

## IMPORTANT NOTICE

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

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NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE SECURITIES OF THE ISSUER. THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

THIS PROSPECTUS HAS BEEN DELIVERED TO YOU ON THE BASIS THAT YOU ARE A PERSON INTO WHOSE POSSESSION THIS PROSPECTUS MAY BE LAWFULLY DELIVERED IN ACCORDANCE WITH THE LAWS OF THE JURISDICTION IN WHICH YOU ARE LOCATED. BY ACCESSING THE PROSPECTUS, YOU SHALL BE DEEMED TO HAVE CONFIRMED AND REPRESENTED TO US THAT (A) YOU HAVE UNDERSTOOD AND AGREE TO THE TERMS SET OUT HEREIN, (B) YOU CONSENT TO DELIVERY OF THE PROSPECTUS BY ELECTRONIC TRANSMISSION, (C) YOU ARE NOT A U.S. PERSON (WITHIN THE MEANING OF REGULATIONS UNDER THE SECURITIES ACT) OR ACTING FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON AND THE ELECTRONIC MAIL ADDRESS THAT YOU HAVE GIVEN TO US AND TO WHICH THIS EMAIL HAS BEEN DELIVERED IS NOT LOCATED IN THE UNITED STATES, ITS TERRITORIES AND POSSESSIONS (INCLUDING PUERTO RICO, THE U.S. VIRGIN ISLANDS, GUAM, AMERICAN SAMOA, WAKE ISLAND AND THE NORTHERN MARIANA ISLANDS) OR THE DISTRICT OF COLUMBIA AND (D) IF YOU ARE A PERSON IN THE UNITED KINGDOM, THEN YOU ARE A PERSON WHO (I) HAS PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS OR (II) IS A HIGH NET WORTH ENTITY FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL SERVICES AND MARKETS ACT (FINANCIAL PROMOTION) ORDER 2005.

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## SILK ROAD FINANCE NUMBER TWO PLC

*(Incorporated in England and Wales with limited liability, registered number 07621495)*

Class of Notes	Initial Principal Amount	Issue Price	Interest rate (payable before the Step-Up Date)	Interest Rate (payable from and including the Step-Up Date)	Ratings (Fitch/Moody's)	Final Maturity Date
Class Aa	€500,000,000	100%	1.55% margin above Three-Month EURIBOR	3.10% margin above Three-Month EURIBOR	AAA(sf)/Aaa(sf)	March 2054
Class Ab	£275,000,000	100%	1.55% margin above Three-Month Sterling LIBOR	3.10% margin above Three-Month Sterling LIBOR	AAA(sf)/Aaa(sf)	March 2054
Class B1 VFN	£350,000,000	100%	0.21% margin above Three-Month Sterling LIBOR	0.21% margin above Three-Month Sterling LIBOR	Not Rated	March 2054
Class B2 VFN	£150,000,000	100%	0.21% margin above Three-Month Sterling LIBOR	0.21% margin above Three-Month Sterling LIBOR	Not Rated	March 2054
Class C VFN	£150,000,000	100%	0.21% margin above Three-Month Sterling LIBOR	0.21% margin above Three-Month Sterling LIBOR	Not Rated	March 2054

**Issue Date** The Issuer will issue the Notes in the classes set out above on or about 7 July 2011 (the **Closing Date**).

**Stand alone/programme issuance** Stand alone issuance.

**Underlying Assets** The Issuer will make payments on the Notes from, *inter alia*, payments of principal and revenue received from a portfolio comprising mortgage loans originated by the former Britannia Building Society or by The Co-operative Bank p.l.c. under what is currently known as the Britannia brand (the **Seller** or **Co-operative Bank**) and secured over residential properties located in England and Wales (the **Portfolio**) which will be purchased by the Issuer on the Closing Date.

See the sections entitled "*Transaction Overview – Portfolio and Servicing*", "*The Loans*" and "*Characteristics of the Portfolio*" for further details.

**Credit Enhancement** In the case of the Class A Notes only:

- the subordination of the Class B VFN and the Class C VFN;
- General Reserve Fund; and
- excess Available Revenue Receipts.

See the sections entitled "*Transaction Overview – Credit Structure and Cashflow*" and "*Credit Structure*" for further details.

**Liquidity Support**

- The availability of the General Reserve Fund and the Yield Reserve Fund, each as funded by the Class C VFN on the Closing Date and,

following the date on which the Co-operative Bank ceases to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa2 or BBB by Fitch, the availability of the Liquidity Reserve Fund.

- The application in certain circumstances of Principal Receipts to provide for any Revenue Deficiency (as defined herein) in the Available Revenue Receipts.
- Interest due and payable on the Class A Notes outstanding will not be deferred. Interest due and payable on the other classes of Notes may be deferred in accordance with the Conditions.

See the sections entitled "*Transaction Overview – Credit Structure and Cashflow*" and "*Credit Structure*" for further details.

**Redemption Provisions** Information on any optional and mandatory redemption of the Notes is summarised on page 18 (*Transaction Overview – Summary of the Terms and Conditions of the Notes*) and set out in full in Condition 7 (Redemption) of the terms and conditions of the Notes (the **Conditions**).

**Credit Rating Agencies** Fitch Ratings Ltd. (**Fitch**) and Moody's Investors Service Limited (**Moody's** and, together with Fitch, the **Rating Agencies**). As of the date of this Prospectus, each of the Rating Agencies is a credit rating agency established in the European Union and has applied for registration under Regulation (EU) No 1060/2009 (the **CRA Regulation**), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.

**Credit Ratings** Ratings are expected to be assigned to the Class A Notes as set out above on or before the Closing Date. The Class B VFN and the Class C VFN will not be rated. The assignment of a rating to the Class A Notes is not a recommendation to invest in the Class A Notes or to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Any credit rating assigned to the Class A Notes may be revised or withdrawn at any time.

**Listing** This document comprises a prospectus (the **Prospectus**) for the purpose of Directive 2003/71/EC (the **Prospectus Directive**). This Prospectus has been approved by the Financial Services Authority (the **FSA**) as competent authority under the Prospectus Directive.

Application has been made to the Financial Services Authority (the **FSA**) in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for the Class A Notes to be admitted to the official list of the UK Listing Authority (the **Official List**) and to London Stock Exchange plc (the **London Stock Exchange**) for the Class A Notes to be admitted to trading on the London Stock Exchange's Regulated Market. The London Stock Exchange's Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**). This Prospectus comprises a prospectus for the purposes of the Prospectus Directive. The Class B VFN and the Class C VFN will not be admitted to the Official List of the UK Listing Authority nor will they be admitted to trading on the London Stock Exchange's Regulated Market.

**Obligations**

The Notes will be obligations of the Issuer alone and will not be guaranteed by, or be the responsibility of, any other entity named in the Prospectus.

**Retention Undertaking**

On the Closing Date, the Co-operative Bank will undertake to the Issuer and the Note Trustee, on behalf of the Noteholders, that it will retain a material net economic interest of not less than 5 per cent. in the securitisation in accordance with Article 122(a) of Directive 2006/48/EC (as amended by Directive 2009/111/EC) (**Article 122a**) (which does not take into account any implementing rules of the CRD in a relevant jurisdiction), referred to as the Capital Requirements Directive (**CRD**). As at the Closing Date, such interest will be comprised of an interest in the first loss tranche and other tranches having the same or a more severe risk profile than those transferred or sold to investors, in this case retention of the Class B VFN and the Class C VFN, as required by Article 122a.

**THE "RISK FACTORS" SECTION CONTAINS DETAILS OF CERTAIN RISKS AND OTHER FACTORS THAT SHOULD BE GIVEN PARTICULAR CONSIDERATION BEFORE INVESTING IN THE NOTES, PROSPECTIVE INVESTORS SHOULD BE AWARE OF THE ISSUES SUMMARISED IN THE SECTION.**

## ARRANGERS

**Barclays Capital****J.P. Morgan**

## Joint Lead Managers

**Barclays Capital****J.P. Morgan****Morgan Stanley**

## Co-Manager

**Natixis**

The date of this Prospectus is 4 July 2011

## IMPORTANT NOTICE

**THE NOTES WILL BE OBLIGATIONS OF THE ISSUER ONLY. THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY PERSON OTHER THAN THE ISSUER. IN PARTICULAR, THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY OF THE SELLER, THE SWAP PROVIDERS, THE ARRANGERS, THE JOINT LEAD MANAGERS, THE CO-MANAGER, THE SERVICER, THE CASH MANAGER, THE ACCOUNT BANKS, THE BACK-UP SERVICER FACILITATOR, THE BACK-UP CASH MANAGER FACILITATOR, THE AGENT BANK, THE REGISTRAR, THE VFN REGISTRAR, THE NOTE TRUSTEE, THE SECURITY TRUSTEE (EACH AS DEFINED HEREIN), ANY COMPANY IN THE SAME GROUP OF COMPANIES AS ANY SUCH ENTITIES OR ANY OTHER PARTY TO THE TRANSACTION DOCUMENTS. NO LIABILITY WHATSOEVER IN RESPECT OF ANY FAILURE BY THE ISSUER TO PAY ANY AMOUNT DUE UNDER THE NOTES SHALL BE ACCEPTED BY ANY OF THE SELLER, THE SWAP PROVIDERS, THE ARRANGERS, THE JOINT LEAD MANAGERS, THE CO-MANAGER, THE SERVICER, THE CASH MANAGER, THE ACCOUNT BANKS, THE BACK-UP SERVICER FACILITATOR, THE BACK-UP CASH MANAGER FACILITATOR, THE AGENT BANK, THE VFN REGISTRAR, THE REGISTRAR, THE NOTE TRUSTEE, THE SECURITY TRUSTEE OR BY ANY PERSON OTHER THAN THE ISSUER.**

Each of the Class Aa Notes and the Class Ab Notes will be represented on issue by a global note certificate in registered form (a **Global Note**). The Class B1 VFN, the Class B2 VFN and the Class C VFN will each be issued in dematerialised registered form and no certificate evidencing entitlement to the Class B VFN or the Class C VFN will be issued. The Class A Notes may be issued in definitive registered form under certain circumstances.

The Issuer will also maintain a register, to be kept on the Issuer's behalf by the VFN Registrar, in which the Class B VFN and the Class C VFN will be registered in the name of the Class B VFN Holder and the Class C VFN Holder respectively. Transfers of all or any portion of the interest in the Class B VFN and/or the Class C VFN may be made only through the register maintained by the Issuer.

The Class Aa Notes are intended to be held in a manner which will allow Eurosystem eligibility. This means that the Class Aa Notes are intended upon issue to be deposited with one of Euroclear or Clearstream, Luxembourg as Common Safekeeper and does not necessarily mean that the Class Aa Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

THE DISTRIBUTION OF THIS PROSPECTUS AND THE OFFERING OF THE NOTES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. NO REPRESENTATION IS MADE BY THE ISSUER, THE SELLER, THE NOTE TRUSTEE, THE SECURITY TRUSTEE, THE ARRANGERS, THE JOINT LEAD MANAGERS OR THE CO-MANAGER THAT THIS PROSPECTUS MAY BE LAWFULLY DISTRIBUTED, OR THAT THE NOTES MAY BE LAWFULLY OFFERED, IN COMPLIANCE WITH ANY APPLICABLE REGISTRATION OR OTHER REQUIREMENTS IN ANY SUCH JURISDICTION, OR PURSUANT TO AN EXEMPTION AVAILABLE THEREUNDER, AND NONE OF THEM ASSUMES ANY RESPONSIBILITY FOR FACILITATING ANY SUCH DISTRIBUTION OR OFFERING. IN PARTICULAR, SAVE FOR OBTAINING THE APPROVAL OF THIS PROSPECTUS AS A PROSPECTUS FOR THE PURPOSES OF THE PROSPECTUS DIRECTIVE BY THE UK LISTING AUTHORITY, NO ACTION HAS BEEN OR WILL BE TAKEN BY THE ISSUER, THE SELLER, THE NOTE TRUSTEE, THE SECURITY TRUSTEE, THE ARRANGERS, THE JOINT LEAD MANAGERS OR THE CO-MANAGER WHICH WOULD PERMIT A PUBLIC OFFERING OF THE NOTES OR DISTRIBUTION OF THIS PROSPECTUS IN ANY JURISDICTION

WHERE ACTION FOR THAT PURPOSE IS REQUIRED. ACCORDINGLY, THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, AND NEITHER THIS PROSPECTUS NOR ANY ADVERTISEMENT OR OTHER OFFERING MATERIAL MAY BE DISTRIBUTED OR PUBLISHED, IN ANY JURISDICTION, EXCEPT UNDER CIRCUMSTANCES THAT WILL RESULT IN COMPLIANCE WITH ANY APPLICABLE LAWS AND REGULATIONS. PERSONS INTO WHOSE POSSESSION THIS PROSPECTUS COMES ARE REQUIRED BY THE ISSUER AND THE ARRANGERS TO INFORM THEMSELVES ABOUT AND TO OBSERVE ANY SUCH RESTRICTIONS.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY STATE SECURITIES LAWS AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (**REGULATION S**)) (**U.S. PERSONS**) EXCEPT PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS. FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON REALES OR TRANSFERS, SEE "*TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS*".

EACH OF THE CO-OPERATIVE BANK P.L.C. (**CO-OPERATIVE BANK**), THE JOINT LEAD MANAGERS AND THE CO-MANAGER AND EACH SUBSEQUENT PURCHASER OF THE NOTES WILL BE DEEMED BY ITS ACCEPTANCE OF SUCH NOTES TO HAVE MADE CERTAIN ACKNOWLEDGEMENTS, REPRESENTATIONS AND AGREEMENTS INTENDED TO RESTRICT THE RESALE OR OTHER TRANSFER OF THE NOTES AS SET FORTH THEREIN AND DESCRIBED IN THIS PROSPECTUS AND, IN CONNECTION THEREWITH, MAY BE REQUIRED TO PROVIDE CONFIRMATION OF ITS COMPLIANCE WITH SUCH RESALE AND OTHER TRANSFER RESTRICTIONS IN CERTAIN CASES. SEE "*TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS*".

NONE OF THE ISSUER OR THE ARRANGERS, THE JOINT LEAD MANAGERS OR THE CO-MANAGER MAKES ANY REPRESENTATION TO ANY PROSPECTIVE INVESTOR OR PURCHASER OF THE NOTES REGARDING THE LEGALITY OF INVESTMENT THEREIN BY SUCH PROSPECTIVE INVESTOR OR PURCHASER UNDER APPLICABLE LEGAL INVESTMENT OR SIMILAR LAWS OR REGULATIONS.

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

THE CO-OPERATIVE BANK P.L.C. ACCEPTS RESPONSIBILITY FOR THE INFORMATION SET OUT IN THE SECTIONS HEADED "*ARTICLE 122A OF THE CAPITAL REQUIREMENTS DIRECTIVE*", "*THE CO-OPERATIVE BANK P.L.C.*", "*THE LOANS*", "*CHARACTERISTICS OF THE PORTFOLIO*" AND "*CHARACTERISTICS OF THE UNITED KINGDOM RESIDENTIAL MORTGAGE MARKET*". TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE CO-OPERATIVE BANK P.L.C. (HAVING TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE), THE INFORMATION CONTAINED IN THE SECTIONS REFERRED TO IN THIS PARAGRAPH IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF

SUCH INFORMATION. NO REPRESENTATION, WARRANTY OR UNDERTAKING, EXPRESS OR IMPLIED, IS MADE AND NO RESPONSIBILITY OR LIABILITY IS ACCEPTED BY THE CO-OPERATIVE BANK AS TO THE ACCURACY OR COMPLETENESS OF ANY INFORMATION CONTAINED IN THIS PROSPECTUS (OTHER THAN IN THE SECTIONS REFERRED TO ABOVE) OR ANY OTHER INFORMATION SUPPLIED IN CONNECTION WITH THE NOTES OR THEIR DISTRIBUTION.

NO REPRESENTATION, WARRANTY OR UNDERTAKING, EXPRESS OR IMPLIED, IS MADE AND NO RESPONSIBILITY OR LIABILITY IS ACCEPTED BY CAPITA TRUST COMPANY LIMITED AS TO THE ACCURACY OR COMPLETENESS OF ANY INFORMATION CONTAINED IN THIS PROSPECTUS OR ANY OTHER INFORMATION SUPPLIED IN CONNECTION WITH THE NOTES OR THEIR DISTRIBUTION.

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

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

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

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

### **Forward-Looking Statements**

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

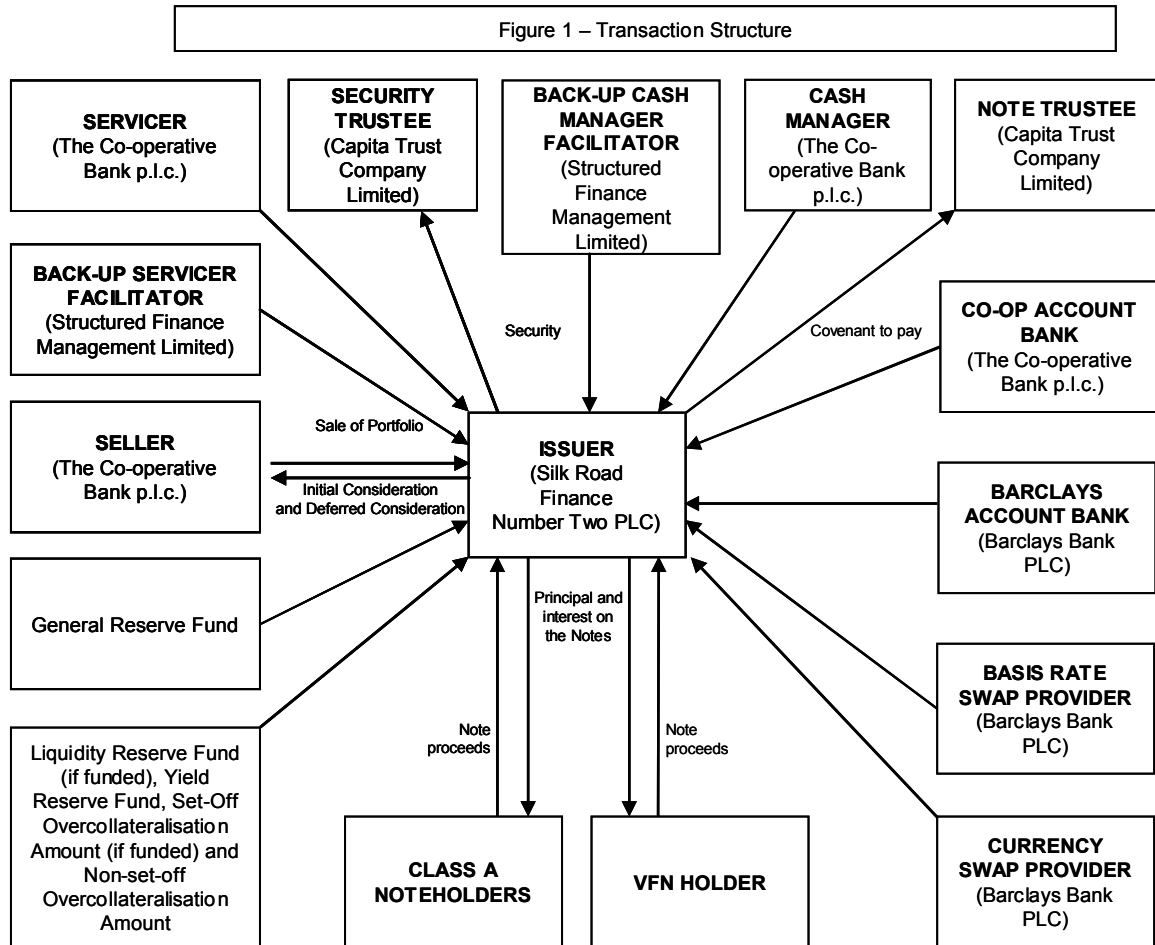


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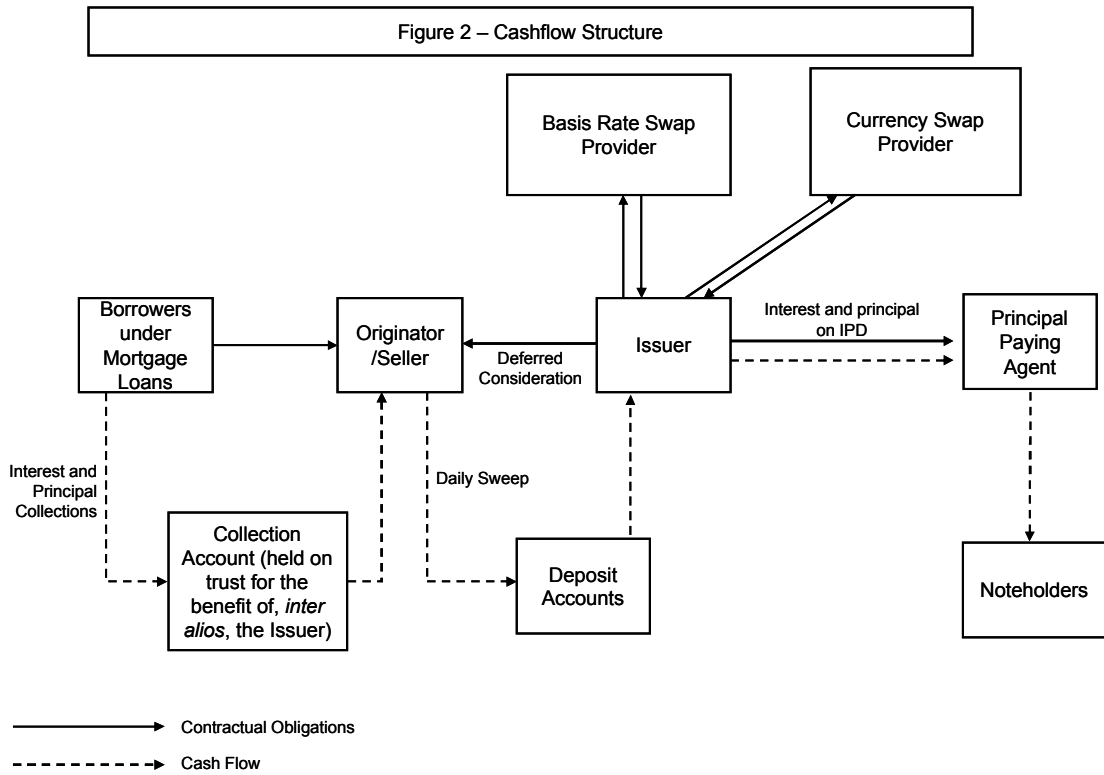
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## STRUCTURE DIAGRAMS

### DIAGRAMMATIC OVERVIEW OF THE TRANSACTION



## DIAGRAMMATIC OVERVIEW OF ONGOING CASH FLOWS



## OWNERSHIP STRUCTURE DIAGRAM OF THE ISSUER

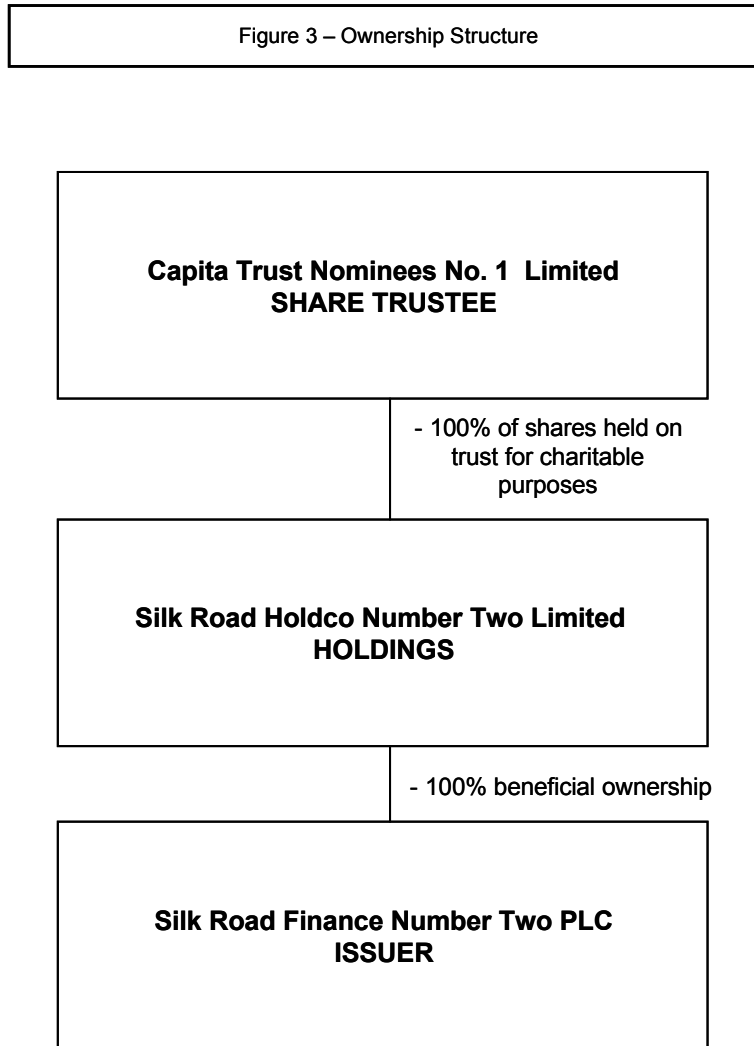


Figure 3 illustrates the ownership structure of the special purpose companies that are parties to the Transaction Documents, as follows:

- The Issuer is a wholly owned subsidiary of Holdings in respect of its beneficial ownership.
- The entire issued share capital of Holdings is beneficially owned by the Share Trustee on a discretionary trust for charitable purposes.
- None of the Issuer, Holdings and the Share Trustee is either owned, controlled, managed, directed or instructed, whether directly or indirectly, by the Seller or any member of the group of companies containing the Seller.

## TRANSACTION OVERVIEW

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

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

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

### A. TRANSACTION PARTIES ON THE CLOSING DATE

Party	Name	Address	Document under which appointed/Further Information
<b>Issuer</b>	Silk Road Finance Number Two PLC	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	See the section entitled " <i>The Issuer</i> " for further information.
<b>Holdings</b>	Silk Road Holdco Number Two Limited	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	See the section entitled " <i>Holdings</i> " for further information.
<b>Seller</b>	The Co-operative Bank p.l.c.	1 Balloon Street, Manchester M60 4EP	See the section entitled " <i>The Co-operative Bank p.l.c.</i> " for further information.
<b>Servicer</b>	The Co-operative Bank p.l.c.	1 Balloon Street, Manchester M60 4EP	Servicing Agreement by, <i>inter alios</i> , the Issuer, the Seller and the Security Trustee. See the section entitled " <i>Summary of the Key Transaction Documents – Servicing Agreement</i> " for further information.
<b>Cash Manager</b>	The Co-operative Bank p.l.c.	1 Balloon Street, Manchester M60 4EP	Cash Management Agreement by, <i>inter alios</i> , the Issuer. See the section entitled " <i>Summary of the Key Transaction Documents – Cash Management Agreement</i> " for further information.
<b>VFN Holder</b>	The Co-operative Bank p.l.c.	1 Balloon Street, Manchester M60 4EP	See the section entitled " <i>Transaction Summary – Summary of the Terms and Conditions of the Notes</i> –

<b>Party</b>	<b>Name</b>	<b>Address</b>	<b>Document under which appointed/Further Information</b>
<b>Basis Rate Swap Provider</b>	Barclays Bank PLC	One Churchill Place, London E14 5HP	<i>Variable Funding Notes</i> for further information.  Basis Rate Swap Agreement by the Issuer. See the section entitled " <i>Credit Structure – Interest Rate Risk for the Notes – Basis Rate Swap Agreement</i> " for further information.
<b>Currency Swap Provider</b>	Barclays Bank PLC	One Churchill Place, London E14 5HP	Currency Swap Agreement by the Issuer. See the section entitled " <i>Credit Structure – Currency Risk for the Notes – Currency Swap Agreement</i> " for further information.
<b>Account Banks</b>	The Co-operative Bank p.l.c. (the <b>Co-op Account Bank</b> )	1 Balloon Street, Manchester M60 4EP	The Co-op Bank Account Agreement by the Issuer and the Security Trustee. See the section entitled " <i>Summary of the Key Transaction Documents – The Co-op Bank Account Agreement</i> " for further information.
	Barclays Bank PLC (the <b>Barclays Account Bank</b> )	One Churchill Place, London E14 5HP	The Barclays Bank Account Agreement by the Issuer and the Security Trustee. See the section entitled " <i>Summary of the Key Transaction Documents – The Barclays Bank Account Agreement</i> " for further information.
<b>Security Trustee</b>	Capita Trust Company Limited	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Deed of Charge. See the " <i>Terms and Conditions of the Notes</i> " for further information.
<b>Note Trustee</b>	Capita Trust Company Limited	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Trust Deed. See the " <i>Terms and Conditions of the Notes</i> " for further information.
<b>Principal Paying Agent and Agent Bank</b>	HSBC Bank plc	8 Canada Square, London E14 5HQ	Agency Agreement by the Issuer. See the " <i>Terms and Conditions of the Notes</i> " for further information.

<b>Party</b>	<b>Name</b>	<b>Address</b>	<b>Document under which appointed/Further Information</b>
<b>Back-Up Servicer Facilitator</b>	Structured Finance Management Limited	35 Great St. Helen's, London EC3A 6AP	Servicing Agreement by, <i>inter alios</i> , the Issuer, the Seller and the Security Trustee. See the section entitled " <i>Summary of the Key Transaction Documents – Servicing Agreement</i> " for further information.
<b>Back-Up Cash Manager Facilitator</b>	Structured Finance Management Limited	35 Great St. Helen's, London EC3A 6AP	Cash Management Agreement by, <i>inter alios</i> , the Issuer, the Seller and the Security Trustee. See the section entitled " <i>Summary of the Key Transaction Documents – Cash Management Agreement</i> " for further information.
<b>Common Safekeeper</b>	A common safekeeper on behalf of Euroclear and Clearstream, Luxembourg	N/A	See the " <i>Terms and Conditions of the Notes</i> " for further information.
<b>VFN Registrar</b>	The Co-operative Bank p.l.c.	1 Balloon Street, Manchester M60 4EP	Agency Agreement by the Issuer. See the " <i>Terms and Conditions of the Notes</i> " for further information.
<b>Registrar</b>	HSBC Bank plc	8 Canada Square, London E14 5HQ	In respect of the Class A Notes, the Agency Agreement by the Issuer. See the " <i>Terms and Conditions of the Notes</i> " for further information.
<b>Corporate Services Provider</b>	Capita Trust Corporate Limited	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Corporate Services Agreement by the Issuer and Holdings.
<b>Collection Account Bank</b>	National Westminster Bank PLC	Derby Street, Leek, Staffordshire	Pursuant to a Declaration of Trust, the Co-operative Bank will declare a trust in favour of the Issuer and the Security Trustee over its beneficial interest in certain collection amounts held in its name with the Collection Account Bank.  See the section entitled

<b>Party</b>	<b>Name</b>	<b>Address</b>	<b>Document under which appointed/Further Information</b>
			<i>"Summary of the Key Transaction Documents – Collection Account Declaration of Trust"</i> for further information.
<b>Arrangers:</b>	Barclays Bank PLC	5 The North Colonnade, Canary Wharf, London E14 4BB	Subscription Agreement. See the section entitled <i>"Subscription and Sale"</i> for further information.
	J.P. Morgan Securities Ltd.	125 London Wall, London EC2Y 5AJ	Subscription Agreement. See the section entitled <i>"Subscription and Sale"</i> for further information.
<b>Joint Lead Managers:</b>	Barclays Bank PLC	5 The North Colonnade, Canary Wharf, London E14 4BB	Subscription Agreement. See the section entitled <i>"Subscription and Sale"</i> for further information.
	J.P. Morgan Securities Ltd.	125 London Wall, London EC2Y 5AJ	Subscription Agreement. See the section entitled <i>"Subscription and Sale"</i> for further information.
	Morgan Stanley & Co. International plc	25 Cabot Square, Canary Wharf London E14 4QA	Subscription Agreement. See the section entitled <i>"Subscription and Sale"</i> for further information.
<b>Co-Manager</b>	Natixis	30, avenue Pierre Mendés-France 75013 Paris	Subscription Agreement. See the section entitled <i>"Subscription and Sale"</i> for further information.



## B. PORTFOLIO AND SERVICING

Please refer to the sections entitled "*Summary of the Key Transaction Documents – Mortgage Sale Agreement*", "*Summary of the Key Transaction Documents – Servicing Agreement*", "*Characteristics of the Portfolio*" and "*The Loans*" for further detail in respect of the characteristics of the Portfolio and the sale and the servicing arrangements in respect of the Portfolio.

### Sale of Portfolio:

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

The Loans and Related Security are governed by English Law.

The sale by the Seller to the Issuer of each Loan in the Portfolio will be given effect, prior to the Effective Date (as defined below), by a CCA Trust (as described below) and, on and from the Effective Date, by an equitable assignment.

The terms **sale**, **sell** and **sold** when used in this Prospectus in connection with the Loans and their Related Security shall be construed to mean each such creation of an equitable interest and such equitable assignment, as applicable. The terms **repurchase** and **repurchased** when used in this Prospectus in connection with the Loans and their Related Security shall be construed to include the repurchase of the beneficial interest of the Issuer in respect of such Loans and their Related Security under the CCA Trust.

Until the Issuer has notified the Seller that it has obtained the requisite licence under the Consumer Credit Act 1974, as amended (the **CCA**) (such date of notification, the **Effective Date**), the Seller will hold the Loans and their Related Security on a bare trust for the Issuer (the **CCA Trust**) and, following receipt of such notification from the Issuer, such Loans and their Related Security will be assigned to the Issuer as described above.

### Features of the Loans:

The following is a summary of certain features of the Loans comprising the portfolio (the **Portfolio**) as at 31 May 2011 (the **Portfolio Reference Date**) and investors should refer to, and carefully consider, further details in respect of the Loans set out in "*The Loans*" and "*Characteristics of the Portfolio*". The Loans comprise loans to prime Borrowers and are secured by first priority charges over freehold and leasehold properties in England and Wales.

Type of Borrower	Prime
Type of mortgage	Repayment, Interest Only and Part Repayment and Interest Only
Self-certified Loans	No
Fast-track Loans	Yes

Number of Loans		8,734	
	Weighted average	Minimum	Maximum
Current Balance	125,123	9,496	848,639
Indexed LTV	66.9%	2.2%	121.5%
Seasoning (months)	19.4	1.0	107.5
Remaining Term (years)	21.1	1.1	39.9

**Consideration:**

The consideration from the Issuer to the Seller in respect of the sale of the Portfolio together with its Related Security shall be: (a) Initial Consideration of £877,300,000, being an amount equal to the Current Balance of the Loans of the Seller comprising the Closing Date Portfolio determined as at close of business on 31 May 2011 plus any Further Advances made in respect of the Loans from (and including) 1 June 2011 to (and including) the Closing Date, which is due and payable on the Closing Date and (b) Deferred Consideration, in each case, payable in accordance with the Mortgage Sale Agreement to the Seller.

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

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

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

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

**Borrower** means, in relation to a Loan, the individual or individuals specified as such in the relevant Mortgage Conditions together with the individual or individuals (if any) from time to time assuming an obligation to repay such Loan or any part of it.

**Representations and Warranties:**

The Seller will make certain Loan Warranties regarding the Loans and Related Security to the Issuer on (a) the Closing Date in relation to the Loans and their Related Security in the Portfolio; (b) the Advance Date in relation to Loans subject to a Further Advance and their Related Security; (c) the Switch Date in relation to Loans subject to a Product Switch and their Related Security; and (d) the Rearrangement Date in relation to Loans subject to a Rearrangement, including in each case, warranties in relation to compliance with the Lending Criteria as it applied at the date of origination of the Loans or as at the relevant Advance Date or Switch Date, as the case may be.

Broadly speaking, in addition to representations and warranties in respect of the legal nature of the Loans and their Related Security, there are also asset Loan Warranties which include the following:

- No Loan is a Buy to Let Loan or a Right to Buy Loan;
- Maximum Current Balance of £1,000,000;
- Minimum of one monthly payment due in respect of each Loan has been paid by the relevant Borrower;
- No Loan is greater than one monthly payment in arrears; and
- Each Loan has a term ending no later than three years earlier than the Final Maturity Date.

It should be noted that any Loan Warranties made by the Seller in relation to a Further Advance, Rearrangement and/or a Product Switch may be varied, amended or waived from time to time without the consent of the Noteholders provided that prior consent has been given by the Security Trustee who, for such purpose, may, but is not obliged to, have regard to whether the Rating Agencies have confirmed that the current ratings of the Class A Notes will not be adversely affected by such variation, amendment or waiver (although neither of the Rating Agencies is obliged to give any such confirmation).

The Seller is not restricted in varying the Lending Criteria from time to time in accordance with the standards of a reasonably prudent residential mortgage lender lending to borrowers in England and Wales who

generally satisfy the lending criteria of traditional sources of residential mortgage capital (a **Reasonable, Prudent Mortgage Lender**). Any amendment to the Loan Warranties will be notified by the Seller to the Rating Agencies.

**Lending Criteria** means the lending criteria of the Seller from time to time, or such other criteria as would be acceptable to a Reasonable, Prudent Mortgage Lender.

See section "*Summary of the Key Transaction Documents – Mortgage Sale Agreement – Representations and Warranties*" for further details.

**Repurchase of the Loans and Related Security:**

The Issuer shall offer to sell and the Seller shall repurchase the relevant Loans, Further Advance, Flexible Drawing, Product Switch or Rearrangement (as applicable) and/or their Related Security in the following circumstances:

- Upon a material breach of Loan Warranties (which the Seller failed to remedy within the agreed grace period);
- If the Issuer is unable to fund the purchase of any Further Advance or Flexible Drawing or the Pre-Funded Purchase Available Amount is insufficient to collateralise the Loan relating to the Further Advance or Flexible Drawing; and
- Upon the failure of the Asset Conditions for Further Advances, Flexible Drawings, Product Switches and/or Rearrangements.

**Consideration for repurchase:**

Consideration payable by the Seller in respect of the repurchase of the Loans and Related Security shall be equal to the aggregate of the Current Balance of the relevant Loan on the Monthly Pool Date immediately following that Monthly Test Date or on the Monthly Pool Date immediately following a determination by the Seller that such breach or breaches cannot be remedied or failure by the Seller to remedy such breach or breaches.

**Perfection Events:**

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

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

**Servicing of the Portfolio:**

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

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

*Transaction Documents — Servicing Agreement*" below.

**Delegation:**

The Servicer may delegate some of its servicing functions to a third party provided that the Servicer remains responsible for the performance of any functions so delegated. See "*Summary of the Key Transaction Documents — Servicing Agreement*" below.

## C. SUMMARY OF THE TERMS AND CONDITIONS OF THE NOTES

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

### FULL CAPITAL STRUCTURE OF THE NOTES

	Class Aa Notes	Class Ab Notes	Class B1 VFN	Class B2 VFN	Class C VFN
Principal Amount:	€500,000,000	£275,000,000	Nominal principal amount of £350,000,000 of which £149,550,000 will be funded on the Closing Date	Nominal principal amount of £150,000,000 of which £19,000,000 will be funded on the Closing Date	Nominal principal amount of £150,000,000 of which £27,432,500 will be funded on the Closing Date
Credit enhancement and liquidity support features:	Subordination of the Class B VFN and Class C VFN, General Reserve Fund, excess Available Revenue Receipts, Liquidity Reserve Fund (if funded)	Subordination of the Class B VFN and Class C VFN, General Reserve Fund, excess Available Revenue Receipts, Liquidity Reserve Fund (if funded)	Subordination of the Class C VFN, excess Available Revenue Receipts, Liquidity Reserve Fund (if funded)	Subordination of the Class C VFN, excess Available Revenue Receipts, Liquidity Reserve Fund (if funded)	Excess Available Revenue Receipts, Liquidity Reserve Fund (if funded)
Issue Price:	100%	100%	100%	100%	100%
Interest Rate:	Three-Month EURIBOR + Margin	Three-Month Sterling LIBOR + Margin	Three-Month Sterling LIBOR + Margin	Three-Month Sterling LIBOR + Margin	Three-Month Sterling LIBOR + Margin
Margin prior to the Step-Up Date:	1.55% p.a.	1.55% p.a.	0.21% p.a.	0.21% p.a.	0.21% p.a.
Step-up Margin (from and including the Step-Up Date):	3.10% p.a.	3.10% p.a.	0.21% p.a.	0.21% p.a.	0.21% p.a.
Interest Accrual Method:	Actual/360	Actual/365F	Actual/365F	Actual/365F	Actual/365F
Interest Payment Dates:	21st day of March, June, September and December, in each year	21st day of March, June, September and December, in each year	21st day of March, June, September and December, in each year	21st day of March, June, September and December, in each year	21st day of March, June, September and December, in each year
First Interest Payment Date:	December 2011	December 2011	December 2011	December 2011	December 2011
Final Maturity Date:	March 2054	March 2054	March 2054	March 2054	March 2054
Step-Up Date:	September 2014	September 2014	N/A	N/A	N/A

	Class Aa Notes	Class Ab Notes	Class B1 VFN	Class B2 VFN	Class C VFN
Application for Exchange Listing:	London	London	Not listed	Not listed	Not listed
ISIN:	XS0615237400	XS0615236691	N/A	N/A	N/A
Common Code:	61523740	61523669	N/A	N/A	N/A
Ratings (Fitch/Moody's):	AAA(sf)/Aaa(sf)	AAA(sf)/Aaa(sf)	Not rated	Not rated	Not rated
Initial purchasers:	-	-	Co-operative Bank	Co-operative Bank	Co-operative Bank
Retained Amount by the Seller	-	-	Whole class	Whole class	Whole class
Minimum Denomination	€100,000	£100,000	£100	£100	£100

As of the date of this Prospectus, each of the Rating Agencies is a credit rating agency established in the European Union and has applied for registration under the Regulation, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.

**Ranking and Form of the Notes:**

The Issuer will issue the following classes of the Notes on the Closing Date under the Trust Deed:

- Class Aa Mortgage Backed Floating Rate Notes due 2054 (the **Class Aa Notes**);
- Class Ab Mortgage Backed Floating Rate Notes due 2054 (the **Class Ab Notes**, and together with the Class Aa Notes, the **Class A Notes**);
- Class B1 variable funding notes due 2054 (the **Class B1 VFN**);
- Class B2 variable funding notes due 2054 (the **Class B2 VFN**, and together with the Class B1 VFN, the **Class B VFN**); and
- Class C variable funding notes due 2054 (the **Class C VFN** and together with the Class B VFN, the **VFNs**),

and together, the Class A Notes and the VFNs, are the **Notes** and the holders thereof, the **Noteholders**.

The Class A Notes will be issued in registered form. The Class B VFN and the Class C VFN will be issued in dematerialised registered form. Each Class of Notes will be issued pursuant to Regulation S and the Class A Notes will be cleared through Euroclear and/or Clearstream, Luxembourg, as set out in "*Description of the Global Note and the Variable Funding Notes*" below.

**Sequential Order:**

The Class Aa Notes and the Class Ab Notes will rank *pari passu* and *pro rata* as to payments of interest and principal ahead of the Class B VFN and the Class C VFN at all times. The Class B1 VFN and the Class B2 VFN will rank *pari passu* and *pro rata* as to payments of interest and principal and will rank ahead of the Class C VFN at all times.

The Notes within each Class or subclass, as the case may be, will rank *pari passu* and rateably without any preference or priority among themselves as to payments of principal and interest at all times.

Pursuant to a deed of charge to be entered into between, *inter alios*, the Issuer and the Security Trustee (the **Deed of Charge**), the Notes will all share the same Security. Certain other amounts, being the amounts owing to the other Secured Creditors, will also be secured by the Security. Following the service of a Note Acceleration Notice, amounts due in respect of the Class A Notes will rank in priority to amounts due in respect of the Class B VFN and the Class C VFN. Amounts due in respect of the Class B VFN will rank in priority to amounts due in respect of the Class C VFN. Certain amounts due by the Issuer to its other Secured Creditors will rank in priority to the Notes.

**Security:**

Pursuant to the Deed of Charge on the Closing Date, the Notes will be secured by, *inter alia*, the following security (the **Security**):



- (a) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's right, title, interest and benefit in and to the Transaction Documents (subject to any rights of set-off or netting provided for therein);
- (b) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's interest in the Loans, the Mortgages and their other Related Security and other related rights comprised in the Portfolio;
- (c) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's right, title, interest and benefit to and under insurance policies sold to the Issuer pursuant to the Mortgage Sale Agreement;
- (d) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in its bank accounts maintained with the Account Banks and any sums standing to the credit thereof;
- (e) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in all Authorised Investments permitted to be made by the Issuer; and
- (f) a floating charge over all other assets of the Issuer not otherwise subject to a fixed charge.

See "*Summary of the Key Transaction Documents – Deed of Charge*" below.

<b>Collateral:</b>	Mortgage loans that were originated by the former Britannia Building Society and mortgage loans originated by the Co-operative Bank under what, as at the Closing Date, is known as the Britannia brand in either case on Britannia branded Standard Documentation from time to time.
<b>Interest Provisions:</b>	Please refer to the " <i>Full Capital Structure of the Notes</i> " table above and as fully set out in Condition 5.
<b>Interest Deferral:</b>	Interest due and payable on the Class A Notes will not be deferred. Interest due and payable on the Class B VFN and Class C VFN may be deferred in accordance with Condition 17.
<b>Gross-up:</b>	None of the Issuer nor any Paying Agent or any other person will be obliged to gross-up if there is any withholding or deduction in respect of the Notes on account of taxes.
<b>Redemption:</b>	The Notes are subject to the following optional or mandatory redemption events: <ul style="list-style-type: none"> <li>• mandatory redemption in whole on the Final Maturity Date, as</li> </ul>

fully set out in Condition 7.1;

- mandatory partial redemption in part on any Interest Payment Date commencing on the first Interest Payment Date but prior to the service of a Note Acceleration Notice subject to availability of Available Principal Receipts (to the extent not used to credit the Retained Principal Receipts Ledger and the Liquidity Reserve Fund (if funded)) which shall be applied (a) first, on a *pari passu* and *pro rata* basis to repay (i) the Class Aa Notes and (ii) the Class Ab Notes until they are each repaid in full and (b) second, on a *pari passu* and *pro rata* basis to repay (i) the Class B1 VFN and (ii) the Class B2 VFN until they are each repaid in full, as fully set out in Condition 7.2. The Class C VFN will be repaid on each Interest Payment Date prior to the service of a Note Acceleration Notice from Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments;
- optional redemption of the Class A Notes exercisable by the Issuer in whole on the Optional Redemption Date, as fully set out in Condition 7.3; and
- optional redemption exercisable by the Issuer in whole for tax or other reasons on any Interest Payment Date following the date on which there is a change in tax law or other law, as fully set out in Condition 7.4.

Any Note redeemed pursuant to the above redemption provisions will be redeemed at an amount equal to the Principal Amount Outstanding of the relevant Note to be redeemed together with accrued (and unpaid) interest on the Principal Amount Outstanding of the relevant Note up to (but excluding) the date of redemption.

**Expected Average Lives of the Class A Notes:**

The actual average lives of the Class A Notes cannot be stated, as the actual rate of repayment of the Loans and redemption of the Loans and a number of other relevant factors are unknown. However, calculations of the possible average lives of the Notes can be made based on certain assumptions as described under "*Weighted Average Lives of the Notes*" below.

**Event of Default:**

As fully set out in Condition 10, which broadly includes (where relevant, subject to the applicable grace period):

- non-payment of interest and/or principal in respect of the Class A Notes;
- material breach of contractual obligations by the Issuer under the Transaction Documents; and
- Insolvency Event occurring in respect of the Issuer.

**Limited Recourse:**

The Notes are limited recourse obligations of the Issuer, and, if not repaid in full, amounts outstanding are subject to a final write-off, which

is described in more detail in Condition 11.4.

**Governing Law:**

English law.

## RIGHTS OF NOTEHOLDERS AND RELATIONSHIP WITH OTHER SECURED CREDITORS

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

**Prior to an Event of Default:** Prior to the occurrence of an Event of Default, Noteholders holding not less than 10 per cent. in Sterling Equivalent Principal Amount Outstanding of the Notes then outstanding are entitled to convene a Noteholders' meeting or participate in a Noteholders' meeting convened by the Issuer or the Note Trustee to consider any matter affecting their interests.

However, so long as no Event of Default has occurred and is continuing, the Noteholders are not entitled to instruct or direct the Issuer to take any actions, either directly or through the Note Trustee, without the consent of the Issuer and, if applicable, certain other Transaction Parties, unless the Issuer has an obligation to take such actions under the relevant Transaction Documents.

**Following an Event of Default:** Following the occurrence of an Event of Default, Noteholders may, if they hold not less than 25 per cent. of the Sterling Equivalent Principal Amount Outstanding of the Class A Notes then outstanding or if they pass an Extraordinary Resolution, direct the Note Trustee to give a Note Acceleration Notice to the Issuer that all classes of the Notes are immediately due and repayable at their respective Principal Amount Outstanding. The Note Trustee shall not be bound to take any such action unless first indemnified and/or prefunded and/or secured to its satisfaction.

### Noteholders Meeting provisions:

	<i>Initial meeting</i>	<i>Adjourned meeting</i>
Notice period:	21 clear days	10 clear days
Quorum:	One or more persons present and representing in aggregate not less than one quarter of the Sterling Equivalent Principal Amount Outstanding of the relevant Class or Classes for transaction of business including the passing of an ordinary resolution. The quorum for passing an Extraordinary Resolution (other than a Basic Terms	One or more persons present and holding or representing in the aggregate not less than one quarter of the aggregate Sterling Equivalent Principal Amount Outstanding of the Notes of such Class.

Modification) shall be one or more persons present and representing in the aggregate not less than 50 per cent. of the aggregate in Sterling Equivalent Principal Amount Outstanding of the relevant Class of Notes. The quorum for passing a Basic Terms Modification shall be one or more persons holding or representing in the aggregate not less than three-quarters of the aggregate Sterling Equivalent Principal Amount Outstanding of such Class of Notes).

Required majority for Extraordinary Resolution: Majority consisting of not less than two thirds of persons eligible to attend and vote at such meeting and voting at such meeting upon a show of hands or, if a poll is duly demanded, by a majority consisting of not less than three-quarters of the votes cast on such poll.

Written Resolution: Not less than three quarters in aggregate Sterling Equivalent Principal Amount Outstanding of the Notes. A resolution in writing has the same effect as an Extraordinary Resolution.

**Matters requiring Extraordinary Resolution:**

Broadly speaking, the following matters require an Extraordinary Resolution:

- to approve any Basic Terms Modification;
- to approve the substitution of any person for the Issuer as principal obligor under the Notes;
- to approve or assent to any modification of the provisions contained in the Notes, the Conditions or the Trust Deed other than

those modifications which are sanctioned by the Note Trustee without the consent or sanction of the Noteholders in accordance with the terms of the Trust Deed;

- to remove the Note Trustee and/or the Security Trustee;
- to approve the appointment of a new Note Trustee and/or Security Trustee;
- to authorise the Note Trustee or any other person to execute all documents and do all things necessary to give effect to any Extraordinary Resolution;
- to discharge or exonerate the Note Trustee from any liability in respect of any act or omission for which it may become responsible under the Trust Deed or the Notes;
- to give any other authorisation or approval which under the Trust Deed or the Notes is required to be given by Extraordinary Resolution; and
- to appoint any persons as a committee to represent the interests of the Noteholders and to convey upon such committee any powers which the Noteholders could themselves exercise by Extraordinary Resolution.

See Condition 12 in the section entitled see "*Terms and Conditions of the Notes*" for more detail.

**Relationship between  
Classes of Noteholders:**

Subject to the provisions governing a Basic Terms Modification, an Extraordinary Resolution of Class A Noteholders shall be binding on the Class B VFN Holders and the Class C VFN Holders, irrespective of the effect upon them, except that an Extraordinary Resolution to sanction a modification of the Trust Deed or any other Transaction Document or waiver or authorisation of any breach or proposed breach of certain matters will not take effect unless: (a) either the Note Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class B VFN Holder or it shall have been sanctioned by a direction of the Class B VFN Holder; and (b) either the Note Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class C VFN Holder or it shall have been sanctioned by a direction of the Class C VFN Holder, and such Extraordinary Resolution and/or direction would override any resolutions to the contrary by them.

A Basic Terms Modification requires an Extraordinary Resolution of the relevant affected Classes of Notes.

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

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

So long as the Notes are outstanding, the Note Trustee will have regard to the interests of each class of the Noteholders equally, but if in the Note

Trustee's sole opinion there is a conflict between their interests (subject to below), it will have regard solely to the interests of:

- (a) the Class A Noteholders only if, in the Note Trustee's opinion, there is a conflict between the interests of:
  - (i) the Class A Noteholders; and
  - (ii) the Class B VFN Holder and/or the Class C VFN Holder;
- (b) subject to (a) above, the Class B VFN Holder only if, in the Note Trustee's opinion, there is a conflict between the interests of:
  - (i) the Class B VFN Holders; and
  - (ii) the Class C VFN Holder,

and the Class B VFN Holder and the Class C VFN Holder shall have no claim against the Note Trustee for doing so.

Other than in respect of an Extraordinary Resolution directing the Note Trustee to give a Note Acceleration Notice, a resolution which, in the opinion of the Note Trustee, affects the interests of the holders of any Class of Notes of only one class shall be deemed to have been duly passed if passed at a separate meeting of the holders of that Class of Notes of that class; a resolution which, in the opinion of the Note Trustee, affects the interests of the holders of any Class of Notes of more than one class but does not give rise to a conflict of interest between the holders of such Class of Notes of any of the classes so affected shall be deemed to have been duly passed if passed at a single meeting of the holders of that Class of Notes of all the classes so affected; a resolution which, in the opinion of the Note Trustee, affects the interests of the holders of any Class of Notes of more than one class and gives or may give rise to a conflict of interest between the holders of such Class of Notes of one class or group of classes so affected and the holders of that Class of Notes of another class or group of classes so affected shall be deemed to have been duly passed only if passed at separate meetings of the holders of that Class of Notes of each class or group of classes so affected.

Notwithstanding the above, the Co-operative Bank will not have any voting rights in respect of the Class A Notes (unless it holds all of the Class A Notes then outstanding).

**Provision of Information to the Noteholders:**

The Cash Manager on behalf of the Issuer will publish the quarterly investor report detailing, *inter alia*, certain aggregated loan data in relation to the Portfolio (the **Investor Report**). The Investor Reports will be published on the Co-operative Bank website at <http://www.britannia.co.uk/bts>. The website and the contents thereof do not form part of this Prospectus.

**Communication with Noteholders:**

Any notice to be given by the Issuer or the Note Trustee to Noteholders shall be given in the following manner:

- so long as the Notes are held in the Clearing Systems, by delivery

to the relevant Clearing System for communication by it to Noteholders;

- so long as the Notes are listed on a recognised stock exchange, by delivery in accordance with the notice requirements of that exchange; and
- in respect of the VFN, notices to Holders will be sent to them by the fax number or email address notified to the Issuer from time to time in writing.

The Note Trustee shall be at liberty to sanction some other method where, in its sole opinion, the use of such other method would be reasonable having regard to market practice then prevailing and to the requirements of the stock exchanges, competent listing authorities and/or quotation systems on or by which the Notes are then listed, quoted and/or traded and provided that notice of such other method is given to Noteholders in such manner as the Note Trustee shall require.

#### **D. CREDIT STRUCTURE AND CASHFLOW**

*Please refer to sections entitled "Credit Structure" and "Cashflows" for further detail in respect of the credit structure and cash flow of the transaction*

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

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

- (a) Revenue Receipts received during the immediately preceding Collection Period or, if in a Determination Period, Calculated Revenue Receipts, in each case, excluding any Reconciliation Amounts to be applied as Available Principal Receipts on that Interest Payment Date;
- (b) interest payable to the Issuer on the Deposit Accounts and income from any Authorised Investments in each case to be received on the Interest Payment Date;



- (c) amounts received or to be received by the Issuer under a Swap Agreement (other than (i) any early termination amount received by the Issuer under the relevant Swap Agreement which is to be applied in acquiring a replacement swap, (ii) Excess Swap Collateral or Swap Collateral, except to the extent that the value of such Swap Collateral has been applied, pursuant to the provisions of the relevant Swap Agreement, to reduce the amount that would otherwise be payable by the relevant Swap Provider to the Issuer on early termination of the relevant Swap Transaction under such Swap Agreement and, to the extent so applied in reduction of the amount otherwise payable by the Swap Provider, such Swap Collateral is not to be applied in acquiring a replacement swap, (iii) any Replacement Swap Premium but only to the extent applied directly to pay any termination payment due and payable by the Issuer to the relevant Swap Provider, (iv) amounts in respect of Swap Tax Credits and (v) Additional Payments) on such Interest Payment Date;
  - (d) the amounts standing to the credit of the General Reserve Ledger as at the immediately preceding Calculation Date;
  - (e) the Scheduled Yield Amount;
  - (f) other net income of the Issuer received during the immediately preceding Collection Period, excluding any Principal Receipts (except for amounts deemed to be Available Revenue Receipts in accordance with paragraph (e) of the Pre-Acceleration Principal Priority of Payments);
  - (g) amounts deemed to be Available Revenue Receipts in accordance with paragraph (e) of the Pre-Acceleration Principal Priority of Payments;
  - (h) amounts received by the Issuer as accrued interest in respect of any Rearrangements repurchased by the Seller in the immediately preceding Collection Period;
  - (i) any Account Bank Defaulted Amounts received by the Issuer in replacement of those Available Revenue Receipts that have not been paid by the Co-operative Bank in its capacity as Co-op Account Bank as a result of an Account Bank Non-Payment Event;
  - (j) if the Class C VFN is redeemed in full, any amounts standing to the credit of the Swap Provider Fee Amount Ledger; and
  - (k) if in a Determination Period, any Reconciliation Amounts deemed to be Available Revenue Receipts in accordance with Condition 5.9(c);
- less:
- (l) amounts applied from time to time during the immediately preceding Collection Period in making payment of the Rearrangement Revenue Element and of certain monies which properly belong to third parties (including the Seller) such as (but not limited to):

- certain fees charged by the Servicer in respect of its servicing of the Loans (the **Servicing Related Fees**);
- payments of certain insurance premiums provided that such cash amounts have been paid by the relevant Borrower and form part of Revenue Receipts;
- amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup such amount itself from its customer's account; and
- any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service to that Borrower or the Seller,

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

*plus*

- (m) if a Revenue Deficiency occurs such that the aggregate of items (a) to (k) less (l) is insufficient to pay or provide for items (a) to (f) of the Pre-Acceleration Revenue Priority of Payments, Available Principal Receipts in an aggregate amount sufficient to cover such Revenue Deficiency;

*plus*

- (n) if a Revenue Deficiency occurs such that the aggregate of items (a) to (k) less (l) plus (m) above is insufficient to pay or provide for items (a) to (f) of the Pre-Acceleration Revenue Priority of Payments, the amount then standing to the credit of the Liquidity Reserve Fund Ledger and available to be drawn to the extent necessary to pay such Revenue Deficiency;

*plus*

- (o) if a Revenue Deficiency occurs such that the aggregate of items (a) to (k) less (l) plus (m) and (n) above is insufficient to pay or provide for items (a) to (f) of the Pre-Acceleration Revenue Priority of Payments and a Swap Provider has failed to make a payment under the relevant Swap Agreement and such default is continuing, the Swap Collateral contributed by such Swap Provider in an aggregate amount equal to the lesser of (i) such Revenue Deficiency and (ii) the Basis Rate Defaulted Swap Amount or Currency Defaulted Swap Amount (relating to interest on the Class Aa Notes), as applicable.

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

- (a) all Principal Receipts or, if in a Determination Period, any Calculated Principal Receipts, in each case, excluding an amount equal to any Reconciliation Amounts to be applied as Available Revenue Receipts on that Interest Payment Date (i) received by the Issuer during the immediately preceding Collection Period or retained in the Retained Principal Receipts Ledger on the last Interest Payment Date (less an amount equal to the aggregate of all Further Advance Purchase Prices and Flexible Drawing Purchase Prices (as adjusted to take account of the purchase price paid by the Issuer for any Further Advances and/or Flexible Drawings on the Monthly Pool Date immediately following the Collection Period End Date)) and (ii) received by the Issuer from the Seller during the immediately preceding Collection Period and on the Monthly Pool Date immediately following the Collection Period End Date in respect of any repurchases of Loans and their Related Security that were repurchased by the Seller pursuant to the Mortgage Sale Agreement (less, other than as specified in paragraph (d) below, amounts standing to the credit of the Rearrangement Purchase Ledger);
- (b) the amount standing to the credit of the Liquidity Reserve Fund (if funded) (to the extent not utilised on such Interest Payment Date pursuant to paragraph (n) of the definition of Available Revenue Receipts);
- (c) (in respect of the first Interest Payment Date only) the amount paid into a Deposit Account on the Closing Date to fund the Retained Principal Ledger for the first Collection Period and an amount equal to the difference between the aggregate of the proceeds of the Class A Notes and the subscription in the Class B1 VFN minus the Initial Consideration;
- (d) amounts standing to the credit of the Rearrangement Purchase Ledger to the extent that such amounts have not been applied to purchase Loans subject to a Rearrangement in the immediately preceding Collection Period (as adjusted to take account of the purchase price paid by the Issuer for any Rearrangement on the Monthly Pool Date immediately following the Collection Period End Date);
- (e) the amounts (if any) calculated on that Interest Payment Date pursuant to the Pre-Acceleration Revenue Priority of Payments, to be the amount by which the debit balance of each of the Class A Principal Deficiency Sub-Ledger and/or the Class B Principal Deficiency Sub-Ledger is reduced;
- (f) the proceeds of any funding under the Class B2 VFN in circumstances where the purchase of a Further Advance or a Flexible Drawing, as the case may be, would cause the Asset Conditions to be breached but the Seller has elected not to repurchase the relevant Loan in accordance with the Mortgage Sale Agreement and the Issuer has increased the Class B2 VFN by an amount equal to the Current Balance of the relevant Loan;

- (g) the proceeds of any further funding under the Class B1 VFN used to fund an increase in the Set-Off Overcollateralisation Amount;
- (h) any Collateralised Amounts;
- (i) any Account Bank Defaulted Amounts in replacement of those Available Revenue Receipts that have not been paid by the Co-operative Bank in its capacity as Co-op Account Bank as a result of an Account Bank Non-Payment Event;
- (j) any Currency Defaulted Swap Amounts (relating to principal in respect of the Class Aa Notes); and
- (k) if in a Determination Period, any Reconciliation Amounts deemed to be Available Principal Receipts in accordance with Condition 5.9(c);

*less*

- (l) any amounts utilised to pay a Revenue Deficiency pursuant to paragraph (m) of the definition of Available Revenue Receipts.

## Summary of Priorities of Payments

Below is a summary of the relevant payment priorities. Full details of the payment priorities are set out in the section entitled "*Cashflows*".

Pre-acceleration Revenue Payments:	Priority of	Pre-acceleration Principal Payments:	Priority of	Post-acceleration Payments:	Priority of
(a) Amounts due in respect of the Note Trustee and Security Trustee including charges, liabilities, fees, costs and expenses		(a) Following the date on which the Co-operative Bank ceases to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa2 or BBB by Fitch, amounts to be credited to the Liquidity Reserve Fund Ledger		(a) Amounts due in respect of the Receiver, the Note Trustee and the Security Trustee including charges, liabilities, fees, costs and expenses	
(b) Amounts due in respect of the fees and costs of Agent Bank, Registrar, VFN Registrar, Paying Agents, Corporate Services Provider, Barclays Account Bank and the Swap Collateral Account Bank		(b) Amounts to be credited to the Retained Principal Receipts Ledger		(b) Amounts due in respect of the fees and costs of Agent Bank, Registrar, VFN Registrar, Paying Agents, Corporate Services Provider, the Barclays Account Bank and the Swap Collateral Account Bank	
(c) Third party expenses and any Transfer Costs		(c) <i>Pro rata</i> and <i>pari passu</i> to the respective amounts then due			
(d) Amounts due in respect of the fees and costs of the Servicer, Cash Manager, Back-Up Servicer Facilitator, Back-Up Cash Manager Facilitator and Co-op Account Bank		– Principal amounts due on the Class Aa (after exchanging the same into euro with the Currency Swap Provider)		(c) Amounts due in respect of the fees and costs of the Servicer, Cash Manager, Back-Up Servicer Facilitator, Back-Up Cash Manager Facilitator and Co-op Account Bank	
(e) Amounts due to the Basis Rate Swap Provider (including any termination payments to the		– Principal amounts due on the Class Ab		(d) Amounts due to the Basis Rate Swap Provider (including any termination	

<p>extent not satisfied by any applicable Replacement Swap Premium and/or any amounts available to be applied in accordance with the Swap Collateral Account Priority of Payments but excluding any Basis Rate Swap Excluded Termination Amount)</p>		Notes	<p>payment to the extent not satisfied by any amounts available in accordance with the Swap Collateral Account Priority of Payment but excluding any Basis Rate Swap Excluded Termination Amount)</p>
	(d)	Principal amounts due on the Class B1 VFN and Class B2 VFN	
	(e)	Amounts to be applied as Available Revenue Receipts	
(f)			(e)
<p><i>Pro rata and pari passu</i> to the respective amounts then due:</p>			<p><i>Pro rata and pari passu</i> to the respective amounts of interest and principal due on the Class A Notes and amounts due to the Currency Swap Provider (including any termination payments to the extent not satisfied by any amounts available to be applied in accordance with the Swap Collateral Account Priority of Payments but excluding any Currency Swap Excluded Termination Amounts) in relation to the Class Aa Notes</p>
<p>–</p>			
<p>Amounts due to the Currency Swap Provider in respect of interest due on the Class Aa Notes and any termination payments due to the Currency Swap Provider (including any termination payments to the extent not satisfied by any applicable Replacement Swap Premium and/or amounts available to be applied in accordance with the Swap Collateral Account Priority of Payments but excluding any</p>			
			(f)

	Currency Swap Excluded Termination Amount)	
	– Interest due on the Class Ab Notes	
(g)	Amounts to be credited to the Class A Principal Deficiency Sub-Ledger	(h) Any Basis Rate Swap Excluded Termination Amount or Currency Swap Excluded Termination Amount (to the extent not satisfied by any amounts available to be applied in accordance with the Swap Collateral Account Priority of Payments) due to a Swap Provider
(h)	Amounts to be credited to the General Reserve Ledger	
(i)	Amounts to be credited to the Class B Principal Deficiency Sub-Ledger	(i) Amounts to be retained by the Issuer as profit
(j)	Amounts to be credited to the Yield Reserve Ledger	(j) Deferred Consideration
(k)	Interest due on the Class B1 VFN and Class B2 VFN	(k) Excess to the Issuer as profit
(l)	Interest due on the Class C VFN	
(m)	Amounts to be retained by the Issuer as profit	
(n)	Amounts due in respect of principal on the Class B VFN to fund items other than the Capital Balance of the Loan	
(o)	Amounts due in respect of	

principal on the Class C VFN

- (p) Any Basis Rate Swap Excluded Termination Amount or Currency Swap Excluded Termination Amount (to the extent not satisfied by any amounts available to be applied in accordance with the Swap Collateral Account Priority of Payments) due to a Swap Provider
- (q) if such Interest Payment Date falls immediately after a Determination Period, then the excess (if any) to the Co-op Deposit Account as Available Revenue Receipts
- (r) Deferred Consideration
- (s) Excess to the Issuer as profit



## General Credit Structure

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

- availability of the General Reserve Fund, funded on the Closing Date by the proceeds of the Class C VFN Holder's subscription of the Class C VFN. Monies standing to the credit of the General Reserve Fund will be used as Available Revenue Receipts on each Interest Payment Date. After the Closing Date, the General Reserve Fund will be replenished up to the General Reserve Required Amount on each Interest Payment Date from Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments. See section "*Credit Structure General Reserve Fund and General Reserve Ledger*";
- a Principal Deficiency Ledger will be established to record any Losses affecting the Loans in the Portfolio and/or the use of any Principal Receipts as Available Revenue Receipts and/or any debiting of the Liquidity Reserve Fund (if funded). The Principal Deficiency Ledger will comprise two sub-ledgers: the Class A Principal Deficiency Sub-Ledger (relating to the Class A Notes) and the Class B Principal Deficiency Sub-Ledger (relating to both the Class B1 VFN and the Class B2 VFN). The application of any Principal Receipts to meet any Losses on the Portfolio will be recorded as a debit (a) first, to the Class B Principal Deficiency Sub-Ledger up to a maximum of the Class B Principal Deficiency Limit (as defined herein); and (b) second, *pro rata* and *pari passu* to the Class A Principal Deficiency Sub-Ledger so long as the debit balance on such ledger is less than the Principal Amount Outstanding of the Class A Notes. Investors should note that realised losses will be calculated after applying any recoveries following enforcement of a Loan to outstanding fees and interest amounts due and payable on the relevant Loan. See "*Credit Structure — Principal Deficiency Ledgers*" below;
- following the date on which the Co-operative Bank ceases to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa2 or BBB by Fitch, availability of the Liquidity Reserve Fund funded by the Issuer up to the Liquidity Reserve Fund Required Amount which will be applied as Available Revenue Receipts to the extent necessary to pay senior expenses and interest payments on the Class A Notes in accordance with the Pre-Acceleration Revenue Priority of Payments on each Interest Payment Date. The Liquidity Reserve Fund will be funded from time to time up to the Liquidity Reserve Fund Required Amount following the date on which the Co-operative Bank ceases to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa2 or BBB by Fitch from Available Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments. The Principal Deficiency Ledger will be debited on each Interest Payment Date by an amount equal to the amount drawn from the Liquidity Reserve Fund on that date (if any). The Liquidity Reserve Fund will be applied by the Issuer as Principal Receipts on the earlier of the Interest Payment Date falling on or prior to the Final Maturity Date and the date on which all Class A Notes have

been redeemed in full. See section "*Credit Structure – Liquidity Reserve Fund and Liquidity Reserve Fund Ledger*";

- a Yield Reserve Fund established by the Issuer on the Closing Date and funded from time to time. Funds standing to the credit of the Yield Reserve Fund will be available to make payments of a portion of the interest due and payable by the Issuer on the Class A Notes on each Interest Payment Date. The Yield Reserve Fund will be funded from time to time from the proceeds of the Class C VFN Holder's subscription of the Class C VFN. Funds standing to the credit of the Yield Reserve Fund (if any) in the amount equal to the Scheduled Yield Amount will be available as Available Revenue Receipts. The Class C VFN Holder may further fund the Class C VFN to increase the Yield Reserve Fund to the Yield Reserve Required Amount as necessary in order to meet the Asset Conditions required for Further Advances, Flexible Drawings and/or Product Switches. On the Closing Date, the Yield Reserve Required Amount will be zero (see section "*Credit Structure – Yield Reserve Fund and Yield Reserve Fund Ledger*" for further details);
- availability of investment rate provided by the Account Banks in respect of monies held in the Deposit Accounts (see section "*Cashflows*" for further details);
- availability of the basis rate swaps provided by the Basis Rate Swap Provider to hedge against the possible variance between the rates of interest payable on the SVR Loans, the Fixed Rate Loans and the Tracker Rate Loans in the Portfolio; and a rate of interest calculated by reference to Three-Month Sterling LIBOR (see section "*Credit Structure – Interest Rate Risk for the Notes*" for further details);
- availability of the currency swap provided by the Currency Swap Provider to hedge against the currency and interest rate exposure in relation to the Class Aa Notes (see section "*Credit Structure – Currency Risk for the Notes*" for further details); and
- availability of overcollateralisation in respect of set-off and non set-off amounts. On the Closing Date, the Issuer will use the proceeds of the subscription for the Class B1 VFN to fund the required amount of overcollateralisation of the Class A Notes (being the difference between the Current Balance of the Portfolio on the Closing Date and the Sterling Equivalent Principal Amount Outstanding of the Class A Notes). The **Overcollateralisation Amount** is expected to be circa 17 per cent. of the Initial Consideration for the Portfolio to be acquired by the Issuer on the Closing Date and the **Set-Off Overcollateralisation Amount** will be zero as at the Closing Date. After the Closing Date, the proceeds of further funding under the Class B1 VFN will be used, *inter alia*, to fund the extent to which the Set-Off Overcollateralisation Amount has increased since the Closing Date.

The proceeds of such further funding under the Class B1 VFN will be applied as Available Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments on the Interest Payment Date immediately following the Collection Period in which they were received (see section "*Credit Structure –Overcollateralisation and Set-Off Overcollateralisation*" for further details).

**Bank Accounts and Cash Management** On the Closing Date the Issuer will enter into (a) the Co-op Bank Account Agreement with the Co-op Account Bank in respect of the Co-op Deposit Account and (b) the Barclays Bank Account Agreement with the Barclays Account Bank in respect of the Barclays Deposit Account.

The Issuer will open a deposit account (the **Co-op Deposit Account** and together with any additional accounts to be established by the Issuer pursuant to the Co-op Bank Account Agreement collectively, the **Co-op Bank Accounts**) with the Co-op Account Bank on the Closing Date.

The amount standing to the credit of the Co-op Deposit Account at any time will be limited to the Co-op Deposit Limit.

If amounts standing to the credit of the Co-op Deposit Account exceed the Co-op Deposit Limit, the Cash Manager shall deposit the amount of any such surplus which it receives in the Barclays Deposit Account.

The Issuer will open a deposit account with the Barclays Account Bank on the Closing Date (the **Barclays Deposit Account** and, together with the Co-op Deposit Account, the **Deposit Accounts**).

As at the date of this Prospectus the Co-operative Bank does not have the Account Bank Rating. To enable the Issuer to utilise the Co-op Bank Account, the Issuer will on the Closing Date deposit the Co-op Collateral Amount with the Barclays Account Bank. The Issuer will be permitted to deposit funds up to the Co-op Deposit Limit in the Co-op Deposit Account.

**Co-op Deposit Limit** means:

- (a) for so long as the short-term and long-term (as applicable) unsecured, unsubordinated and unguaranteed debt obligations of the Co-operative Bank are rated at least the Account Bank Rating, an unlimited amount; or
- (b) for so long as the short-term and long-term (as applicable) unsecured, unsubordinated and unguaranteed debt obligations of the Co-operative Bank are rated below the Account Bank Rating:
  - (i) the maximum amount of any guarantee obtained by the Co-operative Bank (in a form satisfactory to the Security Trustee) from an entity whose short-term and long-term (as applicable) unsubordinated and unguaranteed debt obligations are rated the Account Bank Rating; or
  - (ii) the maximum amount of the Co-op Collateral Amount,

in each case in respect of the obligations of the Co-operative Bank in respect of the Co-op Deposit Account; or

- (c) if no such guarantee or collateral amount referred to in paragraph (b) is in place, zero.

**Co-op Collateral Amount** means an amount equal to the amount deposited with the Barclays Account Bank in the Barclays Deposit Account (and recorded on a ledger, the **Co-op Collateral Account Ledger**, from time to time on that account) by the Co-operative Bank to collateralise its obligations under the Co-op Bank Account Agreement.

On each Interest Payment Date, the Cash Manager will transfer monies from the Deposit Accounts to be applied in accordance with the relevant Priority of Payments. Monies may also be transferred from the Barclays Deposit Account on any Monthly Pool Date to pay the Further Advance Purchase Price in respect of any Further Advance, Flexible Drawing Purchase Price in respect of any Flexible Drawing or Rearrangement Purchase Price in respect of any Rearrangement sold by the Seller to the Issuer.

**E. TRIGGERS TABLES**

**Rating Triggers Table**

<b>Transaction Party</b>	<b>Required Ratings/Triggers</b>	<b>Possible effects of Trigger being breached include the following:</b>
<b>Seller</b>	<p>The short-term, unsecured, unsubordinated debt obligations of the Seller fall below P-2 by Moody's or F-2 by Fitch, respectively as at a Monthly Pool Date.</p> <p>A long-term unsecured, unsubordinated and unguaranteed debt obligation rating from Moody's of at least Baa3 or from Fitch of at least BBB- (unless Moody's and/or, as the context may require, Fitch, as applicable, confirms that the current ratings of the Class A Notes will not be adversely affected).</p>	<p>The Seller must provide to the Issuer and the Security Trustee a Solvency Certificate (in form and substance acceptable to the Security Trustee), signed by an authorised signatory of the Seller.</p> <p>The Seller (unless Moody's and/or, as the context may require, Fitch, as applicable, confirms that the current ratings of the Class A Notes will not be adversely affected) will deliver to the Issuer and the Security Trustee details of the names and addresses of the Borrowers with Loans then in the Portfolio, which may be provided in the document stored upon electronic media (including, but not limited to, a CD-ROM) and a draft letter of notice to such Borrowers of the sale and assignment of those Loans and the Related Security to the Issuer.</p> <p>The Seller shall deliver an update of such information required under the Mortgage Sale Agreement as mentioned above to the same parties on a monthly basis thereafter.</p>
<b>Cash Manager</b>	<p>A long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 (or such other long-term rating which is otherwise acceptable to Moody's) or by Fitch of at least BBB- (unless Moody's and/or, as the context may require, Fitch, as applicable, confirms that the current ratings of the Class A Notes will not be adversely affected).</p>	<p>Under the Cash Management Agreement the Cash Manager, with the assistance of the Back-Up Cash Manager Facilitator, will, within 60 days of the Cash Manager ceasing to be assigned such rating by Moody's, use reasonable endeavours to appoint a back-up cash manager, acceptable to the Security Trustee, which meets the requirements for a substitute cash manager provided for by the Cash Management Agreement (the <b>Back-Up Cash Manager</b>).</p>

Transaction Party	Required Ratings/Triggers	Possible effects of Trigger being breached include the following:
<b>Servicer</b>	A long-term, unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 (or such other long-term rating which is otherwise acceptable to Moody's) or by Fitch of at least BBB- (unless Moody's and/or, as the context may require, Fitch, as applicable, confirms that the current ratings of the Class A Notes will not be adversely affected).	Under the Servicing Agreement the Servicer, with the assistance of the Back-Up Servicer Facilitator, shall, within 60 days following such downgrade by Moody's, use reasonable endeavours to appoint a back-up servicer, acceptable to the Security Trustee, which meets the requirements for a substitute servicer provided for by the Servicing Agreement (the <b>Back-Up Servicer</b> ).
<b>Any Account Bank</b>	A short-term unsecured, unsubordinated and unguaranteed debt rating of P-1 by Moody's and F1 by Fitch and a long-term unsecured, unsubordinated and unguaranteed debt rating of A by Fitch and A2 by Moody's (if a short-term rating is assigned by Moody's) or A1 by Moody's (if no short-term rating is assigned by Moody's), or such other short-term or long-term rating as may from time to time be specified in the most recently published Rating Agency criteria as being required to maintain the then current rating of the Class A Notes) (the <b>Account Bank Rating</b> ).	<p>The Cash Manager will, if an Account Bank fails to maintain any of the Account Bank Ratings, within 30 days of such downgrade (a) close the Issuer Accounts with such Account Bank and open replacement accounts with a financial institution 1) having all of the Account Bank Ratings and 2) which is a bank as defined in Section 991 of the Income Tax Act 2007; (b) obtains a guarantee of its obligations under the Bank Account Agreements from a financial institution having all of the Account Bank Ratings; or (c) takes such other action as may be required by the parties to the Cash Management Agreement to ensure that the then current rating of the Class A Notes is not adversely affected by it ceasing to have all of the Account Bank Ratings, and in each of (a) to (c) above, the Rating Agencies confirm that the then current rating of the Class A Notes would not be adversely affected thereby.</p> <p>The Cash Manager will, on behalf of the Issuer and at the Issuer's cost, in accordance with Clause 7 (Termination) of each Bank Account Agreement:</p>

Transaction Party	Required Ratings/Triggers	Possible effects of Trigger being breached include the following:
		<p>(l) (with the written consent of the Security Trustee) terminate the Bank Account Agreements by giving 30 days prior written notice to the Account Bank (with a copy to, as applicable, the Issuer and the Security Trustee); and</p> <p>(m) at the end of the notice period following service of written notice terminating the relevant Bank Account Agreement:</p> <ul style="list-style-type: none"> <li>(i) immediately close the relevant Issuer Accounts and open replacement accounts with a financial institution having (x) all of the Account Bank Ratings and (y) which is a bank as defined in Section 991 of the Income Tax Act 2007;</li> <li>(ii) immediately transfer amounts standing to the credit of all Ledgers on the Issuer Account to the replacement Issuer Account;</li> <li>(iii) immediately transfer amounts standing to the credit of the Swap Collateral Account(s) (if any) to replacement Swap Collateral Account(s); and/or</li> <li>(iv) immediately transfer amounts standing to the credit of all other affected Issuer Account(s) (if any) to the replacement Issuer Account.</li> </ul> <p><b>Issuer Accounts</b> means each of the Co-op Deposit Account, the Barclays Deposit Account, the Swap Collateral Accounts (if any) and any additional or replacement accounts opened in the name of</p>

Transaction Party	Required Ratings/Triggers	Possible effects of Trigger being breached include the following:
<b>Barclays Account Bank</b>	Short-term, unsecured, unsubordinated and unguaranteed debt obligation ratings falls below the Account Bank Rating.	<p>the Issuer from time to time.</p> <p>The Issuer shall use reasonable endeavours (and with regard to the closing of the Barclays Deposit Account only, the Barclays Account Bank shall provide all reasonable assistance) to, within 30 Business Days of such occurrence, (a) close the Barclays Deposit Account and open a replacement account with a financial institution (x) having a short-term, unsecured, unsubordinated and unguaranteed debt obligation rating of at least the Account Bank Rating, (y) approved in writing by the Cash Manager and (z) being an authorised institution under the FSMA or (b) obtain an unconditional and unlimited guarantee of its obligations under the Barclays Bank Account Agreement from a financial institution having at least the Account Bank Rating.</p> <p>If the Issuer fails to do so within 30 Business Days of such downgrade, the Cash Manager or the Issuer shall (with the prior written consent of the Security Trustee) terminate the Barclays Bank Account Agreement provided that a replacement account provider is appointed.</p>
<b>Currency Swap Provider</b>	(a) Short-term, unsecured and unsubordinated debt must be rated at least P-1 and long-term, unsecured and unsubordinated debt obligations or counterparty obligations must be rated at least A2 by Moody's (or, if the Swap Provider (or any guarantor thereof) is not the subject of a short-term rating by Moody's, the long-term, unsecured and unsubordinated debt obligations or counterparty obligations must be rated at least A1 by Moody's); and (b) short-term, unsecured and unsubordinated debt obligations must be rated at least F1 and long-term, unsecured and unsubordinated debt obligations must be rated at least A by Fitch.	The consequences of breach may include the requirement to provide collateral or replace the Currency Swap Provider or procure a guarantee of such Swap Provider's obligations. If none of these remedial measures is taken within the timeframes stipulated in the Currency Swap Agreement, the Currency Swap Agreement may be terminated early and a termination payment may become payable either by the Issuer or the Currency Swap Provider. See the section entitled " <i>Credit Structure</i> ".



Transaction Party	Required Ratings/Triggers	Possible effects of Trigger being breached include the following:
<b>Basis Rate Swap Provider</b>	(a) Short-term, unsecured and unsubordinated debt must be rated at least P-1 and long-term, unsecured and unsubordinated debt obligations or counterparty obligations must be rated at least A2 by Moody's (or, if the Swap Provider (or any guarantor thereof) is not the subject of a short-term rating by Moody's, the long-term, unsecured and unsubordinated debt obligations or counterparty obligations must be rated at least A1 by Moody's); and (b) short-term, unsecured and unsubordinated debt obligations must be rated at least F1 and long-term, unsecured and unsubordinated debt obligations must be rated at least A by Fitch.	The consequences of breach may include the requirement to provide collateral or replace the Basis Rate Swap Provider or procure a guarantee of such Basis Rate Swap Provider's obligations. If none of these remedial measures is taken within the timeframes stipulated in the Basis Rate Swap Agreement, such Swap Agreement may be terminated early and a termination payment may become payable either by the Issuer or the Basis Rate Swap Provider. See the section entitled " <i>Credit Structure</i> ".
<b>Co-operative Bank</b>	Long-term unsecured, unsubordinated and unguaranteed debt obligations of the Co-operative Bank cease to be assigned a long-term credit rating by Moody's of at least Baa2 or BBB by Fitch.	The Issuer will establish the Liquidity Reserve Fund.

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

### Non Rating Triggers Table

<b>Perfection Events:</b>	<p>Prior to the completion of the transfer of legal title of the Loans, the Issuer will be subject to certain risks as set out in the risk factor entitled "<i>Seller to initially retain legal title to the Loans and risks relating to set-off</i>" in the section entitled "<i>Risk Factors</i>". Completion of transfer of the legal title of the Loans by the Seller to the Issuer will be completed on or before the 20th Business Day after the later to occur of the Effective Date and the earliest to occur of the following:</p> <ul style="list-style-type: none"><li>(a) the Seller being required to perfect legal title to the Loans by (i) an order of a court of competent jurisdiction or (ii) by a regulatory authority which has jurisdiction over the Seller or (iii) by any organisation of which the Seller is a member, or whose members comprise (but are not necessarily limited to) mortgage lenders with whose instructions it is customary for the Seller to comply, to perfect legal title to the Loans;</li><li>(b) it becoming necessary by law to take any or all such actions referred to in (a) above;</li><li>(c) the security under the Deed of Charge or any material part of that security being, in the reasonable opinion of the Security Trustee, in jeopardy and the Security Trustee being required by the Secured Creditors to take action to reduce that jeopardy;</li><li>(d) the Seller calling for perfection by serving notice in writing to that effect on the Issuer and the Security Trustee; or</li><li>(e) the occurrence of a Seller Insolvency Event.</li></ul> <p>If the requisite licence under the CCA has not been obtained upon the occurrence of one or more of the events described in (a) to (e) above, notice of the Issuer's beneficial interest in the CCA Trust will be given by or on behalf of the Issuer to the Borrowers and legal assignment of the Loans and notice of the sale will only be given to the Borrowers upon such licence being obtained.</p>
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## **Servicer Termination Events**

The Servicer will be appointed by the Seller and the Issuer (and, in certain circumstances, the Security Trustee) to service the Portfolio on a day-to-day basis, the Loans sold to the Issuer and their Related Security on behalf of the Issuer (or whilst the Loans are held subject to the CCA Trust, the Servicer will agree to service such Loans on behalf of the Seller in its capacity as trustee thereunder acting upon the instruction of the Issuer in its capacity as beneficiary thereunder) (such services, *inter alia*, the Services).

The appointment of the Servicer may be terminated by the Issuer (subject to the prior written consent of the Security Trustee) at once or at any time thereafter while such default continues upon the occurrence of the following events (the **Servicer Termination Events**):

- the Servicer defaults in the payment on the due date of any payment due and payable by it under the Servicing Agreement and the Servicer failed to remedy it for a period of 30 Business Days after the earlier of the Servicer becoming aware of such default and receipt by the Servicer of written notice from the Issuer, the Seller or the Security Trustee requiring the same to be remedied;
- material non performance of its other covenants and obligations for a period of 30 Business Days after the earlier of the Servicer becoming aware of such default and receipt by the Servicer of written notice from the Issuer, the Seller or the Security Trustee requiring the same to be remedied;
- a third party becomes obliged to undertake the servicing of the Loans (other than as master servicer), pursuant to any back-up servicing agreement contemplated under the Servicing Agreement; or
- Servicer insolvency event.

The Servicer may also resign upon giving 12 months written notice provided a replacement servicer has been appointed by the Issuer (subject to the prior written consent of the Security Trustee).

The resignation of the Servicer is conditional on the resignation having no adverse effect on the then current ratings of the Notes unless the Noteholders agree otherwise by Extraordinary Resolution.

See "*Summary of the Key Transaction Documents — Servicing Agreement*" below.

## F. FEES

The following table sets out the ongoing fees to be paid by the Issuer to the transaction parties.

<u>Type of Fee</u>	<u>Amount of Fee</u>	<u>Priority in Cashflow</u>	<u>Frequency</u>
Servicing fees	0.08 per cent. each year (inclusive of VAT) on the aggregate Current Balance of the Loans in the Portfolio as determined on the preceding Interest Payment Date	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Cash management fee	0.01 per cent. each year (inclusive of VAT) on the Principal Amount Outstanding of the Sterling equivalent of the Notes as determined on the preceding Interest Payment Date up to a maximum fee of £100,000 per year	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Other fees and expenses of the Issuer	Estimated at £30,000 each year (exclusive of VAT)	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Expenses related to the admission to trading of the Notes	Estimated at £3,075 (exclusive of VAT)		On or about the Closing Date

As at the date of this Prospectus VAT is currently chargeable at 20 per cent.

## ARTICLE 122A OF THE CAPITAL REQUIREMENTS DIRECTIVE

The Co-operative Bank will retain a material net economic interest of not less than 5 per cent. in the securitisation in accordance with the text of Article 122(a) of Directive 2006/48/EC (as amended) (**Article 122a**) (which does not take into account any implementing rules of the CRD in a relevant jurisdiction). As at the Closing Date, such interest will be comprised of an interest in the first loss tranche and other tranches having the same or a more severe risk profile than those transferred or sold to investors as required by Article 122a. Such retention requirement will be satisfied by the Co-operative Bank holding the Class B VFN and the Class C VFN. Any change to the manner in which such interest is held will be notified to the Note Trustee and the Noteholders.

For a description of the information to be made available after the Closing Date by the Co-operative Bank, please see the summary in relation to the quarterly investor reports set out in "*Provision of Information to the Noteholders*" above and "*Summary of the Key Transaction Documents – Cash Management Agreement*" below. Further information in respect of individual loan level data may be obtained on the following website: <http://www.britannia.co.uk/bts>. The website and the contents thereof do not form part of this Prospectus.

The Co-operative Bank will provide a corresponding undertaking with respect to (a) the provision of such investor information specified in the paragraph above and (b) the interest to be retained by the Co-operative Bank (i) to the Joint Lead Managers and the Co-Manager in the Subscription Agreement and (ii) to the Issuer and the Note Trustee on behalf of the Noteholders in the Deed of Charge. The Note Trustee will have the benefit of certain protections contained in the Trust Deed in relation to the compliance of the Co-operative Bank with such covenant (for further information please refer to the Risk Factor entitled "*The Note Trustee and the Security Trustee are not obliged to act in certain circumstances*").

Each prospective investor is required to independently assess and determine the sufficiency of the information described above and in this Prospectus generally for the purposes of complying with Article 122a and none of the Issuer, the Co-operative Bank (in its capacity as the Seller, the Servicer or the Cash Manager) nor any of the Arrangers, Joint Lead Managers or the Co-Manager makes any representation that the information described above or in the Prospectus is sufficient in all circumstances for such purposes. The Co-operative Bank accepts responsibility for the information set out in this section "*Article 122a of the Capital Requirements Directive*" (but not, for the avoidance of doubt, any information set out in any other section of the Prospectus referred to in this section).

In addition, each prospective Noteholder should ensure that it complies with the implementing provisions in respect of Article 122a and the CRD in its relevant jurisdiction. Investors who are uncertain as to the requirements which apply to them in respect of their relevant jurisdiction, should seek guidance from their regulator.

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

## WEIGHTED AVERAGE LIVES OF THE CLASS A NOTES

The average lives of the Class A Notes cannot be stated, as the actual rate of repayment of the Loans and redemption of the Mortgages and a number of other relevant factors are unknown. However, calculations of the possible average lives of the Class A Notes can be made based on certain assumptions. For example, based on the assumptions that:

- (a) the Issuer exercises its option to redeem the Class A Notes on the Step-Up Date, in the first scenario, or the Issuer does not exercise its option to redeem the Notes on or after the Step-up Date, in the second scenario;
- (b) the Loans are subject to a constant annual rate of repayment (inclusive of scheduled and unscheduled principal redemptions) of between 5 and 35 per cent. per annum as shown on the table below;
- (c) the assets of the Issuer are not sold by the Security Trustee except as may be necessary to enable the Issuer to realise sufficient funds to exercise its option to redeem the Class A Notes;
- (d) no Note Acceleration Notice has been served on the Issuer and no Event of Default has occurred;
- (e) no Borrowers are offered and accept different mortgage products or Further Advances by the Seller or any of its subsidiaries and the Seller is not required to repurchase any Loan (including any Further Advance thereon from the Closing Date) in accordance with the Mortgage Sale Agreement;
- (f) the Security is not enforced;
- (g) the Mortgages continue to be fully performing;
- (h) the ratio of the Principal Amount Outstanding of the Class A Notes to the Current Balance of the Portfolio as at the Closing Date is 83:100; and
- (i) the Notes are issued on or about 7 July 2011.

	<b>Assuming Issuer call on Step-up Date</b>	
<b>Constant Annual Rate of Repayment of the Loans</b>	<b>Possible Average Life of Class Aa Notes (years)</b>	<b>Possible Average Life of Class Ab Notes (years)</b>
5%	2.94	2.94
10%	2.68	2.68
15%	2.44	2.44
20%	2.21	2.21
25%	1.99	1.99
30%	1.79	1.79
35%	1.60	1.60

	<b>Assuming no Issuer call on Step-up Date</b>	
<b>Constant Annual Rate of Repayment of the Loans</b>	<b>Possible Average Life of Class Aa Notes (years)</b>	<b>Possible Average Life of Class Ab Notes (years)</b>
5%	12.58	12.58
10%	6.21	6.21
15%	4.08	4.08
20%	3.02	3.02
25%	2.38	2.38
30%	1.96	1.96
35%	1.66	1.66

Assumption (a) reflects the current intention of the Issuer but no assurance can be given that such assumption will occur as described.

Assumption (b) is stated as an average annualised repayment rate as the repayment rate for one Interest Period may be substantially different from that for another. The constant repayment rates shown above are purely illustrative and do not represent the full range of possibilities for constant repayment rates.

Assumptions (b) to (g) (inclusive) relate to circumstances which are not predictable.

The average lives of the Notes are subject to factors largely outside the control of the Issuer and consequently no assurance can be given that the assumptions and estimates above will prove in any way to be realistic. They must therefore be viewed with considerable caution. For more information in relation to the risks involved in the use of the average lives estimated above, see "*Risk Factors – Risk Factors relating to the Issuer – Considerations relating to yield, prepayments, mandatory redemption and optional redemption*", above.



## **RISK FACTORS**

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

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

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

### **Credit Structure**

#### ***Liabilities Under the Notes***

The Notes will not be obligations of, or the responsibility of, or guaranteed by, any person other than the Issuer. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by any of the Seller, the Swap Providers, the Arrangers, the Joint Lead Managers, the Co-Manager, the Servicer, the Cash Manager, the Co-op Account Bank, the Barclays Account Bank, the Swap Collateral Account Bank (if the Swap Collateral Account Bank Agreement is entered into), the Principal Paying Agent, the Agent Bank, the Registrar, the VFN Registrar, the Note Trustee, the Security Trustee, any company in the same group of companies as such entities, any other party to the Transaction Documents or by any person other than the Issuer.

#### ***Limited Source of Funds***

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

#### ***Limited recourse***

The Notes will be limited recourse obligations of the Issuer. The ability of the Issuer to meet its obligations under the Notes will be dependent upon the receipt by it in full of (a) principal and interest from the Borrowers under the Loans and their Related Security in the Portfolio (b) payments (if any) due from the Swap Providers, (c) interest income on the Deposit Accounts, (d) funds available in the Yield Reserve Fund, the Liquidity Reserve Fund (if funded) and the General Reserve Fund and (e) funds available in other reserve

funds (if any). Other than the foregoing, the Issuer is not expected to have any other funds available to it to meet its obligations under the Notes. Upon enforcement of the Security by the Security Trustee, if:

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

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

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

#### ***Deferral of Interest Payments on the Class B VFN and the Class C VFN***

If, on any Interest Payment Date whilst any of the Class A Notes remains outstanding, the Issuer has insufficient funds to make payment in full of all amounts of interest (including any accrued interest thereon) payable in respect of the Class B VFN, and/or the Class C VFN after having paid or provided for items of higher priority in the Pre-Acceleration Revenue Priority of Payments, then the Issuer will be entitled under Condition 17 (Subordination by Deferral) to defer payment of that amount (to the extent of the insufficiency) until the following Interest Payment Date or such earlier date as interest in respect of the Class B VFN and/or the Class C VFN becomes immediately due and repayable in accordance with the Conditions. This will not constitute an Event of Default. If there are no Class A Notes then outstanding, the Issuer will not be entitled, under Condition 17 (Subordination by Deferral), to defer payments of interest in respect of the Class B VFN; and if there are no Class A Notes or Class B VFN then outstanding, the Issuer will not be entitled, under Condition 17 (Subordination by Deferral), to defer payments of interest in respect of the Class C VFN.

Failure to pay interest on the Class A Notes (or on the Class B VFN outstanding where the Class A Notes have been redeemed in full or on the Class C VFN outstanding where the Class A Notes and the Class B VFN have been redeemed in full) shall constitute an Event of Default under the Notes which may result in the Security Trustee enforcing the Security.

#### ***Credit risk***

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

### ***Liquidity risk***

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

### ***Subordination of the Class B VFN and the Class C VFN***

The Class B VFN are subordinated in right of payment of interest and principal to the Class A Notes at all times; the Class C VFN are subordinated in right of payment of interest and principal to the Class A Notes and the Class B VFN at all times, all as set out in "*Cashflows — Application of Available Revenue Receipts prior to the service of a Note Acceleration Notice on the Issuer*", "*Cashflows — Application of Available Principal Receipts prior to the service of a Note Acceleration Notice on the Issuer*" and "*Cashflows — Distribution of Available Principal Receipts and Available Revenue Receipts Following the Service of a Note Acceleration Notice on the Issuer*". There is no assurance that these subordination rules will protect the holders of Class A Notes from all risk of loss.

### ***Revenue and Principal Deficiency***

If, on any Interest Payment Date, as a result of shortfalls in Available Revenue Receipts relative to interest due on the Class A Notes, amounts ranking in priority to the payment of interest on the Class A Notes and amounts necessary to eliminate any debit balances on the Principal Deficiency Ledger (excluding the Class B Principal Deficiency Sub-Ledger), there is a Revenue Deficiency, then subject to certain conditions set out in "*Credit Structure*", the Issuer may apply the General Reserve Fund. If following application of the General Reserve Fund, there remains a Revenue Deficiency, then (again subject to certain conditions) the Issuer may apply Principal Receipts (if any). In this event, the consequences set out in the following paragraph may result.

Application, as described above, of any Principal Receipts to meet any Revenue Deficiency (in addition to any Losses) will be recorded first on the Class B Principal Deficiency Sub-Ledger until the balance of the Class B Principal Deficiency Sub-Ledger is equal to the aggregate Principal Amount Outstanding of the Class B VFN then outstanding, and next on the Class A Principal Deficiency Sub-Ledger until the balance is equal to the aggregate Sterling Equivalent Principal Amount Outstanding of the Class A Notes then outstanding.

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

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

- the interest and other net income of the Issuer may not be sufficient, after making the payments to be made in priority thereto, to pay, in full or at all, interest due on the Notes; and

- there may be insufficient funds to repay the Notes on or prior to the Final Maturity Date of the Notes unless the other net income of the Issuer is sufficient, after making other payments to be made in priority thereto, to reduce to nil the balance on the Principal Deficiency Ledger.

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

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

To hedge its interest rate exposure, the Issuer will enter into an SVR Swap Transaction, a Tracker Rate Swap Transaction and a Fixed Interest Rate Swap Transaction (together, the **Basis Rate Swap Transactions**) pursuant to the Basis Rate Swap Agreement on the Closing Date with the Basis Rate Swap Provider (see "*Credit Structure — Interest Rate Risk for the Notes*" below).

A failure by the Basis Rate Swap Provider to make timely payments of amounts due under any of the Basis Rate Swap Transactions will constitute a default under the Basis Rate Swap Agreement. The Basis Rate Swap Agreement provides that the Sterling amounts owed by the Basis Rate Swap Provider on any payment date under the relevant Basis Rate Swap Transaction (which corresponds to an Interest Payment Date) may be netted against the Sterling amounts owed by the Issuer on the same payment date under the same Basis Rate Swap Transaction. Accordingly, if the amounts owed by the Issuer to the Basis Rate Swap Provider on a payment date in respect of a Basis Rate Swap Transaction are greater than the amounts owed by the Basis Rate Swap Provider to the Issuer on the same payment date under the same Basis Rate Swap Transaction, then the Issuer will pay the difference to the Basis Rate Swap Provider on such payment date in respect of a Basis Rate Swap Transaction; if the amounts owed by the Basis Rate Swap Provider to the Issuer on a payment date are greater than the amounts owed by the Issuer to the Basis Rate Swap Provider on the same payment date in respect of a Basis Rate Swap Transaction, then the Basis Rate Swap Provider will pay the difference to the Issuer on such payment date; and if the amounts owed by both parties are equal on a payment date in respect of a Basis Rate Swap Transaction, neither party will make a payment to the other on such payment date in respect of a Basis Rate Swap Transaction. To the extent that the Basis Rate Swap Provider defaults in its obligations under the Basis Rate Swap Agreement to make payments to the Issuer in Sterling, on any payment date under any of the Basis Rate Swap Transactions (which corresponds to an Interest Payment Date), the Issuer will be exposed to the possible variance between various fixed, variable, discretionary or tracker rates payable on the Loans in the Portfolio and Three-Month Sterling LIBOR. Unless one or more comparable replacement basis rate swaps are entered into, the Issuer may have insufficient funds to make payments due on the Notes.

The rates payable by the Issuer under each of the Basis Rate Swap Transactions are not intended to be an exact match of the interest rates that the Issuer receives in respect of the Loans in the Portfolio. As such, there may be circumstances in which the rate payable by the Issuer under the relevant Basis Rate Swap Transaction exceeds the amount that the Issuer receives in respect of the Loans in the Portfolio.

### ***Termination payments under Basis Rate Swap Transactions***

Subject to the following, the Basis Rate Swap Agreement will provide that, upon the occurrence of certain events, the Basis Rate Swap Transactions may terminate and a termination payment by either the Issuer or the Basis Rate Swap Provider may be payable, depending on, among other things, the terms of such Basis Rate Swap Transaction and the cost of entering into a replacement transaction at the time. Any termination payment due by the Issuer (other than (where applicable) the Basis Rate Swap Excluded Termination Amount) to the extent such termination payment is not satisfied by any applicable Replacement Swap Premium which shall be paid directly by the Issuer to the Basis Rate Swap Provider, will rank prior to payments in respect of the Notes. If any termination amount is payable, payment of such termination amounts may affect amounts available to pay interest and principal on all the Notes.

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

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

### ***Currency Risk for the Euro Denominated Notes***

Subscription amounts for the Class Aa Notes (the **Euro Notes**) will be paid by investors in euro.

To hedge its currency exposure, the Issuer will enter into the Currency Swap Agreement relating to the Euro Notes (the **Currency Swap Transaction**), on or about the Closing Date with the Currency Swap Provider (see "*Credit Structure*", below).

A failure by the Currency Swap Provider to make timely payments of amounts due under the Currency Swap Transaction will constitute a default pursuant to the Currency Swap Agreement. The Currency Swap Provider is obliged to make payments under the Currency Swap Transaction only to the extent that the Issuer makes payments under it. To the extent that the Currency Swap Provider is not obliged to provide, or otherwise defaults in its obligations to provide, the Issuer with an amount in euros equal to the full amount of interest and principal due on the Euro Notes on any payment date under the Currency Swap Transaction (which corresponds to an Interest Payment Date), the Issuer will be exposed to changes in euro/sterling currency exchange rates. Unless one or more replacement currency swaps are entered into, the Issuer may have insufficient funds to make payments due on the Notes.

Payments received under the Currency Swap Transaction will not be utilised for the purpose of making payments on Sterling Notes. The Currency Swap Agreement will provide that, upon the occurrence of certain events, the Currency Swap Transaction may terminate and a termination payment by either the Issuer or the Currency Swap Provider will be payable based on the cost of a replacement swap. In relation to the Currency Swap Transaction, any termination payment due by the Issuer (other than (where applicable) any Currency Swap Excluded Termination Amount) to the extent such termination payment is not satisfied by any applicable Replacement Swap Premium which shall be paid directly by the Issuer to the Currency Swap Provider, will rank *pari passu* not only with payments due to the holders of the Class Aa Notes but also with payments due to the holders of any other sub classes of Class A Notes which rank equally with the Class Aa Notes. This may affect amounts available to pay interest and principal on all the Class A Notes.

Any additional amounts required to be paid by the Issuer following termination of the Currency Swap Transaction (including any extra costs incurred (for example, from entering into "spot" currency rate swaps) if the Issuer cannot immediately enter into a relevant replacement swap) will also rank equally not only with payments due to the holders of the Class Aa Notes but also with payments due to the holders of the other sub classes of Class A Notes which rank equally with the Class Aa Notes. This may affect amounts available to pay interest and principal on all the Class A Notes.

Furthermore, any termination payment or additional payment or additional amounts required to be paid by the Issuer following termination of the Currency Swap Transaction (other than (where applicable) any Currency Swap Excluded Termination Amount) to the extent such termination payment is not satisfied by any applicable Replacement Swap Premium which shall be paid directly by the Issuer to the Currency Swap Provider, will rank *pari passu* with payments to the holders of any class of Notes which ranks below the Class Aa Notes. Therefore, if the Issuer is obliged to make a termination payment to the Currency Swap Provider or to pay any other additional amount as a result of the termination of the Currency Swap

Transaction (excluding any Currency Swap Excluded Termination Amount), this may affect the funds which the Issuer has available to make payments on the Notes of any class.

No assurance can be given as to the ability of the Issuer to enter into one or more replacement swaps, or if one or more replacement swaps are entered into, as to the credit rating of the swap provider(s) for the replacement swaps.

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

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

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

Payments and prepayments of principal on the Loans will be applied to reduce the Principal Amount Outstanding of the Notes on a pass-through basis on each Interest Payment Date in accordance with the Pre-Acceleration Principal Priority of Payments (to the extent not used to credit the Retained Principal Receipts Ledger and the Liquidity Reserve Fund (if funded)) (see "*Cashflows*" below).

At any time on or after the Interest Payment Date (a) falling in September 2014 or (b) on which the aggregate Principal Amount Outstanding of all sub-classes of the Class A Notes is equal to or less than 10 per cent. of the aggregate Principal Amount Outstanding of all such sub-classes of the Class A Notes on the Closing Date, the Issuer may, subject to certain conditions, redeem all of the Class A Notes. In addition, the Issuer may, subject to the Conditions, redeem all of the Notes if a change in tax law results in the Issuer or the Basis Rate Swap Provider being required to make a deduction or withholding for or on account of tax. This may adversely affect the yield to maturity on the Class A Notes.

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

### ***Ratings of the Class A Notes***

The ratings address the likelihood of full and timely payment to the Class A Noteholders of all payments of interest on each Interest Payment Date and ultimate payment of principal on the Final Maturity Date of each sub-class of Notes. The Class B VFN and the Class C VFN will not be rated by the Rating Agencies.

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

At any time, any Rating Agency may revise its relevant rating methodology, with the result than any rating assigned to the Class A Notes may be lowered.

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

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

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

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

### ***Absence of secondary market***

No assurance is provided that there is an active and liquid secondary market for the Class A Notes, and no assurance is provided that a secondary market for the Class A Notes will develop. None of the Class A Notes have been, or will be, registered under the Securities Act or any other applicable securities laws and they are subject to certain restrictions on the resale and other transfer thereof as set forth under "*Subscription and Sale*" and "*Transfer and Selling Restrictions*". To the extent that a secondary market exists or develops,

it may not continue for the life of the Class A Notes or it may not provide Class A Noteholders with liquidity of investment with the result that a Class A Noteholder may not be able to find a buyer to buy its Class A Notes readily or at prices that will enable the Class A Noteholder to realise a desired yield. Any investor in the Class A Notes must be prepared to hold their Class A Notes until their Final Maturity Date.

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

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

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

If, in the Note Trustee's or, as the case may be, the Security Trustee's opinion, however, there is or may be a conflict between the interests of the Class A Noteholders (for so long as there are any Class A Notes outstanding) on one hand and the interests of the Class B VFN Holder and/or the Class C VFN Holder on the other hand, then the Note Trustee or, as the case may be, the Security Trustee is required to have regard only to the interests of the Class A Noteholders. Subject thereto if, in the Note Trustee's or, as the case may be, the Security Trustee's opinion, there is or may be a conflict between the interests of the Class B VFN Holder (for so long as there are any Class B VFN outstanding) on the one hand and the interests of the Class C VFN Holder on the other hand, then the Note Trustee or, as the case may be, the Security Trustee is required to have regard only to the interests of the Class B VFN Holder.

If any of the Class A Notes are held by or on behalf of or for the benefit of the Co-operative Bank, the Issuer, any holding company of any of them or any other subsidiary of either such holding company, in each case as beneficial owner, those Class A Notes will be deemed not to remain outstanding, for, *inter alia* the purposes of determining a quorum at a meeting of Noteholders, unless, in the case of the Co-operative Bank only, they hold all of the Class A Notes then outstanding.

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

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

The Co-operative Bank will purchase all of the Class B VFN and all of the Class C VFN on the Closing Date (see "*Subscription and Sale*" below).

### ***The Mortgages***

#### ***Seller to Initially Retain Legal Title to the Loans and risks relating to set-off***

The sale by the Seller to the Issuer of the Loans and their Related Security (until legal title is conveyed) takes effect in equity only (and subject to the CCA Trust). This means that legal title to the Loans and their Related Security in the Portfolio will remain with the Seller until certain trigger events occur under the terms of the Mortgage Sale Agreement (see "*Summary of the Key Transaction Documents — Mortgage Sale Agreement*", below). Until such time, the assignment by the Seller to the Issuer of the Loans and their Related Security takes effect in equity only (and subject to the CCA Trust). The Issuer has not and will not apply to the Land Registry to register or record its equitable interest in the Mortgages.

As a consequence of the Issuer not obtaining legal title to the Loans and their Related Security or the Properties secured thereby, a bona fide purchaser from the Seller for value of any of such Loans and their Related Security without notice of any of the interests of the Issuer might obtain a good title free of any such



interest. If this occurred, then the Issuer would not have good title to the affected Loan and its Related Security, and it would not be entitled to payments by a Borrower in respect of that Loan. However, the risk of third party claims obtaining priority to the interests of the Issuer in this way would be likely to be limited to circumstances arising from a breach by the Seller of its contractual obligations or fraud, negligence or mistake on the part of the Seller or the Issuer or their respective personnel or agents.

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

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

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

Once notice has been given to the Borrowers of the assignment of the Loans and their Related Security to the Issuer, independent set-off rights which a Borrower has against the Seller (such as, for example, set-off rights associated with Borrowers holding deposits with the Seller) will crystallise and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under "transaction set-off" (which are set-off claims arising out of a transaction connected with the Loan) will not be affected by that notice and will continue to exist.

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

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

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

As described above, the sale by the Seller to the Issuer of Loans will be given effect by an assignment. As a result, legal title to the Loans and their Related Security sold by the Seller to the Issuer will remain with the Seller until the occurrence of certain trigger events under the terms of the Mortgage Sale Agreement. Therefore, the rights of the Issuer may be subject to "transaction set-off", being the direct rights of the Borrowers against the Seller, including rights of set-off which occur in relation to transactions or deposits

made between the Borrowers and the Seller existing prior to notification to the Borrowers of the assignment or assignation (as appropriate) of the Loans.

By way of example, set-off rights may arise if the Seller fails to make to a Borrower a Further Advance having agreed to do so.

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

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

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

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

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

The Seller or the Servicer (on behalf of the Seller) may offer a Borrower, or a Borrower may request, a Further Advance or a Product Switch from time to time; such Further Advance or Product Switch may also result in a Rearrangement. Any Loan which has been the subject of a Further Advance, a Rearrangement, a Flexible Drawing or a Product Switch following an application by the Borrower will remain in the Portfolio (or, in the case of a Rearrangement, will be repurchased from the Seller by the Issuer prior to the Monthly Test Date on which compliance with the relevant criteria are determined). If the Issuer subsequently determines that any Further Advance, Rearrangement, Flexible Drawings or Product Switch does not satisfy an Asset Condition, as at such Advance Date, Rearrangement Date, Drawing Date or Switch Date (where applicable), and such default is not remedied in accordance with the Mortgage Sale Agreement the Seller will be required to repurchase the relevant Loan and its Related Security. See further "*Summary of the Key Transaction Documents — Mortgage Sale Agreement — Repurchase by the Seller*".

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

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

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

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

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

The information in the section headed "*Characteristics of the Portfolio*" has been extracted from the systems of the Seller as at 31 May 2011 (the **Portfolio Reference Date**). The Portfolio as at the Portfolio Reference Date comprised of 8,734 Loans with a current balance of £1,092,823,775. The portfolio that will be sold to the Issuer on the Closing Date will be randomly selected from the Portfolio as at the Portfolio Reference Date (the **Closing Date Portfolio**). The characteristics of the Closing Date Portfolio will vary from those set out in the tables in this Prospectus as a result of, *inter alia*, the random reduction in the size of the Portfolio, repayments and redemptions of Loans and the removal of any Loans from the Portfolio that do not comply with the Loan Warranties as at 31 May 2011. Neither the Seller nor the Servicer has provided any assurance that there will be no material change in the characteristics of the Portfolio between the Portfolio Reference Date and the Closing Date.

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

#### ***Issuer Reliance on Other Third Parties***

The Issuer is also party to contracts with a number of other third parties who have agreed to perform services in relation to the Notes. In particular, but without limitation, the Corporate Services Provider has agreed to provide certain corporate services to the Issuer pursuant to the Corporate Services Agreement, the Co-op Account Bank has agreed to provide the Co-op Deposit Account to the Issuer pursuant to the Co-op Bank Account Agreement, the Barclays Account Bank has agreed to provide the Barclays Deposit Account to the Issuer pursuant to the Barclays Bank Account Agreement, (if the Swap Collateral Account Bank Agreement is entered into) the Swap Collateral Account Bank has agreed to provide the Swap Collateral Account to the Issuer pursuant to the Swap Collateral Bank Account Agreement, the Servicer has agreed to service the Portfolio pursuant to the Servicing Agreement, the Cash Manager has agreed to provide cash management services pursuant to the Cash Management Agreement and the Paying Agents, the Registrar, the VFN Registrar and the Agent Bank have all agreed to provide services with respect to the Notes pursuant to the Agency Agreement. In the event that any of the above parties were to fail to perform their obligations under the respective agreements to which they are a party, Noteholders may be adversely affected.

#### ***The Servicer***

If the Servicer is removed, there is no guarantee that a substitute servicer would be found, which could delay collection of payments on the Loans and ultimately could adversely affect payments on the Notes. Such risk is mitigated by the provisions of the Servicing Agreement pursuant to which the Back-Up Servicer Facilitator, in certain circumstances, will assist the Issuer in appointing a substitute servicer.

The Co-operative Bank will be appointed by the Issuer as Servicer to service the Loans. If the Servicer breaches the terms of the Servicing Agreement, then (prior to the delivery of a Note Acceleration Notice and with the prior written consent of the Security Trustee) the Issuer or (after delivery of a Note Acceleration Notice) the Security Trustee will be entitled to terminate the appointment of the Servicer in accordance with

the terms of the Servicing Agreement and the Issuer and the Seller shall use their reasonable endeavours to appoint a new servicer in its place whose appointment is approved by the Security Trustee.

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

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

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

Upon the occurrence of an Event of Default, the Note Trustee in its absolute discretion may, and if so directed in writing by the holders of not less than 25 per cent. in aggregate Sterling Equivalent Principal Amount Outstanding of the Class A Notes then outstanding or if so directed by an Extraordinary Resolution of the Class A Noteholders shall (subject, in each case, to being indemnified and/or prefunded and/or secured to its satisfaction), give a Note Acceleration Notice to the Issuer that all classes of the Notes are immediately due and repayable at their respective Principal Amounts Outstanding, together with accrued interest as provided in the Trust Deed.

So long as no Class A Notes remain outstanding, upon the occurrence of an Event of Default, the Note Trustee shall, if so directed in writing by the holders of the Class B VFN, where no Class A Notes remain outstanding, or the Class C VFN, where no Class A Notes and Class B VFN remain outstanding) (subject, in each case, to being indemnified and/or prefunded and/or secured to its satisfaction), give a Note Acceleration Notice to the Issuer that all classes of the Notes are immediately due and repayable at their respective Principal Amounts Outstanding, together with accrued interest as provided in the Trust Deed.

Each of the Note Trustee and the Security Trustee may, at any time, at their discretion and without notice, take such proceedings, actions or steps against the Issuer or any other party to any of the Transaction Documents as it may think fit to enforce the provisions of (in the case of the Note Trustee) the Notes or the Trust Deed (including the Conditions) or (in the case of the Security Trustee) the Deed of Charge or (in either case) of the other Transaction Documents to which it is a party and at any time after the service of a Note Acceleration Notice, the Security Trustee may, at its discretion and without notice, take such steps as it may think fit to enforce the Security. However, neither the Note Trustee nor the Security Trustee shall be bound to take any such proceedings or steps (including, but not limited to, the giving of a Note Acceleration Notice in accordance with Condition 10 (Events of Default)) unless:

- (a) it shall have been directed to do so by an Extraordinary Resolution of the Class A Noteholders or it has been directed to do so by the Class B VFN Holder or the Class C VFN Holder (in accordance with the priority described in paragraphs (i) and (ii) of the proviso below) or in writing by the holders of at least 25 per cent. in Sterling Equivalent Principal Amount Outstanding of the Class A Notes then outstanding; and
- (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction,

provided that the Note Trustee or the Security Trustee shall not, and shall not be bound to, act at the direction of:

- (i) the Class B VFN Holder as aforesaid so long as any Class A Notes are outstanding; or

- (ii) the Class C VFN Holder as aforesaid so long as any of the Class A Notes and Class B VFN are outstanding.

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

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

In relation to the covenant to be given by the Seller to the Issuer and the Note Trustee on behalf of the Noteholders in the Deed of Charge in accordance with the text of Article 122a regarding the material net economic interest to be retained by the Seller in the securitisation and certain requirements as to providing investor information in connection therewith, the Note Trustee will not be under any obligation to monitor the compliance by the Seller with such covenant and will not be under any obligation to take any action in relation to non-compliance with such covenant unless and until the Note Trustee has received actual written notice of the same, in which event the only obligations of the Note Trustee will be to notify the Issuer (who shall notify the Noteholders of the same) and, subject to the Note Trustee being indemnified and/or secured and/or prefunded to its satisfaction, to take such further action as it is directed to take in connection with such non-compliance by an Extraordinary Resolution of the Noteholders.

### ***Change of counterparties***

The parties to the Transaction Documents who receive and hold monies or provide support to the transaction pursuant to the terms of such documents (such as the Co-op Account Bank, the Barclays Account Bank, the Swap Collateral Account Bank (if the Swap Collateral Account Bank Agreement is entered into), the Currency Swap Provider and the Basis Rate Swap Provider) are required to satisfy certain criteria in order that they can continue to be a counterparty to the Issuer.

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

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

### ***The Portfolio***

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

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

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

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

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

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

***Declining property values***

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

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

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

### ***Geographic Concentration Risks***

Loans in the Portfolio may also be subject to geographic concentration risks within certain regions of the United Kingdom. To the extent that specific geographic regions within the United Kingdom have experienced or may experience in the future weaker regional economic conditions and housing markets than other regions in the United Kingdom, a concentration of the Loans in such a region may be expected to exacerbate the risks relating to the Loans described in this section. Certain geographic regions within the United Kingdom rely on different types of industries. Any downturn in a local economy or particular industry may adversely affect the regional employment levels and consequently the repayment ability of the Borrowers in that region or the region that relies most heavily on that industry. Any natural disasters in a particular region may reduce the value of affected Properties. This may result in a loss being incurred upon sale of the Property. These circumstances could affect receipts on the Loans and ultimately result in losses on the Notes. For an overview of the geographical distribution of the Loans as at the Portfolio Reference Date, see "*Characteristics of the Portfolio — Geographical Spread Distribution*".

### ***Interest Only Loans***

Each Loan in the Portfolio may be repayable either on a capital repayment basis, an interest-only basis or a combination capital repayment/interest payment basis (see "*The Loans — Repayment Terms*" below). Where the Borrower is only required to pay interest during the term of the Loan, with the capital being repaid in a lump sum at the end of the term, the Borrower is recommended to ensure that some repayment mechanism such as an investment policy is put in place to ensure that funds will be available to repay the capital at the end of the term. Whilst the Seller does not verify or does not require proof that such repayment mechanism is in place and does not take security over any investment policies taken out by Borrowers, the Seller will review the repayment mechanism in line with the size of the loan, the applicant's age, income and likelihood of the repayment mechanism accumulating sufficient value to repay the loan and will decline the application if this repayment mechanism is deemed to be unacceptable.

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

### ***Insurance Policies***

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

### ***Searches, Investigations and Warranties in Relation to the Loans***

The Seller will give certain warranties to each of the Issuer and the Security Trustee regarding the Loans and their Related Security sold to the Issuer on the Closing Date and will give similar warranties to each of the Issuer and the Security Trustee regarding any Further Advances, Product Switches, and Rearrangements at

the relevant Advance Date, Switch Date or Rearrangement Date, as applicable (see "*Summary of the Key Transaction Documents — Mortgage Sale Agreement*" below for a summary of these).

Neither the Note Trustee, the Security Trustee, the Arrangers, the Joint Lead Managers, the Co-Manager nor the Issuer has undertaken, or will undertake, any investigations, searches or other actions of any nature whatsoever in respect of any Loan or its Related Security in the Portfolio and each relies instead on the warranties given in the Mortgage Sale Agreement by the Seller. Loans which have undergone such a limited investigation may be subject to matters which would have been revealed by a full investigation of title and which may have been remedied or, if incapable of remedy, may have resulted in the Related Security not being accepted as security for a Loan had such matters been revealed. The primary remedy of the Issuer against the Seller if any of the warranties made by the Seller is materially breached or proves to be materially untrue as at the Closing Date, the Advance Date, the Rearrangement Date or the Switch Date (as applicable), which breach is not remedied on the Monthly Pool Date immediately succeeding the Monthly Period in which the relevant sale, Further Advance, Rearrangement or Product Switch occurred, shall be to require the Seller to repurchase any relevant Loan and its Related Security. There can be no assurance that the Seller will have the financial resources to honour such obligations under the Mortgage Sale Agreement. This may affect the quality of the Loans and their Related Security in the Portfolio and accordingly the ability of the Issuer to make payments due on the Notes.

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

### ***Certain Regulatory considerations***

#### *FSA Regulation of Mortgage Business*

In the United Kingdom, regulation of residential mortgage business by the FSA under the Financial Services and Markets Act 2000 (the **FSMA**) came into force on 31 October 2004 (the date known as **N(M)**). Subject to certain exemptions, entering into, arranging or advising in respect of or administering Regulated Mortgage Contracts (or agreeing to do any of these things) are regulated activities under the FSMA requiring authorisation and permission from the FSA.

A credit agreement is a **Regulated Mortgage Contract** under the FSMA if, at the time it is entered into on or after N(M) (a) the borrower is an individual or trustee, (b) the contract provides for the obligation of the borrower to repay to be secured by a first legal mortgage or first ranking standard security on land (other than timeshare accommodation) in the UK and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust or by a related person.

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



authorisation and permission. If such a servicing agreement terminates, however, the Issuer will have a period of not more than one month in which to arrange for mortgage administration to be carried out by a replacement servicer having the required FSA authorisation and permission.

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

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

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

If requirements as to authorisation of lenders and brokers or as to issue and approval of financial promotions are not complied with, a Regulated Mortgage Contract and, if requirements as to issue and approval of financial promotions are not complied with, other "qualifying credit" will be unenforceable against the borrower except with the approval of a court. In addition, a borrower who is a private person may be entitled to claim damages for loss suffered as a result of any contravention by an authorised person of an FSA rule, and may set off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken with the lender. Any such set-off may adversely affect the Issuer's ability to make payments on the Notes. An unauthorised person who administers a Regulated Mortgage Contract entered into on or after N(M) may commit a criminal offence, but this will not render the contract unenforceable against the borrower.

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

The Seller will give warranties to the Issuer in the Mortgage Sale Agreement that, among other things, each Loan and its Related Security is enforceable (subject to certain exceptions). If a Loan or its Related Security does not comply with these warranties, and if the default (if capable of remedy) cannot be or is not cured within 90 days of the Seller receiving notice of such non compliance, then the Seller will, upon receipt of notice from the Issuer, be required to repurchase all of the relevant Loans secured on the same Property and their Related Security from the Issuer.

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

#### *Proposed expansion of MCOB regulation*

In November 2009, HM Treasury published a consultation on introducing a regulated activity of managing Regulated Mortgage Contracts, which is intended to protect consumers when mortgage loans are sold. In March 2010, HM Treasury acknowledged an industry concern that the proposed regulated activity of managing Regulated Mortgage Contracts was drawn too widely and could potentially extend to include the activities of securitisation assignees such as the Issuer. In January 2011, HM Treasury announced its decision not to introduce a regulated activity of managing Regulated Mortgage Contracts but instead to extend the regulated activity of administering Regulated Mortgage Contracts to exercising specified rights such as changing interest rates or taking action to repossess the property. However, until the related legislation introducing the HM Treasury's proposals is published, it is not certain what effect the expansion of the regulated activity of administering Regulated Mortgage Contracts would have on the Loans, the Seller, the Issuer and/or the Servicer and their respective business operations. The related legislation is expected to be in place later in 2011.

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

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

In February 2011, HM Treasury published a further consultation proposing, among other things, that the FCA will have power to render unenforceable contracts made in contravention of its product intervention rules. This consultation also proposes formalised co-operation between the FCA and the Ombudsman (described below) particularly where issues potentially have wider implications, with a view to the FCA requiring affected firms to operate consumer redress schemes. The new regulatory structure is expected to be in place by the end of 2012.

#### *Consumer Credit Act 1974*

In the United Kingdom, the OFT is responsible for the issue of licences under, and the superintendence of the working and enforcement of, the Consumer Credit Act 1974 (the **CCA**), related consumer credit regulations and other consumer protection legislation. The OFT may review businesses and operations, provide guidelines to follow and take action when necessary with regard to the mortgage market in the United Kingdom (except to the extent that the market is regulated by the FSA under the FSMA, as described above). The licensing regime under the CCA is different from and where applicable, in addition to the authorisation regime under the FSMA.

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

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

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

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

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

#### *Consumer Credit Act 2006*

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

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

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

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

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

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

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

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

The Seller will give warranties to the Issuer in the Mortgage Sale Agreement that, among other things, each Loan and its Related Security is enforceable (subject to exceptions). If a Loan or its Related Security does not comply with these warranties, and if the default (if capable of remedy) cannot be or is not cured within 90 days of the Seller receiving notice of such non compliance, then the Seller will, upon receipt of notice from the Issuer, be required to repurchase all of the relevant Loans secured on the same Property (together, forming one **Mortgage Account**) and their Related Security from the Issuer.

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

On 31 March 2011, the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers. The proposed directive applies to: (a) credit agreements secured by a mortgage or comparable security commonly used in a member state on residential immovable property, or secured by a right relating to residential immovable property; (b) credit agreements the purpose of which is to purchase or retain rights in land or in an existing or proposed residential building; and (c) credit agreements the purpose of which is to renovate residential immovable property and which are outside the Consumer Credit Directive (Directive 2008/48/EC). The proposed directive does not apply to credit agreements to be repaid from the sale proceeds of an immovable property, or to certain credit granted by an employer to its employees.

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

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

### ***Distance Marketing***

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

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

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

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

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

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

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

The UTCCR will not affect terms which define the main subject matter of the contract, such as the borrower's obligation to repay the principal (provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer's attention), but may affect terms that are not considered to be terms which define the main subject matter of the contract, such as the lender's power to vary the interest rate and certain terms imposing early repayment charges and mortgage exit administration fees. For example, if a term permitting the lender to vary the interest rate (as the Seller is permitted to do) is found to be unfair, the borrower will not be liable to pay interest at the increased rate or, to the extent that the borrower has paid it, will be able, as against the lender, or any assignee such as the Issuer, to claim repayment of the extra interest amounts paid or to set off the amount of the claim against the amount owing by the borrower under the loan or any other loan agreement that the borrower has taken with the lender. Any such set-off may adversely affect the Issuer's ability to make payments on the Notes.

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

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

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

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

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

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

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

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

### ***Mortgage Market Review***

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

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

Under the FSMA, the Financial Ombudsman Service (the **Ombudsman**) is required to make decisions on, among other things, complaints relating to activities and transactions under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all circumstances of the case, taking into account, among other things, law and guidance. Transitional provisions exist by which certain complaints relating to breach of the Mortgage Code, the "**CML Code**" issued by the Council of Mortgage Lenders, occurring before N(M) may be dealt with by the Financial Ombudsman Service.

Complaints brought before the Financial Ombudsman Service for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Financial Ombudsman Service. As the Financial Ombudsman Service is required to make decisions on the basis of, among other things, the principles of

fairness, and may order a money award to a complaining borrower, it is not possible to predict how any future decision of the Financial Ombudsman Service would affect the ability of the Issuer to make payments to Noteholders.

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

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

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

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

In addition to the general prohibition on unfair commercial practices, the CPUTRs contain provisions aimed at aggressive and misleading practices (including, but not limited to: (i) pressure selling; (ii) misleading marketing (whether by action or omission); and (iii) falsely claiming to be a signatory to a code of conduct) and a list of practices which will in all cases be considered unfair. The effect (if any) of the CPUTRs on the Loans, the Seller or the Issuer and their respective businesses and operations will depend on whether those entities engage in any of the practices described in the CPUTRs. Whilst engaging in an unfair commercial practice does not render a contract void or unenforceable, to do so is an offence punishable by a fine and/or imprisonment. In practical terms, the CPUTRs have not added much to the regulatory requirements already in place, such as treating customers fairly and conduct of business rules. Breach of the CPUTRs would initiate intervention by a regulator. No assurance can be given that the CPUTRs will not adversely affect the ability of the Issuer to make payments to Noteholders.

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

On 8 October 2008, the UK Government announced the introduction of a new credit guarantee scheme pursuant to which the Government will make available to eligible institutions for an interim period a guarantee of new short and medium term debt issuance to assist in refinancing maturing, wholesale funding obligations as they fall due. The UK Government has indicated that certain debt instruments including the Notes are not covered by the guarantee provided under the scheme and, as such, for the avoidance of doubt, the obligations of the Issuer in respect of the Notes are not guaranteed by the UK Government under the above credit guarantee scheme. In addition, on 19 January 2009, the UK government announced the introduction of the asset backed securities guarantee scheme which closed on 31 December 2009. The Notes are not guaranteed by the UK Government under the asset backed securities guarantee scheme. Also, any investment in the Notes does not have the status of a bank deposit in England and Wales and is not within the scope of the UK Financial Services Compensation Scheme.



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

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

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

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

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

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

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

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

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

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

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the Issuer (other than by way of assignment in security) may take effect under English law as floating charges only, if, for example, it is determined that the Security Trustee does

not exert sufficient control over the Charged Property (although it should be noted that there is no equivalent concept of recharacterisation of fixed security as floating charges under Scots law). If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Security Trustee in respect of the floating charge assets.

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

### ***Liquidation expenses***

Prior to the House of Lords' decision in the case of *Re Leyland Daf* in 2004, the general position was that, in a liquidation of a company, the liquidation expenses ranked ahead of unsecured debts and floating chargees' claims. *Re Leyland Daf* reversed this position so that liquidation expenses could no longer be recouped out of assets subject to a floating charge. However, section 176ZA of the Insolvency Act 1986, and article 150ZA of the Insolvency (Northern Ireland) Order 1989, which came into force on 6 April 2008, effectively reversed by statute the House of Lords' decision in *Re Leyland Daf*. As a result, it is now the case that the costs and expenses of a liquidation will be payable out of floating charge assets in priority to the claims of the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to the approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to rules 4.218A to 4.218E of the Insolvency Rules 1986 and rules 4.228A to 4.228E of the Insolvency Rules (Northern Ireland) 1991. In general, the reversal of *Leyland Daf* applies in respect of all liquidations commenced on or after 6 April 2008.

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

### ***Validity of priorities of payments***

The validity of contractual priorities of payments such as those contemplated in this transaction has been challenged in the English and U.S. courts. The hearings have arisen due to the insolvency of a secured creditor (in that case a swap counterparty) and have considered whether such payment priorities breach the "anti-deprivation" principle under English and U.S. insolvency law. This principle prevents a party from agreeing to a provision that deprives its creditors of an asset upon its insolvency. It was argued that where a secured creditor subordinates itself to noteholders in the event of its insolvency, that secured creditor effectively deprives its own creditors. The Court of Appeal in *Perpetual Trustee Co Ltd & Anor v BNY Corporate Trustee Services Ltd & Ors* [2009] EWCA Civ 1160, dismissed this argument and upheld the validity of similar priorities of payment, stating that the anti-deprivation principle was not breached by such provisions.

In parallel proceedings in New York, Judge Peck of the U.S. Bankruptcy Court for the Southern District of New York granted Lehman Brothers Special Finance Inc.'s (**LBSF**) motion for summary judgement on the basis that the effect was that the provisions do infringe the anti-deprivation principle in a U.S. insolvency. Judge Peck acknowledged that this resulted in the U.S. courts coming to a decision "directly at odds with the judgement of the English Courts". The English Supreme Court granted leave to appeal the Court of Appeal's

decision. In New York, however, whilst leave to appeal was granted, the case was settled before an appeal was heard. Notwithstanding the New York settlement, the appeal by one of the appellants, Lehman Brothers Special Financing Inc., against two of the respondents, Belmont Park Investments Pty and BNY Corporate Trustee Services Ltd, in the English courts was heard in early March 2011 and the judgment is awaited. Therefore concerns still remain that the English and U.S. courts will diverge in their approach which, in the case of an unfavourable decision either in England or New York, may adversely affect the Issuer's ability to make payments on the Notes and/or the market value of the Notes. It may also lead to changes in the Rating Agencies' ratings methodologies and/or ratings downgrades. Given the current state of U.S. and English law, this is likely to be an area of continued judicial focus particularly in respect of multi-jurisdictional insolvencies.

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

The Banking Act 2009 (the **Banking Act**), which came into effect on 21 February 2009, includes (amongst other things) provision for a special resolution regime pursuant to which specified UK authorities have extended tools to deal with the failure (or likely failure) of a UK bank or building society (such as the Seller, the Basis Rate Swap Provider, the Account Banks, etc). In particular, in respect of UK banks, such tools include share and property transfer powers (including powers for partial property transfers), certain ancillary powers (including powers to modify certain contractual arrangements in certain circumstances) and two new special insolvency procedures which may be commenced by UK authorities (i.e. bank insolvency and bank administration). It is possible that the extended tools described above could be used prior to the point at which an application for insolvency proceedings with respect to a relevant entity could be made.

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

If an instrument or order were to be made under the Banking Act in respect of the Seller, the Basis Rate Swap Provider, the Account Banks, etc, such instrument or order may (amongst other things) affect the ability of such entities to satisfy their obligations under the Transaction Documents and/or result in modifications to such documents. In particular, modifications may be made pursuant to powers permitting certain trust arrangements to be removed or modified (such as e.g. the CCA Trust) and/or via powers which permit provision to be included in an instrument or order such that the relevant instrument or order (and certain related events) is required to be disregarded in determining whether certain widely defined "default events" have occurred (which events would include certain trigger events included in the Transaction Documents in respect of the relevant entity, including termination events and (in the case of the Seller) trigger events in respect of perfection of legal title to the Mortgage Loans). As a result, the making of an instrument or order in respect of a relevant entity may affect the ability of the Issuer to meet its obligations in respect of the Notes. While there is provision for compensation in certain circumstances under the Banking Act, there can be no assurance that Noteholders would recover compensation promptly and equal to any loss actually incurred. At present, the UK authorities have not made an instrument or order under the Banking Act in respect of the relevant entities referred to above and there has been no indication that it will make any such instrument or order, but there can be no assurance that this will not change and/or that Noteholders will not be adversely affected by any such instrument or order if made. Also, in 2011 the European Commission consulted on Technical Details of a Possible EU Framework for Bank Recovery and Resolution. If that proposal is implemented it could affect the ability of the various parties to satisfy their obligations under the transaction documents.

### ***Legal considerations may restrict certain investments***

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

### ***EU Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments (unless during that period they elect otherwise), the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries.

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

Investors who are in any doubt as to their position should consult their professional advisers. The European Commission has prepared certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements detailed above

### ***Withholding Tax Under the Notes***

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

As of the date of this Prospectus, no withholding or deduction for or on account of UK tax will be required on interest payments to any holders of the Class A Notes provided that the Class A Notes carry a right to interest and are and, in the case of the Class A Notes, continue to be listed on a recognised stock exchange. The London Stock Exchange is a recognised stock exchange for such purposes and the Class A Notes will be treated as listed on the London Stock Exchange if the Class A Notes are included in the Official List (within the meaning of and in accordance with the provisions of Part VI of the FSMA) and admitted to trading on the London Stock Exchange. The applicability of any withholding or deduction for or on account of United Kingdom taxes is discussed further under "*United Kingdom Taxation*" below.

### ***European Monetary Union***

It is possible that, prior to the maturity of the Notes, the United Kingdom may become a participating Member State in the European economic and monetary union and that the Euro may become the lawful currency of the United Kingdom. In that event (a) all amounts payable in respect of the Notes may become payable in Euro; (b) law may allow or require the Notes to be redenominated into Euro and additional

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

### ***Book-Entry Interests***

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

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

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

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

Although Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfers of Book-Entry Interests among account holders of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at

any time. None of the Issuer, the Note Trustee, the Security Trustee, any Paying Agent, the Registrar or any of their agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants or account holders of their respective obligations under the rules and procedures governing their operations.

The lack of Notes in physical form could also make it difficult for a Noteholder to pledge such Notes if Notes in physical form are required by the party demanding the pledge and hinder the ability of the Noteholder to recall such Notes because some investors may be unwilling to buy Notes that are not in physical form.

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

### ***Meetings of Noteholders, Modification and Waivers***

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

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

### ***Change of Law***

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

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

The Co-operative Bank is subject to extensive regulation and supervision by the FSA. The banking laws to which the Co-operative Bank is subject govern the activities in which banks and building societies may engage and are designed to maintain the safety and soundness of banks and building societies, and limit their exposure to risk. In addition, the Co-operative Bank must comply with financial services laws that govern its

marketing and selling practices. The regulatory framework governing international financial markets is currently being amended in response to the credit crisis, and new legislation and regulations are being introduced in the UK and the European Union that will affect the Co-operative Bank including proposed regulatory initiatives that could significantly alter capital treatment and liquidity of the Notes.

In 1988, the Basel Committee on Banking Supervision (the **Basel Committee**) adopted capital guidelines that explicitly link the relationship between a bank's capital and its credit risks. These guidelines have been implemented by banking regulators in most industrialised countries, including the UK. The Basel guidelines are intended to strengthen the soundness of the international banking system and to reduce competitive inequality among international banks by harmonising the definition of capital, establishing a basis for the evaluation of risk for each category of assets and applying a uniform target capital adequacy ratio of capital to risk-weighted assets.

The capital adequacy framework established by the International Convergence of Capital Measurement and Capital Standards: Revised Framework (**Basel II**) was finalised and published in June 2006 and introduced capital requirements relating to operational risk and effects significant changes in the calculation of capital requirements against credit risk. Basel II is implemented in the European Union by the Capital Requirements Directive (comprising Directives 2006/48/EC and 2006/49/EC). The Capital Requirements Directive has now been amended by Directive 2009/111/EC (known as **CRD II**). CRD II was implemented in the UK on 31 December 2010.

The Capital Requirements Directive was further amended by Directive 2010/76/EU dated 24 November 2010 (**CRD III**), which introduces a number of changes in response to the recent and current market conditions, which may increase the capital requirements for trading books to ensure that a bank's assessment of the risks connected with its trading book better reflects the potential losses from adverse market movements in stressed conditions; and limit investments in securitisations held in the trading book and re-securitisations by imposing higher capital requirements for re-securitisations to make sure that banks take proper account of the risks of investing in such complex financial products. CRD III entered into force on 15 December 2010 and is due to be implemented in EU Member States by 31 December 2011. Pending the transposition of CRD III into English law, there is still significant uncertainty around the interpretation and the implementation of CRD III and any transposing English law as it relates to the Co-operative Bank and the liquidity of the Notes.

In addition, several regulatory initiatives have recently been proposed which may result in changes in the regulatory capital requirements of the Co-operative Bank. On 16 December 2010 and 13 January 2011, the Basel Committee issued its final guidance on the proposed changes to capital adequacy and liquidity requirements (**Basel III**), which envisages a substantial strengthening of existing capital rules, including through the following proposals:

- raising the quality of the Core Tier I capital base in a harmonised manner (including through changes to the items which give rise to adjustments to that capital base and a reform of the capital structure);
- introducing a requirement for non-Core Tier I and Tier II capital instruments to have a mechanism that requires them to be written off on the occurrence of a bailout of the institution; this would apply to internationally active banks;
- strengthening the risk coverage of the capital framework; and
- promoting the build-up of capital buffers and the introduction of a new leverage ratio as well as short-term and longer-term standards for funding liquidity (referred to as the Liquidity Coverage Ratio and the Net Stable Funding Ratio) and introducing a global minimum liquidity standard for the banking sector.

The implementation of the Basel III reforms will begin on 1 January 2013, however the requirements are subject to a series of transitional arrangements and will be phased in over a period of time. Member countries will be required to implement the new capital standards from January 2013, the new Liquidity Funding Ratio from January 2015 and the Net Stable Funding Ratio from January 2018.

In the European Union, the Basel III proposals are expected to be implemented by way of further changes to the Capital Requirements Directive, which will be transposed into national law by EU Member States. As at the date of this Prospectus, the European Commission has published a public consultation document on proposed amendments to the Capital Requirements Directive (**CRD IV**), which reflects the consultation documents issued by the Basel Committee in December 2009 (the **Basel III Proposal**), later finalised in the form of Basel III; but because few changes were made between the Basel III Proposal and Basel III, the CRD IV largely reflects Basel III. An updated public consultation document in respect of CRD IV is expected to be published later this year. Once CRD IV is adopted, the UK will be required to enact laws, regulations and administrative provisions necessary to implement the Directive.

Significant uncertainty remains around the implementation of some of these initiatives. To the extent certain of these measures are implemented as currently proposed or announced, in particular the changes proposed or announced by the Basel Committee, they would be expected to have a significant impact on the capital, asset and liability management of the Co-operative Bank.

Such changes in the regulatory framework and in how such regulations are applied may have a material effect on the Co-operative Bank's business and operations. As the new framework of banking laws and regulations affecting the Co-operative Bank is currently being implemented, the manner in which those laws and related regulations will be applied to the operations of financial institutions is still evolving. No assurance can be given that laws and regulations will be adopted, enforced or interpreted in a manner that will not have an adverse effect on the business, financial condition, cash flows and results of operations of the Co-operative Bank. Prospective investors in the Notes should consult their own advisors as to the consequences for them of the application of the above regulations as implemented by each Member State.

In Europe, the U.S. and elsewhere there is increased political and regulatory scrutiny of the asset-backed securities industry. This has resulted in a raft of measures for increased regulation which are currently at various stages of implementation and which may have an adverse impact on the regulatory capital charge to certain investors in securitisation exposures and/or the incentives for certain investors to hold asset-backed securities, and may thereby affect the liquidity of such securities. Investors in the Notes are responsible for analysing their own regulatory position and none of the Issuer, the Joint Lead Managers, the Co-Manager, the Arrangers or the Co-operative Bank makes any representation to any prospective investor or purchaser of the Notes regarding the regulatory capital treatment of their investment on the Closing Date or at any time in the future.

In particular, investors should be aware of Article 122a of the EU Capital Requirements Directive which applies in general in respect of notes issued under securitisations established after 31 December 2010, and to notes issued under securitisations established on or before that date from the beginning of 2015 to the extent that new underlying exposures are added or substituted after 31 December 2014. Article 122a restricts an EU regulated credit institution from investing in asset-backed securities unless the originator, sponsor or original lender in respect of the relevant securitisation has explicitly disclosed to the EU regulated credit institution that it will retain, on an ongoing basis, a net economic interest of not less than 5 per cent. in respect of certain specified credit risk tranches or asset exposures as contemplated by Article 122a. Article 122a also requires an EU regulated credit institution to be able to demonstrate that it has undertaken certain due diligence in respect of, amongst other things, its note position and the underlying exposures and that procedures are established for such activities to be conducted on an ongoing basis. Failure to comply with one or more of the requirements set out in Article 122a will result in the imposition of a penal capital charge on the notes acquired by the relevant investor.



Article 122a applies to EU regulated credit institutions and their related entities on a consolidated basis. Investors should therefore make themselves aware of the requirements of Article 122a (and any corresponding implementing rules of their regulator), where applicable to them, in addition to any other regulatory requirements applicable to them with respect to their investment in the Notes. With respect to the commitment of the Co-operative Bank to retain a material net economic interest in the securitisation as contemplated by Article 122a and with respect to the information to be made available by the Issuer or another relevant party (or, after the Closing Date, by the originator in its capacity as the Servicer or the Cash Manager on the Issuer's behalf) in relation to the due diligence requirements under Article 122a, please see the statements set out in "*Summary of the Terms and Conditions of the Notes – Article 122a of the Capital Requirements Directive*". Relevant investors are required to independently assess and determine the sufficiency of the information described above for the purposes of complying with Article 122a (and any corresponding implementing rules of their regulator) and none of the Issuer, the Co-operative Bank (in its capacity as the Seller, the Servicer or the Cash Manager) nor any of the Arrangers, the Joint Lead Managers or the Co-Manager makes any representation that the information described above is sufficient in all circumstances for such purposes.

There remains considerable uncertainty with respect to Article 122a and its implementation in EEA states and it is not clear what is required to demonstrate compliance to national regulators. It should be noted that EEA states may implement Article 122a (and related provisions) differently. Investors who are uncertain as to the requirements that will need to be complied with in order to avoid the additional regulatory charges for non compliance with Article 122a should seek guidance from their regulator. Similar requirements to those set out in Article 122a are expected to be implemented for other EU regulated investors (such as investment firms, insurance and reinsurance undertakings, UCITS funds and certain hedge fund managers) in the future.

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

#### ***Pensions Act 2004***

Under the Pensions Act 2004 a person that is 'connected with' or an 'associate' of an employer under an occupational pension scheme can be subject to either a contribution notice or a financial support direction. The Issuer may be treated as 'connected to' an employer under an occupational pension scheme which is within the Co-operative Bank Group.

A contribution notice could be served on the Issuer if it was party to an act, or a deliberate failure to act, the main purpose or one of the main purposes of which was either (a) to prevent the recovery of the whole or any part of a debt which was, or might become, due from the employer under Section 75 of the Pensions Act 1995 or (b) otherwise than in good faith, to prevent such a debt becoming due, to compromise or otherwise settle such a debt, or to reduce the amount of such a debt which would otherwise become due.

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

It should be noted that, following the decision of the High Court in *Bloom & Ors v The Pensions Regulator* (Nortel, Re) [2010] EWHC 3010 (Ch), Briggs J held that contribution notices and financial support directions issued after the commencement of a liquidation or an administration (by the Pensions Regulator pursuant to its "moral hazard" powers) should be treated by the companies in liquidation/administration as a

liquidation/administration expense, not an ordinary unsecured debt. This means that any such payments will be required to be made in priority to the claims of the Security Trustee in respect of the floating charge assets. The matter is, however, not yet settled as permission has been granted for the case to be appealed on an expedited basis to the Court of Appeal and Briggs J suggested that the parties may want to seek an amendment to the existing legislation.

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

### ***CRA Regulations***

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

***Co-operative Bank Group's businesses are subject to substantial regulation, and regulatory and governmental oversight. Adverse regulatory developments or changes in government policy could have a significant material adverse effect on Co-operative Bank Group's operating results, financial conditions and prospects.***

The Co-operative Bank and its affiliates (the **Co-operative Bank Group**) conducts its businesses subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in the UK and the other markets where it operates. This is particularly the case in the current market environment, which is witnessing increased levels of government intervention in the banking sector, which the Co-operative Bank Group expects to continue. Future changes in regulation, fiscal or other policies are unpredictable and beyond the control of the Co-operative Bank Group and could materially adversely affect the Co-operative Bank Group's businesses.

Areas where changes could have an adverse impact include, but are not limited to:

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- general changes in government or regulatory policy, or changes in regulatory regimes that: may significantly influence investor decisions in particular markets in which the Co-operative Bank Group operates; may change the structure of those markets and the products offered; or may increase the costs of doing business in those markets;
- other general changes in regulatory requirements, such as prudential rules relating to the capital adequacy or liquidity frameworks;
- external bodies applying or interpreting standards or laws differently to those applied by the Co-operative Bank Group historically;
- changes in competition and pricing environments;
- further developments in requirements relating to financial reporting, corporate governance, conduct of business and employee compensation;

- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and
- other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty which, in turn, may affect demand for the Co-operative Bank Group's products and services.

In the UK and elsewhere, there is continuing political and regulatory scrutiny of the banking industry and, in particular retail banking and in the UK, the Competition Commission and the OFT are currently carrying out several inquiries. In recent years, there have been several issues in the UK financial services industry in which the FSA has intervened directly, including the sale of personal pensions, the sale of mortgage related endowments and the sale of payment protection insurance (**PPI**) and PPI complaints handling.

In light of the ongoing market uncertainty, the Co-operative Bank Group expects to face increased regulation and political and regulatory scrutiny of the financial services industry. The UK Government, FSA or other regulators, in the UK or overseas, may intervene further in relation to the areas of industry risk already identified, or in new areas, which could adversely affect the Co-operative Bank Group. Any such regulatory developments or changes may have a negative impact on the Co-operative Bank Group's results and may have an impact on the ability of the Co-operative Bank to perform its obligations under the transaction documents and ultimately adversely affect the interests of the Noteholders.

Compliance with any changes in regulation or with any regulatory intervention resulting from political or regulatory scrutiny may significantly increase the Co-operative Bank Group's costs, impede the efficiency of its internal business processes, limit its ability to pursue business opportunities, or diminish its reputation. Any of these consequences could have a material adverse effect on the Co-operative Bank Group's operating results, financial condition and prospects which may impact upon the ability of the Co-operative Bank to perform its obligations under the Transaction Documents which may ultimately affect the interests of the Noteholders.

***The Co-operative Bank Group is exposed to various forms of legal and regulatory risk including the risk of mis-selling financial products, acting in breach of legal or regulatory principles or requirements and giving negligent advice, any of which could have a negative impact on its results or its relations with its customers***

The Co-operative Bank Group is exposed to many forms of legal and regulatory risk, which may arise in a number of ways. Primarily:

- certain aspects of the Co-operative Bank Group's business may be determined by the authorities, the Ombudsman or the courts as not being conducted in accordance with applicable laws, or, in the case of the Ombudsman, with what is fair and reasonable in the Ombudsman's opinion;
- the possibility of alleged mis-selling of financial products by or attributed to a member of the Co-operative Bank Group, resulting in disciplinary action or requirements to amend sales processes, withdraw products, or provide restitution to affected customers; all of which may require additional provisions;
- the possibility of significantly increased levies payable by relevant members of the Co-operative Bank Group to the Financial Services Compensation Scheme (the **FSCS**), a scheme which pays compensation to eligible customers of FSA authorised financial services firms that are unable, or are likely to be unable, to pay claims against them, which may require additional provisions;
- contractual obligations may either not be enforceable as intended or may be enforced against the Co-operative Bank Group in an adverse way;

- (e) the Co-operative Bank Group holds accounts for a number of customers that might be or are subject to interest from various regulators including the Serious Fraud Office, those in the U.S. and others. The Co-operative Bank Group is not aware of any current investigation into the Co-operative Bank Group as a result of any such enquiries but cannot exclude the possibility of the Co-operative Bank Group's conduct being reviewed as part of any such investigations;
- (f) the intellectual property of the Co-operative Bank Group (such as its trade names) may not be adequately protected; and
- (g) the Co-operative Bank Group may be liable for damages to third parties harmed by the conduct of its business.

In addition, the Co-operative Bank Group faces risk where legal or regulatory proceedings or the Ombudsman or other complaints are brought by, amongst others, customers, counterparties, shareholders and regulators against it in the English High Court or elsewhere or in jurisdictions outside the UK, including other European countries and the United States. For example, a major focus of US governmental policy relating to financial institutions in recent years has been combating money laundering and terrorist financing and enforcing compliance with US economic sanctions. The outcome of any proceeding or complaint is inherently uncertain and could have a material adverse effect on the Co-operative Bank Group's operations and/or financial condition especially to the extent the scope of any such proceedings expands beyond original focus.

On 17 May 2011, the Co-operative Bank announced that it will make a provision of £90 million in its 2011 accounts to cover the cost of redress and administration of PPI complaints. Whilst the provision is considered to be prudent, the exact liability remains uncertain. This provision follows legal proceedings brought by the UK British Bankers' Association against the FSA and the Ombudsman, in which the English High Court gave a decision, which became final on 10 May 2011, that intervention by the FSA and the Ombudsman on PPI complaints handling is lawful. The Co-operative Bank has provided £20.3 million in its accounts for its share of the levies that will be raised by the FSCS including the interest on the loan from HM Treasury to the FSCS in respect of the levy years to 31 March 2011 and to 31 March 2012. The provision includes estimates for the interest the FSCS will pay on the loan and of the Co-operative Bank's market participation in the relevant years. Although the liabilities are considered to be material to the Co-operative Bank, and they have been recognised, as mentioned, and duly disclosed, the ultimate cost to the industry in respect of PPI and increased FSCS levies remains uncertain.

Failure to manage these risks adequately could impact the Co-operative Bank Group adversely, both financially and reputationally through an adverse impact on the Co-operative Bank Group's brands which may impact upon the ability of the Co-operative Bank to perform its obligations under the Transaction Documents which may ultimately affect the interests of the Noteholders.

#### ***Fair value adjustment risk***

Market conditions have resulted, and may continue to do so in the future, in changes to the estimated fair values of financial assets of the Co-operative Bank Group. Negative fair value adjustments may have a material adverse effect on the Co-operative Bank Group's operating results, financial condition and prospects.

Furthermore, on the merger of Britannia Building Society and the Co-operative Bank in 2009 (the **Merger**), in accordance with accounting rules, fair value adjustments were made to the liabilities in the Co-operative Bank's accounts represented by certain securitisation transactions. These fair value adjustments have the effect of initially reducing the balance sheet carrying value of the liabilities, and amortise as a charge to profit and loss over several years from the date of the Merger to the anticipated redemption date for each of the instruments in issue. The redemption of these liabilities by the Co-operative Bank or its subsidiaries on

their respective step-up and call dates would result in these fair value adjustments unwinding on such dates, with a corresponding one-off charge to profit and loss, rather than amortising over time. On 30 March 2011, consent solicitations were launched to restructure these securitisation transactions including a new investor redemption option under which the holders of the relevant instruments may elect to have their instruments redeemed on a date falling five years after the respective anticipated redemption dates. The restructuring of each of these securitisation transactions was approved and executed on 6 June 2011. The timing of Merger fair value adjustment unwinds may have a material adverse effect on the Co-operative Bank Group's operating results, financial condition and prospects.

### ***Group risk***

The Co-operative Bank is part of the Co-operative Group, which contains a diverse range of companies whose businesses include amongst other things, financial services, food and non-food retailing, farming, funerals, travel and pharmacy. In February 2009 the Co-operative Group acquired the Somerfield supermarket. The Co-operative Group faces risks associated with each of these activities, including operational risk, pension risk, market risks and integration risks associated with the Somerfield acquisition.

## USE OF PROCEEDS

The Issuer will use the gross proceeds of the Class A Notes to pay a portion of the Initial Consideration payable by the Issuer for the Portfolio to be acquired from the Seller on the Closing Date.

The Issuer will use the gross proceeds of the issue of the Class B1 VFN to (a) fund the Overcollateralisation Amount on the Closing Date, and (b) after the Closing Date, fund any increase in the Set-Off Overcollateralisation Amount, such proceeds to be applied as Available Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments.

The Issuer will use the gross proceeds of the Class B2 VFN to fund (a) any Further Advance Purchase Price or Flexible Drawings Purchase Price on the relevant Advance Date or Drawing Date (as the case may be) (to the extent not funded by Retained Principal Receipts), (b) the Rearrangement Revenue Element of the purchase price of any Rearrangement (to the extent not funded by Revenue Receipts), (c) any Loan in breach of the Asset Conditions, (d) the Pre-Funded Purchase Limit and (e) on the Closing Date, the Retained Principal Required Amount.

On the Closing Date, the Issuer will use the gross proceeds of the Class C VFN to (a) establish the General Reserve Fund, (b) fund initial expenses of the Issuer incurred in connection with the issue of the Notes on the Closing Date and (c) fund the Co-op Collateral Amount.

After the Closing Date, the Issuer will use the proceeds of the Class C VFN to (a) increase the General Reserve Fund up to the General Reserve Required Amount in order to satisfy the Asset Conditions for Further Advances, Flexible Drawings and/or Product Switches, (b) fund the Yield Reserve Fund to the Yield Reserve Required Amount in order to satisfy the Asset Conditions for Further Advances, Flexible Drawings and/or Product Switches, (c) fund the Issuer Fee Amount (d) fund any increase in the Co-op Collateral Amount, (e) fund any premiums payable under the Basis Rate Swap Agreement and (f) fund any shortfall (if any) in the amount to be retained by the Issuer as profit in accordance with item (m) of the Pre-Acceleration Revenue Priority of Payments.

## RATINGS

The Class A Notes, on issue, are expected to be assigned the following ratings by Fitch and Moody's. The Class B VFN and Class C VFN are not rated. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation if, in its judgement, circumstances (including, without limitation, a reduction in the credit rating of the Swap Providers, the Swap Collateral Account Bank (if the Swap Collateral Account Bank Agreement is entered into) and/or the Barclays Account Bank in the future) so warrant.

<b>Class of Notes</b>	<b>Fitch</b>	<b>Moody's</b>
Class Aa Notes	AAA (sf)	Aaa (sf)
Class Ab Notes	AAA (sf)	Aaa (sf)
Class B1 VFN	Not rated	Not rated
Class B2 VFN	Not rated	Not rated
Class C VFN	Not rated	Not rated

As of the date of this Prospectus, each of the Rating Agencies is a credit rating agency established in the European Union and has applied for registration under the CRA Regulation, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.

## THE ISSUER

### Introduction

The Issuer was incorporated in England and Wales on 4 May 2011 (registered number 07621495) as a public limited company under the Companies Act 2006. The registered office of the Issuer is 7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE. The telephone number of the Issuer's registered office is +44 (0)20 7800 4100. The authorised share capital of the Issuer comprises 50,000 ordinary shares of £1 each. The issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, all of which are fully-paid up and beneficially owned by Holdings (see "*Holdings*" below).

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

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

Under the Companies Act 2006 (as amended), the Issuer's governing documents, including its principal objects, may be altered by a special resolution of shareholders.

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

The Issuer has not engaged, since its incorporation, in any material activities nor commenced operations other than those incidental to its registration as a public company under the Companies Act 2006 (as amended) and to the proposed issues of the Notes and the authorisation of the other Transaction Documents referred to in this Prospectus to which it is or will be a party and other matters which are incidental or ancillary to the foregoing. The Issuer, as necessary, has made a notification under the Data Protection Act 1998 and is in the process of applying for a consumer credit licence under the CCA. As at the date of this Prospectus, no statutory accounts have been prepared or delivered to the Registrar of Companies on behalf of the Issuer. The accounting reference date of the Issuer is 31 December and the first statutory accounts of the Issuer will be drawn up to 31 December 2011.

There is no intention to accumulate surpluses in the Issuer (other than amounts standing to the credit of the Retained Principal Receipts Ledger, the General Reserve Ledger, the Yield Reserve Ledger, the Issuer Profit Ledger, the Liquidity Reserve Fund Ledger and the Pre-Funded Purchase Ledger).



## Directors

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

<b>Name</b>	<b>Business Address</b>	<b>Business Occupation</b>
Capita Trust Corporate Limited	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Corporate Director
Capita Trust Corporate Services Limited	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Corporate Director
Colin Benford	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Director

The directors of Capita Trust Corporate Limited and Capita Trust Corporate Services Limited and their principal activities are as follows:

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities</b>
David Osborne	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Director
Susan Lawrence	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Director
Beverly Douglas	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Director
Colin Benford	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Director
Sean Martin	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Director
Howard Montagu	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Director

The company secretary of the Issuer is Capita Trust Secretaries Limited whose principal office is at 7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE.

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

## HOLDINGS

### Introduction

Holdings was incorporated in England and Wales on 20 April 2011 (registered number 07610979) as a private limited company under the Companies Act 1985 (as amended). The registered office of Holdings is 7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE. The authorised share capital of Holdings comprises 100 ordinary shares of £1 each. The issued share capital of Holdings comprises 1 ordinary share of £1. Capita Trust Nominees No. 1 Limited (the **Share Trustee**) holds the entire beneficial interest in the issued share under a discretionary trust for charitable purposes. Holdings holds the beneficial interest in the issued share capital of the Issuer.

Neither the Seller nor any company connected with the Seller can direct the Share Trustee and none of such companies has any control, direct or indirect, over Holdings or the Issuer.

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

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

### Directors

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

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
Capita Trust Corporate Limited	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Corporate Director
Capita Trust Corporate Services Limited	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Corporate Director
Colin Benford	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Director

The directors of Capita Trust Corporate Limited and Capita Trust Corporate Services Limited and their respective occupations are:

<u>Name</u>	<u>Business Address</u>	<u>Principal Activities</u>
David Osborne	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Director
Susan Lawrence	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Director

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities</b>
Beverly Douglas	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Director
Colin Benford	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Director
Sean Martin	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Director
Howard Montagu	7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE	Director

The company secretary of Holdings is Capita Trust Secretaries Limited whose principal office is at 7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE.

The accounting reference date of Holdings is 31 December and the first statutory accounts of Holdings will be drawn up to 31 December 2011.

Holdings has no employees.

## THE CO-OPERATIVE BANK P.L.C.

### History & Development

The Co-operative Bank p.l.c.'s (the **Co-operative Bank**) origins date back to 1872, originally being formed as the Banking Department of the Co-operative Wholesale Society Limited (**CWS**), which changed its name on 3 December 2007 to Co-operative Group Limited following the merger with United Co-operatives on 29 July 2007 (the **Co-operative Group**).

In October 1970, the Co-operative Bank Limited was incorporated and, following the passing of the Co-operative Bank Act 1971, the business formerly carried on by the Banking Department of the Co-operative Group was transferred to and vested in the Co-operative Bank in July 1971. This was followed, in June 1973, by the transfer of the business of the banking department of the former Scottish Co-operative Wholesale Society to the Co-operative Bank.

The Co-operative Bank obtained clearing bank status in 1975 and was granted recognised status by the Bank of England under the terms of the Banking Act 1979. In 1981, the Co-operative Bank re-registered under the Companies Act 1980 as a public company and was re-registered on 10 January 1993 with its present name. On 19 June 2002, the Co-operative Group transferred its entire shareholding in the Co-operative Bank to Co-operative Financial Services Limited, a newly incorporated Industrial and Provident Society. The ultimate parent organisation remains the Co-operative Group.

The Co-operative Group operates a range of businesses in food and non-food retailing, farming, funerals, travel, and pharmacy. It also provides buying, marketing, distribution and other services for the co-operative movement.

Co-operative Financial Services Limited (**CFS**) is incorporated under the Industrial and Provident Societies Acts of 1965 to 2003 and is also the parent of the Co-operative Bank's primary sister organisations – Cooperative Insurance Society Limited (**CIS**) and CIS General Insurance Limited (**CISGIL**). With effect from 15 January 2006, the Executive Management of the Boards of CFS, CIS, CISGIL and the Co-operative Bank have been reorganised under a single Executive Management Framework. At this date all the Directors of the CFS Board were appointed to the Co-operative Bank Board ensuring a common understanding of objectives.

The Co-operative Bank's registered office, which is also its Head Office, is situated at 1 Balloon Street, Manchester M60 4EP, telephone number: +44 161 832 3456, fax number: +44 161 829 4475. The registered number of the Co-operative Bank is 990937.

The short-term senior unsecured and unguaranteed obligations of the Co-operative Bank are currently rated P-1 by Moody's and F2 by Fitch and the long-term senior, unsecured and unguaranteed obligations of the Co-operative Bank are currently rated A2 by Moody's and A- by Fitch.<sup>1</sup>

### Merger with Britannia Building Society

On 21 January 2009, the boards of Britannia Building Society and Co-operative Financial Services Limited jointly announced their proposal to merge. On 29 April 2009, Britannia Building Society shareholding and borrowing members voted in favour of the merger. The merger became effective on 1 August 2009 through

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<sup>1</sup> As of the date of this Prospectus, each of Fitch and Moody's is a credit rating agency established in the European Union and has applied for registration under the CRA Regulation, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

a transfer of the business, assets and liabilities of the Britannia Building Society to the Co-operative Bank under section 97 of the Building Societies Act 1986 and Britannia Building Society ceased to exist as a legal entity.

Prior to the merger, Britannia Building Society was the United Kingdom's second largest building society in terms of total consolidated assets. At the date of this Prospectus, the retail residential lending and savings franchise transferred from Britannia Building Society (the **Britannia Businesses**) and the pre-merger businesses of the Co-operative Bank (the **Co-operative Bank Businesses**), continue to trade as separate businesses under the "Britannia", "Co-operative Bank" and "Smile" brand names respectively. It is expected that the Britannia Businesses will progressively integrate with the Co-operative Bank Businesses in an integration process that will take up to three years.

## **Ethical Policy**

The Co-operative Bank is the only UK bank with a customer led ethical policy.

In 1992, the Co-operative Bank became the first bank to launch a customer-led ethical policy<sup>2</sup>. The policy is based on extensive consultation with its customers and reflects their ethical concerns about who their money will and will not finance.

The Ethical Policy covers human rights, international development, social enterprise, ecological impact and animal welfare.

### *Innovative ethical products*

The Co-operative Bank offers a range of financial products and services based on the principles set out in its Ethical Policy, including basic bank accounts for those who find it difficult to access finance, green mortgages and insurance policies and the 'think' credit card – the world's first credit card rewarding ethical consumerism.

## **Business and Principal Activities**

The Co-operative Bank is an established UK settlement bank with a diversified range of retail banking activities, substantially servicing UK customers. It has an established presence in its chosen segments of the U.K. market and has a continuing programme centred upon mutuality to differentiate itself from the competition and to improve customer loyalty, through its member owned, customer led, and ethically guided principles.

The Co-operative Bank, as part of CFS, has goals centred around a "balance score card" under the categories of "Financial", "Customer", "People" and "Process". These categories capture performance in areas such as profit, liquidity, customer advocacy, efficiency and colleague engagement.

The Co-operative Bank consists of two main business segments – Retail and Corporate and Business Banking.

### **Retail Business**

The Retail business offers a range of financial products and services to individuals, households and small businesses throughout the UK, trading as The Co-operative Bank, Britannia and smile.

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<sup>2</sup> Please see the Sustainability Report which can be found at:  
[http://www.cooperative.coop/Corporate/sustainability/2010/downloads/FINAL\\_Sustainability\\_Report\\_2009.pdf](http://www.cooperative.coop/Corporate/sustainability/2010/downloads/FINAL_Sustainability_Report_2009.pdf).

### *Retail savings and current accounts*

The Co-operative Bank operates a range of current accounts and savings products. These balances are held in a mixture of instant access, notice accounts and fixed rate deposits as well as current accounts. The Co-operative Bank distributes its retail products through over 330 branches and call centres across the UK and through the internet.

The strength of the retail customer proposition has been recognised by a range of awards: the Co-operative Bank achieved the highest rating in the Forrester UK bank website benchmarking survey (beating NatWest, Santander, Barclays, Lloyds TSB and Halifax), and was the highest placed high street bank in the influential JD Power survey.

### *Residential Mortgage Lending*

The Co-operative Bank offers variable, fixed and tracker mortgages. As at 31 December 2010 the residential mortgage portfolio was predominantly prime mortgages with a broad geographical spread. The portfolio is well seasoned with low and reducing Loan to Values.

### *Personal Unsecured Loans*

The Co-operative Bank's book comprises mostly fixed rate lending to Co-operative Bank customers (personal loans) and non-bank customers (direct loans). Risk based pricing is utilised.

### *Credit Cards*

The Co-operative Bank also offers credit cards, focusing upon customer retention and targeted growth opportunities.

### *Smile*

In October 1999, the Co-operative Bank launched Smile, the UK's first full Internet bank. Smile offers services including current accounts, unsecured loans, credit cards, mortgages, savings products and insurance either directly or through other Co-operative companies.

## **Corporate and Business Banking**

### *Commercial Lending*

The Co-operative Bank has a diversified portfolio of commercial lending. The majority of the commercial property lending is to low risk customers with tangible net assets and/or very high quality tenant covenants. Most of the commercial lending book is comprised of bilateral facilities, underpinning the relationship based model. The portfolio has a reasonably well spread maturity profile which provides a good longer term earnings stream. A centralised underwriting process provides strong control and governance.

### *Savings and Current Accounts*

The Co-operative Bank operates corporate saving and current accounts. These balances are held in a mixture of instant access, notice accounts and fixed rate deposits and current accounts.

## **Treasury and wholesale lending**

The core responsibilities for the Co-operative Bank's treasury department are to ensure a strong and stable liquidity base, provide diverse sources of wholesale funding to the Co-operative Bank manage market risk within risk appetite and deliver a strong financial performance on the investment portfolio.

**Platform**

Platform is one of the leading intermediary only lenders in the UK residential mortgage market. Launched in February 2003, the company was created from the merger of Platform Home Loans and Verso, both Britannia subsidiaries. Platform is focused on prime lending.

**Optimum**

Optimum has been established to provide commercial focus on the specialist mortgage portfolio and the delivery of broader loss mitigation strategies across the Co-operative Bank. The business unit was created following the Merger and is a closed book.

The information contained in this Prospectus relates to and has been obtained from the Co-operative Bank. The delivery of this Prospectus shall not create any implication that there has been no change in the affairs of the Co-operative Bank since the date hereof, or that the information contained or referred to in this Prospectus is correct as of any time subsequent to its date.

## THE LOANS

### The Portfolio

#### Introduction

The following is a description of some of the characteristics of the Loans originated by the Seller and the former Britannia Building Society and comprised in the Portfolio including details of loan types, the underwriting process, lending criteria and selected statistical information.

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

Unless otherwise indicated, the description that follows relates to types of loans that have been or could be sold to the Issuer as part of the Portfolio as at the Closing Date.

The Seller may offer a Borrower under a Loan comprised in the Portfolio, or a Borrower may request, a Product Switch. If this occurs the loan which the original Loan is switched into may have mortgage terms different from those Loans forming the Portfolio on the Portfolio Reference Date (including characteristics that are not currently being offered to Borrowers or that have not yet been developed) and may have been originated according to different Lending Criteria. All Product Switches will be required to comply with the Loan Warranties set out in the Mortgage Sale Agreement on their Switch Date (as applicable). The material warranties in the Mortgage Sale Agreement to be given as at the Closing Date and on each Switch Date are described in this Prospectus. See "*Summary of the Key Transaction Documents – Mortgage Sale Agreement*", above.

#### Characteristics of the Loans

##### *Repayment terms*

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

Loans are typically repayable on one of the following bases:

- **Repayment Loan:** the Borrower makes monthly payments of both interest and principal so that, when the Loan matures, the full amount of the principal of the Loan will have been repaid;
- **Interest-only Loan:** the Borrower makes monthly payments of interest but not of principal; when the Loan matures, the entire principal amount of the Loan is still outstanding and is payable in one lump sum; and



- a combination of both these options.

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

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

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

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

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

### ***Interest payments and interest rate setting***

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

- **Standard Variable Rate or SVR:** the Seller's current discretionary rate is 4.24 per cent.. The Standard Variable Mortgage Rate is currently only available to customers at the end of their mortgage product and for further advances.
- **Fixed Rate Loans** are loans which are subject to a fixed rate of interest for a specified period of time, usually for two, three, five or ten years.
- **Tracker Loans** are loans which are subject to a variable interest rate that tracks the Bank of England Base Rate plus or minus a margin, either for an initial fixed period or for the life of the loan. The percentage margin may be fixed for the entire tracker rate period or it may vary.

The Seller Standard Variable Rate and some fixed rates and tracker rates may apply for the life of the Loan. Otherwise, each of the above rates is offered for a predetermined period, usually between two and ten years, at the commencement of the Loan (the **Product Period**). At the end of the Product Period the rate of interest charged will either (a) move to some other interest rate type for a predetermined period or (b) revert to, or remain at, a Discretionary Rate currently SVR. The Seller may introduce other Discretionary Rates in the future. In certain instances, early repayment charges are payable by the Borrower if the Loan is redeemed within the Product Period. See "*The Loans – Early repayment charges*" below.

All loans originated by Britannia since 2002 have featured interest calculated on a daily basis rather than on an annual basis. Any payment by the Borrower will immediately reduce the Borrower's balance on which interest will be calculated the following day. Prior to this date, all Britannia branded mortgage products had carried interest calculated on an annual basis. Borrowers with existing loans on which interest is calculated on an annual basis are able to change and have their interest calculated on a daily basis, subject to the terms and conditions of their existing loan and to the borrower entering into an agreement. If a Borrower with a

loan on which annual interest is calculated wishes to take a further advance, the interest on the existing loan must be switched to a daily interest basis. Britannia does not normally permit a mix of daily and annual interest calculation on loans.

Except in limited circumstances as set out in "*The Servicing Agreement – Undertakings by the Servicer*", the Servicer is responsible for setting the Discretionary Rates on the Loans in the Portfolio. Under the August 2009 (post-merger) version of the Britannia Mortgages Mortgage Offer – General Conditions (the **2009 Conditions**) the Seller has the right to vary the interest rate for a number of specified reasons:

- (a) to take account, in a proportionate manner, of any changes in the Bank of England repo rate, commonly known as the Bank Base Rate (or in the nearest equivalent rate set by the Bank of England or any body, which may, in the future, take over the responsibility for interest rate setting from the Bank of England) and/or changes in LIBOR (London Inter-Bank Offered Rate) or any other market rates which influence the cost of funds to us);
- (b) to take account, in a proportionate matter, of any changes in relevant laws, codes of practice, regulations or to take account of any decision, requirement or recommendation by a court, ombudsman or regulator applicable to the conduct of our business;
- (c) to take account, in a proportionate manner, of any increase or reduction in the risk incurred by us if there has been an unauthorised letting or a change in the use of the Property;
- (d) in the event of Britannia taking over, being taken over by, or merging with, another financial services provider, to harmonise in a reasonable manner the interest rates being paid by their respective borrowers;
- (e) to enable us to maintain the competitiveness of interest rates we pay to our investors or the providers of funds to us, whilst having regard to the interests of our borrowers, in the interests of our business as a whole;
- (f) to act in a proportionate manner to maintain the financial strength of Britannia in the interests of all our customers;
- (g) to take account, in a proportionate manner, of any change in costs reasonably incurred by us in operating our mortgage business; or
- (h) to take account, in a proportionate manner, of any reasonable change or expected reasonable change in our assessment of the risk, or the value or cost of that risk, in relation to your Mortgage, any other similar mortgages or the whole or any part of our mortgage business.

These reasons may relate to circumstances existing at the time or which the Seller reasonably expects to apply in the near future.

If the Seller wishes to increase the interest rate applicable to a Discretionary Rate Loan or a discounted Discretionary Rate Loan it must first give notice to the Borrower of the increase.

During the course of its mortgage origination business, the Seller has originated mortgage loans under a number of standard conditions, however, the 2009 Conditions represent the most recent origination policy of the Seller relating to the Loans comprised in the Portfolio and dictate the specified reasons to change the interest rate.

If applicable, the Servicer will also be responsible for setting any variable margins in respect of new Tracker Loans that are sold to the Issuer in the future. However, in maintaining, determining or setting these variable margins, except in the limited circumstances as set out in "*The Servicing Agreement – Undertakings by the*

*Servicer*", the Servicer has undertaken to maintain, determine or set the variable margins at a level which is not higher than the variable margins set in accordance with the Seller's Policy from time to time.

**Discretionary Rate Loans** means loans which are subject to either the Seller Standard Variable Rates, Standard Variable Rates or to other Discretionary Rates for the life of the mortgage loan;

### ***Early Repayment Charges***

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

On loans applied for before 11 December 2009, the Seller currently permits Borrowers to repay up to £499.99 per month per product without incurring an Early Repayment Charge. If the mortgage is made up of more than one product, each is treated separately so that if one or more of them has an Early Repayment Charge, the Borrower can repay up to £499.99 each month on each. Early Repayment Charges post December 2009 have moved away from the £499.99 figure to allow the customer to pay up to 10 per cent. of the previous year end mortgage balance or 10 per cent. of the opening balance if they are within their first year. The Seller currently has a policy not to charge the Early Repayment Charge in certain circumstances, for example if the repayment is due to the death of the Borrower.

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

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

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

**Overpayments** – Overpayments are allowed on all products, although an Early Repayment Charge may be payable (as described in 'Early Repayment Charges' above). Borrowers may either increase their regular monthly payments above the normal monthly payment then applicable or make lump sum payments at any time.

Borrowers with interest calculated annually who make an Overpayment may choose whether such Overpayment is to be treated as a repayment of principal or as a credit to be carried forward against future scheduled instalments. If the Borrower elects for such Overpayment to be applied as a principal repayment then interest on the remaining principal outstanding balance of the loan is recalculated as from the date of receipt of such repayment. For customers on annual interest, the required monthly instalments will not be altered until the next following year end. If the customer elects to apply such Overpayment towards scheduled instalments, interest is not recalculated. In cases where a customer does not specify how any repayment they may make is to be applied, Overpayments of an amount of less than £500 are generally treated as credits towards scheduled instalments. If Borrowers with daily calculations of interest pay more than the scheduled monthly payment, the balance on their mortgage loan will be reduced. The Seller will charge interest on the reduced balance, which reduces the amount of interest the Borrower must pay.

**Underpayments and Payment Holidays** – some products have an underpayment and payment holiday feature where the Borrower can apply to defer one or more monthly payments or apply to underpay. Currently, a maximum of six monthly payment holidays/underpayments may be taken/made in any period of twelve consecutive months, and a maximum of 18 monthly Payment Holidays/Underpayments may be taken/made through the whole term of the mortgage. Approval of such application and the determination of such period are at the discretion of the Seller who makes such a decision or approval based on, amongst other things the LTV and agreed Borrowing Limit.

### ***Further Advances***

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

Some Loans in the Portfolio may have Further Advances made on them prior to their being sold to the Issuer on the Closing Date.

If a Loan is subject to a Further Advance after being sold to the Issuer, the Seller will be required to repurchase the Loan and its Related Security from the Issuer to the extent that the Issuer does not have sufficient funds from the Retained Principal Receipts Ledger or from a drawing under the Class B2 VFN to fund the purchase of such Further Advance.

### ***Product Switches***

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

### **Origination channels**

The Seller currently derives its mortgage-lending business through the Britannia branch networks throughout the United Kingdom, and from internet and telephone sales. For a breakdown of this in the Portfolio see "*Characteristics of the Portfolio*", which specifies the percentage of Loans in the Portfolio originated directly by the Co-operative Bank under the Britannia brand (or originated by Britannia Building society and subsequently transferred to the Co-operative Bank pursuant to the Merger) (including through the branch network and telesales), and those originated through intermediaries.

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

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

## Underwriting

The underwriting approach of the Seller has changed over time. Loans in the Portfolio may have been originated in accordance with different underwriting criteria from those set out here, depending on their date of origination. The Seller currently adopts a system based approach to lending assessment. This assessment is made with reference to a number of components including:

- (a) credit score: calculation of propensity to default based on a combination of customer supplied, internal performance and credit bureau data; and
- (b) affordability: calculation of an individualised lending amount that reflects the applicant's income net of tax, currently, but not in all the sample, credit commitments and assumed living expenses, currently, but not in all the sample, which vary according to income, number of applicants and dependants.

The lending system is supported by a structure, with authority limits varying according to seniority. The Delegated Lending Mandate (**DLM**) structure is split between those within the new lending area and those in Banking Risk. New Lending Advisors DLM can only approve system accept cases. Override of system decline decisions is limited to Underwriters in New Lending Quality and Risk and staff in Banking Risk. All levels of DLM may downward override "accept" and "refer" decisions to a "decline" decision.

Mortgage underwriting decisions, are subject to internal monitoring by the Seller, using a risk-based model, in order to ensure the Seller's procedures and policies regarding underwriting are being followed by staff.

## Lending Criteria

On the Closing Date, the Seller will represent that each Loan being sold to the Issuer was originated according to the lending criteria of the Seller at the time the Loan was offered (the **Lending Criteria**), in all material respects, subject only to exceptions made on a case-by-case basis as would be acceptable to a Reasonable, Prudent Mortgage Lender Policy and Risk appetite varies in line with a number of internal and external factors in particular expectations of the housing market and wider economy and the Seller retains the right to revise its lending criteria from time to time, so the criteria applicable to any Loans which are the subject of a Product Switch or a Further Advance may not be the same as those currently used.

This document reflects the lending criteria applied for originations between 2001 and 2011. The Seller's current policy reflects the uncertainty of the economy and in certain areas is more restrictive than the historic lending criteria.

### *Details of Applicant*

All Borrowers must be aged 18 or over and historically the mortgage term must have ended before the Borrower reached 75 (if the LTV of the loan was above 75 per cent.) or 85 (if the LTV of the loan was below 75 per cent.). Under the Seller's current Lending Criteria, the maximum age of the Borrower at the expiry of the mortgage term is 75 years. In addition, since 2006 the Seller required details of projected retirement age in considering any application. If the Seller determines the Borrower will not be able to afford the mortgage into retirement, the application will be declined.

Maximum number of applicants on any one residential mortgage application is 4.

Under the Seller's current Lending Criteria, to be accepted for a mortgage, generally all applicants must be UK or EU nationals or non-UK/EU nationals who have been resident in the UK for the last 12 months and have a permanent right to reside in the UK. For earlier originations borrowers had to have a legal right to reside in the UK but the length of that right varied.

### *Credit History*

#### *Credit search*

A credit search is carried out in respect of all new applicants (and in relation to further advances to existing borrowers) with a bureau of the Seller's choice at a level of the Seller's choice.

With certain limited exceptions approved by the Seller acting as a prudent mortgage lender (including loans to existing borrowers and investors), all applications must pass the Seller's credit score test which will be carried out at the same time as the credit search. Applications may be declined where an adverse credit history is revealed (for example, certain unsatisfied or material (in quantum) county court judgements and bankruptcy notices).

#### *Mortgage*

Subject to the results of the Seller's credit score test (where applied) and subject to certain exceptions applied by the Seller acting as a prudent mortgage lender in accordance with the Seller's practice and procedures from time to time, the Seller would seek and review satisfactory bank statements and references from existing or previous lenders.

#### *Income and Affordability*

##### *Minimum income*

There is generally no minimum income limit for an applicant, however the Seller will historically have to varying degrees taken account of the affordability of the loan. Currently an applicant's income is subject to the Seller's affordability index model. The current model uses a combination of the total gross annual income, non mortgage commitments, outgoings and subsistence (day to day expenses) to calculate affordability. The result is then used to ascertain whether or not the loan is affordable. Manual affordability calculations will be used by underwriters on cases referred for further assessment.

##### *Employed applicants*

Where an applicant is in PAYE employment and the income of that applicant is required to support the loan, the Seller generally requires the applicant to be in a permanent position and not under notice of termination. However, fixed term/temporary workers are accepted where the applicant meets certain minimum requirements. The Seller requires with certain limited exceptions either the employer's reference or pay slips as evidence of income.

##### *Self Employed applicants*

The applicant must have been trading for at least three years or, where a customer has only been trading for two years the maximum LTV of the loan will be limited to 60 per cent. but may be increased to 75 per cent. at the underwriters discretion. Historically, the Seller has also accepted self employed applicants with one year's worth of accounts with a maximum LTV of between 60 per cent. and 70 per cent. and applicants with two years' worth of accounts plus projections requesting up to 75 per cent. LTV. The Seller requires with certain limited exceptions evidence of income (for example, accounts, tax assessments or other suitable evidence).

##### *Income Multipliers*

In conjunction with the affordability assessment, the Seller will apply the following current income multipliers (subject to certain exceptions in accordance with the practice of a reasonable, prudent mortgage lender).

<b>Applicant</b>	<b>Multiplier</b>
Single Applicant	4.25 (or prior to 2006, 3.5) multiplied by the applicant's gross allowable income of an applicant
Joint Applicants	The higher of: <ul style="list-style-type: none"> <li>• 4.25 (or prior to 2006, 3.5) multiplied by the gross allowable income of the higher earning applicant plus the allowable income of the lower earning applicant, or</li> <li>• 3.75 multiplied by combined gross allowable incomes of each applicant (or prior to 2006 2.75 multiplied by the combined allowable incomes of each applicant or in 2005, where the combined allowable income of the joint applicants was more than £20,000, 3 multiplied by the combined allowable incomes of each applicant)</li> </ul>
3 or 4 applicants	2 multiplied by combined gross allowable income

For high quality cases, enhanced multipliers may be applied in accordance with the practice of a reasonable, prudent mortgage lender.

#### *Allowable Income*

In calculating income multipliers (not affordability) for employed customers the Seller will generally use:

- 100 per cent. of basic income; plus
- 100 per cent. of guaranteed overtime and bonus; plus
- 50 per cent. of regular overtime and bonus; plus
- 75 per cent. of income from interest or UK listed company dividends.

This will be determined in accordance with the practice of a reasonable, prudent mortgage lender from time to time.

In calculating allowable income for self employed customers, the Seller will generally use the last years net profit or the last years salary plus dividends. Again, this will be determined in accordance with the practice of a prudent mortgage lender from time to time.

The Seller may take into account the other income of an applicant or applicants. Other acceptable income may include:

- Pension income from UK or overseas provided this can be established from a reliable source;
- Disability Living Allowance or Incapacity Benefit confirmed by the DWP;
- Working Tax credits;
- Investment or Dividend income (by individual consideration) evidenced by an accountant's letter confirming a continuous flow of income;

- Maintenance by CSA order or Court Order;
- Income from trust funds (by individual consideration);
- Rental Income (by individual consideration); and
- Income resulting from commission, piecework, and secondary permanent jobs.

#### *Term of loan*

The minimum term of a loan is generally five years for new residential mortgages and home owner loans (although prior to December 2009, the minimum term for home owner loans was two years). The maximum term for residential loans is generally 40 years (but was 30 years between 2001 and 2005). A repayment period for a Further Advance that would extend beyond the term of the original advance may also be accepted at the Seller's discretion. However, Further Advances may only be sold to the Issuer subject to the Loan Warranties to be given on the relevant Advance Date.

#### *Loan to Value (or LTV) Ratio*

##### *New loans*

The highest loan to value limits for new residential loans during the period from 2001 to December 2009 were as follows:

<b>Property Value</b>	<b>Maximum LTV<sup>3</sup></b>
Up to £350,000	95%
£350,001 – £550,000	90%
£550,001 – £750,000	85%
£750,001 – £1,000,000	75%
£1,000,000 – £1,500,000	60%
>£1,500,000	By negotiation to a maximum of 60%

The loan to value limits stated above are exclusive of fees. Customers may be able to add product/arrangement/CHAPS fees to the loan.

The current loan to value limits for new residential loans are as follows:

<b>Property Value</b>	<b>Maximum LTV<sup>3</sup></b>
Up to £350,000	90% subject to certain criteria below*
£350,001 to £500,000	85%
£500,001 – £750,000	80% (or £425,000 if greater)

<sup>3</sup> The Loan to value Limits are exclusive of fees



<b>Property Value</b>	<b>Maximum LTV<sup>3</sup></b>
£750,001 – £1,000,000	75% (or £600,000 if greater)
£1,000,000+	60% (or £750,000 if greater)

\* 90 per cent. must also meet the following criteria:

- House purchase only, not permitted for remortgage or Home Owner Loans;
- The whole loan must be on a capital and interest basis;
- The main applicant must have been in their current employment for at least six months;
- If self employed, the main applicant must have at least three years accounts;
- Minimum household income £20,000;
- Minimum property value £75,000 and max property value £350,000;
- No new build properties;
- No Shared Ownership;
- No County Court Judgments, defaults or Bankruptcy;
- No mortgage arrears;
- Maximum of 1 missed non-mortgage payment subject to underwriter approval;
- No exceptions to policy, affordability or income multiples; and
- Property must be of acceptable construction, habitable, structurally sound and the valuer must be satisfied there are no resale issues.

The loan to value limits stated above are exclusive of fees. Customers can choose to add product/arrangement fees to the loan.

Loan to value limits may also be further limited within individual product restrictions.

Additional limits have been and are applied for remortgages.

### *Security*

The security must be in England or Wales.

Under the Seller's current Lending Criteria, the security must be intended for owner occupied residential purposes only. Full vacant possession must be obtained at completion. The Seller has historically provided a buy to let product. However, the Portfolio will not contain any buy to let products.

The Seller may accept as security any land or land and buildings that it considers acceptable including properties requiring works. However, the Seller considers certain types of property unacceptable including

(without limitation) freehold flats/maisonettes, mobile homes, houseboats, commonhold properties and prefabricated buildings.

#### Valuations

The Seller will obtain a valuation in all cases, undertaken by either a suitably qualified Valuer or an Automated Valuation Model (AVM). AVM is usually restricted to remortgage cases where the LTV on the property is 70 per cent. or less (60 per cent. or less under the current Lending Criteria).

#### **Changes to the underwriting policies and the Lending Criteria**

The Seller's underwriting policies and Lending Criteria were and are subject to change within the Seller's sole discretion. Loans were and are originated by way of exception to the lending criteria where the Seller determined that the exception would have been acceptable to a prudent mortgage lender. Product Switches and Further Advances that are originated under Lending Criteria that are different from the criteria set out here may be sold to the Issuer.

#### **Insurance policies**

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

Each mortgaged property is required to be insured with buildings insurance. The property may be insured by the Seller at the expense of the Borrower or, the insurance may be purchased by the Borrower or (in the case of leasehold property) by a landlord or by a property management company. If the Seller becomes aware that no adequate insurance is in place, it has the power to arrange insurance on the property and charge the premiums for this to the Borrower's mortgage account.

Subject as set out above, the Seller only insures a property once it has repossessed the property from a defaulting Borrower. See "*Properties in possession cover*" below.

##### ***Borrower-arranged buildings insurance***

Britannia currently sells home insurance policies underwritten by The Co-operative Insurance. A Borrower may elect not to take up such an insurance policy, or a Borrower who originally had such a policy may elect to insure the property with an independent insurer. The Seller requires that any borrower-arranged insurance policy be drawn in the joint names of the Seller and all of the parties to the mortgage and be maintained in their joint names for the duration of the mortgage. If this is not possible, for example because the property is leasehold and the lease provides for the landlord to insure, the Borrower must arrange for the Seller's interest to be noted on the landlord's policy. The Seller also requires that the sum insured be for an amount not less than the full reinstatement value of the property, and that the Borrower make a claim under the insurance for any damages covered by it unless the Borrower makes good the damage.

##### ***Mortgage protection plans***

The Seller currently offers Borrowers the option to purchase Mortgage Payment Protection Insurance (MPPI) underwritten by Axa Insurance UK plc. MPPI can protect the Borrower's monthly mortgage payments in the event of unemployment, accident, sickness, or the Borrower leaving work to become a full time carer for a relative. The Borrower may take cover up to a maximum of £2,500 subject to acceptance. Britannia also offers Borrowers the ability to purchase Income Protection, Critical Illness cover and Life assurance.

### ***Properties in possession cover***

When a mortgaged property is taken into possession by the Seller, the Seller takes the necessary actions to ensure that the property is placed on to its block properties in possession insurance policy (the **Properties in Possession Cover**) so that appropriate insurance cover is provided on the property. The Seller may claim under this policy for any damage occurring to the property while in the Seller's possession.

### ***Title and Search insurance***

Search insurance is obtained in some instances on remortgage cases, in these instances a solicitor does not undertake a Local Search. Local searches are undertaken on all new mortgages.

Title insurance is obtained in respect of certain limited title defects (e.g. restrictive covenants, absence of rights of way) from all solicitors on new mortgages and remortgages. An investigation of title is always undertaken and insurance obtained if an investigation of title has taken place and a defect discovered.

### ***Arrears policy***

The Seller identifies a Loan as being in arrears where an amount equal to or greater than a full month's contractual payment remains unpaid at the end of a calendar month. The Borrower will receive an initial arrears letter from the Seller which is created on the first working day of the new calendar month.

The Seller will attempt to contact the Borrower initially by letter and then by telephone if such payments remain unpaid. The seller will upon establishing the Borrower's circumstances offer options specifically tailored to return the account to order, where possible. These options may include, loan modification, concessionary payment and repayment plans. A field agent may also be offered to a borrower. Where a satisfactory arrangement cannot be reached or maintained, possession proceedings may be instigated to enable the Seller to enforce its security.

### **Governing law**

Each of the Loans and any non-contractual obligations arising out of or in connection with them are governed by English law.

## CHARACTERISTICS OF THE PORTFOLIO

The statistical and other information contained in this Prospectus has largely been compiled by reference to certain Loans in a portfolio as at 31 May 2011 (the **Portfolio Reference Date**) (the **Portfolio**). The Portfolio as at the Portfolio Reference Date consisted of 8,734 Loans originated by the former Britannia Building Society (**Britannia**) or (as applicable) the Co-operative Bank under the Britannia brand between 2001 and 2011 and secured over properties located in England and Wales. The Current Balance of the Portfolio on the Portfolio Reference Date was £1,092,823,775. The portfolio that will be sold to the Issuer on the Closing Date will be randomly selected from the Portfolio as at the Portfolio Reference Date (the **Closing Date Portfolio**). Columns may not add up to 100 per cent. due to rounding. The characteristics of the Closing Date Portfolio will differ from that set out below as a result of, *inter alia*, the random reduction in the size of the Portfolio, repayments and redemptions of the Loans from the Portfolio Reference Date to the Closing Date and removal of any Loans which do not comply with the Loan Warranties as at 31 May 2011. If a Loan selected for the Closing Date Portfolio is repaid in full between 1 June 2011 and the Closing Date, the principal recoveries from that Loan will form part of Available Principal Receipts. Except as otherwise indicated, these tables have been prepared using the Current Balance as at the Portfolio Reference Date, which includes all principal and accrued interest for the Loans in the Portfolio.

In this section:

**Mortgage Accounts** means the totality of the relevant loans granted by the Seller secured on the same Property and their related Security; and

**Sub-Accounts** means the individual relevant loans granted by the Seller secured on the same Property and their related Security.

### *Current Balances as at the Portfolio Reference Date*

The following table shows the range of Mortgage Account Current Balances (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees and incorporating all Loans secured on the same Property) as at the Portfolio Reference Date.

<b>Range of Current Balances*</b>	<b>Aggregate Current Balance as at the Portfolio Reference Date (£)</b>	<b>% of Total</b>	<b>Number of Mortgage Accounts</b>	<b>% of Total</b>
£0- £24,999.99	6,593,606	0.60%	361	4.13%
£25,000 – £49,999.99	34,937,253	3.20%	901	10.32%
£50,000 – £74,999.99	78,703,093	7.20%	1,249	14.30%
£75,000 – £99,999.99	120,034,257	10.98%	1,375	15.74%
£100,000 – £124,999.99	139,073,239	12.73%	1,243	14.23%
£125,000 – £149,999.99	144,156,216	13.19%	1,054	12.07%
£150,000 – £174,999.99	114,965,575	10.52%	713	8.16%
£175,000 – £199,999.99	102,424,836	9.37%	548	6.27%
£200,000 – £299,999.99	233,724,292	21.39%	978	11.20%
£300,000 – £399,999.99	73,437,241	6.72%	216	2.47%
£400,000 – £499,999.99	36,629,686	3.35%	82	0.94%
£500,000 – £599,999.99	5,409,756	0.50%	10	0.11%
£600,000 – £799,999.99	1,886,086	0.17%	3	0.03%
£800,000 – £999,999.99	848,639	0.08%	1	0.01%

<b>Range of Current Balances*</b>	<b>Aggregate Current Balance as at the Portfolio Reference Date (£)</b>	<b>% of Total</b>	<b>Number of Mortgage Accounts</b>	<b>% of Total</b>
£1,000,000+	-	0.00%	-	0.00%
<b>Totals</b> .....	<b>1,092,823,775</b>	<b>100.00%</b>	<b>8,734</b>	<b>100.00%</b>

\* Includes capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees.

The maximum, minimum and average Current Balance of the Loans as of the Portfolio Reference Date is £848,639, £9,496 and £125,123, respectively.

### ***Loan to Value Ratios at Origination***

The following table shows the range of **Loan to Value Ratios** or **LTV Ratios**, which express the outstanding balance of the aggregate of Loans in the Mortgage Accounts (which incorporate all Loans secured on the same Property) as at the Portfolio Reference Date based on the aggregate amount of the original initial advances and any further advances on the later of the date of origination and the date of the further advance of the Loan divided by the value of the Property securing the Loans in the Mortgage Account either (i) as at that date or (ii) in the event there has been any variation in the mortgage contract, the date of such variation. The Seller has not revalued any of the mortgaged properties since the date of the origination of the related Loan other than in certain instances where additional lending has been applied for or advanced, and in certain product switch and re-arrangement application cases (where such case is completed or not). In these cases the original valuation may have been updated with a more recent valuation. However, other than as set out above, the revised valuation has not been used in formulating this data.

<b>Range of LTV Ratios at Origination*</b>	<b>Aggregate Current Balance as at the Portfolio Reference Date (£)</b>	<b>% of Total</b>	<b>Number of Mortgage Accounts</b>	<b>% of Total</b>
0% – 24.99%	23,557,947	2.16%	592	6.78%
25% – 49.99%	171,744,035	15.72%	1,980	22.67%
50% – 74.99%	408,898,143	37.42%	3,004	34.39%
75% – 79.99%	124,860,260	11.43%	768	8.79%
80% – 84.99%	108,253,093	9.91%	670	7.67%
85% – 89.99%	139,025,477	12.72%	919	10.52%
90% – 94.99%	104,618,784	9.57%	724	8.29%
95%+	11,866,035	1.09%	77	0.88%
<b>Totals</b> .....	<b>1,092,823,775</b>	<b>100.00%</b>	<b>8,734</b>	<b>100.00%</b>

\* Including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees.

The original weighted average Loan to Value Ratio as at the Portfolio Reference Date of the Loans in the Portfolio is 68.40 per cent.

### ***Current Indexed Loan to Value Ratios***

The following table shows the range of Loan to Value Ratios, which are calculated by dividing the Current Balance of a Loan as at the Portfolio Reference Date by the indexed original valuation of the Property securing that Loan at the same date.

Range of Current Indexed LTV Ratios* **	Aggregate Current Balance as at the Portfolio Reference Date (£)		Number of Mortgage Accounts	
		% of Total		% of Total
0% – 24.99%	41,739,578	3.82%	999	11.44%
25% – 49.99%	207,593,030	19.00%	2,224	25.46%
50% – 74.99%	347,997,628	31.84%	2,451	28.06%
75% – 79.99%	152,256,406	13.93%	885	10.13%
80% – 84.99%	61,947,560	5.67%	387	4.43%
85% – 89.99%	185,263,161	16.95%	1,161	13.29%
90% – 94.99%	83,473,494	7.64%	551	6.31%
95% – 99.99%	4,818,053	0.44%	31	0.35%
100% -104.99%	3,612,012	0.33%	24	0.27%
105%+	4,122,851	0.38%	21	0.24%
<b>Totals</b> .....	<b>1,092,823,775</b>	<b>100.00%</b>	<b>8,734</b>	<b>100.00%</b>

\* Indexed using the Halifax House Price Index (seasonally adjusted) based on monthly data as at April 2011.

\*\* Including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees.

The weighted average current Loan to Value Ratio as at the Portfolio Reference Date of all the Loans (including any capitalised interest, capitalised high LTV fees, insurance fees, valuation fees and booking fees) is 66.91 per cent..

#### Arrears Analysis of Non Repossessed Mortgage Accounts

Month(s) in Arrears*	Aggregate Current Balance as at the Portfolio Reference Date (£)		Number of Mortgage Accounts	
		% of Total		% of Total
Current < one month	1,092,823,775	100.00%	8,734	100.00%
<b>Totals</b> .....	<b>1,092,823,775</b>	<b>100.00%</b>	<b>8,734</b>	<b>100.00%</b>

\* Arrears are calculated in accordance with standard market practice in the UK. A mortgage is identified as being in arrears when, on any due date, the overdue amounts which were due on previous due dates equal, in the aggregate, one or more full monthly payments. In making an arrears determination, the servicer calculates as of the date of determination the difference between the sum of all monthly payments that were due and payable by a borrower on any due date up to that date of determination (less the aggregate amount of all authorised underpayments made by such borrower up to such date of determination) and the sum of all payments actually made by that borrower up to that date of determination. If the result arrived at by dividing that difference (if any) by the amount of the required monthly payment equals or exceeds 1 the loan is deemed to be in arrears. Arrears classification is determined based on the number of full monthly payments that have been missed. A borrower that has missed payments that in the aggregate equal or exceeding two monthly payments (but for which the aggregate of missed payments is less than three monthly payments) would be classified as being between two – three months in arrears, and so on.

#### Geographical Distribution

The following table shows the distribution of Properties securing the Loans throughout England and Wales as at the Portfolio Reference Date. No properties are situated outside England and Wales.

Region	Aggregate Current Balance as at the Portfolio Reference Date (£)		Number of Mortgage Accounts	
		% of Total		% of Total
South East	350,461,600	32.07%	2,244	25.69%
West Midlands	129,348,103	11.84%	1,346	15.41%
North West	115,814,305	10.60%	1,131	12.95%
South West	115,925,592	10.61%	982	11.24%

<b>Region</b>	<b>Aggregate Current Balance as at the Portfolio Reference Date (£)</b>	<b>% of Total</b>	<b>Number of Mortgage Accounts</b>	<b>% of Total</b>
Greater London	144,136,406	13.19%	738	8.45%
Yorkshire Humber	58,745,514	5.38%	560	6.41%
East Midlands	62,012,411	5.67%	605	6.93%
East Anglia	51,380,526	4.70%	467	5.35%
Wales	37,044,231	3.39%	366	4.19%
North	27,955,086	2.56%	295	3.38%
<b>Totals</b> .....	<b>1,092,823,775</b>	<b>100.00%</b>	<b>8,734</b>	<b>100.00%</b>

### *Seasoning of Loans*

The following table shows the number of months since the date of origination of the initial Loan. The ages of the Loans in this table have been taken as at the Portfolio Reference Date and are calculated with respect to the initial advance.

<b>Seasoning (months)</b>	<b>Aggregate Current Balance as at the Portfolio Reference Date (£)</b>	<b>% of Total</b>	<b>Number of Mortgage Accounts</b>	<b>% of Total</b>
0 to <12	712,970,226	65.24%	5,050	57.82%
12 to <18	133,087,417	12.18%	1,123	12.86%
18 to <24	41,525,299	3.80%	343	3.93%
24 to <30	25,082,936	2.30%	206	2.36%
30 to <36	14,171,349	1.30%	125	1.43%
36 to <48	33,014,666	3.02%	284	3.25%
48 to <60	18,914,396	1.73%	200	2.29%
60 to <72	12,035,642	1.10%	131	1.50%
72 to <84	41,259,291	3.78%	509	5.83%
84 to <96	50,308,921	4.60%	626	7.17%
96 to <108	10,453,631	0.96%	137	1.57%
<b>Totals</b> .....	<b>1,092,823,775</b>	<b>100.00%</b>	<b>8,734</b>	<b>100.00%</b>

The maximum, minimum and weighted average seasoning of Loans in the Portfolio as at the Portfolio Reference Date is 107.5, 1.0 and 19.4 months, respectively.

### *Years to Maturity of Loans*

The following table shows the number of remaining years of the term of the Loans in a Mortgage Account as at the Portfolio Reference Date and are calculated with respect to the initial advance.

<b>Years to Maturity</b>	<b>Aggregate Current Balance as at the Portfolio Reference Date (£)</b>	<b>% of Total</b>	<b>Number of Mortgage Accounts</b>	<b>% of Total</b>
0 to <5	14,099,826	1.29%	295	3.38%
5 to <10	65,144,235	5.96%	928	10.63%
10 to <15	139,498,382	12.76%	1,432	16.40%
15 to <20	265,730,984	24.32%	2,137	24.47%
20 to <25	394,851,367	36.13%	2,472	28.30%
25 to <30	139,596,905	12.77%	937	10.73%
30 to <35	57,370,176	5.25%	395	4.52%
35 to <40	16,531,899	1.51%	138	1.58%
<b>Totals.....</b>	<b>1,092,823,775</b>	<b>100.00%</b>	<b>8,734</b>	<b>100.00%</b>

The maximum, minimum and weighted average remaining term of the Loans in the Portfolio as at the Portfolio Reference Date is 39.93, 1.10 and 21.05 years, respectively.

### *Purpose of Loan*

The following table shows whether the purpose of the initial Loan in a Mortgage Account on origination was to finance the purchase of a new Property or to remortgage a Property already owned by the borrower.

<b>Use of Proceeds</b>	<b>Aggregate Current Balance as at the Portfolio Reference Date (£)</b>	<b>% of Total</b>	<b>Number of Mortgage Accounts</b>	<b>% of Total</b>
Remortgage	447,839,552	40.98%	4,033	46.18%
Purchase	644,984,223	59.02%	4,701	53.82%
<b>Totals.....</b>	<b>1,092,823,775</b>	<b>100.00%</b>	<b>8,734</b>	<b>100.00%</b>

### *Repayment Terms*

The following table shows the repayment terms for the Loans in a Mortgage Account as at the Portfolio Reference Date.

<b>Repayment Terms</b>	<b>Aggregate Current Balance as at the Portfolio Reference Date (£)</b>	<b>% of Total</b>	<b>Number of Mortgage Accounts</b>	<b>% of Total</b>
Capital	840,128,477	76.88%	7,045	80.66%
Interest Only	148,918,690	13.63%	916	10.49%
Mixed	103,776,608	9.50%	773	8.85%
<b>Totals.....</b>	<b>1,092,823,775</b>	<b>100.00%</b>	<b>8,734</b>	<b>100.00%</b>



## Product Types

The following table shows the distribution of special rate loans as at the Portfolio Reference Date.

<b>Product Type</b>	<b>Aggregate Current Balance as at the Portfolio Reference Date (£)</b>	<b>% of Total</b>	<b>Number of Sub-Accounts</b>	<b>% of Total</b>
Fixed	758,111,122	69.37%	8,516	68.12%
Base	234,536,344	21.46%	2,485	19.88%
SVR	100,176,309	9.17%	1,500	12.00%
<b>Totals</b> .....	<b>1,092,823,775</b>	<b>100.00%</b>	<b>12,501</b>	<b>100.00%</b>

## Fixed Rate Loans

As at the Portfolio Reference Date, approximately 69.37 per cent. of the Aggregate Current Balance as at the Portfolio Reference Date in the Portfolio are Fixed Rate Loans. The following tables shows the distribution of Fixed Rate Loans by their fixed rate of interest as at such date, and the year in which the Loans cease to bear a fixed rate of interest and instead bear a floating rate of interest. The figures in these tables have been calculated on the basis of Sub-Accounts rather than Mortgage Accounts.

Fixed Rate Loans remain at the relevant fixed rate for a period of time as specified in the offer conditions, after which they move to the Standard Variable Rate or some other rate as specified in the offer conditions.

<b>Fixed Interest Rates</b>	<b>Aggregate Current Balance as at the Portfolio Reference Date (£)</b>	<b>% of Total</b>	<b>Number of Sub-Accounts</b>	<b>% of Total</b>	<b>W.A. Reversion Date</b>
2 – 2.99%	49,977,679	6.59%	396	4.65%	Oct-2012
3 – 3.99%	270,404,992	35.67%	2,451	28.78%	Mar-2014
4 – 4.99%	240,004,806	31.66%	3,019	35.45%	Oct-2013
5 – 5.99%	162,363,368	21.42%	2,261	26.55%	Jan-2013
6 – 6.99%	35,066,157	4.63%	388	4.56%	Oct-2013
7 – 7.99%	294,121	0.04%	1	0.01%	Jan-2025
<b>Totals</b> .....	<b>758,111,122</b>	<b>100.00%</b>	<b>8,516</b>	<b>100.00%</b>	

The maximum, minimum and weighted average fixed interest rate in the Portfolio as at the Portfolio Reference Date is 7.29 per cent., 2.95 per cent. and 4.48 per cent., respectively.

<b>Reversion Year</b>	<b>Aggregate Current Balance as at the Portfolio Reference Date (£)</b>	<b>% of Total</b>	<b>Number of Sub-Accounts</b>	<b>% of Total</b>	<b>W.A. Interest Rate</b>
2011	39,507,794	5.21%	698	8.20%	4.72%
2012	254,557,932	33.58%	2,484	29.17%	4.08%
2013	64,938,392	8.57%	959	11.26%	4.82%
2014	70,934,459	9.36%	1,051	12.34%	5.07%
2015	259,512,033	34.23%	2,352	27.62%	4.34%

2016	8,144,020	1.07%	143	1.68%	5.14%
2017	2,643,443	0.35%	64	0.75%	5.62%
2018	1,586,757	0.21%	45	0.53%	6.09%
2019	15,480,789	2.04%	254	2.98%	5.27%
2020+	40,805,503	5.38%	466	5.47%	5.44%
<b>Totals.....</b>	<b>758,111,122</b>	<b>100.00%</b>	<b>8,516</b>	<b>100.00%</b>	

### **Tracker Rate Loans**

As at the Portfolio Reference Date, approximately 21.46 per cent. of the Aggregate Current Balance as at the Portfolio Reference Date in the Portfolio are Tracker Rate Loans. The following tables show the distribution of Tracker Rate Loans by their current rate of interest as at such date, and in the year in which the Loans revert to a different rate of interest, where applicable. The figures in these tables have been calculated on the basis of Sub-Accounts rather than Mortgage Accounts.

<b>Tracker Interest Rates</b>	<b>Aggregate Current Balance as at the Portfolio Reference Date (£)</b>	<b>% of Total</b>	<b>Number of Sub-Accounts</b>	<b>% of Total</b>
0 – 1.99%	27,856,382	11.88%	424	17.06%
2 – 2.99%	122,464,417	52.22%	1,541	62.01%
3 – 3.99%	74,066,403	31.58%	445	17.91%
4 – 4.99%	10,149,142	4.33%	75	3.02%
<b>Totals.....</b>	<b>234,536,344</b>	<b>100.00%</b>	<b>2,485</b>	<b>100.00%</b>

The maximum, minimum and weighted average tracker interest rate in the Portfolio as at the Portfolio Reference Date is 4.49 per cent., 0.75 per cent. and 2.66 per cent., respectively.

<b>Reversion Year</b>	<b>Aggregate Current Balance as at the Portfolio Reference Date (£)</b>	<b>% of Total</b>	<b>Number of Sub-Accounts</b>	<b>% of Total</b>	<b>W.A. Interest Rate</b>
2012	140,195	0.06%	1	0.04%	1.20%
2013	77,101,737	32.87%	522	21.01%	3.15%
2014	4,599,597	1.96%	33	1.33%	3.13%
2015	44,380,349	18.92%	373	15.01%	3.24%
2016	1,630,044	0.70%	15	0.60%	3.26%
Does Not Revert	106,684,422	45.49%	1,541	62.01%	2.03%
<b>Totals.....</b>	<b>234,536,344</b>	<b>100.00%</b>	<b>2,485</b>	<b>100.00%</b>	

### **Variable Rate Loans**

As at the Portfolio Reference Date, approximately 9.17 per cent. of the Aggregate Current Balance as at the Portfolio Reference Date in the Portfolio are Variable Rate Loans. The following tables show the distribution of Variable Rate Loans by their current rate of interest as at such date, and in the year in which the Loans revert to a different rate of interest, where applicable. The figures in these tables have been calculated on the basis of Sub-Accounts rather than Mortgage Accounts.

<b>Variable Interest Rates</b>	<b>Aggregate Current Balance as at the Portfolio</b>		<b>Number of</b>		<b>% of Total</b>
	<b>Reference Date (£)</b>	<b>% of Total</b>	<b>Sub-Accounts</b>	<b>% of Total</b>	
3 – 3.99%	9,205,317	9.19%	278	18.53%	
4 – 4.99%	87,412,979	87.26%	1,179	78.60%	
5 – 5.99%	2,642,647	2.64%	22	1.47%	
6 – 6.99%	617,267	0.62%	18	1.20%	
7 – 7.99%	298,098	0.30%	3	0.20%	
<b>Totals</b> .....	<b>100,176,309</b>	<b>100.00%</b>	<b>1,500</b>	<b>100.00%</b>	

\* Loans will be removed from the Portfolio on the Closing Date

The maximum, minimum and weighted average variable interest rate in the Portfolio as at the Portfolio Reference Date is 7.49 per cent., 3.99 per cent. and 4.22 per cent., respectively.

<b>Reversion Year</b>	<b>Aggregate Current Balance as at the Portfolio</b>		<b>Number of</b>		<b>W.A. Interest Rate</b>
	<b>Reference Date (£)</b>	<b>% of Total</b>	<b>Sub-Accounts</b>	<b>% of Total</b>	
2011	2,523,589	2.52%	33	2.20%	5.79%
2012	1,076,624	1.07%	19	1.27%	5.90%
2013	139,967	0.14%	4	0.27%	6.99%
Does Not Revert	96,436,129	96.27%	1,444	96.27%	4.16%
	<b>100,176,309</b>	<b>100.00%</b>	<b>1,500</b>	<b>100.00%</b>	

**HISTORICAL AMORTISATION RATES OF BRITANNIA MORTGAGE LOANS**

<b>Period from</b>	<b>Period to</b>	<b>Average of Monthly Amortisation Rate (Annualised)</b>	<b>Year</b>	<b>Average of Monthly Amortisation Rate (Annualised) Over Year</b>
Feb-06	Mar-06	10.8%		
Apr-06	Jun-06	18.1%		
Jul-06	Sep-06	14.7%		
Oct-06	Dec-06	16.0%	2006*	15.3%
Jan-07	Mar-07	12.0%		
Apr-07	Jun-07	17.6%		
Jul-07	Sep-07	16.0%		
Oct-07	Dec-07	13.1%	2007	14.7%
Jan-08	Mar-08	5.7%		
Apr-08	Jun-08	12.8%		
Jul-08	Sep-08	12.7%		
Oct-08	Dec-08	11.3%	2008	10.6%
Jan-09	Mar-09	10.8%		
Apr-09	Jun-09	5.6%		
Jul-09	Sep-09	12.5%		
Oct-09	Dec-09	12.8%	2009	10.4%
Jan-10	Mar-10	10.9%		
Apr-10	Jun-10	11.1%		
Jul-10	Sep-10	11.8%		
Oct-10	Dec-10	13.4%	2010	11.8%
Jan-11	Mar-11	14.8%		

\* Feb to Dec

Note: the monthly amortisation rate above has been calculated by the following formula:  $1 - (1 - D)^{365/\text{number of days in the month}}$  where  $D = (A - (B - C))/A$  where A = Britannia prime mortgage balance at previous month end, B = Britannia prime mortgage balance at relevant month end and C = volume of new Britannia prime mortgage originations (including re-arrangements and excluding advances unless part of a re-arrangement).

## **DELINQUENCY AND LOSS EXPERIENCE OF BRITANNIA MORTGAGE LOANS**

The following table summarises the arrears experience for the loans originated under the Britannia Brand compared to the arrears and possessions experience of UK mortgage market participants over time. The Seller will represent and warrant on the Closing Date that no Loan to be transferred to the Issuer on the Closing Date will be more than one monthly payment in arrears.\*

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Numbers of loans	155,271	148,636	146,071	145,898	141,379	138,053	133,379	130,235
Volume (£,000)	9,537,137	9,566,796	10,198,426	10,808,695	10,762,171	10,661,681	10,726,130	10,451,317
Arrears >2.5% to 5% (%)	0.56%	0.41%	0.29%	0.23%	0.23%	0.19%	0.19%	0.17%
Arrears >5% to 7.5% (%)	0.19%	0.10%	0.06%	0.06%	0.08%	0.07%	0.07%	0.07%
Arrears >7.5% to 10% (%)	0.08%	0.04%	0.02%	0.02%	0.03%	0.03%	0.03%	0.03%
Arrears >10% (%)	0.10%	0.07%	0.05%	0.03%	0.05%	0.07%	0.06%	0.07%
<b><u>Arrears &gt;2.5% (%)</u></b>	<b><u>0.94%</u></b>	<b><u>0.61%</u></b>	<b><u>0.42%</u></b>	<b><u>0.35%</u></b>	<b><u>0.38%</u></b>	<b><u>0.37%</u></b>	<b><u>0.34%</u></b>	<b><u>0.33%</u></b>
<b><u>CML Industry Comparison (&gt;2.5%)</u></b>	<b><u>0.91%</u></b>	<b><u>1.03%</u></b>	<b><u>0.96%</u></b>	<b><u>1.08%</u></b>	<b><u>1.57%</u></b>	<b><u>1.72%</u></b>	<b><u>1.50%</u></b>	<b><u>1.47%</u></b>
Arrears >2.5% to 5% (Number)	875	605	425	342	324	263	247	221
Arrears >5% to 7.5% (Number)	300	144	92	89	109	103	89	87
Arrears >7.5% to 10% (Number)	122	61	31	33	39	43	40	38
Arrears >10% (Number)	163	102	72	50	69	96	83	90
<b><u>Arrears &gt;2.5% (Number)</u></b>	<b><u>1460</u></b>	<b><u>912</u></b>	<b><u>620</u></b>	<b><u>514</u></b>	<b><u>541</u></b>	<b><u>505</u></b>	<b><u>459</u></b>	<b><u>436</u></b>
<b><u>Amount of &gt;2.5% arrears (£,000)</u></b>								
<b><u>Balance of loans in &gt;2.5% arrears (£,000)</u></b>	<b><u>53,412</u></b>	<b><u>34,300</u></b>	<b><u>22,890</u></b>	<b><u>20,993</u></b>	<b><u>23,893</u></b>	<b><u>23,389</u></b>	<b><u>20,460</u></b>	<b><u>20,016</u></b>
Properties in possession	29	28	18	18	30	24	16	13
Total Losses (£mm)	0.5	0.4	0.2	0.5	0.2	0.9	0.3	0.2
Repossession % (By Number)	0.02%	0.02%	0.01%	0.01%	0.02%	0.02%	0.01%	0.01%
<b><u>CML Industry Repossession Comparison</u></b>	<b><u>0.03%</u></b>	<b><u>0.05%</u></b>	<b><u>0.07%</u></b>	<b><u>0.10%</u></b>	<b><u>0.19%</u></b>	<b><u>0.14%</u></b>	<b><u>0.11%</u></b>	<b><u>0.12%</u></b>

Figures based on CML definition:

For accounts where the balance outstanding > £1000 or monthly sub > £5

1st charge active possessions only (2nd charge possessions included in relevant arrears bands)

Law of Property Act receiver of rent cases excluded from arrears and possessions (with effect December 2008)

Excludes deceased arrears and possessions (with effect April 2009)

## CHARACTERISTICS OF THE UNITED KINGDOM RESIDENTIAL MORTGAGE MARKET

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

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

### *Industry CPR rates*

In the following tables, quarterly industry constant repayment rate (**industry CPR**) data was calculated by dividing the amount of scheduled and unscheduled repayments of mortgages made by building societies in a quarter by the quarterly balance of mortgages outstanding for building societies in the United Kingdom. These quarterly repayment rates were then annualised using standard methodology.

<b>Quarter</b>	<b>Industry CPR Rate for the Quarter (%)</b>	<b>12-month rolling average (%)</b>	<b>Quarter</b>	<b>Industry CPR Rate for the Quarter (%)</b>	<b>12-month rolling average (%)</b>
March 1999	12.32%	14.41%	March 2005	17.96%	21.50%
June 1999	15.96%	14.85%	June 2005	21.32%	21.10%
September 1999	17.55%	15.21%	September 2005	24.29%	21.10%
December 1999	16.47%	15.57%	December 2005	24.61%	22.04%
March 2000	13.62%	15.90%	March 2006	22.27%	23.12%
June 2000	15.31%	15.73%	June 2006	23.37%	23.64%
September 2000	15.97%	15.34%	September 2006	24.95%	23.80%
December 2000	15.67%	15.14%	December 2006	24.87%	23.87%
March 2001	15.38%	15.58%	March 2007	23.80%	24.25%
June 2001	18.23%	16.31%	June 2007	24.84%	24.61%
September 2001	20.25%	17.39%	September 2007	25.48%	24.74%
December 2001	20.06%	18.48%	December 2007	23.55%	24.42%
March 2002	18.75%	19.32%	March 2008	19.56%	23.36%
June 2002	21.10%	20.04%	June 2008	20.88%	22.37%
September 2002	23.63%	20.89%	September 2008	20.15%	21.03%
December 2002	22.89%	21.59%	December 2008	15.33%	18.98%
March 2003	21.24%	22.22%	March 2009	12.91%	17.32%
June 2003	22.43%	22.55%	June 2009	11.39%	14.95%
September 2003	24.03%	22.65%	September 2009	12.77%	13.10%
December 2003	24.87%	23.14%	December 2009	11.99%	12.27%
March 2004	21.22%	23.14%	March 2010	9.60%	11.44%
June 2004	22.93%	23.26%	June 2010	10.60%	11.24%
September 2004	24.27%	23.32%	September 2010	11.30%	10.87%
December 2004	20.85%	22.32%	December 2010	10.98%	10.62%
			March 2011	10.02%	10.73%

Source of repayment and outstanding mortgage information: Council of Mortgage Lenders and Bank of England

You should note that the CPR table above presents the historical CPR experience only of building societies in the United Kingdom. During the late 1990s, a number of former building societies converted stock to form UK banks and the CPR experience of these banks is therefore not included in the foregoing building society CPR data.

### ***Repossession rate***

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

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

Source: Council of Mortgage Lenders

### ***House price to earnings ratio***

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

<b>Year</b>	<b>House Price to Earnings Ratio</b>	<b>Year</b>	<b>House Price to Earnings Ratio</b>
1994 .....	4.55	2003 .....	7.30
1995 .....	4.47	2004 .....	7.78
1996 .....	4.51	2005 .....	7.92
1997 .....	4.77	2006 .....	7.86
1998 .....	5.11	2007 .....	8.42
1999 .....	5.37	2008 .....	8.14
2000 .....	5.86	2009 .....	7.43
2001 .....	5.98	2010 .....	7.88
2002 .....	6.78		

Source: Council of Mortgage Lenders

### ***House price index***

UK residential property prices, as measured by the Nationwide House Price Index and Halifax House Price Index (collectively the **Housing Indices**), have generally followed the UK Retail Price Index over an extended period. (Nationwide is a UK building society and Halifax is a division of Bank of Scotland plc which is part of the Lloyds Banking Group.)

The UK housing market has been through various economic cycles in the recent past, with large year-to-year increases in the Housing Indices occurring in the late 1980s and large decreases occurring in the early 1990s and from 2007.

Quarter	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
March 1989	111.7	7.7%	118.8	32.0%	217.8	32.1%
June 1989	114.9	8.2%	124.2	27.3%	226.8	25.9%
September 1989	116.0	7.7%	125.2	15.5%	227.3	14.3%
December 1989	118.3	7.6%	122.7	7.4%	222.8	5.1%
March 1990	120.4	7.8%	118.9	0.1%	220.7	1.3%
June 1990	126.0	9.7%	117.7	-5.2%	224.3	-1.1%
September 1990	128.1	10.4%	114.2	-8.8%	224.2	-1.4%
December 1990	130.1	10.0%	109.6	-10.7%	222.9	0.0%
March 1991	130.8	8.6%	108.8	-8.5%	220.2	-0.2%
June 1991	133.6	6.0%	110.6	-6.0%	223.2	-0.5%
September 1991	134.2	4.8%	109.5	-4.1%	220.8	-1.5%
December 1991	135.5	4.2%	107.0	-2.4%	217.5	-2.4%
March 1992	136.2	4.1%	104.1	-4.3%	210.6	-4.4%
June 1992	139.1	4.1%	105.1	-5.0%	210.4	-5.7%
September 1992	139.0	3.6%	104.2	-4.8%	208.4	-5.6%
December 1992	139.6	3.0%	100.1	-6.4%	199.3	-8.4%
March 1993	138.7	1.8%	100.0	-3.9%	196.9	-6.5%
June 1993	140.9	1.3%	103.6	-1.4%	203.2	-3.4%
September 1993	141.3	1.7%	103.2	-1.0%	204.2	-2.0%
December 1993	141.8	1.6%	101.8	1.7%	202.5	1.6%
March 1994	142.0	2.4%	102.4	2.4%	202.3	2.7%
June 1994	144.5	2.6%	102.5	-1.1%	204.3	0.5%
September 1994	144.6	2.3%	103.2	0.0%	204.3	0.0%
December 1994	145.5	2.6%	104.0	2.2%	200.9	-0.8%
March 1995	146.8	3.4%	101.9	-0.5%	200.3	-1.0%
June 1995	149.5	3.5%	103.0	0.5%	201.0	-1.6%
September 1995	149.9	3.7%	102.4	-0.8%	199.0	-2.6%
December 1995	150.1	3.2%	101.6	-2.3%	197.8	-1.5%
March 1996	150.9	2.8%	102.5	0.6%	200.9	0.3%
June 1996	152.8	2.2%	105.8	2.7%	208.6	3.8%
September 1996	153.1	2.1%	107.7	5.2%	209.8	5.4%
December 1996	154.0	2.6%	110.1	8.4%	212.6	7.5%
March 1997	154.9	2.7%	111.3	8.6%	215.3	7.2%
June 1997	156.9	2.7%	116.5	10.1%	222.6	6.7%
September 1997	158.4	3.5%	121.2	12.5%	223.6	6.6%
December 1997	159.7	3.7%	123.3	12.0%	224.0	5.4%
March 1998	160.2	3.4%	125.5	12.8%	226.4	5.2%
June 1998	163.2	4.0%	130.1	11.7%	234.9	5.5%
September 1998	163.7	3.3%	132.4	9.2%	236.1	5.6%
December 1998	164.4	2.9%	132.3	7.3%	236.3	5.5%
March 1999	163.7	2.2%	134.6	7.3%	236.3	4.4%
June 1999	165.5	1.4%	139.7	7.4%	247.7	5.4%
September 1999	165.6	1.2%	144.4	9.1%	256.7	8.7%
December 1999	166.8	1.5%	148.9	12.5%	263.4	11.5%
March 2000	167.5	2.3%	155.0	15.2%	270.5	14.5%
June 2000	170.6	3.1%	162.0	16.0%	275.6	11.3%
September 2000	170.9	3.2%	161.5	11.8%	277.6	8.1%
December 2000	172.0	3.1%	162.8	9.3%	278.3	5.7%
March 2001	171.8	2.6%	167.5	8.1%	279.0	3.1%



Quarter	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
June 2001 .....	173.9	1.9%	174.8	7.9%	297.0	7.8%
September 2001 .....	174.0	1.8%	181.6	12.4%	305.0	9.9%
December 2001 .....	173.8	1.0%	184.6	13.4%	310.9	11.7%
March 2002 .....	173.9	1.2%	190.2	13.6%	324.3	16.2%
June 2002 .....	176.0	1.2%	206.5	18.1%	346.6	16.7%
September 2002 .....	176.6	1.5%	221.1	21.8%	369.1	21.0%
December 2002 .....	178.2	2.5%	231.3	25.3%	393.0	26.4%
March 2003 .....	179.2	3.0%	239.3	25.8%	400.1	23.4%
June 2003 .....	181.3	3.0%	250.1	21.1%	422.5	21.9%
September 2003 .....	181.8	2.9%	258.9	17.1%	437.6	18.6%
December 2003 .....	182.9	2.6%	267.1	15.5%	453.5	15.4%
March 2004 .....	183.8	2.6%	277.3	15.9%	474.0	18.5%
June 2004 .....	186.3	2.8%	296.2	18.4%	513.2	21.5%
September 2004 .....	187.4	3.1%	306.2	18.3%	527.2	20.5%
December 2004 .....	189.2	3.4%	304.1	13.9%	522.0	15.1%
March 2005 .....	189.7	3.2%	304.8	9.9%	520.2	9.7%
June 2005 .....	191.9	3.0%	314.2	6.1%	532.1	3.7%
September 2005 .....	192.6	2.8%	314.4	2.7%	543.1	3.0%
December 2005 .....	193.7	2.4%	314.0	3.3%	548.4	5.1%
March 2006 .....	194.2	2.4%	319.8	4.9%	552.6	6.2%
June 2006 .....	197.6	3.0%	329.2	4.8%	582.1	9.4%
September 2006 .....	199.3	3.5%	336.1	6.9%	586.7	8.0%
December 2006 .....	201.4	4.0%	343.2	9.3%	602.8	9.9%
March 2007 .....	203.0	4.5%	350.2	9.5%	613.9	11.1%
June 2007 .....	206.3	4.4%	362.7	10.2%	644.1	10.7%
September 2007 .....	207.1	3.9%	367.3	9.3%	649.3	10.7%
December 2007 .....	209.8	4.2%	367.0	6.9%	634.4	5.2%
March 2008 .....	211.1	4.0%	357.8	2.2%	620.9	1.1%
June 2008 .....	215.3	4.4%	348.1	-4.0%	605.1	-6.1%
September 2008 .....	217.4	5.0%	329.5	-10.3%	568.9	-12.4%
December 2008 .....	215.5	2.7%	312.9	-14.7%	531.5	-16.2%
March 2009 .....	210.9	-0.1%	298.7	-16.5%	512.5	-17.5%
June 2009 .....	212.6	-1.3%	307.3	-11.7%	514.3	-15.0%
September 2009 .....	214.4	-1.4%	319.5	-3.0%	526.5	-7.5%
December 2009 .....	216.9	0.6%	323.4	3.4%	537.3	1.1%
March 2010 .....	219.3	4.0%	324.9	8.8%	539.0	5.2%
June 2010 .....	223.5	5.1%	336.6	9.5%	546.6	6.3%
September 2010 .....	224.5	4.7%	333.9	4.5%	540.4	2.6%
December 2010 .....	227.0	4.7%	325.1	0.5%	528.8	-1.6%
March 2011 .....	230.9	5.3%	323.9	-0.3%	523.2	-2.9%

Source: Office for National Statistics, Nationwide Building Society and HBOS plc, respectively.

The percentage annual change in the table above is calculated in accordance with the following formula:

$LN(x/y)$  where x is equal to the current quarter's index value and y is equal to the index value of the previous year's corresponding quarter.

All information contained in this Prospectus in respect of the Nationwide House Price Index has been reproduced from information published by Nationwide Building Society, which is available on their website, <http://www.nationwide.co.uk/hpi/>, but which is not incorporated by reference into this Prospectus. All information contained in this Prospectus in respect of the Halifax House Price Index has been reproduced from information published by HBOS plc, which is available on their website, [http://www.lloydsbankinggroup.com/media1/research/halifax\\_hpi.asp](http://www.lloydsbankinggroup.com/media1/research/halifax_hpi.asp), but which is not incorporated by reference into this Prospectus. The Issuer confirms that all information in this Prospectus in respect of the Nationwide House Price Index and the Halifax House Price Index has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by Nationwide Building Society and HBOS plc, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Note, however, that the Issuer has not participated in the preparation of that information nor made any enquiry with respect to that information. Neither the Issuer nor Nationwide Building Society nor HBOS plc makes any representation as to the accuracy of the information or has any liability whatsoever to you in connection with that information. Anyone relying on the information does so at their own risk.

## THE NOTE TRUSTEE AND SECURITY TRUSTEE

Capita Trust Company Limited (registered number 00239726) will be appointed pursuant to the Trust Deed as Note Trustee for the Noteholders. It will also be appointed pursuant to the Deed of Charge as Security Trustee for the Secured Creditors.

Capita Trust Company Limited registered office is at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Capita Trust Company Limited principal office is at 7th floor, Phoenix House, 18 King William Street, London EC4N 7HE.

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

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

## **THE CORPORATE SERVICES PROVIDER**

Capita Trust Corporate Limited (registered number 05322525), having its principal address at 7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE will be appointed to provide corporate services to the Issuer and Holdings pursuant to the Corporate Services Agreement.

Capita Trust Corporate Limited has served and is currently serving as corporate service provider for numerous securitisation transactions and programmes involving pools of mortgage loans.

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

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

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

## THE BARCLAYS ACCOUNT BANK, CURRENCY SWAP COUNTERPARTY AND BASIS RATE SWAP COUNTERPARTY

Barclays Bank PLC is a public limited company registered in England and Wales under number 01026167. The liability of the members of Barclays Bank PLC is limited. It has its registered head office at 1 Churchill Place, London, E14 5HP, United Kingdom (telephone number +44 (0)20 7116 1000). 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 Acts 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985, Barclays Bank 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**) is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. The whole of the issued ordinary share capital of Barclays Bank PLC is beneficially owned by Barclays PLC, which is the ultimate holding company of the Barclays Group.

The short-term unsecured obligations of Barclays Bank PLC are rated P-1 by Moody's and F1+ by Fitch and the long-term obligations of Barclays Bank PLC are rated Aa3 by Moody's and AA- by Fitch.<sup>4</sup>

Based on the Barclays Group's audited financial information for the year ended 31 December 2010, the Barclays Group had total assets of £1,490,038 million (2009: £1,379,148 million), total net loans and advances<sup>5</sup> of £465,741 million (2009: £461,359 million), total deposits<sup>6</sup> of £423,777 million (2009: £398,901 million), and total shareholders' equity of £62,641 million (2009: £58,699 million) (including non-controlling interests of £3,467 million (2009: £2,774 million)). The profit before tax from continuing operations of the Barclays Group for the year ended 31 December 2010 was £6,079 million (2009: £4,559 million) after impairment charges and other credit provisions of £5,672 million (2009: £8,071 million). The financial information in this paragraph is extracted from the audited consolidated financial statements of Barclays Bank PLC for the year ended 31 December 2010.

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<sup>4</sup> As of the date of this Prospectus, each of Fitch and Moody's is a credit rating agency established in the European Union and has applied for registration under the CRA Regulation, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

<sup>5</sup> Total net loans and advances include balances relating to both bank and customer accounts.

<sup>6</sup> Total deposits include deposits from bank and customer accounts.

## SUMMARY OF THE KEY TRANSACTION DOCUMENTS

### Mortgage Sale Agreement

#### *Portfolio*

Under the Mortgage Sale Agreement, on the Closing Date the Issuer will pay the Initial Consideration to the Seller and a portfolio of English and Welsh residential mortgage loans and their associated mortgages and other Related Security (together, the **Loans**) will become subject to a bare trust (the **CCA Trust**) declared by the Seller in favour of the Issuer, and will be held by the Seller on bare trust for the Issuer until such time as the Issuer notifies the Seller that the Issuer has obtained the requisite licence under the CCA (the **Effective Date**). Upon the occurrence of the Effective Date, those residential mortgage loans (the **Loans**) and their associated mortgages (the **Mortgages**) and other Related Security (the **Related Security**) will be assigned by way of equitable assignment to the Issuer, in each case referred to as the **sale** by the Seller to the Issuer of the Loans and Related Security. The Loans and Related Security and all monies derived therefrom from time to time are referred to herein as the **Portfolio**.

The consideration due to the Seller in respect of the sale of the Portfolio is payable on the Closing Date and is the aggregate of:

- (a) an amount equal to the Current Balance of the Loans in the Closing Date Portfolio determined as at close of business on 31 May 2011 plus any Further Advances made in respect of the Loans from (and including) 1 June 2011 to (and including) the Closing Date (the **Initial Consideration**); and
- (b) a covenant by the Issuer to pay the Deferred Consideration in respect of the sale of the Portfolio.

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

#### *Title to the Mortgages, registration and notifications*

The completion of the transfer of the Loans and Related Security (and where appropriate their registration) to the Issuer is, save in the limited circumstances referred to below, deferred. Legal title to the Loans and Related Security therefore remains with the Seller. Notice of the sale of the Loans and their Related Security to the Issuer will not be given to any Borrower until the occurrence of a Perfection Event.

The transfers to the Issuer will be completed on or before the 20th Business Day after the later to occur of the Effective Date and the earliest to occur of the following:

- (a) the Seller being required to perfect legal title to the Loans by an order of a court of competent jurisdiction or by a regulatory authority which has jurisdiction over the Seller or by any organisation of which the Seller is a member, or whose members comprise (but are not necessarily limited to) mortgage lenders with whose instructions it is customary for the Seller to comply, to perfect legal title to the Loans and their Related Security; or
- (b) it becoming necessary by law to do any or all of the acts referred to in paragraph (a) above; or
- (c) the security under the Deed of Charge or any material part of that security being, in the reasonable opinion of the Security Trustee, in jeopardy and the Security Trustee being required by the Secured Creditors to take action to reduce that jeopardy; or

- (d) the Seller calling for perfection by serving notice in writing to that effect on the Issuer and the Security Trustee; or
- (e) the occurrence of a Seller Insolvency Event,

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

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

- (a) an order is made or an effective resolution passed for the winding up of the Seller; or
- (b) the Seller stops or threatens to stop payment to its creditors generally or the relevant entity ceases or threatens to cease to carry on its business or substantially the whole of its business; or
- (c) an encumbrancer takes possession or a receiver, administrator, administrative receiver or other similar officer is appointed to the whole or any material part of the undertaking, property and assets of the Seller or a distress, diligence or execution is levied or enforced upon or sued out against the whole or any material part of the chattels or property of the relevant entity and, in the case of any of the foregoing events, is not discharged within 30 days; or
- (d) the Seller is unable to pay its debts as they fall due.

If any of the Perfection Events described above occurs prior to the Effective Date, the Seller shall send written notice to each Borrower in respect of a Loan informing such Borrower of, *inter alia*, the interests of the Issuer in such Loan and its Related Security pursuant to the CCA Trust. Legal assignment of the Loans and notice of the legal assignment will be given to the Borrowers upon the Issuer having obtained a CCA licence. The Issuer is currently in the process of obtaining such a licence.

The Title Deeds and Loan Files relating to the Portfolio are currently held by or to the order of the Seller. The Seller will undertake that all the Title Deeds and Loan Files relating to the Portfolio which are at any time in its possession or under its control or held to its order will be held to the order of the Issuer or as the Issuer directs.

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

#### *Loan Porting*

If a Borrower ports a Loan comprised in the Portfolio, such Loan will be redeemed and the principal element of such amount will be applied as Available Principal Receipts and the interest element of such amount will be applied as Available Revenue Receipts on the Interest Payment Date immediately following the Collection Period in which the Loan was ported.

#### *Eligibility Criteria*

The sale of Loans and their Related Security to the Issuer will be subject to various conditions (the **Eligibility Criteria**) being satisfied on the Closing Date, including:

- (a) no Event of Default shall have occurred which is continuing as at the Closing Date;
- (b) the weighted average yield on the Loans in the Portfolio is at least 0.30 per cent. greater than LIBOR for three month Sterling deposits after taking into account:

- (i) the weighted average yield on the Loans;
  - (ii) the margins on the Basis Rate Swap Transactions and any additional basis rate swaps entered into by the Issuer; and
  - (iii) the amount available to be withdrawn from the Yield Reserve Fund taking into account amounts credited to the Yield Reserve Fund on such date;
- (c) the Loan is not a Capped Rate Loan, unless the Issuer has entered into an interest rate cap agreement in a form and substance which complies with Moody's and Fitch's interest rate hedging criteria at that time.

On the Closing Date, the Representations and Warranties (described below in "*Representations and Warranties*") will be given by the Seller in respect of the Loans and their Related Security sold by the Seller to the Issuer.

If the Seller accepts an application from or makes an offer (which is accepted) to a Borrower for a Product Switch, a Flexible Drawing, a Rearrangement or Further Advance, then if any of the Eligibility Criteria referred to in paragraphs (a), (b) and (c) above relating to the Loan subject to that Product Switch, Flexible Drawing, a Rearrangement or Further Advance is not satisfied on the Monthly Test Date immediately following the Monthly Period in which such Product Switch, Flexible Drawing, Rearrangement and/or Further Advance was made, the Issuer will be entitled to rectify the relevant breach of those Eligibility Criteria by (in the event of a breach of the Eligibility Criteria in paragraphs (a), (b) and (c) above) requiring the Seller to repurchase the Loans subject to any Product Switch, Flexible Drawing, Rearrangement or Further Advance on the next Monthly Pool Date in accordance with the provisions of the Mortgage Sale Agreement.

If the Servicer accepts an application from, or makes an offer (which is accepted) to a Borrower for a change to that Borrower's Mortgage Conditions which would result in a Rearrangement, the Issuer will, in its sole discretion serve on the Seller a Loan Repurchase Notice requiring the Seller to repurchase the relevant Loan which is the subject of the Rearrangement and its Related Security on the next Monthly Pool Date in accordance with the Mortgage Sale Agreement, provided that the Seller will be at liberty to offer to sell the relevant Loan(s) back to the Issuer in accordance with the Mortgage Sale Agreement.

#### *Representations and Warranties*

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

- (a) in respect of each Loan and its Related Security in the Portfolio as at the Closing Date;
- (b) in relation to any Further Advance as at the relevant Advance Date;
- (c) in relation to each Loan which is subject to a Product Switch as at the relevant Switch Date; and
- (d) in relation to each Loan which is subject to a Rearrangement as at the relevant Rearrangement Date.

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



## **1. Loans**

- 1.1 Each Loan was originated or acquired by the Seller in the ordinary course of business and was denominated in pounds Sterling upon origination (or was denominated in euro upon origination or acquisition if the euro has been adopted as the lawful currency of the United Kingdom).
- 1.2 No Loan has a Current Balance of more than £1,000,000.
- 1.3 Prior to the making of each Initial Advance and Further Advance, the Lending Criteria and all preconditions to the making of any Loan were satisfied in all material respects subject only to such exceptions and waivers as made on a case by case basis as would be acceptable to a Reasonable, Prudent Mortgage Lender.
- 1.4 The Lending Criteria are consistent with the criteria that would be used by a Reasonable, Prudent Mortgage Lender.
- 1.5 Each Loan and its Related Security was made on the terms of the Standard Documentation without any material variation thereto and nothing has been done subsequently to add to, lessen, modify or otherwise vary the express provisions of any of the same in any material respect.
- 1.6 At least one monthly payment due in respect of each Loan has been paid by the relevant Borrower.
- 1.7 The Current Balance on each Loan and its Related Security constitute a legal, valid, binding and enforceable debt due to the Seller from the relevant Borrower and the terms of each Loan and its Related Security constitute valid and binding obligations of the Borrower enforceable in accordance with their terms and non-cancellable except that enforceability may be limited by bankruptcy, insolvency or other similar laws of general applicability affecting the enforcement of creditors' rights generally and the court's discretion in relation to equitable remedies.
- 1.8 The rate of interest under each Loan is charged in accordance with the Standard Documentation, subject to the terms of any offer letter in relation thereto.
- 1.9 No agreement for any Loan is in whole or in part a regulated agreement or consumer credit agreement (as defined in Section 8 of the Consumer Credit Act 1974 (as amended, extended or re-enacted from time to time) (the CCA)) or, to the extent that any Loan is in whole or in part a regulated agreement or consumer credit agreement, the procedures and requirements set out in the Consumer Credit Act 1974 have been complied with in all material respects.
- 1.10 All of the Borrowers are individuals (and not partnerships) and were aged 18 years or older at the date they executed the relevant Mortgage.
- 1.11 Each Loan has a term ending no later than three years earlier than the Final Maturity Date.
- 1.12 Each Loan and its Related Security is valid, binding and enforceable in accordance with its terms and is non-cancellable except in the case of some Flexible Loans in respect of which a Mortgage may constitute valid and subsisting first and second charges by way of legal mortgage over the relevant Property, and subject only in certain appropriate cases to requisite applications for registrations or recordings at the Land Registry having been made and which are pending and, in relation to such cases, the Seller is not aware of any caution, notice, inhibition or any other matter that would prevent such registration or recording.
- 1.13 All approvals, consents and other steps necessary to permit a legal or equitable or beneficial transfer, or a transfer of servicing or other disposal as and in the manner contemplated by the Transaction Documents from the Seller to the Issuer, of the Loans and their related Mortgages to be sold under

the Mortgage Sale Agreement have been obtained or taken and there is no requirement in order for the transfer to be effective to obtain the consent of the Borrower before, on or after any equitable or beneficial transfer or before any legal transfer of the Loans and their related Mortgages and such transfer or disposal shall not give rise to any claim by the Borrower against the Issuer, the Security Trustee or any of their successors in title or assigns.

- 1.14 No Related Security consists of "stock" or "marketable" securities (in either case for the purposes of Section 122 of the Stamp Act 1891), "chargeable securities" (for the purposes of Section 99 of the Finance Act 1986) or a "chargeable interest" for the purposes of Section 48 of the Finance Act 2003.
- 1.15 Save in respect of Product Switches or Rearrangements, none of the provisions of the Loans have been waived, altered or modified in any way by the Seller other than:
- (a) any variation agreed with a Borrower to control or manage arrears on a Loan;
  - (b) any variation in the maturity date of a Loan;
  - (c) any variation imposed by statute or as a result of UK government policy changes or initiatives aimed at assisting homeowners (including Borrowers) in meeting payments on their mortgage loans or any variation in the frequency with which the interest payable in respect of the Loan is charged;
  - (d) any variation to the interest rate as a result of the Borrowers switching to a different rate;
  - (e) any change to a Borrower under the Loan or the addition of a new Borrower under a Loan or removal of a Borrower;
  - (f) any change in the repayment method of the Loan; or
  - (g) any partial release of security where, after such release, the Loan continues to satisfy the applicable LTV Ratio requirements.
- 1.16 No Loan is identified in the records of the Seller as being a Staff Product.
- 1.17 No Loan is greater than one monthly payment in arrears.
- 1.18 So far as the Seller is aware, no Borrower is in breach of any obligation under a Loan other than in respect of Monthly Payments.
- 1.19 No Loan is a Buy to Let Loan or a Right to Buy Loan.

## **2. Mortgages**

- 2.1 Subject in certain appropriate cases to the completion of an application for registration or recording at the Land Registry, the whole of the Current Balance on each Loan is secured by a Mortgage or Mortgages over a residential Property and each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage (or in the case of some Flexible Loans, a valid and subsisting first and second charge by way of legal mortgage).
- 2.2 Each Mortgage is substantially in the form of the pro forma contained in the Standard Documentation which was applicable at the time the Mortgage was executed.
- 2.3 The Borrower has good and marketable title to the relevant Property (subject to registration of the title at the Land Registry) free from any encumbrance (except the Mortgage and any subsequent

ranking mortgage and, in relation to a Right to Buy Loan, any charge or security which may arise or be granted in favour of the relevant local authority which has not been postponed) which would materially adversely affect such title and, without limiting the foregoing, in the case of a leasehold Property:

- (a) the lease cannot be forfeited on the bankruptcy of the tenant;
- (b) any requisite consent of the landlord to or notice to the landlord of, the creation of the Related Security has been obtained or given; and
- (c) a copy of the consent or notice has been or will be placed with the Title Deeds.

### **3. The Properties**

- 3.1 All of the Properties are in England or Wales.
- 3.2 Each Property constitutes a separate dwelling unit and is either freehold, leasehold or commonhold or held under a long lease.
- 3.3 Every person who, at the date upon which the relevant Loan was made, had attained the age of eighteen and who had been notified to the Seller as residing or being about to reside in a Property subject to a Mortgage, is either the relevant Borrower or has signed a Deed of Consent.
- 3.4 As far as the Seller is aware, no Property has been let by the Borrower otherwise than by way of:
  - (a) an assured shorthold tenancy which meets the requirements of Section 19A or Section 20 of the Housing Act 1988; or
  - (b) an assured tenancy,in each case which meets the Seller's Policy in connection with lettings to non-owners.
- 3.5 No Loan relates to a Property which is not a residential Property.

### **4. Valuers' and Solicitors' Reports**

- 4.1 In the case of each Loan, the Seller caused to be made on its behalf a valuation of the relevant Property by a valuer or an AVM in all material respects in accordance with the Lending Criteria.
- 4.2 The Seller has not agreed to waive any of its rights against any valuer, solicitor, licensed or qualified conveyancer or other professional who has provided information, carried out work or given advice in connection with any Loan or Related Security.
- 4.3 Prior to making a Loan to a Borrower the Seller:
  - (a) caused its approved solicitors or approved conveyancers to carry out in relation to the relevant Property all investigations, searches and other actions and enquiries which a Reasonable, Prudent Mortgage Lender or its solicitors normally make when lending to an individual on the security of residential property, as the case may be, in England and Wales; and
  - (b) received a certificate of title from Approved Solicitors or Approved Conveyancers relating to such Property and the results thereof were such as would be acceptable to a Reasonable, Prudent Mortgage Lender in order to proceed with the Loan; or

- (c) arranged for its interest in the Property to be insured under any Title Insurance Policy applicable to such Property and the Seller is insured under such policy.

## **5. Buildings Insurance**

As far as the Seller is aware, each Property is insured (from the date of completion of the relevant Loan):

- (a) under the Third Party Buildings Policies;
- (b) with a reputable insurance company approved by the Seller;
- (c) against all risks usually covered by a Reasonable, Prudent Mortgage Lender in England and Wales, advancing money on the security of residential property; and
- (d) to an amount not less than the full reinstatement cost as determined by the relevant valuer.

## **6. The Seller's Title**

- 6.1 Immediately prior to the purchase of any Loan and the Related Security by the Issuer, and subject to registration or recording at the Land Registry, the Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits in relation to the Loans and Related Security agreed to be sold and/or assigned by the Seller to the Issuer pursuant to the Mortgage Sale Agreement free and clear of all Security Interests, claims and equities (including, without limitation, rights of set-off or counterclaim and overriding interests within the meaning of either Section 3(xvi) of the Land Registration Act 1925) subject in each case only to the Mortgage Sale Agreement and the Borrower's equity of redemption and the Seller is not in breach of any covenant implied by reason of its selling the Portfolio with full title guarantee (or which would be implied if the relevant Land Registry Transfers were completed and registered or recorded, as appropriate).
- 6.2 As far as the Seller is aware, all steps necessary to perfect the Seller's title to the Loans and the Related Security were duly taken at the appropriate time or are in the process of being taken, in each case (where relevant) within any applicable priority periods or time limits for registration with all due diligence and without undue delay.
- 6.3 The Loan Files relating to each of the Loans and their Related Security are held by, or are under the control of:
  - (a) the Seller; or
  - (b) the Servicer.
- 6.4 Neither the entry by the Seller into the Mortgage Sale Agreement nor any transfer, assignment or creation of trust contemplated by the Mortgage Sale Agreement affects or will adversely affect any of the Loans and their Related Security and the Seller may freely assign and enter into trust arrangements in respect of all its rights, title, interests and benefits therein as contemplated in the Mortgage Sale Agreement without breaching any term or condition applying to any of them.
- 6.5 The Seller has not knowingly waived or acquiesced in any breach of any of its rights in respect of a Loan or its Related Security, other than waivers and acquiescence such as a Reasonable, Prudent Mortgage Lender might make on a case by case basis.

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

Each Loan in the Portfolio is either:

- (a) a Variable Rate Loan, Tracker Rate Loan, Capped Rate Loan or Fixed Rate Loan; or
- (b) a New Loan Type which will not result in the then current ratings of the Class A Notes being downgraded, withdrawn or qualified.

## **8. FSA Regulation**

- 8.1 In respect of any Mortgages entered into after 31 October 2004, the Seller was authorised by and had permission from the FSA for entering into regulated mortgage contracts as lender at the time that it entered into each such Mortgage and continues to be so authorised and hold such permission.
- 8.2 From and including 31 October 2004 the Seller is authorised by and had permission from the FSA for conducting any other regulated activities (as set out in the FSMA (Regulated Activities) Order 2001, as amended (the **Order**)) in respect of a regulated mortgage contract (as defined in Article 61(3)(a) of the Order in respect of the Mortgages.
- 8.3 The Seller has complied in all material respects with all regulatory requirements in respect of the Mortgages, in particular the provisions of MCOB.
- 8.4 The Seller is not aware of any pending action or proceeding by an applicant against the Seller in respect of the Mortgages.
- 8.5 Each officer or employee of the Seller in any capacity which involves a controlled function (as defined in the FSA Rules) or involves the supervision of any person or persons so engaged is and was at all relevant times a validly registered "approved person" in accordance with the FSA Rules.
- 8.6 The Seller has created and maintained all records in respect of the Mortgages in accordance with the FSA Rules and any other Regulatory Requirement.
- 8.7 The Seller has not altered the terms of any letter of offer accepted by a Borrower relating to a Loan or otherwise changed any of the terms and conditions relating to any Loan other than in accordance with the terms and conditions of the letter of offer relating to a Loan as accepted by the applicable Borrower other than as requested by a Borrower.

## **9. General**

- 9.1 The Seller has, since the making of each Loan, kept or procured the keeping of full and proper accounts, books and records as are necessary to show all material transactions, payments, receipts, proceedings and notices relating to such Loan.
- 9.2 Neither the Seller nor as far as the Seller is aware any of its agents has received written notice of any litigation, claim, dispute or complaint (in each case, subsisting, threatened or pending) in respect of any Borrower, Property, Loan or Related Security which (if adversely determined) might have a material adverse effect on the value of the Portfolio or any part of it.
- 9.3 There are no governmental authorisations, approvals, licences or consents required as appropriate for the Seller to enter into or to perform its obligations under this Agreement or to render the Mortgage Sale Agreement legal, valid, binding, enforceable and admissible in evidence in a court in England and Wales which have not been obtained.

**Buy to Let Loans** means Loans taken out by Borrowers in relation to the purchase or re-mortgage of properties for letting purposes;

**Capped Rate Loan** means a Loan to the extent that and for such time that the interest rate payable by the relevant Borrower on all or part of the outstanding principal balance is variable but will not increase above a fixed rate for a certain period of time by the Seller;

**Deed of Consent** means a deed whereby a mortgagee in relation to a Property agrees with the Seller to postpone its mortgage over the Property so that the sums secured by it will rank for repayment after the sums secured by the relevant Mortgage;

**Fixed Rate Loan** means a Loan or any sub-account(s) of such Loan to the extent that and for such time as the interest rate payable by the relevant Borrower on all or part of the outstanding principal balance does not vary and is fixed for a certain period of time by the Seller;

**Further Advance** means, in relation to a Loan, any advance of further money to the relevant Borrower (including any commitment to fund any further amount which has not yet been advanced or any commitment to fund any further amount (whether or not advanced) in respect of which the Borrower has flexible redraw rights) following the making of the Initial Advance, which is secured by the same Mortgage as the Initial Advance, but does not include the amount of any retention advanced to the relevant Borrower as part of the Initial Advance after completion of the Mortgage;

**Loan Agreement** means, in relation to a Loan, the loan agreement entered into between the relevant Borrower and the Seller, as amended and/or restated from time to time;

**Loan Files** means the file or files relating to each Loan (including files kept in microfiche format or similar electronic data retrieval system or the substance of which is transcribed and held on an electronic data retrieval system) containing *inter alia* correspondence between the Borrower and the Seller and including mortgage documentation applicable to the Loan, each letter of offer for that Loan, the Valuation Report (if applicable) and, to that extent available, the solicitor's or licensed conveyancer's certificate of title;

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

**Mortgage Conditions** means all the terms and conditions applicable to a Loan, including without limitation those set out in the Seller's relevant mortgage conditions booklet and the Seller's relevant general conditions, each as varied from time to time by the relevant Loan Agreement and the relevant Mortgage Deed;

**Mortgage Deed** means, in respect of any Mortgage, the deed in written form creating that Mortgage;

**New Loan Type** means a new type of mortgage loan originated or acquired by the Seller, which the Seller intends to transfer to the Issuer, the terms and conditions of which are materially different (in the opinion of the Seller, acting reasonably) from the Loans comprised in the Portfolio. For the avoidance of doubt, a mortgage loan will not constitute a New Loan Type if it differs from the Loans due to it having different interest rates and/or interest periods and/or time periods for which it is subject to a fixed rate, capped rate, tracker rate or any other interest rate or the benefit of any discounts, cash backs and/or rate guarantees or if it has flexible features;

**Right to Buy Loan** means a Loan in respect of a Property made in whole or in part to a Borrower for the purpose of enabling that Borrower to exercise his right to buy the relevant Property under Section 156 of the Housing Act 1985 excluding however such Loans in respect of which the statutory charge referred to in section 155 of the Housing Act 1985 has expired;

**Staff Product** means a staff mortgage product offered to employees of the Co-operative Bank;

**Standard Documentation** means the standard documentation, a list of which is set out in Exhibit 1 to the Mortgage Sale Agreement, or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender;

**Switch Date** means the date that the Product Switch is made;

**Third Party Buildings Policies** means the buildings insurance policies referable to each Property;

**Title Deeds** means, in relation to each Loan and its Related Security and the Property relating thereto, all conveyancing deeds and all other documents which relate to the title to the Property and the security for the Loan and all searches and enquiries undertaken in connection with the grant by the Borrower of the related Mortgage;

**Title Insurance Policy** means each of the title insurance policies set out in the Mortgage Sale Agreement together with, in each case, any other insurance policies in replacement, addition or substitution thereof or thereto from time to time which relate to the Loans; together with, in each case, any other insurance policies in replacement, addition or substitution thereof or thereto from time to time which relate to the Loans;

**Tracker Rate Loan** means a Loan or any sub-account(s) of such Loan to the extent that and for such period that its Mortgage Conditions provide that it is subject to an interest rate which is linked to a variable interest rate other than the Standard Variable Rate;

**Valuation Report** means the valuation report or reports for mortgage purposes, in the form of one of the pro forma contained in the Standard Documentation, obtained by the Seller from a valuer in respect of each Property or a valuation report in respect of a valuation made using a methodology which would be acceptable to a Reasonable, Prudent Mortgage Lender and which has been approved by the relevant officers of the Seller; and

**Variable Rate Loans** means those Loans or any sub-account(s) of such Loan to the extent that and for such period that their Mortgage Conditions provide that they are subject to a rate of interest which may at any time be varied in accordance with the relevant Mortgage Conditions (and shall, for the avoidance of doubt, exclude Loans or any sub-account(s) of such Loan during the period that they are Fixed Rate Loans or Tracker Rate Loans).

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

As used in this Prospectus, **Initial Advance** means all amounts advanced by the Seller to a Borrower under a Loan other than a Further Advance. Subject to the satisfaction of certain conditions described generally below, the Issuer will acquire Further Advances and Flexible Drawings.

**Further Advances:** Subject to the Pre-Funded Purchase Available Amount being sufficient for such purpose, the Issuer shall purchase Further Advances from the Seller on the date that the relevant Further Advance is advanced to the relevant Borrower by the Seller (the **Advance Date**). The Issuer will pay the Seller an amount equal to the principal amount of the relevant Further Advance (the **Further Advance Purchase Price**) on the Monthly Pool Date immediately succeeding the Monthly Period in which the relevant Advance Date occurred by using amounts standing to the credit of the Retained Principal Receipts Ledger. Where the Issuer (or the Cash Manager on its behalf) determines that the amounts standing to the credit of the Retained Principal Receipts Ledger would not be sufficient to fund such Further Advance Purchase Price, the Issuer will, prior to the VFN Commitment Termination Date, make a drawing under the Class B2 VFN in an amount equal to the difference between the amounts standing to the credit of the Retained Principal Receipt Ledger and the Further Advance Purchase Price and use such proceeds of the Class B2 VFN to fund the purchase of Further Advances under the Loans. The Issuer will only be permitted to purchase Further Advances (together with any Flexible Drawings) in an amount up to the Pre-Funded Purchase Available Amount from time to time. If (a) the Issuer is unable to fund the purchase of any Further

Advance from funds standing to the credit of the Retained Principal Receipts Ledger and the Class B2 VFN Holder fails to advance an amount equal to such shortfall in the Further Advances Purchase Price to be paid on the Monthly Pool Date or (b) the Pre-Funded Purchase Available Amount is not sufficient to collateralise the Loan relating to the Further Advance, the Issuer shall not complete the purchase of the relevant Further Advance and the Seller must repurchase the related Loan and its Related Security at its Current Balance on the next Monthly Pool Date (excluding the amount of the Further Advance) determined as at the relevant Monthly Pool Date in accordance with the terms of the Mortgage Sale Agreement.

If it is subsequently determined by the Servicer on the Monthly Test Date immediately succeeding the Monthly Period in which the relevant Advance Date occurred or on any other subsequent Monthly Test Date that any of the Asset Conditions have not been met as at the relevant Monthly Test Date then the relevant Loan and its Related Security must (subject as provided below) be repurchased by the Seller at its then Current Balance on the Monthly Pool Date immediately following that Monthly Test Date in accordance with the provisions of the Mortgage Sale Agreement.

Neither the Servicer nor the Seller shall make an offer to a Borrower for a Further Advance if it would result in the Issuer arranging or advising in respect of, administering (servicing) or entering into a regulated mortgage contract or agreeing to carry on any of these activities, if the Issuer would be required to be authorised under the FSMA to do so.

**Flexible Drawings:** Flexible loan products, (**Flexible Loans**) where the Borrower has exercisable redraw rights (resulting in a **Flexible Drawing**) under the relevant Loan may form part of the Portfolio if the Borrower requests a Product Switch. The Portfolio will not contain any Flexible Loans.

Subject to the Pre-Funded Purchase Available Amount being sufficient for such purpose, the Issuer shall purchase Flexible Drawings from the Seller on the date that the relevant Flexible Drawing is advanced to the relevant Borrowers by the Seller (the **Drawing Date**). The Issuer will pay the Seller an amount equal to the principal amount of the relevant Flexible Drawing (the **Flexible Drawing Purchase Price**) on the Monthly Pool Date immediately succeeding the Monthly Period in which the relevant Drawing Date occurred by using amounts standing to the credit of the Retained Principal Receipts Ledger. Where the Issuer (or the Cash Manager on its behalf) determines that the amounts standing to the credit of the Retained Principal Receipts Ledger would not be sufficient to fund such Flexible Drawing Purchase Price, the Issuer will, prior to the VFN Commitment Termination Date, make a drawing under the Class B2 VFN in an amount equal to the difference between the amounts standing to the credit of the Retained Principal Receipt Ledger and the Flexible Drawing Purchase Price and use such proceeds of the Class B2 VFN to fund the purchase of Flexible Drawings under the Loans. The Issuer will only be permitted to purchase Flexible Drawings (together with any Further Advances) in an amount up to the Pre-Funded Purchase Available Amount from time to time. If (a) the Issuer is unable to fund the purchase of any Flexible Drawings from funds standing to the credit of the Retained Principal Receipts Ledger and any corresponding drawing under the Class B2 VFN fails to advance an amount equal to such shortfall in the Flexible Drawing Purchase Price to be paid on the Monthly Pool Date or (b) the Pre-Funded Purchase Available Amount is not sufficient to collateralise the Loan relating to the Flexible Drawing, the Issuer may not complete the purchase of the relevant Flexible Drawing and the Seller must repurchase the related Loan and its Related Security at its Current Balance on the next Monthly Pool Date (excluding the amount of the Flexible Drawing) determined as at the relevant Monthly Period End Date in accordance with the terms of the Mortgage Sale Agreement.

If it is subsequently determined by the Servicer on the Monthly Test Date immediately succeeding the Monthly Period in which the relevant Flexible Drawing was made or on any subsequent Monthly Test Date any of the Asset Conditions have not been met as at the Monthly Test Date, then the relevant Loan and its Related Security must (subject as provided below) be repurchased by the Seller at its then Current Balance on the Monthly Pool Date immediately following that Monthly Test Date in accordance with the terms of the Mortgage Sale Agreement.



Neither the Servicer nor the Seller shall make an offer to a Borrower for a Flexible Drawing if it would result in the Issuer arranging or advising in respect of, administering (servicing) or entering into a regulated mortgage contract or agreeing to carry on any of these activities, if the Issuer would be required to be authorised under the FSMA to do so.

**Product Switches:** The Seller (or the Servicer on behalf of the Seller) may offer a Borrower (and the Borrower may accept), or a Borrower may request, a Product Switch. Any Loan which has been subject to a Product Switch will remain in the Portfolio provided that it satisfied the Asset Conditions and it is a Permitted Product Switch. If it is subsequently determined by the Servicer on the Monthly Test Date immediately succeeding the Monthly Period in which the Product Switch was made that any of the Asset Conditions have not been met, the Product Switch was not a Permitted Product Switch or on any other subsequent date that any applicable Loan Warranty made by the Seller in respect of a Loan which is the subject of a Product Switch and which remains in the Portfolio was materially untrue as at its Switch Date, and that default has not been remedied within 90 days of receipt of notice from the Issuer, the relevant Loan and its Related Security must be repurchased by the Seller on the Monthly Period End Date immediately following the Monthly Test Date as provided for by the Mortgage Sale Agreement.

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

**Product Switch** means any variation in the financial terms and conditions applicable to a Loan (including, without limitation, any switch by a Borrower to a Flexible Loan) other than any variation:

- (a) agreed with a Borrower to control or manage arrears on the Loan;
- (b) in the maturity date of the Loan unless the maturity date would be extended to a date later than three years before the Final Maturity Date of the Notes;
- (c) imposed by statute;
- (d) in the rate of interest payable in respect of a Loan where that rate is actively marketed to the Borrowers of more than 10 per cent. by Current Balance of the Loans in the Portfolio in any Interest Period, provided (i) suitable hedging arrangements will be in place for such Loan for the term of such Loan; and (ii) the current balance of the Yield Reserve Fund is either (A) greater than or equal to the Yield Reserve Required Amount, or (B) increased to an amount greater than or equal to the Yield Reserve Required Amount through a drawing under the Class C VFN;
- (e) in the frequency with which the interest payable in respect of the Loan is charged; or
- (f) which is a Rearrangement and does not result in a change of the rate of interest payable on the Loan or a change in its repayment type,

where in the case of (d)(i) above, the notional of the relevant Basis Rate Swap would be adjusted to take account of a change to or from a fixed or floating rate until the maturity of such Loan or Loans.

**Permitted Product Switch** is a Product Switch where:

- (a) the relevant Borrower has made at least one Monthly Payment, in full, on its Loan;
- (b) the new loan for which the prior Loan is to be exchanged is subject to either a Fixed Rate, the Seller's Variable Rate or a Base Rate linked rate of interest; and

- (c) on the Monthly Test Date immediately following the making of the Product Switch, each of the conditions as set forth under "*Asset Conditions*" below are satisfied.

**Rearrangements:** The Seller (or the Servicer on behalf of the Seller) may offer a Borrower a change to its Mortgage Conditions (and the Borrower may accept), or a Borrower may request a change to its Mortgage Conditions, which results in a Rearrangement. Any Loan which has been subject to a Rearrangement will be repurchased by the Seller on the Business Day following the relevant date such Rearrangement was made (the **Rearrangement Date**) and the Seller will pay the Issuer an amount equal to the Current Balance of such Loan as at the Business Day immediately following the Rearrangement Date. The repurchase price for such Loan will be paid by the Seller in cash on the Monthly Pool Date and the Issuer will credit the principal element of the repurchase price for the Rearrangement to the Rearrangement Purchase Ledger and the accrued interest element to Available Revenue Receipts. Such amounts may be off-set against the purchase price payable by the Issuer to the Seller for any Rearrangements resold to the Issuer. Any Loan which is the subject of a Rearrangement may be resold to the Issuer on the Monthly Pool Date immediately succeeding the Monthly Period in which such Rearrangement Date occurred. If it is determined on the Monthly Test Date immediately following the Monthly Period in which the Rearrangement occurred that the Loan Warranties or paragraphs (a), (b) and (c) of the Eligibility Criteria were not met in respect of the Rearrangement (as applicable) as of the relevant Monthly Pool Date, the Seller shall repurchase the Loan on the Monthly Pool Date immediately following such Monthly Test Date.

On each Monthly Pool Date, the Issuer will first apply funds standing to the credit of the Rearrangement Purchase Ledger to purchase the principal element of Loans which are the subject of a Rearrangement that are offered for sale by the Seller to the Issuer. In addition, where such Loans have been subject to a Further Advance or Flexible Drawing, the Issuer will apply funds standing to the credit of the Retained Principal Receipts Ledger to purchase the principal element of such Further Advance or Flexible Drawing, if there are insufficient funds standing to the credit of the Retained Principal Receipts Ledger to fund such amounts, the Issuer shall be entitled to request a drawing under the Class B2 VFN to fund such purchase. The Rearrangement Revenue Element of the purchase price (which is equal to the interest accrued on the relevant Loan since the Rearrangement Date) for the Rearrangement will be funded from Revenue Receipts. If there are insufficient Revenue Receipts to fund the purchase of the Rearrangement Revenue Element of the purchase price of any Rearrangement, the Issuer will use the proceeds of the Class B2 VFN to fund such shortfall.

**Rearrangement** means any modification, variation, amendment or change to the terms and conditions of a Loan, other than any variation agreed with a Borrower to control or manage arrears on the Loan, or the parties to a Loan and any drawdown of money or any additional borrowing under a Loan which, in each case, is requested by a Borrower under that Loan and is required to be characterised in accordance with the Co-operative Bank's internal policies from time to time, as a rearrangement.

**Rearrangement Purchase Price** means the aggregate of (i) an amount equal to the principal amount of the relevant Loan which has been subject to a Rearrangement to the Seller on the Monthly Pool Date immediately succeeding the Monthly Period in which the relevant Rearrangement occurred and (ii) the Rearrangement Revenue Element.

**Rearrangement Revenue Element** means, in respect of a Rearrangement, the interest accrued on the Loan subject to such Rearrangement from, and including, the Rearrangement Date to, and including, the relevant Monthly Pool Date on which such Loan is repurchased by the Issuer.

#### *Repurchase by the Seller*

The Seller will be required to repurchase any Loan, Further Advance, Flexible Drawing, Product Switch or Rearrangement sold pursuant to the Mortgage Sale Agreement if any Loan Warranty made by the Seller in relation to that Loan, Further Advance, Flexible Drawing, Product Switch or Rearrangement (as applicable)

and/or its Related Security proves on any date after the Closing Date, Advance Date, Drawing Date, Switch Date or Rearrangement Date (as applicable) to be materially untrue as at the Closing Date, Advance Date, Drawing Date, Switch Date or Rearrangement Date (as applicable), and that default has not been remedied within 90 days of receipt of notice from the Issuer, on the next Monthly Pool Date following receipt by the Seller of a Loan Repurchase Notice.

The Seller will also be required to repurchase any Loan which is subject to a Further Advance, Flexible Drawing, Product Switch or Rearrangement pursuant to and in accordance with the terms of the Mortgage Sale Agreement if any of the Asset Conditions (other than the Loan Warranties) are not satisfied on the Monthly Test Date immediately following the Monthly Period in which such Further Advance, Flexible Drawing, Product Switch or Rearrangement was made. The Seller will be required to repurchase any Loan if any Loan Warranty is materially untrue in the circumstances described above.

Further, the Seller will also be required to repurchase a Loan which is the subject of a Further Advance or Flexible Drawing if the Issuer has insufficient funds to purchase such Further Advance or Flexible Drawing, or the Pre-Funded Purchase Available Amount is insufficient to collateralise the Loan relating to the Further Advance or Flexible Drawing.

#### *New Loan Types*

In the future a Borrower may request a Product Switch to a loan product with different features to those Loans contained in the Portfolio. Provided that the Product Switch is a Permitted Product Switch, the Asset Conditions have been met as of the Monthly Test Date immediately following the Monthly Period in which such Switch Date occurred and the Loan Warranties as of the relevant Switch Date, the Seller will not be required to repurchase the Loan and it will remain in the Portfolio.

#### *Asset Conditions*

In order for any Loan which has been the subject of a Product Switch, Flexible Drawing or a Further Advance to remain in the Portfolio, the following conditions (the **Asset Conditions**) must be complied with as of the relevant Switch Date, Drawing Date or Advance Date (as applicable) immediately following the making of the Product Switch, Flexible Drawing or the Further Advance. The Asset Conditions will be tested on the Monthly Test Date immediately following the Monthly Period in which such sale of the Product Switch, Flexible Drawing or Further Advance took place.

The Asset Conditions are:

- (a) no Event of Default shall have occurred which is continuing or unwaived as at the relevant Monthly Test Date and either (i) conditions (b) to (m) below are satisfied, or (ii) a drawing is made under the Class B2 VFN in an amount equal to the Current Balance of the affected Loan where the Cash Manager will apply the principal balance of such amount as Principal Receipts;
- (b) as at the relevant Monthly Test Date, the Current Balance of the Loans comprising the Portfolio, in respect of which the aggregate amount in Arrears is more than three times the Monthly Payment then due, is less than 5 per cent. of the aggregate Current Balance of the Loans comprising the Portfolio at that date (and provided that advance notice in writing of such calculation has been provided to Moody's and Fitch and there being no reduction, qualification or withdrawal by Moody's or Fitch of the then current ratings of the rated notes as a consequence thereof);
- (c) as at the relevant Monthly Test Date, the General Reserve Fund is at the General Reserve Required Amount, or failing such condition, a drawing is made under the Class C VFN in order to replenish the General Reserve Fund to the General Reserve Required Amount;

- (d) the Cash Manager is not aware that the then current ratings of the Class A Notes then outstanding would be downgraded, withdrawn or qualified as a result of the relevant Product Switch, and/or Further Advance remaining in the Portfolio;
- (e) each Loan and its Related Security which is the subject of a Product Switch and/or a Further Advance complies at the date of such Product Switch and/or Further Advance with the Loan Warranties;
- (f) as at the relevant Monthly Test Date, the Rating Agency Tests will not be breached as a result of the relevant Product Switch and/or Further Advance and/or Flexible Drawing remaining in the Portfolio (after taking into account any drawing under the Class B2 VFN);
- (g) as at the Monthly Test Date the Eligibility Criteria as set out in paragraph (a), (b) and (c) of the definition of Eligibility Criteria have not been breached;
- (h) as at the relevant Monthly Test Date the balance of the Yield Reserve equals or will be at least equal to as at the next following Interest Payment Date the Yield Reserve Required Amount (taking into account any drawing under the Class C VFN);
- (i) if the making of a Product Switch would result in a New Loan Type being included in the Portfolio and advance notice in writing of any such Loans subject to a Product Switch and/or Further Advance remaining in the Portfolio has been provided to Moody's and Fitch and there being no reduction, qualification or withdrawal by Moody's or Fitch of the then current ratings of the Class A Notes as a consequence thereof;
- (j) the Basis Rate Swap Agreement hedges against the interest rates payable in respect of such Product Switch and/or Further Advance until the maturity of such Loan;
- (k) the Class A Principal Deficiency Sub-Ledger does not have a debit balance as at the most recent Interest Payment Date after applying all Available Revenue Receipts on that Interest Payment Date;
- (l) the aggregate amount of all Further Advances (including the Further Advances made since the Closing Date) does not exceed 10 per cent. of the Current Balance of the Loans comprised in the Portfolio on the Closing Date; and
- (m) the Seller has delivered a Solvency Certificate signed by an authorised signatory of the Seller to the Security Trustee in accordance with the terms of the Mortgage Sale Agreement.

The Mortgage Sale Agreement provides that, if the short-term, unsecured, unsubordinated debt obligations of the Seller are rated less than P-2 by Moody's or F-2 by Fitch, respectively as at a Monthly Pool Date, the Seller must provide to the Issuer and the Security Trustee a Solvency Certificate (in form and substance acceptable to the Security Trustee), signed by an authorised signatory of the Seller.

**Rating Agency Tests** means tests which satisfy each of the following conditions on the relevant Monthly Test Date:

- (a) for Further Advances, the original weighted average LTV ratio (calculated by dividing original debt advanced by the Original Valuation) of the Loans in the Portfolio (including the relevant Further Advances) does not exceed 75 per cent.;
- (b) for Further Advances, the outstanding principal balance of any Loans in the Portfolio (including the relevant Further Advances) with an original LTV ratio (calculated by dividing original debt advanced by Original Valuation) of more than 80 per cent. does not exceed 40 per cent.;

- (c) for Further Advances, the current weighted average LTV ratio (excluding any house price indexation up to the Monthly Test Date) (calculated by dividing current debt by Original Valuation) of the Loans in the Portfolio (including the relevant Further Advances) does not exceed 71 per cent.;
- (d) for Further Advances, the weighted average income multiple of the Loans in the Portfolio (including any relevant Further Advances) (calculated by dividing the current debt outstanding by the sum of primary income and secondary income, in each case where provided) does not exceed 3.40 times;
- (e) for Further Advances and Product Switches, the outstanding principal balance of any Loans in the Portfolio (including any Product Switch and/or Further Advance) with an interest only part does not exceed 43 per cent.; and
- (f) for Further Advances, the LTV ratio (as measured by the original balance (excluding any fees added to such balance on or since the date of origination) of such Loan plus the relevant Further Advance divided by the latest valuation) is less than 95 per cent.,

where in the cases of Original Valuation, the Original Valuation of loans which have had further advances will be the lesser of (a) indexed valuation based on the Halifax House Price Index from the date of the Original Valuation to the date of the latest Further Advance for such loan and (b) indexed valuation based on the Halifax House Price Index from the date of the Original Valuation to six months prior to the date of the latest Further Advance for such Loan.

For the purposes of determining compliance with the Rating Agency Tests, the Cash Manager shall base its calculations on the following assumptions:

- (a) each Loan comprised in the Portfolio on the Closing Date remains in the Portfolio as at the relevant Monthly Test Date;
- (b) the Current Balance of each Loan comprised in the Portfolio will be deemed to be the higher of (i) the Current Balance of the relevant Loan as at the immediately preceding Monthly Pool Date and (ii) the Current Balance of the relevant Loan(s) comprised in the Portfolio on the Closing Date; and
- (c) the Current Balance and original balance of each Loan comprised in the Portfolio include the flexible redraw capacity of such Loan.

**Business Day** means a day other than a Saturday or Sunday on which banks are open for business in London.

**Calculation Date** means the 1st of March, June, September and December or if such day is not a Business Day, the next following Business Day.

**Collection Period** means the quarterly period commencing on and including the Collection Period Start Date and ending on and including the last calendar day before the immediately following Collection Period Start Date except that the first Collection Period will commence on 1 June 2011 and end on the last calendar day before the immediately following Collection Period Start Date.

**Collection Period Start Date** means the 1st of March, June, September and December except that the first Collection Period Start Date will be 1 June 2011.

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

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

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

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

**Monthly Period** means the monthly period commencing on and including the first calendar day of each month and ending on and including the last calendar day of each month except that the first Monthly Period will commence on the Closing Date and end on the last calendar day of July 2011.

**Monthly Period End Date** means the last day of the calendar month.

**Monthly Pool Date** means (a) the 1st day of the calendar month immediately following each Monthly Period End Date provided that such day is not a Sunday and (b) the second day of the calendar month immediately following each Monthly Period End Date where the first day of the calendar month is a Sunday.

**Monthly Test Date** means the tenth Business Day, or if such date is not a Business Day the immediately following Business Day, of each month.

**Mortgage** means in respect of any Loan each first fixed charge by way of legal mortgage which is, or is to be, sold by the Seller to the Issuer pursuant to the Mortgage Sale Agreement (or, prior to the Effective Date, held upon the CCA Trust) which secures the repayment of the relevant Loan including the Mortgage Conditions applicable to it.

**Property** means a freehold, leasehold or commonhold property which is subject to a Mortgage.

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

#### *Governing Law*

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

#### **Servicing Agreement**

##### *Introduction*

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

On or about the Closing Date, the Servicer will be appointed by the Issuer, and for so long as the Loans are subject to the CCA Trust, the Seller in its capacity as trustee of the CCA Trust acting on the instructions of the Issuer. The Servicer must comply with any proper directions and instructions that the Issuer or, following service of a Note Acceleration Notice, the Security Trustee may from time to time give to it in accordance with the provisions of the Servicing Agreement.

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

#### *Powers*

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

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

#### *Undertakings by the Servicer*

The Servicer has undertaken, among other things, to:

- (a) service the Loans and their Related Security sold by the Seller to the Issuer as if the same had not been sold to the Issuer (or, in respect of the Loans, held on trust under the CCA Trust by the Seller for the Issuer) but had remained with the Seller in accordance with the Seller's servicing, arrears and enforcement policies and procedures forming part of the Seller's policy from time to time as they apply to those Loans (the **Seller's Policy**);
- (b) provide the Services in such manner and with the same level of skill, care and diligence as would a Reasonable, Prudent Mortgage Lender;
- (c) comply with any proper directions, orders and instructions which the Issuer may from time to time give to it in accordance with the provisions of the Servicing Agreement;
- (d) keep in force all approvals, authorisations, permissions, consents and licences required in order properly to service the Loans and their Related Security and to perform or comply with its obligations under the Servicing Agreement, and to prepare and submit all necessary applications and requests for any further approvals, authorisations, permissions, registrations, consents and licences required in connection with the performance of the Services under the Servicing Agreement and in particular any necessary notification under the Data Protection Act 1998, licence under the CCA and any authorisation and permissions under the FSMA;
- (e) save as otherwise agreed with the Issuer, provide upon written request free of charge to the Issuer, office space, facilities, equipment and staff sufficient to enable the Issuer to perform its obligations under the Servicing Agreement;
- (f) not knowingly fail to comply with any legal or regulatory requirements in the performance of the Services;

- (g) make all payments required to be made by it pursuant to the Servicing Agreement on the due date for payment thereof in Sterling (or as otherwise required under the Transaction Documents) in immediately available funds for value on such day without set-off (including, without limitation, in respect of any fees owed to it) or counterclaim but subject to any deductions by law;
- (h) not without the prior written consent of the Security Trustee amend or terminate any of the Transaction Documents save in accordance with their terms;
- (i) as soon as reasonably practicable upon becoming aware of any event which may reasonably give rise to an obligation of the Seller to repurchase any Loan sold by the Seller to the Issuer (or, in respect of the Loans subject to the CCA Trust, release such Loans from the CCA Trust) pursuant to the Mortgage Sale Agreement, notify the Issuer in writing of such event;
- (j) within 60 days of the date on which the Servicer (or its successors or assigns) ceases to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Fitch of at least BBB- or by Moody's of at least Baa3, with the assistance of the Back-Up Servicer Facilitator, use reasonable endeavours to enter into a back-up or master servicing agreement with a third party with suitable experience and credentials in such form as the Issuer and the Security Trustee shall reasonably require; and
- (k) deliver to the Issuer, the Back-Up Servicer Facilitator and the Security Trustee as soon as reasonably practicable but in any event within five Business Days of becoming aware thereof a notice of any Servicer Termination Event or any event which with the giving of notice or lapse of time or certification would constitute the same.

*Setting of Interest Rates on the Loans*

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

- (a) the **Issuer Standard Variable Rate** applicable to any Loans with a Standard Variable Rate in the Portfolio at rates which are higher than (although they may be equal to) the then prevailing relevant standard variable rate which applies to Loans beneficially owned by the Seller outside the Portfolio (the **Seller Standard Variable Rates** and together with the Issuer Standard Variable Rates, the **Standard Variable Rates**); or
- (b) any other discretionary rate (together with the Standard Variable Rates, the **Discretionary Rates**) or margin in respect of any other Loan in the Portfolio which is higher than (although it may equal to) the interest rate or margin of the Seller, which applies to that type of Loan beneficially owned by the Seller outside the Portfolio.

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

- (a) the revenue which the Issuer would expect to receive during the next succeeding Interest Period;
- (b) the Discretionary Rates or margins applicable in respect of the Loans which the Servicer proposes to set under the Servicing Agreement; and
- (c) the other resources available to the Issuer, including the Basis Rate Swap Agreement, the General Reserve Fund, the Liquidity Reserve Fund (if funded) and the Yield Reserve Fund and taking into



account any amount available to be withdrawn and/or to be credited to the Yield Reserve Fund in the next succeeding Interest Period,

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

If the Servicer determines that there would be a shortfall in the foregoing amounts, it will give written notice to the Issuer, within three Business Day of such determination of the amount of the shortfall.

If the Issuer notifies the Servicer that, having regard to the obligations of the Issuer, the Discretionary Rates should be increased, then the Servicer will take all steps which are necessary to increase the Discretionary Rates, including publishing any notice which is required in accordance with the applicable mortgage terms.

The Issuer (prior to the delivery of a Note Acceleration Notice) with the prior written consent of the Security Trustee and (following delivery of a Note Acceleration Notice), the Security Trustee may terminate the authority of the Servicer under the Servicing Agreement to determine and set the Discretionary Rates on or after the occurrence of a Servicer Termination Event defined under "*Removal or Resignation of the Servicer*" below (provided that neither the Issuer nor the Security Trustee will be entitled to terminate such authority if the Servicer has been appointed as substitute servicer under any master servicing agreement), in which case the Issuer shall set the Discretionary Rates itself in accordance with the above provisions.

As soon as reasonably practical following a Perfection Event, the Servicer shall take all steps which are necessary to set the Issuer Standard Variable Rate (including publishing any notice which is required in accordance with the Mortgage Conditions to effect such change in the Issuer Standard Variable Rate) to a rate not less than the average of one-month Sterling LIBOR at the most recent Rate Fixing Date falling in January, April, July or October and the two immediately preceding Rate Fixing Dates plus 2.25 per cent. and thereafter the Servicer shall set the Issuer Standard Variable Rate on a quarterly basis at a rate not less than the average of one-month Sterling LIBOR at the most recent Rate Fixing Date falling in January, April, July or October and the two immediately preceding Rate Fixing Dates plus 2.25 per cent.

**Rate Fixing Dates** means the first London Business Day of the relevant month.

#### *Reasonable, Prudent Mortgage Lender*

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

#### *Compensation of the Servicer*

The Servicer receives a fee for servicing the Loans and their Related Security. The Issuer pays to the Servicer a servicing fee (inclusive of VAT, if any) of 0.08 per cent. per annum, on the aggregate Current Balance of all Loans in the Portfolio as at the opening of business on the preceding Interest Payment Date (or, as applicable, the Closing Date). The fee is payable quarterly in arrear on each Interest Payment Date in the manner contemplated by and in accordance with the Pre-Acceleration Revenue Priority of Payments or, as the case may be, the Post-Acceleration Priority of Payments.

#### *Removal or Resignation of the Servicer*

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

- the Servicer defaults in the payment on the due date of any payment due and payable by it under the Servicing Agreement and such default continues unremedied for a period of 30 London Business Days after the earlier of the Servicer becoming aware of such default and receipt by the Servicer of written notice from the Issuer, the Seller or the Security Trustee, as the case may be, requiring the same to be remedied;
- the Servicer defaults in the performance or observance of any of its other covenants and obligations under the Servicing Agreement, which failure in the reasonable opinion of the Issuer (prior to the delivery of a Note Acceleration Notice) or the opinion of the Security Trustee (after the delivery of a Note Acceleration Notice) is materially prejudicial to the interests of the Noteholders, and the Servicer does not remedy that failure within 30 London Business Days after the earlier of the Servicer becoming aware of the failure or of receipt by the Servicer of written notice from the Issuer, the Seller or the Security Trustee requiring the Servicer's non-compliance to be remedied;
- a third party becomes obliged to undertake the servicing of the Loans (other than as master servicer), pursuant to any back-up servicing agreement contemplated under the Servicing Agreement; or
- an insolvency event occurs in relation to the Servicer.

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

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

If the Servicer ceases to have assigned to it a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 (or such other long-term rating as is otherwise acceptable to Moody's) or by Fitch of at least BBB- (or such other long-term rating as is otherwise acceptable to Fitch), then it will use reasonable endeavours (with the assistance of the Back-Up Servicer Facilitator) to appoint a Back-Up Servicer with suitable experience and credentials in such form as the Issuer and the Security Trustee shall reasonably require and enter, within 60 days, into a back-up or master servicing agreement. If the Servicer is unable to find a suitable third party willing to act as master servicer, this will not constitute a breach of the Servicer's obligations under the Servicing Agreement.

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

#### *Liability of the Servicer*

The Servicer will indemnify each of the Issuer and the Security Trustee on demand on an after-tax basis for any loss, liability, claim, expense or damage suffered or incurred by it in respect of the negligence, fraud or wilful default of the Servicer or any of its sub-contractors or delegates in carrying out its functions as Servicer under, or as a result of a breach by the Servicer of the terms and provisions of the Servicing

Agreement or such other Transaction Documents to which the Servicer is a party (in its capacity as such) in relation to such functions.

#### *Back-Up Servicer Facilitator*

Under the Servicing Agreement in the event that the long-term unsecured and unsubordinated debt rating of the Servicer has fallen below (a) Baa3 by Moody's (or such lower rating specified by Moody's) and (b) BBB- by Fitch (or such other long-term rating which is otherwise acceptable to Fitch), the Back-Up Servicer Facilitator, shall, within 60 days of the date on which the ratings of the Servicer have so fallen, use best efforts to identify, on behalf of the Issuer a suitable back-up servicer (the **Back-Up Servicer**) which meets the requirements for a substitute Servicer provided for by the Servicing Agreement.

#### *Governing Law*

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

#### **Deed of Charge**

On the Closing Date, the Issuer will enter into the Deed of Charge with, *inter alia*, the Security Trustee.

#### *Security*

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

- (a) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's right, title, interest and benefit in and to the Transaction Documents (subject to any set-off or netting provisions provided therein) (other than the Subscription Agreement, the Trust Deed and the Deed of Charge);
- (b) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's interest in the Loans and the Mortgages and their other Related Security and other related rights comprised in the Portfolio;
- (c) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's right, title, interest and benefit to and under insurance policies sold to the Issuer pursuant to the Mortgage Sale Agreement;
- (d) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in its bank accounts maintained with the Account Banks and any sums standing to the credit thereof;
- (e) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in all Authorised Investments permitted to be made by the Issuer; and
- (f) a floating charge over all other assets of the Issuer not otherwise subject to a fixed charge.

**Authorised Investments** means:

- (a) Sterling gilt-edged securities; and

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

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

- (i) such investments (A) have a maturity date of 60 days or less and mature on or before the Interest Payment Date or within 60 days, whichever is sooner, (B) may be broken or demanded by the Issuer (at no cost to the Issuer) on or before the next following Interest Payment Date or within 60 days, whichever is sooner, and (C) are rated at least F1+ by Fitch and P-1 by Moody's (and AA- (long-term) by Fitch and Aa3 by Moody's if the investments have a long-term rating); or
- (ii) such investments (A) have a maturity date of 90 days or less and mature on or before the Interest Payment Date or within 90 days, whichever is sooner, (B) may be broken or demanded by the Issuer (at no cost to the Issuer) on or before the next following Interest Payment Date or within 90 days, whichever is sooner, and (C) are rated at least F1+ by Fitch and P-1 by Moody's (and AA- (long-term) by Fitch and Aa3 by Moody's if the investments have a long-term rating).

**Transaction Documents** means the Servicing Agreement, the Agency Agreement, the Co-op Bank Account Agreement, the Barclays Bank Account Agreement, the Cash Management Agreement, the Corporate Services Agreement, the Deed of Charge (and any documents entered into pursuant to the Deed of Charge), the Collection Account Declaration of Trust, the Swap Agreements, the Share Trust Deed, the Issuer Power of Attorney, the Master Definitions and Construction Schedule, the Mortgage Sale Agreement, the Seller Power of Attorney, the Subscription Agreement, the Trust Deed and such other related documents which are referred to in the terms of the above documents or which relate to the issue of the Notes.

**Secured Creditors** means the Security Trustee, the Note Trustee, the Noteholders, the Seller, the Servicer, the Cash Manager, the Swap Providers, the Co-op Account Bank, the Barclays Account Bank, the Back-Up Servicer Facilitator, the Back-Up Cash Manager Facilitator, the Swap Collateral Account Bank (if the Swap Collateral Account Bank Agreement is entered into), the Corporate Services Provider, the Paying Agents, the Registrar, the VFN Registrar, the Agent Bank and any other person who is expressed in any deed supplemental to the Deed of Charge to be a secured creditor.

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

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

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

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

After the Note Trustee has served a Note Acceleration Notice (which has not been withdrawn) on the Issuer pursuant to Condition 10 (Events of Default) of the Notes, declaring the Notes to be immediately due and

payable, the Security Trustee (or the Cash Manager on its behalf) shall apply the monies available in accordance with the Post-Acceleration Priority of Payments defined in "*Cashflows — Distribution of Available Principal Receipts and Available Revenue Receipts following the service of a Note Acceleration Notice on the Issuer*" below.

The Security will become enforceable following the service of a Note Acceleration Notice on the Issuer pursuant to Condition 10 (Events of Default) of the Notes provided that, if the Security has become enforceable otherwise than by reason of a default in payment of any amount due on the Notes, the Security Trustee will not be entitled to dispose of the assets comprised in the Security or any part thereof unless either a sufficient amount would be realised to allow discharge in full on a *pro rata* and *pari passu* basis of all amounts owing to the Class A Noteholders (and all persons ranking in priority to the Class A Noteholders as set out in the order of priority of payment below) or, once all of the Class A Noteholders have been repaid, to the Class B VFN Holder (and all persons ranking in priority thereto) or the Security Trustee is of the opinion that the cashflow expected to be received by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class A Noteholders (and all persons ranking in priority to the Class A Noteholders as set out in the order of priority below) or, once all of the Class A Noteholders have been repaid, to the Class B VFN Holder (and all persons ranking in priority thereto) or, once all of the Class B VFN Holder have been repaid, to the Class C VFN Holder (and all persons ranking in priority thereto), which opinion shall be binding on the Secured Creditors and reached after considering at anytime and from time to time the advice of any financial adviser (or such other professional adviser selected by the Security Trustee for the purpose of giving such advice).

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

#### *Governing Law*

The Deed of Charge and any non-contractual obligations arising out of or in connection with it will be governed by English law.

#### **Trust Deed**

On or about the Closing Date, the Issuer, the Security Trustee and the Note Trustee will enter into the Trust Deed pursuant to which the Issuer and the Note Trustee will agree that the Notes are subject to the provisions in the Trust Deed. The Conditions and the forms of the Notes are constituted by, and set out in, the Trust Deed.

The Note Trustee will agree to hold the benefit of the Issuer's covenant to pay amounts due in respect of the Notes on trust for the Noteholders.

In accordance with the terms of the Trust Deed, the Issuer will pay a fee to the Note Trustee for its services under the Trust Deed at the rate and times agreed between the Issuer and the Note Trustee together with payment of any liabilities incurred by the Note Trustee in relation to the Note Trustee's performance of its obligations under or in connection with the Trust Deed and the other Transaction Documents.

#### *Retirement of Note Trustee*

The Note Trustee may retire at any time upon giving not less than 60 days' notice in writing to the Issuer without assigning any reason therefor and without being responsible for any costs occasioned by such retirement. The Class A Noteholders may by Extraordinary Resolution remove all trustees (but not some only) for the time being who are acting pursuant to the Trust Deed and the Deed of Charge. The retirement of the Note Trustee shall not become effective unless there remains a trustee (being a trust corporation) in office after such retirement or being removed by Extraordinary Resolution. The Issuer will agree in the

Trust Deed that, in the event of the sole trustee or the only trustee under the Trust Deed giving notice of its retirement, it shall use its best endeavours to procure a new trustee to be appointed as soon as practicable thereafter and if, after 60 days from the date the Note Trustee gives its notice of retirement the Issuer is not able to find such replacement, the Note Trustee will be entitled to procure that a new trustee be appointed.

#### *Governing Law*

The Trust Deed and any non-contractual obligations arising out of or in connection with it will be governed by English law.

#### **Agency Agreement**

On or prior to the Closing Date, the Issuer, the Note Trustee, the Principal Paying Agent, the Agent Bank, the Registrar, the VFN Registrar and the Security Trustee will enter into the Agency Agreement pursuant to which provision will be made for, among other things, payment of principal and interest in respect of the Notes.

#### *Governing Law*

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

#### **Cash Management Agreement**

On the Closing Date, the Cash Manager, the Issuer, the Back-Up Cash Manager Facilitator and the Security Trustee will enter into the Cash Management Agreement.

#### *Cash Management Services to be Provided to the Issuer*

Pursuant to the Cash Management Agreement, the Cash Manager will agree to provide certain cash management and other services to the Issuer. The Cash Manager's principal function will be effecting payments to and from the Co-op Deposit Account or the Barclays Deposit Account, as the case may be, and the Swap Collateral Account (if any). In addition, the Cash Manager will:

- (a) apply, or cause to be applied, Available Revenue Receipts, in accordance with the Pre-Acceleration Revenue Priority of Payments and Available Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments;
- (b) record credits to, and debits from, the General Reserve Ledger, the Retained Principal Receipts Ledger, the Rearrangement Purchase Ledger, the Yield Reserve Ledger, the Principal Deficiency Ledgers, the Principal Ledger, the Revenue Ledger, the Issuer Fee Amount Ledger, the Swap Provider Fee Amount Ledger, the Issuer Profit Ledger, the Pre-Funded Purchase Ledger, the Co-op Collateral Account Ledger, the Swap Collateral Ledger and the Liquidity Reserve Fund Ledger (if any) as and when required;
- (c) make payments of the consideration for a Further Advance, a Flexible Drawing, a Rearrangement and/or a Product Switch to the Seller;
- (d) make a drawing under any VFN as required, including, without limitation, any drawing required to fund the Further Advance Purchase Price and/or the Flexible Drawing Purchase Price;
- (e) if required (i) during the Determination Period, calculate the Interest Determination Ratio, the Calculated Revenue Receipts and the Calculated Principal Receipts and (ii) following any Determination Period, upon receipt by the Cash Manager of the Servicer Reports in respect of such

Determination Period, reconcile the calculations to the actual collections set out in the Servicer Reports by allocating the Reconciliation Amounts in accordance with Condition 5.9(c) and the Cash Management Agreement; and

- (f) make any determinations required to be made by the Issuer under the Currency Swap Agreement or the Basis Rate Swap Agreement.

In addition, the Cash Manager will:

- (a) maintain the following ledgers (the **Ledgers**) on behalf of the Issuer:
  - (i) the **Principal Ledger**, which will record all Principal Receipts received by the Issuer and the distribution of the Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments or the Post-Acceleration Priority of Payments (as applicable);
  - (ii) the **Revenue Ledger**, which will record all amounts under items (a), (b), (c) and (f) of Available Revenue Receipts received by the Issuer and distribution of the same in accordance with the Pre-Acceleration Revenue Priority of Payments or the Post-Acceleration Priority of Payments (as applicable);
  - (iii) the **General Reserve Ledger** which will record amounts credited to the general reserve fund (the **General Reserve Fund**) from the proceeds of the Class C VFN Holder's funding of the Class C VFN and withdrawals from the General Reserve Ledger on each Interest Payment Date (see "*Credit Structure — General Reserve Fund and General Reserve Fund Ledger*" below);
  - (iv) the **Retained Principal Receipts Ledger** which will record (A) amounts credited to such ledger on the Closing Date from subscriptions in the Class B2 VFN for such purpose from Available Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments on each Interest Payment Date and (B) withdrawals from such ledger on any Monthly Pool Date first, to pay all Flexible Drawing Purchase Prices and second to pay all Further Advance Purchase Prices. Any amounts not applied by the Cash Manager on behalf of the Issuer towards Further Advance Purchase Prices and/or Flexible Drawing Purchase Prices will comprise Available Principal Receipts in respect of such Interest Payment Date to be applied by the Issuer in accordance with the Pre-Acceleration Principal Priority of Payments on such Interest Payment Date (see "*Credit Structure — Retained Principal Receipts Ledger*" and "*Cashflows – Definition of Available Principal Receipts*" below);
  - (v) the **Principal Deficiency Ledger** which will record on the appropriate sub-ledger as a debit, deficiencies arising from Losses on the Portfolio and corresponding drawings from the Liquidity Reserve Fund (if funded) and Principal Receipts used to pay a Revenue Deficiency and record as a credit, Available Revenue Receipts applied pursuant to the Pre-Acceleration Revenue Priority of Payments (if any) (which amounts shall, for the avoidance of doubt, thereupon be applied as Available Principal Receipts) (see "*Credit Structure — Principal Deficiency Ledger*" below);
  - (vi) the **Liquidity Reserve Fund Ledger** which will record amounts credited to and debited from the Liquidity Reserve Fund (if funded) (to fund senior expenses and interest payments on the Class A Notes) in accordance with the applicable Priority of Payments (see "*Credit Structure — Liquidity Reserve Fund and Liquidity Reserve Fund Ledger*" below);
  - (vii) the **Yield Reserve Ledger** which will be credited up to the Yield Reserve Required Amount from time to time and will be debited from such reserve in the amount of the Scheduled Yield Amount (if any) in partial satisfaction of payments of interest made on the Class A

Notes on each applicable Interest Payment Date (see "*Credit Structure — Yield Reserve Fund and Yield Reserve Fund Ledger*" below);

- (viii) the **Rearrangement Purchase Ledger** which will record the principal element of any purchase price paid by the Seller to the Issuer for a Loan which is subject to a Rearrangement and withdrawals from such ledger on any Monthly Pool Date to repurchase Loans which have been subject to a Rearrangement in the Monthly Period immediately preceding such Monthly Pool Date. Any amounts not applied by the Cash Manager on behalf of the Issuer towards such repurchase will comprise Available Principal Receipts in respect of such Interest Payment Date to be applied by the Issuer in accordance with the Pre-Acceleration Principal Priority of Payments on such Interest Payment Date;
- (ix) the **Issuer Fee Amount Ledger** which shall record any Issuer Fee Amounts received from the proceeds of the Class C VFN Holder's funding of the Class C VFN or any payments made by the Seller pursuant to the Mortgage Sale Agreement and any withdrawals to make payments to the Basis Rate Swap Provider;
- (x) the **Swap Provider Fee Amount Ledger** which shall record any Swap Provider Fee Amounts received by the Issuer from the Basis Rate Swap Provider pursuant to a Basis Rate Swap Agreement and withdrawals of any Swap Provider Fee Amounts used to repay the Class C VFN Holder under the Class C VFN or to the extent that the Class C VFN has been repaid in full, as Available Revenue Receipts;
- (xi) the **Co-op Collateral Account Ledger** which will record any Co-op Collateral Amounts credited to such ledger and debit any withdrawals of amounts equal to the aggregate Account Bank Defaulted Amount if an Account Bank Non-Payment Event occurs;
- (xii) the **Pre-Funded Purchase Ledger** which shall record as a credit, amounts equal to the Pre-Funded Purchase Limit and the amount of Pre-Funded Purchase Available Amount from time-to-time and as a debit any withdrawals as a result of a failure by the Seller to repurchase the relevant Loan or fund the Loan in full in accordance with the Mortgage Sale Agreement (the **Collateralised Amounts**) which will comprise Available Principal Receipts;
- (xiii) the **Issuer Profit Ledger** which shall record as a credit amounts retained by the Issuer as profit in accordance with the Pre-Acceleration Revenue Priority of Payments; and
- (xiv) the **Swap Collateral Ledger** which will comprise two sub-ledgers (i) the **Basis Rate Swap Collateral Sub-Ledger** which shall record as a credit any Swap Collateral received from the Basis Rate Swap Provider and any debiting of the same, including, *inter alia*, any Swap Collateral transferred to the Basis Rate Swap Provider debiting an amount up to the Basis Rate Defaulted Swap Amount to provide for any Revenue Deficiency as Available Revenue Receipts where the Basis Rate Swap Provider fails to make a payment to the Issuer in accordance with the terms of the Basis Rate Swap Agreement and such default is continuing on an Interest Payment Date or an Early Termination Date has been designated in respect of the Basis Rate Swap Agreement and no replacement swap agreement has been entered into on such Interest Payment Date; and (ii) the **Currency Swap Collateral Sub-Ledger** which shall record as a credit any Swap Collateral received from the Currency Swap Provider and any debiting of the same, including, *inter alia*, any Swap Collateral transferred to the Currency Swap Provider debiting an amount up to the Currency Defaulted Swap Amount to provide for any Revenue Deficiency as Available Revenue Receipts or Available Principal Receipts, as appropriate, where the Currency Swap Provider fails to make a payment to the Issuer in accordance with the terms of the Currency Swap Agreement and such default is



continuing on an Interest Payment Date or an Early Termination Date has been designated in respect of the Currency Swap Agreement and no replacement swap agreement has been entered into on such Interest Payment Date;

- (b) calculate on each Calculation Date the amount of Available Revenue Receipts and Available Principal Receipts to be applied on the relevant Interest Payment Date;
- (c) provide the Issuer, the Seller, the Security Trustee, the Class A Noteholders and the Rating Agencies with the Investor Report by no later than ten Business Days following each Interest Payment Date;
- (d) at its option, invest monies standing from time to time to the credit of a Deposit Account in Authorised Investments as determined by the Issuer or by the Cash Manager subject to the following provisions:
  - (i) any such Authorised Investment shall be made in the name of the Issuer;
  - (ii) any costs properly and reasonably incurred in making and changing Authorised Investments will be reimbursed to the Cash Manager by the Issuer; and
  - (iii) all income and other distributions arising on, or proceeds following the disposal or maturity of, Authorised Investments shall be credited to the relevant Deposit Account;
- (e) if Swap Collateral is required to be posted by any Swap Provider in respect of any Swap Agreement and such Swap Provider elects to post collateral in the form of cash, establish and maintain (on behalf of the Issuer) one or more Swap Collateral Accounts; and
- (f) if Swap Collateral is posted in a form other than cash, enter into such documentation as may be reasonably requested by the Issuer in connection with the provision of collateral under the relevant Swap Agreement, including without limitation, any documentation relating to the appointment of a custodian and any associated custody agreement to facilitate the posting of such collateral.

**Account Bank Defaulted Amount** means an amount equal to the amount which would have been paid by the Co-op Account Bank but for the occurrence of an Account Bank Non-Payment Event.

**Account Bank Non-Payment Event** means any failure to pay an amount in accordance with the Co-op Bank Account Agreement in the event the same has not been rectified within one Business Day.

**Issuer Fee Amount Ledger** means the ledger in connection with the Co-op Deposit Account of such name maintained by the Cash Manager pursuant to the Cash Management Agreement, to record the crediting of the Issuer Fee Amount and any debiting of the same.

**Issuer Fee Amount** means the amount if any owing by the Issuer to the Basis Rate Swap Provider and described as a "Net Payment" pursuant to the Basis Rate Swap Agreement in connection with any Further Advance, Flexible Drawing, Product Switch or Rearrangement which occurred in the immediately preceding Monthly Period.

**Swap Collateral Account** means the swap collateral account (if any) established by the Issuer with a suitably rated counterparty in their capacity as swap collateral account bank pursuant to a Swap Collateral Account Bank Agreement.

**Swap Collateral Account Bank** means the party, if any, acting in their capacity as swap collateral account bank pursuant to a Swap Collateral Account Bank Agreement.

**Swap Collateral Account Bank Agreement** means the agreement entered into (if any) between, *inter alios*, the Swap Collateral Account Bank and the Issuer which governs the operation of the Swap Collateral Account (if any).

**Swap Provider Fee Amount** means the amount (if any) owing by the Basis Rate Swap Provider to the Issuer and described as a "Net Payment" pursuant to the Basis Rate Swap Agreement in connection with any Further Advance, Flexible Drawing, Product Switch or Rearrangement which occurred in the immediately preceding Monthly Period.

#### *Remuneration of Cash Manager*

The Cash Manager will be paid a fee (inclusive of VAT, if any) for its cash management services under the Cash Management Agreement quarterly in arrear on each Interest Payment Date. The Issuer will pay to the Cash Manager a cash management fee (inclusive of VAT, if any) of 0.01 per cent. per annum of the Sterling Equivalent Principal Amount Outstanding of the Notes as determined on the preceding Interest Payment Date (or, as applicable, the Closing Date) immediately preceding the Interest Payment Date on which such payment is made up to a maximum of £100,000 per annum. The fee is payable quarterly in arrear on each Interest Payment Date in the manner contemplated by and in accordance with the Pre-Acceleration Revenue Priority of Payments or, as the case may be, the Post-Acceleration Priority of Payments.

#### *Termination of Appointment and Replacement of Cash Manager*

In certain circumstances the Issuer and the Security Trustee will each have the right to terminate the appointment of the Cash Manager and to appoint a substitute (the identity of which will be subject to the Security Trustee's written approval). Any substitute cash manager will have substantially the same rights and obligations as the Cash Manager (although the fee payable to the substitute cash manager may be higher).

The Cash Management Agreement provides that on the Cash Manager ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 or by Fitch of at least BBB-, it will, with the assistance of the Back-Up Cash Manager Facilitator, use reasonable endeavours to enter into a back-up cash management agreement with a suitably experienced third party acceptable to the Issuer within 60 days of ceasing to be assigned such rating by Moody's and/or Fitch.

For the avoidance of doubt, if after using reasonable endeavours to enter into such a back-up cash management agreement, the Cash Manager is unable to find a suitable third party willing to act as a back-up cash manager, this shall not constitute any breach of the provisions of the Cash Management Agreement.

#### *Back-Up Cash Manager Facilitator*

Under the Cash Management Agreement in the event that the long-term unsecured, unguaranteed and unsubordinated debt rating of the Cash Manager has fallen below (a) Baa3 by Moody's (or such lower rating specified by Moody's) or (b) BBB- by Fitch (or such other long-term rating which is otherwise acceptable to Fitch), the Back-Up Cash Manager Facilitator shall, within 60 days of the date on which the ratings of the Cash Manager have so fallen, use best efforts to identify, on behalf of the Issuer, a suitable back-up cash manager (the **Back-Up Cash Manager**) which meets the requirements for a substitute Cash Manager provided for by the Cash Management Agreement.

#### *Liability of the Cash Manager*

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

Transaction Documents to which the Cash Manager is a party (in its capacity as such) in relation to such functions.

#### *Governing Law*

The Cash Management Agreement and any non-contractual obligations arising out of or in connection with it will be governed by English law.

#### **The Co-op Bank Account Agreement**

Pursuant to the terms of the Co-op Bank Account Agreement entered into on or about the Closing Date between the Issuer, the Co-op Account Bank, the Cash Manager, the Seller and the Security Trustee, the Issuer will maintain with the Co-op Account Bank the Co-op Deposit Account and (where appropriate) any swap collateral account(s), which will be operated in accordance with the Cash Management Agreement, the Deed of Charge and the Swap Agreement(s).

The Issuer will deposit amounts in the Co-op Deposit Account in an amount up to the Co-op Deposit Limit. If amounts standing to the credit of the Co-op Deposit Account exceed the Co-op Deposit Limit, the Cash Manager shall deposit the amount of any such surplus which it receives in the Barclays Deposit Account.

#### *Governing Law*

The Co-op Bank Account Agreement and any non-contractual obligations arising out of or in connection with it will be governed by English law.

#### **The Barclays Bank Account Agreement**

Pursuant to the terms of the Barclays Bank Account Agreement entered into on or about the Closing Date between the Issuer, the Barclays Account Bank, the Cash Manager, the Seller and the Security Trustee, the Issuer will maintain with the Barclays Account Bank the Barclays Deposit Account and (where appropriate) any swap collateral account(s), which will be operated in accordance with the Cash Management Agreement, the Deed of Charge and the Swap Agreement(s).

If amounts standing to the credit of the Co-op Deposit Account exceed the Co-op Deposit Limit, the Cash Manager shall deposit the amount of any such surplus which it receives in the Barclays Deposit Account and it shall be recorded on the Co-op Collateral Account Ledger. If the Barclays Account Bank is not at such time rated with, or ceases to have, a rating at least equal to the Account Bank Rating, the Issuer will open a similar account with another entity rated at least the Account Bank Rating.

The Barclays Bank Account Agreement and any non-contractual obligations arising out of or in connection with it will be governed by English law.

**Account Bank Rating** means a short-term unsecured, unsubordinated and unguaranteed debt rating of P-1 by Moody's and F1 by Fitch and a long-term unsecured, unsubordinated and unguaranteed debt rating of A by Fitch and A2 by Moody's (if a short-term rating is assigned by Moody's) or A1 by Moody's (if no short-term rating is assigned by Moody's), or such other short-term or long-term rating as may from time to time be specified in the most recently published Rating Agency criteria as being required to maintain the then current rating of the Class A Notes.

#### **The Corporate Services Agreement**

On or prior to the Closing Date, *inter alia*, the Issuer, the Corporate Services Provider, the Share Trustee, Holdings, the Seller and the Security Trustee will enter into the Corporate Services Agreement pursuant to which the Corporate Services Provider will provide the Issuer and Holdings with certain corporate and

administrative functions against the payment of a fee. Such services include, *inter alia*, the performance of all general book-keeping, secretarial, registrar and company administration services for the Issuer and Holdings (including the provision of directors), the providing of the directors with information in connection with the Issuer and Holdings and the arrangement for the convening of shareholders' and directors' meetings.

#### *Governing Law*

The Corporate Services Agreement and any non-contractual obligations arising out of or in connection with it will be governed by English law.

#### **Collection Account Declaration of Trust**

On 25 February 2010 the Co-operative Bank declared a trust (the **Collection Account Declaration of Trust**) over its beneficial interest in certain collection accounts held in its name with National Westminster Bank PLC into which amounts in respect of certain Loans originated or purchased by the Co-operative Bank are collected for the benefit of the Seller, the Security Trustee and Silk Road Finance Number One PLC. On or about the Closing Date, the Issuer will accede to the collection account declaration of trust and become a beneficiary of the trust constituted by that document.

The beneficiaries of the sub trust will be the Co-operative Bank and the Issuer.

The Collection Account Declaration of Trust and any non-contractual obligations arising out of it or in connection with it are governed by English Law.

#### **Other Agreements**

For a description of the Swap Agreements see "*Credit Structure*" below.

## CREDIT STRUCTURE

The Notes are obligations of the Issuer only. The Notes are not obligations of, or the responsibility of, or guaranteed by, any person other than the Issuer. In particular, the Notes are not obligations of, or the responsibility of, or guaranteed by, any of the Seller, the Swap Providers, the Arrangers, the Joint Lead Managers, the Co-Manager, the Servicer, the Cash Manager, the Co-op Account Bank, the Barclays Account Bank, the Principal Paying Agent, the Agent Bank, the Registrar, the VFN Registrar, the Note Trustee, the Security Trustee, any company in the same group of companies as any such entities or any other party to the Transaction Documents. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by any of the Seller, the Swap Providers, the Arrangers, the Joint Lead Managers, the Co-Manager, the Servicer, the Cash Manager, the Co-op Account Bank, the Swap Collateral Account Bank (if the Swap Collateral Account Bank Agreement is entered into), the Barclays Account Bank, the Principal Paying Agent, the Agent Bank, the Registrar, the VFN Registrar, the Note Trustee, the Security Trustee or by any other person other than the Issuer.

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

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

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

Available Revenue Receipts may be applied (after making payments or provisions ranking higher in the Pre-Acceleration Revenue Priority of Payments) on each Interest Payment Date in accordance with the Pre-Acceleration Revenue Priority of Payments, towards reducing any Principal Deficiency Ledger entries which may arise from Losses on the Portfolio. Revenue Receipts may also be applied on each Maturity Pool Date to purchase the Rearrangement Revenue Element of the purchase price for any Rearrangements.

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

### 2. General Reserve Fund and General Reserve Ledger

On the Closing Date, the Issuer will establish a fund called the **General Reserve Fund** to provide credit enhancement for the Class A Notes which will be credited with the General Reserve Required Amount on the Closing Date. The General Reserve Fund will be funded from the proceeds of the Class C VFN Holder's funding of the Class C VFN on the Closing Date and following the Closing Date, to the extent required in connection with Product Switches or Further Advances from time to time. The General Reserve Fund will be deposited in the Barclays Deposit Account or the Co-op Deposit Account, as the case may be, (with a corresponding credit being made to the General Reserve Ledger). The Issuer may invest the amounts standing to the credit of the Barclays Deposit Account or the Co-op Deposit Account, as the case may be, in Authorised Investments. For more

information about the application of the amounts standing to the credit of the General Reserve Fund, see the section "*Cashflows – Application of Monies Released from the General Reserve Fund*" below.

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

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

The **General Reserve Required Amount** will be an amount equal to £21,932,500 on the Closing Date (being an amount equal to 2.5 per cent., of the Current Balance of the Portfolio as at the Closing Date). On any Interest Payment Date on which the Class A Notes are fully repaid or provided for, the General Reserve Required Amount will be reduced to zero and any amounts held in the General Reserve Fund will form part of Available Revenue Receipts and will be applied in accordance with the Pre-Acceleration Revenue Priority of Payments.

### 3. **Use of Principal Receipts to pay Revenue Deficiency**

On each Calculation Date, the Cash Manager will calculate whether there will be an excess or a deficit of Available Revenue Receipts to pay items (a) to (f) of the Pre-Acceleration Revenue Priority of Payments. If there is a deficit (the **Revenue Deficiency**), then the Issuer (or the Cash Manager on its behalf) shall pay or provide for that Revenue Deficiency by the application of amounts (a) first, standing to the credit of the Principal Receipts Ledger, if any, and (b) second, standing to the credit of the Retained Principal Receipts Ledger, if any, and the Cash Manager shall make a corresponding entry in the relevant Principal Deficiency Ledger, as described in "*Principal Deficiency Ledgers*" below as well as making a debit in the Principal Receipts Ledger and/or the Retained Principal Receipts Ledger (as applicable). Any such entry and debit shall be made and taken into account prior to the application of Available Principal Receipts on the relevant Interest Payment Date. For more information about the application of Principal Receipts to pay a Revenue Deficiency, see the section "*Cashflows – Applications of Principal Receipts to Revenue Deficiency*".

### 4. **Liquidity Reserve Fund and Liquidity Reserve Fund Ledger**

On the Interest Payment Date immediately following any day on which the Co-operative Bank ceases to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa2 or BBB by Fitch, the Issuer will be required to fund the Liquidity Reserve Fund to the Liquidity Reserve Fund Required Amount from Available Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments. The Issuer will be required to top up the Liquidity Reserve Fund to the Liquidity Reserve Fund Required Amount on each Interest Payment Date. For more information about the application of the amounts standing to the credit of the Liquidity Reserve Fund, see the section "*Cashflows – Applications of Monies Released from the Liquidity Reserve Fund*".

**Liquidity Reserve Fund Required Amount** means an amount equal to the greater of (a) 4 per cent. of the Sterling Equivalent Principal Amount Outstanding of the Class A Notes at the beginning of the relevant Interest Period less the amount standing to the credit of the General Reserve Fund as determined by the Cash Manager on the relevant Calculation Date after taking into account the amount of Available Revenue Receipts to be credited to the General Reserve Fund on the Interest Payment Date immediately following such Calculation Date in accordance with the Pre-Acceleration Revenue Priority of Payments and (b) zero.

The Principal Deficiency Ledger will be debited on each Interest Payment Date by an amount equal to the amount drawn from the Liquidity Reserve Fund to fund senior expenses and interest payments on the Class A Notes on that date (if any).

## 5. Yield Reserve Fund and Yield Reserve Fund Ledger

On the Closing Date, the Issuer will establish a yield reserve fund (the **Yield Reserve Fund**), up to the Yield Reserve Required Amount. On each applicable Interest Payment Date the Issuer (or the Cash Manager on its behalf) will apply the Scheduled Yield Amount (if any) as Available Revenue Receipts. The Yield Reserve Fund will be funded from time to time in an amount at least equal to the Yield Reserve Required Amount from proceeds of the Class C VFN.

The Issuer may also credit the Yield Reserve Fund in connection with Product Switches and/or Further Advances from time to time.

On the Closing Date the Yield Reserve Required Amount will be zero.

**Yield Reserve Required Amount** means as at any date (being the **Yield Reserve Calculation Date**) the sum of the Scheduled Yield Amount for each Interest Payment Date up to the Interest Payment Date falling in March 2054 for such Interest Payment Date where the Current Balance of the Loans and the Principal Amount Outstanding of the Class A Notes shall be assumed to be those balances as at the Yield Reserve Calculation Date.

**Scheduled Yield Amount** means on each Interest Payment Date (except the final Interest Payment Date in respect of the Class A Notes in which case it means the amount standing to the credit of the Yield Reserve Ledger), the greater of (a) zero and (b) the product of:

$$((C \times D) + B + [0.30]\% - A) \times (0.25) \times (\text{Current Balance of the Loans})$$

Where:

A = the calculated weighted average mortgage spread over LIBOR (after giving effect to any payments made under the Swap Agreements on such date), (a) weighted according to the then Current Balance of each of the Loans, (b) assuming no repayments or prepayments on the Loans and (c) assuming the spread on each Loan changes on any reversion date for such Loan;

B = the servicing fee payable to the Servicer under the Servicing Agreement;

C = the aggregate Sterling Equivalent Principal Amount Outstanding of the Class A Notes divided by the then Current Balance of the Loans in the Portfolio, in each case calculated at the most recent Interest Payment Date (the **Percentage of the Class A Notes**); and

D = the weighted average of the margin over LIBOR of the payments made to the Currency Swap Provider under the Currency Swap Agreement in respect of the Class Aa Notes and the Class Ab Margin, in each case the term “margin” in this paragraph refers at any time to the margin at the Closing Date and not the margin from and including the Step-Up Date.

## 6. Retained Principal Receipts Ledger

The Cash Manager will maintain the Retained Principal Receipts Ledger pursuant to the Cash Management Agreement. The Retained Principal Receipts Ledger will be funded from the Closing Date and on each subsequent Business Day with all Available Principal Receipts (the **Retained Principal Receipts**). The Retained Principal Receipts will be credited to the Retained Principal

Receipts Ledger of the Barclays Deposit Account or the Co-op Deposit Account, as the case may be. The Issuer may invest the amounts standing to the credit of the Retained Principal Receipts Ledger in Authorised Investments.

The Retained Principal Receipts Ledger will be funded up to the Retained Principal Required Amount in accordance with the Pre-Acceleration Principal Priority of Payments, amounts standing to the credit of the Retained Principal Receipts Ledger will be applied by the Issuer on each Monthly Pool Date to pay all Further Advance Purchase Prices and/or Flexible Drawing Purchase Prices in the following order: first to pay all Flexible Drawing Purchase Prices and second, to pay all Further Advance Purchase Prices. Amounts standing to the credit of the Retained Principal Receipts Ledger may be applied as Available Revenue Receipts towards any Revenue Deficiency in accordance with the Pre-Acceleration Revenue Priority of Payments. Any amounts standing to the credit of the Retained Principal Receipts Ledger on any Interest Payment Date and not applied by the Cash Manager on the Issuer's behalf towards Further Advance Purchase Prices and/or Flexible Drawing Purchase Prices or to cure any Revenue Deficiency will be applied by the Issuer (or the Cash Manager on its behalf) on such Interest Payment Date as Available Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments.

**Retained Principal Required Amount** means as at the Closing Date £4 million and as of each Calculation Date falling prior to an Event of Default following the first Calculation Period, an amount up to £10 million as determined by the Cash Manager to be required to purchase Further Advances and Flexible Drawings in the immediately preceding Collection Period and thereafter zero.

## 7. **Pre-Funded Purchase Ledger**

The Cash Manager will maintain the **Pre-Funded Purchase Ledger** pursuant to the Cash Management Agreement. The Pre-Funded Purchase Ledger will be funded through the proceeds of the Class B2 VFN from time to time. The Issuer may invest any amounts standing to the credit of the Pre-Funded Purchase Ledger in Authorised Investments.

The Issuer will only be permitted to purchase Further Advances and Flexible Drawings in an amount up to the Pre-Funded Purchase Available Amount from time to time.

**Pre-Funded Purchase Available Amount** means an amount equal to the difference between the Pre-Funded Purchase Limit and the Pre-Funded Utilised Amount.

**Pre-Funded Purchase Limit** means as of the Closing Date £15 million per quarter and, after the Closing Date, such other amount as determined by the Cash Manager from time to time and deposited with the Barclays Account Bank or the Co-op Account Bank and recorded on the Pre-Funded Purchase Ledger to collateralise the Seller's obligations to repurchase any Loans which are the subject of a Further Advance or a Flexible Drawing and which do not satisfy the applicable Asset Conditions as at the relevant Advance Date, Drawing Date or Monthly Test Date (as the case may be) as determined on the Monthly Test Date immediately following the date on which such Further Advance or Flexible Drawing has been purchased by the Issuer.

If the Cash Manager determines that the Pre-Funded Purchase Limit should be reduced, the excess over the then current amount standing to the credit of the Pre-Funded Purchase Ledger and the amount determined to be required to collateralise the Seller's obligations to repurchase any Loans which are the subject of a Further Advance or a Flexible Drawing and which do not satisfy the applicable Asset Conditions shall be repaid to the Class B2 VFN Holder directly and shall not form part of Available Principal Receipts.



**Pre-Funded Utilised Amount** means, at any date the aggregate outstanding principal balance of any Loans subject to Further Advances and Flexible Drawings purchased by the Issuer in any Monthly Period which have not yet been tested for compliance with the applicable Asset Conditions.

If the Seller fails to repurchase a Loan which is subject to a Further Advance or Flexible Drawing having become bound to do so under the terms of the Mortgage Sale Agreement, an amount equal to the outstanding principal balance of such Loan or Loans (the **Collateralised Amount**) will be debited from the Pre-Funded Purchase Ledger and will be applied as Available Principal Receipts.

## 8. **Overcollateralisation and Set-Off Overcollateralisation**

On the Closing Date, the Issuer will use the proceeds of the subscription of the Class B1 VFN to fund the required amount of **Overcollateralisation Amount** for the Class A Notes in an amount estimated to be circa 17 per cent. of the Initial Consideration for the Closing Date Portfolio to be acquired by the Issuer on the Closing Date. On the Closing Date the Set-Off Overcollateralisation Amount will be zero.

After the Closing Date, the proceeds of further funding under the Class B1 VFN will be used to reflect the extent to which the Set-Off Overcollateralisation Amount has increased since the Closing Date as determined by multiplying 3 by 8 per cent. multiplied by an amount equal to the maximum amount of cash withdrawals (including cash withdrawals in respect of Flexible Drawings) that Borrowers may draw under Loans (including Flexible Loans) that permit such withdrawals in the Issuer as determined in respect of the immediately preceding Monthly Period End Date (the **Flexible Drawing Amount**).

The Cash Manager (on behalf of the Issuer) shall apply the proceeds of such further funding to the Class B1 VFN as Available Principal Receipts in accordance with the Pre-Acceleration Principal Priorities of Payment.

## 9. **Principal Deficiency Ledger**

A Principal Deficiency Ledger, comprising two sub ledgers, known as the Class A Principal Deficiency Sub-Ledger (relating to each of the Class A Notes) and the Class B Principal Deficiency Sub-Ledger (relating to each of the Class B1 VFN and the Class B2 VFN) (each a **Principal Deficiency Sub-Ledger** and, together, the **Principal Deficiency Ledger**), will be established on the Closing Date in order to record any Losses on the Portfolio as allocated against each of the Classes of Notes referenced above and/or the application of Principal Receipts to pay any Revenue Deficiency and/or any debiting of the Liquidity Reserve Fund (if funded) on an Interest Payment Date to fund senior expenses and interest payments on the Class A Notes. Losses or debits recorded on the Class A Principal Deficiency Sub-Ledger shall be recorded in respect of the Class A Notes. Losses or debits recorded on the Class B Principal Deficiency Sub-Ledger shall be recorded in respect of the Class B VFN. Available Revenue Receipts will include recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed. Losses of principal to be credited to the Principal Deficiency Ledger will be calculated after applying any recoveries to outstanding interest amounts due and payable on the relevant Loan.

The application of any Losses on the Portfolio will be recorded as a debit:

- (a) first, to the Class B Principal Deficiency Sub-Ledger up to a maximum of the **Class B Principal Deficiency Limit**; and
- (b) second, to the Class A Principal Deficiency Sub-Ledger so long as the debit balance is less than the Sterling Equivalent Principal Amount Outstanding of the Class A Notes.

**Class B Principal Deficiency Limit** means the Principal Amount Outstanding of the subscription under the Class B VFN used to fund the Capital Balance (calculated as at such corresponding funding date) of the Loans. For the avoidance of doubt, any amounts applied by the Class B VFN to fund Set-Off Overcollateralisation Amounts will be considered a Class B VFN subscription to fund the Capital Balance of the Loans under this definition.

Amounts allocated to each Principal Deficiency Sub-Ledger shall be reduced to the extent of Available Revenue Receipts available for such purpose on each Interest Payment Date in accordance with the Pre-Acceleration Revenue Priority of Payments. Such amounts will be applied in repayment of principal as Available Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments.

#### **10. Available Revenue Receipts and Available Principal Receipts**

To the extent that the Available Revenue Receipts and Available Principal Receipts are sufficient on any Calculation Date, they shall be paid on the immediately following Interest Payment Date to the persons entitled thereto (or a relevant provision made) in accordance with the Pre-Acceleration Revenue Priority of Payments or the Pre-Acceleration Principal Priority of Payments, as applicable. It is not intended that any surplus will be accumulated in the Issuer, which for the avoidance of doubt does not include £4,500 which the Issuer expects to generate each accounting period as its profit in respect of the business of the Issuer, amounts standing to the credit of the General Reserve Ledger, the Liquidity Reserve Fund Ledger, the Yield Reserve Fund Ledger, the Set-Off Ledger or the Retained Principal Receipts Ledger.

If, on any Interest Payment Date whilst there are Class A Notes outstanding, the Issuer has insufficient Available Revenue Receipts to pay the interest otherwise due on the Class B VFN and/or the Class C VFN then the Issuer will be entitled under Condition 17 (Subordination by Deferral) to defer payment of that amount (to the extent of the insufficiency) until the following Interest Payment Date. This will not constitute an Event of Default. If there are no Class A Notes then outstanding, the Issuer will not be entitled to defer payments of interest in respect of the Class B VFN and; if there are no Class B VFN then outstanding, the Issuer will not be entitled to defer payments of interest in respect of the Class C VFN.

Failure to pay interest on the Class A Notes (or the Class B VFN where the Class A Notes have been redeemed in full, or the Class C VFN where the Class A Notes and the Class B VFN have been redeemed in full) within any applicable grace period in accordance with the Conditions shall constitute an Event of Default under the Notes which may result in the Security Trustee enforcing the Security.

#### **11. Issuer Profit**

If, on any Calculation Date, it is determined that there is a shortfall in Available Revenue Receipts such that there are insufficient funds to pay or provide for items (a) to (m) of the Pre-Acceleration Revenue Priority of Payments in full, the Issuer (or the Cash Manager on its behalf) will make a drawing under the Class C VFN in an amount equal to the shortfall only in respect of the amount to be retained by the Issuer as profit in accordance with item (m) of the Pre-Acceleration Revenue Priority of Payments. For the avoidance of doubt, the payment of item (m) will be irrespective of the non-payment in full of items ranking prior to (m) in the Pre-Acceleration Revenue Priority of Payments.

On the Interest Payment Date following such relevant Calculation Date, the proceeds of such further funding under the Class C VFN will be applied by the Cash Manager (on behalf of the Issuer) as a

credit to the Issuer Profit Ledger in payment of item (m) of the Pre-Acceleration Revenue Priority of Payments.

## 12. Interest Rate Risk for the Notes

### *Basis Rate Swap Agreement*

#### *Fixed Interest Rate Swap Transaction*

Some of the Loans in the Portfolio pay a fixed rate of interest for a period of time. However, the interest rate payable by the Issuer with respect to the Notes is an amount calculated by reference to Three-Month Sterling LIBOR.

To provide a hedge against the possible variance between:

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

the Issuer will enter into the Fixed Interest Rate Swap Transaction with the Basis Rate Swap Provider under the Basis Rate Swap Agreement on the Closing Date.

Under the Fixed Interest Rate Swap Transaction, for each Swap Calculation Period falling prior to the termination date of the Fixed Interest Rate Swap Transaction, the following amounts will be calculated:

- (a) the amount produced by applying Three-Month Sterling LIBOR for the relevant Swap Calculation Period plus a spread to the Fixed Notional Amount of the Fixed Interest Rate Swap Transaction for such Swap Calculation Period multiplied by the Payment Ratio (as defined below) (the **Fixed Interest Period Swap Provider Amount**); and
- (b) the amount produced by applying the weighted average fixed rate charged to borrowers under the Fixed Rate Loans in the Portfolio as determined on the Fixed Interest Reference Date for the relevant Swap Calculation Period to the Fixed Notional Amount of the Fixed Interest Rate Swap Transaction for such Swap Calculation Period multiplied by the Payment Ratio (the **Fixed Interest Period Issuer Amount**).

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

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

For the purposes of calculating both the Fixed Interest Period Issuer Amount and Fixed Interest Period Swap Provider Amount in respect of a Swap Calculation Period, the notional amount (the **Fixed Notional Amount**) of the Fixed Interest Rate Swap Transaction in respect of such Swap Calculation Period will be, for each Swap Calculation Period (other than the first Swap Calculation Period), an amount in Sterling equal to the aggregate Capital Balance of the Fixed Rate Loans in the Portfolio on the last calendar day of the calendar month immediately preceding the start of that Swap Calculation Period, as adjusted to reflect any Product Switches, Rearrangements, Flexible Drawings, Further Advances and repurchases by the Seller in accordance with the Mortgage Sale Agreement that take effect on the Monthly Pool Date immediately preceding the start of such Swap Calculation Period (if applicable). In respect of the first Swap Calculation Period, the notional amount of the Fixed Interest Rate Swap Transaction will be an amount in Sterling equal to the aggregate Capital Balance of the Fixed Rate Loans in the Portfolio on the last calendar day of the calendar month immediately preceding the start of the first Collection Period as adjusted for any non compliance with the Loan Warranties and redemptions on or prior to 30 June 2011.

#### *Floating Interest Rate Swap Transactions*

Some of the Loans in the Portfolio pay a variable rate of interest for a period of time. However, the interest rate payable by the Issuer with respect to the Notes is an amount calculated by reference to Three-Month Sterling LIBOR.

To provide a hedge against the possible variance between:

- (a) the variable rates of interest payable on the SVR Loans and on the Tracker Rate Loans in the Portfolio; and
- (b) a rate of interest calculated by reference to Three-Month Sterling LIBOR,

the Issuer will enter into a tracker rate swap transaction relating to the Tracker Rate Loans (the **Tracker Rate Swap Transaction**) and an SVR swap transaction relating to the SVR Loans (the **SVR Swap Transaction**) with the Basis Rate Swap Provider under the Basis Rate Swap Agreement on the Closing Date.

#### *SVR Swap Transaction*

Under the SVR Swap Transaction, for each Swap Calculation Period falling prior to the termination date of the SVR Swap Transaction the following amounts will be calculated:

- (a) the amount produced by applying the average of the Seller Standard Variable Rate for each of the SVR Reference Dates relating to that Swap Calculation Period (the **SVR**) minus a spread to a notional amount multiplied by the Payment Ratio (the **SVR Issuer Amount**); and
- (b) the amount produced by applying a rate equal to Three-Month Sterling LIBOR for such Swap Calculation Period to the SVR Notional Amount for such Swap Calculation Period multiplied by the Payment Ratio (the **SVR Swap Provider Amount**).

**SVR Reference Date** means in respect of any Swap Calculation Period, other than the first Swap Calculation Period, the Monthly Pool Date immediately prior to the start of the Swap Calculation Period and the two subsequent Monthly Pool Dates within such Swap Calculation Period and, in respect of the first Swap Calculation Period, 1 June 2011, 1 July 2011, 1 August 2011, 1 September 2011, 1 October 2011 and 1 November 2011.

For the purposes of calculating both the SVR Issuer Amount and SVR Swap Provider Amount in respect of a Swap Calculation Period, the notional amount (the **SVR Notional Amount**) of the SVR Swap Transaction in respect of such Swap Calculation Period will be, for each Swap Calculation Period (other than in respect of the first Swap Calculation Period), an amount in Sterling equal to the aggregate Capital Balance of the SVR Loans in the Portfolio on the last calendar day of the calendar month immediately preceding the start of that Swap Calculation Period, as adjusted to reflect any Product Switches, Rearrangements, Flexible Drawings, Further Advances and repurchases by the Seller in accordance with the Mortgage Sale Agreement that take effect on the Monthly Pool Date immediately preceding the start of such Swap Calculation Period (if applicable). In respect of the first Swap Calculation Period, the notional amount of the SVR Swap Transaction will be an amount in sterling equal to the aggregate Capital Balance of the SVR Loans in the Portfolio on the last calendar day of the last calendar month immediately preceding the start of the first Collection Period as adjusted for any non compliance with the Loan Warranties and redemptions on or prior to 30 June 2011.

#### *Tracker Rate Swap Transaction*

Under the Tracker Rate Swap Transaction, for each Swap Calculation Period falling prior to the Termination Date of the Tracker Rate Swap Transaction the following amounts will be calculated:

- (a) the amount produced by applying the Tracker Weighted Average Rate plus a spread to a notional amount multiplied by the Payment Ratio (the **Tracker Issuer Amount**); and
- (b) the amount produced by applying a rate equal to Three-Month Sterling LIBOR for such Swap Calculation Period to the Tracker Notional Amount for such Swap Calculation Period multiplied by the Payment Ratio (the **Tracker Rate Swap Provider Amount**).

For the purposes of calculating both the Tracker Issuer Amount and Tracker Swap Provider Amount in respect of a Swap Calculation Period, the notional amount (the **Tracker Notional Amount**) of the Tracker Swap Transaction in respect of such Swap Calculation Period will be, for each Swap Calculation Period (other than in respect of the first Swap Calculation Period), an amount in Sterling equal to the aggregate Capital Balance of the Tracker Loans in the Portfolio on the last calendar day of the calendar month immediately preceding the start of that Swap Calculation Period, as adjusted to reflect any Product Switches, Rearrangements, Flexible Drawings, Further Advances and repurchases by the Seller in accordance with the Mortgage Sale Agreement that take effect on the Monthly Pool Date immediately preceding the start of such Swap Calculation Period (if applicable). In respect of the first Swap Calculation Period, the notional amount of the Tracker Rate Swap Transaction will be an amount in sterling equal to the aggregate Capital Balance of the Tracker Rate Loans in the Portfolio on the last calendar day of the last calendar month immediately preceding the start of the first Collection Period as adjusted for any non compliance with the Loan Warranties and redemptions on or prior to 30 June 2011.

**Tracker Weighted Average Rate** means, in respect of a Swap Calculation Period,  $(A+B+C)/D$  where:

- A** = the Bank of England Base Rate determined on the first Monthly Pool Date of the preceding Swap Calculation Period multiplied by the number of days in the first Accrual Period;
- B** = the Bank of England Base Rate determined on the second Monthly Pool Date of the preceding Swap Calculation Period multiplied by the number of days in the second Accrual Period;

**C** = the Bank of England Base Rate determined on the third Monthly Pool Date of the preceding Swap Calculation Period multiplied by the number of days in the third Accrual Period; and

**D** = the number of days in the Swap Calculation Period.

The Tracker Weighted Average for the first Swap Calculation Period will be adjusted to reflect the long first Swap Calculation Period.

**Accrual Periods** means, in respect of a Swap Calculation Period, other than the first Swap Calculation Period, the three monthly periods falling in such Swap Calculation Period from and including the 21st day of a month to and including the 20th day of the immediately following month. The Accrual Periods for the first Swap Calculation Period will be adjusted to reflect the long first Swap Calculation Period. **Accrual Period** means any one of such monthly periods as the context may require.

*Payments under the Floating Interest Rate Swap Transactions*

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

- (a) if the SVR Swap Provider Amount for that Swap Payment Date is greater than the SVR Issuer Amount for that Swap Payment Date, then the Basis Rate Swap Provider will pay an amount equal to the amount by which the SVR Swap Provider Amount exceeds the SVR Issuer Amount to the Issuer;
- (b) if the SVR Issuer Amount for that Swap Payment Date is greater than the SVR Swap Provider Amount for that Swap Payment Date, then the Issuer will pay an amount equal to the amount by which the SVR Issuer Amount exceeds the SVR Swap Provider Amount to the Basis Rate Swap Provider;
- (c) if the Tracker Rate Swap Provider Amount for that Swap Payment Date is greater than the Tracker Issuer Amount for that Swap Payment Date, then the Basis Rate Swap Provider will pay an amount equal to the amount by which the Tracker Rate Swap Provider Amount exceeds the Tracker Issuer Amount to the Issuer; and
- (d) if the Tracker Issuer Amount for that Swap Payment Date is greater than the Tracker Rate Swap Provider Amount for that Swap Payment Date, then the Issuer will pay an amount equal to the amount by which the Tracker Issuer Amount exceeds the Tracker Rate Swap Provider Amount to the Basis Rate Swap Provider.

For the purposes of determining the amounts payable under the Fixed Interest Rate Swap Transaction, the Tracker Rate Swap Transaction and the SVR Transaction the following definitions apply:

**Fixed Interest Reference Date** means in respect of any Swap Calculation Period (other than the first Swap Calculation Period), the Collection Period End Date immediately preceding such Swap Calculation Period and, in respect of the first Swap Calculation Period, 31 May 2011;

**Payment Ratio** means, in respect of a Swap Calculation Period, the ratio of X/Y, where:

**X** = is the Notional Amount of the Fixed Interest Rate Swap Transaction, SVR Swap Transaction or Tracker Rate Swap Transaction (as the case may be) for such Swap Calculation Period minus the aggregate Capital Balance of the Fixed Rate Loans, SVR Loans or Tracker Loans (as applicable) in the Portfolio which relate to properties that are in possession or have been

repossessed on or before the Collection Period End Date immediately preceding such Swap Calculation Period; and

**Y =** is the Fixed Notional Amount, the SVR Notional Amount or the Tracker Notional Amount (as the case may be) for such Swap Calculation Period;

**Swap Calculation Period** means, in respect of a Swap Transaction (other than the first Swap Calculation Period), each period that corresponds to an Interest Period under the Notes. The first Swap Calculation Period, shall be the period from (and including) 1 June 2011 to but excluding the first Swap Payment Date; and

**Swap Payment Date** means, in respect of a Swap Transaction, each date that corresponds to an Interest Payment Date under the Notes.

#### *General*

If a payment (other than an Additional Payment as described below) is to be made by the Basis Rate Swap Provider, that payment will be included in the Available Revenue Receipts and will be applied on the relevant Swap Payment Date according to the relevant Priority of Payments. If a payment (other than an Additional Payment as described below) is to be made by the Issuer, it will be made according to the relevant Priority of Payments of the Issuer.

In addition to the scheduled payment and Early Termination Event provisions described below, if any back-to-back swap arrangement relating to the Basis Rate Swap Transactions governed by the Basis Rate Swap Agreement is terminated, and either (i) a Loan in the Portfolio is subject to a Product Switch which results in such Loan accruing interest or ceasing to accrue interest on the same basis as at the previous date on which the notional of the relevant Basis Rate Swap Transaction was calculated under such Basis Rate Swap Transaction or (ii) a Loan is subject to a Repurchase, Rearrangement, Flexible Drawing or Further Advance, an amount (the **Additional Payment**) equal to the change in value of the applicable Basis Rate Swap Transaction prior to the occurrence of such events and after may be payable by either the Issuer or the Basis Rate Swap Provider. Any such Additional Payment paid by the Issuer shall not be paid out of Available Revenue Receipts but shall be payable out of the proceeds of the Class C VFN or by additional payments made by the Seller under the Mortgage Sale Agreement. Any such Additional Payment received by the Issuer from the Basis Rate Swap Provider shall not form part of the Available Revenue Receipts but shall be used to repay the Class C VFN or Seller under the Mortgage Sale Agreement (as applicable). The Issuer shall only be required to make such payment to the extent it receives funds representing the same from the Seller or VFN Holder, as applicable.

Under the terms of the Basis Rate Swap Agreement, in the event that the relevant rating(s) of the Basis Rate Swap Provider assigned by a Rating Agency is below the rating specified in the Basis Rate Swap Agreement (in accordance with the requirements of the Rating Agencies) (the **Required Basis Rate Swap Rating**), the Basis Rate Swap Provider will, in accordance with the Basis Rate Swap Agreement, be required to elect to take certain remedial measures within the timeframe stipulated in the Basis Rate Swap Agreement and at its own cost which may include providing collateral for its obligations under the Basis Rate Swap Agreement, arranging for its obligations under the Basis Rate Swap Agreement to be transferred to an entity with the Required Basis Rate Swap Ratings, procuring another entity with the Required Basis Rate Swap Ratings to become co-obligor or guarantor, as applicable, in respect of its obligations under the Basis Rate Swap Agreement.

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

- (a) if there is a failure by a party to pay amounts due under the Basis Rate Swap Agreement and any applicable grace period has expired;
- (b) if certain insolvency events occur with respect to a party;
- (c) if a breach of a provision of the Basis Rate Swap Agreement by the Basis Rate Swap Provider is not remedied within the applicable grace period;
- (d) if a change of law results in the obligations of one of the parties becoming illegal;
- (e) in certain circumstances, if a deduction or withholding for or on account of taxes is imposed on payments under the Basis Rate Swap Transaction due to change in law or if certain tax representations made by the Basis Rate Swap Provider prove to have been incorrect or misleading in any material respect;
- (f) if the Basis Rate Swap Provider is downgraded and fails to comply with the requirements of the downgrade provisions contained in the Basis Rate Swap Agreement and described above;
- (g) service by the Note Trustee of a Note Acceleration Notice on the Issuer pursuant to Condition 10 (Events of Default) of the Notes;
- (h) if there is a redemption of the Notes pursuant to Condition 7.3 or 7.4;
- (i) the date on which the aggregate Principal Amount Outstanding of the Notes is reduced to zero; and
- (j) if any of the Transaction Documents is amended in any material respect in a manner detrimental to the Basis Rate Swap Provider's interests (other than with the prior written consent of the Basis Rate Swap Provider).

Under the terms of the Basis Rate Swap Agreement, upon an early termination of a Basis Rate Swap Transaction, depending on the type of Early Termination Event and circumstances prevailing at the time of termination, the Issuer or the Basis Rate Swap Provider may be liable to make a termination payment to the other. This termination payment will be calculated and made in Sterling. The amount of any termination payment will be based on the market value of the terminated Basis Rate Swap Transaction in each case as determined on the basis of quotations sought from leading dealers as to the costs of entering into a transaction with the same terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (or based upon a good faith determination of total losses and costs (or gains) if an insufficient number of quotations can be obtained or if basing the valuation on quotations would not produce a commercially reasonable result) and will include any unpaid amounts that became due and payable prior to the date of termination.

Depending on the terms of the Basis Rate Swap Transaction and the circumstances prevailing at the time of termination, any such termination payment could be substantial and may affect the funds available to pay amounts due to the Noteholders.



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

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

#### *Estimations and Reconciliations*

Where no Investor Report or other relevant information on the basis of which the notional amount of the Swap Transactions would ordinarily be determined has been received, in respect of any Collection Period, the Fixed Notional Amount, the Tracker Notional Amount and the SVR Notional Amount will be estimated by the Cash Manager by reference to the change in the notional amount of each Swap Transaction over the three most recent Swap Calculation Periods thereunder (or, where there are not at least three previous Swap Calculation Periods, fewer than three Swap Calculation Periods) or other relevant available information (including any information in respect of Loans, the interest in relation to which is scheduled to change from a fixed to a floating rate in the course of such Collection Period).

If a Servicer Report or such other relevant information is delivered in respect of any subsequent Collection Period, then (a) the Fixed Notional Amount, the Tracker Notional Amount and the SVR Notional Amount will be calculated by the Cash Manager on the basis of the information in such Servicer Report or such other relevant information and (b) one or more reconciliation payments may be required to be made, either by the Issuer or by the relevant Swap Provider in respect of each Swap Transaction, in order to account for any overpayment(s) or underpayment(s) made in respect of such Swap Transaction during the relevant period of estimations.

The Basis Rate Swap Agreement and any non-contractual obligations arising out of or in connection with it will be governed by English law.

### **13. Currency Risk for the Notes**

#### *Currency Swap Agreement*

The Class Aa Notes will be denominated in euro and will accrue interest at a EURIBOR rate for Three-Month Euro Deposits.

To hedge its currency and interest rate exposure in relation to the Class Aa Notes, on the Closing Date, the Issuer will enter into a currency swap transaction relating to the Class Aa Notes with the Currency Swap Provider (the **Currency Swap Transaction**).

Under the Currency Swap Transaction, the Issuer will pay or arrange for the payment to the Currency Swap Provider under the Currency Swap Agreement on the Closing Date of an amount equal to the net proceeds of the issue of the Class Aa Notes in euro. In return, the Issuer will be paid the sterling equivalent of that aggregate euro amount (calculated by reference to the Currency Swap Rate) by the Currency Swap Provider.

As defined herein, **Currency Swap Rate** means the rate at which euros are converted to sterling or, as the case may be, sterling is converted to euro, as applicable for value on the Closing Date as set out in the Currency Swap Agreement.

Under the Currency Swap Agreement, on each Interest Payment Date, the Currency Swap Provider will pay to, or at the direction of, the Issuer, an amount denominated in euro calculated by reference to EURIBOR for Three-Month Euro Deposits for the relevant Interest Period plus a spread which will be equivalent to the interest for the relevant Interest Period due and payable in euro on the Principal Amount Outstanding of the Class Aa Notes. In return, the Issuer will pay to the Currency Swap Provider on each Interest Payment Date such amount in sterling calculated by reference to LIBOR for Three-Month Sterling Deposits for the relevant Interest Period plus a spread. If the Issuer does not have sufficient Available Revenue Receipts pursuant to the Cash Management Agreement to pay such amount in full on such date and accordingly pays only part of such amount to the Currency Swap Provider, the Currency Swap Provider will be obliged on such date to pay only the *pro rata* amount in euro of the amount it was scheduled to pay.

In order to allow for the effective currency amount of the Currency Swap Transaction to amortise at the same rate as the Class Aa Notes, the Currency Swap Agreement will provide that, as and when the Class Aa Notes amortise, a corresponding portion of the currency amount of the Currency Swap Transaction will amortise. On each Interest Payment Date the Issuer will, subject to the Priority of Payments, pay to the Currency Swap Provider Available Principal Receipts to be applied in partial redemption of the Class Aa Notes. In return, on each Interest Payment Date, the Currency Swap Provider under the Currency Swap Agreement will pay to the Issuer, or at the direction of the Issuer, an amount converted into euro at the Currency Swap Rate equal to the amount of Available Principal Receipts received by it from the Issuer which will be applied by the Issuer in partial redemption of the Class Aa Notes.

On the Final Maturity Date of the Class Aa Notes or, if earlier, the date on which such Notes are redeemed in full pursuant to the Conditions, under the Currency Swap Agreement the Issuer will, subject to the relevant Priority of Payments, pay to the Currency Swap Provider Available Principal Receipts to be applied in redemption of the Principal Amount Outstanding of the Class Aa Notes. In return, on the Final Maturity Date or, if earlier, the date on which such Notes are redeemed in full pursuant to the Conditions, the Currency Swap Provider under the Currency Swap Agreement will pay to the Issuer, or at the direction of the Issuer, an amount in euro equal to the amount of Available Principal Receipts received by it from the Issuer which will be applied by the Issuer in redemption of the Principal Amount Outstanding of the Class Aa Notes. If the Issuer does not have sufficient Available Principal Receipts pursuant to the Cash Management Agreement to redeem the Notes in full on such date, once such Available Principal Receipts have been converted into euro at the Currency Swap Rate, the amount paid to the Issuer by the Currency Swap Provider will not be sufficient to redeem the Notes in full.

If the Currency Swap Transaction is terminated prior to service of a Note Acceleration Notice or final redemption of the Class Aa Notes, the Issuer shall enter into a replacement swap in respect of the Class Aa Notes on terms acceptable to the Rating Agencies, the Issuer and the Security Trustee with a currency swap provider who the Rating Agencies have previously confirmed in writing to the Issuer and the Security Trustee will not cause the then current ratings of the existing Notes to be adversely affected.

The Currency Swap Transaction will terminate on the date on which the Class Aa Notes are redeemed in full in accordance with the Priorities of Payments. The Currency Swap Transaction may also be terminated in other circumstances, including the following:

- (a) if there is a failure by a party to pay amounts due under the Currency Swap Transaction and any applicable grace period has expired;
- (b) if certain insolvency events occur with respect a party;

- (c) if a material misrepresentation is made by the Currency Swap Provider under the Currency Swap Agreement;
- (d) if a breach of a provision of the Currency Swap Agreement by the Currency Swap Provider is not remedied within the applicable grace period;
- (e) if a change of law results in the obligations of one of the parties becoming illegal;
- (f) in certain circumstances, if a deduction or withholding for an account of taxes is imposed on payments under the Currency Swap Transaction, or if certain tax representations by a party prove to have been incorrect or misleading in any material respect;
- (g) if the Currency Swap Provider is downgraded and fails to comply with the requirements of the rating agencies downgrade provisions contained in the Currency Swap Agreement and described further below;
- (h) if there is a redemption or purchase of the Class Aa Notes pursuant to Condition 7 of the Notes; and
- (i) if certain amendments are made to the Deed of Charge or the Conditions without the consent of the Currency Swap Provider.

For so long as the Class Aa Notes are outstanding, if the Currency Swap Agreement is terminated and the Issuer is unable to enter into a replacement swap as described above, then the Issuer shall repay the Class Aa Notes on each Interest Payment Date after exchanging at the prevailing "spot" rate the Available Revenue Receipts and/or Available Principal Receipts from sterling into euro.

Under the terms of the Currency Swap Agreement, in the event that the relevant rating(s) of the Currency Swap Provider assigned by a Rating Agency is below the rating specified in the Currency Swap Agreement (in accordance with the requirements of the Rating Agencies) (the **Required Currency Swap Rating**), the Currency Swap Provider will, in accordance with the Currency Swap Agreement, be required to elect to take certain remedial measures within the timeframe stipulated in the Currency Swap Agreement and at its own cost which may include providing collateral for its obligations under the Currency Swap Agreement, arranging for its obligations under the Currency Swap Agreement to be transferred to an entity with the Required Currency Swap Ratings, procuring another entity with the Required Currency Swap Ratings to become co-obligor or guarantor, as applicable, in respect of its obligations under the Currency Swap Agreement.

If a withholding or deduction for or on account of taxes is imposed on payments made by either party under the Currency Swap Transaction, neither party shall be obliged to gross up those payments. The Currency Swap Transaction may be terminated in such circumstances.

If the Currency Swap Transaction is terminated early and a termination payment is due by the Issuer to the Currency Swap Provider this may affect the funds available to pay amounts due to the Noteholders.

The Currency Swap Agreement and any non-contractual obligations arising out of or in connection with it will be governed by English law.

## CASHFLOWS

### Definition of Revenue Receipts

**Revenue Receipts** means (a) payments of interest and other fees due from time to time under the Loans (including any Early Repayment Fees) and other amounts received by the Issuer in respect of the Loans other than Principal Receipts, (b) recoveries of interest from defaulting Borrowers under Loans being enforced and (c) recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed.

### Definition of Available Revenue Receipts

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

- (a) Revenue Receipts received during the immediately preceding Collection Period or, if in a Determination Period, Calculated Revenue Receipts, in each case, excluding any Reconciliation Amounts to be applied as Available Principal Receipts on that Interest Payment Date;
- (b) interest payable to the Issuer on the Deposit Accounts and income from any Authorised Investments in each case to be received on the Interest Payment Date;
- (c) amounts received or to be received by the Issuer under the Swap Agreements (other than (i) any early termination amount received by the Issuer under the relevant Swap Agreement on the applicable Interest Payment Date which is to be applied in acquiring a replacement swap, (ii) Excess Swap Collateral or Swap Collateral, except to the extent that the value of such Swap Collateral has been applied, pursuant to the provisions of the relevant Swap Agreement, to reduce the amount that would otherwise be payable by the relevant Swap Provider to the Issuer on early termination of a Swap Transaction under the relevant Swap Agreement and, to the extent so applied in reduction of the amount otherwise payable by the relevant Swap Provider, such Swap Collateral is not to be applied in acquiring a replacement swap, (iii) any Replacement Swap Premium but only to the extent applied directly to pay any termination payment due and payable by the Issuer to a Swap Provider, (iv) amounts in respect of Swap Tax Credits, (v) Additional Payments) on such Interest Payment Date;
- (d) the amounts standing to the credit of the General Reserve Ledger as at the immediately preceding Calculation Date;
- (e) the Scheduled Yield Amount;
- (f) other net income of the Issuer received during the immediately preceding Collection Period, excluding any Principal Receipts (except for amounts deemed to be Available Revenue Receipts in accordance with paragraph (e) of the Pre-Acceleration Principal Priority of Payments);
- (g) amounts deemed to be Available Revenue Receipts in accordance with paragraph (e) of the Pre-Acceleration Principal Priority of Payments;
- (h) amounts received by the Issuer as accrued interest in respect of any Rearrangements repurchased by the Seller in the immediately preceding Collection Period;
- (i) any Account Bank Defaulted Amounts received by the Issuer in replacement of those Available Revenue Receipts that have not been paid by the Co-operative Bank in its capacity as Co-op Account Bank as a result of an Account Bank Non-Payment Event;

- (j) if the Class C VFN is redeemed in full, any amounts standing to the credit of the Swap Provider Fee Amount Ledger; and
- (k) if in a Determination Period, any Reconciliation Amounts deemed to be Available Revenue Receipts in accordance with Condition 5.9(c);

less:

- (l) amounts applied from time to time during the immediately preceding Collection Period in making payment of the Rearrangement Revenue Element and of certain monies which properly belong to third parties (including the Seller) such as (but not limited to):
  - (i) certain fees charged by the Servicer in respect of its servicing of the Loans (the **Servicing Related Fees**);
  - (ii) payments of certain insurance premiums provided that such cash amounts have been paid by the relevant Borrower and form part of Revenue Receipts;
  - (iii) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup such amount itself from its customer's account; and
  - (iv) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service to that Borrower or the Seller,

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

plus

- (m) if a Revenue Deficiency occurs such that the aggregate of items (a) to (k) less (l) above is insufficient to pay or provide for items (a) to (f) of the Pre-Acceleration Revenue Priority of Payments, Available Principal Receipts in an aggregate amount sufficient to cover such Revenue Deficiency;

plus

- (n) if a Revenue Deficiency occurs such that the aggregate of items (a) to (k) less (l) plus (m) above is insufficient to pay or provide for items (a) to (f) of the Pre-Acceleration Revenue Priority of Payments, the amount then standing to the credit of the Liquidity Reserve Fund Ledger (if funded) and available to be drawn to the extent necessary to pay such Revenue Deficiency.

plus

- (o) if a Revenue Deficiency occurs such that the aggregate of items (a) to (k) less (l) plus (m) and (n) above is insufficient to pay or provide for items (a) to (f) of the Pre-Acceleration Revenue Priority of Payments and a Swap Provider has failed to make a payment under its relevant Swap Agreement and such default is continuing, the Swap Collateral contributed by such Swap Provider in an aggregate amount equal to the lesser of (i) such Revenue Deficiency and (ii) the Basis Rate Defaulted Swap Amount or Currency Defaulted Swap Amount (relating to interest on the Class Aa Notes), as applicable.

**Basis Rate Defaulted Swap Amount** means in relation to the Basis Rate Swap Transactions under the Basis Rate Swap Agreement, as applicable: (a) prior to the designation of an Early Termination Date in respect of the Basis Swap Transaction, an amount equal to the amount that was due (after the application of netting) but unpaid by the Basis Rate Swap Provider in accordance with the terms of the Basis Rate Swap Agreement or (b) following the designation of an Early Termination Date in respect of the Basis Swap Transaction, any amounts available to be withdrawn at item (e)(A) of the Swap Collateral Account Priority of Payments.

**Currency Defaulted Swap Amount** means in relation to the Currency Swap Transaction, as applicable: (a) in respect of the Currency Swap Transaction, an amount in Sterling equal to the amount which, if added to the applicable Available Revenue Receipts or Available Principal Receipts (as the case may be) available to make payments of interest and principal on the Class Aa Notes would, when converted at the prevailing "spot" rate from sterling to euro, result in the Issuer receiving the same amount of euro that it would have received but for the continuing default of such payment by the Currency Swap Provider, subject to a maximum of the amount due but unpaid by the Currency Swap Provider or (b) following the designation of an Early Termination Date in respect of the Currency Swap Transaction, any amounts available to be withdrawn at item (e)(B) of the Swap Collateral Account Priority of Payments.

#### **Application of Monies Released from the General Reserve Fund**

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

#### **Application of Principal Receipts to pay Revenue Deficiency**

Prior to service of a Note Acceleration Notice on the Issuer, monies standing to the credit of (a) the Principal Ledger and (b) if there are insufficient monies standing to the credit of the Principal Ledger, the Retained Principal Receipts Ledger as at the end of the immediately preceding Collection Period may be applied on each Interest Payment Date to make payments to items (a) to (f) of the Pre-Acceleration Revenue Priority of Payments in an amount equal to the Revenue Deficiency on such Interest Payment Date.

If any amounts are applied from the Principal Ledger and/or the Retained Principal Receipts Ledger to pay or provide for a Revenue Deficiency on any Interest Payment Date, the Issuer (or the Cash Manager on its behalf) will make a corresponding entry in the relevant Principal Deficiency Sub-Ledger.

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

#### **Application of Monies Drawn from the Liquidity Reserve Fund**

Prior to service of a Note Acceleration Notice on the Issuer, if following the application of the amounts standing to the credit of the Principal Ledger and/or the Retained Principal Receipts Ledger there remains a Revenue Deficiency then monies standing to the credit of the Liquidity Reserve Fund Ledger (if funded) as at the end of the immediately preceding Collection Period may be applied on each Interest Payment Date to make payments at items (a) to (f) of the Pre-Acceleration Revenue Priority of Payments to the extent required.

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

If any amounts are applied from the Liquidity Reserve Fund Ledger to fund items (a) to (f) of the Pre-Acceleration Revenue Priority of Payments, a corresponding debit will be made to the Principal Deficiency Ledger.

#### **Application of Amounts received under the Currency Swap Agreement**

Any amounts (other than Replacement Swap Premium and Swap Excluded Amounts) received by the Issuer under the Currency Swap Agreement on or after the Interest Payment Date but prior to the next following Interest Payment Date will be applied, together with any provision for such payments made on any preceding Interest Payment Date, to make payments due and payable to the Issuer in respect of the Class Aa Notes.

If the Currency Swap Agreement is terminated and the Issuer is unable to enter into a replacement swap then the Issuer shall pay amounts due on the Class Aa Notes on each Interest Payment Date after exchanging at the prevailing "spot" rate the Available Revenue Receipts and/or Available Principal Receipts from sterling into euro instead of making payments to the Currency Swap Provider at item (f) of the Pre-Acceleration Revenue Priority of Payments and item (c) of the Pre-Acceleration Principal Priority of Payments.

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

On each relevant Interest Payment Date prior to the service of a Note Acceleration Notice by the Note Trustee on the Issuer, the Cash Manager, on behalf of the Issuer, shall apply or provide for the application of the Available Revenue Receipts in the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full): provided that the Cash Manager on behalf of the Issuer will apply Revenue Receipts on each Monthly Pool Date towards the purchase of the Rearrangement Revenue Element of the purchase price of any Loans which have been subject to a Rearrangement and which have been offered for sale by the Seller to the Issuer (the **Pre-Acceleration Revenue Priority of Payments**):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any fees, costs, charges, liabilities, expenses and all other amounts then due or to become due and payable in the immediately succeeding Interest Period to the Note Trustee and any Appointee under the provisions of the Trust Deed and the other Transaction Documents together with (if payable) value added tax (VAT) thereon as provided therein; and
  - (ii) any fees, costs, charges, liabilities, expenses and all other amounts then due or to become due and payable in the immediately succeeding Interest Period to the Security Trustee and any Appointee under the provisions of the Deed of Charge and the other Transaction Documents together with (if payable) VAT thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Agent Bank, the Registrar, the VFN Registrar and the Paying Agents and any fees, costs, charges, liabilities and expenses then due or to become due and payable in the immediately succeeding Interest Period to them under the provisions of the Agency Agreement, together with (if payable) VAT thereon as provided therein;
  - (ii) any amounts then due and payable to the Corporate Services Provider and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Corporate

Services Provider in the immediately succeeding Interest Period under the provisions of the Corporate Services Agreement, together with (if payable) VAT thereon as provided therein;

- (iii) any amounts then due and payable to the Barclays Account Bank and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Barclays Account Bank in the immediately succeeding Interest Period under the provisions of the Barclays Account Bank Agreement, together with (if applicable) VAT thereon as provided therein; and
  - (iv) if a Swap Collateral Account Bank Agreement is entered into, any amounts then due and payable to any Swap Collateral Account Bank and any fees, costs, charges, liabilities and expenses then due or to become due and payable to any Swap Collateral Account Bank in the immediately succeeding Interest Period under the provisions of the Swap Collateral Account Bank Agreement, together with (if applicable) VAT thereon as provided therein;
- (c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) any amounts due and payable by the Issuer to third parties and incurred without breach by the Issuer of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and any amounts necessary to provide for any such amounts expected to become due and payable by the Issuer in the immediately succeeding Interest Period and any amounts required to pay or discharge any liability of the Issuer for corporation tax on any income or chargeable gain of the Issuer (but only to the extent not capable of being satisfied out of amounts retained by the Issuer under item (m) below)); and
  - (ii) any Transfer Costs which the Servicer has failed to pay pursuant to Clause 19.3 of the Servicing Agreement;
- (d) *fourth*, to provide for amounts due on the relevant Interest Payment Date, to pay, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) any amounts then due and payable to the Servicer and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the immediately succeeding Interest Period under the provisions of the Servicing Agreement, together with VAT (if payable) thereon as provided therein;
  - (ii) any amounts then due and payable to the Cash Manager and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding Interest Period under the provisions of the Cash Management Agreement, together with VAT (if payable) thereon as provided therein;
  - (iii) any amounts then due and payable to the Co-op Account Bank and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Co-op Account Bank in the immediately succeeding Interest Period under the provisions of the Co-op Bank Account Agreement, together with VAT (if payable) thereon as provided therein;
  - (iv) any amounts then due and payable to the Back-Up Servicer Facilitator and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Back-Up Servicer Facilitator in the immediately succeeding Interest Period under the provisions of the Servicing Agreement, together with VAT (if payable) thereon as provided therein; and
  - (v) any amounts then due and payable to the Back-Up Cash Manager Facilitator and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the



Back-Up Cash Manager Facilitator in the immediately succeeding Interest Period under the provisions of the Cash Management Agreement, together with VAT (if payable) thereon as provided therein;

- (e) *fifth*, to provide for amounts due on the relevant Interest Payment Date, to pay, in or towards satisfaction of any amounts due to the Basis Rate Swap Provider in respect of the Basis Rate Swap Agreement (including any termination payment due and payable by the Issuer to the extent it is not satisfied by the payment by the Issuer to the Basis Rate Swap Provider of any Replacement Swap Premium or from the Swap Collateral Account Priority of Payments but excluding, if applicable, any related Basis Rate Swap Excluded Termination Amount and any Additional Payment);
- (f) *sixth*, to provide for amounts due on the relevant Interest Payment Date, to pay, *pro rata* and *pari passu* according to the respective Principal Amount Outstanding thereof:
  - (i) amounts due (including any fees) to the Currency Swap Provider in respect of the Currency Swap Transaction relating to the interest on the Class Aa Notes (including any termination payment due and payable by the Issuer to the extent not satisfied by the payments by the Issuer to the Currency Swap Provider of any Replacement Swap Premium or from the Swap Collateral Account Priority of Payments but excluding any Currency Swap Excluded Termination Amounts and any Additional Payment) under the Currency Swap Agreement other than amounts in respect of principal due on the Class Aa Notes payable in accordance with the Pre-Acceleration Principal Priority of Payments; and
  - (ii) interest due and payable on the Class Ab Notes;
- (g) *seventh* (so long as the Class A Notes will remain outstanding following such Interest Payment Date), to credit the Class A Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon (such amounts to be applied in repayment of principal as Available Principal Receipts);
- (h) *eighth*, (so long as the Class A Notes will remain outstanding following such Interest Payment Date), to credit the General Reserve Ledger up to the General Reserve Required Amount;
- (i) *ninth* (so long as the Notes will remain outstanding following such Interest Payment Date), to credit the Class B Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon (such amounts to be applied in repayment of principal as Available Principal Receipts);
- (j) *tenth*, provided such Interest Payment Date is not the final interest payment date of the transaction, to credit the Yield Reserve Ledger up to the Yield Reserve Required Amount;
- (k) *eleventh*, to provide for amounts due on the relevant Interest Payment Date to pay, *pro rata* and *pari passu* according to the respective Principal Amount Outstanding thereof:
  - (i) interest (including any Deferred Interest) due and payable on the Class B1 VFN; and
  - (ii) interest (including any Deferred Interest) due and payable on the Class B2 VFN;
- (l) *twelfth*, to provide for amounts due on the relevant Interest Payment Date to pay interest (including any Deferred Interest) due and payable on the Class C VFN;
- (m) *thirteenth*, to pay the Issuer an amount equal to £1,125 to be retained by the Issuer as profit in respect of the business of the Issuer;

- (n) *fourteenth*, to provide for amounts due on the relevant Interest Payment Date to pay principal due and payable on the Class B VFN regarding subscriptions under the Class B VFN used to fund items other than the Capital Balance of the Loan;
- (o) *fifteenth*, to provide for amounts due on the relevant Interest Payment Date to pay principal due and payable on the Class C VFN;
- (p) *sixteenth*, to pay *pro rata* and *pari passu* according to the amount thereof and in accordance with the terms of the relevant Swap Agreement to the Swap Provider in respect of any Basis Rate Swap Excluded Termination Amount or Currency Swap Excluded Termination Amount, as applicable (to the extent not satisfied by payment to that Swap Provider by the Issuer of any applicable Replacement Swap Premium or from the Swap Collateral Account Priority of Payments);
- (q) *seventeenth*, (so long as any Class A Notes will remain outstanding following such Interest Payment Date) if such Interest Payment Date falls immediately after a Determination Period, then the excess (if any) to the Co-op Deposit Account to be applied as Available Revenue Receipts on the next following Interest Payment Date;
- (r) *eighteenth*, any Deferred Consideration due and payable under the Mortgage Sale Agreement to the Seller; and
- (s) *nineteenth*, the excess (if any) to the Issuer to be retained by the Issuer as profit in respect of the business of the Issuer.

As used in this Prospectus:

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

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

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

**Basis Rate Swap Agreement** means the ISDA master agreement, schedule and confirmations (as amended or supplemented from time to time) relating to the Basis Rate Swap Transactions to be entered into on the Closing Date between the Issuer and the Basis Rate Swap Provider.

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

**Basis Rate Swap Provider** means Barclays Bank PLC in its capacity as the fixed interest rate swap provider, tracker rate swap provider and SVR swap provider pursuant to the Basis Rate Swap Agreement.

**Basis Rate Swap Transaction** means the Fixed Interest Rate Swap Transaction, the Tracker Rate Swap Transaction and the SVR Swap Transaction, as applicable, as documented under the Basis Rate Swap Agreement.

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

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

**Currency Swap Agreement** means the ISDA master agreement, schedule and confirmation (as amended or supplemented from time to time) relating to the Currency Swap Transaction to be entered into on the Closing Date between the Issuer and the Currency Swap Provider.

**Currency Swap Excluded Termination Amount** means, in relation to the Currency Swap Agreement, the amount of any termination payment due and payable to the Currency Swap Provider as a result of a Swap Provider Default or a Swap Provider Downgrade Event.

**Currency Swap Provider** means Barclays Bank PLC in its capacity as euro currency swap provider under the Currency Swap Agreement.

**Currency Swap Transaction** means the Sterling-Euro currency swap documented under the Currency Swap Agreement pursuant to which the Issuer will hedge against the possible variance between the Sterling cash-flows received on the Loans in the Portfolio and the Euro cash-flows payable under the Class Aa Notes.

**Early Repayment Fee** means any fee (other than a Redemption Fee) which a Borrower is required to pay in the event that the Borrower is in default or his or her Loan becomes repayable for any other mandatory reason or he or she repays all or any part of the relevant Loan before a specified date in the Mortgage Conditions.

**Early Repayment Fee Receipts** means an amount equal to sums received by the Issuer from time to time in respect of Early Repayment Fees.

**Excess Swap Collateral** means, in respect of a Swap Agreement and a Swap Provider, an amount (which will be transferred directly to the relevant Swap Provider in accordance with such Swap Agreement) equal to the amount by which the value of the collateral (or the applicable part of any collateral) provided by that Swap Provider to the Issuer pursuant to such Swap Agreement exceeds the relevant Swap Provider's liability under the relevant Swap Agreement as at the date of termination of such Swap Agreement or which it is otherwise entitled to have returned to it under the terms of such Swap Agreement. Any amount of Swap Collateral in respect of the Swap Agreement used towards curing any Revenue Deficiency will be deducted from the amount due to the relevant Swap Provider.

**Fixed Interest Rate Swap Transaction** means the fixed interest rate swap documented under the Basis Rate Swap Agreement pursuant to which the Issuer will hedge against the possible variance between the fixed rates of interest received on the Fixed Rate Loans in the Portfolio and the rates of interest payable on the Notes.

**Interest Period** means, in relation to a Note, the period from (and including) an Interest Payment Date for that Note (except in the case of the first Interest Period for the Notes, where it shall be the period from (and including) the Closing Date).

**Redemption Fee** means the standard redemption fee charged to the Borrower by the Seller where the Borrower makes a repayment of the full outstanding principal of a Loan on the maturity date of such Loan.

**Replacement Swap Premium** means an amount received by the Issuer from a replacement swap provider upon entry by the Issuer into an agreement with such replacement swap provider to replace one or more Swap Transactions.

**SVR Swap Transaction** means the swap transaction entered into between the Issuer and the Basis Rate Swap Provider on or about the Closing Date governed by the Basis Rate Swap Agreement pursuant to which the Issuer will hedge against the possible variance between the floating rates of interest received on the Standard Variable Rate Loans in the Portfolio and the rates of interest payable on the Notes.

**Swap Agreement** means the Currency Swap Agreement and the Basis Rate Swap Agreement, as applicable.

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

**Swap Collateral Excluded Amounts** means, at any time, the amount of Swap Collateral which may not be applied under the terms of the relevant Swap Agreement at that time in satisfaction of the relevant Swap Provider's obligations to the Issuer including Swap Collateral, which is to be returned to the relevant Swap Provider from time to time in accordance with the terms of the Swap Agreements and ultimately upon termination of the relevant Swap Agreement.

**Swap Provider** means the Currency Swap Provider and the Basis Rate Swap Provider, as applicable.

**Swap Provider Default** means the occurrence of an Event of Default (as defined in the relevant Swap Agreement) where the Swap Provider is the Defaulting Party (as defined in such Swap Agreement).

**Swap Provider Downgrade Event** means the occurrence of an Additional Termination Event (as defined in the relevant Swap Agreement) following the failure by the relevant Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the such Swap Agreement.

**Swap Transaction** means the SVR Swap Transaction, the Tracker Rate Swap Transaction, the Fixed Rate Swap Transaction and the Currency Swap Transaction, as applicable.

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

**Tracker Rate Swap Transaction** means the swap transaction entered into between the Basis Rate Swap Provider and the Issuer on or about the Closing Date governed by the Basis Rate Swap Agreement pursuant to which the Issuer will hedge against the possible variance between the floating rates of interest received on the Tracker Rate Loans in the Portfolio and the rates of interest payable on the Notes.

**Transfer Costs** means the Issuer's costs and expenses associated with the transfer of servicing to a substitute servicer.

### **Definition of Principal Receipts**

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

**Capitalised Arrears** means, in relation to a Loan, at any date, amounts which are overdue in respect of that Loan and which as at that date have been included in the Current Balance of the Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower.

**Capitalised Expenses** means, in relation to a Loan, the amount of all expenses charges, fees, premiums or payments capitalised and included in the Current Balance in respect of such Loan in accordance with the relevant Mortgage Conditions.

### **Definition of Available Principal Receipts**

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

- (a) all Principal Receipts or, if in a Determination Period, any Calculated Principal Receipts, in each case excluding an amount equal to any Reconciliation Amounts to be applied as Available Revenue Receipts on that Interest Payment Date (i) received by the Issuer during the immediately preceding Collection Period or retained in the Retained Principal Receipts Ledger on the last Interest Payment Date (less an amount equal to the aggregate of all Further Advance Purchase Prices and Flexible Drawing Purchase Prices (as adjusted to take account of the purchase price paid by the Issuer for any Further Advances and/or Flexible Drawings on the Monthly Pool Date immediately following the Collection Period End Date)) and (ii) received by the Issuer from the Seller during the immediately preceding Collection Period and on the Monthly Pool Date immediately following the Collection Period End Date in respect of any repurchases of Loans and their Related Security that were repurchased by the Seller pursuant to the Mortgage Sale Agreement (less, other than as specified in paragraph (d) below, amounts standing to the credit of the Rearrangement Purchase Ledger);
- (b) the amount standing to the credit of the Liquidity Reserve Fund (if funded) (to the extent not utilised on such Interest Payment Date pursuant to paragraph (n) of the definition of Available Revenue Receipts);
- (c) (in respect of the first Interest Payment Date only) the amount paid into a Deposit Account on the Closing Date to fund the Retained Principal Ledger for the first Collection Period and an amount equal to the difference between the aggregate of the proceeds of the Class A Notes and the subscription in the Class B1 VFN minus the Initial Consideration;
- (d) amounts standing to the credit of the Rearrangement Purchase Ledger to the extent that such amounts have not been applied to purchase Loans subject to a Rearrangement in the immediately preceding Collection Period (as adjusted to take account of the purchase price paid by the Issuer for any Rearrangement on the Monthly Pool Date immediately following the Collection Period End Date);
- (e) the amounts (if any) calculated on that Interest Payment Date pursuant to the Pre-Acceleration Revenue Priority of Payments, to be the amount by which the debit balance of each of the Class A Principal Deficiency Sub-Ledger and/or the Class B Principal Deficiency Sub-Ledger is reduced;
- (f) the proceeds of any funding under the Class B2 VFN in circumstances where the purchase of a Further Advance or a Flexible Drawing, as the case may be, would cause the Asset Conditions to be breached but the Seller has elected not to repurchase the relevant Loan in accordance with the Mortgage Sale Agreement and the Issuer has increased the Class B2 VFN by an amount equal to the Current Balance of the relevant Loan;
- (g) the proceeds of any further funding under the Class B1 VFN used to fund an increase in the Set-Off Overcollateralisation Amount;

- (h) any Collateralised Amounts;
  - (i) any Account Bank Defaulted Amounts in replacement of those Available Revenue Receipts that have not been paid by the Co-operative Bank in its capacity as Co-op Account Bank as a result of an Account Bank Non-Payment Event;
  - (j) any Currency Defaulted Swap Amounts (relating to principal payable on the Class Aa Notes); and
  - (k) if in a Determination Period, any Reconciliation Amounts deemed to be Available Principal Receipts in accordance with Condition 5.9(c);
- less
- (l) any amounts utilised to pay a Revenue Deficiency pursuant to paragraph (m) of the definition of Available Revenue Receipts.

#### **Application of amounts standing to the credit of the Rearrangement Purchase Ledger**

Prior to the service of a Note Acceleration Notice the principal element of any purchase price paid to the Issuer for a Loan which is subject to a Rearrangement will be credited to the Rearrangement Purchase Ledger. Monies standing to the credit of the Rearrangement Purchase Ledger may be applied by the Cash Manager on behalf of the Issuer on the Monthly Pool Date to repurchase the principal element of Loans which have been subject to a Rearrangement in the Monthly Period immediately preceding such Monthly Pool Date. To the extent funds are not applied by the Cash Manager on behalf of the Issuer to repurchase such Loans, funds standing to the credit of the Rearrangement Purchase Ledger will form part of Available Principal Receipts.

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

#### **Application of amounts standing to the credit of the Retained Principal Receipts Ledger**

Prior to the service of a Note Acceleration Notice monies standing to the credit of the Retained Principal Receipts Ledger will be applied on each Monthly Pool Date to pay all Further Advance Purchase Prices and/or Flexible Drawing Purchase Prices in the following order, first, to pay all Flexible Drawing Purchase Prices and second to pay all Further Advance Purchase Prices. To the extent funds are not applied by the Cash Manager on behalf of the Issuer towards Further Advance Purchase Prices and/or Flexible Drawing Purchase Prices, funds standing to the credit of the Retained Principal Receipts Ledger will form part of Available Principal Receipts.

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

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

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

- (a) *first*, from and including the date on which the Co-operative Bank ceases to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa2 or

BBB by Fitch and provided such Interest Payment Date is not the final Interest Payment Date in respect of the Class A Notes, to credit the Liquidity Reserve Fund Ledger to the Liquidity Reserve Fund Required Amount;

- (b) *second*, provided such Interest Payment Date is not the final Interest Payment Date of the transaction, towards a credit to the Retained Principal Receipts Ledger of an amount equal to Retained Principal Required Amount;
- (c) *third*, in or towards repayment *pro rata* and *pari passu* of:
  - (i) the amounts in respect of principal due and payable on the Class Aa Notes to the Currency Swap Provider (excluding Currency Swap Excluded Termination Amounts) under the Currency Swap Agreement; and
  - (ii) principal amounts outstanding on the Class Ab Notes,in each case until the Principal Amount Outstanding on the Class A Notes has been reduced to zero;
- (d) *fourth*, in or towards repayment *pro rata* and *pari passu* of the principal amounts outstanding on:
  - (i) the Class B1 VFN; and
  - (ii) the Class B2 VFN,in each case until the Principal Amount Outstanding of the subscription under the Class B VFN used to fund the Capital Balance of the Loans has been reduced to zero; and
- (e) *fifth*, the excess (if any) to be applied as Available Revenue Receipts.

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

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

- (a) amounts representing any Excess Swap Collateral which shall be returned directly to the relevant Swap Provider under the relevant Swap Agreement;
- (b) any Swap Collateral, except to the extent that the value of such Swap Collateral has been applied, pursuant to the provisions of a Swap Agreement, to reduce the amount that would otherwise be payable by the relevant Swap Provider to the Issuer on early termination of that Swap Transaction under the relevant Swap Agreement which shall be returned directly to that Swap Provider;
- (c) any Swap Tax Credits which shall be returned directly to the relevant Swap Provider; and
- (d) Replacement Swap Premium (only to the extent it is applied directly to pay a termination payment due and payable by the Issuer to a Swap Provider) which shall be paid directly to that Swap Provider,

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

Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments, the **Priority of Payments**):

- (i) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (A) any fees, costs, charges, liabilities, expenses and all other amounts then due and payable to the Note Trustee and any Appointee under the provisions of the Trust Deed and the other Transaction Documents, together with (if payable) VAT thereon as provided therein; and
  - (B) any fees, costs, charges, liabilities, expenses and all other amounts then due and payable to the Security Trustee, any Receiver appointed by the Security Trustee and any Appointee under the provisions of the Deed of Charge and the other Transaction Documents, together with (if payable) VAT thereon as provided therein;
- (ii) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (A) any remuneration then due and payable to the Agent Bank, the Registrar, the VFN Registrar and the Paying Agents and any costs, charges, liabilities and expenses then due and payable to them under the provisions of the Agency Agreement, together with (if payable) VAT thereon as provided therein;
  - (B) any amounts then due and payable to the Corporate Services Provider and any fees, costs, charges, liabilities and expenses then due and payable to the Corporate Services Provider under the provisions of the Corporate Services Agreement together with (if payable) VAT thereon as provided therein;
  - (C) any amounts then due and payable to the Barclays Account Bank and any fees, costs, charges, liabilities and expenses then due and payable to the Barclays Account Bank under the provisions of the Barclays Account Bank Agreement, together with (if payable) VAT thereon as provided therein; and
  - (D) if the Swap Collateral Account Bank Agreement is entered into, any amounts then due and payable to the Swap Collateral Account Bank and any fees, costs, charges, liabilities and expenses then due and payable to the Swap Collateral Account Bank under the provisions of the Swap Collateral Account Bank Agreement, together with (if payable) VAT thereon as provided therein;
- (iii) *third*, to pay, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (A) any amounts due and payable to the Servicer and any fees, costs, charges, liabilities and expenses then due and payable to the Servicer under the provisions of the Servicing Agreement, together with (if payable) VAT thereon as provided therein;
  - (B) any amounts then due and payable to the Cash Manager and any fees, costs, charges, liabilities and expenses then due and payable to the Cash Manager under the provisions of the Cash Management Agreement, together with (if payable) VAT thereon as provided therein;
  - (C) any amounts then due and payable to the Co-op Account Bank and any fees, costs, charges, liabilities and expenses then due and payable to the Co-op Account Bank under the



provisions of the Co-op Bank Account Agreement, together with (if payable) VAT thereon as provided therein;

- (D) any amounts then due and payable to the Back-Up Servicer Facilitator and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Back-Up Servicer Facilitator under the provisions of the Servicing Agreement, together with VAT (if payable) thereon as provided therein; and
  - (E) any amounts then due and payable to the Back-Up Cash Manager Facilitator and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Back-Up Cash Manager Facilitator under the provisions of the Cash Management Agreement, together with VAT (if payable) thereon as provided therein;
- (iv) *fourth*, to pay amounts due and payable to the Basis Rate Swap Provider in respect of the Basis Rate Swap Agreement (including any termination payment due and payable by the Issuer to the extent not satisfied by any amounts available to be applied in accordance with the Swap Collateral Account Priority of Payments but excluding, where applicable, any related Basis Rate Swap Excluded Termination Amount);
- (v) *fifth*, to pay *pro rata* and *pari passu* according to the respective outstanding amounts thereof interest and principal due and payable on the Class A Notes and amounts due to the Currency Swap Provider in relation to the Currency Swap Transaction relating to the Class Aa Notes (including any termination payment due and payable by the Issuer to the extent not satisfied by any amounts available to be applied in accordance with the Swap Collateral Account Priority of Payments but excluding any Currency Swap Excluded Termination Amounts), in each case until the Principal Amount Outstanding on the Class A Notes has been reduced to zero;
- (vi) *sixth*, to pay *pro rata* and *pari passu* according to the respective outstanding amounts thereof:
- (A) interest and principal due and payable on the Class B1 VFN; and
  - (B) interest and principal due and payable on the Class B2 VFN,
- in each case until the Principal Amount Outstanding on the Class B VFN has been reduced to zero;
- (vii) *seventh*, to pay according to the respective outstanding amounts thereof, interest and principal due and payable on the Class C VFN in each case until the Principal Amount Outstanding on the Class C VFN has been reduced to zero;
- (viii) *eighth*, to pay *pro rata* and *pari passu* according to the amount thereof and in accordance with the terms of the relevant Swap Agreement to the relevant Swap Provider in respect of any Basis Rate Swap Excluded Termination Amount or Currency Swap Excluded Termination Amount, as applicable (to the extent not satisfied by any amounts available to be applied in accordance with the Swap Collateral Account Priority of Payments);
- (ix) *ninth*, to pay any Deferred Consideration due and payable under the Mortgage Sale Agreement to the Seller; and
- (x) *tenth*, the excess (if any) to the Issuer, to be retained by the Issuer as profit in respect of the business of the Issuer.

## ***Swap Collateral***

In the event that a Swap Provider is required to transfer collateral to the Issuer in respect of its obligations under any Swap Agreement in accordance with the terms of the Credit Support Annex of the relevant Swap Agreement (the **Swap Credit Support Annex**), that collateral (and any interest and/or distributions earned thereon) will be credited to a separate Swap Collateral Account and credited to the relevant Swap Collateral Sub-Ledger. In addition, upon any early termination of any Swap Agreement or novation of the Swap Provider's obligations under such Swap Agreement to a replacement swap provider, (a) any Replacement Swap Premium received by the Issuer from a replacement swap provider and/or (b) any termination payment received by the Issuer from the outgoing Swap Provider will be credited to the relevant Swap Collateral Account or recorded on the relevant Swap Collateral Sub-Ledger.

Amounts and securities standing to the credit of each Swap Collateral Account (including interest, distributions and redemption or sale proceeds thereon or thereof) and recorded on the relevant Swap Collateral Sub-Ledger (other than amounts set out in paragraph (a) of the definition of Basis Rate Defaulted Swap Amounts and Currency Defaulted Swap Amounts (as applicable) which will be applied as set out in "*Credit Structure – Definition of Available Revenue Receipts*") will not be available for the Issuer or the Security Trustee to make payments to the Secured Creditors generally, but may be applied only in accordance with the following provisions (the **Swap Collateral Account Priority of Payments**):

- (a) prior to the designation of an Early Termination Date in respect of the relevant Swap Agreement, solely in or towards payment or discharge of any Return Amounts, Interest Amounts and Distributions (as defined in the relevant Swap Credit Support Annex), on any day, directly to the relevant Swap Provider in accordance with the terms of the relevant Swap Credit Support Annex;
- (b) following (i) the designation of an Early Termination Date in respect of the relevant Swap Agreement where (A) such Early Termination Date has been designated following a Swap Provider Default or Swap Provider Downgrade Event and (B) the Issuer enters into a replacement swap agreement in respect of such Swap Agreement on or around the Early Termination Date of such Swap Agreement or (ii) any novation of a Swap Provider's obligations to a replacement swap provider, on the later of the day on which such replacement swap agreement is entered into and the day on which a Replacement Swap Premium (if any) payable to the Issuer has been received, in the following order of priority:
  - (i) *first*, in or towards payment of a Replacement Swap Premium (if any) payable by the Issuer to a replacement swap provider in order to enter into a replacement swap agreement with the Issuer with respect to the Swap Agreement being terminated or novated;
  - (ii) *second*, in or towards payment of any termination payment due to the outgoing Swap Provider; and
  - (iii) *third*, the surplus (if any) (a **Swap Collateral Account Surplus**) on such day to be transferred to the Deposit Accounts;
- (c) following (i) the designation of an Early Termination Date in respect of the relevant Swap Agreement where (A) such Early Termination Date has been designated otherwise than as a result of one of the events specified at items (b)(A) above and (B) the Issuer enters into a replacement swap agreement in respect of such Swap Agreement on or around the Early Termination Date of such Swap Agreement or (ii) any novation of a Swap Provider's obligations to a replacement swap provider, on the later of the day on which such replacement swap agreement is entered into and the day on which a Replacement Swap Premium (if any) payable to the Issuer has been received, in the following order of priority:

- (i) *first*, in or towards payment of any termination payment due to the outgoing Swap Provider;
  - (ii) *second*, in or towards payment of a Replacement Swap Premium (if any) payable by the Issuer to a replacement swap provider in order to enter into a replacement swap agreement with the Issuer with respect to the Swap Agreement being terminated or novated; and
  - (iii) *third*, any Swap Collateral Account Surplus on such day to be transferred to the Deposit Accounts;
- (d) following the designation of an Early Termination Date in respect of the relevant Swap Agreement for any reason where the Issuer does not enter into a replacement swap agreement in respect of such Swap Agreement on or around the Early Termination Date of such Swap Agreement and, on any day, in or towards payment of any termination payment due to the outgoing Swap Provider; and
- (e) following payments of amounts due pursuant to (d) above, if amounts remain standing to the credit of a Swap Collateral Account or the relevant Swap Collateral Sub-Ledger, such amounts may be applied only in accordance with the following provisions:
- (i) *first*, in or towards payment of a Replacement Swap Premium (if any) payable by the Issuer to a replacement swap provider in order to enter into a replacement swap agreement with the Issuer with respect to the Swap Agreement to which such Swap Collateral Account relates;
  - (ii) *second*, any Swap Collateral Account Surplus remaining after payment of such Replacement Swap Premium to be transferred to the Deposit Account to be applied as Available Revenue Receipts or Available Principal Receipts, as applicable,

*provided* that for so long as the Issuer does not enter into a replacement swap agreement with respect to the Swap Agreement to which such Swap Collateral Account relates, on each Interest Payment Date the Issuer or the Cash Manager on its behalf will be permitted to withdraw an amount from the applicable Swap Collateral Account or the relevant Swap Collateral Sub-Ledger (as the case may be):

- (A) in respect of the Basis Swap Transaction, equal to the excess of the Fixed Interest Period Swap Provider Amount, SVR Swap Provider Amount and/or Tracker Rate Swap Provider Amount (as applicable) over the Fixed Interest Period Issuer Amount, SVR Issuer Amount and/or Tracker Rate Issuer Amount (as applicable) which would have been paid by the Basis Rate Swap Provider to the Issuer on such Interest Payment Date but for the designation of an Early Termination Date under the Basis Rate Swap Agreement to be applied as Available Revenue Receipts on such date; and/or
- (B) in respect of the Currency Swap Transaction, equal to the amount which, if added to the applicable Available Revenue Receipts or Available Principal Receipts (as the case may be) available to make payments of interest and principal on the Class Aa Notes would, when converted at the prevailing "spot" rate from sterling to euro, result in the Issuer receiving the same amount of euro that it would have received from the Currency Swap Provider but for the designation of an Early Termination Event under the Currency Swap Agreement to be applied as Available Revenue Receipts or Available Principal Receipts, and

*provided further* that for so long as the Issuer does not enter into a replacement swap agreement with respect to the Swap Agreement to which such Swap Collateral Account relates on or prior to the earlier of:

- I. the Calculation Date immediately before the Interest Payment Date on which the Principal Amount Outstanding of all Classes of Notes, or in the case of the Currency Swap

Agreement, the Class Aa Notes is reduced to zero (other than following the occurrence of an Event of Default pursuant to Condition 10); or

II. the day on which a Note Acceleration Notice is given pursuant to Condition 10,

then the amount standing to the credit of such Swap Collateral Account on such day shall be a **Swap Collateral Account Surplus** and shall be transferred to the Deposit Accounts as soon as reasonably practicable thereafter.

The Swap Collateral Accounts will be opened in the name of the Issuer and will be held at a financial institution which meets the relevant ratings requirements. A separate Swap Collateral Account and Swap Collateral Ledger will be established and maintained in respect of each Swap Agreement. As security for the payment of all moneys payable in respect of the Notes and the other Secured Amounts, the Issuer will grant a first fixed charge over the Issuer's interest in the Swap Collateral Accounts and the debts represented thereby (which may, however, take effect as a floating charge and therefore rank behind the claims of any preferential creditors of the Issuer).

## DESCRIPTION OF THE GLOBAL NOTES AND THE VARIABLE FUNDING NOTES

### General

Each of the Class Aa Notes and the Class Ab Notes as at the Closing Date, will be represented by a global note certificate (a **Global Note**). All capitalised terms not defined in this paragraph shall be as defined in the Conditions of the Notes.

The Global Notes will be deposited on the Closing Date with a common depository on behalf of Euroclear and Clearstream, Luxembourg (the **Common Depository**) and, in the case of Notes to be held under the NSS, will be deposited with the common safekeeper for Euroclear and Clearstream, Luxembourg (the **Common Safekeeper**). It is intended that the Class Aa Notes which are to be held under the NSS will be held in a manner which would allow Eurosystem eligibility, however, it cannot be confirmed that the Class Aa Notes to be held under NSS will be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria has been met.

The Global Notes will be registered in the name of the nominee for the Common Depository for both Euroclear and Clearstream, Luxembourg and, in the case of Notes to be held under the NSS, will be deposited with the Common Safekeeper and registered in the name of a nominee of Euroclear and Clearstream. The Registrar will maintain a register in which it will register the nominee for the Common Depository, or in the case of Notes to be held under the NSS, the Common Safekeeper as the owner of the Global Note.

Upon confirmation by the Common Depository or the Common Safekeeper (as applicable) that it has custody of the Global Notes, Euroclear or Clearstream, Luxembourg, as the case may be, will record in book-entry form interests representing beneficial interests in the Global Note attributable thereto (**Book-Entry Interests**).

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

So long as a nominee for the Common Depository, or in the case of Notes held under the NSS, the Common Safekeeper is the registered holder of the Global Note underlying the Book-Entry Interests, the nominee for the Common Depository or the Common Safekeeper (in the case of Notes held under the NSS) will be considered the sole Noteholder of the Global Note for all purposes under the Trust Deed. Except as set forth

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

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

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

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

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

### **Payments on the Global Notes**

Payment of principal and interest on, and any other amount due in respect of, the Global Notes will be made in Sterling or Euro, as applicable, by or to the order of HSBC Bank plc (the **Principal Paying Agent**) on behalf of the Issuer to the order of the Common Depository or its nominee, or in the case of Notes held under the NSS, the Common Safekeeper or its nominee as the registered holder thereof with respect to the Global Notes. Each holder of Book-Entry Interests must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of any amounts paid by or on behalf of the Issuer to the order of the Common Depository or their nominees, or in the case of Notes held under the NSS, the Common Safekeeper or their

nominees, in respect of those Book-Entry Interests. All such payments will be distributed without deduction or withholding for or on account of any taxes, duties, assessments or other governmental charges of whatever nature except as may be required by law. If any such deduction or withholding is required to be made, then neither the Issuer, the Paying Agents nor any other person will be obliged to pay additional amounts in respect thereof.

In accordance with the rules and procedures for the time being of Euroclear or, as the case may be, Clearstream, Luxembourg, after receipt of any payment from the Principal Paying Agent to the order of the Common Depository, or in the case of Notes held under the NSS, the Common Safekeeper, the respective systems will promptly credit their Participants' accounts with payments in amounts proportionate to their respective ownership of Book-Entry Interests as shown in the records of Euroclear or Clearstream, Luxembourg. On each record date (the **Record Date**) Euroclear and Clearstream, Luxembourg will determine the identity of the Noteholders for the purposes of making payments to the Noteholders. The Record Date, in respect of the Class A Notes shall be the date falling 15 days prior to the relevant Interest Payment Date. The Issuer expects that payments by Participants to owners of interests in Book-Entry Interests held through such Participants or Indirect Participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants or Indirect Participants. None of the Issuer, any agent of the Issuer, the Arrangers, the Note Trustee or the Security Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of a Participant's ownership of Book-Entry Interests or for maintaining, supervising or reviewing any records relating to a Participant's ownership of Book-Entry Interests.

### **Information Regarding Euroclear and Clearstream, Luxembourg**

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

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

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

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

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

The Issuer understands that under existing industry practices, if any of the Issuer, the Note Trustee or the Security Trustee requests any action of owners of Book-Entry Interests or if an owner of a Book-Entry Interest desires to give instructions or take any action that a holder is entitled to give or take under the Trust

Deed or the Deed of Charge, Euroclear or Clearstream, Luxembourg as the case may be, would authorise the Participants owning the relevant Book-Entry Interests to give instructions or take such action, and such Participants would authorise Indirect Participants to give or take such action or would otherwise act upon the instructions of such Indirect Participants.

### **Redemption**

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

### **Cancellation**

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

### **Transfers and Transfer Restrictions**

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

### **Issuance of Registered Definitive Notes**

Holders of Book-Entry Interests in the Global Note will be entitled to receive Definitive Notes in registered form (**Registered Definitive Notes**) in exchange for their respective holdings of Book-Entry Interests if (a) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business and do so cease to do business and no alternative clearing system satisfactory to the Note Trustee is available or (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration by a revenue authority or a court or in the administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required were the Notes in definitive registered form. Any Registered Definitive Notes issued in exchange for Book-Entry Interests in the Global Note will be registered by the Registrar in such name or names as the Issuer shall instruct the Principal Paying Agent based on the instructions of Euroclear or Clearstream, Luxembourg, as the case may be. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, Luxembourg from their Participants with respect to ownership of the relevant Book-Entry Interests. Holders of Registered Definitive Notes issued in exchange for Book-Entry Interests in the Global Note will not be entitled to exchange such Registered Definitive Note for Book-Entry Interests in such Global Note. Any Notes issued in definitive form will be issued in



registered form only and will be subject to the provisions set forth under "*Transfers and Transfer Restrictions*" above and provided that no transfer shall be registered for a period of 15 days immediately preceding any due date for payment in respect of the Note or, as the case may be, the due date for redemption. Registered Definitive Notes will not be issued in a denomination that is not an integral multiple of the minimum authorised denomination. See "*Risk Factors — Denominations*" above.

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

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

### **Reports**

The Issuer will send to Euroclear and Clearstream, Luxembourg a copy of any notices, reports and other communications received relating to the Issuer, the Global Note or the Book-Entry Interests. In addition, notices regarding the Notes will be published in a leading newspaper having a general circulation in London (which so long as the Notes are listed on the London Stock Exchange and the rules of such Stock Exchange shall so require, is expected to be the *Financial Times*); provided that if, at any time, the Issuer procures that the information contained in such notice shall appear on a page of the Reuters screen, the Bloomberg screen or any other medium for electronic display of data as may be previously approved in writing by the Note Trustee, publication in the *Financial Times* shall not be required with respect to such information so long as the rules of the London Stock Exchange allow. See also Condition 15 (Notice to Noteholders) of the Notes.

### **Variable Funding Notes**

The Class B VFN and the Class C VFN will be issued in dematerialised registered form and no certificate evidencing entitlement to the Class B VFN or the Class C VFN will be issued. The Issuer will also maintain a register, to be kept on the Issuer's behalf by the VFN Registrar, in which the Class B VFN and the Class C VFN will be registered in the name of the Class B VFN Holder and the Class C VFN Holder, respectively. Transfers of the Class B VFN or the Class C VFN may be made only through the register maintained by the Issuer and are subject to the transfer restrictions set out in Condition 2.2 (Title).

## TERMS AND CONDITIONS OF THE NOTES

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

### 1. GENERAL

The €500,000,000 Class Aa mortgage backed floating rate Notes due 2054 (the **Class Aa Notes**), the £275,000,000 Class Ab mortgage backed floating rate Notes due 2054 (the **Class Ab Notes** and, together with the Class Aa Notes, the **Class A Notes**), the £350,000,000 Class B1 variable funding note due 2054 (the **Class B1 VFN**), the £150,000,000 Class B2 variable funding note due 2054 (the **Class B2 VFN** and together with the Class B1 VFN, the **Class B VFN**) and the £150,000,000 Class C variable funding note due 2054 (the **Class C VFN** and, together with the Class A Notes and the Class B VFN, the **Notes**), in each case of Silk Road Finance Number Two PLC (the **Issuer**) are constituted by a trust deed (the **Trust Deed**) dated on or about 7 July 2011 (the **Closing Date**) and made between, *inter alios*, the Issuer and Capita Trust Company Limited as trustee for the Noteholders (in such capacity, the **Note Trustee**). Any reference in these terms and conditions (the **Conditions**) to a **Class** of Notes or of Noteholders shall be a reference to the Class A Notes, the Class B VFN or the Class C VFN, as the case may be, or to the respective holders thereof. Any reference in these Conditions to the Noteholders means the registered holders for the time being of the Notes, or if preceded by a particular Class designation of Notes, the registered holders for the time being of such Class of Notes. The security for the Notes is constituted by a deed of charge and assignment (the **Deed of Charge**) dated on the Closing Date and made between, among others, the Issuer and Capita Trust Company Limited as trustee for the Secured Creditors (in such capacity, the **Security Trustee**).

Pursuant to an agency agreement (the **Agency Agreement**) dated on the Closing Date and made between the Issuer, the Note Trustee, HSBC Bank plc as principal paying agent (in such capacity, the **Principal Paying Agent** and, together with any further or other paying agent appointed under the Agency Agreement, the **Paying Agents**), HSBC Bank plc as registrar (in such capacity, the **Registrar**), The Co-operative Bank p.l.c. (the **Co-operative Bank**) as VFN registrar (in such capacity, the **VFN Registrar**) and HSBC Bank plc as agent bank (in such capacity, the **Agent Bank**), provision is made for, *inter alia*, the payment of principal and interest in respect of the Notes.

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

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

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

## 2. FORM, DENOMINATION AND TITLE

### 2.1 Form and Denomination

Each of the Class Aa Notes and the Class Ab Notes will initially be represented by a global note certificate in registered form (a **Global Note**). Each of the Class B VFN and the Class C VFN will be in dematerialised registered form.

For so long as any Class A Notes are represented by a Global Note, transfers and exchanges of beneficial interests in such Global Note and entitlement to payments thereunder will be effected subject to and in accordance with the rules and procedures from time to time of Euroclear Bank S.A./N.V. (**Euroclear**) or Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**), as appropriate. Each Global Note, save for a Global Note to be held under the NSS, will be deposited with and registered in the name of a nominee of a common depository for Euroclear and Clearstream, Luxembourg. Global Notes to be held under NSS will be deposited with and registered in the nominee name of the common safekeeper for Euroclear and Clearstream, Luxembourg.

For so long as the Class A Notes are represented by Global Notes and Euroclear and Clearstream, Luxembourg so permit, the Class Aa Notes shall be tradable only in the minimum nominal amount of €100,000 and multiples thereof and the Class Ab Notes shall be tradable only in the minimum nominal amount of £100,000 and multiples thereof.

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

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

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

Registered Definitive Notes (which, if issued, will be in the denomination set out below) will be serially numbered and will be issued in registered form only.

The minimum denomination of the Class Aa Notes in global and (if issued and printed) definitive form will be €100,000. The minimum denomination of the Class Ab Notes in global and (if issued and printed) definitive form will be £100,000.

Each Class of the VFNs have a minimum denomination of £100 and may be issued and redeemed in integrals of £100. No certificate evidencing entitlement to the Class of VFNs will be issued.

The Class B1 VFN will be issued on the Closing Date with a nominal principal amount of £350,000,000 and a Principal Amount Outstanding of £149,550,000 will be subscribed for on the Closing Date. The Class B2 VFN will be issued on the Closing Date with a nominal principal amount of £150,000,000 and a Principal Amount Outstanding of £19,000,000 will be subscribed for on the Closing Date. The Class C VFN will be issued on the Closing Date with a nominal principal amount of £150,000,000 and a Principal Amount Outstanding of £27,432,500 will be subscribed for on the Closing Date. If a further funding is made in respect of any of the Class B VFN or the Class C VFN, the VFN Registrar shall record such increase in the Principal Amount Outstanding of the relevant Class B VFN or the Class C VFN in the register for the VFNs (the **VFN Register**).

References to **VFN** in these Conditions means the Class B VFN and the Class C VFN.

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

## 2.2 Title

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

Title to a Registered Definitive Note or a VFN shall only pass by and upon registration of the transfer in the Register or the VFN Register (as applicable) provided that no transferee shall be registered as a new Class B VFN Holder or a new Class C VFN Holder (as the case may be) unless (a) the prior written consent of the Issuer and (for so long as any Class A Notes are outstanding) the Note Trustee has been obtained (the Note Trustee shall give its consent to such a transfer if the same has been sanctioned by an Extraordinary Resolution of the Class A Noteholders) and (b) such transferee has certified to, *inter alios*, the VFN Registrar that it is (i) a person falling within paragraph 3 of Schedule 2A to the Insolvency Act 1986, (ii) independent of the Issuer within the meaning of regulation 2(1) of the Taxation of Securitisation Companies Regulations 2006 and (iii) a Qualifying Noteholder.

**Qualifying Noteholder** means:

- (a) a person which is beneficially entitled to interest in respect of the VFN and is:
  - (i) a company resident in the United Kingdom for United Kingdom tax purposes;
  - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which will bring into account payments of interest in respect of the Notes in computing the chargeable profits (for the purposes of Section 19 of the Corporation Tax Act 2009 (the CTA) of that company; or
  - (iii) a partnership each member of which is:
    - (A) a company resident in the United Kingdom; or

- (B) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which will bring into account in computing its chargeable profits (for the purposes of Section 19 of the CTA) the whole of any share of a payment of interest in respect of the Notes that is attributable to it by reason of Part 17 of the CTA; or
- (b) a person which falls within any of the other descriptions in section 935 or 936 of the Income Tax Act 2007 (**ITA 2007**) and satisfies any conditions set out therein in order for the interest to be an excepted payment for the purposes of section 930 ITA 2007.

Registered Definitive Notes may be transferred upon the surrender of the relevant Registered Definitive Note, with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar. Such transfers shall be subject to the minimum denominations specified in Condition 2.1 (Form and Denomination) above. All transfers of Registered Definitive Notes are subject to any restrictions on transfer set forth on the Registered Definitive Notes and the detailed regulations concerning transfers in the Agency Agreement.

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

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

The Notes are not issuable in bearer form.

### **3. STATUS AND RELATIONSHIP BETWEEN THE NOTES AND SECURITY**

#### **3.1 Status and relationship between the Notes**

- (a) The Class A Notes constitute direct, secured and (subject to the limited recourse provision in Condition 11 (Enforcement)) unconditional obligations of the Issuer. The Class A Notes rank *pro rata* and *pari passu* without preference or priority amongst themselves in relation to payment of interest and principal at all times.
- (b) The Class B VFN and the Class C VFN constitute direct, secured and (subject as provided in Condition 17 (Subordination by Deferral) and the limited recourse provisions in Condition 11 (Enforcement)) unconditional obligations of the Issuer. The Class B VFN rank *pari passu* without preference or priority amongst themselves but junior to the Class A Notes, as provided in these Conditions and the Transaction Documents. The Class C VFN rank *pari passu* without preference or priority amongst themselves, but junior to the Class A Notes and the Class B VFN as provided in these Conditions and the Transaction Documents. Accordingly, the interests of the Class B VFN Holder will be subordinated to the interests of the Class A Noteholders (so long as any Class A Notes remain outstanding); and the interests of the Class C VFN Holder will be subordinated to the interests of the Class A Noteholders and the Class B VFN Holder (so long as any Class A Notes or Class B VFN remain outstanding).
- (c) The Trust Deed and the Deed of Charge contain provisions requiring the Note Trustee and the Security Trustee, respectively, to have regard to the interests of the Noteholders equally as regards all rights, powers, trusts, authorities, duties and discretions of the Note Trustee and the Security

Trustee (except where expressly provided otherwise) but requiring the Note Trustee and the Security Trustee in any such case to have regard only to the interests of (i) the Class A Noteholders if, in the Note Trustee's or, as the case may be, the Security Trustee's opinion, there is a conflict between the interests of, on the one hand, the Class A Noteholders and, on the other, each or any of the Class B VFN Holder and/or the Class C VFN Holder; or (ii) the Class B VFN Holder if, in the Note Trustee's, or as the case may be, the Security Trustee's opinion, there is a conflict between the interests of, on the one hand, the Class B VFN Holder and, on the other, each or any of the Class C VFN Holder. As long as the Notes are outstanding but subject to Condition 12.5, the Security Trustee shall not have regard to the interests of the other Secured Creditors.

- (d) The Trust Deed and the Deed of Charge contain provisions limiting the powers of the Class B VFN Holder and the Class C VFN Holder to request or direct the Note Trustee or the Security Trustee to take any action or to sanction a direction according to the effect thereof on the interests of the Class A Noteholders.
- (e) Except in certain circumstances set out in the Trust Deed and the Deed of Charge, there is no such limitation on the powers of the Class A Noteholders, the exercise of which will be binding on the Class B VFN Holder and the Class C VFN Holder.

### 3.2 *Security*

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

## 4. COVENANTS

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

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

Priorities of Payments which are available for distribution in accordance with the Issuer's Memorandum and Articles of Association and with applicable laws or issue any further shares;

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

## 5. INTEREST

### 5.1 Interest Accrual

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

### 5.2 Interest Payment Dates

The first Interest Payment Date will be the Interest Payment Date falling in December 2011.

Interest will be payable quarterly in arrear on the 21st day of March, June, September and December, in each year or, if such day is not a Business Day, on the immediately succeeding Business Day (each such date being an **Interest Payment Date**), for all classes of Notes.

In these Conditions, **Interest Period** shall mean the period from (and including) an Interest Payment Date (except in the case of the first Interest Period for the Notes, where it shall be the period from (and including) the Closing Date to (but excluding) the first Interest Payment Date.

### 5.3 Rate of Interest and Step-up Margins

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

(i) In the case of the Sterling Notes:

(A) the Agent Bank will determine the Relevant Screen Rate as at or about 11.00 a.m. (London time) on the Sterling Interest Determination Date (as defined below) in question. If the Relevant Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks for three-month Sterling deposits (or, in respect of the first Interest Period for the Notes, the linear interpolation of LIBOR for five and six month deposit in Sterling) of £10,000,000 in the London interbank market as at or about 11.00 a.m. (London time) on the relevant Determination Date. The Rates of Interest for the relevant Interest Period shall be the aggregate of (I) the Relevant Margin and (II) the Relevant Screen Rate (or, if the Relevant Screen Rate is unavailable, the arithmetic mean of such offered quotations for three-month Sterling deposits (rounded upwards, if necessary, to five decimal places)); and

(B) if, on any Sterling Interest Determination Date, the Relevant Screen Rate is unavailable and only two or three of the Reference Banks provide offered quotations, the Rates of Interest for the relevant Interest Period shall be determined in accordance with the provisions of subparagraph (A) above on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Sterling Interest Determination Date, only one or none of the Reference Banks provides the Agent Bank with such an offered quotation, the Agent Bank shall forthwith consult with the Issuer for the purposes of agreeing two banks (or, where one only of the Reference Banks provided such a quotation, one additional bank) to provide such a quotation or quotations to the Agent Bank and the Rates of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does or do not provide such a quotation or quotations, then the Rates of Interest for the relevant Interest Period shall be the Rates of Interest in effect for the last preceding Interest Period to which subparagraph (A) shall have applied but taking account of any change in the Relevant Margin.

(ii) In respect of the Euro Notes:

(A) on the Euro Interest Determination Date (as defined below) in question, the Agent Bank will calculate the Relevant Screen Rate (as defined below) in respect of the Euro Notes as at or about 11.00 a.m. (Brussels time) on that date. If the Relevant Screen Rate is unavailable, the Agent Bank will request the principal Euro-Zone office of each of the Reference Banks (as defined below) to provide the Agent Bank with its offered quotation to prime banks for (I) in respect of the initial Euro Interest Determination Date, five month and six month Euro deposits in the Eurozone interbank market as at or about 11.00 a.m. (Brussels time) on such Euro Interest Determination Date or (II) in respect of each subsequent Euro Interest Determination Date, three-month Euro deposits in the Eurozone interbank market as



at or about 11.00 a.m. (Brussels time) on the relevant Euro Interest Determination Date. The Rates of Interest for the relevant Interest Period shall be the aggregate of (a) the Relevant Margin (as defined below) and (b) the Relevant Screen Rate in respect of the Euro Notes or, if the Relevant Screen Rate is unavailable, (i) in respect of the initial Euro Interest Determination Date, the linear interpolation of the arithmetic mean of such offered quotations for five month Euro deposits and the arithmetic mean of such offered quotations for six month Euro deposits (rounded upwards, if necessary, to five decimal places) and (ii) in respect of each subsequent Euro Interest Determination Date, the arithmetic mean of such offered quotations for Euro deposits (rounded upwards, if necessary, to five decimal places); and

- (B) if, on any Euro Interest Determination Date, the Relevant Screen Rate is unavailable and two or three only of the Reference Banks provide offered quotations, the Rates of Interest for the relevant Interest Period shall be determined in accordance with the provisions of subparagraph (A) on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Euro Interest Determination Date, only one or none of the Reference Banks provides the Agent Bank with such an offered quotation, the Agent Bank shall forthwith consult with the Issuer for the purposes of agreeing two banks (or, where one only of the Reference Banks provided such a quotation, one additional bank) to provide such a quotation or quotations to the Agent Bank and the Rates of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does or do not provide such a quotation or quotations, then the Rates of Interest for the relevant Interest Period shall be the Rates of Interest in effect for the last preceding Interest Period to which subparagraph (A) shall have applied but, as applicable, taking account of any change in the Relevant Margin.

There will be no minimum or maximum Rate of Interest.

- (b) On the Interest Payment Date falling in September 2014 (the **Step-up Date**) and thereafter, a higher interest amount will be payable by the Issuer with respect to each of the Class A Notes. The Class A Notes (or, in the case of the redemption of part only of a Class A Note, that part only of such Class A Note) will cease to attract a relevant Step-up Margin from and including the due date for redemption unless, upon due presentation in accordance with Condition 6 (Payments), payment of the principal in respect of the Class A Note is improperly withheld or refused or default is otherwise made in respect of the payment, in which event the Step-up Margin shall continue to accrue as provided in the Trust Deed.
- (c) The Step-up Margin set out in paragraph (d)(ix) below will be payable quarterly in arrear on each Interest Payment Date from (and including) the Interest Payment Date following the Step-up Date for each of the Notes.
- (d) In these Conditions (except where otherwise defined), the expression:
- (i) **Business Day** means a day which is a London Business Day and a TARGET Business Day;
  - (ii) **Euro Interest Determination Date** means two TARGET Business Days before the first day of the Interest Period for which the rate will apply;
  - (iii) **Euro Notes** means the Class Aa Notes;

- (iv) **Interest Amounts** means the Sterling Interest Amounts and the Euro Interest Amounts;
- (v) **London Business Day** means a day (other than a Saturday or a Sunday) on which banks are generally open for business in London;
- (vi) **Reference Banks** means the principal London office of each of five major banks engaged in the London interbank market selected by the Agent Bank with the approval of the Issuer, provided that, once a Reference Bank has been selected by the Agent Bank, that Reference Bank shall not be changed unless and until it ceases to be capable of acting as such;
- (vii) **Relevant Margin** means:
  - (A) prior to the Step-up Date, in respect of each Class of the Notes the following percentage per annum:
    - I. in respect of the Class Aa Notes, 1.55 per cent. per annum (the **Class Aa Margin**);
    - II. in respect of the Class Ab Notes, 1.55 per cent. per annum (the **Class Ab Margin**);
    - III. in respect of the Class B1 VFN, 0.21 per cent. per annum (the **Class B1 Margin**);
    - IV. in respect of the Class B2 VFN, 0.21 per cent. per annum (the **Class B2 Margin**); and
    - V. in respect of the Class C VFN, 0.21 per cent. per annum (the **Class C Margin**); and
  - (B) on and after the Step-up Date, the Step-up Margin;
- (viii) **Relevant Screen Rate** means (A) in respect of the Sterling Notes the arithmetic mean of offered quotations for three-month Sterling deposits (or, with respect to the first Interest Period, the rate which represents the linear interpolation of LIBOR for five and six month deposits in Sterling) in the London interbank market displayed on the Reuters Screen page LIBOR01 and (B) in respect of the Euro Notes the arithmetic mean of offered quotations for three-month Euro deposits (or, with respect to the first Interest Period, the rate which represents the linear interpolation of EURIBOR for five and six month deposits in Euro) displayed on the Reuters Screen page EURIBOR01;
- (ix) **Step-up Margin** means, from and including the Step-Up Date:
  - (A) in respect of the Class Aa Notes, 3.10 per cent. per annum;
  - (B) in respect of the Class Ab Notes, 3.10 per cent. per annum;
  - (C) in respect of the Class B1 VFN, the Class B1 Margin;
  - (D) in respect of the Class B2 VFN, the Class B2 Margin; and
  - (E) in respect of the Class C VFN, the Class C Margin;

- (x) **Sterling Interest Determination Date** means the first day of the Interest Period for which the rate will apply;
- (xi) **Sterling Notes** means the Class Ab Notes and the VFNs; and
- (xii) **TARGET Business Day** means a day on which the Trans-European Automated Realtime Gross Settlement Express Transfer (TARGET2) System which utilises a single shared platform and which was launched on 19 November 2007 is open for settlement of payments in Euro.

#### **5.4 Determination of Rates of Interest and Interest Amounts**

The Agent Bank shall, as soon as practicable after (a) 11.00 a.m. (London time) (on each Sterling Interest Determination Date but in no event later than the third Business Day thereafter, determine the Sterling amount (the **Sterling Interest Amounts**) in respect of the Sterling Notes and (b) 11.00 a.m. (Brussels time) on each Euro Interest Determination Date but in no event later than the third Business Day thereafter, determine the Euro amount (the **Euro Interest Amounts**) in respect of the Euro Notes, in each case payable in respect of interest on the Principal Amount Outstanding of each Class of the Notes for the relevant Interest Period.

The Sterling Interest Amounts shall be determined by applying the relevant Rate of Interest to such Principal Amount Outstanding, multiplying the sum by the actual number of days in the Interest Period concerned divided by 365 (or, if any portion of the Interest Period concerned falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period concerned falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Interest Period concerned falling in a non-leap year divided by 365) and rounding the figure downwards to the nearest penny.

The Euro Interest Amounts shall be determined by applying the relevant Rate of Interest to such Principal Amount Outstanding, multiplying the sum by the actual number of days in the Interest Period concerned divided by 360 and rounding the resulting figure downwards to the nearest cent.

#### **5.5 Publication of Rates of Interest and Interest Amounts**

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

#### **5.6 Determination by the Note Trustee**

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

## 5.7 Notifications, etc to be Final

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

## 5.8 Agent Bank

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

## 5.9 Determinations and Reconciliation

- (a) In the event that the Cash Manager does not receive a Servicer Report with respect to a Collection Period (each such period, a **Determination Period**), then the Cash Manager may use the Servicer Report in respect of the three most recent Collection Periods (or, where there are not at least three previous Servicer Reports, any previous Servicer Reports) for the purposes of calculating the amounts available to the Issuer to make payments, as set out in this Condition 5.9 (Determinations and Reconciliation). When the Cash Manager receives the Servicer Report relating to the Determination Period, it will make the reconciliation calculations and reconciliation payments as set out in Condition 5.9(c). Any (i) calculations properly made on the basis of such estimates in accordance with Conditions 5.9(b) and/or 5.9(c); (ii) payments made under any of the Notes and Transaction Documents in accordance with such calculations; and (iii) reconciliation calculations and reconciliation payments made as a result of such reconciliation calculations, each in accordance with Condition 5.9(b) and/or 5.9(c), shall be deemed to be made in accordance with the provisions of the Transaction Documents and will in themselves not lead to an Event of Default and no liability will attach to the Cash Manager in connection with the exercise by it of its powers, duties and discretion for such purposes.
- (b) Where, in respect of any Determination Period the Cash Manager shall:
- (i) determine the Interest Determination Ratio (as defined below) by reference to the three most recently received Servicer Reports (or, where there are not at least three previous Servicer Reports, any previous Servicer Reports) received in the preceding Collection Periods;
  - (ii) calculate the Revenue Receipts for such Determination Period as the product of (A) the Interest Determination Ratio and (B) all collections received by the Issuer during such Determination Period (the **Calculated Revenue Receipts**); and

- (iii) calculate the Principal Receipts for such Determination Period as the product of (A) 1 minus the Interest Determination Ratio and (B) all collections received by the Issuer during such Determination Period (the **Calculated Principal Receipts**).
- (c) Following any Determination Period, upon receipt by the Cash Manager of the Servicer Reports in respect of such Determination Period, the Cash Manager shall reconcile the calculations made in accordance with Condition 5.9(b) above to the actual collections set out in the Servicer Reports by allocating the Reconciliation Amount (as defined below) as follows:
- (i) if the Reconciliation Amount is a positive number, the Cash Manager shall apply an amount equal to the lesser of (A) the absolute value of the Reconciliation Amount and (B) the amount standing to the credit of the Revenue Ledger, as Available Principal Receipts (with a corresponding debit of the Revenue Ledger); and
  - (ii) if the Reconciliation Amount is a negative number, the Cash Manager shall apply an amount equal to the lesser of (A) the absolute value of the Reconciliation Amount and (B) the amount standing to the credit of the Principal Ledger, as Available Revenue Receipts (with a corresponding debit of the Principal Ledger),

*provided* that the Cash Manager shall apply such Reconciliation Amount in determining Available Revenue Receipts and Available Principal Receipts for such Collection Period in accordance with the terms of the Cash Management Agreement and the Cash Manager shall promptly notify the Issuer and the Security Trustee of such Reconciliation Amount.

**Interest Determination Ratio** means (a) the aggregate Revenue Receipts calculated in the three preceding Servicer Reports (or, where there are not at least three previous Servicer Reports, any previous Servicer Reports) divided by (b) the aggregate of all Revenue Receipts and all Principal Receipts calculated in such Servicer Reports.

**Reconciliation Amount** means in respect of any Collection Period, (a) the actual Principal Receipts as determined in accordance with the available Servicer Reports, less (b) the Calculated Principal Receipts in respect of such Collection Period, plus (c) any Reconciliation Amount not applied in previous Collection Periods.

**Servicer Report** means a report to be provided by the Servicer on the day falling three Business Days after the Monthly Test Date following each Calculation Date and detailing the information relating to the Portfolio necessary to produce the Investor Report.

## 6. PAYMENTS

### 6.1 Payment of Interest and Principal

Payments of principal and interest shall be made by Sterling cheque in the case of the Sterling Notes, or Euro cheque in respect of the Euro Notes or upon application by the relevant Noteholder to the specified office of the Principal Paying Agent (or the VFN Registrar in respect of any VFN) not later than the 15th day before the due date for any such payment, by transfer to a Euro or Sterling account maintained by the payee with a bank in London and (in the case of final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Global Note or Registered Definitive Notes (as the case may be) at the specified office of any Paying Agent.

## **6.2 Laws and Regulations**

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

## **6.3 Payment of Interest following a Failure to pay Principal**

If payment of principal is improperly withheld or refused on or in respect of any Note or part thereof, the interest which continues to accrue in respect of such Note in accordance with Condition 5.1 (Interest Accrual) and Condition 5.3(b) (Rate of Interest and Step-up Margins) will be paid, in respect of a Global Note, as described in Condition 6.1 (Payment of Interest and Principal) above and, in respect of any Registered Definitive Note, in accordance with this Condition 6.

## **6.4 Change of Paying Agents**

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

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

Except where otherwise provided in the Trust Deed or the Agency Agreement, the Issuer will cause notice of no more than 30 days and no less than 15 days of any change in or addition to the Paying Agents, the Registrar or the VFN Registrar or their specified offices to be given to the Noteholders in accordance with Condition 15 (Notice to Noteholders) and will notify the Rating Agencies of such change or addition.

## **6.5 No Payment on non-Business Day**

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

## **6.6 Partial Payment**

If a Paying Agent or the VFN Registrar (in respect of any VFN) makes a partial payment in respect of any Note, the Registrar and/or VFN Registrar (as applicable) will, in respect of the relevant Note, annotate the Register and/or the VFN Register (as applicable), indicating the amount and date of such payment.

## **6.7 Payment of Interest**

If interest is not paid in respect of a Note of any Class on the date when due and payable (other than because the due date is not a Presentation Date (as defined in Condition 6.5 (No Payment on non-

Business Day)) or by reason of non-compliance by the Noteholder with Condition 6.1 (Payment of Interest and Principal), then such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to such Note until such interest and interest thereon are available for payment and notice thereof has been duly given in accordance with Condition 15 (Notice to Noteholders).

## 7. REDEMPTION

### 7.1 Redemption at Maturity

Unless previously redeemed in full or purchased and cancelled as provided below, the Issuer will redeem the Notes at their respective Principal Amounts Outstanding on the Interest Payment Date falling in March 2054.

### 7.2 Mandatory Redemption

- (a) Each of the Class A Notes and the Class B VFN shall, subject to Condition 7.3 (Optional Redemption of the Class A Notes in Full) and 7.4 (Optional Redemption for Taxation or Other Reasons), be redeemed on each Interest Payment Date and prior to the service of a Note Acceleration Notice in an amount equal to the Available Principal Receipts available for such purpose (to the extent not used to credit the Retained Principal Receipts Ledger and the Liquidity Reserve Fund (if funded)) which shall be applied (i) on a *pari passu* and *pro rata* basis to repay (A) the Class Aa Notes and (B) the Class Ab Notes until they are each repaid in full and thereafter be applied (ii) on a *pari passu* and *pro rata* basis, to repay (I) the Class B1 VFN until they are each repaid in full and, (II) the Class B2 VFN until they are repaid in full.
- (b) The Class C VFN will be redeemed on each Interest Payment Date prior to the service of a Note Acceleration Notice in an amount equal to the Available Revenue Receipts available for such purpose until they are repaid in full.
- (c) The principal amount redeemable in respect of each of the Notes (the **Note Principal Payment**) on any Interest Payment Date shall be in the case of the Sterling Notes (other than the Class C VFN), the Available Principal Receipts available for such purpose on the Calculation Date immediately preceding the Interest Payment Date to be applied in redemption of that Class divided by the number of Notes in that Class in the relevant denomination then outstanding and in the case of the Euro Notes the Euro amount to be received on that Interest Payment Date by the Issuer from the Currency Swap Provider under the Currency Swap Agreement divided by the number of Notes in that class in the relevant denomination then outstanding. With respect to each Note on (or as soon as practicable after) each Calculation Date, the Issuer shall determine (or cause the Cash Manager to determine) (i) the amount of any Note Principal Payment due on the Interest Payment Date next following such Calculation Date, (ii) the Principal Amount Outstanding of each such Note and (iii) the fraction expressed as a decimal to the sixth decimal point (the **Pool Factor**), of which the numerator is the Principal Amount Outstanding of that Note (as referred to in (ii) above) and the denominator, in the case of the Class A Notes, is 100,000 and, in the case of the Class B1 VFN, the Class B2 VFN and the Class C VFN, is 100. Each determination by or on behalf of the Issuer of any principal repayment, the Principal Amount Outstanding of 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.
- (d) The Issuer will cause each determination of a principal repayment, Principal Amount Outstanding and, in the case of the Class A Notes only, Pool Factor to be notified by not less than two Business Days prior to the relevant Interest Payment Date to the Security Trustee, the Paying Agents, the Agent Bank and (for so long as the Class A Notes are listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange) the London Stock Exchange, and

will immediately cause notice of each such determination to be given in accordance with Condition 15 (Notice to Noteholders) by not later than two Business Days prior to the relevant Interest Payment Date. If no principal repayment is due to be made on the Class A Notes on any Interest Payment Date a notice to this effect will be given to the Noteholders.

### 7.3 **Optional Redemption of the Class A Notes in Full**

- (a) On giving not more than 60 nor less than ten days' notice to the Class A Noteholders in accordance with Condition 15 (Notice to Noteholders), the Note Trustee and the Swap Providers, and provided that:
- (i) on or prior to the Interest Payment Date on which such notice expires (the **Optional Redemption Date**), no Note Acceleration Notice has been served;
  - (ii) the Issuer has, immediately prior to giving such notice, certified to the Note Trustee that it will have the necessary funds to pay all principal and interest due in respect of the Class A Notes on the relevant Optional Redemption Date and to discharge all other amounts required to be paid in priority to or *pari passu* with all the Class A Notes on such Optional Redemption Date and, as the case may be, on the immediately following Interest Payment Date (such certification to be provided by way of certificate signed by two directors of the Issuer) (and for the avoidance of doubt, the order of priority shall be as set out in the Pre-Acceleration Priority of Payments); and
  - (iii) the Optional Redemption Date is (A) the Interest Payment Date falling in September 2014 (the **Expected Maturity Date**) or any Interest Payment Date thereafter (B) any Interest Payment Date on which the aggregate Principal Amount Outstanding of all the Class A Notes is equal to or less than 10 per cent. of the aggregate Principal Amount outstanding of the Class A Notes on the Closing Date,

the Issuer may redeem on any Optional Redemption Date all of the Class A Notes on such Optional Redemption Date.

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

### 7.4 **Optional Redemption for Taxation or Other Reasons**

If:

- (a) by reason of a change in tax law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, on or before the next Interest Payment Date the Issuer or the Paying Agents would be required to deduct or withhold from any payment of principal or interest on any Class A Notes (other than because the relevant holder has some connection with the United Kingdom other than the holding of such 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 or on behalf of the United Kingdom or any political sub-division thereof or any authority thereof or therein having power to tax; or
- (b) by reason of a change in law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, on or before the next Interest Payment Date the Issuer or the Basis Rate Swap Provider would be required to deduct or



withhold from any payment under the Basis Rate Swap Agreement any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature,

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

If the Issuer satisfies the Note Trustee immediately before giving the notice referred to below that one or more of the events described in subparagraph (a) or (b) above is continuing and that the appointment of a Paying Agent or a substitution as referred to above would not avoid the effect of the relevant event or that, having used its reasonable endeavours, the Issuer is unable to arrange such appointment or substitution, then the Issuer may, on any Interest Payment Date and having given not more than 60 nor less than 30 days' notice to the Note Trustee, the Swap Providers and Class A Noteholders in accordance with Condition 15 (Notice to Noteholders), redeem all (but not some only) of the Class A Notes at their respective Principal Amount Outstanding together with any interest accrued (and unpaid) thereon up to (but excluding) the date of redemption provided that (in either case), prior to giving any such notice, the Issuer shall have provided to the Note Trustee (a) a certificate signed by two directors of the Issuer stating that (i) one or more of the circumstances referred to in subparagraph (a) or (b) above prevail(s), (ii) setting out details of such circumstances and (iii) confirming that the appointment of a Paying Agent or a substitution as referred to above would not avoid the effect of the relevant event or that, having used its reasonable endeavours, the Issuer is unable to arrange such appointment or substitution and (b) an opinion in form and substance satisfactory to the Note Trustee of independent legal advisers of recognised standing to the effect that the Issuer, the Paying Agents and the Basis Rate Swap Provider has or will become obliged to deduct or withhold amounts as a result of such change. The Note Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstance set out in the paragraph immediately above, in which event they shall be conclusive and binding on the Class A Noteholders.

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

## 7.5 **Principal Amount Outstanding**

The **Principal Amount Outstanding** of the Class Aa Notes on any date shall be their original principal amount of €500,000,000 less the aggregate amount of all principal payments in respect of such Class Aa Notes which have been made since the Closing Date.

The Principal Amount Outstanding of the Class Ab Notes on any date shall be their original principal amount of £275,000,000 less the aggregate amount of all principal payments in respect of such Class Ab Notes which have been made since the Closing Date.

The Principal Amount Outstanding of the Class B1 VFN shall be, as at a particular day (the **Reference Date**), the total principal amount of all drawings under the Class B1 VFN on and since the Closing Date less the aggregate amount of all principal payments in respect of such Class B1 VFN which have been made since the Closing Date and not later than the Reference Date.

The Principal Amount Outstanding of the Class B2 VFN shall be, as at a Reference Date, the total principal amount of all drawings under the Class B2 VFN on and since the Closing Date less the aggregate amount of all principal payments in respect of such Class B2 VFN which have been made since the Closing Date and not later than the Reference Date.

The Principal Amount Outstanding of the Class C VFN shall be, as at a Reference Date, the total principal amount of all drawings under the Class C VFN on and since the Closing Date less the aggregate amount of all principal payments in respect of such Class C VFN which have been made since the Closing Date and not later than such Reference Date.

In these Conditions **Sterling Equivalent Principal Amount Outstanding** means (a) in relation to a Note or Class of Notes which is denominated in a currency other than sterling, the sterling equivalent of the Principal Amount Outstanding of such Note or Class of Notes ascertained using the Relevant Exchange Rate relating to such Notes, and (b) in relation to any other Note or Class of Notes, the Principal Amount Outstanding of such Note or Class of Notes; and **Relevant Exchange Rate** means in relation to a Note or Class of Notes the exchange rate specified in the relevant Currency Swap Agreement relating to such Note or Class of Notes or, if that Currency Swap Agreement has terminated, the applicable spot rate.

## 7.6 Notice of Redemption

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

## 7.7 No Purchase by the Issuer

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

## 7.8 Cancellation

All Notes (other than the VFN) redeemed in full will be cancelled upon redemption and may not be resold or re-issued.

Each VFN will be cancelled when redeemed in full on the VFN Commitment Termination Date and may not be resold or re-issued once cancelled.

**VFN Commitment Termination Date** means the date on which the commitment of the VFN Holder in respect of each of the Class B VFN and the Class C VFN will be extinguished, such date being the earlier to occur of:

- (a) March 2054; and
- (b) an Event of Default.

## 8. TAXATION

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**), unless the withholding or deduction of the Taxes is required by applicable law. In that event, subject to Condition 7.4, the Issuer or, as the case may be, the relevant Paying Agent or the VFN Registrar shall make such payment after the withholding or deduction has been made and shall account to the relevant authorities for the amount required to be withheld or deducted. Neither the Issuer, the VFN Registrar nor any Paying Agent nor any other person shall be obliged to make any additional payments to Noteholders in respect of such withholding or deduction.

## 9. PRESCRIPTION

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

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

## 10. EVENTS OF DEFAULT

### 10.1 Class A Notes

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

- (a) if default is made in the payment of any principal or interest due in respect of the Class A Notes or any of them and the default continues for a period of seven days in the case of principal or 14 days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these Conditions or any Transaction Document to which it is a party and (except in any case where the Note Trustee considers the failure to be incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for a period of 30 days (or such longer period as the Note Trustee may permit) following the service by the Note Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) if any order is made by any competent court or any resolution is passed for the winding up or dissolution of the Issuer, save for the purposes of reorganisation on terms approved in writing by the Note Trustee or by Extraordinary Resolution of the Class A Noteholders; or

- (d) if the Issuer ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms approved in writing by the Note Trustee or by Extraordinary Resolution of the Class A Noteholders, or the Issuer stops or threatens to stop payment of, or is unable to, or admits inability to, pay its debts (or any class of its debts) as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account its contingent and prospective liabilities) or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law or is adjudicated or found bankrupt or insolvent; or
- (e) if (i) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, application to the court for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) or an administration order is granted or the appointment of an administrator takes effect or an administrative or other receiver, manager or other similar official is appointed, in relation to the Issuer or in relation to the whole or any part of the undertaking or assets of the Issuer or an encumbrancer takes possession of the whole or any part of the undertaking or assets of the Issuer, or a distress, diligence, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of the Issuer and (ii) in the case of any such possession or any such last-mentioned process, unless initiated by the Issuer, is not discharged or otherwise ceases to apply within 30 days; or
- (f) if the Issuer (or its directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or takes steps with a view to obtaining a moratorium in respect of any of its indebtedness or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors).

## 10.2 Class B VFN

This Condition 10.2 (Class B VFN) shall not apply as long as any Class A Note is outstanding. Subject thereto, for so long as any Class B VFN is outstanding, the Note Trustee shall if so directed by the Class B VFN Holder, (subject, in each case, to being indemnified and/or prefunded and/or secured to its satisfaction as more particularly described in the Trust Deed) give a Note Acceleration Notice to the Issuer in any of the following events (each, an **Event of Default**):

- (a) if default is made in the payment of any principal or interest due in respect of the Class B VFN and the default continues for a period of seven days in the case of principal or 14 days in the case of interest; or
- (b) if any of the Events of Default referred to in Condition 10.1(b) to 10.1(f) (Class A Notes) occurs with references, where applicable, to Class A Noteholders being read as Class B VFN Holder.

## 10.3 Class C VFN

This Condition 10.3 (Class C VFN) shall not apply as long as any Class A Note or Class B VFN is outstanding. Subject thereto, for so long as any Class C VFN is outstanding, the Note Trustee shall if so directed by the Class C VFN Holder, (subject, in each case, to being indemnified and/or

prefunded and/or secured to its satisfaction as more particularly described in the Trust Deed) give a Note Acceleration Notice to the Issuer in any of the following events (each, an **Event of Default**):

- (a) if default is made in the payment of any principal or interest due in respect of the Class C VFN and the default continues for a period of seven days in the case of principal or 14 days in the case of interest; or
- (b) if any of the Events of Default referred to in Condition 10.1(b) to 10.1(f) (Class A Notes) occurs with references, where applicable, to Class A Noteholders being read as Class C VFN Holder.

#### **10.4 General**

Upon the service of a Note Acceleration Notice by the Note Trustee in accordance with Condition 10.1 (Class A Notes), Condition 10.2 (Class B VFN) and Condition 10.3 (Class C VFN), all the Notes then outstanding shall thereby immediately become due and repayable at their respective Principal Amounts Outstanding, together with accrued interest as provided in the Trust Deed.

### **11. ENFORCEMENT**

#### **11.1 General**

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

- (a) subject in all cases to restrictions contained in the Trust Deed and the Deed of Charge to protect the interests of any higher ranking class or classes of Noteholders (including the provisions set out in Clause 12 and Schedule 3 of the Trust Deed), it shall have been so directed by an Extraordinary Resolution of the Class A Noteholders, and directed in writing by the Class B VFN Holder or the Class C VFN Holder or so directed in writing by the holders of at least 25 per cent. in aggregate Sterling Equivalent Principal Amount Outstanding of the Class A Notes; and
- (b) in all cases, it shall have been indemnified and/or prefunded and/or secured to its satisfaction.

#### **11.2 Preservation of Assets**

If the Security has become enforceable otherwise than by reason of a default in payment of any amount due on the Notes, the Security Trustee will not be entitled to dispose of any of the Charged Assets or any part thereof unless either (a) a sufficient amount would be realised to allow discharge in full on a *pro rata* and *pari passu* basis of all amounts owing to the Class A Noteholders (and all persons ranking in priority to the Class A Noteholders) (or (i) once all of the Class A Noteholders have been repaid, to the Class B VFN Holder (and all persons ranking in priority thereto), (ii) once all the Class A Noteholders and the Class B VFN Holder have been repaid, to the Class C VFN Holder (and all persons ranking in priority thereto)), or (b) the Security Trustee is of the opinion, which shall be binding on the Secured Creditors, reached after considering at any time and from time

to time the advice of any financial adviser (or such other professional advisers selected by the Security Trustee for the purpose of giving such advice), 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 (or (A) once all of the Class A Noteholders have been repaid, to the Class B VFN Holder (and all persons ranking in priority thereto), (B) once all the Class A Noteholders and the Class B VFN Holder have been repaid, to the Class C VFN Holder (and all persons ranking in priority thereto). The fees and expenses of the aforementioned financial adviser or other professional adviser selected by the Security Trustee shall be paid by the Issuer.

### **11.3 Limitations on Enforcement**

No Noteholder shall be entitled to take any steps or proceedings to procure the winding-up, administration or liquidation of the Issuer.

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

### **11.4 Limited Recourse**

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

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

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

## **12. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION**

**12.1** The Trust Deed contains provisions for convening meetings of the Noteholders of each Class and, in certain cases, more than one Class to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of these Conditions or the provisions of any of the Transaction Documents.

**12.2** An Extraordinary Resolution (other than in relation to a Basic Terms Modification) passed at any meeting of the Class A Noteholders shall be binding on the Class B VFN Holder and the Class C VFN Holder irrespective of the effect upon them, except that an Extraordinary Resolution to sanction a modification of these Conditions or the provisions of any of the Transaction Documents or a waiver or authorisation of any breach or proposed breach thereof or certain other matters specified in the Trust Deed will not take effect unless: (a) either the Note Trustee is of the opinion

that it would not be materially prejudicial to the interests of the Class B VFN Holder or it shall have been sanctioned by a direction of the Class B VFN Holder; and (b) either the Note Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class C VFN Holder or it shall have been sanctioned by a direction of the Class C VFN Holder, subject to Condition 12.4 (**Quorum**) and shall be notified by the Issuer to Moody's.

**12.3** Other than in respect of an Extraordinary Resolution directing the Note Trustee to give a Note Acceleration Notice, a resolution which, in the opinion of the Note Trustee, affects the interests of the holders of any Class of Notes of only one class shall be deemed to have been duly passed if passed at a separate meeting of the holders of that Class of Notes of that class; a resolution which, in the opinion of the Note Trustee, affects the interests of the holders of any Class of Notes of more than one class but does not give rise to a conflict of interest between such holders of Class of Notes of any of the classes so affected shall be deemed to have been duly passed if passed at a single meeting of the holders of that Class of Notes of all the classes so affected; a resolution which, in the opinion of the Note Trustee, affects the interests of the holders of any Class of Notes of more than one class and gives or may give rise to a conflict of interest between the holders of such Class of Notes of one class or group of classes so affected and the holders of that Class of Notes of another class or group of classes so affected shall be deemed to have been duly passed only if passed at separate meetings of the holders of that Class of Notes of each class or group of classes so affected.

#### **12.4 Quorum**

- (a) Subject as provided below, the quorum at any meeting of Class A Noteholders for passing an Extraordinary Resolution will be one or more persons holding or representing not less than 50 per cent. of the aggregate Sterling Equivalent Principal Amount Outstanding of such Class of Notes, or, at any adjourned meeting, one or more persons being or representing a Class A Noteholder of the relevant Class or Classes, whatever the aggregate Principal Amount Outstanding of the Notes of such Class then outstanding held or represented by it or them.
- (b) Subject to the more detailed provisions set out in the Trust Deed, the quorum at any meeting of Class A Noteholders for passing an Extraordinary Resolution to (i) sanction a modification of the date of maturity of any Notes, (ii) sanction a modification of the date of payment of principal or interest in respect of the Notes, or where applicable, of the method of calculating the date of payment of principal or interest in respect of the Notes, (iii) sanction a modification of the amount of principal or the rate of interest payable in respect of the Notes, or where applicable, of the method of calculating the amount payable of any principal or interest in respect of the Notes, (iv) alter the currency in which payments under the Notes are to be made (v) alter the quorum or majority required in relation to this exception, (vi) sanction any scheme or proposal or substitution for the sale, conversion or cancellation of the Notes or (vii) alter any of the provisions contained in this exception (each a **Basic Terms Modification**) shall be one or more persons holding or representing not less than three-quarters or, at any adjourned meeting, not less than one-quarter of the aggregate Sterling Equivalent Principal Amount Outstanding of the Notes of such Class then outstanding. Notwithstanding the above, the Co-operative Bank will not have any voting rights in respect of the Class A Notes (unless it holds all of the Class A Notes).

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

- 12.5 Other than in respect of a Basic Terms Modification, the Note Trustee or, as the case may be, the Security Trustee, may agree with the Issuer and any other parties but without the consent of the Noteholders or the other Secured Creditors (but, in the case of the Security Trustee only, with the written consent of the Secured Creditors which are a party to the relevant Transaction Document):
- (a) to any modification, or to any waiver or authorisation of any breach or proposed breach, of these Conditions or any of the Transaction Documents which, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, is not materially prejudicial to the interests of the Noteholders of any Class; or
  - (b) to any modification to these Conditions or any of the Transaction Documents which, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, is of a formal, minor or technical nature or to correct a manifest error, provided that

in respect of any changes to any of the Transaction Documents which would have the affect of altering the amount, timing or priority of any payments due from the Issuer to the Basis Rate Swap Provider, the written consent of the Basis Rate Swap Provider is required.

- 12.6 The Note Trustee may also, without the consent or sanction of the Noteholders or the other Secured Creditors, if it is of the opinion that such determination will not be materially prejudicial to the interests of the Noteholders of any Class, waive or authorise any breach or proposed breach or determine that an Event of Default shall not, or shall not subject to specified conditions, be treated as such provided that the Note Trustee shall not exercise any power conferred on it in contravention of any express direction given by Extraordinary Resolution or by a direction under Condition 10 (**Events of Default**) but so that no such direction or request shall affect any waiver, authorisation or determination previously given or made.
- 12.7 Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Note Trustee or, as the case may be, the Security Trustee agrees otherwise, any such modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 15 (**Notice to Noteholders**).
- 12.8 Any modification to the Transaction Documents shall be notified by the Issuer in writing to the Rating Agencies.
- 12.9 In connection with any such substitution of principal debtor referred to in Condition 7.4 (**Optional Redemption for Taxation or Other Reasons**), the Note Trustee and the Security Trustee may also agree, without the consent of the Noteholders or the other Secured Creditors, to a change of the laws governing the Notes, these Conditions and/or any of the Transaction Documents, provided that such change would not, in the opinion of the Note Trustee or, as the case may be, the Security Trustee, be materially prejudicial to the interests of the Noteholders.
- 12.10 In determining whether a proposed action will not be materially prejudicial to the Noteholders or any Class thereof, the Note Trustee and the Security Trustee may, among other things, have regard to whether the Rating Agencies have confirmed in writing to the Issuer or any other party to the Transaction Documents that any proposed action will not result in the withdrawal or reduction of, or entail any other adverse action with respect to, the then current rating of the Class A Notes. It is agreed and acknowledged by the Note Trustee and the Security Trustee that, notwithstanding the foregoing, a credit rating is an assessment of credit and does not address other matters that may be of relevance to the Noteholders. In being entitled to take into account that each of the Rating Agencies have confirmed that the then current rating of the Notes would not be adversely affected, it is agreed and acknowledged by the Note Trustee and the Security Trustee this does not impose or extend any actual or contingent liability for each of the Rating Agencies to the Security Trustee, the Note



Trustee, the Noteholders or any other person or create any legal relations between each of the Rating Agencies and the Security Trustee, the Note Trustee, the Noteholders or any other person whether by way of contract or otherwise.

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

**12.12 Extraordinary Resolution** means in respect of the Class A Noteholders:

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

**12.13** Details of any Extraordinary Resolution passed in accordance with the provisions of the Trust Deed shall be notified to Moody's by the Note Trustee on behalf of the Issuer.

**12.14 Issuer Substitution Condition**

The Note Trustee may concur, with the Issuer to any substitution under these Conditions and subject to such amendment of these Conditions and of any of the Transaction Documents and to such other conditions as the Note Trustee may require and subject to the terms of the Trust Deed, but without the consent of the Noteholders, to the substitution of another body corporate in place of the Issuer as principal debtor under the Trust Deed and the Notes and in respect of the other Secured Obligations, provided that the conditions set out in the Trust Deed are satisfied including, *inter alia*, that the Notes are unconditionally and irrevocably guaranteed by the Issuer (unless all of the assets of the Issuer are transferred to such body corporate) and that such body corporate is a single purpose vehicle and undertakes itself to be bound by provisions corresponding to those set out in Condition 4 (Covenants). In the case of a substitution pursuant to this Condition 12.14, the Note Trustee may in its absolute discretion agree, without the consent of the Noteholders, to a change in law governing the Notes and/or any of the Transaction Documents unless such change would, in the opinion of the Note Trustee, be materially prejudicial to the interests of the Noteholders.

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

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

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

### 14. REPLACEMENT OF NOTES

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

### 15. NOTICE TO NOTEHOLDERS

#### 15.1 Publication of Notice

- (a) Subject to paragraph (c) below any notice to Noteholders shall be validly given if published in the *Financial Times*, or, if such newspaper shall cease to be published or, if timely publication therein is not practicable, in such other English newspaper or newspapers as the Note Trustee shall approve in advance having a general circulation in the United Kingdom, provided that if, at any time, (i) the Issuer procures that the information concerned in such notice shall appear on a page of the Reuters screen, the Bloomberg screen or any other medium for electronic display of data as may be previously approved in writing by the Note Trustee and notified to Noteholders (in each case a **Relevant Screen**), or (ii) paragraph (c) below applies and the Issuer has so elected, publication in the newspaper set out above or such other newspaper or newspapers shall not be required with respect to such information. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which (or on the Relevant Screen) publication is required.
- (b) In respect of Class A Notes in definitive form, notices to Noteholders will be sent to them by first class post (or its equivalent) or (if posted to an address outside the United Kingdom) by airmail at the respective addresses on the Register. Any such notice will be deemed to have been given on the 4th day after the date of posting.
- (c) Whilst the Class A Notes are represented by Global Note, notices to Noteholders (other than the Class B VFN Holder and the Class C VFN Holder) will be valid if published as described above, or, at the option of the Issuer, if submitted to Euroclear and/or Clearstream, Luxembourg for

communication by them to Noteholders (other than the Class B VFN Holder and the Class C VFN Holder). Any notice delivered to Euroclear and/or Clearstream, Luxembourg, as aforesaid shall be deemed to have been given on the day of such delivery.

- (d) In respect of the VFN, notices to Holders will be sent to them by the fax number or email address notified to the Issuer from time to time in writing.

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

The Note Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or category of them if, in its sole opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchanges, competent listing authorities and/or quotation systems on or by which the Notes are then listed, quoted and/or traded and provided that notice of such other method is given to the Noteholders in such manner as the Note Trustee shall require.

## **16. REPLACEMENT NOTES**

- 16.1** If the Issuer Substitution Condition (the terms and conditions to the substitution of the Issuer as principal debtor as set out in the Trust Deed) is satisfied, the Issuer may, without the consent of the Noteholders, issue one or more classes of replacement notes (**Replacement Notes**) to replace one or more classes of the Notes, each class of which shall have terms and conditions which may differ from the terms and conditions of the class of Notes which it replaces and which may on issue be in an aggregate principal amount which is different from the aggregate Principal Amount Outstanding of the class of Notes which it replaces, provided that the class or classes of Notes to be replaced are redeemed in full in accordance with Condition 7.3 (**Optional Redemption of the Class A Notes in Full**).

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

## **17. SUBORDINATION BY DEFERRAL**

### **17.1 Interest**

If, on any Interest Payment Date, the Issuer has insufficient funds to make payment in full of all amounts of interest (which shall, for the purposes of this Condition 17, include any interest previously deferred under this Condition 17.1 and accrued interest thereon) payable in respect of the

Class B VFN, and/or the Class C VFN after having paid or provided for items of higher priority in the Pre-Acceleration Revenue Priority of Payments, then the Issuer shall be entitled to defer to the next Interest Payment Date the payment of interest (such interest, the **Deferred Interest**) in respect of the Class B VFN (unless there are no Class A Notes then outstanding), and/or the Class C VFN (unless there are no Class A Notes and Class B VFN then outstanding) to the extent only of any insufficiency of funds (only after having paid or provided for all amounts specified as having a higher priority in the Pre-Acceleration Revenue Priority of Payments than interest payable in respect of the Class B VFN, and/or the Class C VFN, as appropriate).

## 17.2 General

Any amounts of Deferred Interest in respect of the Class B VFN, and/or Class C VFN shall accrue interest (**Additional Interest**) at the same rate and on the same basis as scheduled interest in respect of the corresponding Class of Notes, but shall not be capitalised. Such Deferred Interest and Additional Interest shall, in any event, become payable on the next Interest Payment Date (unless and to the extent that Condition 17.1 (Interest) applies) or on such earlier date as the Class B VFN, and/or the Class C VFN become due and payable in full in accordance with these Conditions.

## 17.3 Notification

As soon as practicable after becoming aware that any part of a payment of interest on the Class B VFN, and/or the Class C VFN will be deferred or that a payment previously deferred will be made in accordance with this Condition 17, the Issuer will give notice thereof to the Class B VFN Holder, and/or the Class C VFN Holder, as appropriate, in accordance with Condition 15 (Notice to Noteholders). Any deferral of interest in accordance with this Condition 17 will not constitute an Event of Default. The provisions of this Condition 17 shall cease to apply on the Final Maturity Date, or any earlier date on which the Notes are redeemed in full or required to be redeemed in full at which time all deferred interest and accrued interest thereon shall become due and payable.

## 18. INCREASING THE PRINCIPAL AMOUNT OUTSTANDING OF THE VFN AND ADJUSTING THE MAXIMUM VFN AMOUNT

### 18.1 Class B1 VFN

- (a) If the Issuer (or the Cash Manager on behalf of the Issuer) receives a notice from the Seller prior to the VFN Commitment Termination Date notifying the Issuer that Set-Off Overcollateralisation Amount has increased, the Issuer (or the Cash Manager on its behalf) shall notify (by serving a Notice of Increase) the holder of the Class B1 VFN (the **Class B1 VFN Holder**) requesting that such Class B1 VFN Holder further fund the Class B1 VFN on the next following Monthly Pool Date or other Business Day specified in the Notice of Increase in an amount equal to the lower of:
- (i) the amount of increase in the Set-Off Overcollateralisation Amount since the Closing Date; and
  - (ii) the Maximum B1 VFN Amount less the current Principal Amount Outstanding of the Class B1 VFN (taking into account any likely reductions to the Principal Amount Outstanding of the Class B1 VFN on the following Interest Payment Date).
- (b) The Class B1 VFN Holder, upon receipt of such a notice from the Issuer or the Cash Manager (on behalf of the Issuer) prior to the VFN Commitment Termination Date requesting that the relevant Class B1 VFN Holder further fund the Class B1 VFN, shall notify the Issuer that the relevant Class B1 VFN Holder is prepared to make such further funding (the **Further B1 VFN Funding**), provided the relevant Class B1 VFN Holder shall not be obliged to make any such further funding

unless and until such time as the Issuer has complied with the requirements of Condition 18.1(d) below.

- (c) The proceeds of the Further B1 VFN Funding shall be applied by the Issuer to fund any necessary increase in the Set-Off Overcollateralisation Amount.
- (d) The Class B1 VFN Holder shall advance the amount of such Further B1 VFN Funding to the Issuer for value on the relevant Monthly Pool Date or other Business Day specified in the Notice of Increase, if the following conditions are satisfied:
  - (i) not later than 2.00 p.m. four Business Days prior to the proposed date for the making of such Further B1 VFN Funding (or such lesser time as may be agreed by the Class B1 VFN Holder), the relevant Class B1 VFN Holder has received from the Issuer a completed and irrevocable Notice of Increase therefore, receipt of which shall oblige the relevant Class B1 VFN Holder to accept the amount of the Further B1 VFN Funding therein requested on the date therein stated upon the terms and subject to the conditions contained therein;
  - (ii) as a result of the making of such Further B1 VFN Funding, the aggregate amount plus all Further B1 VFN Funding made in respect of the relevant Class B1 VFN (provided no reference shall be made in respect of any principal amount due on the relevant Class B1 VFN which has already been repaid) would not exceed the Maximum B1 VFN Amount;
  - (iii) either:
    - (A) the Issuer confirms in the Notice of Increase that no Event of Default has occurred or will occur as a result of the Further B1 VFN Funding; or
    - (B) the relevant Class B1 VFN Holder agrees in writing (notwithstanding any matter mentioned at (i) above) to make such Further B1 VFN Funding available; and
  - (iv) the proposed date of such Further B1 VFN Funding falls on a Business Day prior to the VFN Commitment Termination Date.

## 18.2 Class B2 VFN

- (a) If the Issuer (or the Cash Manager on behalf of the Issuer) receives a notice from the Seller prior to the VFN Commitment Termination Date notifying the Issuer that (i) a Flexible Drawing and/or Further Advance has been made, there are insufficient funds standing to the credit of the Retained Principal Receipts Ledger to fund the purchase of the Flexible Drawing Purchase Price and/or Further Advance Purchase Price and of the amount of the Flexible Drawing Purchase Price and/or Further Advance Purchase Price and/or such shortfall which is insufficiently funded by Retained Principal Receipts and/or (ii) a Rearrangement has been made and the Rearrangement Revenue Element of the purchase price of such Rearrangement is insufficiently funded by Revenue Receipts and/or (iii) the Seller, instead of repurchasing a Loan for breach of the Asset Conditions has elected to fund such Loan through the Class B2 VFN and/or (iv) the Pre-Funded Purchase Limit is required to be increased to collateralise the purchase of Further Advances or Flexible Drawings, the Issuer (or the Cash Manager on its behalf) shall notify (by serving a Notice of Increase) the holder of the Class B2 VFN (the **Class B2 VFN Holder**) requesting that such Class B2 VFN Holder further funds the Class B2 VFN on the next following Monthly Pool Date or other Business Day specified in the Notice of Increase in an amount equal to the lower of:
  - (i) (A) in respect of (i) above, the Flexible Drawing Purchase Price and/or the Further Advance Purchase Price less Retained Principal Amounts available to pay such Flexible Drawing Purchase Price and/or the Further Advance Purchase Price; or

- (B) in respect of (ii) above, the Rearrangement Revenue Element less the amount of Revenue Receipts available to fund the same;
  - (C) in respect of (iii) above, the Current Balance of such Loan or Loan(s) that the Seller, instead of repurchasing for a breach of the Asset Conditions has elected to fund such Loan through the Class B2 VFN; and
  - (D) in respect of (iv) above, the Pre-Funded Purchase Limit is required to be increased to collateralise the purchase of Further Advances or Flexible Drawings; and
- (ii) the Maximum B2 VFN Amount less the current Principal Amount Outstanding of the Class B2 VFN (taking into account any likely reductions to the Principal Amount Outstanding of the Class B2 VFN on the following Interest Payment Date).
- (b) The Class B2 VFN Holder, upon receipt of such a notice from the Issuer or the Cash Manager (on behalf of the Issuer) prior to the VFN Commitment Termination Date requesting that the relevant Class B2 VFN Holder further funds the Class B2 VFN, shall notify the Issuer that the relevant Class B2 VFN Holder is prepared to make such further funding (the **Further B2 VFN Funding**), provided the relevant Class B2 VFN Holder shall not be obliged to make any such further funding unless and until such time as the Issuer has complied with the requirements of Condition 18.2(d) below.
- (c) The proceeds of the Further B2 VFN Funding shall be applied by the Issuer towards (i) the Flexible Drawing Purchase Price and/or Further Advance Purchase Price, (ii) the Rearrangement Revenue Element of the purchase price of any Rearrangement (to the extent not funded by Revenue Receipts) and/or (iii) the funding of such Loan(s) that the Seller, instead of repurchasing for a breach of the Asset Conditions, has elected to fund such Loans through the Class B2 VFN and/or (iv) crediting amounts to the Pre-Funded Purchase Ledger to increase the Pre-Funded Purchase Limit.
- (d) The Class B2 VFN Holder shall advance the amount of such Further B2 VFN Funding to the Issuer for value on the relevant Monthly Pool Date or other Business Day specified in the Notice of Increase, if the following conditions are satisfied:
- (i) not later than 2.00 p.m. four Business Days prior to the proposed date for the making of such Further B2 VFN Funding (or such lesser time as may be agreed by the Class B2 VFN Holder), the relevant Class B2 VFN Holder has received from the Issuer a completed and irrevocable Notice of Increase therefore, receipt of which shall oblige the relevant Class B2 VFN Holder to accept the amount of the Further B2 VFN Funding therein requested on the date therein stated upon the terms and subject to the conditions contained therein;
  - (ii) as a result of the making of such Further B2 VFN Funding, the aggregate amount plus all Further B2 VFN Funding made in respect of the relevant Class B2 VFN (provided no reference shall be made in respect of any principal amount due on the relevant Class B2 VFN which has already been repaid) would not exceed the Maximum B2 VFN Amount;
  - (iii) either:
    - (A) the Issuer confirms in the Notice of Increase that no Event of Default has occurred or will occur as a result of the Further B2 VFN Funding; or
    - (B) the relevant Class B2 VFN Holder agrees in writing (notwithstanding any matter mentioned at (i) above) to make such Further B2 VFN Funding available; and
  - (iv) the proposed date of such Further B2 VFN Funding falls on a Business Day prior to the VFN Commitment Termination Date.

### 18.3 Class C VFN

- (a) If the Issuer (or the Cash Manager on behalf of the Issuer) receives a notice from the Seller prior to the VFN Commitment Termination Date notifying the Issuer that (i) amounts standing to the credit of the General Reserve Fund are less than the General Reserve Required Amount, (ii) amounts standing to the Yield Reserve Fund are less than the Yield Reserve Required Amount, (iii) the Issuer Fee Amount is required to be paid under the Basis Rate Swap Agreement, (iv) the Co-op Collateral Amount has increased, (v) any premiums are required to be paid under the Basis Rate Swap Agreement, and (vi) there is a shortfall in respect of the amount to be retained by the Issuer in accordance with item (m) of the Pre-Acceleration Revenue Priority of Payments, the Issuer (or the Cash Manager on its behalf) shall notify (by serving a Notice of Increase) the holder of the Class C VFN (the **Class C VFN Holder**) requesting that such Class C VFN Holder further funds the Class C VFN on the next following Monthly Pool Date or other Business Day specified in the Notice of Increase in an amount equal to the lower of:
- (i)
    - (A) in respect of (i) above, the General Reserve Required Amount less all amounts standing to the credit of the General Reserve Fund;
    - (B) in respect of (ii) above, the Yield Reserve Required Amount less all amounts standing to the credit of the Yield Reserve Fund or such other amount agreed between the Seller and the Issuer in relation to the funding of the Yield Reserve Fund;
    - (C) in respect of (iii) above, the Issuer Fee Amount;
    - (D) in respect of (iv) above, the amount of increase in the Co-op Collateral Amount since the Closing Date;
    - (E) in respect of (v) above, the amount of any premium payable under any Basis Rate Swap Agreement; or
    - (F) in respect of (vi) above, the amount of any shortfall in respect of the amount to be retained by the Issuer in accordance with item (m) of the Pre-Acceleration Revenue Priority of Payments; and
  - (ii) the Maximum C VFN Amount less the current Principal Amount Outstanding of the Class C VFN (taking into account any likely reductions to the Principal Amount Outstanding of the Class C VFN on the following Interest Payment Date).
- (b) The Class C VFN Holder, upon receipt of such a notice from the Issuer or the Cash Manager (on behalf of the Issuer) prior to the VFN Commitment Termination Date requesting that the relevant Class C VFN Holder further funds the Class C VFN, shall notify the Issuer that the relevant Class C VFN Holder is prepared to make such further funding (the **Further C VFN Funding**), provided the relevant Class C VFN Holder shall not be obliged to make any such further subscription unless and until such time as the Issuer has complied with the requirements of Condition 18.3(d) below.
- (c) The proceeds of the Further C VFN Funding shall be applied by the Issuer to (i) fund the General Reserve Fund up to and including an amount equal to the General Reserve Required Amount, (ii) fund the Yield Reserve Fund up to and including an amount equal to the Yield Reserve Required Amount, (iii) fund the Issuer Fee Amount, (iv) fund the increase in the Co-op Collateral Amount, (v) any premiums payable under the Basis Rate Swap Agreement and (vi) any shortfall in respect of the amount to be retained by the Issuer in accordance with item (m) of the Pre-Acceleration Revenue Priority of Payments.

- (d) The Class C VFN Holder shall advance the amount of such Further C VFN Funding to the Issuer for value on the relevant Monthly Pool Date or other Business Day specified in the Notice of Increase, if the following conditions are satisfied:
- (i) not later than 2.00 p.m. four Business Days prior to the proposed date for the making of such Further C VFN Funding (or such lesser time as may be agreed by the Class C VFN Holder), the relevant Class C VFN Holder has received from the Issuer a completed and irrevocable Notice of Increase therefore, receipt of which shall oblige the relevant Class C VFN Holder to accept the amount of the Further C VFN Funding therein requested on the date therein stated upon the terms and subject to the conditions contained therein;
  - (ii) as a result of the making of such Further C VFN Funding, the aggregate amount plus all Further C VFN Funding made in respect of the relevant Class C VFN (provided no reference shall be made in respect of any principal amount due on the relevant Class C VFN which has already been repaid) would not exceed the Maximum C VFN Amount;
  - (iii) either:
    - (A) the Issuer confirms in the Notice of Increase that no Event of Default has occurred or will occur as a result of the Further C VFN Funding; or
    - (B) the relevant Class C VFN Holder agrees in writing (notwithstanding any matter mentioned at (b) above) to make such Further C VFN Funding available; and
  - (iv) the proposed date of such Further C VFN Funding falls on a Business Day prior to the VFN Commitment Termination Date.

In this Condition, the expression:

**Notice of Increase** means a notice, substantially in the form set out in the Trust Deed.

**Maximum B1 VFN Amount** for the Class B1 VFN shall be ££350,000,000 or such other amount as may be agreed from time to time by the Issuer and the Class B1 VFN Holder, and notified such amount to the Note Trustee.

**Maximum B2 VFN Amount** for the Class B2 VFN shall be £150,000,000 or such other amount as may be agreed from time to time by the Issuer and the Class B2 VFN Holder, and notified such amount to the Note Trustee.

**Maximum C VFN Amount** for the Class C VFN shall be £150,000,000 or such other amount as may be agreed from time to time by the Issuer and the Class C VFN Holder, and notified such amount to the Note Trustee.

## 19. GOVERNING LAW

The Trust Deed, the Deed of Charge, the Notes and these Conditions (and any non-contractual obligations arising out of or in connection with them) are governed by, and shall be construed in accordance with, English law.

## 20. RIGHTS OF THIRD PARTIES

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



## UNITED KINGDOM TAXATION

*The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and HM Revenue & Customs (HMRC) practice in the United Kingdom relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Each prospective purchaser is urged to consult its own tax advisers about the tax consequences under its circumstances of purchasing, holding and selling the Notes under the laws of the United Kingdom, its political subdivisions and any other jurisdiction in which the prospective purchaser may be subject to tax.*

*In this summary references to "Notes" and "Noteholder" excludes the Class B VFN and the Class C VFN and the Class B VFN Holder and the Class C VFN Holder*

### **Interest on the Notes**

#### *Payment of Interest on the Notes*

Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the **Act**). The London Stock Exchange is a recognised stock exchange for such purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part VI of the FSMA) and admitted to trading on the regulated market of the London Stock Exchange. Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom income tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Noteholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

### ***EU Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain

limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

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

### ***Further United Kingdom Income Tax Issues***

Interest on the Notes constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom income tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable (and where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Notes are attributable) in which case tax may be levied on the United Kingdom branch, agency or permanent establishment. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Noteholders.

### **United Kingdom Corporation Tax Payers**

In general, Noteholders which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Notes (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

### **Other United Kingdom Tax Payers**

#### *Taxation of Chargeable Gains*

A disposal of Notes by an individual Noteholder who is resident or ordinarily resident in the United Kingdom, or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency in connection with which the income is received or to which the Notes are attributable, may give rise to a chargeable gain or an allowable loss for the purposes of the taxation of chargeable gains.

#### *Accrued Income Scheme*

On a disposal of Notes by an individual Noteholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Act, if that Noteholder is resident or ordinarily resident in the United Kingdom or carries on a trade, profession or vocation in the United Kingdom through a branch or agency in connection with which the income is received or to which the Notes are attributable.

The Notes are likely to constitute variable rate securities for the purposes of the accrued income scheme. Under the accrued income scheme on a disposal of Notes by a Noteholder who is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable, the Noteholder may be charged to income tax on an amount of income

which is just and reasonable in the circumstances. The purchase of such a Note will not be entitled to any equivalent tax credit under the accrued income scheme to set against any actual interest received by the purchaser in respect of costs incurred on the acquisition, transfer or redemption, or losses incurred on the transfer or redemption, of the Notes.

**Stamp Duty and Stamp Duty Reserve Tax (SDRT)**

No United Kingdom stamp duty or SDRT is payable on the issue or transfer of the Class A Notes (whether in global or definitive form).

## SUBSCRIPTION AND SALE

The Co-operative Bank p.l.c. (the **Co-operative Bank**), J.P. Morgan Securities Ltd. (**J.P. Morgan**), Barclays Bank PLC (**Barclays Capital**) and Morgan Stanley & Co. International plc (**Morgan Stanley**, and together with J.P. Morgan and Barclays Capital, the **Joint Lead Managers**) and Natixis (the **Co-Manager** and, together with the Joint Lead Managers, the **Managers**) have, pursuant to a subscription agreement dated 4 July 2011 between the Co-operative Bank, the Seller, the Joint Lead Managers, the Co-Manager and the Issuer (the **Subscription Agreement**), agreed with the Issuer (subject to certain conditions) to procure subscriptions for or subscribe and pay for, (a) in the case of the Joint Lead Managers: (i) €498,900,000 of the Class Aa Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class Aa Notes and (ii) £273,900,000 of the Class Ab Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class Ab Notes, and (b) in the case of the Co-Manager: (i) €1,100,000 of the Class Aa Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class Aa Notes and (ii) £1,100,000 of the Class Ab Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class Ab Notes.

The Co-operative Bank has, pursuant to the Subscription Agreement, agreed with the Issuer (subject to certain conditions) to subscribe and pay for (a) 100 per cent. of the Class B1 VFN at the issue price of 100 per cent. of the aggregate principal amount of the initial subscription of the Class B1 VFN as at the Closing Date, (b) 100 per cent. of the Class B2 VFN at the issue price of 100 per cent. of the aggregate principal amount of the initial subscription of the Class B2 VFN as at the Closing Date, and (c) 100 per cent. of the Class C VFN at the issue price of 100 per cent. of the aggregate principal amount of the initial subscription of the Class C VFN as at the Closing Date.

The Managers may sell any of the Notes to subsequent purchasers in individually negotiated transactions at negotiated prices which may vary among different purchasers and which may be greater or less than the issue price of the Notes.

The Issuer has agreed to indemnify the Co-operative Bank and the Managers against certain liabilities and to pay certain costs and expenses in connection with the issue of the Notes.

Other than admission of the Class A Notes to the Official List and the admission to trading on the London Stock Exchange's Regulated Market, no action has been taken by the Issuer or the Initial Purchasers, which would or has been intended to permit a public offering of the Notes, or possession or distribution of this Prospectus or other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Pursuant to the Subscription Agreement, the Co-operative Bank will covenant that it will retain a material net economic interest of not less than 5 per cent. in the securitisation pursuant to paragraphs (a) to (d) (as applicable) of Article 122a(1) of Directive 2006/48/EC (as amended) (which does not take into account any implementing rules of the CRD in a relevant jurisdiction) and to comply with the disclosure obligations imposed on sponsor and originator credit institutions under paragraph 7 of Article 122a of Directive 2006/48/EC, subject always to any requirement of law, provided that the Seller will not be in breach of such undertaking if the Seller fails to so comply due to events, actions or circumstances beyond the Seller's control. As at the Closing Date, such retention requirement will be satisfied by the Co-operative Bank holding the first loss tranche and other tranches having the same or a more severe risk profile than those transferred or sold to investors as required by Article 122a (comprising the Class B VFN and the Class C VFN). Any change to the manner in which such interest is held will be notified to the Noteholders.

***This Prospectus does not constitute, and may not be used for the purpose of, an offer or a solicitation by anyone to subscribe for or purchase any of the Notes in or from any country or jurisdiction where such an offer or solicitation is not authorised or is unlawful.***

### ***United States***

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to an exemption from registration requirements. Accordingly, the Notes are being offered and sold in offshore transactions in reliance on Regulation S.

Each of the Managers and the Co-operative Bank has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes as part of its distribution at any time or otherwise until 40 days after the later of the commencement of the offering and the closing date within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each affiliate or other dealer (if any) to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. See "*Transfer Restrictions and Investor Representations*" below.

### ***United Kingdom***

Each of the Managers and the Co-operative Bank has represented to and agreed with the Issuer and the Co-operative Bank that:

- (a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated any invitation or inducement to engage in any activity (within the meaning of Section 21 of FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Each of the Managers and the Co-operative Bank has acknowledged that, save for having obtained the approval of the Prospectus as a prospectus in accordance with Part VI of FSMA, having applied for the admission of the Class A Notes to the Official List of the UK Listing Authority and admission to trading on the London Stock Exchange, no further action has been or will be taken in any jurisdiction by the Managers or the Co-operative Bank that would, or is intended to, permit a public offering of the Notes, or possession or distribution of the Prospectus or any other offering material in relation to the Notes, in any country or jurisdiction where such further action for that purpose is required.

### **General**

Each of the Managers and the Co-operative Bank has undertaken that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in respect of the Notes in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

## TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS

### Offers and Sales by the Managers

The Notes (including interests therein represented by a Global Note, a Registered Definitive Note or a Book-Entry Interest) have not been and will not be registered under the Securities Act or any state securities laws, and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to such registration requirements. Accordingly, the Notes are being offered and sold in offshore transactions pursuant to Regulation S.

### *Investor Representations and Restrictions on Resale*

Each purchaser of the Notes (which term for the purposes of this section will be deemed to include any interests in the Notes, including Book-Entry Interests) will be deemed to have represented and agreed as follows:

- (a) the Notes have not been and will not be registered under the Securities Act and such Notes are being offered only in a transaction that does not require registration under the Securities Act and, if such purchaser decides to resell or otherwise transfer such Notes, then it agrees that it will offer, resell, pledge or transfer such Notes only (i) to a purchaser who is not a U.S. person (as defined in Regulation S) or an affiliate of the Issuer or a person acting on behalf of such an affiliate, and who is not acquiring the Notes for the account or benefit of a U.S. person and who is acquiring the Notes in an offshore transaction pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S or (ii) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States; provided, that the agreement of such purchaser is subject to any requirement of law that the disposition of the purchaser's property shall at all times be and remain within its control;
- (b) unless the relevant legend set out below has been removed from the Notes such purchaser shall notify each transferee of Notes (as applicable) from it that (i) such Notes have not been registered under the Securities Act, (ii) the holder of such Notes is subject to the restrictions on the resale or other transfer thereof described in paragraph (a) above, (iii) such transferee shall be deemed to have represented that such transferee is acquiring the Notes in an offshore transaction and that such transfer is made pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S and (iv) such transferee shall be deemed to have agreed to notify its subsequent transferees as to the foregoing; and
- (c) the Issuer, the Registrar, the Arrangers, the Managers, the VFN Registrar and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

The Notes bear a legend to the following effect:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, AS A MATTER OF U.S. LAW, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) (1) AS PART OF THEIR DISTRIBUTION AT ANY TIME OR (2) OTHERWISE PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES AND THE CLOSING OF THE OFFERING OF THE NOTES, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN

ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES."

*Additional representations and restrictions applicable to a VFN*

Any holder of a VFN may only make a transfer of the whole of its VFN or create or grant any Encumbrance in respect of such VFN if all of the following conditions are satisfied:

- (a) the holder of such VFN making such transfer or subjecting the VFN to such Encumbrance shall be solely responsible for any costs, expenses or taxes which are incurred by the Issuer, the holder of such VFN or any other person in relation to such transfer or Encumbrance;
- (b) the holder of such VFN has received the prior written consent of the Issuer and (for so long as any Class A Notes are outstanding) the Note Trustee (the Note Trustee shall give its consent to such a transfer if the same has been sanctioned by an Extraordinary Resolution of the Class A Noteholders);
- (c) the person to which such transfer is to be made falls within paragraph 3 of Schedule 2A of the Insolvency Act;
- (d) the transferee of such VFN is independent of the Issuer (within the meaning of regulation 2(1) of the Taxation of Securitisation Companies Regulations 2006); and
- (e) the transferee is a Qualifying Noteholder.

The VFN Registrar shall not pay any relevant Interest Amount to the holder of a VFN and such holder shall not be entitled to receive such relevant Interest Amount on any Interest Payment Date free of any relevant withholding or deduction for or on account of United Kingdom income tax, unless and until it has provided to the Issuer a tax certificate substantially in the form set out in Schedule 2 (Form of Tax Certificate) of the Agency Agreement (the **Tax Certificate**) and the Issuer (or the Cash Manager on behalf of the Issuer in accordance with the terms of the Cash Management Agreement) has confirmed in writing to the VFN Registrar that such Interest Amount in respect of the VFN can be paid free of any relevant withholding or deduction for or on account of United Kingdom income tax. The VFN Registrar shall upon receipt of such confirmation make a note of such confirmation in the VFN Register. These transfer provisions are subject to the covenant of the Co-operative Bank to maintain a material net economic interest in the transaction as required under Article 122a.

*Because of the foregoing restrictions, purchasers of Notes are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such securities offered and sold.*

## GENERAL INFORMATION

1. It is expected that the admission of the Class A Notes to the Official List and the admission of the Class A Notes to trading on the London Stock Exchange's Regulated Market will be granted on or around 7 July 2011. Prior to listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in Sterling and for delivery on the third working day after the date of the transaction.
2. None of the Issuer or Holdings is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or Holdings respectively is aware), since 4 May 2011 and 20 April 2011 (respectively being the date of incorporation of the Issuer and Holdings) which may have, or have had in the recent past, significant effects upon the financial position or profitability of the Issuer or Holdings (as the case may be).
3. No statutory or non-statutory accounts within the meaning of Section 434 and 435 of the Companies Act 2006 (as amended) in respect of any financial year of the Issuer have been prepared. So long as the Class A Notes are admitted to trading on the London Stock Exchange's Regulated Market, the most recently published audited annual accounts of the Issuer from time to time shall be available at the specified office of the Principal Paying Agent in London. The Issuer does not publish interim accounts.
4. For so long as the Class A Notes are admitted to the Official List and to trading on the London Stock Exchange's Regulated Market, the Issuer shall maintain a Paying Agent in the United Kingdom.
5. Since the date of its incorporation, the Issuer has not entered into any contracts or arrangements not being in the ordinary course of business.
6. Since 4 May 2011 and 20 April 2011 (respectively being the date of incorporation of the Issuer and Holdings), there has been (a) no material adverse change in the financial position or prospects of the Issuer or Holdings and (b) no significant change in the financial or trading position of the Issuer or Holdings.
7. The issue of the Notes was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 1 July 2011.
8. The Class Aa Notes and the Class Ab Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following ISINs and Common Codes:

<b>Class of Notes</b>	<b>ISIN</b>	<b>Common Code</b>
Class Aa Notes	XS0615237400	61523740
Class Ab Notes	XS0615236691	61523669

9. From the date of this Prospectus and for so long as the Class A Notes are listed on the London Stock Exchange's Regulated Market, copies of the following documents may be inspected at the registered office of the Issuer (and, with the exception of (a) below, at the specified office of the Paying Agents) during usual business hours, on any weekday (public holidays excepted):
  - (a) the Memorandum and Articles of Association of each of the Issuer and Holdings;



- (b) copies of the following documents:
- (i) the Agency Agreement;
  - (ii) the Deed of Charge;
  - (iii) the Cash Management Agreement;
  - (iv) the Master Definitions and Construction Schedule;
  - (v) the Mortgage Sale Agreement;
  - (vi) the Corporate Services Agreement;
  - (vii) the Barclays Bank Account Agreement;
  - (viii) the Co-op Bank Account Agreement;
  - (ix) the Collection Account Declaration of Trust;
  - (x) the Swap Collateral Bank Account Agreement (if entered into);
  - (xi) the Servicing Agreement;
  - (xii) the Currency Swap Agreement;
  - (xiii) the Basis Rate Swap Agreement; and
  - (xiv) the Trust Deed.

10. The Cash Manager on behalf of the Issuer will publish the quarterly Investor Report detailing, *inter alia*, certain aggregated loan data in relation to the Portfolio. Such Investor Reports will be published on the website at <http://www.britannia.co.uk/bts>. Investor Reports will also be made available to the Seller and the Rating Agencies. Other than as outlined above, the Issuer does not intend to provide post-issuance transaction information regarding the Notes or the Loans.
11. The Issuer confirms that the Loans backing the issue of the Notes have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. Investors are advised that this confirmation is based on the information available to the Issuer at the date of this Prospectus and may be affected by the future performance of such assets backing the issue of the Notes. Investors are advised to review carefully any disclosure in the Prospectus together with any amendments or supplements thereto.

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