of this document.

## THE MORTGAGE POOL

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### Introduction

Each of the Mortgages in the Initial Mortgage Pool was originated by Britannic Money or First Active and the beneficial interest in each Mortgage was transferred to Arianty pursuant to a mortgage sale agreement dated 21 December 2000 between Britannic Money, First Active, Arianty and Citicorp Trustee Company Limited, with Britannic Money or First Active, as applicable retaining the legal interest. The Provisional Mortgage Pool was drawn up as at 30 June 2001. The Initial Mortgage Pool will be selected from the Provisional Mortgage Pool after excluding mortgages, *inter alia*, which are repaid between that date and the Issue Date or which do not comply with the warranties set out in the Mortgage Sale Agreement. On or after the Issue Date, to the extent that the proceeds of the issue of the Notes exceed the aggregate amount of Initial Mortgages purchased, the Issuer shall no later than the third Interest Payment Date purchase Pre-Funded Mortgages from Arianty to the extent that such Pre-Funded Mortgages comply with the terms of the Mortgage Sale Agreement and the eligibility criteria applicable to Further Mortgages. The **"Mortgage Pool"** means the Initial Mortgage Pool and any Pre-Funded Mortgages, Substitute Mortgages and Further Mortgages acquired by the Issuer under the Mortgage Sale Agreement together with any Further Advances and Redraws.

### Sale of Mortgages

Arianty will sell its beneficial interest in each Mortgage in the Mortgage Pool and each Pre-Funded Mortgage to the Issuer for a consideration equal to (a) the Purchase Price on the date such Mortgage is acquired by the Issuer and (b) the right to receive Arianty Deferred Purchase Consideration (as defined in "Credit Structure" above) from the Issuer in accordance with the Priority of Payments. Payments received on the Initial Mortgages up to but excluding the Issue Date or the date on which such Pre-Funded Mortgage is to be purchased (as the case may be) will be for the account of Arianty and payments made on or after the Issue Date or the date on which a Pre-Funded Mortgage is to be purchased (as the case may be) will be for the account of the Issuer. The Purchase Price will be calculated on the assumption that payments scheduled to be made by any Borrower of a Mortgage on the date the Mortgage is purchased have been received by or on behalf of Arianty. To the extent that amounts representing interest accrued but not yet due referable to the period before the Issue Date or the date on which a Pre-Funded Mortgage is to be purchased (as the case may be) are subsequently received by the Issuer, the Issuer will pay to Arianty an amount equal to the aggregate amount of such payments by way of price adjustment for the Mortgage Pool. Subject as stated below, the **"Purchase Price"** on the Issue Date or the date on which a Pre-Funded Mortgage is to be purchased (as the case may be) for each Mortgage means the aggregate of the amounts secured or intended to be secured under the Mortgage, comprising (i) the original principal amount advanced to the Borrower plus (ii) any advance of further moneys (including Redraws) to the Borrower thereof on the security of the relevant Mortgage and any amount due under the terms of the Mortgage after the date of completion of such Mortgage which remains outstanding as at the Issue Date or the date on which a Pre-Funded Mortgage is to be purchased (as the case may be) less (iii) any repayments of such principal as at the Issue Date or the date on which a Pre-Funded Mortgage is to be purchased (as the case may be).

Any amounts that have not been used to purchase Pre-Funded Mortgages by the third Interest Payment Date shall be treated as Redemptions and shall be applied in accordance with the Priority of Payments.

### The Provisional Mortgage Pool

The Mortgages contained in the Provisional Mortgage Pool comprise mortgages with the following characteristics:

#### (a) Rate of Interest

- (i) Mortgages which are subject to a variable rate of interest set by Britannic Money from time to time (**"Standard Variable Mortgages"**).
- (ii) Mortgages which are subject to a variable rate of interest set by Britannic Money from time to time, which is linked to Bank of England Base Rate (**"Base Rate Linked Mortgages"**).
- (iii) Mortgages which are subject to a fixed rate of interest set by reference to a pre-determined rate or series of rates for a fixed period or periods (**"Fixed Rate Mortgages"**).

- (iv) Mortgages which are subject to a variable rate of interest set by Britannic Money from time to time, which is linked to LIBOR ("**LIBOR Linked Mortgages**").
- (v) Mortgages which are subject to a variable rate of interest set by Britannic Money from time to time but which variable rate is subject to a maximum rate ("**Capped Rate Mortgages**").

Some of these Mortgages are subject to a discounted rate of interest for a specified period. Such Mortgages are referred to herein as Discounted Mortgages while the specified period applies. Mortgages which were but are no longer subject to a discounted, fixed or capped rate of interest are treated as and are referred to herein as Base Rate Linked Mortgages, LIBOR Linked Mortgages or Standard Variable Mortgages as applicable. Some of the Mortgages that are referred to herein as Capped Rate Mortgages or Fixed Rate Mortgages will become subject to a rate of interest linked to Bank of England Base Rate after certain specified periods of time.

**(b) Repayment Terms**

- (i) Mortgages in relation to which the principal amount is not repayable before maturity and which require a policy of endowment life assurance (which is in certain cases a unit-linked policy) (an "**Endowment Policy**") ("**Endowment Mortgages**").
- (ii) Mortgages in respect of which the principal amount is not payable before maturity and under the terms of which a pension policy is required ("**Pension Mortgages**").
- (iii) Mortgages (other than those referred to in paragraphs b(i) and b(ii) above) under the terms of which the principal amount is not repayable before maturity ("**Interest Only Mortgages**").
- (iv) Mortgages under the terms of which monthly instalments, which can cover both interest and principal, are payable until the mortgage is fully repaid by its maturity ("**Repayment Mortgages**").

**(c) Endowment Mortgages and Life Cover**

In the case of Endowment Mortgages, although the Borrower is required to take out a policy of endowment life assurance, neither Arianty, Britannic Money nor First Active has verified that such a policy of endowment life assurance has been taken out by each Borrower. Neither Arianty, Britannic Money nor First Active take security over such policies of endowment life assurance.

In relation to all Mortgages, applicants are requested to ensure that they have adequate life cover in place to repay the advance in the event of their death prior to the end of the Mortgage term. Such life cover is not secured in favour of Britannic Money or Arianty.

**(d) Flexible Mortgages**

Approximately 97.7% of the Mortgages by value of drawn balances as at 30 June 2001 to be acquired by the Issuer from Arianty on the Issue Date are "**Flexible Mortgages**". Flexible Mortgages allow a Borrower to make payments at any time into his/her mortgage account (the "**Borrower Mortgage Account**" exceeding the minimum monthly payment agreed with Britannic Money or First Active, as applicable, ("**Minimum Monthly Payment**" and the amount that exceeds the Minimum Monthly Payment, an "**Overpayment**") and at anytime thereafter withdraw sums from his/her Borrower Mortgage Account provided that the amount outstanding on such Borrower Mortgage Account does not exceed the amount of the Borrower's loan which would have been outstanding at such time if the Borrower had only made the Minimum Monthly Payment (the "**Borrower Loan Limit**").

In the case of a Repayment Mortgage, the Borrower Loan Limit reduces over the period of repayment of the advance secured by the Mortgage and in the case of an Endowment Mortgage, Pension Mortgage and an Interest Only Mortgage, the Borrower Loan Limit is the advance secured by the Mortgage, until repayment by the Borrower at the end of the period of repayment of such advance.

The Borrower may request, and Britannic Money or First Active, as applicable, may consent, to such Borrower's monthly payments being met by applying Overpayments not previously redrawn by way of capitalisation of such monthly payments (a "**Payment Holiday**").

Britannic Money's or First Active's, as applicable, ability to consent to a Borrower taking a Payment Holiday will be limited by the terms of the Servicing Agreement.

Britannic Money or First Active, as applicable, deducts the Minimum Monthly Payment by direct debit from the Borrower Mortgage Account (unless a different arrangement has been agreed between the

Borrower and Britannic Money or First Active, as applicable,) each month. The amount outstanding on the Borrower's balance shall become immediately repayable to Britannic Money or First Active, as applicable, if (a) the Borrower fails to make at least the Minimum Monthly Payment in any month as agreed between the Borrower and Britannic Money or First Active, as applicable, without Britannic Money's or First Active's, as applicable, prior written consent and/or (b) the Borrower exceeds the Borrower Loan Limit. Notwithstanding the foregoing, if the Borrower exceeds the Borrower Loan Limit, the Borrower is required to pay to Britannic Money or First Active, as applicable, the amount above such Borrower Loan Limit immediately. Any Mortgage which has an outstanding principal balance in excess of the Borrower Loan Limit is treated as in arrear and is administered in accordance with the enforcement procedures described below under "Enforcement Procedures".

**(e) Owner Occupied Loans**

48% of the Mortgages to be acquired by the Issuer from Arianty on the Issue Date are mortgages in respect of "Owner Occupied Loans". Owner Occupied Loans are loans made to a Borrower to be used to acquire properties to be used as its primary residence. Pre-Funded Mortgages, Substitute Mortgages or Further Mortgages acquired may comprise Owner Occupied Loans.

**(f) Investment Home Loans**

52% of the Mortgages to be acquired by the Issuer from Arianty on the Issue Date are mortgages in respect of "Investment Home Loans". Investment Home Loans are loans made to a Borrower to be used to remortgage or acquire properties to be occupied by tenants or held as an investment. Unless waived by Britannic Money or First Active, the conditions of the Mortgages in respect of Investment Home Loans require these properties to be let under an assured shorthold or short assured tenancy and in all cases that the occupier will have no statutory security of tenure (see "Certain Special Considerations – Risks Associated with Non-Owner Occupied Properties" above). Pre-Funded Mortgages, Substitute Mortgages or Further Mortgages acquired may comprise Investment Home Loans.

**(g) Cross Default and Cross Collateralisation of Mortgages**

The conditions of Investment Home Loans and Owner Occupied Loans provide for the cross-default and cross-collateralisation of all mortgages in the name of the same Borrower. Documentation shall be entered into by all parties with a beneficial interest in any mortgage where such cross-default or cross-collateralisation applies, to ensure that no Mortgage shall be enforced by the Issuer (or the Servicer at the direction of the Issuer) if the only reason for such enforcement is the default by a Borrower under a mortgage that is not part of the Mortgage Pool.

**Lending Policy**

On origination of each Mortgage from time to time comprised in the Mortgage Pool, the standard lending policy (the "Lending Policy") for the relevant product type would have been applied with certain minor variations to reflect different products originated in different periods:

**General Lending Procedures**

- Type: Endowment, Interest Only, Pension, Capital Repayment
- Original Term: Minimum 5 years.  
Maximum of 40 years in respect of Owner Occupied Loans and 30 years in respect of Investment Home Loans.  
*There is discretion to allow for the Original Term to be amended based upon age and ability to repay.*
- Charge: First Legal Charge or Standard Security only.
- Original Loan: (i) *Investment Home Loans*  
Minimum loan of £15,001 in respect of loans originated on or before 30 April 1998 and (ii) £25,000 in respect of loans originated on or after 1 May 1998.  
Maximum loan of £1,000,000 in respect of each property.  
*In some circumstances loans may be agreed above this limit.*

There is no maximum loan amount to a Borrower in respect of multiple Investment Home Loans. Each subsequent loan will be assessed not only on its own merits but also those of the Borrower's portfolio as a whole by an underwriting team specialising in such cases.

Where the aggregated lending exceeds £300,000, an executive summary is produced that will include a portfolio based income and expenditure analysis together with a statement of net worth relating to the Borrower's portfolio of properties.

(ii) *Owner Occupied Loans*

Minimum loan of £15,001 in respect of loans originated on or before 30 April 1998, and (ii) £25,000 in respect of loans originated on or after 1 May 1998.

There is no maximum loan size. Loans over £300,000 require an executive summary and Loans over £1,500,000 require Board Credit Sub Committee approval.

Tenure: Freehold, heritable or long leasehold – leases to have a minimum of 30 years unexpired at the end of the mortgage term.

Property: Located in England, Wales, Scotland or Northern Ireland readily saleable, residential, of standard construction, and (in the case of owner occupied properties) is the Borrower's prime residence and (in the case of investment properties) is capable of being occupied by residential tenants. Properties with commercial usage provided only one room is used as an office.

Applicant: Resident in England, Wales, Scotland, Northern Ireland or the Republic of Ireland for a minimum of 2 years (unless, in respect of an Investment Home Loan, the applicant is an expatriate as mentioned below). This period may be reduced to a minimum of 1 year in certain situations.

One or more of the applicants must be a residential homeowner for a minimum period of 1 year or a British or Irish expatriate working overseas. *There is discretion for this requirement to be waived.*

LTV: Britannic Money or First Active, as applicable, will lend an amount based on the valuation or (in the case of properties being purchased) the purchase price, whichever is the lower, as follows:

(a) For Investment Home Loans

*Purchase*

85% on loans of up to £250,000

80% on loans of £250,001 – £500,000

75% on loans of £500,001 up to £1,000,000.

*There is discretion for amendments to be made to the amount lent based on the valuation, without additional security.*

The LTV is restricted to 80% where the property to be secured is a studio flat, a flat over a shop, or an ex local authority property.

(b) For Owner Occupied Loans

95% on loans of up to £250,000

90% on loans of £250,001 – £300,000

85% on loans of £300,001-£500,000

75% on loans of up to £500,001 or more

There is a discretion for amendments to be made to the amount lent based on the valuation, without additional security. Discretion is permitted to lend more than 95% of the valuation. In these cases, each application is assessed on its own merits.

Mortgage indemnity guarantee insurance is required on owner occupied loans with an LTV of greater than 75%.

Existing endowment policies with proven surrender values may be accepted to mitigate the size and cost of mortgage indemnity guarantee insurance and to increase the maximum loan to value ratio thresholds.

Age: Minimum age is 25 years (for individuals) in respect of Investment Home Loans and 18 years for Owner Occupied Loans.

Income (Owner Occupied Home Loans): Single Applicant – up to 3.50 times the applicant’s income.

Multiple Applicants – up to 3.5 times primary income plus 1 times secondary income or up to 2.75 times joint income.

Income defined as:

- (a) For all self employed applicants or applicants who are directors of a company with a 25% or more shareholding 100% of the income as declared on the application form or 100% of the average income over the last two years as advised by an accountant’s declaration or 100% of the average income shown in the last two years’ tax assessments; and
- (b) For employed applicants, 100% gross basic annual salary/wages and any Regional Allowances, shift allowances, mortgage subsidy and “**Profit Related Pay**” (“PRP”) in lieu of salary and 50% regular overtime/commissions, bonuses other than PRP and other income assessed on its merits.

Credit scoring has been introduced to aid the lending decision process. The credit score is computed from various sources of information, including public data, credit reference agencies, and geo-demographic data. Where credit scoring has been used, a combination of the score and LTV will determine the level of references required. For cases with an LTV of 75% or less, and a credit score deemed to indicate a low risk applicant, a valuation report only is obtained. Notwithstanding this, at the time of application, the applicant will be advised that references shall be sought and will be required to provide income and employer details.

Depending upon LTV, the multiple may reach a maximum of 4 times income or in the case of joint applicants, the greater of 3 times joint income or 3 times primary income plus 1 times secondary income.

Applicants are permitted to certify their income in which case independent verification is not carried out. Such applicants will only be allowed loans where the maximum LTV is 75% and will only be advanced up to a maximum loan amount of £400,000.

Self employed applicants may elect to provide an accountant’s certificate confirming their ability to service the loan as a substitute for the provision of their full accounts. In such cases the maximum loan which will be advanced to such applicants will be £200,000 provided that the LTV is at least 80% and will only advance more than £200,000 if the LTV is 75% or below.

Income – (Investment Home Loans): Rental income as confirmed by Britannic Money or First Active appointed valuer covers typically 125% to 130% of the annual interest payment calculated at the initial offered charging rate or the non discounted or capped rate, whichever is the higher.

*There is discretion for rental income of less than 125% to be accepted if the shortfall is covered by other income.*

The applicant’s income must be sufficient to cover any existing residential mortgage using the following income multiples:

Single Applicant – up to 3.5 times the applicant’s income.

Multiple Applicants – up to 3.5 times primary income plus 1 times secondary income or up to 2.75 times joint income.



*There is discretion for amendments to be made up to a maximum of 4 times the primary income plus 1 times secondary income or 3 times joint income.*

Income is defined as:

- (a) For all self employed applicants or applicants who are directors of a company with a 25% or more shareholding 100% of the income as declared on the application form or 100% of the average income over the last two years as advised by an accountant's declaration or 100% of the average income shown in the last two years tax assessments less costs of other loans not being repaid on or before completion and any maintenance orders; and
- (b) For employed applicants, 100% gross basic annual salary/wages and any Regional Allowances, shift allowance, mortgage subsidy and "**Profit Related Pay**" ("**PRP**") in lieu of salary and 50% regular overtime/commissions, bonuses other than PRP and other income assessed on its merits less costs of other loans not being repaid on or before completion and any maintenance orders.

Where a Borrower has more than one Investment Home Loan, the application may be considered on the basis of rental yield only.

Purpose:

(i) *For Owner Occupied Home Loans:*

Purchase or remortgage of owner occupied primary residence.

(ii) *For Investment Home Loans:*

Purchase or remortgage of residential property for short term letting on an Assured Shorthold Tenancy (as defined in "The Mortgage Pool – Warranties and Repurchase" below) or for investment purposes.

*There is discretion for other types of tenancies to be accepted based upon the amount of rent paid and the type of tenant in occupation.*

Buildings Insurance:

Insurance required on standard terms with an acceptable insurer and issued for a sum insured of not less than that recommended by the surveyor.

Minimum Property Valuation or Purchase Price:

£30,000

*There is discretion for values or purchase prices to be lower based upon the surveyors report and the rental assessment.*

References Required:

Credit reference searches are conducted on each applicant at all addresses disclosed or identified over a 3 year period. Lenders, landlords and/or bank references may also be required. Where subsequent Investment Home Loans are made to existing Borrowers, income and lenders references may not be taken up.

Life Policies:

Applicants are requested to ensure that they have adequate life cover in place to repay the advance in the event of their death prior to the end of the Mortgage term. Such life cover is not assigned to Britannic Money or First Active.

Expatriates:

The following restrictions apply to expatriates and only in respect to Investment Home Loans:

Must be employed, not self-employed.

Maximum loan size of £500,000.

Maximum loan term of 25 years.

Maximum LTV of 80%.

Property must be managed by an ARLA agent.

Discretion:

To ensure flexibility the lending policy allows for applications that may be outside of the normal guidelines to be approved on condition that other mitigating factors of the application are of the highest quality.

All such cases are to be referred to the underwriters for approval.

## Characteristics of the Provisional Mortgage Pool

The Mortgages in the Provisional Mortgage Pool have the aggregate characteristics indicated in Tables A to I below. Interest on the Mortgages in the Provisional Mortgage Pool is currently, other than in certain circumstances normally related to mortgages in arrears, paid on the last Business Day of each month and there is therefore a concentration of monthly payments under the Mortgages as at those dates.

The following tables give information on the Provisional Mortgage Pool at 30 June 2001.

**Table A Key Data on the Provisional Mortgage Pool**

Aggregate Drawn Mortgage Balances . . . . .	£426,233,601
Aggregate Potential Redraw Amount . . . . .	£23,415,492
Total number of Mortgages . . . . .	5,203
Largest Drawn Mortgage Balance . . . . .	£1,649,700
Smallest Drawn Mortgage Balance . . . . .	£544
Average Drawn Mortgage Balance . . . . .	£81,921
Largest Potential Redraw Amount . . . . .	£600,000
Average Potential Redraw Amount . . . . .	£4,500
Weighted Average loan to value ratio (LTV) (including undrawn amount) . . . . .	67.9%
Weighted Average loan to value ratio (LTV) (drawn amounts only) . . . . .	66.1%
Weighted Average Seasoning (Months) . . . . .	6.14
Weighted Average Rental Cover (Investment Home Loans only) . . . . .	162.0%
Longest Maturity Date . . . . .	29 June 2031

**Table B Distribution by Mortgage Size**

<i>Size of Mortgage</i>	<i>Number of Mortgages</i>	<i>Proportion of Total Number (%)</i>	<i>Aggregate Drawn Balances of Mortgages (£)</i>	<i>Proportion of Total Amount (%)</i>	<i>Aggregate Potential Redraw Amount (£)</i>	<i>Proportion of Total Amount (%)</i>
up to 30,000 . . . . .	177	3.40%	4,007,940	0.94%	392,785	1.68%
over 30,000 – 40,000 . . . . .	592	11.38%	19,752,052	4.63%	1,091,172	4.66%
over 40,000 – 50,000 . . . . .	718	13.80%	30,933,724	7.26%	1,441,894	6.16%
over 50,000 – 75,000 . . . . .	1,577	30.31%	92,262,690	21.65%	4,081,058	17.43%
over 75,000 – 100,000 . . . . .	889	17.09%	72,667,011	17.05%	3,835,502	16.38%
over 100,000 – 150,000 . . . . .	699	13.43%	79,278,139	18.60%	4,398,945	18.79%
over 150,000 – 200,000 . . . . .	263	5.05%	42,751,517	10.03%	2,290,791	9.78%
over 200,000 – 300,000 . . . . .	209	4.02%	46,390,171	10.88%	3,107,085	13.27%
over 300,000 – 400,000 . . . . .	41	0.79%	13,472,542	3.16%	594,399	2.54%
over 400,000 – 500,000 . . . . .	10	0.19%	3,589,829	0.84%	683,042	2.92%
500,000 and over . . . . .	28	0.54%	21,127,986	4.96%	1,498,819	6.40%
Total . . . . .	5,203	100.00%	426,233,601	100.00%	23,415,492	100.00%

**Table C Loan to Value Ratio (Principal + Collection Balance/Latest Valuation)**

<i>LTV(%)</i>	<i>Number of Mortgages</i>	<i>Proportion of Total Number (%)</i>	<i>Aggregate Drawn Balances of Mortgages (£)</i>	<i>Proportion of Total Amount (%)</i>	<i>Aggregate Potential Redraw Amount (£)</i>	<i>Proportion of Total Amount (%)</i>
0-40 . . . . .	485	9.32%	31,126,727	7.30%	3,547,741	15.15%
over 40 – 50 . . . . .	388	7.46%	30,919,235	7.25%	1,923,758	8.22%
over 50 – 60 . . . . .	547	10.51%	45,279,693	10.62%	3,248,809	13.87%
over 60 – 70 . . . . .	787	15.13%	73,718,226	17.30%	5,845,027	24.96%
over 70 – 75 . . . . .	603	11.59%	52,839,749	12.40%	2,751,147	11.75%
over 75 – 80 . . . . .	895	17.20%	75,761,408	17.77%	3,276,383	13.99%
over 80 – 85 . . . . .	1,120	21.53%	87,044,771	20.42%	2,184,355	9.33%
over 85 – 90 . . . . .	137	2.63%	11,629,033	2.73%	268,303	1.15%
over 90 – 95 . . . . .	137	2.63%	10,552,431	2.48%	282,035	1.20%
over 95 – 100 . . . . .	104	2.00%	7,362,326	1.73%	87,935	0.38%
100 and over . . . . .	–	0.00%	–	0.00%	–	0.00%
Total . . . . .	5,203	100.00%	426,233,601	100.00%	23,415,492	100.00%

**Table D Geographic Distribution**

<i>Region</i>	<i>Number of Mortgages</i>	<i>Proportion of Total Number (%)</i>	<i>Aggregate Drawn Balances of Mortgages (£)</i>	<i>Proportion of Total Amount (%)</i>	<i>Aggregate Potential Redraw Amount (£)</i>	<i>Proportion of Total Amount (%)</i>
East Anglia . . . . .	208	4.00%	13,276,534	3.11%	899,973	3.84%
East Midlands . . . . .	235	4.52%	14,988,508	3.52%	882,258	3.77%
North . . . . .	80	1.54%	5,272,994	1.24%	325,018	1.39%
North West . . . . .	375	7.21%	23,900,683	5.61%	1,204,573	5.14%
Northern Ireland . . . . .	385	7.40%	18,883,214	4.43%	807,253	3.45%
Scotland . . . . .	165	3.17%	9,139,813	2.14%	354,591	1.51%
South East . . . . .	1,159	22.28%	94,669,785	22.21%	5,362,810	22.90%
Greater London . . . . .	1,440	27.68%	164,258,123	38.54%	8,692,971	37.12%
Other* . . . . .	31	0.60%	4,651,502	1.09%	59,687	0.25%
South West . . . . .	509	9.78%	35,995,787	8.45%	2,372,702	10.13%
Wales . . . . .	119	2.29%	6,672,807	1.57%	503,765	2.15%
West Midlands . . . . .	235	4.52%	18,399,049	4.32%	1,253,331	5.35%
Yorkshire & Humberside	262	5.04%	16,124,802	3.78%	696,560	2.97%
<b>Total . . . . .</b>	<b>5,203</b>	<b>100.00%</b>	<b>426,233,601</b>	<b>100.00%</b>	<b>23,415,492</b>	<b>100.00%</b>

\*Mortgages falling with the "Other" category represent cases where more than one property is recorded within a mortgage account, and as a result a specific region cannot be allocated.

**Table E Seasoning**

<i>Year of Origination</i>	<i>Number of Mortgages</i>	<i>Proportion of Total Number (%)</i>	<i>Aggregate Drawn Balances of Mortgages (£)</i>	<i>Proportion of Total Amount (%)</i>	<i>Aggregate Potential Redraw Amount (£)</i>	<i>Proportion of Total Amount (%)</i>
1996 . . . . .	23	0.44%	1,396,910	0.33%	325,852	1.39%
1997 . . . . .	99	1.90%	5,683,470	1.33%	1,039,556	4.44%
1998 . . . . .	126	2.42%	7,506,233	1.76%	346,930	1.48%
1999 . . . . .	252	4.84%	17,206,743	4.04%	1,039,129	4.44%
2000 . . . . .	1,350	25.95%	105,907,286	24.85%	4,407,243	18.82%
2001 . . . . .	3,353	64.44%	288,532,960	67.69%	16,256,782	69.43%
<b>Total . . . . .</b>	<b>5,203</b>	<b>100.00%</b>	<b>426,233,601</b>	<b>100.00%</b>	<b>23,415,492</b>	<b>100.00%</b>

**Table F Loan Maturity**

<i>Years to maturity</i>	<i>Number of Mortgages</i>	<i>Proportion of Total Number (%)</i>	<i>Aggregate Drawn Balances of Mortgages (£)</i>	<i>Proportion of Total Amount (%)</i>	<i>Aggregate Potential Redraw Amount (£)</i>	<i>Proportion of Total Amount (%)</i>
Less than 1 year . .	–	0.00%	–	0.00%	–	0.00%
>1-less 5 years . . .	46	0.88%	5,267,698	1.24%	355,273	1.52%
>5-less 10 years . .	444	8.53%	35,812,238	8.40%	2,506,791	10.71%
>10-less 15 years . .	1,064	20.45%	79,884,120	18.74%	5,451,471	23.28%
>15-less 20 years . .	1,360	26.14%	104,912,504	24.61%	7,385,788	31.54%
>20-less 25 years . .	2,188	42.05%	192,025,926	45.05%	7,100,398	30.32%
>25 years . . . . .	101	1.94%	8,331,116	1.95%	615,771	2.63%
<b>Total . . . . .</b>	<b>5,203</b>	<b>100.00%</b>	<b>426,233,601</b>	<b>100.00%</b>	<b>23,415,492</b>	<b>100.00%</b>

**Table G Repayment Method**

	Number of Mortgages	Proportion of Total Number (%)	Aggregate Drawn Balances of Mortgages (£)	Proportion of Total Amount (%)	Aggregate Potential Redraw Amount (£)	Proportion of Total Amount (%)
Endowment . . . . .	79	1.52%	4,179,897	0.98%	283,040	1.21%
Interest Only . . . .	2,684	51.59%	244,491,294	57.36%	13,715,728	58.58%
Capital Repayment	2,438	46.86%	177,436,978	41.63%	9,406,580	40.17%
Other . . . . .	2	0.04%	125,432	0.03%	10,143	0.04%
	<u>5,203</u>	<u>100.00%</u>	<u>426,233,601</u>	<u>100.00%</u>	<u>23,415,492</u>	<u>100.00%</u>

**Table H Mortgage Purpose**

Purpose	Number of Mortgages	Proportion of Total Number (%)	Aggregate Drawn Balances of Mortgages (£)	Proportion of Total Amount (%)	Aggregate Potential Redraw Amount (£)	Proportion of Total Amount (%)
Purchase . . . . .	2,527	48.57%	209,156,521	49.07%	6,334,459	27.05%
Remortgage . . . . .	2,676	51.43%	217,077,080	50.93%	17,081,032	72.95%
	<u>5,203</u>	<u>100.00%</u>	<u>426,233,601</u>	<u>100.00%</u>	<u>23,415,492</u>	<u>100.00%</u>

**Table I Owner Occupied/Investment Home Loans**

	Number of Mortgages	Proportion of Total Number (%)	Aggregate Drawn Balances of Mortgages (£)	Proportion of Total Amount (%)	Aggregate Potential Redraw Amount (£)	Proportion of Total Amount (%)
Owner Occupied Loans	2,432	46.74%	204,279,006	47.93%	15,681,681	66.97%
Investment Home Loans	2,771	53.26%	221,954,595	52.07%	7,733,810	33.03%
	<u>5,203</u>	<u>100.00%</u>	<u>426,233,601</u>	<u>100.00%</u>	<u>23,415,492</u>	<u>100.00%</u>

Rounding may cause minor variations to the total percentage proportions shown in all of the Tables set out above.

### Scottish Mortgages

Approximately 2.18% by value of the Mortgages in the Initial Mortgage Pool are Scottish Mortgages. These are secured over the relevant Properties by way of a first-ranking standard security, being the only means of creating a fixed charge or security over heritable property (i.e. land and buildings thereon) in Scotland. In respect of Scottish Mortgages, references herein to a "Mortgage" and a "mortgagee" are to be read as references to such a standard security and the heritable creditor thereunder, respectively.

A statutory set of "Standard Conditions" is automatically imported into all standard securities, although the majority of these Standard Conditions may be varied by agreement between the parties. Most lenders in the residential mortgage market vary the Standard Conditions by a "Deed of Variations", the terms of which are in turn imported into each Scottish Mortgage. Britannic Money has executed a Deed of Variations with a view to assimilating the terms of its Scottish Mortgage to those secured over properties in England from an operational viewpoint (subject to such limitations as are inherent to the difference between Scots and English law).

The provisions of the Standard Conditions which cannot be varied by agreement relate to enforcement. Generally, where a breach by a Borrower entitles the lender to require repayment an appropriate statutory notice must first be served. Firstly, the lender may serve a "calling up notice" with which the Borrower has two months to comply, failing which the lender may enforce its rights under the standard security by sale or the other remedies provided by statute (court application only being necessary where the Borrower fails to vacate the property). Alternatively, in the case of remediable breaches the lender may serve a "notice of default", in which event the Borrower has only one month in which to comply, but also has the right to object to the notice by court application within fourteen days to the date of service. In addition, the lender may in certain circumstances (e.g. the insolvency of the Borrower) make direct application to the court without the requirement of a preliminary notice. The appropriate steps for enforcement will therefore

depend on the circumstances of each case, and the Servicer will in practice proceed with the remedy most likely to be effective in enforcing or protecting the security.

As the law of Scotland stands at present, once a default by a Borrower has been constituted by one of the methods detailed in the preceding paragraph the courts are bound (except in very limited circumstances) to grant the enforcement remedies sought by the lender. This position will be altered however once the Mortgage Rights (Scotland) Bill, which was passed by the Scottish Parliament on 20 June 2001 and is currently awaiting Royal Assent, is brought into force. The principal effect of this legislation will be to confer on the court a discretion, on the application of the Borrower (or the Borrower's spouse or partner) within certain time limits, to suspend the exercise of the lender's enforcement remedies for such period and to such extent as the court considers reasonable in the circumstances, having regard amongst other factors to the nature of the default, the applicant's ability to remedy it and the availability of alternative accommodation. Once the Bill has received assent it will come into force on such day as the Scottish Ministers may promulgate by Statutory Instrument, the timetable for which has yet to be specified.

Pursuant to the Mortgage Sale Agreement, the transfer to the Issuer of the beneficial interest in the Scottish Mortgages and their collateral security will be effected by the declaration of the Scottish Trust (in relation to such of the Initial Mortgages as are Scottish Mortgages) or by further declarations of trust supplemental thereto (in relation to such Pre-Funded Mortgages, Substitute Mortgages or Further Mortgages as are Scottish Mortgages) by Britannic Money in favour of the Issuer. Further Advances and Redraws relating to Scottish Mortgages will also be comprised within the said trusts except to the extent that these are not acquired by the Issuer in terms of the Documents.

#### **Title to the Mortgage Pool**

The Initial Mortgage Pool will consist of Mortgages originated by Britannic Money or First Active and governed by English, Scots or Northern Irish law, as the case may be. Legal title to each Mortgage in the Provisional Mortgage Pool is vested in Britannic Money or First Active. Immediately prior to the sale of the Mortgages to the Issuer, the beneficial interests in the Mortgages will reside with Arianty. Pursuant to the Mortgage Sale Agreement, Arianty will transfer all of its interest in each Mortgage to the Issuer.

The completion of the transfer, assignation or conveyance of the Mortgages (and where appropriate, their registration or recording) to the Issuer will, save in the limited circumstances referred to below, be deferred. Legal title to the Mortgages will therefore remain with Britannic Money or First Active, (as applicable). The Issuer will grant to the Trustee a charge over its equitable interest in the Mortgages and their collateral security.

The Servicer is required by the Servicing Agreement to ensure the safe custody of the title deeds relating to the Mortgages and to provide the Trustee with access to them at all reasonable times.

Save as mentioned below, neither the Issuer nor the Trustee will be entitled to effect any registration or recording at H.M. Land Registry, the Central Land Charges Registry, the Land Registry of Northern Ireland, the Registry of Deeds in Belfast or the Registers of Scotland (as appropriate) to protect the sale of the Mortgages to the Issuer or the granting of security over them by the Issuer in favour of the Trustee nor, save as mentioned below, will they be entitled to obtain possession of the title deeds to the properties the subject of the Mortgages.

Notices of the equitable assignment and declaration of the Scottish Trust to the Issuer and the security in favour of the Trustee will not, save as mentioned below, be given to the Borrowers. Notice of the interest of the Issuer and the Trustee will be given in respect of the Insurance Contracts.

Under the Mortgage Sale Agreement and the Deed of Charge, the Issuer and the Trustee will each be entitled to effect such registrations or recordings and give such notices as it considers necessary to protect its interests in the Mortgages, and to call for a legal assignment or transfer of the Mortgages and the collateral security in favour of the Issuer and a legal sub-mortgage or sub-standard security over such Mortgages and collateral security in favour of the Trustee, *inter alia*, where (i) it is obliged to do so by law, by court order or by a mandatory requirement of any regulatory authority, (ii) after an Enforcement Notice (as defined in the Deed of Charge) has been given, (iii) the Trustee considers in its reasonable opinion that the Charged Property (as defined in the Deed of Charge) or any part thereof is in jeopardy (including the possible insolvency of Arianty and/or Britannic Money and/or First Active (in respect of Mortgages originated by it) and that doing any of the foregoing acts or things would materially reduce such jeopardy, (iv) any action is taken for the winding-up, dissolution, administration or reorganisation of Arianty and/or Britannic Money and/or First Active (in respect of Mortgages originated by it) or any other entity in which legal title to any Mortgage is vested or (v) Britannic Money has ceased to be Servicer pursuant to the

Servicing Agreement and no replacement servicer has been appointed. Following such legal assignment or transfer and sub-mortgage or sub-standard security, the Issuer and the Trustee will each be entitled to take all necessary steps to protect legal title to its interests in the Mortgages and collateral security, including the carrying out of any necessary registrations and notifications. These rights are supported by irrevocable powers of attorney given by each of Britannic Money and First Active and will be similarly supported in respect of Substitute Mortgages and Further Mortgages.

As a consequence of neither the Issuer nor the Trustee obtaining legal title to the Mortgages, a *bona fide* purchaser from Britannic Money, First Active and/or Arianty for value of any of such Mortgages without notice of any of the interests in the Mortgages of the Issuer or the Trustee might obtain a good title to any of such Mortgages free of any such interest. However, the risk of third party claims obtaining priority to the interests of the Issuer or the Trustee in this way would be likely to be limited to circumstances arising from a breach by Britannic Money, First Active and/or Arianty of its contractual obligations or fraud, negligence or mistake on the part of Britannic Money, First Active and/or Arianty (and in such circumstances a right of action would exist against Britannic Money, First Active and/or Arianty as applicable) or the Issuer or their respective personnel or agents. Further, the rights of the Issuer and the Trustee may be or become subject to the direct rights of the Borrowers against Britannic Money or First Active. Such rights may include the rights of set-off existing prior to notification to the Borrowers of the sale of the Mortgages which arise in relation to the Borrower's right to make a Redraw and the rights of Borrowers to redeem their Mortgages by repaying the relevant loan directly to Britannic Money, First Active, as applicable. These rights may result in the Issuer receiving less sums than anticipated from the Mortgages.

For so long as neither the Issuer nor the Trustee have obtained legal title to the Mortgages, each of Britannic Money and First Active will undertake in the Mortgage Sale Agreement for the benefit of the Issuer and the Trustee that it will lend its name to, and take such other steps as may reasonably be required by the Issuer or the Trustee in relation to, any legal proceedings in respect of the Mortgages and their related security, subject to the requirements of Britannic Money's enforcement policy from time to time.

If on any Interest Payment Date, the aggregate amount of Redraws the right to repayment of which Britannic Money and First Active have available for sale exceeds the Maximum Redraw Amount on such Interest Payment Date, the Issuer will hold the benefit of the relevant Mortgage on trust for itself and Britannic Money or First Active, as applicable, each party's interest being proportionate to the funding provided by it. Britannic Money or First Active, as the case may be will be entitled to be paid its *pro rata* share of the amounts received in respect of any such Mortgage as an Excluded Item.

### **Warranties and Repurchase**

The Mortgage Sale Agreement will contain (i) warranties given by Arianty as at the Issue Date in relation to the Mortgages (or, in the case of Further Mortgages or Substitute Mortgages, as at the date such Mortgages are acquired by the Issuer) (ii) warranties given by Britannic Money in relation to the Mortgages as at the date of the sale of the Mortgages to Arianty under the Origination Mortgage Sale Agreement (and, in the case of Pre-Funded Mortgages, Further Mortgages or Substitute Mortgages, as at the date such Mortgages were sold to Arianty under the Origination Mortgage Sale Agreement) (iii) warranties given by Britannic Money in relation to the Mortgages in its capacity as Administrator under the Origination Administration Agreement with respect to the period between the date of sale of the Mortgages to Arianty under the Origination Mortgage Sale Agreement and the Issue Date (or, in the case of Pre-Funded Mortgages, Further Mortgages or Substitute Mortgages, with respect to the period between the date of sale of the Mortgages to Arianty under the Origination Mortgage Sale Agreement and the date they are acquired by the Issuer). Further Mortgages, Initial Mortgages, the Substitute Mortgages (as defined below) and the Pre-Funded Mortgages are referred to as the "**Mortgages**".

No searches, enquiries or independent investigation of title of the type which a prudent purchaser or mortgagee would normally be expected to carry out have been or will be made by the Issuer or the Trustee, each of whom is relying entirely on the warranties set out in the Mortgage Sale Agreement.

If there is an unremedied breach of any of the warranties set out in the Mortgage Sale Agreement then Arianty or Britannic Money, as applicable, will be obliged to repurchase the relevant Mortgage and its collateral security for a consideration in cash equal to all sums due or owing thereunder (including accrued interest and arrears) as at the date of repurchase (after deducting the amount of any interest not then accrued but paid in advance by the relevant Borrower, which amount will be retained by the Issuer). Performance of such repurchase will be in full satisfaction of the liabilities of Arianty and/or Britannic Money in respect of the relevant breach. Alternatively, as consideration for such repurchase, Arianty or Britannic Money, as applicable, may elect to transfer or may procure that an affiliate of Britannic Money

will transfer another mortgage originated by Britannic Money or First Active and complying with the eligibility criteria applicable to the Initial Mortgages (a “**Substitute Mortgage**”) with an Adjusted Balance equal to or greater than the amount of such cash consideration provided however that the Substitute Mortgage complies with certain conditions set out in the Mortgage Sale Agreement. “**Adjusted Balance**” means, in respect of any Substitute Mortgage, the original principal amount advanced to the Borrower thereunder plus any Redraw and Further Advance made thereon less any prepayment, repayment or payment of or in respect of any of the foregoing prior to the date on which it is proposed such Substitute Mortgage be transferred to the Issuer. Such obligations of Arianty and/or Britannic Money are without prejudice to any other remedies available to the Issuer and/or the Trustee if Arianty and/or Britannic Money fails to repurchase or procure the repurchase of, or substitute or procure the substitution of, a Mortgage when obliged to do so. Arianty and/or Britannic Money may not offer a Substitute Mortgage to the Issuer if the aggregate outstanding balances of the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date and the outstanding principal balance of the Substitute Mortgage offered plus the aggregate Potential Redraw Amount with respect to the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date and the Substitute Mortgage offered does not exceed the sum of (i) the aggregate outstanding principal balances of the Mortgages comprising the Mortgage Pool and (ii) the aggregate Potential Redraw Amount with respect to such Mortgages, each as at the Determination Date immediately preceding the last Interest Payment Date.

Where a Mortgage triggers a warranty breach by both Arianty and Britannic Money (the “**Warrantors**”), the Issuer may claim or, as the case may be, initiate claims against both of the Warrantors or either one of the Warrantors in respect of such breach.

The warranties of Arianty and Britannic Money referred to above include statements to the following effect:

- (i) each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage or standard security or fixed charge or mortgage over the residential property situated in England, Wales, Scotland or Northern Ireland;
- (ii) each Mortgage constitutes a valid and binding obligation of the Borrower enforceable in accordance with its terms and secures the repayment of all advances, interest, costs and expenses payable by the Borrower and any Further Advances;
- (iii) prior to making an advance to the Borrower, the relevant property was valued by an independent qualified valuer approved by Britannic Money;
- (iv) prior to making an advance in respect of each Investment Home Loan to a Borrower, a rental income estimate on the relevant property was obtained from an independent qualified valuer approved by Britannic Money;
- (v) each Mortgage was originated by Britannic Money or First Active and complied with the Lending Policy applicable at the time of origination in all material respects;
- (vi) prior to the making of an advance to a Borrower, all investigations, searches and other actions which a prudent mortgage lender would normally make when advancing money to an individual on the security of residential property in England, Wales, Scotland or Northern Ireland (as appropriate) were taken by Britannic Money or on its behalf in respect of each Mortgage;
- (vii) each Property is insured either (i) under a Buildings Policy, either in the joint names of the Borrower and Britannic Money or with the interest of Britannic Money (as mortgagee) endorsed or otherwise noted thereon, or (ii) (in the case of leasehold property) under a landlord’s building’s insurance with, where possible, the interests of Britannic Money and the Borrower endorsed thereon, in each case with an insurance company approved by Britannic Money against risks usually covered by mortgage lenders in England, Wales, Scotland or Northern Ireland (as appropriate) when advancing money on the security of residential property of the same nature to an amount not less than the full reinstatement value thereof as determined by Britannic Money’s valuer, or (iii) insured under an appropriate Building Contingency Policy;
- (viii) to the best of the knowledge of the relevant Warrantor, the Building Contingency Policy is in full force and effect; and
- (ix) in relation to each Mortgage:
  - (a) if the property (not being a property in Scotland) is not registered, the Borrower has good and marketable title to the fee simple absolute in possession (in the case of freehold property) (or in the case of certain properties in Northern Ireland, to the fee farm interest) or a term of years

- absolute (in the case of leasehold property) of not less than 30 years beyond the term of the mortgage relating to such Property and the relevant property is free (save for the Mortgage) from any encumbrance which would affect such title;
- (b) if the property (not being a property in Scotland) is registered, it has been registered with title absolute (in the case of freehold property) or absolute or good leasehold title of the requisite terms (in the case of leasehold property) or is in the process of being so registered; and
  - (c) if the property is situated in Scotland, the Borrower has a valid and marketable heritable or long leasehold title thereto (having in the case of leasehold property a remaining terms of not less than 30 years beyond the terms of the relevant Mortgage), duly registered or recorded in the registers of Scotland (with, in the case of registered titles, no exclusions of indemnity) or in the process of being so registered or recorded, and the relevant property is free (save for the Mortgage) from any encumbrance which would affect such title;
- (x) no agreement relating to any Mortgage or Further Advance is a Consumer Credit Agreement (as defined in the Consumer Credit Act 1974) or constitutes any other agreement regulated or partly regulated by the Consumer Credit Act 1974 (other than section 137 to section 140 of the Consumer Credit Act 1974) or any modification or re-enactment thereof;
  - (xi) no term of any Mortgage would not be binding on the relevant Borrower pursuant to The Unfair Terms in Consumer Contracts Regulations 1999;
  - (xii) in respect of each Investment Home Loan the relevant tenancy, if any, is (i) a valid assured shorthold tenancy within the meaning of the Housing Act 1988 or a short assured tenancy within the meaning of the Housing (Scotland) Act 1988 (an “**Assured Shorthold Tenancy**”) for a fixed term of not more than 12 months or the tenant does not otherwise have statutory security of tenure and (ii) the relevant Warrantor is not aware of any material breach of such agreement;
  - (xiii) as at 30 June 2001 none of the Mortgages in the Initial Portfolio was in arrears by an amount in excess of one monthly scheduled payment or had been in arrears during the preceding 12 months. No Pre-Funded Mortgages, Substitute Mortgages or Further Mortgages are in arrears by an amount in excess of one monthly scheduled payment or had been in arrears during the 12 months preceding the date on which they are purchased by the Issuer; and
  - (xiv) at least one payment of principal and/or interest has been made by the relevant Borrower under each Mortgage except in respect of the Non-Verified Mortgages.

### **Administration of the Mortgage Pool**

The Servicer is required to administer the Mortgage Pool as the agent of the Issuer and the Trustee under and in accordance with the terms of the Servicing Agreement. The duties of the Servicer include:

- (i) setting the interest rate on the Standard Variable Mortgages from time to time;
- (ii) determining LIBOR in respect of the LIBOR Linked Mortgages and the Bank of England Base Rate in respect of the Base Rate Linked Mortgages;
- (iii) collecting payments on the Mortgages and discharging Mortgages and related security upon redemption;
- (iv) administering and/or facilitating Redraws under Flexible Mortgages;
- (v) monitoring and, where appropriate, pursuing arrears and enforcing the security;
- (vi) taking all reasonable steps to ensure safe custody of all title deeds and documents in respect of the Mortgages and their related security which are in its possession;
- (vii) making claims under the Insurance Contracts;
- (viii) administering the Issuer’s interests in any collateral security related to the Mortgages;
- (ix) managing the operation of the Bank Accounts;
- (x) calculating payments due under each item in the Priority of Payments;
- (xi) making the required entries in the Principal Deficiency Ledger;
- (xii) dealing with conversion of Mortgages and the making of Further Advances (see further “Conversion of Mortgages” and “Further Advances” below);



- (xiii) making arrangements for the payment by the Issuer of interest and principal in respect of the Notes subject to the terms thereof and to the availability of funds;
- (xiv) determining the Threshold Rate and the weighted average rate of interest applicable to the Mortgages; and
- (xv) ensuring the acquisition of Further Mortgages and Substitute Mortgages in accordance with the terms of the Transaction Documents.

For so long as the Servicer continues to be the Issuer's and the Trustee's agent for the administration of the Mortgage Pool, it will be authorised to operate the Bank Accounts for these purposes, subject to the constraints set out in the Servicing Agreement. Payments under the Mortgages are in the majority of cases collected from Borrowers under the direct debiting system.

The Servicer is entitled to delegate its functions under the Servicing Agreement subject to certain conditions. The Servicer remains liable to the Issuer for the performance of those functions notwithstanding such delegation.

The Servicer is entitled to charge a fee for its services under the Servicing Agreement payable on each Interest Payment Date, such fee to be limited to an amount equal to the product of 0.10% per annum and the aggregate principal balances of the Mortgages on the last day of the immediately preceding Collection Period, inclusive of value added tax while the Servicer is Britannic Money or an affiliate of Britannic Money.

The appointment of Britannic Money as Servicer may be terminated by the Trustee on the happening of certain events of default or insolvency on the part of Britannic Money or if the security for the Notes comprised in the Deed of Charge is enforced. Following any such termination, the Issuer and the Trustee may appoint a substitute servicer. The Servicer will provide reasonable co-operation in order to facilitate the handover of its responsibilities. For a period of three months following such termination, the Issuer, the Trustee (or its agents) and any substitute servicer will be entitled to such non-exclusive licences and intellectual property that the Servicer is legally empowered to grant, the right to employ staff of the Servicer and access to the premises and equipment of the Servicer, as required to service the Mortgages, subject to certain reasonable limitations.

The registered office of the Servicer is located at Sir William Atkins House, Ashley Avenue, Epsom, Surrey KT18 5AS.

The Servicer has disaster recovery systems and back up arrangements in place. The current arrangements include nightly backups of all production data and additional discrete monthly backups, in each case to a secure offsite location. In the event of a "disaster" (for these purposes, any event which disrupts on-line availability for more than eight hours), the Servicer software will be loaded on one or more computers in a secure offsite location. The completion of recovery is to take place within eight hours.

The Servicer will covenant to use its reasonable endeavours to maintain those arrangements without material alteration. Any replacement arrangements which are materially different may not be entered into unless the Trustee has provided the Servicer with its prior written consent (not to be unreasonably withheld or delayed) and the Rating Agencies have confirmed that such alteration will not result in a lowering of the then current ratings of the Notes.

The Trustee shall have no responsibility for the genuineness, validity, effectiveness or suitability of any of the Mortgages, the advances relating thereto, the collateral security, including but not limited to the Insurance Contracts and the life policies or any of the Further Advances made in respect of the Mortgages or any other documents or manuals entered into or in connection therewith or relating thereto or any obligation or rights created or purported to be created thereby or pursuant thereto and the Trustee shall not be responsible or liable for the investigation of any of the foregoing. The Trust Deed and the Deed of Charge include provisions which further limit the responsibility and liability of the Trustee in respect of the Mortgages, the advances relating thereto and the collateral security in relation thereto.

### **Enforcement Procedures**

Britannic Money has established procedures for managing loans which are in arrears, including early contact with Borrowers in order to find a solution to any financial difficulties they may be experiencing. Such solutions may include offering the option to transfer to a long term arrangement. The procedures permit discretion to be exercised by the appropriate officer of Britannic Money in many circumstances. These same procedures, as from time to time varied with the consent of, *inter alia*, the Trustee, are required

to be used by the Servicer in respect of arrears arising on the Mortgages (see also “Scottish Mortgages” above).

In the case of enforcement of Investment Home Loans, the procedure may include the appointment of a receiver of rent. Where appointed, a receiver of rent is deemed to be the agent of the Borrower and must collect any rents payable in respect of the relevant property and apply them (after payment of certain statutorily prescribed outgoings) in payment of any interest and arrears accruing under the Mortgage and thereafter any surplus shall either be applied in discharge of principal if required by the lender, or paid to the Borrower.

### **Further Advances**

Britannic Money or First Active, as applicable may make Further Advances to Borrowers secured on the relevant property against which the original advance was made at any time and sell such Further Advance to the Issuer subject to the conditions set out below for a consideration in cash equal to all sums due or owing thereunder (including accrued interest) at the date of such purchase (after deducting any interest not then accrued but paid in advance by the relevant Borrower, which amount will be retained by Britannic Money or First Active, as applicable). In relation to a Flexible Mortgage, a Borrower may request a Further Advance and Britannic Money or First Active, as applicable, may, in response to such request, increase the Borrower’s Loan Limit.

Further Advances may only be purchased by the Issuer on an Interest Payment Date and if, *inter alia*, the sum of (i) the aggregate outstanding principal balances of the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date; (ii) the aggregate principal balances of the Further Mortgages and Further Advances to be purchased on such Interest Payment Date; and (iii) the aggregate Potential Redraw Amount with respect to both the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date and the Further Mortgages and the Further Advances to be purchased on such Interest Payment Date does not equal or exceed the sum of: (i) the aggregate outstanding principal balances of the Mortgages comprising the Mortgage Pool on the Determination Date immediately preceding the last Interest Payment Date; (ii) the aggregate principal balances of the Further Mortgages and the Further Advances purchased on the last Interest Payment Date; plus (iii) the aggregate Potential Redraw Amount with respect to the Mortgages comprising the Mortgage Pool on the Determination Date immediately preceding the last Interest Payment Date and the Further Mortgages and the Further Advances purchased on the last Interest Payment Date.

A Further Advance shall be required (a) not to have a fixed rate or be subject to a variable rate of interest set by Britannic Money from time to time but which variable rate is subject to a maximum rate or a minimum rate unless such Further Advance is hedged by the Issuer to ensure that the Threshold Rate is met by the Issuer on each Interest Payment Date, (b) not to be linked to Bank of England Base Rate, unless the amount standing to the credit of the Base Rate Reserve is sufficient to cover such Further Advance or the Further Advance has been hedged pursuant to a Base Rate Swap in addition to the Base Rate Linked Mortgages already included in the Mortgage Pool and the rate of interest charged in respect of the advance is a rate of interest equal to or greater than the Bank of England Base Rate plus the relevant Threshold Rate plus 0.15%, (c) not to be linked to LIBOR other than one month LIBOR which is fixed on the same day in respect of the following Interest Period as Note LIBOR and charges a rate of interest equal to or greater than the Threshold Rate or the Further Advance has been hedged pursuant to a LIBOR Swap and (d) not to carry a discounted rate, unless the amount standing to the credit of the Discount Reserve is sufficient to cover any Expected Differential relating to such Further Advance in addition to the Discounted Mortgages already included in the Mortgage Pool (and for the avoidance of doubt, these requirements will be met in respect of Further Advances comprising any of the interest rate types set out above which also carry a discounted rate if they meet the requirements of this paragraph (d) notwithstanding that the conditions relating to the minimum rate of interest for the respective interest rate type in paragraph (b) and (c) above may not be met).

The sale of a Further Advance by Britannic Money or First Active to the Issuer will be subject, *inter alia*, to the following conditions (unless the Rating Agencies agree otherwise):

- (i) upon the making of any Further Advance, the relevant Borrower is not, so far as the Servicer is aware, in material breach of any of the conditions of the relevant Borrower’s existing Mortgage;
- (ii) to the extent that the Servicer has reason to believe that the Further Advance to be made to a Borrower may result in a regulated agreement (as defined in the Consumer Credit Act 1974), the applicable provisions of the Consumer Credit Act 1974 relating to the regulated agreement will be complied with;

- (iii) if the terms on which the Further Advance is made include a term or terms to which The Unfair Terms in Consumer Contracts Regulations 1999 (the “**Regulations**”) apply (pursuant to Regulation 3 thereof), such term or terms is or are not a term or terms of the kind described in Regulation 4 of the Regulations;
- (iv) no drawing has been made on the Reserve Fund in the previous month;
- (v) each Further Advance is made on terms which are legal, valid and binding and the amount of such Further Advance (together with all related fees, costs and expenses) will have the benefit of the same security (whether under the same charge, standard security or under a second charge or standard security ranking immediately behind the relevant existing charge) as the principal amount outstanding under the relevant Mortgage immediately prior to the making of such Further Advance;
- (vi) Britannic Money’s procedures have been applied to the Further Advance and to the circumstances of the Borrower at the time the Further Advance was made;
- (vii) prior to making the Further Advance, any second charge or other security created in favour of a third party, has been either expressly postponed to the charge or other security securing such Further Advance or redeemed out of the proceeds of the Further Advance simultaneously with the making of the Further Advance;
- (viii) no Enforcement Notice (as defined in the Deed of Charge) has been given by the Trustee which remains in effect;
- (ix) the amount of the Further Advance, when added to the amount of any Further Mortgage and/or Further Advances purchased by the Issuer since the last Interest Payment Date does not exceed 3% of the aggregate balances of the Mortgages in the Mortgage Pool as at the relevant Determination Date;
- (xi) the amount of the Further Advance, when added to the amount of any Further Advances previously made does not exceed 10% of the aggregate outstanding principal balances of the Initial Mortgages on the Issue Date;
- (xii) no Rating Agency has notified the Issuer in writing that the sale or purchase of the Further Advance will cause the rating of the Notes to be downgraded;
- (xiii) the product of the weighted average foreclosure frequency (“**WAFF**”) and the weighted average loss severity (“**WALS**”) calculation for the Initial Mortgage Pool may not be exceeded by more than 0.25% after such Further Advance is purchased;
- (xiv) the amount of interest arrears as a percentage of gross interest due on all Mortgages outstanding during the twelve months then ending shall not exceed 2%;
- (xv) the weighted average LTV of the Mortgages following the purchase of Further Mortgages and/or Further Advances shall not exceed the weighted average LTV of the Initial Mortgage Pool by more than 1%; and
- (xvi) the Principal Deficiency calculated on the Determination Date immediately preceding the Interest Payment Date on which such Further Advance is purchased does not exceed 0.1% of the aggregate principal amount outstanding of the Initial Mortgage Pool.

In the limited circumstances in which the Issuer is unable to purchase a Further Advance as described above (and in those circumstances only), Britannic Money or First Active, as applicable, at its option may repurchase the relevant Mortgage, provided it is fully performing, from the Issuer for a consideration in cash equal to all sums due or owing thereunder (including accrued interest) at the date of such repurchase (after deducting any interest not then accrued but paid in advance by the relevant mortgagor), which amount will be retained by the Issuer.

### **Further Mortgages**

The Issuer may during the Substitution Period acquire Further Mortgages using monies available for the purpose in accordance with the Priority of Payments, subject to the Notes not having been redeemed in accordance with Class A Condition 5, Class M Condition 5 and Class B Condition 5 and enforcement of the security not having taken place in accordance with Class A Condition 10, Class M Condition 10 and Class B Condition 10. Further Mortgages may only be purchased by the Issuer on an Interest Payment Date and if, *inter alia*, the sum of (i) the aggregate outstanding principal balances of the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date, (ii) the aggregate principal balances of the Further Mortgages and Further Advances to be purchased on such Interest Payment Date, and (iii) the

aggregate Potential Redraw Amount with respect to both the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date and the Further Mortgages and the Further Advances to be purchased on such Interest Payment Date does not equal or exceed the sum of (i) the aggregate outstanding principal balances of the Mortgages comprising the Mortgage Pool on the Determination Date immediately preceding the last Interest Payment Date, (ii) the aggregate principal balances of the Further Mortgages and the Further Advances purchased on the last Interest Payment Date, and (iii) the aggregate Potential Redraw Amount with respect to the Mortgages comprising the Mortgage Pool on the Determination Date immediately preceding the last Interest Payment Date and the Further Mortgages and the Further Advances purchased on the last Interest Payment Date. Each Further Mortgage must comply with the then prevailing Lending Policy and the same representations and warranties will be made with respect to the Further Mortgages as were made with respect to the Initial Mortgages as at the date on which such Further Mortgages are acquired, all as more particularly described in the Mortgage Sale Agreement.

Mortgages which qualify as Further Mortgages (a) shall be originated by Britannic Money, (b) may not be Capped Rate Mortgages, Fixed Rate Mortgages, or mortgages which are subject to a fixed rate of interest set by Britannic Money from time to time but which variable rate is subject to both a maximum rate and a minimum rate (“**Collared Rate Mortgages**”) unless such Capped Rate Mortgages, Fixed Rate Mortgages or Collared Rate Mortgages are hedged by the Issuer to ensure that the Threshold Rate is met by the Issuer on each Interest Payment Date, (c) may not include any Base Rate Linked Mortgages, unless the amount standing to the credit of the Base Rate Reserve is sufficient to cover such further Base Rate Linked Mortgages in addition to those already included in the Mortgage Pool and the rate of interest charged in respect of such Mortgage is equal to or greater than the Bank of England Base Rate plus the relevant Threshold Rate plus 0.15% or such Mortgage has been hedged pursuant to a Base Rate Swap, (d) may not include any LIBOR Linked Mortgages, unless such LIBOR Linked Mortgages are linked to one month LIBOR which is fixed on the same day in respect of the following Interest Period as Note LIBOR and the rate of interest charged in respect of such Mortgage is equal to or greater than the Threshold Rate or such Mortgage has been hedged pursuant to a LIBOR Swap, (e) may not include any Discounted Mortgages, unless the amount standing to the credit of the Discount Reserve is sufficient to cover any Expected Differentials relating to such further Discounted Mortgages in addition to the ones already included in the Mortgage Pool (and for the avoidance of doubt, mortgages comprising any of the interest rate types set out above which are also Discounted Mortgages will qualify as Further Mortgages if they meet the requirements for Discounted Mortgages notwithstanding that the conditions relating to the minimum rate of interest for the respective interest rate type in paragraphs (c) and (d) above may not be met), (f) shall not have a final repayment date of later than July 2034; and (g) the Borrower of such Further Mortgage which comprises a Flexible Mortgage shall be bound to pay a Commitment Fee of not less than 1% and the percentage of the Borrower Loan Limit used in determining the Excess Amount is not more than 20%.

The acquisition of Further Mortgages by the Issuer will be subject, *inter alia*, to the following conditions:

- (i) The amount of Further Mortgages when added to the amount of Further Mortgages and/or Further Advances purchased by the Issuer since the last Interest Payment Date does not exceed 3% of aggregate balances of the Mortgages as at the relevant Determination Date;
- (ii) the product of the WAFF and WALS calculation for the Initial Mortgage Pool may not be exceeded by more than 0.25% after such Further Mortgages and/or Further Advances are purchased;
- (iii) the aggregate principal balance of Mortgages in respect of which there are arrears of an amount greater than £100 does not exceed 2.5% of the aggregate principal balance of the Mortgages in the Mortgage Pool, in each case as at the relevant Determination Date;
- (iv) the amount of interest arrears as a percentage of gross interest due on all Mortgages outstanding during the twelve months then ending shall not exceed 2%;
- (v) the aggregate principal balances of Mortgages where the relevant Property is located in London and the south-east of England following the purchase of the Further Mortgages and/or Further Advances does not exceed 80% of the total aggregate principal balance of the Mortgages in the Mortgage Pool as at the relevant Determination Date;
- (vi) the weighted average LTV of the Mortgages following the purchase of Further Mortgages and/or Further Advances shall not exceed the weighted average LTV of the Initial Mortgage Pool by more than 1%;
- (vii) no drawing has been made on the Reserve Fund in the previous month;

- (viii) the Principal Deficiency calculated on the Determination Date immediately preceding the Interest Payment Date on which such Further Mortgages are purchased does not exceed 0.1% of the aggregate principal amount outstanding of the Initial Mortgage Pool; and
- (ix) no Rating Agency has notified the Issuer in writing that the sale or purchase of the Further Mortgage will cause the rating of the Notes to be downgraded.

The provisions of this paragraph (other than sub-paragraph (i)) apply equally to Pre-Funded Mortgages, which shall be deemed to be Further Mortgages for this purpose.

### **Non-Verified Mortgages**

Under the Mortgage Sale Agreement, if the Issuer cannot verify the receipt of the first payment of principal and/or interest by the relevant Borrowers in respect of the Non-Verified Mortgages by the Determination Date immediately preceding the first Interest Payment Date, then the amount standing to the credit of the Non-Verified Mortgage Ledger in respect of such Non-Verified Mortgages shall be treated as redemptions and shall be applied in accordance with the Priority of Payments.

### **Conversion of Mortgages**

The Servicer on behalf of the Issuer may agree to a request by a Borrower to convert his Mortgage (or, in the case of a default by a Borrower, may itself elect to convert such Borrower's Mortgage) by means of a variation agreement (subject to satisfaction of the following conditions) into an Endowment Mortgage, a Repayment Mortgage, an Interest Only Mortgage or a Pension Mortgage or a combination of one or more such types of Mortgage and/or into any other type of mortgage (a "**Converted Mortgage**") except (a) in the case of a conversion to a Fixed Rate Mortgage, Capped Rate Mortgage or Collared Rate Mortgage, which may only be effected if the Issuer is able to enter into hedges to ensure that the Threshold Rate is met by the Issuer on each Interest Payment Date, (b) in the case of a conversion into a Base Rate Linked Mortgage, which may only be effected if the amount standing to the credit of the Base Rate Reserve is sufficient to cover such further Base Rate Linked Mortgage linked to Bank of England Base Rate in addition to those already included in the Mortgage Pool and the rate of interest charged in respect of such Mortgage is equal to or greater than the Bank of England Base Rate plus the relevant Threshold Rate plus 0.15% or such mortgage has been hedged pursuant to a Base Rate Swap, (c) in the case of a conversion to a LIBOR Linked Mortgage, which may only be effected if such LIBOR Linked Mortgage is linked to one month LIBOR which is fixed on the same day in respect of the following Interest Period as Note LIBOR and the rate of interest charged in respect of such Mortgage is equal to or greater than the Threshold Rate or such mortgage has been hedged pursuant to a LIBOR Swap and (d) in the case of a conversion into a Discounted Mortgage, which may only be effected if the amount standing to the credit of the Discount Reserve is sufficient to cover any Expected Differential relating to such further Discounted Mortgage in addition to those already included in the Mortgage Pool (and for the avoidance of doubt, a conversion to a mortgage comprising any of the interest rate types set out above which is also a Discounted Mortgage will be permitted if it meets the requirements of this paragraph (d) notwithstanding that the conditions relating to the minimum rate of interest for the respective interest rate type in paragraphs (b) and (c) above may not be met).

The relevant conditions are, *inter alia*, that:

- (i) no Enforcement Notice has been given by the Trustee which remains in effect at the date of the relevant conversion;
- (ii) the provisions of the Consumer Credit Act 1974 relating to regulated agreements and other applicable legislation will be complied with (to the extent they apply);
- (iii) the Converted Mortgage will be on the terms of the relevant standard documentation utilised by Britannic Money or Fixed Active, as applicable, at the time of such conversion to document the terms of mortgages it is offering generally and which has not been varied in any material respect;
- (iv) the conversion of the applicable Mortgage is effected in writing;
- (v) the effect of the conversion would not be to extend the final maturity date of such Mortgage to beyond two years prior to the maturity date of the Notes; and
- (vi) in the case of conversion to a Fixed Rate Mortgage, a Capped Rate Mortgage, Collared Rate Mortgage or Base Rate Linked Mortgage not linked to one month LIBOR, and any costs associated with purchasing the hedges required in order to ensure that the Threshold Rate is met by the Issuer on any Interest Payment Date are capable of being met under (xvii) of the Priority of Payments.

In the limited circumstances in which the Issuer is unable to agree to a conversion request (as described above) and in those circumstances only, Britannic Money or First Active, as applicable, may repurchase the relevant Mortgage from the Issuer for a consideration in cash equal to all sums due or owing thereunder (including accrued interest) at the date of such repurchase (after deducting any interest not then accrued but paid in advance by the relevant mortgagor, which amount will be retained by the Issuer).

### **Insurance Contracts**

The Issuer and the Trustee will have the benefit of a building contingency policy (the “**Buildings Contingency Policy**”) and the block mortgage indemnity guarantee policies providing an indemnity for all amounts advanced under a Mortgage exceeding the percentage of the value or purchase price of the relevant Property prescribed by the Lending Policy in respect of such Mortgage with various insurance companies (including Royal & Sun Alliance Insurance plc at St Mark’s Court, Chartway, Horsham, West Sussex, England and Legal & General Insurance Limited at 3 Finsbury Square, London EC2A 1LL) (the “**Mortgage Indemnity Guarantee Policies**”) and together with the Buildings Contingency Policy, the “**Insurance Contracts**”) to the extent of their respective interests in the Mortgages in the Mortgage Pool. The Issuer and the Trustee will also have the benefit of any charges over any life policies securing Mortgages comprised in the Mortgage Pool. Certain warranties will be given by Arianty and Britannic Money in relation to the various policies in the Mortgage Sale Agreement as described under “Warranties and Repurchase” above.

**ESTIMATED AVERAGE LIVES OF THE CLASS A NOTES, THE CLASS M NOTES AND THE CLASS B NOTES**

The average lives of the Class A Notes, the Class M Notes and the Class B Notes cannot be predicted, as the actual rate of Redemption and Prepayments under the Mortgages and a number of other relevant factors are unknown.

Calculations of the estimated average lives of the Class A Notes, the Class M Notes and the Class B Notes can be made based on certain assumptions. For example, based on the assumption that:

- (i) the Issuer exercises its rights to redeem the Notes on the Interest Payment Date falling in July 2008;
- (ii) the Mortgages are subject to repayments (net of Redraws) (“**Repayments**”) at annualised rates expressed as a percentage of the outstanding principal amount of the Mortgages assumed to fall into the range indicated below;
- (iii) Repayments on the Mortgages are expected to partially represent Redemptions and partially Prepayments. The average proportions of Redemptions and Prepayments and the resulting annualised rates of Redemptions and Prepayments are assumed to fall into the ranges indicated below;
- (iv) during the Substitution Period, the Issuer will substitute Further Mortgages to the extent of Redemptions in each Collection Period. This will effectively reduce the rate of repayment on the Notes during the Substitution Period to the rate of Prepayment (net of Redraws) on the Mortgages. The resulting rate of repayment on the Notes during the Substitution Period is assumed to fall into the range indicated below. Thereafter, the rate of repayment on the Notes is assumed to equal the full rate of Repayment on the Mortgages;
- (v) there are no enforcements after the Issue Date;
- (vi) no Mortgage is sold by the Issuer;
- (vii) no Notes are purchased by the Issuer;
- (viii) the Mortgages continue to be fully performing; and
- (ix) no Principal Deficiency arises.

Assumed rate of Repayment (net of Redraws) on the Mortgages (“ <b>CPR</b> ”)	17.5%	20%	22.5%
Assumed percentage of Redemptions . . . . .	89%	88%	87%
Assumed percentage of Prepayments. . . . .	11%	12%	13%
Assumed rate of Redemptions . . . . .	15.5%	17.5%	19.5%
Assumed rate of Prepayments. . . . .	2%	2.5%	3%
Assumed rate of repayment on the Notes during Substitution Period. . .	2%	2.5%	3%
Assumed rate of repayment on the Notes after Substitution Period . . . .	17.5%	20%	22.5%
Estimated Average Life of Class A Notes (years) . . . . .	5.4	5.2	5.0
Estimated Average Life of Class M Notes (years). . . . .	6.9	6.9	6.9
Estimated Average Life of Class B Notes (years) . . . . .	6.9	6.9	6.9

Assumption (i) reflects the current intention of the Issuer but no assurance can be given that redemption of the Class A Notes, the Class M Notes and the Class B Notes will occur as described.

Assumptions (ii) and (iii) state the average annualised Repayment, Redemption and Prepayment rates on the Mortgages. Each of these rates may substantially vary from one Interest Period to another. The average annualised Repayment, Redemption and Prepayment rates shown above are purely illustrative and do not represent the full range of possibilities for such Mortgages.

Assumption (iv) states average annualised repayment rates on the Notes during and after the Substitution Period. Each of these rates may substantially vary from one Interest Period to another. The average annualised repayment rates on the Notes shown are purely illustrative and do not reflect the full range of possibilities for such rates.

Assumptions (v), (vi), (vii), (viii) and (ix) relate to circumstances which are not predictable.

The average lives of the Class A Notes, the Class M Notes and the Class B Notes are subject to factors largely outside the control of the Issuer and consequently no assurance can be given that the above assumptions and estimates will prove in any way to be realistic and the above estimated average lives must therefore be viewed with caution.

## UNITED KINGDOM TAXATION

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The following is a general description of current United Kingdom law and practice relating to taxation of the Notes, and is limited to a general consideration of the United Kingdom tax position of investors who are the absolute beneficial owners of the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes and so should be treated with appropriate caution. Some aspects do not apply to certain classes of taxpayer (such as dealers).

*Prospective Noteholders who are in doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.*

### **A United Kingdom withholding tax**

Interest payments on the Notes (whether in global or registered Definitive form) will be payable without withholding or deduction for or on account of United Kingdom income tax provided that the Notes are and remain listed on a “recognised stock exchange” within the meaning of Section 841 of the Income and Corporation Taxes Act 1988 (the London Stock Exchange is so recognised).

The United Kingdom’s paying and collecting agent withholding rules were abolished in April 2001 by the Finance Act 2000. Instead of the obligation on paying and collecting agents to withhold tax in certain circumstances, the Inland Revenue have extended their information powers so that paying and collecting agents can be obliged to provide them with details about interest payments in respect of the Notes, including the amount of the interest and the name and address of the person entitled to it.

### **B Direct assessment of non-United Kingdom resident Noteholders**

Interest on the Notes constitutes United Kingdom source income for United Kingdom tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding or deduction on account of United Kingdom income tax except in the hands of a Noteholder who is exempt from United Kingdom income tax under the terms of an applicable double taxation treaty or otherwise.

However, interest with a United Kingdom source which is received without deduction or withholding on account of United Kingdom tax, is not chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom, unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable. There are exemptions for interest received by certain specified categories of agent (such as some brokers and investment managers).

### **C Accrued Income Scheme – individual Noteholders**

The Notes will be regarded by the Inland Revenue as variable rate securities for the purposes of provisions known as the “Accrued Income Scheme”. Accordingly, a transfer of a Note by a Noteholder resident or ordinarily resident in the United Kingdom or a Noteholder who carries on a trade in the United Kingdom through a branch or agency to which the Note is attributable, may give rise to a charge to United Kingdom income tax in respect of an amount representing interest on the Note which is deemed to have accrued since the preceding interest payment date in such an amount as the Inland Revenue deem just and reasonable. A transferee of Notes with accrued interest will not be entitled to any corresponding relief under the Accrued Income Scheme.

### **D Taxation of chargeable gains – individual Noteholders**

As a result of the provision for redenomination of the Notes into euros, the Notes will not be treated by the United Kingdom Inland Revenue as “qualifying corporate bonds” within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal (including a redemption) of Notes by an individual Noteholder will give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom taxation of chargeable gains, depending on the individual circumstances of the Noteholder.

### **E United Kingdom corporation tax payers**

Noteholders within the charge to United Kingdom corporation tax will not be subject to the methods of taxation set out in paragraphs C or D above. Instead, any profits, gains and losses, measured and recognised broadly in accordance with an authorised accounting method, are taxed or relieved as income. Noteholders within the charge to United Kingdom corporation tax are generally charged to tax in each



accounting period by reference to interest accrued in that period and other profits recognised in that period in accordance with such Noteholders' authorised accounting methods.

**F Stamp Duty and Stamp Duty Reserve Tax**

No stamp duty or stamp duty reserve tax is payable on the issue of the Notes or on a transfer of the Notes by delivery.

**G Proposed European Union Directive on the Taxation of Savings Income**

The European Union is currently considering proposals for a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required to provide to the tax authorities of another Member State, details of payments of interest or other similar savings income paid by a person within its jurisdiction to an individual resident in that other Member State subject to the right of certain Member States to opt instead for a withholding system for a transitional period in relation to such payments.

Pending agreement on the scope, form and precise text of the Directive, it is not possible to predict what effect, if any, the adoption of the proposed Directive would have on the Notes or on the payments of principal or interest in respect of the Notes.

## SUBSCRIPTION AND SALE

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Nomura International plc (“**Nomura**”), Barclays Bank PLC (“**Barclays**”), J.P. Morgan Securities Limited, and The Royal Bank of Scotland plc (the “**Class A Managers**”) have, pursuant to a subscription agreement dated on or about 23 July 2001 (the “**Class A Subscription Agreement**”), jointly and severally agreed, subject to certain conditions, to subscribe for the Class A Notes at 100% of their principal amount. The Issuer has agreed to pay the Class A Managers a combined selling, management and underwriting commission of 0.20% of the aggregate principal amount of the Class A Notes. The Issuer has agreed to reimburse the Class A Managers for certain of their expenses in connection with the issue of the Class A Notes. The Class A Subscription Agreement entitles the Class A Managers to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class A Managers against certain liabilities in connection with the offer and the sale of the Class A Notes.

Nomura and Barclays (the “**Class M Managers**”) have, pursuant to a subscription agreement dated on or about 23 July 2001 (the “**Class M Subscription Agreement**”) agreed, subject to certain conditions, to subscribe for the Class M Notes at 100% of their principal amount. The Issuer has agreed to pay the Class M Managers a combined selling, management and underwriting commission of 0.45% of the aggregate principal amount of the Class M Notes. The Issuer has agreed to reimburse the Class M Managers for certain of its expenses in connection with the issue of the Class M Notes. The Class M Subscription Agreement entitles the Class M Managers to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class M Managers against certain liabilities in connection with the offer and sale of the Class M Notes.

Nomura and Barclays (the “**Class B Managers**”) and, together with the Class M Managers and the Class A Managers, the “**Managers**”) have, pursuant to a subscription agreement dated on or about 23 July 2001 (the “**Class B Subscription Agreement**”) agreed, subject to certain conditions, to subscribe for the Class B Notes at 100% of their principal amount. The Issuer has agreed to pay the Class B Managers a combined selling, management and underwriting commission of 0.60% of the aggregate principal amount of the Class B Notes. The Issuer has agreed to reimburse the Class B Managers for certain of its expenses in connection with the issue of the Class B Notes. The Class B Subscription Agreement entitles the Class B Managers to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class B Managers against certain liabilities in connection with the offer and sale of the Class B Notes.

The Class A Subscription Agreement, the Class M Subscription Agreement and the Class B Subscription Agreement are together referred to in this document as the “**Subscription Agreements**”.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are in bearer form and are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a US person, except in certain transactions permitted by US tax regulations. Terms used in this paragraph have the meanings given to them by US Internal Revenue Code and regulations thereunder.

Each Class A Manager, in respect of the Class A Notes, each Class M Manager, in respect of the Class M Notes and each Class B Manager, in respect of the Class B Notes, has agreed that, except as permitted by the Subscription Agreements, it will not offer, sell or deliver the Notes, (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 within the United States or to, or for the account of, US persons, and it will have sent to each distributor, dealer or other person to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit, of US persons.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the requirements of the Securities Act.

Each Class A Manager, in respect of the Class A Notes, each Class M Manager in respect of the Class M Notes and each Class B Manager, in respect of the Class B Notes, has agreed that (a) it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of the Notes to

listing in accordance with Part IV of the Financial Services Act 1986 (the “**Act**”) except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended, or the Act; (b) it has complied and will comply with all applicable provisions of the Act with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and (c) it has only issued or passed on, and will only issue or pass on, in the United Kingdom any document received by it in connection with the issue of the Notes, other than any document which consists of all or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the Act, to a person who is of a kind described in article 11(3) of the Financial Services Act (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom the document may otherwise lawfully be issued or passed on.

## GENERAL INFORMATION

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- A** The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code for the Class A Notes is 13269238 and the ISIN is XS0132692384. The Common code for the Class M Notes is 13269289 and the ISIN is XS0132692897. The Common Code for the Class B Notes is 13269319 and the ISIN is XS0132693192.
- B** The issue of the Notes has been authorised by resolution of the Board of Directors of the Issuer passed on 18 July 2001.
- C** The listing of the Notes on the Official List will be expressed in sterling as a percentage of their principal amount. Transactions will normally be effected for settlement in sterling and for delivery on the third working day after the day of the transaction. It is expected that listing of the Notes by the UK Listing Authority and admission to trading on the London Stock Exchange will be granted on or around 26 July 2001, subject only to issue of the Temporary Global Notes. Prior to official listing, however, dealings in the Notes will be permitted by the London Stock Exchange in accordance with its rules.
- D** The accounts of the Issuer in this Offering Circular constitute non-statutory accounts as defined by section 240(5) of the Companies Act 1985 and have been audited by KPMG Audit Plc, Chartered Accountants. The accounting reference date of the Issuer is 31 December. No statutory accounts of the Issuer have been required to be produced and, save as aforesaid, no audited accounts of the Issuer have been prepared since its date of incorporation.
- E** The Issuer is not and has not been involved in any legal or arbitration proceedings which may have or have had since its date of incorporation a significant effect on its financial position nor is the Issuer aware that any such proceedings are pending or threatened.
- F** KPMG Audit Plc have given and not withdrawn their written consent to the inclusion herein of their report and have authorised the contents of that part of the listing particulars for the purposes of Section 152(1)(e) of the Financial Services Act 1986.
- G** Since 9 March 2001, being the date of incorporation of the Issuer, there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or financial position of the Issuer.
- H** The Notes will contain the following legend: "Any United States person (as defined in the Internal Revenue Code) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code".
- I** Copies of the following documents may be inspected during usual business hours at the offices of Lovells for 14 days from the date of this Offering Circular:
- (i) the Memorandum and Articles of Association of the Issuer;
  - (ii) the balance sheet of the Issuer as at 23 July 2001 and the Auditor's report thereon;
  - (iii) the consent referred to in paragraph 6 above;
  - (iv) the Subscription Agreements referred to under "Subscription and Sale" above;
  - (v) drafts (subject to minor modifications) of the following documents (which are all material to the issue of Notes):
    - (a) the Agency Agreement;
    - (b) the Trust Deed (including the terms of the Global Class A Notes, the definitive Class A Notes, the Class A Coupons, the Class A Talons, the Global Class M Notes, the definitive Class M Notes, the Class M Coupons, the Class M Talons, the Global Class B Notes, the definitive Class B Notes, the Class B Coupons and the Class B Talons);
    - (c) the Deed of Charge;
    - (d) the Mortgage Sale Agreement;
    - (e) the Servicing Agreement;

- (f) the Guaranteed Investment Contract;
- (g) the Redraw Facility Agreement;
- (h) the Declaration of Trust;
- (i) the Bank Agreement;
- (j) the Start-Up Loan Agreement;
- (k) the Master Definitions Schedule;
- (l) the Interest Rate Swaps;
- (m) the Interest Rate Caps;
- (n) the Base Rate Swaps; and
- (o) the LIBOR Swaps.

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