

## GEMGARTO 2012-1 PLC

*(Incorporated under the laws of England and Wales with limited liability under registered number 7757442)*

Notes	Initial Principal Amount	Issue Price	Interest Rate / Reference Rate	Margin	Final Maturity Date	Ratings (S&P / DBRS / Fitch)
A1	£ 201,600,000	100%	Three-Month Sterling LIBOR	2.95 % per annum  plus 1.5% per annum after the Step-up Date	The Interest Payment Date falling in May 2045	AAA(sf) / AAA(sf) / AAAsf
M1	£ 3,600,000	94.49%	Three-Month Sterling LIBOR	2.25 % per annum	The Interest Payment Date falling in May 2045	A+(sf) / No Rating / No Rating
M2	£ 6,000,000	92.39%	Three-Month Sterling LIBOR	2.25% per annum	The Interest Payment Date falling in May 2045	A(sf) / No Rating / No Rating
B1	£ 13,200,000	90.33%	Three-Month Sterling LIBOR	2.25 % per annum	The Interest Payment Date falling in May 2045	BBB(sf) / No Rating / No Rating
B2	£ 15,600,000	82.61 %	Three-Month Sterling LIBOR	2.25 % per annum	The Interest Payment Date falling in May 2045	BB(sf) / No Rating / No Rating
R1	£ 3,600,000	92.55 %	Zero Coupon	Zero Coupon	The Interest Payment Date falling in May 2045	No rating
R2	£ 2,400,000	10.00 %	Zero Coupon	Zero Coupon	The Interest Payment Date falling in May 2045	No rating
R3	£ 500,000	Premium of 2646%	Zero Coupon (but entitled to R3 Note Residual Revenue)	Zero Coupon	The Interest Payment Date falling in May 2045	No rating

The date of this Prospectus is 17 April 2012.

**Arranger**  
**Investec Capital Markets**  
**Lead Managers**  
**Barclays                  Investec Bank plc**

**Issue Date:** The Issuer will issue the Notes in the Classes set out above on 19 April 2012.

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

**Underlying Assets:** The Issuer will make payments on the Notes from, *inter alia*, a portfolio comprising first ranking residential mortgage loans originated by Kensington Mortgage Company Limited and beneficially owned by Investec Bank plc and secured over properties located in England and Wales, which will be purchased by the Issuer on the Issue Date. See the section entitled "*The Mortgage Pool*" for more information.

**Key Structural Features:**

**Credit Enhancement Features**

Reserve Fund funded in the amount of £ 6,000,000 on the Issue Date and with a Reserve Fund Required Amount of £ 12,000,000 on subsequent Interest Payment Dates. The Reserve Fund may always be used to pay interest on the A1 Notes. The Reserve Fund may only be used to pay interest on the M1 Notes, M2 Notes, B1 Notes and/or B2 Notes if certain triggers are met.

Excess spread.

Cap Reserve Fund which may only be used to cover a Revenue Shortfall.

Subordination of more junior ranking Notes.

See the section entitled "*Credit Structure*" for more information.

**Liquidity Support Features**

Reserve Fund funded in the amount of £ 6,000,000 on the Issue Date and with a Reserve Fund Required Amount of £ 12,000,000 on subsequent Interest Payment Dates. The Reserve Fund may always be used to pay interest on the A1 Notes. The Reserve Fund may only be used to pay interest on the M1 Notes, M2 Notes, B1 Notes and/or B2 Notes if certain triggers are met.

Cap Reserve Fund which may only be used to cover a Revenue Shortfall.

Yield Reserve Fund with a Yield Reserve Required Amount of £1,200,000 on the Issue Date. The Yield Reserve Fund is available to make up any Shortfall in Senior Fees and/or an Interest Shortfall on the A1 Notes, M Notes and/or B Notes. The Yield Reserve Fund may only be used to pay interest on the M1 Notes, M2 Notes, B1 Notes and/or B2 Notes if certain triggers are met.

Liquidity Reserve Fund to make up any Shortfall in Senior Fees and/or an Interest Shortfall on the A1 Notes.

Available Principal Funds applied to make up any Shortfall in Senior Fees and/or an Interest Shortfall on the Most Senior Class.

Excess spread.

Contingency Reserve of £150,000.

See the section entitled "*Credit Structure*" for more information.

**Redemption Provisions:**

For information on optional and mandatory redemption of the Notes, including an auction process which may occur in any Interest Period falling at least 60 days prior to the Interest Payment Date falling in May 2017, see the section entitled "*Transaction Overview - Overview of the Terms and Conditions of the Notes*" and Condition 5 (*Redemption*).

**Rating Agencies:**

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Community and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

Each of S&P, DBRS, Fitch and Moody's is a credit rating agency registered under the CRA Regulation.

**Ratings:**

Ratings will be assigned to the Rated Notes by S&P.

Fitch and DBRS will assign a rating to the A1 Notes on or before the Issue Date.

The ratings reflect the views of the Rating Agencies and are based on the Loans, the Security and the structural features of the transaction including, *inter alia*, the ratings of the Swap Counterparties, the Account Bank and the GIC Providers.

The ratings that are assigned by S&P to the A1 Notes, the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes address the likelihood of full and timely receipt by A1 Noteholders, M1 Noteholders, M2 Noteholders, B1 Noteholders and B2 Noteholders of interest and full receipt of principal on the A1 Notes, M1 Notes, M2 Notes, B1 Notes and B2 Notes respectively on or before their date of maturity.

The ratings that are assigned to the A1 Notes by each of Fitch and DBRS will address the likelihood of full and timely receipt by A1 Noteholders of interest on the A1 Notes and the likelihood of full receipt of principal by the A1 Noteholders on the A1 Notes on or before their date of maturity.

The credit ratings of the Notes should be evaluated independently from similar ratings on other types of securities. The assignment of ratings to the Rated Notes is not a recommendation to invest in the Rated Notes and may be revised, suspended or withdrawn at any time.

**Listing:**

This Prospectus has been approved by the Central Bank of Ireland as competent authority under the Prospectus Directive 2003/71/EC.

The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive 2003/71/EC.

An application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market.

The regulated market of the Irish Stock Exchange is a regulated market for the purposes of Directive 2004/39/EC.

**Obligations:** The Notes will be obligations of the Issuer alone and will not be guaranteed by, or be the responsibility of, any other entity. In particular, the Notes will not be obligations of, or guaranteed by, or be the responsibility of any Transaction Party other than the Issuer.

**Definitions:** Please refer to the section entitled "*Glossary of Defined Terms*" for definitions of defined terms.

**Retention Undertaking:** Investec Bank plc confirms that it will, for the duration of the transaction, retain a net economic interest in the securitisation in accordance with the provisions of Article 122a. As at the Issue Date, such interest will be comprised of an interest in each tranche of the A1 Notes, M Notes and B Notes sold to investors. Any change to the manner in which such interest is held will be promptly notified to the Trustee and the Noteholders.

Each prospective investor that is required to comply with Article 122a (as implemented in each Member State of the European Economic Area) is required independently to assess and determine the sufficiency of the information described in this Prospectus and otherwise which may be made available to investors (if any) generally for the purposes of complying with Article 122a and any corresponding local implementing rules which may be relevant, and none of the Transaction Parties make any representation that the information described in this Prospectus and otherwise which may be made available to investors (if any) is sufficient in all circumstances for such purposes. Prospective investors who are uncertain as to the requirements under Article 122a which apply to them in respect of their relevant jurisdiction, should seek guidance from their regulator.

Please refer to the section entitled "*Regulatory initiatives may result in increased regulatory capital requirements and/or decreased liquidity in respect of the Notes*".

**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 WITHIN THAT SECTION.**

## IMPORTANT NOTICE

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL. THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR ANY STATE SECURITIES LAWS. THE NOTES MAY NOT BE OFFERED OR SOLD DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. THE NOTES WILL ONLY BE OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS PURSUANT TO THE REQUIREMENTS OF REGULATION S UNDER THE SECURITIES ACT. THERE IS NO UNDERTAKING TO REGISTER THE NOTES UNDER STATE OR FEDERAL SECURITIES LAW. THE NOTES CANNOT BE SOLD IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS UNLESS THEY ARE SUBSEQUENTLY REGISTERED OR AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT IS AVAILABLE.

Each initial and subsequent purchaser of 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 thereof 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 or other transfer restrictions in certain cases.

The information contained in this Prospectus was obtained from the Issuer and other sources, but no assurance is or can be given by the Lead Managers or the Trustee or anyone other than the Issuer as to the adequacy, accuracy or completeness of such information and this Prospectus does not constitute and shall not be construed as any representation or warranty by the Lead Managers or the Trustee or anyone other than the Issuer as to the adequacy, accuracy or completeness of such information contained herein. None of the Lead Managers or the Trustee or anyone other than the Issuer have independently verified any of the information contained herein (financial, legal or otherwise) and in making an investment decision, investors must rely on their own examination of the terms of this Prospectus, including the merits and risks involved. Delivery of this Prospectus to any person other than the prospective investor and those persons, if any, retained to advise such prospective investor with respect to the possible offer and sale of the Notes is unauthorised, and any disclosure of any of its contents for any purpose other than considering an investment in the Notes is strictly prohibited. A prospective investor shall not be entitled to, and must not rely on, this Prospectus unless it was furnished to such prospective investor directly by the Issuer or the Lead Managers.

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

Neither the Arranger, the Issuer, the Lead Managers, the Trustee nor any other person 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 and prospective investors should consult their legal advisers to determine whether and to what extent the investment in the Notes constitute a legal investment for them.

EACH PERSON RECEIVING THIS PROSPECTUS ACKNOWLEDGES THAT (I) SUCH PERSON HAS BEEN AFFORDED AN OPPORTUNITY TO REQUEST AND TO REVIEW, AND HAS RECEIVED, ALL ADDITIONAL INFORMATION CONSIDERED BY IT TO BE NECESSARY TO VERIFY THE ACCURACY OF OR TO SUPPLEMENT THE INFORMATION HEREIN, (II) SUCH PERSON HAS NOT RELIED ON THE LEAD MANAGERS OR ANY PERSON AFFILIATED WITH THE LEAD MANAGERS IN CONNECTION WITH ITS INVESTIGATION OF THE ACCURACY OF SUCH INFORMATION OR ITS INVESTMENT DECISION, (III) NO PERSON HAS BEEN AUTHORISED TO GIVE ANY

INFORMATION OR TO MAKE ANY REPRESENTATION REGARDING THE NOTES OTHER THAN AS CONTAINED HEREIN, AND IF GIVEN OR MADE, ANY SUCH OTHER INFORMATION OR REPRESENTATION SHOULD NOT BE RELIED UPON AS HAVING BEEN AUTHORISED, AND (IV) NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER WILL CREATE ANY IMPLICATION THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SINCE THE DATE HEREOF. EACH PROSPECTIVE PURCHASER SHOULD CONSULT ITS OWN BUSINESS, LEGAL AND TAX ADVISERS FOR INVESTMENT, LEGAL AND TAX ADVICE AND AS TO THE DESIRABILITY AND CONSEQUENCES OF AN INVESTMENT IN THE NOTES.

This Prospectus has been approved by the Central Bank of Ireland as competent authority under the Prospectus Directive 2003/71/EC.

The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive 2003/71/EC.

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market.

Other than the approval of the Central Bank of Ireland of this Prospectus as a prospectus in accordance with the Prospectus Directive, no action has been or will be taken to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction. This document constitutes a prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer and the Notes which according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

The contents of any website mentioned in this Prospectus are for information purposes only and do not form part of this Prospectus.

The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus (or any part thereof) comes are required by the Issuer and the Lead Managers to inform themselves about and to observe any such restrictions.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Lead Managers to subscribe for or purchase any of the Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Lead Managers to inform themselves about and to observe any such restrictions.

For a description of further restrictions on offers and sales of the Notes and distribution of this Prospectus, see "*Purchase and Sale*".

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer or the Trustee or the Lead Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

To the fullest extent permitted by law, none of the Arranger, the Lead Managers or the Trustee or anyone other than the Issuer accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by the Lead Managers or the Trustee or any other person or on their behalf in connection with the Issuer or the issue and offering of the Notes. Each of the Lead Managers, the Trustee or anyone

other than the Issuer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

The Notes have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons.

Payments of interest and principal in respect of the Notes will be subject to any applicable withholding taxes without the Issuer being obliged to pay additional amounts thereof.

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

Certain figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same category in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Capitalised terms used in this Prospectus, unless otherwise indicated, have the meanings set out in this Prospectus. A glossary of defined terms appears at the end of this Prospectus in the section headed "*Glossary of Defined Terms*".

For the purposes of the Prospectus Directive, references to "listing" can be taken to read "admission to trading".

**In connection with the issue of the A1 Notes, Barclays Bank PLC (the "Stabilising Manager") (or any person acting on behalf of the Stabilising Manager) may over-allot A1 Notes or effect transactions with a view to supporting the market price of the A1 Notes at a level higher than that which might otherwise prevail, provided that in the case of any A1 Notes to be admitted to trading on any regulated market (within the meaning of the Markets in Financial Instruments Directive) in the European Economic Area, the aggregate principal amount of such A1 Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the A1 Notes. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the A1 Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the A1 Notes and 60 days after the date of the allotment of the A1 Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.**

Certain matters contained herein are forward-looking statements. Such statements appear in a number of places in this Prospectus and 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. The Lead Managers have not attempted to verify any such statements, nor do they make any representations, express or implied, with respect thereto. Prospective purchasers should therefore not place undue reliance on any of these forward-looking statements. Neither the Issuer, the Arranger nor the Lead Managers assume 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.

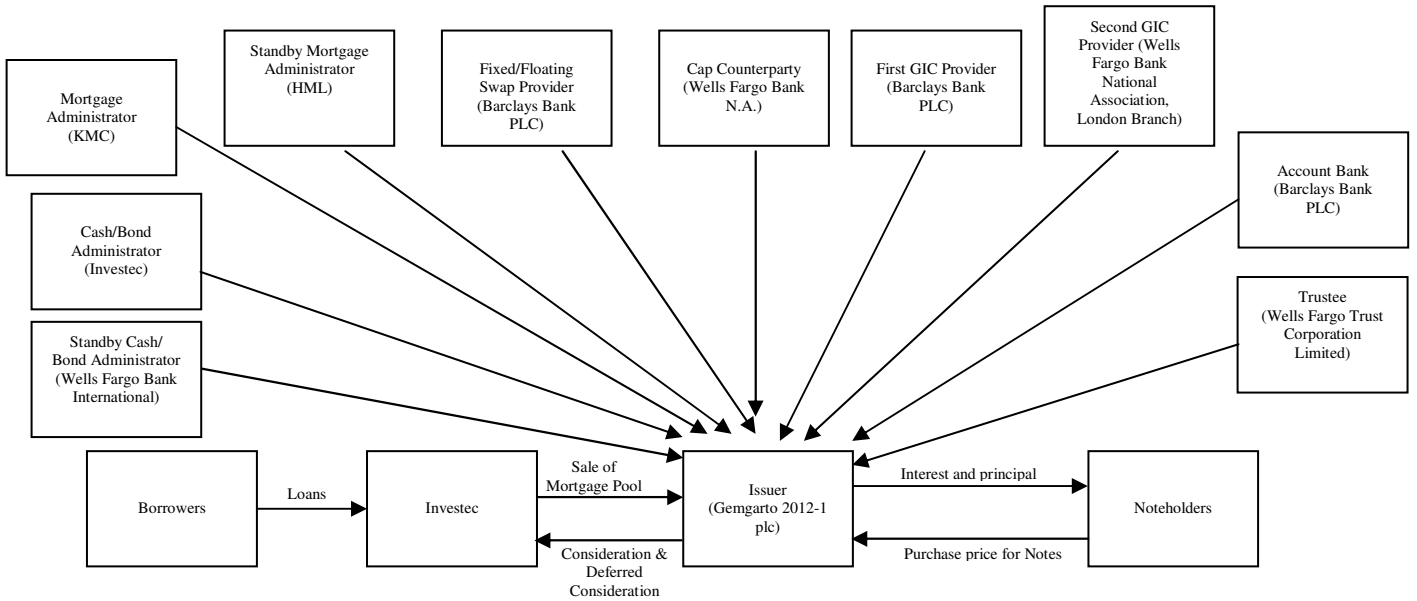
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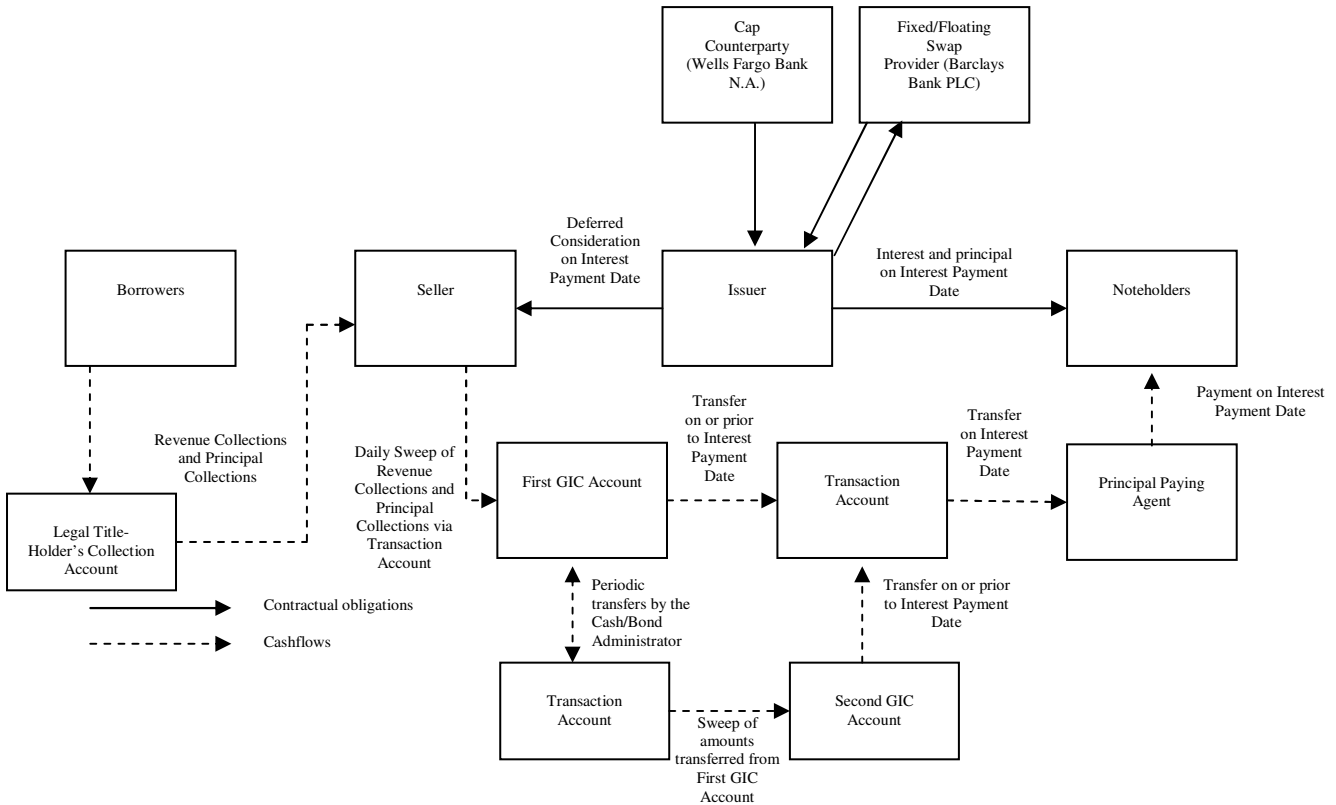


## DIAGRAMMATIC OVERVIEW

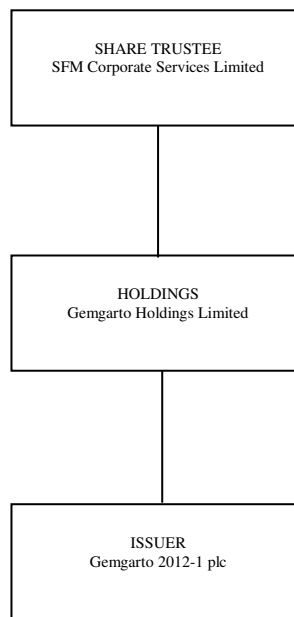
### DIAGRAMMATIC OVERVIEW OF THE TRANSACTION



### DIAGRAMMATIC OVERVIEW OF ON-GOING CASH FLOW



## OWNERSHIP STRUCTURE DIAGRAM



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

The entire issued share capital of Holdings is held on trust by the Share Trustee under the terms of a discretionary trust, the benefit of which is expressed to be for charitable purposes.

## TRANSACTION OVERVIEW

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

### TRANSACTION PARTIES ON THE ISSUE DATE

<b><u>Party</u></b>	<b><u>Name</u></b>	<b><u>Address</u></b>	<b><u>Document under which appointed/Further information</u></b>
<b>Arranger</b>	Investec Capital Markets, a division of Investec Bank plc	2 Gresham Street, London EC2V 7QP United Kingdom	N/A
<b>Lead Managers</b>	Barclays Bank PLC	5 The North Colonnade Canary Wharf London E14 4BB	Subscription Agreement.
	Investec Bank plc	2 Gresham Street, London EC2V 7QP United Kingdom	Subscription Agreement.
<b>Issuer</b>	Gemgarto 2012-1 plc	35 Great St. Helen's, London EC3A 6AP United Kingdom	N/A
<b>Seller</b>	Investec Bank plc	2 Gresham Street, London EC2V 7QP United Kingdom	Mortgage Sale Agreement.
<b>Mortgage Administrator</b>	Kensington Mortgage Company Limited	2 Gresham Street, London EC2V 7QP United Kingdom	Mortgage Administration Agreement by the Issuer and the Trustee. See the section entitled " <i>Administration, Servicing and Cash Management of the Mortgage Pool</i> " for further information.
<b>Standby Mortgage Administrator</b>	Homeloan Management Limited	The Bailey, Skipton, North Yorkshire BD23 1DN United Kingdom	Standby Mortgage Administration Agreement by the Issuer and the Trustee. See the section entitled " <i>Administration, Servicing and Cash Management of the Mortgage Pool</i> " for further information.
<b>Special Servicer</b>	Kensington Mortgage Company Limited	2 Gresham Street, London EC2V 7QP United Kingdom	Special Servicer Agreement by the Issuer and the Trustee. See the section entitled " <i>Administration, Servicing and Cash Management of the Mortgage Pool</i> " for further information.
<b>Legal owner</b>	Kensington Mortgage Company Limited	2 Gresham Street, London EC2V 7QP United Kingdom	N/A
<b>Trustee</b>	Wells Fargo Trust Corporation Limited	6-8 Underwood Street, London N1 7JQ United Kingdom	Trust Deed and Deed of Charge by the Issuer. See the Conditions and the section entitled " <i>The Trustee, Second GIC Provider, Cap Counterparty and Standby Cash/Bond Administrator</i> " for further information.

<b><u>Party</u></b>	<b><u>Name</u></b>	<b><u>Address</u></b>	<b><u>Document under which appointed/Further information</u></b>
<b>Corporate Services Provider</b>	Structured Finance Management Limited	35 Great St. Helen's, London EC3A 6AP United Kingdom	Corporate Services Agreement by the Issuer.
<b>Cash/Bond Administrator</b>	Investec Bank plc	2 Gresham Street, London EC2V 7QP United Kingdom	Cash/Bond Administration Agreement by the Issuer. See the sections entitled " <i>The Seller and Cash/Bond Administrator</i> " and " <i>Administration, Servicing and Cash Management of the Mortgage Pool</i> " for further information.
<b>Standby Cash/Bond Administrator</b>	Wells Fargo Bank International	2 Harbourmaster Place, I.F.S.C. Dublin 1 Ireland	Standby Cash/Bond Administration Agreement by the Issuer. See the section entitled " <i>The Trustee, Second GIC Provider, Cap Counterparty and Standby Cash/Bond Administrator</i> ".
<b>Account Bank</b>	Barclays Bank PLC	1 Churchill Place, London E14 5HP United Kingdom	Account Bank Agreement by the Issuer. See the section entitled " <i>The Account Bank and First GIC Provider</i> " for further information.
<b>First GIC Provider</b>	Barclays Bank PLC	1 Churchill Place, London E14 5HP United Kingdom	First Guaranteed Investment Contract by the Issuer and the Cash/Bond Administrator. See the section entitled " <i>The Account Bank and First GIC Provider</i> " for further information.
<b>Second GIC Provider</b>	Wells Fargo Bank National Association, London Branch	1 Plantation Place, 30 Fenchurch Street, London, EC3M 3BD	Second Guaranteed Investment Contract by the Issuer and the Cash/Bond Administrator. See the section entitled " <i>The Trustee, Second GIC Provider, Cap Counterparty and Standby Cash/Bond Administrator</i> ".
<b>Principal Paying Agent</b>	HSBC Bank plc	8 Canada Square London E14 5HQ	Paying Agency Agreement by the Issuer.
<b>Agent Bank</b>	HSBC Bank plc	8 Canada Square London E14 5HQ	Paying Agency Agreement by the Issuer.
<b>Cap Counterparty</b>	Wells Fargo Bank, National Association	301 South College Street, Charlotte North Carolina United States	Interest Rate Cap Agreements by the Issuer. See the section entitled " <i>Credit Structure</i> " for further information.
<b>Fixed/Floating Swap Provider</b>	Barclays Bank PLC	1 Churchill Place London E14 5HP United Kingdom	Fixed/Floating Swap Agreement by the Issuer. See the section entitled " <i>Credit Structure</i> " for further information.
<b>Listing Agent</b>	Wells Fargo Bank International	2 Harbourmaster Place I.F.S.C., Dublin Dublin 1 Ireland	N/A

<b><u>Party</u></b>	<b><u>Name</u></b>	<b><u>Address</u></b>	<b><u>Document under which appointed/Further information</u></b>
<b>Listing Authority and Stock Exchange</b>	Irish Stock Exchange	28 Anglesea Street, Dublin 2, Ireland	N/A
<b>Clearing Systems</b>	Euroclear	33 Cannon Street, London, EC4M 5SB United Kingdom	N/A
	Clearstream, Luxembourg	42 Avenue JF Kennedy, L-1855 Luxembourg	N/A
<b>Rating Agencies</b>	Fitch Ratings Ltd.	30 North Colonnade, London E14 5GN United Kingdom	N/A
	Standard & Poor's Ratings Services, a division of Standard & Poor's Credit Market Services Europe Ltd.	20 Canada Square, London E14 5LH United Kingdom	N/A
	DBRS Ratings Limited	1 Minster Court, 10 <sup>th</sup> Floor Mincing Lane London EC3R 7AA	N/A

## THE MORTGAGE POOL

See the sections entitled "*Characteristics of the Provisional Completion Mortgage Pool*", "*Title to the Mortgage Pool*" and "*Sale of the Mortgage Pool*" for further information in respect of the sale of the Loans.

**Sale of Loans:** The Mortgage Pool on the Issue Date will consist of the Loans and the Collateral Security (including, for the avoidance of doubt, the Mortgages) and all monies derived therefrom from time to time, which will be sold to the Issuer on the Issue Date.

Each of the Loans and their related Collateral Security sold to the Issuer on the Issue Date are governed by English law.

There may be substitution of the Loans in the Mortgage Pool as existing Loans are repurchased in accordance with the terms of the Mortgage Sale Agreement. See the section entitled "*Sale of the Mortgage Pool*" for more information.

**Features of Loans:** The following is a summary of certain features of the Loans as at the date on which the Provisional Completion Mortgage Pool was selected and investors should refer to, and carefully consider, further details in respect of the Loans set out in "*Characteristics of the Provisional Completion Mortgage Pool*".

The Loans are all secured by first priority charges over freehold and leasehold properties in England and Wales.

Type of Borrower	Prime.
Type of Mortgage Loan	Repayment Loans or Interest Only Loans or a combination of both.
Self-Certified Loans	No.
Non-Verified Income Loans	No.
Number of Mortgages	1,864

	<u>Current weighted average</u>	<u>Minimum</u>	<u>Maximum</u>
Outstanding Current Balance (£)	£240,526,735	£23,349	£991,028
LTV Ratio at origination (%)	75.42	6.04	90.76
Current LTV Ratio (%)	74.63	5.95	89.87
Seasoning (months)	7.56	1.00	18.00
Remaining Term (years)	22.26	3.58	29.92

See the section entitled "*Characteristics of the Provisional Completion Mortgage Pool*" for further information.

**Consideration:** The consideration payable by the Issuer to the Seller in respect of the sale of the Loans and Collateral Security on the Issue Date shall be equal to the aggregate of:

- (a) an immediate cash payment of £240,061,408 payable on the Issue Date; and
- (b) the Deferred Consideration.

**Deferred Consideration:**

Deferred Consideration will be due and payable by the Issuer to the Seller and will comprise:

- (a) the aggregate of all Reserve Fund Cap Amounts then standing to the credit of the Reserve Fund Cap Ledger on the date when the A1 Notes, M1 Notes, M2 Notes, B1 Notes and B2 Notes are redeemed in full;
- (b) all amounts standing to the credit of the Contingency Ledger on the date when all the Rated Notes are redeemed in full;
- (c) the aggregate of all amounts (if any) which remain standing to the credit of the Start-up Costs Ledger, after all Issuer Costs and Expenses have been finally determined and paid by the Issuer; and
- (d) following redemption in full of the Rated Notes, any swap termination amounts received by the Issuer which have not been utilised in purchasing a replacement swap agreement.

**Representations and Warranties:**

The Seller will make the Warranties to the Issuer and the Trustee on the Issue Date, in respect of the Loans in the Mortgage Pool on the Issue Date.

The Warranties include the following warranties in respect of each Loan:

- (a) each Mortgage is a first legal mortgage in respect of properties located in England or Wales;
- (b) each Borrower is a natural legal person and was aged 18 years or older at the date that he or she executed the relevant Mortgage; and
- (c) no lien or right of set-off or counterclaim has been created or arisen between the Borrower and Investec or the Legal Title-Holder which would entitle such Borrower to reduce the amount of any payment otherwise due under the relevant Loan.

See the section entitled "*Sale of the Mortgage Pool – Warranties and Repurchase*" for further information.

**Re-purchase of the Loans:**

The Seller shall re-purchase the relevant Loans and their Collateral Security in the following circumstances:

- (a) upon a material breach of Warranties (which are either not capable of remedy or if the Seller failed to remedy the relevant breach within 21 days of becoming aware of the breach); or
- (b) the Legal Title-Holder agrees to make a further advance to a Borrower under a Loan.

**Consideration for repurchase:**

The consideration payable by the Seller in respect of a repurchase of a Loan shall be equal to the Repurchase Price. In respect of repurchase as a result of a breach of a Warranty only, at the option of the Seller, in the alternative the Seller may transfer to the Issuer the Seller's whole right, title, interest and benefit in and to one or more residential mortgage loans with an aggregate value which is equal to or greater than the Repurchase Price.

**Perfection Events:**

See "*Perfection Events*" in the section entitled "*Triggers Tables - Non-Rating Triggers Table*".

Legal title to the Loans will not be vested in the Issuer on the Issue Date until certain perfection events occur under the terms of the Mortgage Sale Agreement. Prior to the completion of the transfer of the legal title to the Loans, the Issuer will be subject to certain risks as set out in the sections entitled "*Risk Factors - Equitable Interest*" and "*Risk Factors - Set-off Risk*".

**Delegation by  
Mortgage  
Administrator:**

The Mortgage Administrator will delegate its responsibilities and obligations under the Mortgage Administration Agreement to HML. However, the Mortgage Administrator remains liable at all times for servicing the Loans and for the acts or omissions of any delegate or sub-contractor. See the sections entitled "*The Legal Title-Holder, the Mortgage Administrator and the Special Servicer*" and "*Administration, Servicing and Cash Management of the Mortgage Pool - Mortgage Administration Agreement*" for further information.

**Delegation by  
Cash/Bond  
Administrator:**

The Cash/Bond Administrator will delegate certain of its responsibilities and obligations under the Cash/Bond Administration Agreement in relation to bond administration and investor reporting to Wells Fargo Bank International. However, the Cash/Bond Administrator remains liable at all times for the bond administration and investor reporting of the Issuer and for the acts or omissions of any delegate or sub-contractor.



## FULL CAPITAL STRUCTURE OF THE NOTES

	Class A1	Class M1	Class M2	Class B1	Class B2	Class R1	Class R2	Class R3
Currency	£	£	£	£	£	£	£	£
Initial Principal Amount	201,600,000	3,600,000	6,000,000	13,200,000	15,600,000	3,600,000	2,400,000	500,000
Rating Agencies	S&P DBRS Fitch	S&P	S&P	S&P	S&P	N/A	N/A	N/A
Anticipated ratings	AAA(sf) AAA(sf) AAAsf	A+(sf)	A(sf)	BBB(sf)	BB(sf)	Not rated	Not rated	Not rated
Credit Enhancement Features	Subordination of M Notes and B Notes; Reserve Fund; Cap Reserve Fund and excess spread.	Subordination of M2 Notes and B Notes; Reserve Fund; Cap Reserve Fund and excess spread.	Subordination of B Notes; Reserve Fund; Cap Reserve Fund and excess spread.	Subordination of B2 Notes; Reserve Fund; Cap Reserve Fund and excess spread.	Reserve Fund; Cap Reserve Fund and excess spread.	N/A	N/A	N/A
Liquidity Support Features	Reserve Fund; Cap Reserve Fund; Yield Reserve; Liquidity Reserve Fund and Available Principal Funds to make up a Revenue Shortfall.	Reserve Fund; Cap Reserve Fund; Yield Reserve and, in limited circumstances, Available Principal Funds to make up a Revenue Shortfall.	Reserve Fund; Cap Reserve Fund; Yield Reserve and, in limited circumstances, Available Principal Funds to make up a Revenue Shortfall.	Reserve Fund; Cap Reserve Fund; Yield Reserve; and, in limited circumstances, Available Principal Funds to make up a Revenue Shortfall.	Reserve Fund; Cap Reserve Fund; Yield Reserve and, in limited circumstances, Available Principal Funds to make up a Revenue Shortfall.	N/A	N/A	N/A
Issue Price	100%	94.49%	92.39%	90.33%	82.61%	92.55%	10.00%	Premium of 2646%
Interest rate	3 Month Sterling LIBOR + Margin	3 Month Sterling LIBOR + Margin	3 Month Sterling LIBOR + Margin	3 Month Sterling LIBOR + Margin	3 Month Sterling LIBOR + Margin	Zero Coupon	Zero Coupon	Zero Coupon (but entitled to R Note Residual Revenue)
Margin	2.95% per annum plus 1.5% per annum after the Step-up Date	2.25 % per annum	2.25 % per annum	2.25 % per annum	2.25 % per annum	Zero Coupon	Zero Coupon	Zero Coupon
Step-up Amount	Applicable - an additional 1.5% per annum after the Step-up Date	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
Interest Accrual	Actual/365	Actual/365	Actual/365	Actual/365	Actual/365	Not applicable	Not applicable	Not applicable
Interest Payment Dates	Interest will be payable quarterly in arrears on the Interest Payment Date falling on or around 14 February, 14 May, 14 August and 14 November in each calendar year, commencing on the first Interest Payment Date.							
Business Day Convention	Following	Following	Following	Following	Following	Following	Following	Following
First Interest Payment Date	14 August 2012	14 August 2012	14 August 2012	14 August 2012	14 August 2012	Not applicable	Not applicable	14 August 2012
First Interest Period	The period from the Issue Date to 14 August 2012.							

Call Option	10% clean up call. Proceeds sufficient to redeem all Rated Notes, pay accrued interest on the A1 Notes, M Notes and B Notes, reduce any debit on any Principal Deficiency Ledger to zero and pay amounts required under the then applicable Priority of Payments to be paid in priority to or <i>pari passu</i> with the A1 Notes, M Notes and B Notes.
Pre Enforcement Redemption profile	Sequential pass-through redemption (A1 Notes, then M1 Notes, M2 Notes, B1 Notes and B2 Notes). If the Issuer has not exercised its option under Condition 5(d) ( <i>Optional Redemption in Full</i> ) to redeem the Notes on the Step-up Date, revenue due to the R3 Notes will be used to redeem the principal on the Class A1 Notes. Please refer to Condition 5 ( <i>Redemption</i> ).
Post Enforcement Redemption profile	Pass through redemption in accordance with the Post-Enforcement Priority of Payments. Please refer to Condition 2(d) ( <i>Post-Enforcement Priority of Payments</i> ).
Other Early Redemption in Full Events	Tax call. Please refer to Condition 5(e) ( <i>Optional Redemption for Taxation or Other Reasons</i> ). Auction with bids solicited at least 60 days prior to the Interest Payment Date falling in May 2017 and, to the extent that the Loans remain unsold, at least 60 days prior to each Interest Payment Date thereafter. Please refer to Condition 5(d) ( <i>Optional Redemption in Full</i> ).

Final Maturity Date	The Interest Payment Date falling in May 2045	The Interest Payment Date falling in May 2045	The Interest Payment Date falling in May 2045	The Interest Payment Date falling in May 2045	The Interest Payment Date falling in May 2045	The Interest Payment Date falling in May 2045	The Interest Payment Date falling in May 2045	The Interest Payment Date falling in May 2045
Form of the Notes	Bearer Global Notes	Bearer Global Notes	Bearer Global Notes	Bearer Global Notes	Bearer Global Notes	Bearer Global Notes	Bearer Global Notes	Bearer Global Notes
Application for Listing	Irish Stock Exchange	Irish Stock Exchange	Irish Stock Exchange	Irish Stock Exchange	Irish Stock Exchange	Irish Stock Exchange	Irish Stock Exchange	Irish Stock Exchange
ISIN	XS0769019026	XS0769019703	XS0769020388	XS0769021279	XS0769021519	XS0769021782	XS0769021949	XS0769022160
Common Code	076901902	076901970	076902038	076902127	076902151	076902178	076902194	076902216
Minimum Denomination	£100,000 and integral multiples of £1,000 in excess thereof	£100,000 and integral multiples of £1,000 in excess thereof	£100,000 and integral multiples of £1,000 in excess thereof	£100,000 and integral multiples of £1,000 in excess thereof	£100,000 and integral multiples of £1,000 in excess thereof	£100,000 and integral multiples of £1,000 in excess thereof	£100,000 and integral multiples of £1,000 in excess thereof	£100,000 and integral multiples of £1,000 in excess thereof
Clearance/Settlement	Euroclear/Clearstream, Luxembourg	Euroclear/Clearstream, Luxembourg	Euroclear/Clearstream, Luxembourg	Euroclear/Clearstream, Luxembourg	Euroclear/Clearstream, Luxembourg	Euroclear/Clearstream, Luxembourg	Euroclear/Clearstream, Luxembourg	Euroclear/Clearstream, Luxembourg
Regulation S	Regulation S	Regulation S	Regulation S	Regulation S	Regulation S	Regulation S	Regulation S	Regulation S
Retained Amount	5 per cent.	5 per cent.	5 per cent.	5 per cent.	5 per cent.	N/A	N/A	N/A

## OVERVIEW OF THE TERMS AND CONDITIONS OF THE NOTES

See the section entitled "*Terms and Conditions of the Notes*" for further information in respect of the terms of the Notes.

### **Ranking:**

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

The Most Senior Class is:

- (a) the A1 Notes whilst they remain outstanding; and
- (b) thereafter the M1 Notes whilst they remain outstanding; and
- (c) thereafter the M2 Notes whilst they remain outstanding; and
- (d) thereafter the B1 Notes whilst they remain outstanding; and
- (e) thereafter the B2 Notes whilst they remain outstanding; and
- (f) thereafter the R1 Notes whilst they remain outstanding; and
- (g) thereafter the R2 Notes whilst they remain outstanding; and
- (h) thereafter the R3 Notes whilst they remain outstanding.

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

Payments of interest on the Notes will be made in the following order of priority:

- (a) *first*, to the A1 Notes (including any A1 Notes Step-up Amounts);
- (b) *second*, to the M1 Notes;
- (c) *third*, to the M2 Notes;
- (d) *fourth*, to the B1 Notes; and
- (e) *fifth*, to the B2 Notes.

The R1 Notes, R2 Notes and R3 Notes are zero coupon notes so do not bear interest. However, R3 Noteholders will be entitled to receive any amounts of R3 Note Residual Revenue payable provided that after the Step-up Date until such time as all of the A1 Notes have been redeemed in full, all amounts of R3 Note Residual Revenue which would otherwise be paid to the R3 Noteholders on the relevant Interest Payment Date will instead form part of Available Principal Funds.

See Condition 4 (*Interest*) for further information.

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

Payments of principal on the A1 Notes, the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes will be made in the following order of priority:

- (a) *first*, to the A1 Notes;
- (b) *second*, to the M1 Notes;
- (c) *third*, to the M2 Notes;
- (d) *fourth*, to the B1 Notes; and
- (e) *fifth*, to the B2 Notes.

Payments of principal on each Class of the R Notes will be made following redemption of the R Notes in accordance with the Post-Enforcement Priority of Payments on the earlier to occur of (i) the Final Maturity Date, (ii) redemption of the Notes in accordance with Condition 5 (*Redemption*) and (iii) the Trustee giving notice to the

Issuer pursuant to Condition 9(a) (*Events of Default*) declaring the Notes to be due and repayable.

See Condition 5 (*Redemption*) for further information.

**Security:**

The Notes are secured and share the same Security in accordance with the Deed of Charge as described in further detail in Condition 2(b) (*Security*).

The Security granted by the Issuer pursuant to the Deed of Charge includes:

- (a) first fixed charges and security over the Issuer's present and future right, title, benefit and interest, in, to and under the Loans, the Mortgages and the Collateral Security;
- (b) an equitable assignment in favour of the Trustee of the Issuer's interests in the Insurance Contracts to the extent that they relate to the Loans;
- (c) an assignment in favour of the Trustee of the Issuer's right, title, interest and benefit in, to and under the Charged Obligation Documents;
- (d) a first fixed charge in favour of the Trustee over the Issuer's interest in the Bank Accounts, the Custody Accounts and any Authorised Investments; and
- (e) a first floating charge in favour of the Trustee (ranking after the security referred to in (a) to (d) above) over the whole of the undertaking, property, assets and rights of the Issuer.

Some of the other secured obligations rank senior to the Issuer's obligations under the Notes in respect of the allocation of proceeds as set out in the Priority of Payments.

See also the Risk Factor "*Risk Factors - Fixed charges may take effect under English law as floating charges*".

**Interest payable on the Notes:**

The interest rate applicable to each Class of Notes is described in the section entitled "*Transaction Overview - Full Capital Structure of the Notes*" and Condition 4 (*Interest*).

**Interest Deferral:**

Interest due and payable on each Class of Notes (other than payments of interest on the Most Senior Class) may be deferred in accordance with Condition 4(i) (*Deferral of Interest*).

**Additional Interest:**

Note Interest Amounts deferred in accordance with Condition 4(i) (*Deferral of Interest*) will also accrue interest. Payment of the shortfall representing deferred interest and Additional Interest will be deferred until the first Interest Payment Date on which the Issuer has sufficient funds provided that the payment of such shortfall shall not be deferred beyond the Final Maturity Date.

**Withholding Tax:**

None of the Issuer, the Principal Paying Agent, any other Paying Agent nor any other person will be obliged to gross-up payments to the Noteholders if there is any withholding or deduction for or on account of taxes from any payments made to the Noteholders.

**Redemption:**

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

- (a) mandatory redemption in whole on the date on which the relevant Class of Notes falls due, as fully set out in Condition

5(a) (*Final Redemption of the Notes*);

- (b) in the case of the A1 Notes, M1 Notes, M2 Notes, B1 Notes and B2 Notes, mandatory redemption in part on any Interest Payment Date, subject to the availability of Available Principal Funds, as fully set out in Condition 5(b) (*Mandatory Redemption of the A1 Notes, the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes*);
- (c) optional redemption exercisable by the Issuer in whole (but not in part) when the aggregate Principal Amount Outstanding of the Rated Notes is less than or equal to 10 per cent of the aggregate Principal Amount Outstanding of the Rated Notes upon issue, as fully set out in Condition 5(d) (*Optional Redemption in Full*);
- (d) optional redemption exercisable by the Issuer in whole (but not in part) on the Step-up Date and on any Interest Payment Date thereafter if the Issuer is successful in obtaining a bid to purchase the Loans and Collateral Security as fully set out in Condition 5(d) (*Optional Redemption in Full*); and
- (e) optional redemption exercisable by the Issuer in whole (but not in part) for tax reasons, as fully set out in Condition 5(e) (*Optional Redemption for Taxation or Other Reasons*).

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

**Relevant Dates and Periods:**

Issue Date:	The date of initial issuance for the Notes will be 19 April 2012 (or such other date as the Issuer and the Lead Managers may agree).
Final Maturity Date:	Unless previously redeemed in full, the Issuer will redeem the Notes in full (together with all interest accrued thereon) on the Interest Payment Date falling in May 2045.
Interest Payment Date:	Each interest bearing Note will bear interest on its Principal Amount Outstanding from, and including, the Issue Date. Interest will be payable in respect of the Notes quarterly in arrear on the 14 <sup>th</sup> of February, May, August and November in each year or, if such day is not a Business Day, the next following Business Day. The first Interest Payment Date in respect of the Notes will be the Interest Payment Date falling in August 2012.
Interest Period:	Means the period from (and including) an Interest Payment Date (or the Issue Date) to (but excluding) the next (or first) Interest Payment Date.
Step-up Date	Means the Interest Payment Date falling in May 2017.
Business Day:	Is a day on which commercial banks and foreign exchange markets settle payments in London and

Dublin.

**Determination Date:** The second Business Day prior to each Interest Payment Date or, if such day is not a Business Day, the immediately preceding Business Day.

The Determination Date is the date on which the Cash/Bond Administrator will be required to calculate, among other things, the amounts required to pay interest and principal in respect of the Notes.

**Determination Period:** Each Determination Period is the period ending on the fourth Business Day of the calendar month in which a Determination Date falls and starting on the calendar day immediately following the fourth Business Day of the calendar month in which the immediately preceding Determination Date falls.

**LIBOR Determination Date:** The Agent Bank will, at 11am on the first day of an Interest Period, determine the rate of LIBOR applicable to, and calculate the amount of interest payable on, each Class of Notes (other than in respect of the R Notes which are zero coupon Notes) for the Interest Period immediately following such LIBOR Determination Date.

**Non-Rating Trigger Determination Date:** Means the last day of a Non-Rating Trigger Determination Period.

**Non-Rating Trigger Determination Period:** Means the period ending on the last day of the calendar month immediately preceding an Interest Payment Date and starting on the first day of the calendar month in which the immediately preceding Interest Payment Date falls.

**Events of Default:**

As fully set out in Condition 9 (*Events of Default*), which broadly includes:

- (a) non-payment by the Issuer of principal or interest (other than any interest which fails to be deferred pursuant to Condition 4(i) (*Deferral of Interest*)) in respect of the Notes within 10 Business Days of when such amount ought to be paid in accordance with the Conditions;
- (b) breach of contractual obligations by the Issuer under the Notes or the Trust Deed where such failure continues for a period of 30 days;
- (c) certain insolvency events of the Issuer (as more fully set out in Condition 9(a)(iii) to (v) (*Events of Default*)); or
- (d) it is or will become unlawful for the Issuer to perform or comply with its obligations.

**Enforcement:**

If an Event of Default has occurred and is continuing, the Trustee may, and shall, if so requested by (i) the holders of at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class or (ii) by an

Extraordinary Resolution of the Noteholders of the Most Senior Class (but, in each case, only if it has been indemnified and/or secured and/or prefunded to its satisfaction) deliver an Enforcement Notice and institute such proceedings as may be required in order to enforce the Security.

**Limited Recourse:**

All the Notes are limited recourse obligations of the Issuer and, if the Issuer has insufficient funds to pay amounts in full, amounts outstanding will cease to be due and payable as described in more detail in Condition 10(b) (*Limited Recourse*).

**Non-Petition:**

The Noteholders shall not be entitled to take any corporate action or other steps or legal proceedings for the winding-up, dissolution, arrangement, reconstruction or reorganisation of the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable period and such failure is continuing. Please see Condition 10(c) (*Non-Petition*).

**Governing Law:**

English law.

## OVERVIEW OF RIGHTS OF NOTEHOLDERS

*See the sections entitled "Terms and Conditions of the Notes" 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:** Noteholders holding not less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes of the relevant Class or Classes are entitled to convene a meeting of such Class or Classes of Noteholders by written consent.

The Issuer, the Trustee or the Cash/Bond Administrator may also convene Noteholder meetings (at the cost of the Issuer) for any purpose including consideration of Extraordinary Resolutions and Ordinary Resolutions.

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 action, either directly or through the Trustee, without the consent of the Issuer and, if applicable, certain other Transaction Parties, unless the Issuer has an obligation to take such action under the relevant Transaction Documents.

**Following an Event of Default:** If an Event of Default occurs and is continuing, the holders of the Most Senior Class may, if they hold at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class or if they pass an Extraordinary Resolution, direct the Trustee to give an Enforcement Notice to the Issuer pursuant to which each Class of the Notes shall become immediately due and repayable at their respective Principal Amount Outstanding together with any accrued interest, subject to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction.

<b>Noteholders meeting provisions:</b>	Notice period:	<u>Initial Meeting:</u> 21 clear days for the initial meeting.	<u>Adjourned Meeting:</u> Not less than 14 nor more than 42 clear days for the adjourned meeting.
	Quorum for Ordinary Resolutions:	Two or more persons holding or representing not less than 25 per cent. of the Principal Amount Outstanding of the relevant Class or Classes of Notes outstanding for the initial meeting.	At an adjourned meeting, any proportion of the Notes which the persons constituting the quorum is holding or representing.
	Quorum for Extraordinary Resolutions :	Two or more persons holding or representing a majority of the Principal Amount Outstanding of the relevant Class or Classes of Notes outstanding for the initial meeting, (other than a Basic Terms Modification, which requires two or more persons holding or representing in aggregate not less than	At an adjourned meeting, any proportion of the Notes which the persons constituting the quorum is holding or representing (other than a Basic Terms Modification, which requires one or more persons holding or representing not less than 25 per cent. of the Principal Amount Outstanding of the relevant Class or



	75 per cent. of the Principal Amount Outstanding of the relevant Class or Classes of Notes then outstanding).	Classes of Notes then outstanding).
Required majority for Ordinary Resolution:	Not less than 50.1 per cent. of the persons voting at the meeting upon a show of hands or, if a poll is demanded, not less than 50.1 per cent. of the votes cast on such poll.	Not less than 50.1 per cent. of the persons voting at the meeting upon a show of hands or, if a poll is demanded, not less than 50.1 per cent. of the votes cast on such poll.
Required Majority for Extraordinary Resolution:	Not less than 75 per cent. of the persons voting at the meeting upon a show of hands or, if a poll is demanded, not less than 75 per cent. of the votes cast on such poll.	Not less than 75 per cent. of the persons voting at the meeting upon a show of hands or, if a poll is demanded, not less than 75 per cent. of the votes cast on such poll.
Written Resolution	In the case of an Extraordinary Resolution, not less than 75 per cent. of the Principal Amount Outstanding of the relevant Class or Classes of Notes. In the case of an Ordinary Resolution, not less than 50.1 per cent. of the Principal Amount Outstanding of the relevant Class or Classes of Notes. A written resolution has the same effect as an Ordinary Resolution or an Extraordinary Resolution (as applicable).	

**Basic Terms Modification:**

Broadly speaking, any amendment to the following matters would be a Basic Terms Modification which requires an Extraordinary Resolution of each Class of Notes:

- (a) the maturity of the Notes or the dates on which interest is payable in respect of the Notes;
- (b) a reduction of the amount due in respect of or cancellation of the principal amount of, or interest on or variation of the method of calculating the rate of interest on, the Notes;
- (c) the priority of payment of interest or principal on the Notes;
- (d) the currency of payment of the Notes or the Coupons;
- (e) the definition of Basic Terms Modification; or
- (f) the provisions concerning the quorum required at any meeting of Noteholders or the majority required to effect a Basic Terms Modification or to pass an Extraordinary Resolution.

**Negative Consent:**

An Extraordinary Resolution or Ordinary Resolution (other than an Extraordinary Resolution relating to a Basic Terms Modification) will be passed by a Class or Classes of Notes if, within 40 days of a notice to such Class or Classes of Noteholders which:

- (a) contains the text of such Extraordinary Resolution or Ordinary Resolution;
- (b) invites such Noteholders to object to such Extraordinary

Resolution or Ordinary Resolution;

- (c) details the manner in which objections to such Extraordinary Resolution or Ordinary Resolution should be made; and
- (d) is given to such Class or Classes of Noteholders in accordance with the provisions of Condition 14 (*Notice to Noteholders*) provided that any such notice will in all cases also be delivered through the systems of Bloomberg L.P. (or such other manner as may be approved in writing by the Trustee) by the Issuer, the Trustee or the Cash/Bond Administrator,

10 per cent. or more (in the case of an Extraordinary Resolution) or 15 per cent. or more (in the case of an Ordinary Resolution) in aggregate of the Principal Amount Outstanding of the Notes of such Class or Classes have not informed the Trustee in the prescribed manner of their objection to such Extraordinary Resolution or Ordinary Resolution.

Upon the Trustee receiving objections from Noteholders of 10 per cent. or more (in the case of an Extraordinary Resolution) or 15 per cent. or more (in the case of an Ordinary Resolution) in aggregate of the Principal Amount Outstanding of the Notes of the relevant Class or Classes, the Trustee shall give notice to the relevant Class or Classes of Noteholders in accordance with the provisions of Condition 14 (*Notice to Noteholders*) that the relevant Extraordinary Resolution or the Ordinary Resolution (as the case may be) has not passed. In such circumstance, a meeting of Noteholders may be called in accordance with the provisions of Condition 11 (*Meetings of Noteholders; Modifications; Consents; Waiver*).

**Matters Requiring  
Extraordinary Resolution:**

Broadly speaking, the following matters require an Extraordinary Resolution, unless otherwise specified in the Transaction Documents:

- (a) a Basic Terms Modification;
- (b) a modification of the Transaction Documents; and
- (c) a modification of the Conditions.

**Convening Noteholder  
Meetings:**

The Issuer, the Trustee or the Cash/Bond Administrator may at any time convene a meeting of the Noteholders. If the Trustee receives a written request by Noteholders holding or representing at least 10 per cent. in Principal Amount Outstanding of the Notes of a particular Class and is indemnified and/or secured and/or prefunded to its satisfaction against all costs and expenses, the Trustee shall convene a meeting of the Noteholders of such Class. Every meeting shall be held at a time and place approved by the Trustee.

In certain circumstances the Trustee may also convene meetings of Noteholders at its discretion.

**Communication with  
Noteholders:**

All notices to be given by the Issuer, the Mortgage Administrator, the Standby Mortgage Administrator, the Special Servicer, the Cash/Bond Administrator or the Trustee to Noteholders may be given in any one or more of the following manners:

- (a) for so long as the Notes are in global form:
  - (i) through the regulated information service maintained or recognised by the Irish Stock Exchange (and any notice containing material, non-public information will be given in this manner); and
  - (ii) by delivery to Euroclear and/or Clearstream, Luxembourg for communication by them to their participants and for communication by such participants to entitled account holders; or

(iii) by delivery to the electronic communications systems maintained by Bloomberg L.P. for publication on the relevant page for the Notes (or such other medium for electronic display of data as may be approved in writing by the Trustee); or

(b) if the Notes are in definitive form, if published in a leading daily newspaper printed in the English language and with general circulation in Ireland (which is expected to be The Irish Times).

A copy of each notice given in accordance with Condition 14 (*Notice to Noteholders*) will be provided to (for so long as any Rated Note is outstanding) the Rating Agencies.

The Issuer will give notice to the Noteholders in accordance with Condition 14 (*Notice to Noteholders*) of any additions to, deletions from or alterations to such methods from time to time.

**Relationship between Classes of Noteholders:**

Subject to the provisions in respect of a Basic Terms Modification, a resolution of Noteholders of the Most Senior Class shall be binding on all other Classes and would override any resolutions to the contrary of the Classes ranking behind such Most Senior Class.

A Basic Terms Modification requires an Extraordinary Resolution of each Class of Notes then outstanding.

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

So long as any Notes are outstanding and there is a conflict between the interests of the Noteholders and the other Secured Creditors, the Trustee will take into account the interests of the Noteholders only in the exercise of its discretion and the Noteholders shall have no claim against the Trustee for doing so.

**Modification**

The Trustee may, without the consent or sanction of any of, or any liability to, the Noteholders or Couponholders:

(a) concur with any person in making or sanctioning any modification to the Trust Deed, the Conditions or any of the other Transaction Documents:

(i) provided that the Trustee is of the opinion that such modification will not be materially prejudicial to the interests of the holders of the Most Senior Class (other than any Noteholders of the Most Senior Class who have confirmed their consent in writing to the relevant modification); or

(ii) which, in the sole opinion of the Trustee is of a formal, minor or technical nature or is to correct a manifest error, or to comply with mandatory provisions of law or regulation,

provided that in the case of both (i) and (ii) above, such modification, waiver or authorisation does not relate to a Basic Terms Modification; or

(b) agree to waive or authorise on behalf of the Issuer, on such terms and subject to such conditions as it shall deem fit and proper, any breach or proposed breach by the Issuer or any other party of the Trust Deed, the Conditions or any other Transaction Document or determine that an Event of Default or Potential Event of Default will not be treated as such (provided that the Trustee will not do so in contravention of an express direction given by holders of the Most Senior Class or a request made pursuant to

Condition 9 (*Events of Default*).

The Trustee shall, without the consent or sanction of any of the Noteholders or any of the other Secured Creditors, concur with the Issuer and grant consent to the Issuer for it to make any modification to the Transaction Documents and/or the Conditions that are requested by the Issuer in order to comply with any criteria of the Rating Agencies which may be published after the Issue Date without the need to consider whether such modification affects the Noteholders, Couponholders or any other Secured Creditors if:

- (a) the Issuer has certified to the Trustee in writing that :
  - (i) the modification is required to avoid a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of the Rated Notes by any of the Rating Agencies or to otherwise comply with the then current criteria of the Rating Agencies applicable to the Rated Notes; and
  - (ii) such modification will not adversely impact the ability of the Issuer to make payments when due in respect of any Class of the Rated Notes; and
  - (iii) such modification will not cause the current rating of any Class of the Rated Notes to be reduced; and
  - (iv) such modification will not increase the obligations, liabilities or duties, or decrease the protections of any of the Noteholders and the Couponholders in respect of the Notes, the Transaction Documents and/or the Conditions; and
  - (v) such modification will not conflict with the then published credit rating criteria of any Rating Agency which is relevant to the Rated Notes; and
  - (vi) only in the case of any amendment to be made to the Conditions, the Issuer has provided 15 days notice to the Secured Creditors (other than the Noteholders and the Couponholders) of the proposed modification and none of the Secured Creditors (other than the Noteholders and Couponholders) has notified the Issuer as at the date of the relevant certificate that it does not consent to such modification being made; and
- (b) the Issuer furnishes the Trustee with such legal opinions as the Trustee may reasonably require; and
- (c) the Trustee, in its sole discretion, is of the opinion that such modification would not have the effect of exposing the Trustee to any liability against which it has not been indemnified and/or secured to its satisfaction.

For the avoidance of doubt, the Trustee does not have any power to compel any Transaction Party to agree to any modification to the Transaction Documents and/or the Conditions pursuant to the provisions of Condition 11(e)(iii).

**Provision of Information to the Noteholders:**

Information in respect of the underlying Mortgage Pool will be provided to the investors on an ongoing basis. See the section entitled "*General Information*" for further information.

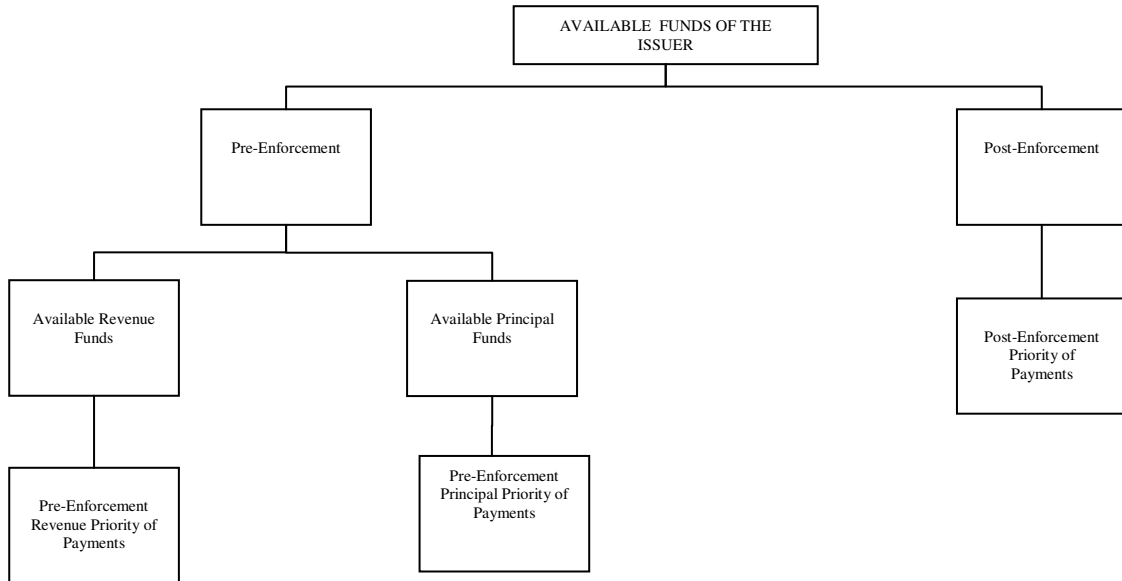
**Rating Agency Confirmation:**

The implementation of certain matters will, pursuant to the Transaction

Documents, be subject to the receipt of written confirmation from each Rating Agency willing to provide a written confirmation that the then rating the Notes that the then current ratings of each Class of Notes rated thereby will not be qualified, downgraded or withdrawn as a result of such modification.

## OVERVIEW OF CREDIT STRUCTURE AND CASHFLOW

*Please refer to the sections entitled "Credit Structure" and "Administration, Servicing and Cash Management of the Mortgage Pool" for further detail in respect of the credit structure and cash flows of the transaction.*



**Available Funds of the Issuer:**

The Issuer expects to have Available Revenue Funds and Available Principal Funds for the purposes of making interest and principal payments under the Notes and the other Transaction Documents.

Available Revenue Funds will, broadly speaking, include the following:

- (a) interest earned pursuant to the Guaranteed Investment Contracts for the Determination Period immediately preceding the Determination Date and interest received on the Transaction Account for the Determination Period immediately preceding the relevant Determination Date;
- (b) the proceeds of any Authorised Investments attributable to Revenue Collections for the Determination Period immediately preceding the relevant Determination Date;
- (c) the Revenue Collections received for the Determination Period immediately preceding the relevant Determination Date;
- (d) on the Determination Date immediately following the redemption in full of the A1 Notes, M1 Notes, M2 Notes, B1 Notes and B2 Notes, amounts standing to the credit of the Yield Reserve Ledger;
- (e) any amounts received by the Issuer under the Fixed/Floating Swap Agreement or any replacement Fixed/Floating Swap Agreement on the relevant Interest Payment Date (excluding Swap Excluded Amounts and any early termination payment received by the Issuer from the Fixed/Floating Swap Provider to the extent utilised to acquire, at any time, a new fixed/floating swap);
- (f) any amount standing to the credit of the Reserve Ledger if and to the extent required to make payment of certain amounts in the Pre-Enforcement Revenue Priority of Payments to the extent there will be a Revenue Shortfall on the immediately following Interest Payment Date after application of all other Available Revenue Funds (excluding paragraphs (g), (h), (i) and (j) below) in respect thereof, provided that amounts standing to the credit of the Reserve Ledger shall only be utilised to make payments of interest on the M1 Notes, M2 Notes, B1 Notes and/or B2 Notes if the Default Trigger for such Class of Notes has not been met as of the most recent Non-Rating Trigger Determination Date;
- (g) for so long as there are any A1 Notes, M Notes or B Notes outstanding, any Reserve Fund Cap Amount if and to the extent required to make payment of certain amounts in the Pre-Enforcement Revenue Priority of Payments to the extent there will be a Revenue Shortfall on the immediately following Interest Payment Date after application of all other Available Revenue Funds (including paragraph (g) above but excluding paragraphs (h), (i) and (j) below) in respect thereof;
- (h) for so long as there are any A1 Notes, M Notes or B Notes outstanding, any amount standing to the credit of the Yield Reserve Ledger if and to the extent required to make payment of certain amounts in the Pre-Enforcement Revenue Priority of Payments to the extent there will be a Shortfall in Senior Fees and/or an Interest Shortfall on the A1 Notes, M Notes and/or B Notes on the immediately following Interest Payment Date after application of all other Available Revenue Funds (including paragraphs (f) and (g) above but excluding

paragraphs (i) and (j) below) in respect thereof, provided that amounts standing to the credit of the Yield Reserve Ledger shall not be utilised to make payments of interest on the M1 Notes, M2 Notes, B1 Notes and/or B2 Notes if the Default Trigger for the relevant Class of Notes has been met as of the most recent Non-Rating Trigger Determination Date;

- (i) for so long as there are any A1 Notes outstanding, any amount standing to the credit of the Liquidity Reserve Ledger if and to the extent required to make payment of certain amounts in the Pre-Enforcement Revenue Priority of Payments to the extent there will be a Shortfall in Senior Fees and/or an Interest Shortfall on the A1 Notes on the immediately following Interest Payment Date after application of all other Available Revenue Funds (including paragraphs (f), (g) and (h) above but excluding paragraph (j) below)); and
- (j) such amounts of Available Principal Funds on the relevant Determination Date if and to the extent required to make payment of certain amounts in the Pre-Enforcement Revenue Priority of Payments to the extent there will be a Shortfall in Senior Fees and/or an Interest Shortfall on the Most Senior Class on the immediately following Interest Payment Date after application of all other Available Revenue Funds (including paragraphs (f), (g), (h) and (i) above but, excluding any Deferred Consideration.

Available Principal Funds will include the following:

- (a) the Principal Collections received for the preceding Determination Period;
- (b) any amount which has been released from the Liquidity Reserve Ledger and credited to the Principal Ledger;
- (c) the proceeds of any Authorised Investments attributable to Principal Collections for the Determination Period immediately preceding the relevant Determination Date;
- (d) the amount (if any) calculated on that Determination Date pursuant to the Pre-Enforcement Revenue Priority of Payments to be the amount by which the debit balance on any of the Principal Deficiency Ledgers is expected to be reduced by the application of the Available Revenue Funds on the immediately succeeding Interest Payment Date;
- (e) on the Determination Date immediately following the redemption in full of the A1 Notes, amounts standing to the credit of the Liquidity Reserve Ledger; and
- (f) on the Determination Date immediately preceding the Step-up Date and on each Determination Date thereafter until such time as all of the A1 Notes have been redeemed in full, any R3 Note Residual Revenue which would otherwise be paid to the R3 Noteholders on the relevant Interest Payment Date and is instead applied under item (xx)(ii) of the Pre-Enforcement Revenue Priority of Payments;

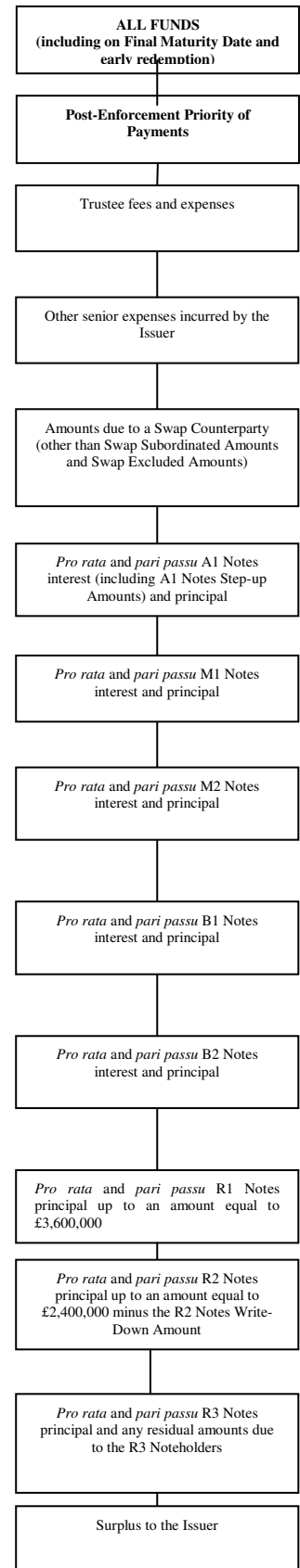
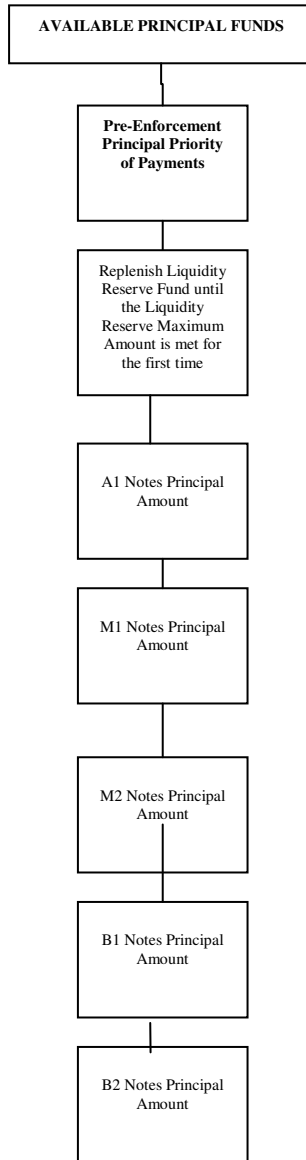
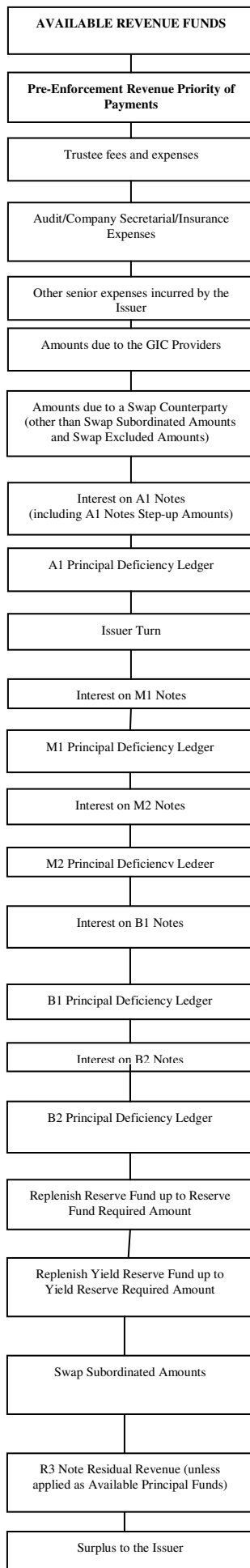
minus the Rounding Balance.

**Overview of Priority of Payments:**

Below is an overview of the Priority of Payments. Full details of the Pre-Enforcement Revenue Priority of Payments are set out in Condition 2(c) (*Pre-Enforcement Revenue Priority of Payments*). Full details of the Pre-Enforcement Principal Priority of Payments are set out in Condition 5(b) (*Mandatory Redemption of the A1 Notes, the M1 Notes,*



*the M2 Notes, the B1 Notes and the B2 Notes*). Full details of the Post-Enforcement Priority of Payments are set out in Condition 2(d) (*Post-Enforcement Priority of Payments*).



**Key Structural Features:**

The credit enhancement, liquidity support and other key structural features of the transaction include, broadly, the following:

- availability of the Reserve Fund in the event there is a Revenue Shortfall. The Reserve Fund will initially be funded by the issuance of the R Notes on the Issue Date up to an amount equal to £ 6,000,000. It will have a Reserve Fund Required Amount of £ 12,000,000 on subsequent Interest Payment Dates, which will be funded in accordance with the Pre-Enforcement Revenue Priority of Payments. See the section entitled "*Revenue Shortfall*" below for limitations on availability of the use of the Reserve Fund;
- availability of the Cap Reserve Fund in the event there is a Revenue Shortfall. See the section entitled "*Revenue Shortfall*" below for limitations on availability of the use of the Cap Reserve Fund;
- availability of the Yield Reserve Fund in the event there is a Shortfall in Senior Fees and/or an Interest Shortfall on the A1 Notes, M Notes and/or B Notes. See the section entitled "*Revenue Shortfall*" below for limitations on availability of the use of the Yield Reserve Fund;
- availability of Liquidity Reserve Fund in the event there is a Shortfall in Senior Fees and/or an Interest Shortfall on the A1 Notes. See the section entitled "*Revenue Shortfall*" below for limitations on availability of the use of the Liquidity Reserve Fund;
- availability of Available Principal Funds in the event there is a Shortfall in Senior Fees and/or an Interest Shortfall on the Most Senior Class. See the section entitled "*Revenue Shortfall*" below for limitations on availability of the use of Available Principal Fund;
- availability of the Contingency Reserve for the purpose of covering any exceptional extraordinary expenses that may arise whilst the Rated Notes are outstanding and are not as at the Issue Date identifiable costs. The Contingency Reserve will be funded in an amount equal to £150,000 by the issuance of the R Notes on the Issue Date;
- availability of investment income provided by the GIC Providers in respect of collections deposited in the GIC Accounts to mitigate negative carry on the interest to be paid on the Notes;
- if the Issuer has not exercised its option under Condition 5(d) (*Optional Redemption in Full*) to redeem the Notes on or after the Step-up Date, availability of the R3 Note Residual Revenue to comprise Available Principal Funds and pay principal amounts on the outstanding A1 Notes;
- availability of the Fixed/Floating Swap Agreement provided by the Fixed/Floating Swap Provider to hedge against the possible variance between the interest rates payable in respect of the Loans and the LIBOR based interest payable in respect of the Rated Notes;
- availability of the Interest Rate Cap Agreements provided by the Cap Counterparty to hedge against the increase in LIBOR

above specified levels; and

- during the life of the Notes, the Available Revenue Funds are expected to be sufficient to pay the interest amounts payable in respect of all the Classes of Notes and senior costs and expenses of the structure and to retain the Issuer Turn.

**Revenue Shortfall:**

Where there is a Revenue Shortfall, the Issuer shall pay or provide for that Revenue Shortfall by:

- (a) firstly, the application of the Reserve Fund, provided that the Reserve Fund may not be used to pay interest on the M1 Notes, M2 Notes, B1 Notes and/or B2 Notes where the relevant Default Trigger for such Class of Notes has been met as of the most recent Non-Rating Trigger Determination Date;
- (b) secondly, if there are any A1 Notes, M Notes or B Notes outstanding, the application of the Reserve Fund Cap Amount;
- (c) thirdly, in order to make up a Shortfall in Senior Fees and/or to pay interest on the A1 Notes, M1 Notes, M2 Notes, B1 Notes and/or B2 Notes only, the application of the Yield Reserve Fund, provided that the Yield Reserve Fund may not be used to pay interest on the M1 Notes, M2 Notes, B1 Notes and/or B2 Notes where the Default Trigger for the relevant Class of Notes has been met as at the most recent Non-Rating Trigger Determination Date;
- (d) fourthly, in order to make up a Shortfall in Senior Fees and/or to pay interest on the A1 Notes only, the application of the Liquidity Reserve Fund; and
- (e) fifthly, in order to make up a Shortfall in Senior Fees and/or to pay interest on the Most Senior Class only, the application of Available Principal Funds.

**Principal Deficiency Ledgers:**

The A1 Principal Deficiency Ledger, the M1 Principal Deficiency Ledger, the M2 Principal Deficiency Ledger, the B1 Deficiency Ledger and the B2 Principal Deficiency Ledger will be established to record as a debit any Losses on the Mortgage Pool and/or the use of any Available Principal Funds as Available Revenue Funds and/or any drawings from the Liquidity Reserve Fund.

Available Revenue Funds will be credited to the sub-ledgers of the Principal Deficiency Ledger on each Interest Payment Date to reduce the debit balance of the Principal Deficiency Ledger in accordance with the Pre-Enforcement Revenue Priority of Payments.

The amount of any Available Principal Funds in each case used to fund a Revenue Shortfall will be calculated and allocated to the Notes and recorded as a debit to the Principal Deficiency Ledger on each Determination Date as follows:

- (a) firstly, to the B2 Principal Deficiency Ledger up to an amount (including all other debits to the B2 Principal Deficiency Ledger) equal to the Principal Deficiency Cap of the B2 Notes (as calculated on the immediately preceding Determination Date);
- (b) secondly, to the B1 Principal Deficiency Ledger up to an amount (including all other debits to the B1 Principal Deficiency Ledger) equal to the Principal Deficiency Cap of the B1 Notes (as calculated on the immediately preceding Determination Date);
- (c) thirdly, to the M2 Principal Deficiency Ledger up to an

amount (including all other debits to the M2 Principal Deficiency Ledger) equal to the Principal Deficiency Cap of the M2 Notes (as calculated on the immediately preceding Determination Date);

- (d) fourthly, to the M1 Principal Deficiency Ledger up to an amount (including all other debits to the M1 Principal Deficiency Ledger) equal to the Principal Deficiency Cap of the M1 Notes (as calculated on the immediately preceding Determination Date); and
- (e) fifthly, to the A1 Principal Deficiency Ledger up to a maximum (including all other debits to the A1 Principal Deficiency Ledger) of the Principal Amount Outstanding of the A1 Notes.

The Most Senior Class shall not have a Principal Deficiency Cap. If the debit balance on the Principal Deficiency Ledger of the Most Senior Class is equal to the Principal Amount Outstanding of that Class of Notes, then any remaining unapplied amounts will be debited to the Principal Deficiency Ledger of the next Most Senior Class.

The effect of the Principal Deficiency Cap is to increase the likelihood of debits being made on the Principal Deficiency Ledger of the more senior Classes of Notes. For the avoidance of doubt, this would not result in the senior Classes of Notes suffering any loss of principal or any reduction in interest payable due to the existence of a debit balance on the relevant Principal Deficiency Ledger as a result of the application of the Principal Deficiency Caps. Instead, the effect of the Principal Deficiency Cap is to further subordinate the payment of Interest Amounts due on the junior Classes of Notes. This is because, in accordance with the Pre-Enforcement Revenue Priority of Payments, interest on a junior Class of Notes cannot be paid until the balance standing to the credit of the Principal Deficiency Ledger of each of the more senior Classes of Notes is equal to zero. With respect to the A1 Notes, this means that any amount debited to the A1 Principal Deficiency Ledger as a result of the operation of the Principal Deficiency Caps of the other Classes of Notes would need to be cleared to zero on an Interest Payment Date prior to interest being paid on the M Notes or B Notes.

**Transaction Accounts and  
Cash/Bond Administration:**

Revenue Collections and Principal Collections in respect of the Loans are received by the Legal Title-Holder in the Collection Account.

On or about the Issue Date the Legal Title-Holder will declare the Collection Account Declaration of Trust in favour of the Issuer over amounts credited to the Collection Account to the extent that such amounts relate to the Loans in the Mortgage Pool.

The Cash/Bond Administrator (and, where relevant, the Mortgage Administrator) is obliged to transfer collections in respect of the Loans to the Transaction Account and on to the First GIC Account on the Business Day following the date of collection. The Cash/Bond Administrator shall make periodic transfers of funds from the First GIC Account to the Second GIC Account (via the Transaction Account). On or prior to each Interest Payment Date, amounts will be transferred by the Cash/Bond Administrator from each GIC Account to the Transaction Account, as required, to be applied in accordance with the relevant Priority of Payments.

The Cash/Bond Administrator is required to ensure that the balance standing to the credit of each of the GIC Accounts (excluding amounts representing Principal Collections in the current Determination Period) does not exceed 5 per cent. of the Principal Amount Outstanding of the

Rated Notes as at the Issue Date.

## TRIGGERS TABLES

### Rating Triggers Table

Transaction Party	Required Ratings	Possible effects of Ratings Trigger being breached include the following:
<p>Swap Counterparty - Initial/First Trigger Swap Counterparty Required Rating</p>	<p>(i) In the case of S&amp;P, a short term senior unsecured debt rating of at least A-1 and a long term rating of at least A, or (where the short term unsecured debt rating by S&amp;P is less than A-1 or there is no short term rating) a long term rating of at least A+, or such lower rating as may be required in line with the rating of the Most Senior Class as further described in the Swap Agreement.</p> <p>(ii) In the case of DBRS, prior to the redemption in full of the A1 Notes, if the A1 Notes are rated higher than "A(high)(sf)":</p> <p>(A) a long-term, unsecured, unsubordinated and unguaranteed debt obligations rating of at least A by DBRS with no classification of "Under Review (Negative)" applicable to the relevant Swap Counterparty (or any credit support provider) such that DBRS (whilst any A1 Notes are outstanding) deems the relevant Swap Counterparty to have been downgraded to below the long term rating of A; or</p> <p>(B) in the absence of a rating by DBRS, the lower of the then Initial/First Trigger Swap Counterparty Required Ratings required by S&amp;P and Fitch or if only one of S&amp;P and Fitch rates such entity, the relevant Initial/First Trigger Swap Counterparty Required Rating.</p> <p>After the redemption in full of the A1 Notes, the ratings required by DBRS shall no longer apply.</p> <p>(iii) In the case of Fitch, (x) in the event the A1 Notes are assigned a rating of AA-sf or above, a long-term issuer default rating of A and a short-term issuer default rating of F1 with no Rating Watch Negative, in each case, applicable to the relevant Swap Counterparty's (or any credit support provider's) long-term or short-term issuer default rating such that Fitch deems the relevant Swap Counterparty (or any credit support provider) to have been downgraded to below the long-term rating of A or the short-term rating of F1 or, (y) in the event the A1 Notes are assigned a rating of A+sf or below, a long-term issuer default rating of BBB+ and a short-term issuer default rating of F2 with no Rating Watch Negative, in each case, applicable to the relevant Swap Counterparty's (or any credit support provider's) long-term or short-term issuer default rating such that Fitch deems the relevant Swap Counterparty (or any credit support</p>	<p>The consequences for the relevant Swap Counterparty of breach of an Initial/First Trigger Swap Counterparty Required Rating requirement under the Swap Agreements include a requirement to post collateral within 10 Business Days (in the case of S&amp;P), 30 Business Days (in the case of DBRS) and 14 days (in the case of Fitch) or, in certain circumstances, to replace the relevant Swap Counterparty or obtain a guarantee or co-obligor of the relevant Swap Counterparty's obligations or take any other action (which may include no action) which will result in the rating of the Notes then outstanding being rated by such Rating Agency following the taking of such action no lower than they would be rated but for the trigger event.</p>

Transaction Party	Required Ratings	Possible effects of Ratings Trigger being breached include the following:
Swap Counterparty - First Subsequent Fitch Rating Event	<p data-bbox="448 309 1007 398">provider) to have been downgraded to below the long-term rating of BBB+ or the short-term rating of F2.</p> <p data-bbox="448 416 1007 477">After the redemption in full of the A1 Notes, the ratings required by Fitch shall no longer apply.</p> <p data-bbox="448 510 1007 1059">In addition to the general requirement for collateral to be posted if there is any breach of an Initial/First Trigger Swap Counterparty Required Rating requirement as set out above, in the event the A1 Notes are rated AA-sf or above by Fitch, if the Swap Counterparty is not rated by Fitch with a long-term issuer default rating of BBB+ and a short-term issuer default rating of F2 with no Rating Watch Negative, in each case, applicable to the relevant Swap Counterparty's (or any credit support provider's) long-term or short-term issuer default rating such that Fitch deems the relevant Swap Counterparty (or any credit support provider) to have been downgraded to below the long-term rating of BBB+ or the short-term rating of F2, there is a requirement for any collateral posted to be calculated using a higher multiple than would otherwise be required.</p> <p data-bbox="448 1077 1007 2022">For the avoidance of doubt, if the A1 Notes are rated AA-sf or above by Fitch and the applicable Initial/First Trigger Swap Counterparty Required Rating is not met, Fitch will only maintain such rating of AA-sf or above if collateral is posted as required following the breach of the Initial/First Trigger Swap Counterparty Required Rating (unless the Swap Counterparty takes any other action (which may include no action) which will result in the rating of the Notes then outstanding being rated by Fitch following the taking of such action no lower than they would be rated but for the downgrade below the applicable Initial/First Trigger Swap Counterparty Required Rating) and will not maintain such rating (even if collateral is posted) if the Swap Counterparty is not rated by Fitch with a long-term issuer default rating of BBB- and a short-term issuer default rating of F3 with no Rating Watch Negative, in each case, applicable to the relevant Swap Counterparty's (or any credit support provider's) long-term or short-term issuer default rating such that Fitch deems the relevant Swap Counterparty (or any credit support provider) to have been downgraded to below the long-term rating of BBB- or the short-term rating of F3 (unless the Swap Counterparty takes any other action (which may include no action) which will result in the rating of the Notes then outstanding being rated by Fitch following the taking of such action no lower than they would be rated but for such downgrade).</p>	<p data-bbox="1034 510 1402 1088">The consequences for the relevant Swap Counterparty of the occurrence of a First Subsequent Fitch Rating Event is a requirement that collateral is required to be posted using a higher multiple than otherwise or to replace the relevant Swap Counterparty or obtain a guarantee or co-obligor of the relevant Swap Counterparty's obligations or take any other action (which may include no action) which will result in the rating of the Notes then outstanding being rated by Fitch following the taking of such action no lower than they would be rated but for the trigger event.</p>



Transaction Party	Required Ratings	Possible effects of Ratings Trigger being breached include the following:
Swap Counterparty - Subsequent/Second Trigger Swap Counterparty Required Rating	<p>After the redemption in full of the A1 Notes, the ratings required by Fitch shall no longer apply.</p> <p>(i) In the case of S&amp;P, a long term rating of at least BBB+ or such lower rating as may be required in line with the rating of the Most Senior Class as further described in the Swap Agreement.</p> <p>(ii) In the case of DBRS, prior to the redemption in full of the A1 Notes:</p> <p>(A) a long-term, unsecured, unsubordinated and unguaranteed debt obligations rating of at least BBB by DBRS with no classification of "Under Review (Negative)" applicable to the relevant Swap Counterparty (or any credit support provider) such that DBRS (whilst any A1 Notes are outstanding) deems the relevant Swap Counterparty to have been downgraded to below the long term rating of BBB; or</p> <p>(B) in the absence of a rating by DBRS, the lower of the Subsequent/Second Trigger Swap Counterparty Required Ratings required by S&amp;P and Fitch or if only one of S&amp;P and Fitch rates such entity, the relevant Subsequent/Second Trigger Swap Counterparty Required Rating.</p> <p>After the redemption in full of the A1 Notes, the ratings required by DBRS shall no longer apply.</p> <p>(iii) In the case of Fitch, prior to the redemption in full of the A1 Notes, a long-term issuer default rating of BBB- and a short-term issuer default rating of F3 with no Rating Watch Negative applicable to the relevant Swap Counterparty's (or any credit support provider's) long-term or short-term issuer default rating such that Fitch deems the relevant Swap Counterparty (or any credit support provider) to have been downgraded to below the long-term rating of BBB- or the short-term rating of F3.</p> <p>After the redemption in full of the A1 Notes, the ratings required by Fitch shall no longer apply.</p>	<p>The consequences for the relevant Swap Counterparty of breach of a Subsequent/Second Trigger Swap Counterparty Required Rating requirement under the Swap Agreements include a requirement to post/maintain the posting of collateral within 10 Business Days (in the case of S&amp;P), 30 Business Days (in the case of DBRS) and 14 days (in the case of Fitch) and to replace the relevant Swap Counterparty or obtain a guarantee or co-obligor of the relevant Swap Counterparty's obligations or take any other action (which may include no action) which will result in the rating of the Notes then outstanding being rated by such Rating Agency following the taking of such action no lower than they would be rated but for the trigger event.</p>
Account Bank, Custodian and GIC Providers	<p>(i) In the case of S&amp;P, a short term senior unsecured debt rating of at least A-1 and a long term rating of at least A or (where the short term unsecured debt rating by S&amp;P is less than A-1 or there is no short term rating) a long term rating of at least A+ by S&amp;P.</p> <p>(ii) In the case of DBRS, prior to the redemption in full of the A1 Notes, a long term rating of at least A by DBRS or, in the absence of a rating by DBRS, the higher of the then Required Ratings required by S&amp;P and Fitch or, if only one of S&amp;P and Fitch rates such entity, the relevant Required Rating.</p>	<p>The consequences for the Account Bank or the relevant GIC Provider of breach under the Bank Agreement and the Guaranteed Investment Contracts (as applicable) include a requirement to use commercially reasonable endeavours to replace the Account Bank or the relevant GIC Provider (as applicable) within 30 days of the Issuer being notified of the downgrading of the relevant entity.</p>

**Transaction Party****Required Ratings****Possible effects of Ratings Trigger being breached include the following:**

(iii) In the case of Fitch, and only prior to the redemption in full of the A1 Notes, a short-term issuer default rating of at least F1 and, if the Custodian, Account Bank or relevant GIC Provider has been assigned a long-term issuer default rating, a long-term issuer default rating of at least A.

(iv) Such other ratings that are consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class.

After the redemption in full of the A1 Notes, the ratings required by Fitch and DBRS shall no longer apply.

The Issuer is required to use commercially reasonable endeavours to procure that the Account Bank, the Custodian or the relevant GIC Provider (as applicable) is replaced in any event within 30 days of the Issuer being notified of the downgrading of the relevant entity.

## **Non-Rating Triggers Table**

<b>Nature of Trigger</b>	<b>Description of Trigger</b>	<b>Consequence of Trigger</b>
Default Triggers	<p>On a Non-Rating Trigger Determination Date, in respect of the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes:</p> <p>(a) in the case of the M1 Notes, the aggregate principal amount of all Loans where the Legal Title-Holder or its agent is seeking or has obtained possession of property granted as security for the relevant Loans is equal to or greater than 24 per cent. of the sum of the Balance of the Loans in the Completion Mortgage Pool;</p> <p>(b) in the case of the M2 Notes, the aggregate principal amount of all Loans where the Legal Title-Holder or its agent is seeking or has obtained possession of property granted as security for the relevant Loans is equal to or greater than 21 per cent. of the sum of the Balance of the Loans in the Completion Mortgage Pool;</p> <p>(c) in the case of the B1 Notes, the aggregate principal amount of all Loans where the Legal Title-Holder or its agent is seeking or has obtained possession of property granted as security for the relevant Loans is equal to or greater than 14.5 per cent of the sum of the Balance of the Loans in the Completion Mortgage Pool; and</p> <p>(d) in the case of the B2 Notes, the aggregate principal amount of all Loans where the Legal Title-Holder or its agent is seeking or has obtained possession of property granted as security for the relevant Loans is equal to or greater than 8.75 per cent of the sum of the Balance of the Loans in the Completion Mortgage Pool,</p> <p>provided that if the M1 Notes, the M2 Notes, the B1 Notes or the B2 Notes are, on such Non-Rating Trigger Determination Date, the Most Senior Class, the Default Trigger for such Class of M1 Notes, M2 Notes, B1 Notes or B2 Notes (as applicable) shall not be considered to have been met.</p>	When a Default Trigger is met for a particular Class of Notes, the Reserve Fund will not be available to pay interest on the relevant class of Notes and the Yield Reserve Fund will not be available to pay interest on the relevant class of Notes.
Principal Deficiency Cap	<p>On a Determination Date, in respect of the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes:</p> <p>(a) in the case of the M1 Notes, an amount debited to the M1 Principal Deficiency Ledger equal to 25 per cent. of the Principal Amount Outstanding of the M1 Notes as at such Determination Date;</p> <p>(b) in the case of the M2 Notes, an amount debited to the M2 Principal Deficiency Ledger equal to 20 per cent. of the Principal Amount Outstanding of the M2 Notes as at such Determination Date;</p> <p>(c) in the case of the B1 Notes, an amount debited to the B1 Principal Deficiency Ledger equal to 15 per cent. of the Principal Amount Outstanding of the B1</p>	

Nature of Trigger	Description of Trigger	Consequence of Trigger
	<p>Notes as at such Determination Date; and</p> <p>(d) in the case of the B2 Notes, an amount debited to the B2 Principal Deficiency Ledger equal to 10 per cent. of the Principal Amount Outstanding of the B2 Notes as at such Determination Date,</p> <p>provided that</p> <p>if the M1 Notes, the M2 Notes, the B1 Notes or the B2 Notes are, on such Determination Date, the Most Senior Class, the Principal Deficiency Cap for such Class of M1 Notes, M2 Notes, B1 Notes or B2 Notes (as applicable) shall instead be an amount equal to the Principal Amount Outstanding of such Class of Notes as at such Determination Date and provided further that if the amount standing to the credit of the Principal Deficiency Ledger of the Most Senior Class is equal to the Principal Amount Outstanding of the Notes of such Class, the Principal Deficiency Cap for the next Most Senior Class of Notes shall instead be an amount equal to the Principal Amount Outstanding of such Class of Notes as at such Determination Date.</p>	
Perfection Events	<p>The occurrence of any of the following:</p> <p>(a) the service of an Enforcement Notice;</p> <p>(b) the Trustee determining that the Charged Property or any part thereof is in jeopardy (including due to the possible insolvency of one or more of Investec or the Legal Title-Holder);</p> <p>(c) certain insolvency events of Investec or the Legal Title-Holder; or</p> <p>(d) the Issuer, the Trustee, Investec or the Legal Title-Holder becoming obliged to provide notice of assignment of the Loan by order of court, by law or any relevant regulatory authority.</p>	<p>Borrowers will be notified of the sale of the Loans to the Issuer and legal title to the Mortgage Pool will be transferred to the Issuer (other than in the case of perfection event (d) whereby only legal title to the affected Loan will be transferred to the Issuer).</p>
Cash/Bond Administrator Events	<p>The occurrence of any of the following:</p> <p>(a) default by the Cash/Bond Administrator in the performance of its covenants and obligations under the Cash/Bond Administration Agreement and the Trustee considers such default to be materially prejudicial to the interests of the Noteholders;</p> <p>(b) certain insolvency events of the Cash/Bond Administrator; or</p> <p>(c) an Enforcement Notice is given and the Trustee is of the opinion that the continuation of the appointment of the Cash/Bond Administrator is materially prejudicial to the interests of the Noteholders.</p>	<p>Standby Cash/Bond Administrator to be appointed, subject to approval by the Trustee.</p>
Mortgage Administrator Termination Events	<p>The occurrence of any of the following:</p> <p>(a) default by the Mortgage Administrator in the performance of its covenants and obligations under the Mortgage Administrative Agreement and the</p>	<p>Standby Mortgage Administrator to be appointed, subject to approval by the Trustee.</p>

<b>Nature of Trigger</b>	<b>Description of Trigger</b>	<b>Consequence of Trigger</b>
	<p>Trustee considers such default to be materially prejudicial to the interests of the Noteholders;</p> <p>(b) certain insolvency events of the Mortgage Administrator; or</p> <p>(c) an Enforcement Notice is given and the Trustee is of the opinion that the continuation of the appointment of the Mortgage Administrator is materially prejudicial to the interests of the Noteholders.</p>	

## FEES

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

Type of Fee	Amount of Fee	Priority in Cashflow	Frequency
Mortgage Administrator fees	0.25 per cent. each year (exclusive of VAT, if any) of the average aggregate current balance of each of the Loans in the Mortgage Pool on the last day of each calendar month in the Mortgage Pool and various sundry fees.	Ahead of all outstanding Notes.	Paid in advance on a monthly basis (and calculated for the Interest Period as a whole on each Determination Date).
Standby Mortgage Administrator fees	£25,000 per year (exclusive of VAT, if any).	Ahead of all outstanding Notes.	On the Issue Date and then annually in advance on the Interest Payment Date falling closest to the anniversary of the Issue Date.
Special Servicer fees	0.03 per cent. each year (inclusive of VAT, if any) of the average aggregate current balance of each of the Loans in the Mortgage Pool on the first day of each calendar month in the Mortgage Pool and various sundry fees.	Ahead of all outstanding Notes.	Quarterly in arrear on each Interest Payment Date.
Cash/Bond Administrator fees	0.02 per cent. each year (inclusive of VAT, if any) on the Principal Amount Outstanding of the Notes.	Ahead of all outstanding Notes.	Quarterly in arrear on each Interest Payment Date.
Other fees and expenses of the Issuer including Trustee, Agent and Standby Cash/Bond Administrator fees	Estimated at £90,000 per year (exclusive of VAT).	Ahead of all outstanding Notes.	Generally quarterly in arrear on each Interest Payment Date.
Expenses related to the admission to trading of the Notes	£20,000 (exclusive of any applicable VAT).	N/A	On or about the Issue Date.

## **ARTICLE 122a OF THE CAPITAL REQUIREMENTS DIRECTIVE**

*Please refer to "Regulatory initiatives may result in increased regulatory capital requirements and/or decreased liquidity in respect of the Notes" in the section entitled "Risk Factors" for further information on the implications of Article 122a for certain investors in the Notes.*

### **Retention Statement**

Investec Bank plc confirms that it will, for the duration of the transaction, retain a net economic interest in the securitisation in accordance with the provisions of Article 122a. As at the Issue Date, such interest will in accordance with Article 122a paragraph (1) sub-paragraph (a) be comprised of an interest in the A1 Notes, M Notes and B Notes. Any change in the manner in which such interest is held will be notified to the Trustee and the Noteholders. Investec has provided an undertaking with respect to (i) the provision of investor reporting information and (ii) the interest to be retained by Investec as referred to above to the Lead Managers pursuant to the Subscription Agreement and to the Issuer pursuant to the Mortgage Sale Agreement.

### **Investors to assess compliance**

Each prospective investor that is required to comply with Article 122a (as implemented in each Member State of the European Economic Area) 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 Arranger, the Lead Managers or the other Transaction Parties make any representation that the information described above or in this Prospectus is sufficient in all circumstances for such purposes. Prospective investors who are uncertain as to the requirements under Article 122a which apply to them in respect of their relevant jurisdiction should seek guidance from their regulator.

## RISK FACTORS

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are also described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons, and the Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including the detailed information set out in the section entitled "Credit Structure") and reach their own views prior to making any investment decision.*

### **RISKS RELATED TO THE NOTES**

#### ***Limited Liquidity***

Prior to their issuance, there will have been only a limited primary market for the Notes. There can be no assurance that a secondary market for the Notes will develop or, if a secondary market does develop, that it will provide holders of the Notes with liquidity of investment or that it will continue for the life of the Notes.

If no secondary market develops, the holders of the Notes may not be able to sell the Notes prior to maturity. Any investor in the Notes must be prepared to hold their Notes for an indefinite period of time or until their Final Maturity Date or alternatively such investor may only be able to sell the Notes at a discount to the original purchase price of those Notes.

#### ***Absence of secondary market or lack of liquidity in the secondary market may adversely affect the market value of the Notes***

The ability of the Issuer to redeem all of the Notes in full, including following the occurrence of an Event of Default in relation to the Notes while any of the Mortgage Loans are still outstanding, may depend upon whether the Mortgage Loans can be realised to obtain an amount sufficient to redeem the Notes.

There is not, at present, an active and liquid secondary market for the Notes. There can be no assurance that a secondary market for the Notes will develop or, if a secondary market does develop, that it will provide Noteholders with liquidity of investment or that it will continue for the life of the Notes. To date, neither Lead Manager has indicated that it intends to establish a secondary market in the Notes. Any investor in the Notes must be prepared to hold their Notes for an indefinite period of time or until their Final Maturity Date or alternatively such investor may only be able to sell the Notes at a discount to the original purchase price of those Notes.

It should also be noted that the market for the Notes is likely to be affected by any restructuring of sovereign debt by countries in the Eurozone. In particular, at the date of this Prospectus, certain governments are in discussions with other countries in the Eurozone and the International Monetary Fund and are in the process of establishing and implementing austerity programmes. It is unclear what the outcome of these discussions will be. This uncertainty may have implications for the liquidity of the Notes in the secondary market.

Moreover, at the date of this Prospectus, the secondary market for mortgage-backed securities is experiencing disruptions resulting from reduced investor demand for such securities. This has had a material adverse impact on the market value of mortgage-backed securities and resulted in the secondary market for mortgage-backed securities similar to the Notes experiencing limited liquidity. Limited liquidity in the secondary market may have an adverse effect on the market value of mortgage-backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the requirements of limited categories of investors.

Whilst central bank schemes such as the Bank of England's Discount Window Facility which was launched in October 2008 and the European Central Bank liquidity scheme provide an important source of liquidity in respect of eligible securities, recent restrictions in respect of the relevant eligibility criteria for eligible collateral which applies and will apply in the future under such facilities are likely to adversely impact secondary market liquidity for mortgage-backed securities in general, regardless of whether the Notes are eligible securities.



***The Notes may not be a suitable investment for all investors***

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (d) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in the Notes, which are complex financial instruments, unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

***Eligibility of the Notes for Bank of England's Discount Window Facility***

Certain investors in the Notes may wish to consider the use of the Notes as eligible securities for the purposes of the Bank of England's Discount Window Facility ("**DWF**"). Recognition of the Notes as eligible securities for the purposes of the DWF will depend upon satisfaction of the eligibility criteria as specified by the Bank of England. If the Notes do not satisfy the criteria specified by the Bank of England, there is a risk that the Notes will not be eligible DWF collateral

As long as there are any A1 Notes outstanding, the following information, as specified in the 'Market Notice – Detailed Eligibility Requirements for RMBS and Covered Bonds Backed by Residential Mortgages' dated 30 November 2010 and in accordance with the Bank of England's published templates as at the Issue Date, will be available to Noteholders either directly on [www.ctslink.com](http://www.ctslink.com) or through a link on that website or on any other replacement website notified to Noteholders:

- (a) the Transaction Documents;
- (b) a relevant cash flow model;
- (c) the Performance Reports;
- (d) a summary of the transaction set out in this Prospectus; and
- (e) information on the Loans.

None of the Issuer, the Arranger nor the Lead Managers give any representation, warranty, confirmation or guarantee to any investor in the Notes that the Notes will, either upon issue, or at any or all times during their life, satisfy all the requirements for the DWF eligibility and be recognised as eligible DWF collateral.

Any potential investors in the Notes should make their own determinations and seek their own advice with respect to whether or not the Notes constitute eligible DWF collateral.

***Yield and Prepayment Considerations***

The yield to maturity of the Notes of each class will depend on, among other things, the amount and timing of payment of principal (including prepayments, sale proceeds arising on enforcement of a Mortgage, and repurchases by Investec due to, for example, breaches of representations and warranties) on the Loans and the price paid by the holders of the Notes. Such yield may be adversely affected by a higher or lower than anticipated rate of prepayments on the Loans.

The rate of prepayment of Loans cannot be predicted and is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing programmes, local and regional economic conditions and homeowner mobility. The Loans may be prepaid in

full or in part at any time. For the majority of the Loans, an early redemption payment will be charged to a Borrower in connection with any prepayment if the Loan is prepaid within three years from the date on which it was originated save that Mortgage Early Redemption Amounts do not arise upon the death of a Borrower. Prepayments may result in connection with refinancings of Loans, sales of Properties by Borrowers voluntarily or as a result of enforcement proceedings under the relevant Mortgage, as well as the receipt of proceeds from building insurance and life insurance policies. No assurance can be given as to the level of prepayment that the Mortgage Pool will experience. See "*Weighted Average Lives of the Notes*". The yield to maturity of a series of Notes may also be affected if the Seller is required to repurchase Loans from the Mortgage Pool (see "*Sale of Mortgage Pool - Warranties and Repurchase*").

#### ***Liability under the Notes***

The Notes will be obligations solely of the Issuer and will not be guaranteed by, or be the responsibility of, any other entity. In particular, the Notes will not be obligations of, and will not be guaranteed by, or be the responsibility of the Account Bank, the Auction Agent, the Cap Counterparty, the Fixed/Floating Swap Provider, the Cash/Bond Administrator, the Standby Cash Administrator, the Special Servicer, the Corporate Services Provider, the Custodian, the Trustee, the GIC Providers, the Mortgage Administrator, the Standby Mortgage Administrator, the Seller, the Principal Paying Agent, the Lead Managers or anyone other than the Issuer.

The Notes will be limited recourse obligations of the Issuer. If, and to the extent that, after the Charged Property has been realised and the proceeds thereof have been applied in accordance with the Post-Enforcement Priority of Payments the amounts recovered on realisation of the Charged Property are insufficient to pay or discharge amounts due from the Issuer to the Noteholders in full for any reason, the Issuer will have no liability to pay or otherwise make good any such insufficiency.

#### ***Ratings of the Rated Notes***

The ratings assigned to the A1 Notes, the M Notes and the B Notes (together, the "**Rated Notes**") are based on the Loans, the Security, the Mortgage Pool and relevant structural features of the transaction, which may include, among other things, the short term unsecured, unguaranteed and unsubordinated debt ratings of the Account Bank, the Fixed/Floating Swap Provider and the Cap Counterparty. These ratings reflect only the views of the Rating Agencies in respect of the Rated Notes.

Any Rating Agency may also lower or withdraw its rating with respect to the relevant Swap Counterparty. Under the terms of any Swap Agreement that may be entered into in respect of the Notes, if the relevant credit rating of the Swap Counterparty is withdrawn or reduced below certain thresholds, the Swap Counterparty shall be required to:

- (a) provide collateral in support of its obligations under the relevant Swap Agreement;
- (b) procure a guarantee of its obligations under the relevant Swap Agreement; or
- (c) procure an appropriately rated replacement counterparty; or
- (d) take such other action (which may include inaction) necessary so that the rating of the Rated Notes following such action will be rated no lower than the Rated Notes would be rated but for the downgrade.

It cannot be assured, however, that the Swap Counterparty would be able to take any of the above actions upon the occurrence of this event or that the ratings of the Rated Notes will not be lowered or withdrawn upon the occurrence of this event.

The ratings that are assigned to the Rated Notes do not represent any assessment of the yield to maturity that an A1 Noteholder, a M1 Noteholder, a M2 Noteholder, a B1 Noteholder or a B2 Noteholder may experience, respectively.

The ratings that are assigned by S&P to the A1 Notes, the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes address the likelihood of full and timely receipt by A1 Noteholders, M1 Noteholders, M2 Noteholders, B1 Noteholders and B2 Noteholders of interest and full receipt of principal on the A1 Notes, M1 Notes, M2 Notes, B1 Notes and B2 Notes respectively on or before their date of maturity. As at the date of approval of this Prospectus by the Central Bank of Ireland, the Issuer is aware that it is possible that S&P will rate the M1 Notes A(sf) instead of the anticipated rating of A+(sf).

The ratings that are assigned to the A1 Notes by each of Fitch and DBRS will address the likelihood of full and timely receipt by A1 Noteholders of interest on the A1 Notes and the likelihood of full receipt of principal by the A1 Noteholders on the A1 Notes on or before their date of maturity.

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. A qualification, downgrade or withdrawal of any of the ratings mentioned above may impact upon the other ratings, the market value and/or the liquidity of the Rated Notes.

Credit rating agencies other than DBRS, Fitch and S&P could seek to rate the Rated Notes without having been requested to do so by the Issuer and if such unsolicited ratings are lower than the comparable ratings assigned to the Rated Notes by DBRS, Fitch and/or S&P, those unsolicited ratings could have an adverse effect on the market value and/or liquidity of the Rated Notes. In addition, the mere possibility that a rating could be issued may affect price levels in any secondary market that may develop. In this Prospectus all references to ratings are to ratings assigned by the relevant Rating Agencies.

A Rating Agency may lower, withdraw or qualify its rating if, in the sole judgement of the Rating Agency, the credit quality of the Rated Notes has declined or is in question. A Rating Agency may also change its criteria and/or methodology at any time and the application of its revised criteria and/or methodology may lead it to lower, withdraw or qualify its rating of the Rated Notes. If any rating assigned to the Rated Notes is downgraded or withdrawn, the market value and/or liquidity of the Rated Notes may be reduced.

### ***Rating Agencies' Confirmation***

Where it is necessary for the Trustee to determine, in its opinion, for the purposes of exercising any right, power, trust, authority, duty or discretion under or in relation to the Notes, the Conditions or any of the Transaction Documents, whether or not such exercise will be materially prejudicial to the interests of the Noteholders or any class of Noteholders, the Trustee shall be entitled, in making such a determination, to take into account any other things it may, in its absolute discretion, consider necessary and/or appropriate, any confirmation by a Rating Agency (if available) that the then current ratings of the Rated Notes or, as the case may be, the Rated Notes of such Class will not be downgraded, withdrawn or qualified, and that, where any original rating of the Rated Notes or, as the case may be, the Rated Notes of such Class has been and continues to be downgraded, restoration of such original rating would not be prevented, as a result of such exercise. For the avoidance of doubt, such rating confirmation shall not be construed to mean that any such exercise by the Trustee of any right, power, trust, authority, duty or discretion under or in relation to the Rated Notes, the Conditions or any of the Transaction Documents is not materially prejudicial to the interests of the holders of the Rated Notes or, as the case may be, the Rated Notes of the relevant class; and the non-receipt of such rating confirmation shall not be construed to mean that any such exercise by the Trustee as aforesaid is materially prejudicial to the interests of the holders of the Rated Notes or, as the case may be, the Rated Notes of the relevant class.

No assurance can be given that the Rating Agencies will provide any such confirmation or that, depending on the timing of the delivery of the request and any information needed to be provided, it may be the case that the Rating Agencies cannot provide their confirmation in the time available and, in either case, the Rating Agencies will not be responsible for the consequences thereof. However, if a confirmation is provided, it should be noted that a Rating Agency's decision to reconfirm a particular rating may be made on the basis of a variety of factors. In particular, the holders of Rated Notes should be aware that the Rating Agencies owe no duties whatsoever to any parties to the transaction (including the Noteholders) in providing any confirmation of ratings. No assurance can be given that a requirement to seek ratings confirmation will not have a subsequent impact upon the business of the Borrowers. In addition, it should be noted that any confirmation of ratings:

- (a) only addresses the effect of any relevant event, matter or circumstance on the current ratings assigned by the relevant Rating Agency to the Rated Notes;
- (b) does not address whether any relevant event, matter or circumstance is permitted by the Transaction Documents and the Subscription Agreement; and
- (c) does not address whether any relevant event, matter or circumstance is in the best interests of, or prejudicial to, some or all of the Noteholders or other secured creditors.

No assurance can be given that any such reconfirmation will not be given in circumstances where the relevant proposed matter would materially adversely affect the interests of Noteholders of a particular Class.

The Rating Agencies, in assigning credit ratings, do not comment upon the interests of the holders of securities (such as the Rated Notes).

The implementation of certain matters pursuant to the Transaction Documents is subject to the receipt of written confirmation from each Rating Agency willing to provide such a written confirmation that the then current ratings of each Class of Rated Notes will not be qualified, downgraded or withdrawn as a result of such modification (a "**Rating Agency Confirmation**"). It is possible that, in certain circumstances,

amendments are made to the Transaction Documents notwithstanding the fact that a Rating Agency Confirmation is not obtained.

***The Trustee may agree to modifications to the Transaction Documents without the Noteholders' prior consent, which may adversely affect the Noteholders' interests***

Pursuant to the terms of the Trust Deed, the Trustee may, without the consent or sanction of any of, or any liability to, the Noteholders or Couponholders:

- (a) concur with any person in making or sanctioning any modification to the Trust Deed, the Conditions or any of the other Transaction Documents:
  - (i) provided that the Trustee is of the opinion that such modification will not be materially prejudicial to the interests of the holders of the Most Senior Class (other than any Noteholders of the Most Senior Class who have confirmed their consent in writing to the relevant modification); or
  - (ii) which, in the sole opinion of the Trustee is of a formal, minor or technical nature or is to correct a manifest error, or to comply with mandatory provisions of law or regulation,provided that in the case of both (i) and (ii) above, such modification, waiver or authorisation does not relate to a Basic Terms Modification; or
- (b) agree to waive or authorise on behalf of the Issuer, on such terms and subject to such conditions as it shall deem fit and proper, any breach or proposed breach by the Issuer or any other party of the Trust Deed, the Conditions or any other Transaction Document or determine that an Event of Default or Potential Event of Default will not be treated as such (provided that the Trustee will not do so in contravention of an express direction given by holders of the Most Senior Class or a request made pursuant to Condition 9 (*Events of Default*)).

The Trustee shall, without the consent or sanction of any of the Noteholders or any of the other Secured Creditors, concur with the Issuer and grant consent to the Issuer for it to make any modification to the Transaction Documents and/or the Conditions that are requested by the Issuer in order to comply with any criteria of the Rating Agencies which may be published after the Issue Date without the need to consider whether such modification affects the Noteholders, Couponholders or any other Secured Creditors if:

- (a) the Issuer has certified to the Trustee in writing that :
  - (i) the modification is required to avoid a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of the Rated Notes by any of the Rating Agencies or to otherwise comply with the then current criteria of the Rating Agencies applicable to the Rated Notes; and
  - (ii) such modification will not adversely impact the ability of the Issuer to make payments when due in respect of any Class of the Rated Notes; and
  - (iii) such modification will not cause the current rating of any Class of the Rated Notes to be reduced; and
  - (iv) such modification will not increase the obligations, liabilities or duties, or decrease the protections of any of the Noteholders and the Couponholders in respect of the Notes, the Transaction Documents and/or the Conditions; and
  - (v) such modification will not conflict with the then published credit rating criteria of any Rating Agency which is relevant to the Rated Notes; and
  - (vi) only in the case of any amendment to be made to the Conditions, the Issuer has provided 15 days notice to the Secured Creditors (other than the Noteholders and the Couponholders) of the proposed modification and none of the Secured Creditors (other than the Noteholders and Couponholders) has notified the Issuer as at the date of the relevant certificate that it does not consent to such modification being made; and
- (b) the Issuer furnishes the Trustee with such legal opinions as the Trustee may reasonably require; and
- (c) the Trustee, in its sole discretion, is of the opinion that such modification would not have the effect of exposing the Trustee to any liability against which it has not been indemnified and/or secured to its satisfaction.

For the avoidance of doubt, the Trustee does not have any power to compel any Transaction Party to agree to any modification to the Transaction Documents and/or the Conditions pursuant to the provisions of Condition 11(e)(iii).

Such modifications may adversely affect the interests of Noteholders.

#### ***Risks Relating to Noteholder Meetings***

A meeting of the Noteholders may be held on 21 clear days' notice. The requisite quorum in respect of Ordinary Resolutions is two or more persons holding Notes or representing Noteholders holding Notes not less than 25 per cent. of the Principal Amount Outstanding of the relevant Class(es) of Notes. The requisite quorum in respect of Extraordinary Resolutions is two or more persons holding or representing a majority of the Principal Amount Outstanding of the relevant Class(es) of Notes except in relation to a Basic Terms Modification. The quorum for a Basic Terms Modification requires two or more persons holding Notes or representing Noteholders holding Notes of in aggregate not less than 75 per cent. of the Principal Amount Outstanding of the relevant Class(es) of Notes. An adjourned meeting of the Noteholders may be held on not less than 14 nor more than 42 clear days' notice. The requisite quorum in respect of both Ordinary Resolutions and Extraordinary Resolutions for an adjourned meeting is any proportion of the Notes which the persons constituting the quorum is holding or representing except in relation to a Basic Terms Modification. The quorum for a Basic Terms Modification at an adjourned meeting requires one or more persons holding Notes or representing Noteholders holding Notes of not less than 25 per cent. of the Principal Amount Outstanding of the relevant Class of Notes. As a result of these requirements, it is possible that a valid Noteholder meeting may be held without the attendance of Noteholders who may have wished to attend and/or vote.

#### ***Risks Relating to Negative Consent of Noteholders***

An Extraordinary Resolution (other than an Extraordinary Resolution relating to a Basic Terms Modification) or Ordinary Resolution may be passed by the negative consent of the relevant Noteholders. An Extraordinary Resolution or an Ordinary Resolution, as applicable will be passed by a Class of Notes unless, within 40 days of the requisite notice being given by the Issuer, the Trustee or the Cash/Bond Administrator, to such Class of Noteholders in accordance with the provisions of Condition 14 (*Notice to Noteholders*) and in all cases also through the systems of Bloomberg L.P., or in such other manner as may be approved in writing by the Trustee, (i) in the case of an Extraordinary Resolution, the holders of 10 per cent. or more in aggregate of the Principal Amount Outstanding of the Notes of such Class or (ii) in the case of an Ordinary Resolution, the holders of 15 per cent. or more in aggregate of the Principal Amount Outstanding of the Notes of such Class, have informed the Trustee in the prescribed manner of their objection to such Extraordinary Resolution or Ordinary Resolution, as applicable. Therefore, it is possible that an Extraordinary Resolution could be passed without the vote of any Noteholders or even if holders of up to 9.99 per cent. in aggregate of the Principal Amount Outstanding of the relevant Class of Notes objected to it and it is possible that an Ordinary Resolution could be deemed to be passed without the vote of any Noteholders or even if holders of up to 14.99 per cent. in aggregate of the Principal Amount Outstanding of the relevant Class of Notes objected to it.

#### ***Weighted Average Life of the Notes***

The weighted average lives of the Notes refer to the average amount of time that elapses from the date of issuance of the Notes to the Noteholders to the date of distribution to such Noteholders of payments in net reduction of principal under the Notes (assuming no losses).

The weighted average lives of the Notes will be directly influenced by, amongst other things, the actual rate of redemption of the Mortgages, which in turn, is influenced by the Borrowers' ability to redeem the Mortgages. Where certain Borrowers are able to redeem the Mortgages only through refinancing, the actual rate of redemption may actually be reduced if such Borrowers experience difficulties in refinancing the relevant Loans. Any failure to make timely redemption of the Mortgages will reduce the CPR (as defined in "*Weighted Average Lives of the Notes*") and increase the average weighted lives of the Notes.

For other factors and assumptions which may affect the weighted average lives of the Notes, see "*Weighted Average Lives of the Notes*".

### ***General legal investment considerations***

The investment activities of certain investors are subject to legal investment laws and regulations, or to 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 advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

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

In the event it is determined on any Determination Date that there are insufficient Available Revenue Funds to make payment in full on the immediately succeeding Interest Payment Date of interest amounts due and payable on any Class of Notes other than the Most Senior Class, after having paid or provided for items of higher priority in the Pre-Enforcement Revenue Priority of Payments, then the amount of the shortfall or non-payment shall not be due and payable and the Issuer will under Condition 4(i) (*Deferral of Interest*) defer payment of that shortfall or unpaid amount until the first Interest Payment Date thereafter on which funds are available to the Issuer to make such payments.

The deferral of interest on the Notes in accordance with the previous paragraph shall not constitute an Event of Default.

To the extent that there are insufficient funds available to the Issuer on the following Interest Payment Date to pay the deferred amount of interest on any Class of Notes other than the Most Senior Class, the deferral of interest shall continue until the Final Maturity Date or such earlier date as the Notes are redeemed in full or the date on which amounts cease to be payable by the Issuer following the application of the Post Enforcement Priority of Payments.

### ***Subordination of the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes***

The M1 Notes are subordinated in right of payment of interest and principal to the A1 Notes.

The M2 Notes are subordinated in right of payment of interest and principal to the A1 Notes and the M1 Notes.

The B1 Notes are subordinated in right of payment of interest and principal to the A1 Notes, the M1 Notes and the M2 Notes.

The B2 Notes are subordinated in right of payment of interest and principal to the A1 Notes, the M1 Notes, the M2 Notes and the B1 Notes.

The R1 Notes do not bear interest and are subordinated in right of payment of principal to the A1 Notes, the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes.

The R2 Notes do not bear interest and are subordinated in right of payment of principal to the A1 Notes, the M1 Notes, the M2 Notes, the B1 Notes, the B2 Notes and the R1 Notes.

The R3 Notes do not bear interest and are subordinated in right of payment of principal to the A1 Notes, the M1 Notes, the M2 Notes, the B1 Notes, the B2 Notes, the R1 Notes and the R2 Notes. Payment of R3 Notes Residual Revenue is subordinated to the payment of interest on the A1 Notes, the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes.

There is no assurance that these subordination provisions will protect the holders of A1 Notes, M1 Notes, M2 Notes, B1 Notes, B2 Notes, R1 Notes, R2 Notes and/or R3 Notes from all risk of loss.

For further information on the payment of principal on the Notes, please see Condition 5 (*Redemption*).

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

The Trust Deed contains provisions requiring the Trustee to have regard to the interests of the A1 Noteholders, the M1 Noteholders, the M2 Noteholders, the B1 Noteholders, the B2 Noteholders, the R1 Noteholders, the R2 Noteholders and the R3 Noteholders equally as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise).

If, in the Trustee's opinion, there is a conflict between the interests of:

- (a) (i) the A1 Noteholders and (ii) the M1 Noteholders and/or the M2 Noteholders and/or the B1 Noteholders and/or the B2 Noteholders and/or the R1 Noteholders and/or the R2 Noteholders and/or

the R3 Noteholders, the Trustee shall give priority to the interests of the A1 Noteholders whose interests shall prevail;

- (b) (i) the M1 Noteholders and (ii) the M2 Noteholders and/or the B1 Noteholders and/or the B2 Noteholders and/or the R1 Noteholders and/or the R2 Noteholders and/or the R3 Noteholders, the Trustee shall give priority to the interests of the M1 Noteholders whose interests shall prevail;
- (c) (i) the M2 Noteholders and (ii) the B1 Noteholders and/or the B2 Noteholders and/or the R1 Noteholders and/or the R2 Noteholders and/or the R3 Noteholders, the Trustee shall give priority to the interests of the M2 Noteholders whose interests shall prevail;
- (d) (i) the B1 Noteholders and (ii) the B2 Noteholders and/or the R1 Noteholders and/or the R2 Noteholders and/or the R3 Noteholders, the Trustee shall give priority to the interests of the B1 Noteholders whose interests shall prevail;
- (e) (i) the B2 Noteholders and (ii) the R1 Noteholders and/or the R2 Noteholders and/or the R3 Noteholders, the Trustee shall give priority to the interests of the B2 Noteholders whose interests shall prevail;
- (f) (i) the R1 Noteholders and (ii) the R2 Noteholders and/or the R3 Noteholders, the Trustee shall give priority to the interests of the R1 Noteholders whose interests shall prevail; and
- (g) (i) the R2 Noteholders and (ii) the R3 Noteholders, the Trustee shall give priority to the interests of the R2 Noteholders whose interests shall prevail.

So long as any of the Notes are outstanding, the Trustee will have regard solely to the interest of the Noteholders and shall not have regard to the interests of the other Secured Creditors, subject to the provisions of the Trust Deed.

## **RISKS RELATED TO THE LOANS**

### ***Risks of Losses Associated with Declining Real Estate Values***

An investment in securities such as the Notes that generally represent a secured debt obligation (the security being in respect of Loans beneficially owned by the Issuer) may be affected by, among other things, a decline in real estate values and changes in the Borrowers' financial condition. All of the Properties securing the Loans are located in England or Wales. Approximately 39.75 per cent. of the aggregate number of Loans (representing 48.33 per cent. of the aggregate Balance of the Loans) are located in the South East of England, Greater London (the outer area) and inner London, and approximately 7.73 per cent. of the aggregate number of Loans (representing 7.62 per cent. of the aggregate Balance of the Loans) by value are secured by Properties located in the South West of England. See "*Characteristics of the Provisional Completion Mortgage Pool – Distribution of Loans by Region*". Certain areas of the United Kingdom may from time to time experience declines in real estate values such as has been seen in recent times. No assurance can be given that values of the Properties have remained or will remain at their levels on the dates of origination of the related Loans. If the residential real estate market in the United Kingdom in general, or in the South East of England in particular, should experience an overall decline in property values such that the values of the Properties may have reduced during the period starting from the origination of the related Loans until the end of the maturity of the Notes, and the outstanding balances of the Loans become equal to or greater than the value of the Properties, such a decline could in certain circumstances result in the value of the interest in the Properties created by the Mortgages being significantly reduced. To that extent, holders of interests in the Notes will bear all risk of loss resulting from default by Borrowers and will have to look primarily to the value of the Properties for recovery of the outstanding principal and unpaid interest on the delinquent Loans.

### ***Borrowers May Default on their Obligations***

Borrowers may default on their obligations due under Loans for a variety of financial and personal reasons, including loss or reduction of earnings, illness, divorce and other similar factors which may, individually or in combination, lead to an increase in delinquencies by and bankruptcies of Borrowers. Certain national and international macro economic factors may also contribute to or hinder the economic health of a Borrower and thus the economic performance of the Loans.

### ***Geographic concentration of the Loans***

To the extent that specific geographic regions have experienced or may experience in the future weaker regional economic conditions and housing markets than other regions, a concentration of the Loans in such a region may be expected to exacerbate all of the risks relating to the Loans described in this section. The Issuer cannot predict when and/or where such regional economic declines may occur, nor to what extent or for how

long such conditions may continue, but if the timing and payment of the Loans are adversely affected as described above, the ability of the Issuer to make payments due under the Notes could be reduced or delayed.

#### ***Risks associated with interest rates***

Loans in the Provisional Completion Mortgage Pool are either Fixed Rate Mortgages or Capped Rate Mortgages. Upon expiry of the fixed rate or capped rate period relating thereto, these Fixed Rate Mortgages or Capped Rate Mortgages will revert to being LIBOR Standard Mortgages.

Increases in the Bank of England base rate and/or other applicable variable rates may result in 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, being exposed to increased monthly payments as and when 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 these 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 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. These events, alone or in combination, may contribute to higher delinquency rates and losses.

The Issuer's liabilities in respect of interest on the Notes (other than the R Notes, which are zero coupon notes) are based on LIBOR.

#### ***Underwriting Standards***

The Loans have been underwritten generally in accordance with underwriting standards described in "*The Mortgage Pool – Lending Criteria*" below and each of the mortgage accounts was originated in accordance with the Legal Title-Holder's applicable lending criteria applicable at the time of origination. These underwriting standards consider, among other things, a Borrower's credit history, employment history and status, repayment ability and debt service-to-income ratio, as well as the value of the property.

There can be no assurance that loans with higher loan-to-value ratios will not experience higher rates of delinquency, enforcement and bankruptcy than loans with lower loan-to-value ratios.

There can also be no assurance that these underwriting standards will not be varied or that loans originated under different criteria may not become part of the Mortgage Pool.

For a description of the underwriting standards, see "*The Mortgage Pool – Lending Criteria*". For a detailed analysis of the Loans constituting the Mortgage Pool on the Issue Date, see "*Characteristics of the Provisional Completion Mortgage Pool*".

#### ***Warranties***

Neither the Issuer nor the Trustee has undertaken or will undertake any investigations, searches or other actions in respect of the Loans and their related Mortgages, and each will rely instead on the Warranties. The sole remedy (save as described below) of the Issuer and the Trustee in respect of a breach of Warranty which could have a material adverse effect on the value of the relevant Loan and related Mortgage (other than where such breach was disclosed at the point of sale to the Issuer (see "*Sale of the Mortgage Pool – Warranties and Repurchase*")) shall be the requirement that Investec repurchase, or procure the repurchase, of any Loan which is the subject of any breach in return for a cash payment equal to the principal balance of the relevant Loan and all due but unpaid interest, or at the option of Investec, the substitution of an alternative mortgage loan of an appropriate value, provided that this shall not limit any other remedies available to the Issuer and/or the Trustee if Investec fails to repurchase a Loan or make a payment when obliged to do so. There can be no assurance that Investec will have the financial resources to honour such obligations under the Mortgage Sale Agreement. This may affect the quality of the Loans in the Mortgage Pool and accordingly the ability of the Issuer to make payments due on the Notes.

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

Approximately 25.11 per cent. of the aggregate number of Loans (representing 25.81 per cent. of the aggregate Balance of the Loans) in the Provisional Completion Mortgage Pool constitute Interest Only Loans. Interest Only Loans are originated with a requirement that the Borrower pay scheduled interest payments only. There is no scheduled amortisation of principal. Consequently, upon the maturity of an Interest Only



Loan, the Borrower will be required to make a "bullet" repayment that will represent the entirety of the principal amount outstanding thereof. The ability of such a Borrower to repay an Interest Only Loan at maturity may often depend on such Borrower's ability to refinance the Property or obtain funds from another source such as pension policies, personal equity plans or endowment policies. The ability of a Borrower to refinance the Property will be affected by a number of factors, including the value of the Property, the Borrower's equity in the Property, the financial condition of the Borrower and general economic conditions at the time. If a Borrower cannot repay an Interest Only Loan, a loss may occur and this may affect repayments on the Notes.

#### ***Risks Associated with Non-Owner Occupied Properties***

392 of the Properties relating to the Loans in the Provisional Completion Mortgage Pool and representing approximately 19.86 per cent. of the aggregate Balance of the Loans in the Provisional Completion Mortgage Pool by value, are not owner occupied. These Properties are leased out by the relevant Borrowers. It is possible that the rate of delinquencies, enforcements and losses on such Loans secured by non-owner occupied properties could be higher than for Loans secured by the primary residence of the Borrower. See "*Characteristics of the Provisional Completion Mortgage Pool*".

#### ***Lack of Control by Noteholders***

The servicing of the Loans will be carried out by the Mortgage Administrator or the Standby Mortgage Administrator (as the case may be), with certain functions and discretions being exercised by the Special Servicer. The holders of Notes will have no right to consent to, or approve of, any actions set forth in the Mortgage Administration Agreement, the Standby Mortgage Administration Agreement or the Special Servicer Agreement (as the case may be). See "*Administration, Servicing and Cash Management of the Mortgage Pool – Mortgage Administration Agreement and Special Servicer Agreement*".

### **GENERAL RISK FACTORS AND CERTAIN REGULATORY CONSIDERATIONS**

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

Pursuant to the terms of the Deed of Charge, the Issuer has purported to grant fixed charges over, amongst other things, its interests in the Mortgages and their security and its rights and benefits in the Bank Accounts and the Custody Accounts.

The law in England and Wales relating to the characterisation of fixed charges is not settled. The fixed charges purported to be granted by the Issuer may take effect under English law as floating charges only, if, for example, it is determined that the Trustee does not exert sufficient control over the charged property for the security to be said to "fix" over those assets. It should be assumed by Noteholders that the fixed charges will take effect as floating charges. If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Trustee in respect of the floating charge assets. In particular, the expenses of any administration, and the claims of any preferential creditors and, to the extent described in the Enterprise Act 2002 below, the claims of unsecured creditors would rank ahead of the claims of the Trustee in this regard. The Enterprise Act 2002 abolished the preferential status of certain Crown debts (including the claims of the United Kingdom tax authorities). However, certain employee claims (in respect of contributions to pension schemes and wages) still have preferential status. In this regard, it should be noted that the Issuer has agreed in the Transaction Documents not to have any employees.

In addition, any administrative receiver, administrator or liquidator appointed in respect of the Issuer will be required to set aside the prescribed percentage or percentages of the floating charge realisations in respect of the floating charges contained in the Deed of Charge (as described in more detail below under "*English law security and insolvency considerations*").

#### ***Changes 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 Rated Notes are based on the relevant law, tax, accounting, regulatory and administrative requirements and practice in effect as at the date of this Prospectus and having due 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 the relevant law, tax, regulatory, accounting (and any change in regulation which may occur without a change in primary legislation), administrative 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.

### ***Enforcement of Buy-to-Let Loans***

Approximately 19.86 per cent. of the aggregate Balance of the Loans in the Provisional Completion Mortgage Pool by value are Buy-to-Let Loans. The Loans are secured over the relevant Properties by way of a fixed charge. The beneficial interest in the Loans (together with the security thereof) will be transferred to the Issuer pursuant to the Mortgage Sale Agreement.

The Dwelling Houses (Execution of Possession Orders by Mortgagees) Regulations 2010 came into effect on 1 October 2010 and contain new requirements for creditors to give at least 14 days' notice of their intention to execute a possession order over residential premises which have been let. Additionally, pursuant to the Mortgage Repossessions (Protection of Tenants etc) Act 2010, a court could delay execution of possession orders for up to two months on an application by a tenant. These changes in the law may delay the Legal Title-Holder's exercise of its power of sale in relation to the Buy-to-Let Loans and may in turn reduce the timeliness of receipts receivable by the Issuer under the Mortgage Pool, and may adversely impact on the ability of the Issuer to make payments under the Notes.

### ***Equitable Interest***

Legal title to the Mortgages in the Mortgage Pool over registered land in England and Wales is, or is in the course of being, registered in the name of the Legal Title-Holder, and will remain with the Legal Title-Holder. The sale by Investec to the Issuer of Mortgages over such land will take effect in equity only, since, save in the circumstances set out below, no application will be made to the Land Registry to register or record the Issuer as legal owner of such Mortgages. Neither the Issuer nor the Trustee will apply to the Land Registry to register or record their beneficial interest in such Mortgages. See "*Title to the Mortgage Pool*".

As a consequence of neither the Issuer nor the Trustee obtaining legal title to the Mortgages by registering or recording their respective interest in the Land Registry, a bona fide purchaser from the Legal Title-Holder for value of any of such Mortgages without notice of any of the interests of Investec, the Issuer or the Trustee (and certain similar third parties) might obtain a good title free of any such interest. Further, the rights of the Issuer and the Trustee may be or become subject to equities (for example, rights of set-off as between the relevant Borrowers or insurance companies and the Legal Title-Holder). However, the risk of third party claims obtaining priority to the interests of Investec, the Issuer or the Trustee would be likely to be limited to circumstances arising from a breach by the Legal Title-Holder, Investec, the Mortgage Administrator or the Standby Mortgage Administrator of its contractual obligations, representations or warranties or fraud, negligence or mistake on the part of Investec, the Legal Title-Holder, the Mortgage Administrator or the Standby Mortgage Administrator or their respective personnel or agents. (See "*Title to the Mortgage Pool*"). Furthermore, for so long as neither the Issuer nor the Trustee have obtained legal title, they must join the Legal Title-Holder as a party to any legal proceedings which they may wish to take against any Borrower or in relation to the enforcement of any Mortgage. In this regard, the Legal Title-Holder will undertake, for the benefit of the Issuer and the Trustee, that it will lend its name to, and take such other steps as may reasonably be required by the Issuer or may be required by the Trustee in relation to, any legal proceeding in respect of any Mortgage. In the event that the Legal Title-Holder is in administration, discretionary leave of the court may be required to join the Legal Title-Holder as a party to such proceedings.

### ***Set-off risk***

As described above, the sale by the Seller to the Issuer of the Loans will be given effect by an equitable assignment. As a result, legal title to the Loans will remain with the Legal Title-Holder until the occurrence of certain trigger events under the terms of the Mortgage Sale Agreement (see "*Triggers Tables - Non-Ratings Triggers - Perfection Events*"). Therefore, the rights of the Issuer may be subject to "transaction set-off," being the direct rights of the Borrowers against the Legal Title-Holder.

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

The amount of any such claim against the Seller will, in many cases, be the cost to the Borrower of finding an alternative source of funds. The Borrower may obtain a mortgage loan elsewhere, in which case the damages awarded could be equal to any difference in the borrowing costs together with any direct losses arising from the Legal Title-Holder'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 Legal Title-Holder's breach of contract where there are special circumstances communicated by the Borrower to the Legal Title-Holder at the time the Borrower entered into the Mortgage Loan 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 Legal Title-Holder 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 Mortgage Pool and/or the ability of the Issuer to make payments under the Notes.

#### ***Effect of the Sale of the Mortgage Pool***

The Issuer has considered whether the transfer of the Loans and related security pursuant to the terms of the Mortgage Sale Agreement is effective to transfer to the Issuer the beneficial ownership of (but not, without further steps being taken, the legal estate in or title to) the Loans, Mortgages and Collateral Security. The Issuer has been advised that, subject to certain assumptions and qualifications, on the basis of the principles set out in *Re George Inglefield* [1933] Ch 1, as considered and applied by the Court of Appeal in *Welsh Development Agency v Export Finance Co. Ltd.* [1992] BCC 270, an English court would find the transfer was not made by way of security and therefore would not be void against a liquidator, administrator or creditor of the Legal Title-Holder or Investec. If a court were to find otherwise, investors could be adversely affected.

#### ***Mortgages Regulated under the Financial Services and Markets Act 2000***

Since 31 October 2004 (the date known as "N(M)"), most first-charge residential mortgage business in the United Kingdom is now regulated by the FSA under the FSMA and brought within the jurisdiction of the Ombudsman. Entering into, arranging, advising on and administering Regulated Mortgage Contracts (including arranging and advising on variations to such contracts), and agreeing to do any of these things, are (subject to applicable exemptions) regulated activities under the FSMA.

A credit agreement is a "**Regulated Mortgage Contract**" if it is originated on or after N(M), or originated prior to N(M) but was varied on or after N(M), and if at the time the contract is entered into: (a) the borrower is an individual or trustee; (b) the contract provides for the obligation of the borrower to repay to be secured by (in England and Wales) a first legal mortgage or charge (other than timeshare accommodation) in the United Kingdom; and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with any 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.

Any person carrying out a regulated activity must either be authorised by the FSA, with specific permission required from the FSA to engage in the activity or be exempted from such authorisation.

In particular, an unauthorised person may arrange for an authorised person to administer its Regulated Mortgage Contracts but, if that arrangement comes to an end, that unauthorised person may commit an offence if it administers the Regulated Mortgage Contracts for more than one month after the end of the arrangement, although this will not render the contract unenforceable against the borrower.

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 in relation to Regulated Mortgage Contracts by having them administered pursuant to an administration agreement by an entity having the required FSA authorisation and permission. If such administration agreement terminates or the appointment of an administrator thereunder is terminated, 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 administrator having the required FSA authorisation and permission.

Given that the Issuer will not itself be an authorised person under the FSMA, in the event that an agreement for a Loan is varied, such that a new contract is entered into and that contract constitutes a Regulated Mortgage Contract then the arrangement of, advice on, administration of and entering into of such variation would need to be carried out by an entity such as the Legal Title-Holder as the Mortgage Administrator or the Standby Mortgage Administrator having the required FSA authorisation and permission.

If requirements as to authorisation of lenders and brokers, and as to the issue and approval of advertisements in respect of credit secured on land, are not complied with, a Regulated Mortgage Contract (or other credit secured on land, in the case of requirements as to the issue and approval of advertisements) would be

unenforceable against a borrower except with the approval of a court and the person in breach may have committed an offence.

Under Section 150 of the FSMA, a Borrower may be entitled to claim damages for loss suffered as a result of any contravention of an FSA rule by an authorised person. In the case of such contravention by the Legal Title-Holder, the Borrower may claim such damages against the Legal Title-Holder, or set off the amount of such claim against the amount owing by the Borrower under the Loan or any other loan agreement that the Borrower has taken with the Legal Title-Holder. Any such claim or set-off may adversely affect the ability of the Issuer to make payments to the Noteholders.

The Legal Title-Holder and Investec will represent to the Issuer in the Mortgage Sale Agreement that, among other things, each Loan and its related Mortgage is enforceable (subject to certain exceptions). The Mortgage Sale Agreement provides that in respect of a material breach of such warranty (which is not either capable of remedy or Investec has failed to remedy the relevant breach within 21 days of becoming aware of the breach), each of the Issuer and the Trustee will require Investec to repurchase the relevant Loan for a consideration in cash equal to the Balance of the relevant Loan plus accrued interest and all other amounts due under such mortgage plus the reasonable costs of the Issuer in relation to such repurchase less interest paid in advance to the Issuer or, at the option of Investec, substitute an alternative mortgage loan of an appropriate value in replacement of the Loan where the breach applied.

MCOB sets out the FSA's conduct of business rules in respect of regulated mortgage activities. These rules and guidance cover, *inter alia*, start of contract disclosures, post-sale disclosures (annual statements), rules on contract changes, charges, arrears and repossessions and certain pre-origination matters such as financial promotions and pre-application illustrations. MCOB came into force on N(M).

Failure to comply with the provisions of MCOB will not necessarily render Regulated Mortgage Contracts unenforceable. However, breaches of the rules in MCOB are actionable by borrowers who suffer loss as a result of the contravention. A breach could therefore give rise to a claim by a borrower to set off sums due under a Regulated Mortgage Contract.

Prudential and authorisation requirements placed on authorised persons in respect of regulated mortgage activities came into force on N(M), together with rules covering the extension of the appointed representatives regime (which previously applied to investment business) to mortgages.

The FSMA regime covers contracts entered into on or after N(M) together with any pre-N(M) contracts which are varied on or after N(M) where a new contract is created (provided that the new contract satisfies the definition of Regulated Mortgage Contract). On and after N(M), no variation has been or will be made to the Loans, and nothing has been or will be done in relation to the Loans, where it would result in the Issuer or the Trustee arranging or advising in respect of, or administering or entering into, a Regulated Mortgage Contract (or agreeing to carry on any of these activities), if it would have been or would be required to be authorised under the FSMA to do so. All Loans originated on or after N(M) were intended to be Regulated Contracts under the FSMA.

So as to avoid dual regulation, it is intended that Regulated Mortgage Contracts will not be regulated by the CCA. 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.

#### ***Proposed expansion of MCOB regulation***

In November 2009, Her Majesty's Treasury ("**HM Treasury**") published a consultation on proposals for the FSA to regulate second charge mortgages and the introduction of a regulated activity of managing Regulated Mortgage Contracts, which is intended to protect consumers when mortgage loans are sold. In March 2010, HM Treasury announced its decision to transfer the regulation of second charge mortgages to the FSA from the OFT and 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.

On 19 December 2011 the Financial Services Authority released a Consultation on its Mortgage Market Review, which focuses on key underwriting principles and responsible lending. The Consultation Paper brings together all of the FSA's previous consultations into a single document (including examining issues such as arrears handling, approved persons, responsible lending and distribution / disclosure proposals) and comments are expected to be provided by 30 March 2012. The final rules implementing the FSA's new approach are expected to be released for consultation in mid-2012, with implementation due in 2013. The timing of the implementation of the new regime depends on market conditions and the scope of the final rules are not yet certain. As a result, it is difficult to ascertain what impact the new rules would have on Noteholders.

#### ***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 OFT under the CCA (described below) to the FCA under a regime based on the FSMA.

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

#### ***Financial Ombudsman Service***

Under the FSMA, the Ombudsman is required to make decisions on, *inter alia*, 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 the circumstances of the case, taking into account, *inter alia*, law and guidance. Transitional provisions exist by which certain complaints relating to breach before N(M) of the then applicable industry code may be dealt with by the Financial Ombudsman Service. Complaints brought before the Ombudsman for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Ombudsman.

As the Ombudsman is required to make decisions based on, *inter alia*, the principles of fairness and may order a money award to the borrower it is not possible to predict how any future decision of the Ombudsman could affect the ability of the Issuer to make payments to the Noteholders.

#### ***Enforcement***

Even assuming that the Properties provide adequate security for the Loans, delays could be encountered in connection with enforcement of the Mortgages and recovery of the Loans with corresponding delays in the receipt of related proceeds by the Issuer.

In order to realise its security in respect of a Property, the relevant mortgagee will need to obtain possession. In England and Wales, there are two means of obtaining possession for this purpose: first, by taking physical possession (seldom done in practice) and secondly, by applying for, obtaining and enforcing a court order.

The court has a very wide discretion and may adopt a sympathetic attitude towards a Borrower at risk of eviction. If a possession order in favour of the relevant mortgagee is granted, it may be suspended to allow the Borrower more time to pay. Once possession of the Property has been obtained, the relevant mortgagee has a duty to the Borrower to take reasonable care to obtain a proper price for the Property. Any failure to do so will put the relevant mortgagee at risk of an action for breach of such duty by the Borrower, although it is for the Borrower to prove breach of such duty. There is also a risk that a Borrower may also take court action to force the relevant mortgagee to sell the Property within a reasonable time.

If a mortgagee takes physical possession it will, as mortgagee in possession, have an obligation to account to the Borrower for the income obtained from the Property, be liable for any damage to the Property, have a limited liability to repair the Property and, in certain circumstances, may be obliged to make improvements or may incur certain financial liabilities in respect of the Property. Actions for possession are regulated by statute and the courts have certain powers to adjourn possession proceedings, to stay any possession order or postpone the date for delivery of possession. The court will exercise such powers in favour of a Borrower,

broadly, where it appears to the court that such Borrower is likely to be able, within a reasonable period, to pay any sums due under the Mortgage or to remedy any default consisting of a breach of any other obligation arising under or by virtue of the Mortgage.

The Trustee has the absolute discretion, at any time, to refrain from taking any action under the Trust Deed or the Deed of Charge or any of the Transaction Documents including becoming a mortgagee in possession in respect of any property contained within the Mortgage Pool, unless it is satisfied at that time that it is indemnified and/or secured and/or prefunded to its satisfaction against any liability which it may incur by so acting.

#### ***Responsible Lending and Dealing with Customers in Arrears***

Lenders regulated by the FSMA are subject to "responsible lending" requirements in relation to regulated mortgage contracts. They are obliged to take account of the borrower's ability to repay before deciding to enter into a regulated mortgage contract (or to make further advances on such a contract). They must also put in place, and operate in accordance with, a written responsible lending policy.

Lenders regulated by the FSMA are subject to rules on treating customers in arrears fairly, including after the sale of repossessed property.

#### ***Consultation Paper on the power of sale and residential property***

On 29 December 2009, the Ministry of Justice of the United Kingdom published a consultation paper (entitled 'Mortgages: power of sale and residential property' (CP55/09)) which contains proposals to amend the law to prevent mortgagees from selling residential properties in England and Wales without a court order or the consent of the borrower. It is not known if, and to what extent, these proposals will be enacted in the future as a matter of law. If the proposals are enacted, the ability of the mortgagee to exercise its power of sale in relation to the Mortgages may be restricted and this may affect the Issuer's ability to make payments on the Notes.

#### ***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 has made changes to MCOB which effectively convert previous guidance on the policies and procedures to be applied by authorised firms 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 Mortgage Administrator or Special 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.

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.

#### ***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.

### ***Consumer Credit Acts 1974 and 2006***

The OFT is responsible for the issue of licences and the superintendence of the working and enforcement of, the CCA, related consumer credit regulations and other consumer protection legislation. The OFT may review businesses and operations, provide guidelines to follow, and take action when necessary with regard to the mortgage market in the United Kingdom (except to the extent that the market is regulated by the FSA under the FSMA, as described above). The licensing regime under the CCA is different from, and additional to, the regime for authorisation 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 intended to be a Regulated Mortgage Contract under the FSMA, or unregulated, might instead be wholly or partly regulated by the CCA or treated as such 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 (for example, it is intended that a Regulated Mortgage Contract under the FSMA is an exempt agreement under the CCA); or
- (c) changes to credit agreements.

There is a risk that any credit agreement intended to be a Regulated Mortgage Contract under the FSMA might instead be wholly or partly regulated by the CCA or treated as such, or unregulated, and any credit agreement intended to be regulated by the CCA or treated as such or unregulated might instead be a Regulated Mortgage Contract, 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) the credit agreement is exempt under the CCA and (c) changes to credit agreements.

Any credit agreement that is wholly or partly regulated by the CCA or treated as such has to comply with requirements under the CCA as to licensing of lenders and brokers, documentation and procedures of credit agreements and (in so far as applicable) pre-contract disclosure. If it does not comply with those requirements, then to the extent that the credit agreement is regulated by the CCA or treated as such, it is unenforceable against the borrower:

- (a) without an order of the OFT, if the lender or any broker does not hold the required licence at the relevant time;
- (b) totally, if the credit agreement was made before 6 April 2007 and if the form to be signed by the borrower 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 by the lender.

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 a credit agreement or to impose conditions upon its performance or to make a time order (for example, giving extra time for arrears to be cleared).

Under Section 75 of the CCA in certain circumstances: (a) the lender is liable to the borrower in relation to misrepresentation and breach of contract by a supplier in a transaction financed by the lender, where the related credit agreement is or is treated as entered into under pre-existing arrangements, or in contemplation of future arrangements, between the lender and the supplier; and (b) the lender has a statutory indemnity from the supplier against such liability, subject to any agreement between the lender and the supplier. The borrower

may set off the amount of such claim 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 in the case of a Borrower may adversely affect the ability of the Issuer to make payments to Noteholders.

The Consumer Credit Act 2006 (the "CCA 2006"), which amends and updates the Consumer Credit Act 1974, was fully implemented by 31 October 2008.

Under the CCA 2006, the "extortionate credit" regime is replaced by an "unfair relationship" test. The unfair relationship test applies to all existing and new credit agreements, except Regulated Mortgage Contracts. The unfair relationship 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 new unfair relationship test, the courts will be 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 United Kingdom legislation, due to the Unfair Contract Terms Act 1977, and the UTCCR. 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, then the burden of proof is on the creditor to prove the contrary.

If a mortgage loan subject to the unfair relationship test is found to be unfair, the court may require the creditor to repay sums to the debtor, to do, not do or cease doing anything in relation to the agreement, reduce or discharge any sums payable by the debtor or surety, return to a surety any security provided by him, alter the terms of the agreement, direct accounts to be taken or otherwise set aside any duty imposed on the debtor or surety. The term creditor as defined under section 189 of the CCA means the person providing the credit under a consumer credit agreement or the person to whom his rights and duties under the agreement have passed by assignment or operation of law.

An alternative dispute resolution scheme for consumer credit matters is run by the Ombudsman (as described below) and was established on 6 April 2007. 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 were 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, and except for certain buy-to-let loans made before 31 October 2008. Buy-to-let loans made on or after 31 October 2008 are, irrespective of amount, exempt agreements under the CCA. Regulations define buy-to-let loans for these purposes as being credit agreements secured on land where less than 40 per cent. of the floor area of the secured property is used, or is intended to be used, as or in connection with a dwelling by the borrower or by a connected person. A court order under Section 126 of the CCA is, however, necessary to enforce a land mortgage securing a buy-to-let loan to the extent that the loan would, apart from this exemption, be regulated by the CCA or treated as such.

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 will not be 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 will be restricted to nil until the 29<sup>th</sup> day after the day on which a prescribed notice is given and then to simple interest. Charges payable on any early repayment in full 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 to credit agreements made on or after 31 May 2005, and applies retrospectively to all existing credit agreements from 31 May 2007 or 31 May 2010 depending on their term.

These changes to the CCA may adversely affect the Issuer's ability to make payments in full when due to Noteholders.

The Legal Title-Holder 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 by the Ombudsman, 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.

### ***Consumer Credit Directive 2008***

In April 2008, the European Parliament and the Council adopted a second Directive on consumer credit (the "**Consumer Credit Directive**"), which provides that, subject to exemptions, loans not exceeding €75,000 will be regulated. This Directive will repeal and replace the first consumer credit Directive on, and requires Member States to implement the Directive by measures coming into force by, 11 June 2010, although the UK Government announced in February 2010 that implementation of the Consumer Credit Directive in the United Kingdom would be delayed. The Consumer Credit Directive came into effect in the United Kingdom on 1 February 2011.

Loans secured by a land mortgage are, however, exempted from the Consumer Credit Directive and from the first consumer credit Directive. The European Commission published a White Paper on mortgage credit in December 2007, setting out its tasks for 2008 to 2010 including, among other things, an assessment of the regulation of early repayment charges, pre-contract disclosure and interest rate restrictions. The European Commission has stated that, in its view, it is too early to decide on whether a mortgage directive would be appropriate.

Until the final text of any initiatives resulting from the White Paper process is decided and regulatory guidance on the United Kingdom implementation of the Consumer Credit Directive are published, it is not certain what effect the adoption and implementation of the Consumer Credit Directive or any initiatives resulting from the White Paper process will have on the Loans, KMC and/or the Issuer and their respective businesses and operations. This may adversely affect the ability of the Issuer to make payments in full when due on the Notes.

### ***EU initiatives on Mortgage Credit***

On 31 March 2011, the European Commission put forward a proposal for a Directive on credit agreements relating to residential property. The proposed measures primarily relate to information, regulatory and supervisory standards. 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. The proposed directive has been submitted to the European Parliament and the Council for their consideration. The European Parliament has announced a revised indicative date of 10 September 2012 for its first plenary session on the proposal. The Council published a Presidency compromise proposal, most recently on 17 January 2012. It is currently proposed that member states will be required to implement the directive into national law two years after it enters into force.

Until the draft text of any such legislative measures are published, it is not certain what effect the adoption and implementation of any measures resulting from the proposal would on the Loans, the Seller, the Issuer and/or the Mortgage Administrator and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full on the Notes when due.

In parallel with the proposed Directive, on 31 December 2010, the European Commission published a working paper entitled "National measures and practices to avoid foreclosure procedures for residential mortgage loans". The working paper states that foreclosure should be considered a last resort and, where it is clear that a given borrower is entering into repayment difficulties, a dialogue should take place with the lender to explore alternative repayment measures, including renegotiation of the loan terms and/or duration. It is also noted that the European Commission will closely monitor the development of default rates and foreclosures as well as the measures taken by member states to prevent foreclosures. Although the working paper does not suggest regulation of foreclosure, if proposals to regulate foreclosure are put forward and enacted in the future, the ability of the mortgagee to exercise its power of sale in relation to the Mortgages may be restricted and this may affect the Issuer's ability to make payments on the Notes.

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 Mortgage Pool, the Seller, the Legal Title-Holder, the Issuer, the Mortgage Administrator and their respective businesses and operations.

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

The Unfair Terms in Consumer Contracts Regulations 1999 as amended (the "**1999 Regulations**") and (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 apply to 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).

This will not affect terms, which set out 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). This may affect terms which are not considered to define the main subject matter of the contract, which may include the ability to choose a substitute for LIBOR where LIBOR cannot be determined under the loan agreement, and certain terms imposing early repayment charges and mortgage exit administration fees, and other terms the application of which are in the lender's discretion.

For example, if a term permitting the lender to vary the interest rate is found to be unfair, the borrower would not be liable to pay the increased rate or, to the extent that he has paid it, would 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 such claim against the amount owing by the borrower under the loan agreement or under any other loan agreement that the borrower has taken with the lender. Any such non-recovery, claim or set-off ultimately may adversely affect the ability of the Issuer to make payments to Noteholders.

The division of responsibilities between the OFT and the FSA for enforcing the UTCCR is set out in concordats made between them, most recently in November 2009. Generally, the FSA is responsible for enforcement of the UTCCR in Regulated Mortgage Contracts under the FSMA originated by lenders authorised by the FSA, and the OFT is responsible for enforcement of the UTCCR in other mortgage contracts.

In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts, which is addressed to firms authorised and regulated by the FSA in relation to products and services within the FSA's regulatory scope. This statement provides, *inter alia*, that a contract "locks in" a consumer where, in order to withdraw from the contract, the consumer is required to give advance notice or to pay a cost or to give up a benefit, and that a firm may consider drafting the contract to permit a change to be made only where any "lock-in" term is not exercised. In the context of the OFT's investigation into credit card default charges, the OFT on 5 April 2006 publicly announced that the principles the OFT considers should be applied in assessing the fairness of credit card default charges shall apply (or are likely to apply) also to analogous default charges in other agreements (including those for mortgages). The principles are in essence that terms imposing default fees shall not have the object of raising more in revenue that 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 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 or may be made to Borrowers covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of the Loans. If any term of the Loans is found to be unfair for the purposes of the UTCCR this may adversely affect the ability of the Issuer to make repayments to Noteholders.

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 Legal Title-Holder, the Issuer and their respective business and operations.

There can be no assurance that any such legislative and regulatory changes (including changes in regulators' responsibilities) will not affect the Loans. This may adversely affect the ability of the Issuer to make payments to the Noteholders.

#### ***Financial Services (Distance Marketing) Regulations 2004***

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 lender 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. Any other credit agreement will be cancellable under these regulations, if the borrower does not receive prescribed information at the prescribed time, or in any event for certain unsecured lending. The borrower may send notice of cancellation under these regulations at any time before the end of the 14<sup>th</sup> 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 lender to the borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the borrower sending notice of cancellation or, if later, the originator receiving notice of cancellation; (b) the borrower is liable to pay interest, or any early repayment charge or other charge for credit under the cancelled agreement, only if the borrower received certain prescribed information at the prescribed time and if other conditions are met; and (c) any security 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 receipt in respect of those amounts affecting the Issuer's ability to make payments in full on the Notes when due.

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

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

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

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

In addition to the general prohibition on unfair commercial practices, the CPUTRs contain provisions aimed at aggressive and misleading practices (including, but not limited to: (i) pressure selling; (ii) misleading marketing (whether by action or omission); and (iii) falsely claiming to be a signatory to a code of conduct) and a list of practices which will in all cases be considered unfair. The effect (if any) of the CPUTRs on the Loans, Investec, the Legal Title-Holder 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.

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

Under the Banking Act 2009 (the "**Banking Act**"), substantial powers have been granted to HM Treasury, the Bank of England and the FSA (the FSA together with HM Treasury and the Bank of England, the "**Authorities**") as part of the special resolution regime (the "**SRR**"). These powers (which apply regardless of any contractual provisions) enable the Authorities to deal with and stabilise United Kingdom-incorporated institutions with permission to accept deposits pursuant to Part IV of the FSMA (such as the Account Bank, the First GIC Provider and the Seller) (each a "**relevant entity**") that are failing or are likely to fail to satisfy the threshold conditions (within the meaning of section 41 of the FSMA). The SRR consists of three stabilisation options: (i) transfer of all or part of the business of the relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a "bridge bank" wholly-owned by the Bank of England; and (iii) temporary public ownership of the relevant entity. HM Treasury may also take a parent company of a relevant entity into temporary public ownership where certain conditions are met. The Banking Act also provides for two new insolvency and administration procedures for relevant entities. Certain ancillary powers include the power to modify certain contractual arrangements in certain circumstances. This may result in a change in the contractual terms applicable to the Notes without the consent of the Noteholders. It is possible that one of the stabilisation options could be exercised prior to the point at which any application for an insolvency or administration order with respect to the relevant entity could be made.

The Banking Act also includes provisions relating to two new insolvency procedures which may be commenced by specified UK authorities (bank insolvency and bank administration). The Banking Act also vests power in the Bank of England (amongst other things) to override, vary or impose contractual obligations between a UK bank (or any UK holding company of a UK bank) and its former group undertakings (as defined in the Banking Act), for reasonable consideration, in order to enable any transferee or successor bank of such UK bank (or any UK holding company of such UK bank) to operate effectively. There is also power for HM Treasury to amend the law (save for a provision made by or under the Banking Act) by order for the purpose of enabling it to use the special resolution regime powers effectively, potentially with retrospective effect.

In general, the Banking Act requires the 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 system of the United Kingdom. The Banking Act includes provisions related to compensation in respect of transfer instruments and orders made under it. The Authorities are also empowered by order to amend the law for the purpose of enabling the powers under the SRR to be used effectively. An order may make provision which has retrospective effect. In general, there is considerable uncertainty about the scope of the powers afforded to Authorities under the Banking Act and how the Authorities may choose to exercise them.

If an instrument or order were to be made under the Banking Act in respect of a relevant entity, such instrument or order may (amongst other things) affect the ability of such entity to satisfy its obligations under the Transaction Documents and/or result in modifications to such documents. In particular, modifications may be made pursuant to powers permitting certain trust arrangements to be removed or modified and/or via powers which permit provision to be included in an instrument or order such that the relevant instrument or order (and certain related events) is required to be disregarded in determining whether certain widely defined "default events" have occurred (which events would include certain trigger events included in the Transaction Documents in respect of the relevant entity, including termination and acceleration events and (in the case of the Seller) trigger events in respect of perfection of legal title to the Loans). As a result, the making of an instrument or order in respect of a relevant entity may affect the ability of the Issuer to meet its obligations in respect of the Notes. 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 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.

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

In Europe, the U.S. and elsewhere there is increased political and regulatory scrutiny of the asset-backed securities industry. This has resulted in a raft of measures for increased regulation 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 Lead Managers, the Seller, or any of the Transaction Parties makes any representation to any prospective investor or purchaser of the Notes regarding the regulatory capital treatment of their investment in the Notes on the Issue Date or at any time in the future.

In particular, investors should be aware of Article 122a which applies, in general, to newly issued securitisations (as defined in Article 4(36) of Directive 2006/48/EC) after 31 December 2010. Article 122a restricts an EU regulated credit institution and consolidated group affiliates thereof from investing in a securitisation unless the originator, sponsor or original lender in respect of that 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 that securitisation 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, the notes it has acquired and the underlying exposures and that procedures have been established for such due diligence to be conducted on an on-going basis. Failure to comply with one or more of the requirements set out in Article 122a may result in the imposition of a penal capital charge with respect to the investment made in the securitisation by the relevant investor.

Article 122a applies in respect of the Notes. Consequently investors which are EU regulated credit institutions should make themselves aware of the requirements of Article 122a (and any implementing rules in relation to a relevant jurisdiction) in addition to any other regulatory requirements applicable to them with respect to their investment in the Notes. Relevant investors are required to independently assess and determine the sufficiency of the information described in this Prospectus and in any Performance Report provided in relation to the transaction for the purpose of complying with Article 122a and none of the Issuer, the Arranger, Lead Managers or any Transaction Party 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 it is not clear what will be required to demonstrate compliance to national regulators. Investors who are uncertain as to the requirements that will need to be complied with in order to avoid the additional regulatory charges for non compliance with Article 122a and any implementing rules in a relevant jurisdiction should seek guidance from their regulator. Similar requirements to those set out in Article 122a are expected to be implemented for other EU regulated investors (such as certain types of investment fund managers, insurance and reinsurance undertakings) 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.

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

The regulatory capital framework published by the Basel Committee on Banking Supervision (the "**Basel Committee**") in 2006 (the "**Basel II Framework**") has not been fully implemented in all participating countries. The implementation of the framework in relevant jurisdictions may affect the risk-weighting of the Notes for investors who are or may become subject to capital adequacy requirements that follow the framework.

It should also be noted that the Basel Committee has approved significant changes to the Basel II Framework (such changes being commonly referred to as "**Basel III**"), including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions. In particular, the changes refer to, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (referred to as the "liquidity coverage ratio" and the "net stable funding ratio"). Member countries will be required to implement the new capital standards from January 2013, the new liquidity coverage ratio from January 2015 and the net stable funding ratio from January 2018. The European authorities have indicated that they support the work of the Basel Committee on the approved changes in general, and the European Commission's corresponding proposals comprising a draft regulation and a draft directive to implement the changes (through amendments to the Capital Requirements Directive known as "**CRD IV**") were published on 20 July 2011. The Commission intends that the proposed regulation and directive come into force on 1 January 2013, with full implementation by 1 January 2019. The changes approved by the Basel Committee may have an

impact on incentives to hold the Notes for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the Notes.

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

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

No assurance can be given that action and rules and regulations, additional to those discussed above, from any regulatory authority will not be implemented with regard to the mortgage market in the United Kingdom generally, the particular sector in that market in which the Legal Title-Holder or the Seller operates or specifically in relation to the Legal Title-Holder or the Seller. Any such action or developments, in particular, but not limited to, the cost of compliance, may have a material adverse effect on the Loans, the Legal Title-Holder and the Issuer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments to the Noteholders.

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

The Issuer will enter into the Deed of Charge pursuant to which it will grant the English Security in respect of certain of its obligations, including its obligations under the Notes. In certain circumstances, including the occurrence of certain insolvency events in respect of the Issuer, the ability to realise the English Security may be delayed and/or the value of the English Security impaired. 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).

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

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

In addition, it should be noted that, to the extent that the assets of the Issuer are subject only to a floating charge (including any fixed charge recharacterised by the courts as a floating charge), in certain circumstances under the provisions of section 176A of the Insolvency Act 1986, 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 question 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 English Security.

#### ***Insolvency proceedings and subordination provisions***

There is uncertainty as to the validity and/or enforceability of a provision which (based on contractual and/or trust principles) subordinates certain payment rights of a creditor to the payment rights of other creditors of its

counterparty upon the occurrence of insolvency proceedings relating to that creditor. In particular, recent cases have focused on provisions involving the subordination of a hedging counterparty's payment rights in respect of certain termination payments upon the occurrence of insolvency proceedings or other default on the part of such counterparty. Such provisions are similar in effect to the terms which will be included in the Transaction Documents.

The Supreme Court of the United Kingdom in *Belmont Park Investments PTY Limited (Respondent) v BNY Corporate Trustee Services Limited and Lehman Brothers Special Financing Inc* [2011] UKSC 38 unanimously upheld the decision of the Court of Appeal in upholding the validity of similar priorities of payment, stating that, provided that such provisions form part of a commercial transaction entered into in good faith which does not have, as its predominant purpose or one of its main purposes, the deprivation of the property of one of the parties on bankruptcy, 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". In New York, whilst leave to appeal was granted, the case was settled before an appeal was heard. Therefore concerns still remain that the U.S. courts will diverge in their approach which, in the case of an unfavourable decision in New York, may adversely affect the Issuer's ability to make payments on the Notes.

If a creditor of the Issuer (such as a Swap Counterparty) or a related entity becomes subject to insolvency proceedings in any jurisdiction outside England and Wales (including, but not limited to, the US), and it is owed a payment by the Issuer, a question arises as to whether the insolvent creditor or any insolvency official appointed in respect of that creditor could successfully challenge the validity and/or enforceability of subordination provisions included in the English law governed Transaction Documents (such as a provision of the Priority of Payments which refers to the ranking of a Swap Counterparty's payment rights). In particular, based on the decision of the US Bankruptcy Court referred to above, there is a risk that such subordination provisions would not be upheld under US bankruptcy laws. Such laws may be relevant in certain circumstances with respect to a range of entities which may act as a Swap Counterparty, including US established entities and certain non-US established entities with assets or operations in the US (although the scope of any such proceedings may be limited if the relevant non-US entity is a bank with a licensed branch in a US state). In general, if a subordination provision included in the Transaction Documents was successfully challenged under the insolvency laws of any relevant jurisdiction outside England and Wales and any relevant foreign judgment or order was recognised by the English courts, there can be no assurance that such actions would not adversely affect the rights of the Noteholders, the market value of the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes.

Lastly, given the general relevance of the issues under discussion in the judgments referred to above and that the Transaction Documents will include terms providing for the subordination of the payments due to a Swap Counterparty in certain circumstances post-enforcement, there is a risk that the final outcome of the dispute in such judgments (including any recognition action by the English courts) may result in negative rating pressure in respect of the Notes. If any rating assigned to the Notes is lowered, the market value of the Notes may reduce.

### ***Liquidation Expenses***

On 6 April 2008, a provision in the Insolvency Act 1986 came into force which effectively reversed by statute the House of Lords' decision in the case of *Leyland Daf* in 2004. Accordingly, it is now the case that, in general, the costs and expenses of a liquidation (including certain tax charges) 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 approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to provisions set out in the Insolvency Rules 1986.

On this basis and as a result of the changes described above, in a winding up of the Issuer, floating charge realisations which would otherwise be available to satisfy the claims of Secured Creditors under the Deed of Charge may be reduced by at least a significant proportion of any liquidation expenses. There can be no assurance that the holders of the Notes will not be adversely affected by such a reduction in floating charge realisations.

## TAX CONSIDERATIONS

### *Withholding or deduction under the Notes*

In the event that a withholding or deduction for or on account of any taxes is imposed by law, or otherwise applicable, in respect of amounts payable under the Notes, neither the Issuer nor the Principal Paying Agent nor any other entity is obliged to gross up or otherwise compensate Noteholders for the lesser amounts which the Noteholders will receive as a result of the imposition of such withholding or deduction. Following the imposition of such withholding or deduction, the Issuer may redeem the Notes in accordance with Condition 5(f) of the Notes (*Optional Redemption for Taxation or Other Reasons*) if the Issuer has sufficient funds available, thereby shortening the average lives of the Notes.

### *United Kingdom Taxation Position of the Issuer*

Pursuant to Chapter 4, Part 13 of the Corporation Tax Act 2010 (formerly Section 84 of the Finance Act 2005), regulations were made to establish a permanent regime for the taxation of securitisation companies, the Taxation of Securitisation Companies Regulations (the "**TSC Regulations**"). For accounting periods beginning on or after 1<sup>st</sup> January 2007, companies to which these regulations apply are taxed broadly by reference to their "retained profit" rather than by reference to their accounts. It is expected, and the Issuer has been so advised, that the Issuer will fall within the permanent regime for securitisation companies, but if it does not (or subsequently does not) then profits or losses could arise in the Issuer which could have tax effects not contemplated in the cash flows for the transaction and as such adversely affect the tax treatment of the Issuer and consequently payments of the Notes. Investors should note that the TSC Regulations are in short form and advice received as to the scope and operation of the TSC Regulations relies significantly upon guidance from the UK tax authorities.

### *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 may instead (unless during that period they elect otherwise) impose a withholding system (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). A number of non-EU countries and territories have adopted similar measures to the EU Directive.

If a payment 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, the Principal Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on a payment made by the Principal Paying Agent, the Issuer will be required to maintain a Principal Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

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

## GENERAL CONSIDERATIONS

### *Reliance on Third Parties*

The Issuer has engaged KMC to administer the Mortgage Pool pursuant to the Mortgage Administration Agreement. While KMC is under contract to perform certain mortgage settlement and related administration services under the Mortgage Administration Agreement, there can be no assurance that they will be willing or able to perform these services in the future. In the event KMC is replaced as Mortgage Administrator, there may be losses or delays in processing payments on the Mortgage Pool due to a disruption in mortgage administration during a transfer to a successor Mortgage Administrator. This may cause delays in payments or losses under the Notes. In order to reduce this risk, the Issuer has appointed the Standby Mortgage Administrator pursuant to the Standby Mortgage Administration Agreement.

Pursuant to the Swap Agreements, each of the Swap Counterparties have agreed to provide the Issuer with certain hedges against certain interest rate fluctuations. (See "*Credit Structure – Interest Rate Cap Agreements*" and "*Credit Structure - Fixed/Floating Swap Agreement*"). Pursuant to the Second Guaranteed Investment Contract, the Second GIC Provider has agreed to provide the Issuer with a specific rate of interest on funds on deposit in the Second GIC Account for a period of six years from the Issue Date. See "*Credit Structure – GIC Account*".



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, investors may be adversely affected. In addition, in the event that the rating by any of the Rating Agencies of the Account Bank, the Custodian or either of the GIC Providers is downgraded, it is possible that such Account Bank, Custodian or such GIC Provider (as the case may be) may no longer meet the rating requirements as set out in the section entitled "*Triggers Table - Account Bank, Custodian and GIC Providers*". There can be no assurance that the Account Bank or the relevant GIC Provider or the Issuer will be able to procure that the Account Bank, the Custodian or the relevant GIC Provider be replaced within 30 days of the Issuer being notified of the downgrading of the relevant entity and there is therefore a risk that the Rated Notes will be downgraded in such circumstances.

A failure to make timely payment of amounts due to a Swap Counterparty (after any applicable grace periods) would constitute a default under a Swap Agreement. Accordingly, the Issuer will allocate amounts for the purpose of making payments due under the Swap Agreements before allocating any amounts for the purpose of making repayments of principal and payments of interest under the Notes. If a Swap Counterparty is not obliged to make payments of any amounts, or if it defaults in its obligation to make payments to the Issuer in accordance with the terms of the relevant Swap Agreement, the Issuer will be exposed to changes in associated interest rates, and the Issuer as a result may have insufficient funds to make payments due on the Notes.

#### ***Swap termination payments***

If a Swap Agreement terminates, the Issuer may be obliged to pay a termination payment to the relevant Swap Counterparty. The amount of such termination payment will be based on the value of any benefit that would otherwise accrue to the Issuer as a result of terminating and replacing the relevant Swap Agreement. There can be no assurance that the Issuer will have sufficient funds available to make any termination payment under the relevant Swap Agreement or that the Issuer, following termination of the relevant Swap Agreement, will have sufficient funds to make subsequent payments to the Noteholders in respect of the relevant Class of Notes.

Except where the relevant Swap Counterparty causes the applicable Swap Agreement to terminate by its default or pursuant to a downgrade event, any termination payment in respect of such Swap Agreement will rank in priority to payments of interest due on the A1 Notes.

If a Swap Agreement terminates, there can be no assurance that the Issuer will be able to enter into a replacement swap, or if one is entered into, there can be no assurance that the credit rating of the replacement Swap Counterparty will be sufficiently high to prevent a downgrading of the then current ratings of one or more Classes of the Rated Notes by the Rating Agencies.

#### ***Insolvency of Swap Counterparty***

In the event of the insolvency of a Swap Counterparty, the Issuer will be treated as a general creditor of such Swap Counterparty. Consequently, the Issuer will be subject to the credit risk of such entity. To mitigate this risk, under the terms of each of the Swap Agreements, in the event that the relevant ratings of the relevant Swap Counterparty fails to meet the required ratings, such Swap Counterparty may, in accordance with the terms of the relevant agreement, be required to elect to take certain remedial measures within the applicable time frame stipulated in such Swap Agreement (at its own cost). Please see the section entitled "*Triggers Tables - Rating Triggers Tables*" for further information. However, no assurance can be given that, at the time that such actions are required, sufficient collateral will be available to the relevant entity or that another entity with the required ratings will be available to become a replacement Swap Counterparty, co-obligor or guarantor or that the relevant Swap Counterparty will be able to take the requisite other action.

#### ***Minimum Denominations***

If definitive notes are issued, Noteholders should be aware that definitive notes which have a denomination that is not an integral multiple of the minimum authorised denomination may be illiquid and difficult to trade.

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

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

The Common Safekeeper will be the bearer and sole legal Noteholder of the Global Notes. Accordingly, each person owning a Book-Entry Interest may 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 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.

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, direct participants. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable holders of book entry interests to vote on any requested actions on a timely basis. Similarly, upon the occurrence of an event of default, holders of book-entry interests will be restricted to acting through Euroclear or Clearstream, Luxembourg (as the case may be) unless and until individual note certificates are issued. There can be no assurance that the procedures to be implemented by Euroclear or Clearstream, Luxembourg under such circumstances will be adequate to ensure the timely exercise of remedies under the Trust Deed and/or Deed of Charge.

Payments of principal and interest on, and other amounts due in respect of, the Global Notes will be made by the Principal Paying Agent through Euroclear and/or Clearstream, Luxembourg. Upon receipt of any payment from the Principal Paying Agent, Euroclear and/or 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 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 securities held for the accounts of customers registered in "street name", and will be the responsibility of such participants or indirect participants. None of the Issuer, the Trustee or any Paying Agent 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.

Although Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfers of Book-Entry Interests among participants 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, or the Trustee, or any of their agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

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

*The Issuer believes that the risks described above are the principal risks inherent in the transaction for the Noteholders, but the inability of the Borrowers to pay interest, principal or other amounts on the Loans and consequently the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons, and the Issuer does not represent that the above statements regarding the risk of holding the Notes are exhaustive. Although the Issuer believes that the various structural elements described in this Prospectus lessen some of the risks for the Noteholders, there can be no assurance that these measures will be sufficient to ensure payment to the Noteholders of interest, principal or any other amounts on or in connection with the Notes on a timely basis or at all.*

## **USE OF PROCEEDS**

The net proceeds of the issue of the Notes are expected to amount to approximately £252,157,560, and will (i) be applied in the purchase by the Issuer from the Seller of the Completion Mortgage Pool on the Issue Date, (ii) be used to meet the Issuer Costs and Expenses, (iii) be used to fund the Yield Reserve Fund, (iv) be used to fund the Reserve Fund up to its initial amount on the Issue Date and (v) be used to fund the Contingency Reserve.

## THE ISSUER

### General

The Issuer was established as a special purpose vehicle and incorporated under the laws of England and Wales (registered number 7757442) under the Companies Act 2006 with limited liability as a public limited company on 31 August 2011. On 1 December 2011 the Issuer changed its name from Gemgarto 2011-1 plc to Gemgarto 2012-1 plc.

### Registered Office

The Issuer's registered office is at 35 Great St. Helen's, London, EC3A 6AP, England. The telephone number of the Issuer is +44 (0)207 398 6300.

### Principal Activities

The Issuer has been established as a special purpose vehicle to acquire portfolios of residential mortgage loans and issue asset backed securities. Its activities will be restricted by the terms and conditions of the Transaction Documents and will be limited to the issue of the Notes, the ownership of the Loans and their Collateral Security and other assets referred to herein, the exercise of related rights and powers, and other activities referred to herein or reasonably incidental thereto. These activities will include (a) the collection of all payments of principal and interest due from Borrowers on Loans; (b) the operation of arrears procedures and (c) the enforcement of Loans and their Collateral Security against Borrowers in default.

Substantially all of the above activities will be carried on by the Mortgage Administrator on an agency basis under the Mortgage Administration Agreement or the Standby Mortgage Administrator under the Standby Mortgage Administration Agreement, as the case may be. In respect of certain specified items, such as the discretionary, as opposed to the procedural, aspects of the enforcement of Loans and their Collateral Security against Borrowers in default and other discretionary matters, the Issuer has delegated certain decision making powers to the Special Servicer.

Additionally, the Cash/Bond Administrator will provide cash management and bond reporting services to the Issuer pursuant to the Cash/Bond Administration Agreement. The Issuer (with the consent of the Trustee) or the Trustee may revoke the agency (and, simultaneously, the rights) of the Mortgage Administrator or the Standby Mortgage Administrator, as the case may be, the Special Servicer and/or the Cash/Bond Administrator upon the occurrence of certain events of default or insolvency or similar events in relation to the Mortgage Administrator or the Standby Mortgage Administrator, as the case may be, the Special Servicer or, as the case may be, the Cash/Bond Administrator or, in certain circumstances, following an Event of Default (as defined in the Conditions) in relation to the Notes. Following such an event as aforesaid, the Issuer (with the consent of the Trustee) or the Trustee may, subject to certain conditions, appoint substitute administrators.

The objects of the Issuer are unrestricted in its Memorandum and Articles of Association.

Since its incorporation, the Issuer has not produced any accounts and has not engaged in any material activities other than those incidental to its registration as a public company, the authorisation of the issue of the Notes, the matters contemplated in this Prospectus, the authorisation of the Transaction Documents referred to in this Prospectus in connection with the issue of the Notes and other matters which are incidental or ancillary to those activities. The Issuer has no subsidiaries or employees.

## Management

The directors of the Issuer and, where applicable, their respective business addresses and principal activities are:

<b>Name</b>	<b>Business Address</b>	<b>Principal Activity</b>
SFM Directors Limited (a company incorporated in England and Wales, registered number 3920254)	35 Great St. Helen's, London, EC3A 6AP, England	Provision of directors and corporate management services to structured finance transactions
SFM Directors (No. 2) Limited (a company incorporated in England and Wales, registered number 4017430)	35 Great St. Helen's, London, EC3A 6AP, England	Provision of directors and corporate management services to structured finance transactions
John Paul Nowacki	35 Great St. Helen's, London, EC3A 6AP, England	Director

The directors of the Issuer may engage in other activities and have other interests which may conflict with the interests of the Issuer. As a matter of English law, each director is under a duty to act honestly and in good faith with a view to the best interests of the Issuer, regardless of any other directorships he may hold.

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

The secretary of the Issuer is SFM Corporate Services Limited, a company incorporated in England and Wales with the registered number 3920255 and having its registered office is at 35 St. Helen's, London, EC3A 6AP.

## Capital and Shares

The share capital of the Issuer is comprised of 50,000 ordinary shares of £1 each, all of which are beneficially owned by Holdings.

## Auditors

The independent auditor of the Issuer is Ernst & Young LLP whose office is located at 1 More London Place, London SE1 2AF England.

## Tax

It is considered that the Issuer will qualify as a "securitisation company" for the purposes of the United Kingdom Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296) (the "**Regulations**") with effect from the Issue Date and will be subject to United Kingdom corporation tax on its retained profit in accordance with the Regulations. The amount of such profit is expected to be equal to the Issuer Turn.

## CAPITALISATION STATEMENT

The following table shows the unaudited capitalisation of the Issuer as at 17 April 2012.

### Share Capital

	£
<i>Authorised</i>	
50,000 ordinary shares of £1 each.....	50,000
<i>Issued</i> .....	
50,000 ordinary shares of £1 each, 1 of which is fully paid up and 49,999 of which are one quarter paid up .....	12,500.75
	<u>12,500.75</u>
Borrowings.....	
The Notes .....	240,000,000
<b>Total Capitalisation</b> .....	<u><u>240,012,500.75</u></u>

As at 17 April 2012, save as disclosed above, the Issuer has no loan capital outstanding or created but unissued, no term loans outstanding and no other borrowings or indebtedness in the nature of borrowing nor any contingent liabilities or guarantees.

## GEMGARTO HOLDINGS LIMITED

### General

Gemgarto Holdings Limited ("**Holdings**") was established as a special purpose vehicle and incorporated under the laws of England and Wales (registered number 7757482) under the Companies Act 2006 with limited liability as a private limited company on 31 August 2011.

### Registered Office

Holdings' registered office is at 35 Great St. Helen's, London, EC3A 6AP, England. The telephone number of Holdings is +44 (0)207 398 6300.

### Principal Activities

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

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

The objects of Holdings are unrestricted in its Memorandum and Articles of Association.

Since its incorporation, Holdings has not produced any accounts and has not engaged in any material activities other than the authorisation of the Transaction Documents to which it is a party. Holdings has no subsidiaries or employees.

### Management

The directors of Holdings and, where applicable, their respective business addresses and principal activities are:

<b>Name</b>	<b>Business Address</b>	<b>Principal Activity</b>
SFM Directors Limited (a company incorporated in England and Wales, registered number 3920254)	35 Great St. Helen's, London, EC3A 6AP, England	Provision of directors and corporate management services to structured finance transactions
SFM Directors (No. 2) Limited (a company incorporated in England and Wales, registered number 4017430)	35 Great St. Helen's, London, EC3A 6AP, England	Provision of directors and corporate management services to structured finance transactions
John Paul Nowacki	35 Great St. Helen's, London, EC3A 6AP, England	Director

The directors of Holdings may engage in other activities and have other interests which may conflict with the interests of Holdings. As a matter of English law, each director is under a duty to act honestly and in good faith with a view to the best interests of Holdings, regardless of any other directorships he may hold.

The secretary of Holdings is SFM Corporate Services Limited, a company incorporated in England and Wales with the registered number 3920255 and having its registered office is at 35 St. Helen's, London, EC3A 6AP.

### Capital and Shares

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

The entire beneficial interest in the share of Holdings is beneficially owned by the Share Trustee on a discretionary trust for charitable purposes.

**Auditors**

The independent auditor of the Issuer is Ernst & Young LLP whose office is located at 1 More London Place, London SE1 2AF, England.



## **THE LEGAL TITLE-HOLDER, THE MORTGAGE ADMINISTRATOR AND THE SPECIAL SERVICER**

### **Kensington Mortgage Company Limited**

KMC is a company incorporated under the laws of England and Wales (registration number 03049877) on 26 April 1995, having its registered office at 2 Gresham Street, London EC2V 7QP. It is a company whose purpose is advancing or acquiring residential mortgage loans to borrowers in England and Wales, Northern Ireland and Scotland. KMC is a wholly owned subsidiary of Kensington Group plc, itself a wholly owned subsidiary of Investec plc. KMC is currently the authorised mortgage lender of loans with the Kensington Group, on the basis that it is an "authorised person" approved by the Financial Services Authority to carry out certain regulated activities.

KMC does not have any employees on the Issue Date. KMC will delegate on the Issue Date its functions as Mortgage Administrator to Homeloan Management Limited, a wholly owned subsidiary of Skipton Building Society.

## **THE STANDBY MORTGAGE ADMINISTRATOR**

### **Homeloan Management Limited**

Homeloan Management Limited ("**HML**") (a wholly-owned subsidiary of Skipton Building Society, which is itself regulated by the FSA) has been appointed as the Standby Mortgage Administrator pursuant to the Standby Mortgage Administration Agreement and pursuant to which HML is responsible for the provision of certain mortgage settlement and related administration services following termination of the Mortgage Administrator's appointment pursuant to the Mortgage Administration Agreement.

HML is the largest third party residential mortgage administrators in the United Kingdom. HML is currently servicing approximately £40 billion of mortgage assets for third parties.

The registered office and principal place of business of HML are The Bailey, Skipton BD23 1DN and Gateway House, Gargrave Road, Skipton BD23 2HL respectively. HML has a residential primary servicer rating of RPS2+ (Rating Watch Negative) by Fitch Ratings Limited and S&P's Primary Servicer rating of Above Average with a Stable Outlook.

## **THE SELLER AND THE CASH/BOND ADMINISTRATOR**

### **Investec Bank plc**

Investec is part of an international specialist bank and asset management group that provides a diverse range of financial products and services to a niche client base in the United Kingdom, South Africa and Australia. Its registered office is at 2 Gresham Street, London EC2V 7QP.

Within Investec, the capital markets team has extensive experience in originating, acquiring, trading and securitising residential mortgage loan portfolios.

Investec will delegate on the Issue Date certain of its functions as Cash/Bond Administrator under the Cash/Bond Administration Agreement to Wells Fargo Bank International.

## **THE TRUSTEE, SECOND GIC PROVIDER, CAP COUNTERPARTY AND STANDBY CASH / BOND ADMINISTRATOR**

Wells Fargo Trust Corporation Limited ("**WFTCL**") is a private limited company incorporated under English law with registration number 4409492 and with its registered office at 6-8 Underwood Street, London N1 7JQ. WFTCL is an indirect wholly-owned subsidiary of Wells Fargo & Co.

WFTCL falls within Wells Fargo's Corporate Trust Services ("**CTS**") business line, which provides fiduciary, agency and trustee services on structured and vanilla debt securities issued by public and private corporations, government entities, financial institutions and special purpose vehicles, as well as providing other corporate trust and agency services.

Wells Fargo Bank, National Association ("**WFBNA**") is an indirect wholly-owned subsidiary of Wells Fargo & Co and is a national banking association organized under the laws of the United States with its head office at 420 Montgomery Street, San Francisco, CA 94104, USA. WFBNA is registered with the U.S. Office of the Comptroller of the Currency under charter number 1. WFBNA is registered with the UK's Companies House under number FC026633 and is authorized and regulated in the UK by the Financial Services Authority. WFBNA has a long-term debt rating of AA- by Fitch, Aa3 by Moody's and AA- by S&P and a short-term debt rating of F1+ by Fitch, P-1 by Moody's and A-1+ by S&P.

Wells Fargo Bank International ("**WFBI**") is an indirect wholly-owned subsidiary of Wells Fargo & Co. Based in the International Financial Services Centre in Dublin, Ireland, WFBI is incorporated under Irish law and is authorised and regulated by the Central Bank of Ireland.

Wells Fargo & Co. is a diversified financial services company providing banking, insurance, investments, mortgages and consumer finance from more than 9,000 branches, the internet and other distribution channels across North America and internationally. As of 30 June 2011, Wells Fargo & Co. had US\$1.3 trillion in assets and more than 275,000 team members across more than 80 businesses. The head quarter of Wells Fargo & Co. are located at 420 Montgomery Street, San Francisco, California 94163, U.S.A.

As of 31 December 2011, Wells Fargo & Co. has a long-term debt rating of AA- by Fitch, A2 by Moody's and A+ by S&P. The short-term debt is rated F1+ by Fitch, P-1 by Moody's and A-1 by S&P. As of 31 December 2011, Wells Fargo was ranked fourth in assets and first in market value of its stock among its U.S. peers.

## THE ACCOUNT BANK, FIRST GIC PROVIDER AND FIXED/FLOATING SWAP PROVIDER

Barclays Bank PLC is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays Bank PLC is limited. It has its registered 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 “**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 Group.

The short term unsecured obligations of Barclays Bank PLC are rated A-1 by Standard & Poor's Credit Market Services Europe Limited, P-1 by Moody's Investors Service Ltd. and F1 by Fitch Ratings Limited and the long-term obligations of Barclays Bank PLC are rated A+ by Standard & Poor's Credit Market Services Europe Limited, Aa3 by Moody's Investors Service Ltd. and A by Fitch Ratings Limited.

Based on the Group's audited financial information for the year ended 31 December 2011, the Group had total assets of £1,563,402 million (2010: £1,490,038 million), total net loans and advances<sup>1</sup> of £478,726 million (2010: £465,741 million), total deposits<sup>2</sup> of £457,161 million (2010: £423,777 million), and total shareholders' equity of £65,170 million (2010: £62,641 million) (including non-controlling interests of £3,092 million (2010: £3,467 million)). The profit before tax from continuing operations of the Group for the year ended 31 December 2011 was £5,974 million (2010: £6,079 million) after credit impairment charges and other provisions of £3,802 million (2010: £5,672 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 2011.

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<sup>1</sup> Total net loans and advances include balances relating to both bank and customer accounts.

<sup>2</sup> Total deposits include deposits from bank and customer accounts.

## CONSTITUTION OF THE MORTGAGE POOL

1. The pool of Loans to be sold to the Issuer on the Issue Date pursuant to the Mortgage Sale Agreement will comprise the Completion Mortgage Pool other than Loans which have been repaid or in respect of which funds representing principal outstanding have otherwise been received in full or which have been re-transferred to Investec pursuant to the Mortgage Sale Agreement or in respect of which Enforcement Procedures have been completed, and any Substitute Loans.

2. As at the Issue Date, the Completion Mortgage Pool will comprise the Loans selected by the Seller from the Provisional Completion Mortgage Pool, which had the following characteristics:

Aggregate balance .....	£ 240,526,735
Number of Loans .....	1,864
Average balance.....	£ 129,038
Weighted average original loan to value ratio .....	75.42 %
Weighted average term to maturity.....	22.26 years

3. Repayment terms under each type of mortgage loan differ according to the repayment type (see Table 11 (Distribution of Loans by Repayment Method) under "*Characteristics of the Provisional Completion Mortgage Pool*" below). The following repayment types are included in the Provisional Completion Mortgage Pool:

- (a) Repayment Loans;
- (b) Interest Only Loans; and
- (c) Part and Part Loans.

Supporting life assurance cover is not required to be charged by way of collateral security but may be in some cases.

For Part and Part Loans, monthly payments are comprised of the interest due on both portions of the Loan and the principal repayable on the portion in respect of which the Borrower is required to pay both interest and principal. The principal amount relating to the portion in respect of which the Borrower is required to pay interest only is repayable at maturity.

4. Each Repayment Loan, Interest Only Loan and Part and Part Loan is a Loan which is secured by a Mortgage.

Each Loan will be either:

- (a) a LIBOR Standard Mortgage;
- (b) a Capped Rate Mortgage; or
- (c) a Fixed Rate Mortgage.

### **Mortgage Early Redemption Amounts**

Under the terms of each Loan, the Borrower is also obliged to pay a compensation payment if the Loan is redeemed; the Mortgage Early Redemption Amount. The compensation payment which that Borrower pays is determined by the particular mortgage offer upon which that Borrower's Loan was based.

If a Borrower redeems a Loan before the end of the term/within the Relevant Period and takes out a new loan with the Legal Title-Holder, the Cash/Bond Administrator may, in its absolute discretion, up to 30 days after receipt of the Mortgage Early Redemption Amount, refund that Mortgage Early Redemption Amount to that Borrower. A Mortgage Early Redemption Amount not so refunded will comprise part of the Available Revenue Funds.

If a Borrower defaults and Enforcement Procedures are initiated, the Enforcement Proceeds may be insufficient to repay the Enforcement Liabilities. The Enforcement Proceeds will be applied first in repaying all Enforcement Liabilities. Only when all Enforcement Liabilities have been repaid will the remaining Enforcement Proceeds (if any) be applied towards payment of Mortgage Early Redemption Amounts.

As the Loans comprising the Completion Mortgage Pool were originated between 2 August 2010 and 5 January 2012, few, if any, Mortgage Early Redemption Amounts in respect of the Completion Mortgage Pool are expected to arise after 5 January 2015.

### **Lending Criteria**

The following is a summary of the lending criteria applied in relation to the Loans originated by the Legal Title-Holder which form the Mortgage Pool as at the Issue Date. Capitalised terms used in this section are used in respect of the Lending Criteria only, unless the context otherwise requires. In the event of a conflict with the section headed "*Glossary of Defined Terms*", for this section only ("*Lending Criteria*"), the definitions set out in this section shall prevail.

### **Security**

- (a) Each Loan must be secured by a first ranking legal mortgage (a "**Mortgage**" over a freehold or long leasehold residential property (usually at least 35 years longer than the mortgage term) in England or Wales (the "**Property**").
- (b) Loans will be granted on residential and/or investment property offered as acceptable security in England and Wales subject to acceptable valuation. Use of all properties will be for owner occupation for residential use only except for those loans where alternative usage has been agreed at application, for example buy-to-let.
- (c) Acceptable tenure comprises: freehold houses; leasehold houses, flats and maisonettes with not less than 35 years remaining on the lease after the term of the mortgage; commonhold. Unacceptable tenure includes: freehold flats and maisonettes; leasehold houses, flats and maisonettes with less than 35 years remaining on the lease after the term of the mortgage.
- (d) Only Property of standard construction, including self-build houses that are determined as adequate security by a suitably qualified member of the panel of valuers, are acceptable. Properties of non-standard construction are not considered.
- (e) The following are examples of types of property which are deemed unacceptable as security unless the Legal Title-Holder agrees otherwise:
  - Properties of 100 per cent. timber construction.
  - Properties designated as defective under the Housing Defects Act 1984 and the Housing Act 1985.
  - Properties containing mundic block materials.
  - Ex-local authority flats and maisonettes.
  - Studio flats.
  - Basement flats.
  - Steel framed houses. Steel framed flats are acceptable security provided construction occurred in 2001 or later.
  - Borrower or Borrower-owned business owning more than 25 per cent. of the freehold of the block in so far as can be ascertained at the time of underwriting.
  - Flats above commercial premises.
- (f) The following are examples of types of property which are never acceptable:
  - Properties with agricultural restrictions.
  - Properties determined as unacceptable by the valuer.
  - Properties less than ten years old without either a NHBC certificate, Architects Certificate, Premier Guarantee or BLP Limited Guarantee.
  - Properties not wholly owned by the Borrower or shared ownership.
  - Multi-unit properties.
  - Prefabricated re-enforced concrete (repaired or not).

- Properties with Japanese Knotweed on site.
- (g) Properties offered as security are professionally valued by a nominated panel company. Security worth more than £750,000, will be subject to two RICS panel valuation reports. Lending will be based on the lower of the two valuation figures. All RICS valuations will have the market valuation checked against an automated valuation model where possible.
- (h) Prior to the release of advance monies to a borrower, the Legal Title-Holder requires the property offered as security to be comprehensively insured for not less than the full reinstatement figure recommended by the valuer and shown on the property valuation report plus 12.5 per cent.. The policy must, *inter alia*: (i) be a comprehensive index linked insurance policy issued by a reputable insurer and be reviewed annually; (ii) be on standard commercial terms; (iii) contain a mortgagee's protection clause; and (iv) contain a note of the Legal Title-Holder's interest. The Legal Title-Holder does not currently offer buildings insurance at point of sale. Customers must arrange their own insurance prior to completion. In all cases prior to completion, a valid buildings insurance policy must be checked by the Legal Title-Holder's solicitors/title insurers prior to completion to ensure suitable cover is in place.

### **Loan Amount**

For first-time buyers, the maximum loan amount is £500,000. For purchase and remortgage, the maximum loan amount is £1,000,000 up to 75 per cent. LTV and £500,000 above 75 per cent. LTV. For buy-to-let, the maximum loan amount is £350,000.

### **Loan to Value**

- (a) The LTV is calculated by dividing the gross principal amount committed at completion of the Loan (exclusive of any arrangement fee which may be added to the Loan) by the valuation of the Property at origination of the Loan or, in some cases, the lower of such valuation and the sale price.
- (b) The LTV of each Loan at the date of the advance must be no more than 90 per cent (inclusive of any fees added to the Loan).

### **Term**

A loan term of between five and thirty years can be considered subject to scheme rules.

### **Borrowers**

1. A minimum of one and a maximum of four Borrowers are allowed to be parties to the Loan. Only the two highest incomes will be used for calculating the lending available.
2. Minimum age requirements vary with product and the time at which the Loan was originated. Typically, Borrowers must have been at least 21 years of age prior to completion of the Loan, but some products and LTV ratios (typically above 80 per cent.) require Borrowers to be at least 25 years of age. Borrowers must have been at least 25 years of age prior to completion of a Loan for buy-to-let. For most products, the maximum age of any borrower at the end of mortgage term must not exceed 65 or expected retirement age, whichever is the earlier. However, some schemes (for example, buy-to-let) may allow lending into retirement to a maximum age of 75 at the end of the mortgage term.
3. The Borrower's credit and employment history will have been assessed with the aid of the following:
  - (i) a search covering a period of 24 months prior to the date of application supplied by a credit reference agency;
  - (ii) confirmation of voters roll entries;
  - (iii) full 12 months employment history (if applicable);
  - (iv) references from former lenders (if not shown on the credit reference agency report); and
  - (v) references from current and/or previous commercial landlords.



4. Some schemes may allow County Court Judgments ("**CCJs**"). Where CCJs are permitted, CCJs must be satisfied prior to application to be considered satisfied. Loans are not to be offered on the basis that CCJs will be satisfied post offer, thereby qualifying the loan for inclusion in a higher scheme class.
5. A comprehensive explanation for any arrears from a Borrower must accompany any application with arrears history and the relevant underwriters must have been satisfied that the problems that caused the arrears situation are unlikely to reoccur following completion of the Loan.

## **Income and Affordability**

### ***Income***

Applicants with the higher gross income will be considered the primary applicant except in cases where applicants formally request the contrary. There must be a minimum total assessable income of £25,000 on joint applications. On sole applicant applications there must be a minimum total assessable income of £18,000. In assessing minimum income no Working Family Tax Credits can be taken into account and income must be from a single source. For buy-to-let applications, the minimum income of one applicant must be either £25,000 or £30,000 (with the latter amount required if the LTV exceeds 80 per cent.). If the customer is a part time landlord then the £25,000/£30,000 must be a separate source of income from the rental income received from property. Employed applicants must be in the same employment for more than three months and must have completed any probationary period. All types of employment are confirmed via telephone enquiries to employer/business address. Ideally, a three year net profit history is required to verify income in self-employed situations; however, a minimum of one year's trading supported by financial accounts is acceptable. The underwriter will be satisfied that the self employed business is in existence. Selected schemes are underwritten on confirmation of projected rental income where the property is to be let out on an Assured Shorthold Tenancy Agreement. The rental income projection must be confirmed by a RICS qualified valuer.

Having established the level of income attributable to each applicant, regular and ongoing financial commitments over and above normal household expenditure will be annualised and deducted from this figure to determine the net disposable income and used in the affordability calculation.

Where income calculations allow, loans excluding existing mortgages will not need to be redeemed as a condition of the mortgage offer. However, if the total unsecured debt remaining outstanding on completion is £10,000 or more the case must be agreed by an underwriter holding a minimum mandate of £350,000, as these customers are considered to have a higher propensity to have payment difficulties in the future.

### ***Affordability***

All residential applications are subject to a full affordability assessment. Income is classed as 100 per cent. of net profit figure or basic salary and up to 100 per cent. of all bonuses, overtime, dividends shares of profits, guaranteed salary allowances, private pensions, investment income and other declarable income for tax purposes. Income is only acceptable if it is regular, sustainable and evidenced.

For residential mortgage loans only, as a secondary stream of income only and not to be used as part of the minimum income criteria, the following are acceptable: Working Family/Child Tax Credits verified by the most recent HMRC letter of confirmation and latest three months' bank statements (provided not more than 50 per cent. of applicant total income and details regarding income and circumstances must reflect other documentation on file) and maintenance payments supported by Court Order/Child Support Agency documentation and last three months bank statements to verify receipts.

For residential mortgages, central to the affordability assessment is the calculation of the applicant's disposable income, which is determined by reference to the gross declared income of the applicant less amounts to be applied towards payment of (i) tax, national insurance and council tax, (ii) a loading amount determined by the number of dependants of the applicant and (iii) contractual commitments and regular expenditure.

Once the applicant's disposable income has been calculated, a Debt-to-Income Ratio ("**DTIR**") affordability calculation is carried out in order to determine the maximum amount an applicant can borrow on a repayment or interest only basis (and, if interest only, the DTIR calculation should include the cost, as appropriate, of any repayment vehicle). The DTIR calculation uses a 'loaded' reversionary rate in its calculations to stress the borrower's affordability both now and if rates increase. The loading will vary from time to time and currently it is 2 per cent. above the reversionary rate.

The amount an applicant can borrow is limited to the lower of (a) the maximum loan size allowed as calculated by the DTIR calculation and (b) four times the main applicant's income plus 1 times the second applicant's income (if applicable).

Where the affordability assessment does not support the level of borrowing requested the case will have been declined or the loan amount reduced.

### **Buy-to-Let Loans**

For buy-to-let mortgage loans, gross rental income must be a minimum of 120 per cent. (or as otherwise determined by the relevant product guide) of the pay rate and approximately 100 per cent. of the reversionary rate plus a 1 per cent. loading on an interest only or capital and interest basis. The rental yield must be based on the rent confirmed by a qualified RICS valuer. In some cases, a RICS audit valuation may also be obtained to confirm the property value.

### **Solicitors**

Any firm of solicitors acting on behalf of the lender on the making of each Loan must be registered with the Law Society of England and Wales. For loans originated prior to 1 March 2011 the firm of solicitors acting on behalf of the lender had to have at least three partners. This requirement was increased to four partners on 1 March 2011.

### **Further Advance**

Borrowers may request further advances.

If a Borrower requests a further advance and the Legal Title-Holder agrees to provide such a further advance, the Seller shall re-purchase the relevant Loan from the Issuer.

### **Porting**

The Loans are not portable.

### **Changes to Lending Criteria, Administration and Servicing**

The Legal Title-Holder as lender of record in respect of the Loans and Mortgages may, (a) as Special Servicer and Mortgage Administrator, vary the Lending Criteria or the basis on which consents or approvals are given to Borrowers from time to time and (b) as Special Servicer vary the service specification and, in doing so, they must act as a reasonably Prudent Mortgage Lender.

### **Title Insurance**

In respect of the Loans, either (i) solicitors will have carried out usual investigations, searches and other actions and enquiries which a Prudent Mortgage Lender or its solicitors or conveyancers normally make when lending to an individual on the security of residential property in England and Wales and in each case received a certificate of title or report on title relating to such Property, or (ii) title insurance will have been obtained. If title insurance was obtained, this will have been provided by First Title Limited.

The Issuer will have the benefit of the title insurance in respect of those Loans (where appropriate) sold by Investec to the Issuer pursuant to the Mortgage Sale Agreement.

### **Valuation**

Investors should be aware that, other than the valuation of Properties undertaken as at origination, no revaluation of any Property has been undertaken by the Legal Title-Holder, Investec, the Issuer, the Mortgage Administrator or the Standby Mortgage Administrator (as the case may be), the Trustee or any other person in respect of the issue of the Notes and the valuations quoted are at the date of the original mortgage loan origination.

## CHARACTERISTICS OF THE PROVISIONAL COMPLETION MORTGAGE POOL

The statistical and other information contained in this Prospectus has largely been compiled by reference to Loans in the Mortgage Pool as at 29 February 2012 (the "**Cut-Off Date**") (the "**Provisional Completion Mortgage Pool**"). The Provisional Completion Mortgage Pool has the aggregate characteristics indicated in Tables 1 – 14 below.

The information contained in these tables has been extracted from information provided by the Mortgage Administrator, is true and accurate as at the date of this Prospectus and has not been the subject of an audit (columns of percentages may not add up to 100 per cent. due to rounding).

Further information in respect of anonymised individual loan level data may be obtained on the following website: [www.ctslink.com](http://www.ctslink.com). For the avoidance of doubt, this website and the contents thereof do not form part of this Prospectus.

A Loan will be removed from the Mortgage Pool if, in the period from (and including) the Cut-Off Date up to (but excluding) the date on which the Completion Mortgage Pool is confirmed, such Loan is repaid in full or if such Loans does not comply with the Warranties.

### Pool Stratification

**Table 1 : Summary**

	<b>Total</b>	<b>Prime</b>	<b>Prime 1</b>	<b>BTL</b>
Balance	£240,526,735	£177,921,331	£14,836,208	£47,769,196
Number of Loans	1864	1347	125	392
Weighted Average Original Loan to Value	75.42%	75.15%	69.39%	78.30%
Average Loan Principal Balance	£129,038	£132,087	£118,690	£121,860
Weighted Average Full Reversionary Spread over LIBOR (bps)	4.31%	4.14%	5.10%	4.70%
Weighted Average Term to Maturity (years)	22.26	23.22	21.27	18.98
Largest Principal Balance	£991,028	£991,028	£349,492	£340,774

**Table 2: Distribution of Loans by Loan-to-Value Ratio (Original Loan to Value)**

LTV Range (%)	No. of Loans	% of Total	Current Principal	
			Balance (£)	% of Total
A. >=0<26	25	1.34%	£1,569,957	0.65%
B. >=26<51	107	5.74%	£10,396,873	4.32%
C. >=51<56	42	2.25%	£5,664,952	2.36%
D. >=56<61	75	4.02%	£8,992,838	3.74%
E. >=61<66	76	4.08%	£9,751,962	4.05%
F. >=66<71	131	7.03%	£17,554,027	7.30%
G. >=71<76	366	19.64%	£52,506,529	21.83%
H. >=76<81	579	31.06%	£72,780,154	30.26%
I. >=81<86	240	12.88%	£30,859,252	12.83%
J. >=86<91	223	11.96%	£30,450,192	12.66%
<b>Total</b>	<b>1864</b>	<b>100.00%</b>	<b>£240,526,735</b>	<b>100.00%</b>

**Table 3: Distribution of Loans by Current Principal Balance**

Current Principal Balance (£)	No. of Loans	% of Total	Current Principal	
			Balance (£)	% of Total
A.< 50,000	23	1.23%	£840,648	0.35%
B.>= 50,000 < 100,000	651	34.92%	£54,104,312	22.49%
C.>= 100,000 < 150,000	707	37.93%	£86,336,682	35.89%
D.>= 150,000 < 200,000	299	16.04%	£51,495,712	21.41%
E.>= 200,000 < 250,000	113	6.06%	£24,855,576	10.33%
F.>= 250,000 < 300,000	39	2.09%	£10,624,522	4.42%
G.>= 300,000 < 400,000	26	1.39%	£8,777,925	3.65%
H.>= 400,000 < 500,000	3	0.16%	£1,345,010	0.56%
I.>= 500,000 < 750,000	2	0.11%	£1,155,320	0.48%
J.>=750,000	1	0.05%	£991,028	0.41%
<b>Total</b>	<b>1,864</b>	<b>100.00%</b>	<b>£240,526,735</b>	<b>100.00%</b>

**Table 4: Distribution of Loans with CCJs by Original Loan to Value Ratios**

LTV Range (%)	No. Of Loans	% of Total	0		1		> 1	
			No.	%	No.	%	No.	%
>=0<26	25	1.34%	15	0.80%	8	0.43%	2	0.11%
>=26<51	107	5.74%	81	4.35%	15	0.80%	11	0.59%
>=51<56	42	2.25%	29	1.56%	7	0.38%	6	0.32%
>=56<61	75	4.02%	57	3.06%	12	0.64%	6	0.32%
>=61<66	76	4.08%	61	3.27%	14	0.75%	1	0.05%
>=66<71	131	7.03%	108	5.79%	15	0.80%	8	0.43%
>=71<76	366	19.64%	282	15.13%	65	3.49%	19	1.02%
>=76<81	579	31.06%	481	25.80%	66	3.54%	32	1.72%
>=81<86	240	12.88%	217	11.64%	15	0.80%	8	0.43%
>=86<91	223	11.96%	211	11.32%	7	0.38%	5	0.27%
<b>Total</b>	<b>1,864</b>	<b>100.00%</b>	<b>1542</b>	<b>82.73%</b>	<b>224</b>	<b>12.02%</b>	<b>98</b>	<b>5.26%</b>

**Table 5: Distribution of Loans by Full Reversionary Margin over LIBOR**

Margin (%)	No. of Loans	% of Total	Current	
			Principal Balance (£)	% of Total
A.>0 <=1.5	0	0.00%	£0	0.00%
B.>1.5 <=2.0	0	0.00%	£0	0.00%
C.>2.0 <=2.5	0	0.00%	£0	0.00%
D.>2.5 <=3.0	0	0.00%	£0	0.00%
E.>3.0 <=3.5	0	0.00%	£0	0.00%
F.>3.5 <=4.0	0	0.00%	£0	0.00%
G.>4.0 <=4.5	1,395	74.84%	£184,752,304	76.81%
H.>4.5 <=5.0	344	18.45%	£40,938,223	17.02%
I.>5.0 <=5.5	125	6.71%	£14,836,208	6.17%
J.>=5.5	0	0.00%	£0	0.00%
<b>Total</b>	<b>1,864</b>	<b>100.00%</b>	<b>240,526,735</b>	<b>100.00%</b>

**Table 6: Distribution of Loans by Loan Purpose**

Loan Purpose	No. of Loans	% of Total	Current Principal Balance (£)	% of Total
Purchase	1,375	73.77%	£182,749,346	75.98%
Remortgage	489	26.23%	£57,777,389	24.02%
<b>Total</b>	<b>1,864</b>	<b>100.00%</b>	<b>240,526,735</b>	<b>100.00%</b>

**Table 7: Distribution of Properties by Tenure and Original Loan to Value ratio**

LTVs (%)	No. of Loans	% of Total	Freehold		Leasehold		% of Total	
			No. of Loans	% of Total	No. of Loans	% of Total		
A. >=0<26	25	1.34%	0	0.00%	24	1.29%	1	0.05%
B. >=26<51	107	5.74%	0	0.00%	100	5.36%	7	0.38%
C. >=51<56	42	2.25%	0	0.00%	39	2.09%	3	0.16%
D. >=55<61	75	4.02%	0	0.00%	65	3.49%	10	0.54%
E. >=61<66	76	4.08%	0	0.00%	64	3.43%	12	0.64%
F. >=66<71	131	7.03%	0	0.00%	121	6.49%	10	0.54%
G. >=71<76	366	19.64%	0	0.00%	317	17.01%	49	2.63%
H. >=76<81	579	31.06%	0	0.00%	492	26.39%	87	4.67%
I. >=81<86	240	12.88%	0	0.00%	185	9.92%	55	2.95%
J. >=86<91	223	11.96%	0	0.00%	190	10.19%	33	1.77%
<b>Total</b>	<b>1,864</b>	<b>100.00%</b>	<b>0</b>	<b>0.00%</b>	<b>1597</b>	<b>85.68%</b>	<b>267</b>	<b>14.32%</b>

**Table 8: Distribution of Loans by Property Type**

Property Type	No. of Loans	% of Total	Current Principal Balance (£)	% of Total
Bungalow	98	5.26%	£12,924,386	5.37%
Detached	265	14.22%	£45,089,397	18.75%
Flat	193	10.35%	£24,429,566	10.16%
Semi	630	33.80%	£76,777,288	31.92%
Terraced	678	36.37%	£81,306,098	33.80%
<b>Total</b>	<b>1,864</b>	<b>100.00%</b>	<b>240,526,735</b>	<b>100.00%</b>

**Table 9: Distribution of Loans by Region**

Region	No. of Loans	% of Total	Current Principal Balance (£)	% of Total
East Anglia	81	4.35%	£9,473,781	3.94%
East Midlands	132	7.08%	£13,508,056	5.62%
North	67	3.59%	£6,890,936	2.86%
North West	256	13.73%	£27,372,847	11.38%
South East Inc London	741	39.75%	£116,255,523	48.33%
South West	144	7.73%	£18,325,090	7.62%
Wales	80	4.29%	£8,972,325	3.73%
West Midlands	181	9.71%	£19,922,687	8.28%
Yorkshire & Humberside	182	9.76%	£19,805,489	8.23%
<b>Total</b>	<b>1,864</b>	<b>100.00%</b>	<b>240,526,735</b>	<b>100.00%</b>

**Table 10: Distribution of Loans by Remaining Time to Maturity**

Years to Maturity	No. of Loans	% of Total	Current Principal Balance (£)	% of Total
A.0<=5	15	0.80%	£1,882,028	0.78%
B.>5<=10	93	4.99%	£10,622,625	4.42%
C.>10<=15	221	11.86%	£26,716,315	11.11%
D.>15<=20	381	20.44%	£48,389,463	20.12%
E.>20<=25	699	37.50%	£94,095,393	39.12%
F.>25<=30	455	24.41%	£58,820,911	24.46%
<b>Total</b>	<b>1,864</b>	<b>100.00%</b>	<b>240,526,735</b>	<b>100.00%</b>

**Table 11: Distribution of Loans by Repayment Method**

Loan Purpose	No. of Loans	% of Total	Current Principal Balance (£)	% of Total
Interest Only	468	25.11%	£62,070,973	25.81%
Part & Part	83	4.45%	£12,099,321	5.03%
Repayment	1,313	70.44%	£166,356,441	69.16%
<b>Total</b>	<b>1,864</b>	<b>100.00%</b>	<b>240,526,735</b>	<b>100.00%</b>

**Table 12: Distribution of Loans Currently in Arrears**

Months in Arrears	No. of Loans	% of Total	Current Principal Balance (£)	% of Total
Current	1,864	100.00%	£240,526,735	100.00%
>=1<=2	0	0.00%	£0	0.00%
>2<=3	0	0.00%	£0	0.00%
<b>Total</b>	<b>1,864</b>	<b>100.00%</b>	<b>240,526,735</b>	<b>100.00%</b>

**Table 13: Distribution of Loans by Redemption Charge Type**

Redemption Charging	No. of Loans	% of Total	Current Principal Balance (£)	% of Total
5,0,0,0,0	2	0.11%	£389,064	0.16%
5,5,0,0,0	1,760	94.42%	£228,525,067	95.01%
5,5,5,0,0	101	5.42%	£11,506,805	4.78%
5,5,5,5,0	1	0.05%	£105,799	0.04%
<b>Total</b>	<b>1,864</b>	<b>100.00%</b>	<b>240,526,735</b>	<b>100.00%</b>

**Table 14: Distribution of Loans by Teaser Rate Type**

Type	No. of Loans	% of Total	Current Principal Balance (£)	% of Total
Capped - 2013	48	2.58%	£8,967,176	3.73%
Capped - 2014	1	0.05%	£75,366	0.03%
Fixed - 2012	287	15.40%	£35,735,529	14.86%
Fixed - 2013	1,441	77.31%	£185,866,018	77.27%
Fixed - 2014	86	4.61%	£9,776,847	4.06%
Fixed - 2015	1	0.05%	£105,799	0.04%
<b>Total</b>	<b>1,864</b>	<b>100%</b>	<b>240,526,735</b>	<b>100%</b>

The Issuer confirms that the Loans, taken together with the other arrangements entered into by the Issuer on the Issue Date, have characteristics that demonstrate capacity to provide the required funds to service payments due and payable on the Notes. This confirmation is based on the information available to the Issuer as at the date of this Prospectus and may be affected by the future performance of the Loans backing the Notes. Consequently you are advised to review carefully any disclosure in this Prospectus together with any amendments or supplements thereto.

#### **Mortgages on Let Properties**

392 of the Loans in the Provisional Completion Mortgage Pool (representing an aggregate principal Loan balance of approximately £47.77 million) are secured by Mortgages on non-owner occupied Properties. These Loans represent approximately 19.86 per cent. of the value of the Provisional Completion Mortgage Pool.

#### **Investec to retain accrued but unpaid interest**

Under the terms of the Mortgage Sale Agreement the Issuer shall not be entitled to receive any Accrued Mortgage Interest and any payments received by the Issuer in respect of Accrued Mortgage Interest will be for the account of Investec for so long as the relevant Borrower is not in arrears with respect to any amounts due from the Issue Date. As between Investec and the Issuer, Investec is not entitled to receive Accrued Mortgage Interest from any Borrower if amounts due to the Issuer from that Borrower are in arrears with respect to any amounts due and payable from the Issue Date.

## TITLE TO THE MORTGAGE POOL

The Loans and the Collateral Security will be sold by Investec to the Issuer. The sale of the Loans and their related Collateral Security will take effect in equity only and (save as mentioned below), as at the Issue Date, legal title to all Loans and Collateral Security is held by the Legal Title-Holder. The Issuer will grant a first fixed equitable charge in favour of the Trustee over its interests in the Loans and the Collateral Security.

The Mortgage Administrator or the Standby Mortgage Administrator (as the case may be) is required under the terms of the Mortgage Administration Agreement or the Standby Mortgage Administration Agreement (as the case may be) to ensure the safe custody of title deeds. The Mortgage Administrator or the Standby Mortgage Administrator (as the case may be) will have custody of title deeds in respect of the Loans and the Collateral Security as agent of the Issuer and, following any enforcement action by the Trustee against the Issuer, the Trustee.

Save as mentioned below, neither the Issuer nor the Trustee will effect any registration at the Land Registry to protect the sale of the Loans and the Collateral Security by Investec to the Issuer or the charge of them by the Issuer in favour of the Trustee nor, save as mentioned below, will they be entitled to obtain possession of the title deeds to the Properties or the Loans and their related Mortgages.

Save as mentioned below, notice of the sale to the Issuer and the equitable charge in favour of the Trustee will not be given to the Borrowers.

Under the Mortgage Sale Agreement and the Deed of Charge, the Issuer (with the consent of the Trustee) or the Trustee will each be entitled to effect such registrations, recordings and give such notices as it considers necessary to protect and perfect the interests respectively of the Issuer (as purchaser) and the Trustee (as chargee) in the Loans and the Collateral Security, *inter alia*, where (i) in the case of an individual Loan only, it is obliged to do so by law, by court order or by a mandatory requirement of any regulatory authority, (ii) a notice by the Trustee to the Issuer under Condition 9 (*Events of Default*) of the Notes ("**Enforcement Notice**") has been given, (iii) the Trustee considers that the Charged Property or any part thereof is in jeopardy (including the possible insolvency of the Legal Title-Holder) or (iv) any action is taken for the winding-up, dissolution, administration or reorganisation of the Legal Title-Holder. These rights are supported by irrevocable powers of attorney given by the Issuer and the Legal Title-Holder in favour of the Trustee.

The effect of (i) not giving notice to the Borrowers of the sale of the relevant Loans and their Collateral Security to the Issuer and the charging of the Issuer's interest in the Loans and their Collateral Security to the Trustee and (ii) the charge of the Issuer's rights thereto in favour of the Trustee pursuant to the Deed of Charge taking effect in equity only, is that the rights of the Issuer and the Trustee may be, or may become, subject to equities as well as to the interests of third parties who perfect a legal interest or title prior to the Issuer or the Trustee acquiring and perfecting a legal interest or title (such as, in the case of Mortgages over unregistered land, a third party acquiring a legal interest in the relevant Mortgage without notice of the Issuer's or the Trustee's interests or, in the case of Mortgages over registered land (at the Land Registry), a third party acquiring a legal interest or title by registration or recording prior to the registration or recording of the Issuer's or the Trustee's interests).

The risk of such equities and other interests leading to third party claims obtaining priority to the interests of the Issuer or the Trustee in the Loans and the Collateral Security is likely to be limited to circumstances arising from a breach by Investec, the Legal Title-Holder or the Issuer of its or their contractual or other obligations or fraud or mistake on the part of Investec, the Legal Title-Holder or the Issuer or their respective officers, employees or agents (if any).



## SALE OF THE MORTGAGE POOL

On the Issue Date, Investec will agree to sell its interest in the Completion Mortgage Pool to the Issuer for:

- (a) an immediate cash payment of £240,061,408 payable on the Issue Date; and
- (b) the Deferred Consideration.

### Warranties and Repurchase

The Mortgage Sale Agreement contains representations and warranties given by the Legal Title-Holder and Investec in relation to the Mortgage Pool on the Issue Date. No searches, enquiries or independent investigation of title of the type which a prudent purchaser or mortgagee would normally be expected to carry out have been or will be made by the Issuer or the Trustee, each of whom is relying upon the representations and warranties in the Mortgage Sale Agreement.

If there is an unremedied or unremediable breach of any of these representations and warranties which could have a material adverse effect on the value of any Loan and its Collateral Security (other than where such breach was disclosed at the point of sale to the Issuer), then Investec is required to repurchase, or procure the repurchase of, the relevant Loan and its Collateral Security for a consideration in cash equal to the Balance of the relevant Loan plus accrued interest and all other amounts due under such mortgage loan less interest paid in advance to the Issuer (which the Issuer shall be entitled to retain) or at the option of Investec, substitute an alternative mortgage loan of an appropriate value in replacement of the Loan where the breach applies. Performance of the obligation to repurchase will be in satisfaction of all liabilities of the Legal Title-Holder and Investec in respect thereof.

The representations and warranties referred to will include, *inter alia*, statements to the following effect:

- (a) each Loan and the related Mortgage constitute a legal, valid and binding obligation of the relevant Borrower enforceable in accordance with its terms (except that (1) enforceability may be limited by (i) bankruptcy or insolvency of the Borrower (or, in limited circumstances, the Borrower purchased the property from a bankrupt vendor), (ii) by the application of the UTCCR or the CCA, (if the CCA is deemed to apply to the Loans) or (iii) fraud and (2) no warranty is given in relation to any obligation of the Borrower to pay early repayment charges or charges payable in the event of Borrower default) and each related Mortgage secures the repayment of all advances, interest, costs and expenses payable by the relevant Borrower (other than, in relation to any early repayment charges where repayment takes place following the early repayment charge period);
- (b) immediately prior to actual completion, the Seller was the absolute beneficial owner of all of the Loans and the related Mortgages and the Mortgage Rights to be sold to the Issuer at the Issue Date, and the Seller has not assigned (whether by way of absolute assignment or by way of security only), transferred, charged, disposed of or dealt with the benefit of any of the Loans or their related Mortgages, the Mortgage Rights or any of the property, rights, title, interest or benefit to be sold or assigned pursuant to the Mortgage Sale Agreement in any way whatsoever other than pursuant to the Mortgage Sale Agreement;
- (c) each Loan is secured by a valid and subsisting first legal mortgage over the Property to which it relates (subject to completion of any registration or recording requirements at the Land Registry and, in such case, there is nothing to prevent that registration or recording being effected);
- (d) no lien or right of set-off or counterclaim has been created or arisen between the Borrower and the Seller or the Legal Title-Holder which would entitle such Borrower to reduce the amount of any payment otherwise due under the relevant Loan;
- (e) the Legal Title-Holder received an amount equal to at least 100 per cent. of one month's contractual monthly payment of each Loan on or before the second contractual monthly payment date in respect of that Loan;
- (f) all things necessary to perfect the vesting of the legal title to each Loan and the related Mortgage in the Legal Title-Holder have been duly done or are in the process of being done with all due diligence;
- (g) the Legal Title-Holder holds or will hold, upon completion of any pending applications for registration or recording of the Legal Title-Holder as legal title-holder at the Land Registry, legal title to all Loans and related Mortgages;

- (h) the Legal Title-Holder has not assigned (whether by way of absolute assignment or by way of security only), transferred, charged, disposed of or dealt with the benefit of any of the Loans or their related Mortgages, the Mortgage Rights or any of the property, rights, title, interest or benefit to be sold or assigned pursuant to the Mortgage Sale Agreement in any way whatsoever other than pursuant to the Mortgage Sale Agreement;
- (i) each Property is a residential property located in England or Wales;
- (j) each Loan and its related Mortgage has been made on materially the same terms as are set out in the Standard Documentation and the relevant Standard Documentation has not been varied in any material respect since the date of completion of such Loan;
- (k) prior to making a Loan in relation to the Loans in the Mortgage Pool (including, for the avoidance of doubt, any Substitute Loans), the nature and amount of the Loan and the circumstances of the Borrower satisfied the Lending Criteria, subject only to exceptions made on a case-by-case basis and in accordance with the Legal Title-Holder's internal policies;
- (l) at the time of origination of the relevant Loan, a valuation of the relevant Property was undertaken by a valuer approved by the Legal Title-Holder in accordance with the relevant Lending Criteria;
- (m) other than when acting as a Prudent Mortgage Lender, neither the Seller nor the Legal Title-Holder has, in writing, waived or acquiesced in any breach of any of its rights in respect of a Loan or its related Mortgage, other than in relation to any payment default in respect of those Loans currently in arrears (as summarised in Table 12 (*Distribution of Loans Currently in Arrears*) in the section entitled "*The Mortgage Pool*") or in respect of interest which, in each case, is at the Issue Date no more than 31 days in arrears;
- (n) so far as the Seller and the Legal Title-Holder are aware, no Borrower is or has, since the date of origination of the relevant Loan, been in material breach of any obligation owed in relation to that Loan and/or its related Mortgage (other than in relation to any payment default in respect of those Loans currently in arrears (as summarised in Table 12 (*Distribution of Loans Currently in Arrears*) in the section entitled "*The Mortgage Pool*") or in respect of interest which, in each case, is at the Issue Date no more than 31 days in arrears), and accordingly no steps have been taken by the Seller or the Legal Title-Holder to enforce the Mortgage;
- (o) each Borrower is (i) a natural legal person, (ii) was aged 18 years or older at the date that he or she executed the relevant Mortgage and (iii) in the case of residential Properties, will be less than 65 years at the end of the Mortgage term or, in the case of buy-to-let Loans, will be less than 76 years at the end of the Mortgage term;
- (p) each Loan was originated in, is denominated in and all amounts in respect of such Loan are payable in, sterling and may not be changed by the relevant Borrower to any other currency;
- (q) so far as the Seller is aware, in relation to each Mortgage over a Property the Borrower has a good and marketable title to the relevant Property and, the relevant Property has been registered or is in the course of registration with such title as would be acceptable to a Prudent Mortgage Lender;
- (r) all the Loans are governed by English law;
- (s) except in the case of a Loan which is the subject of a Title Insurance Policy issued by a provider of such policies, at the date of origination of each Loan, the Legal Title-Holder received from its solicitors a certificate of title or report on title to the relevant Property addressed to the Legal Title-Holder. The certificate of title or report on title disclosed nothing which would, if applicable, after further investigation, cause a Prudent Mortgage Lender to decline to proceed with the Loan on the proposed terms;
- (t) in relation to each Mortgage and prior to making a relevant Loan, the Legal Title-Holder either (i) instructed solicitors to ensure that each person who had attained the age of 17 and was known by the solicitors or the Legal Title-Holder to be or about to be in actual occupation of the relevant Property, was either named as a Borrower or signed a deed of consent declaring that he or she will assert no right adverse to the mortgagee's rights under the relevant Mortgage or (ii) took out appropriate insurance cover;
- (u) as at the date of origination of any relevant Loan, each buildings insurance policy taken out by a Borrower (a "**Borrower Buildings Policy**") was in full force and effect, valid and enforceable and, so far as the Seller is aware, either (i) all premiums have been paid and there is no reason why an insurer

may refuse to accept liability under a relevant Borrower Buildings Policy or (ii) the relevant Property is covered by the Legal Title-Holder's Contingency Policy or LIO;

- (v) there is no claim outstanding under any Title Insurance Policy relating to a Loan. Each such policy is in full force and effect, all premiums have been paid and neither the Legal Title-Holder nor the Seller is aware of any circumstances giving the title insurer under any such Title Insurance Policy the right to avoid or terminate such policy in so far as it relates to the Properties;
- (w) neither the Seller nor the Legal Title-Holder has waived or agreed to waive any of its rights against any valuer, solicitor or other professional who has provided information, carried out work or given advice in connection with any Loan and the related Mortgage;
- (x) subject to completion of any registration or recording of a Mortgage which may be pending at the Land Registry in relation to each Loan and its related Mortgage, the customer file, the deed constituting the relevant Mortgage and any documents of title to the relevant Property are held by or to the order of the Legal Title-Holder;
- (y) no agreement for a Loan is or includes a regulated consumer credit agreement (as defined in Section 8 of the CCA) and no circumstances exist which are capable of making the relationship between the relevant seller and the customer unfair under section 140A of the CCA;
- (z) other than in relation to any obligation of the Borrower to pay prepayment charges, to the best of Investec's knowledge none of the terms of any Loan or its related Mortgage is not binding by virtue of it being unfair within the meaning of the UTCCR;
- (aa) in relation to any Loan which is a regulated mortgage loan within the meaning of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, as far as the Seller is aware, all requirements of MCOB have been complied with in all material respects in connection with the origination, documentation and administration of such Loan (as applicable);
- (bb) in relation to any leasehold Property, in any case where the Legal Title-Holder (or the Seller (as the case may be)) has received written notice from the relevant landlord that it is or may be taking steps to forfeit the lease of that Property, the Legal Title-Holder (or the Seller (as the case may be)) has taken such steps (if any) and in such time as would be taken by a Prudent Mortgage Lender to protect its security and Loan;
- (cc) neither the Seller nor the Legal Title-Holder has received written notice of any litigation or claim calling into question in any material way the legal and/or beneficial title to any Loan and the related Mortgage or Mortgage Rights of the Seller nor the Legal Title-Holder respectively or their ability to fully, effectively and promptly enforce the same;
- (dd) to the best of the Legal Title-Holder's knowledge, information and belief, no fraud, misrepresentation or concealment has been perpetrated in respect of any Loan by:
  - (i) any person who prepared a valuation of a Property; or
  - (ii) any solicitors who acted for the Legal Title-Holder in relation to any Loan; or
  - (iii) any insurance broker or agent in relation to any Insurance Contract; or
  - (iv) any Borrower of any Loan; or
  - (v) any other party within the knowledge of the Legal Title-Holder,which would result in any monies owed by any of the Borrowers not being or being unlikely to be repaid in full under the terms of any of the Loans;
- (ee) interest on each Loan is charged in accordance with the provisions of the Loan and its related Mortgage and is payable monthly in advance;
- (ff) other than the Seller, the only third parties having an interest in the Loans, Mortgages and other rights granted to or held for the Seller and being the subject of the Mortgage Sale Agreement is (i) the Legal Title-Holder in its capacity as bare trustee of the legal title to the Loans and Mortgages held for Investec and (ii) the Borrower who retains the equity of redemption;
- (gg) the information relating to the Loans to be sold on the Issue Date as set out in the annexure to the Mortgage Sale Agreement is, to the best of the Legal Title-Holder's and the Seller's knowledge, information and belief, true and accurate;

- (hh) the Loans (i) constitute financial assets for purposes of UK generally accepted accounting practice and (ii) are not shares;
- (ii) in the case of each Loan which is secured over leasehold property which is not the subject of a Title Insurance Policy:
  - (i) any requisite consent of the landlord to, or notice to the landlord of, the creation of the Mortgage or Mortgage Rights has been obtained or given (as applicable); and
  - (ii) the relevant solicitor acting on the Legal Title-Holder's behalf has arranged for a copy of the relevant consent or notice to be placed with the title deeds;
- (jj) (i) as part of the origination process, a search has been conducted in respect of each Borrower through the Call Credit bureau and, in addition, a second search has been conducted in respect of at least 50.1% of all Borrowers (calculated by reference to the percentage of the relevant Loan balance on the Mortgage Pool) through the Equifax credit bureau; and (ii) so far as the Legal Title-Holder is aware, such credit bureaux hold information in respect of bankruptcies and individual voluntary arrangements for a period of 6 years (or such other period in accordance with their policies as amended from time to time) from the date of a bankruptcy or individual voluntary arrangement;
- (kk) as part of the origination process, a credit bureau search has been carried out on every address declared by a Borrower and any other relevant address discovered by the Legal Title-Holder during the underwriting process;
- (ll) as part of the origination process, each Borrower was obliged to provide all previous known addresses covering the two year period immediately prior to such Borrower's mortgage application;
- (mm) as at the date of origination, the Legal Title-Holder was not aware of any Borrower being or having been subject to bankruptcy or an individual voluntary arrangement, whether such information was discovered as a result of a credit bureau search or otherwise;
- (nn) as part of the origination process in respect of each Loan, a solicitor or, in the case of Loans which benefit from Title Insurance on the relevant Property, a licensed conveyancer, acting for the Legal Title-Holder in relation to a Loan has conducted bankruptcy searches at the land charges registry on every related Borrower against every address provided;
- (oo) the aggregate of the Balances of the Buy-to-Let Loans as a percentage of the sum of the Balances of the Loans in the Completion Mortgage Pool does not exceed 20 per cent. in each case as at the Issue Date;
- (pp) no security has been taken over any life policies in respect of the Loans;
- (qq) the LTV of each Loan at the date of the advance of such Loan is no more than 90 per cent. (inclusive of any fees added to the Loan) and:
  - a. in the case of buy-to-let Loans, does not exceed 85% (exclusive of any fees added to the Loan);
  - b. in the case of Interest Only Loans does not exceed 80% (exclusive of any fees added to the Loan);
  - c. in the case of remortgage Loans, does not exceed 85% (exclusive of any fees added to the Loan);
  - d. in the case of Loans originated as "Prime One", does not exceed 80% (exclusive of any fees added to the Loan); and
  - e. in the case of Loans for new build properties, does not exceed 75% in the case of houses and 65% in the case of flats (in each case, exclusive of any fees added to the Loan),

provided that in the case of a. to e. above the amount of fees excluded from the LTV calculation for any Loan may not exceed either 2.5% of the principal amount of the Loan or £1,499;
- (rr) as part of the origination process in respect of each Loan, the Legal Title-Holder has either (i) verified the income of each Borrowers in accordance with the Lending Criteria or (ii) in the case of buy-to-let products, reviewed the prior mortgage history and received confirmation of the rental income on the Property from a qualified RICS valuer;
- (ss) as at the date of origination of any Loan which is categorised by the Legal Title-Holder as "Prime", no Borrower has had any registered CCJs in the 24 months prior to the date on which the relevant Loan is advanced;

- (tt) as at the date of origination of any Loan which is categorised by the Legal Title-Holder as "Prime One", no Borrower has had any registered CCJs in an amount exceeding £750 in the 24 months prior to the date on which the relevant Loan is advanced which were not satisfied at least six months prior to the date on which the Loan is advanced;
- (uu) no loan was more than 31 days in areas (as calculated by reference to the amount outstanding divided by the contractual monthly payment) in the 12 month period up to (and including) the Cut-Off Date; and
- (vv) in respect of Substitute Loans only, as at the date such Substitute Loan is sold to the Issuer, the Legal Title-Holder obtained all relevant consents from the Borrower as were required under applicable data protection legislation in order to allow any transfer of personal data as is contemplated by the Transaction Documents.

## CREDIT STRUCTURE

The Notes will not be obligations of the Account Bank, the Arranger, the Auction Agent, the Cap Counterparty, the Fixed/Floating Swap Provider, the Cash/Bond Administrator, the Standby Cash/Bond Administrator, the Corporate Services Provider, the Custodian, the Trustee, the GIC Providers, the Mortgage Administrator, the Standby Mortgage Administrator, the Special Servicer, the Seller, the Principal Paying Agent, the Lead Managers or anyone other than the Issuer and will not be guaranteed by any such party. None of the Account Bank, the Arranger, the Auction Agent, the Cap Counterparty, the Fixed/Floating Swap Provider, the Cash/Bond Administrator, the Standby Cash/Bond Administrator, the Corporate Services Provider, the Custodian, the Trustee, the GIC Providers, the Mortgage Administrator, the Standby Mortgage Administrator, the Special Servicer, the Seller, the Principal Paying Agent, the Lead Managers nor anyone other than the Issuer will accept any liability whatsoever in respect of any failure to pay any amount due under the Notes.

As a condition to the issue of the Notes:

- (a) the A1 Notes are expected to be rated AAA(sf) by S&P, AAA(sf) by DBRS and AAAsf by Fitch;
- (b) the M1 Notes are expected to be rated A+(sf) by S&P;
- (c) the M2 Notes are expected to be rated A(sf) by S&P;
- (d) the B1 Notes are expected to be rated BBB(sf) by S&P; and
- (e) the B2 Notes are expected to be rated BB(sf) by S&P.

Neither the R1 Notes, the R2 Notes nor the R3 Notes will be rated.

The ratings that are assigned by S&P to the A1 Notes, the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes address the likelihood of full and timely receipt by A1 Noteholders, M1 Noteholders, M2 Noteholders, B1 Noteholders and B2 Noteholders of interest and full receipt of principal on the A1 Notes, M1 Notes, M2 Notes, B1 Notes and B2 Notes respectively on or before their date of maturity.

The ratings that are assigned to the A1 Notes by each of Fitch and DBRS will address the likelihood of full and timely receipt by A1 Noteholders of interest on the A1 Notes and the likelihood of full receipt of principal by the A1 Noteholders on the A1 Notes on or before their date of maturity.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, downgrade, qualification, suspension or withdrawal at any time by any of the Rating Agencies. The structure of the credit arrangements may be summarised as follows:

### The Notes

The Notes will be issued fully paid on the Issue Date and the proceeds will be used for the purposes described in the section entitled "*Use of Proceeds*".

Subject always to (a) the limited recourse nature of all secured obligations of the Issuer, and (b) the prior payment in full, on the relevant Interest Payment Date, of amounts then due in priority in accordance with the Pre-Enforcement Revenue Priority of Payments (as set out in Condition 2(c) (*Pre-Enforcement Revenue Priority of Payments*)), the Issuer shall, on such Interest Payment Date, pay to the R3 Noteholders the amount (if any) available from Available Revenue Funds to be applied as item (xx) of the Pre-Enforcement Revenue Priority of Payments as R3 Note Residual Revenue.

### Issue Price and Redemption of Notes

On the Issue Date, the Issuer will issue:

- (a) the A1 Notes at an issue price of 100 per cent. of the principal amounts of such Notes;
- (b) the M1 Notes at a discount, such that the M1 Notes will be sold at an issue price of 94.49 per cent. of the principal amount of the M1 Notes;
- (c) the M2 Notes at a discount, such that the M2 Notes will be sold at an issue price of 92.39 per cent. of the principal amount of the M2 Notes;
- (d) the B1 Notes at a discount, such that the B1 Notes will be sold at an issue price of 90.33 per cent. of the principal amount of the B1 Notes;

- (e) the B2 Notes at a discount, such that the B2 Notes will be sold at an issue price of 82.61 per cent. of the principal amount of the B2 Notes;
- (f) the R1 Notes at a discount, such that the R1 Notes will be sold at an issue price of 92.55 per cent. of the principal amount of the R1 Notes;
- (g) the R2 Notes at a discount, such that the R2 Notes will be sold at an issue price of 10.00 per cent. of the principal amount of the R2 Notes; and
- (h) the R3 Notes at a premium, such that the R3 Notes will be sold at an issue price of 2646 per cent. of the principal amount of the R3 Notes.

Each of the Notes will be redeemed in accordance with Condition 5 (*Redemption*).

#### **Receipts**

The Cash/Bond Administrator on behalf of the Issuer will calculate on each Determination Date the Available Revenue Funds of the Issuer for the previous Determination Period. The Cash/Bond Administrator will on the next Interest Payment Date apply such Available Revenue Funds on behalf of the Issuer to make payments of interest on the Notes as well as certain amounts under the Pre-Enforcement Revenue Priority of Payments (see Condition 2(c) (*Pre-Enforcement Revenue Priority of Payments*)).

#### **Credit Support for the Notes Provided by "Available Revenue Funds"**

The interest rates payable by Borrowers in respect of the Loans vary in respect of different Borrowers and different types of Loans. It is anticipated that the weighted average interest rate payable by Borrowers on the Loans will, assuming that all of the Loans are fully performing and that no extraordinary expenses have been incurred by the Issuer, exceed the amounts payable under items (i) to (xvi) inclusive of the Pre-Enforcement Revenue Priority of Payments by an amount, calculated as a percentage of the principal balance of the Mortgage Pool, which is approximately 0.503 per cent. The actual amount of the excess will vary during the life of the Notes; two of the key factors determining such variations are the level of delinquencies experienced and the weighted average interest rate in each case on the Mortgage Pool. Available Revenue Funds may be applied (after making payments or provisions ranking higher in the Pre-Enforcement Revenue Priority of Payments) on each Interest Payment Date towards reducing any Principal Deficiency (subject, in the case of each Class of Rated Notes, to the relevant Principal Deficiency Cap).

To the extent that the amount of Available Revenue Funds exceeds the amount required to meet items (i) to (xvi) inclusive of the Pre-Enforcement Revenue Priority of Payments, such funds are available to replenish the Reserve Fund and Yield Reserve Fund. The Reserve Fund is available to be drawn upon on any Interest Payment Date upon which there exists a Revenue Shortfall subject to the Default Trigger for the relevant Class of Notes not having been met as at the most recent Non-Rating Trigger Determination Date. The Yield Reserve Fund is available to be drawn upon to make up a Shortfall in Senior Fees and/or to pay interest on the A1 Notes, M1 Notes, M2 Notes, B1 Notes and/or B2 Notes provided that the Yield Reserve Fund may not be used to pay interest on the M1 Notes, M2 Notes, B1 Notes and/or B2 Notes where the Default Trigger for the relevant Class of Notes has been met as at the most recent Non-Rating Trigger Determination Date.

To the extent that the Available Revenue Funds on the relevant Interest Payment Date are sufficient to pay all amounts in accordance with the Pre-Enforcement Revenue Priority of Payments, any surplus (if any) to the Issuer shall be retained in a GIC Account and credited to the Issuer Turn Ledger as part of the Issuer Turn. No surplus is anticipated by reason of the prior entitlements of the R3 Noteholders.

#### **Reserves**

In order to provide limited coverage for any Revenue Shortfall (including Interest Shortfalls) on the A1 Notes, the M Notes and the B Notes arising from time to time the Issuer will establish (a) the Reserve Fund, (b) the Cap Reserve Fund and (c) the Yield Reserve Fund on the Issue Date. The Issuer has also established a Contingency Reserve to cover for any extraordinary expenses and a Liquidity Reserve Fund will be funded over time from Available Principal Funds pursuant to the Pre-Enforcement Principal Priority of Payments.

##### *Reserve Fund*

The Reserve Fund will be funded on the Issue Date in the amount of £ 6,000,000, with a Reserve Fund Required Amount of £ 12,000,000 on subsequent Interest Payment Dates. The Reserve Fund Required Amount will be credited to the Reserve Ledger.

The amounts standing to the credit of the Reserve Fund will be applied on any Interest Payment Date as Available Revenue Funds to the extent required to meet a Revenue Shortfall after application of all other Available Revenue Funds in respect thereof (excluding the Cap Reserve Fund, the Yield Reserve Fund, the

Liquidity Reserve Fund and any amount of Available Principal Funds), provided that amounts standing to the credit of the Reserve Ledger shall only be utilised to make payment of interest on the M1 Notes, M2 Notes, B1 Notes and/or B2 Notes if the relevant Default Trigger for such Class of Notes has not been met as at the most recent Non-Rating Trigger Determination Date.

#### *Cap Reserve Fund*

The Issuer will from time to time credit the Cap Reserve Fund (in the ledger maintained for this purpose, the Reserve Fund Cap Ledger) with any Reserve Fund Cap Amounts.

The amounts standing to the credit of the Reserve Fund Cap Ledger will be applied on any Interest Payment Date as Available Revenue Funds to the extent required to meet any Revenue Shortfall after application of all other Available Revenue Funds in respect thereof (including the Reserve Fund but excluding the Yield Reserve Fund, the Liquidity Reserve Fund and any amount of Available Principal Funds).

Any remaining Reserve Fund Cap Amount will remain credited to the Reserve Fund Cap Ledger and be available on subsequent Interest Payment Dates as described in the previous sentence until all the A1, M Notes and B Notes have been redeemed in full. The aggregate of all Reserve Fund Cap Amounts which are standing to the credit of the Reserve Fund Cap Ledger on the Determination Date following redemption in full of the A1 Notes, M Notes and B Notes will comprise Deferred Consideration and be paid to the Seller under the terms of the Mortgage Sale Agreement.

#### *Yield Reserve Fund*

On the Issue Date, the Issuer will establish the Yield Reserve Fund within one of the GIC Accounts in the Yield Reserve Ledger in an amount of £1,200,000. This will be fully funded on the Issue Date. To the extent that it is drawn upon, the Yield Reserve Fund will be funded on each Interest Payment Date in accordance with the Pre-Enforcement Revenue Priority of Payments up to the Yield Reserve Required Amount.

The amounts standing to the credit of the Yield Reserve Ledger will be applied on any Interest Payment Date as Available Revenue Funds to the extent required to make up a Shortfall in Senior Fees and/or any Interest Shortfall on the A1 Notes, M1 Notes, M2 Notes, B1 Notes and/or B2 Notes after application of all other Available Revenue Funds in respect thereof (including the Reserve Fund and the Cap Reserve Fund but excluding the Liquidity Reserve Fund and any Available Principal Funds), provided that the Yield Reserve Fund may not be used to pay interest on the M1 Notes, M2 Notes, B1 Notes and/or B2 Notes where the Default Trigger for the relevant Class of Notes has been met on the immediately preceding Non-Rating Trigger Determination Date.

Amounts standing to the credit of the Yield Reserve Ledger on the Determination Date immediately following the redemption in full of the A1 Notes, M Notes and B Notes will comprise Available Revenue Funds and be applied in accordance with the Pre-Enforcement Revenue Priority of Payments so should ultimately be paid to R3 Noteholders.

#### *Liquidity Reserve Fund*

On the Issue Date, the Issuer will establish the Liquidity Reserve Fund within one of the GIC Accounts in the Liquidity Reserve Ledger. The Liquidity Reserve Fund will be funded on each Interest Payment Date from Available Principal Funds in accordance with the Pre-Enforcement Principal Priority of Payments until the Liquidity Reserve Maximum Amount is met for the first time. After the Liquidity Reserve Maximum Amount has been reached, no further amounts will be credited to the Liquidity Reserve Maximum Amount, even if the balance standing to the credit of the Liquidity Reserve Ledger is less than the current Liquidity Reserve Maximum Amount.

The Cash/Bond Administrator may, on any Interest Payment Date, apply any amounts standing to the credit of the Liquidity Reserve Ledger towards a Shortfall in Senior Fees and/or payment of any Interest Shortfall in interest on the A1 Notes only if:

- (a) the Cash/Bond Administrator determines on the immediately preceding Determination Date that there will be a Shortfall in Senior Fees and/or an Interest Shortfall on the A1 Notes; and
- (b) such Shortfall in Senior Fees and/or Interest Shortfall still exists on the A1 Notes after applying all Available Revenue Funds (including all amounts standing to the credit of the Reserve Ledger (to the extent available), the Cap Reserve Ledger and the Yield Reserve Ledger (to the extent available) on that Interest Payment Date).



Any amount drawn and applied from the Liquidity Reserve Fund towards payment of any Shortfall in Senior Fees and/or any Interest Shortfall in respect of the A1 Notes shall be recorded as a debit to the Principal Deficiency Ledger as follows:

- (a) firstly, to the B2 Principal Deficiency Ledger up to an amount (including all other debits to the B2 Principal Deficiency Ledger) equal to the Principal Deficiency Cap of the B2 Notes (as calculated on the immediately preceding Determination Date);
- (b) secondly, to the B1 Principal Deficiency Ledger up to an amount (including all other debits to the B1 Principal Deficiency Ledger) equal to the Principal Deficiency Cap of the B1 Notes (as calculated on the immediately preceding Determination Date);
- (c) thirdly, to the M2 Principal Deficiency Ledger up to an amount (including all other debits to the M2 Principal Deficiency Ledger) equal to the Principal Deficiency Cap of the M2 Notes (as calculated on the immediately preceding Determination Date);
- (d) fourthly, to the M1 Principal Deficiency Ledger up to an amount (including all other debits to the M1 Principal Deficiency Ledger) equal to the Principal Deficiency Cap of the M1 Notes (as calculated on the immediately preceding Determination Date); and
- (e) fifthly, to the A1 Principal Deficiency Ledger up to a maximum (including all other debits to the A1 Principal Deficiency Ledger) of the Principal Amount Outstanding of the A1 Notes.

The Most Senior Class shall not have a Principal Deficiency Cap. If the debit balance on the Principal Deficiency Ledger of the Most Senior Class is equal to the Principal Amount Outstanding of that Class of Notes, then any remaining unapplied amounts will be debited to the Principal Deficiency Ledger of the next Most Senior Class.

If the amount standing to the credit of the Liquidity Reserve Ledger exceeds the Liquidity Reserve Maximum Amount on any Interest Payment Date, that excess amount available on that Interest Payment Date shall be released from the Liquidity Reserve Ledger and credited to the Principal Ledger as Principal Collections.

Amounts standing to the credit of the Liquidity Reserve Ledger on the Determination Date immediately following the redemption in full of the A1 Notes will comprise Available Principal Funds and be applied in accordance with the relevant Pre-Enforcement Principal Priority of Payments.

#### *Contingency Reserve*

On the Issue Date, the Issuer will establish the Contingency Reserve within one of the GIC Accounts in the Contingency Reserve Ledger in an amount of £150,000, for the purposes of holding an amount to cover exceptional extraordinary expenses that may arise whilst the Rated Notes are outstanding and are not as at the Issue Date identifiable costs. Such costs may include, for example, initially unforeseen additional expenses required to appoint a successor Mortgage Administrator or Cash/Bond Administrator following a termination of the relevant appointment and/or additional enforcement costs or cost associated with perfecting security over assets of the Issuer. Amounts will only be withdrawn from the Contingency Reserve and paid to the Seller as Deferred Consideration following redemption in full of all Rated Notes. The amount of the balance standing to the credit of the Contingency Reserve Ledger shall not be included as Available Revenue Funds prior to the enforcement of the Security.

#### **Priority of Payments**

In the event that, on any Determination Date, there are insufficient Available Revenue Funds to make payment in full of interest amounts due and payable on the Notes other than the Most Senior Class, then, to that extent, interest shall be deferred until the next Interest Payment Date on which there are sufficient Available Revenue Funds, as more fully set out in Condition 4(i) (*Deferral of Interest*) and Condition 6 (*Payments*).

The A1 Notes, the M Notes, the B Notes and the R Notes will be constituted by the Trust Deed and will share the same security, although upon enforcement the A1 Notes will rank in priority to the M1 Notes, which will rank in priority to the M2 Notes, which will rank in priority to the B1 Notes, which will rank in priority to the B2 Notes, which will rank in priority to the R1 Notes, which will rank in priority to the R2 Notes, which will rank in priority to the R3 Notes in point of security, and:

- (a) prior to enforcement of security:
  - (i) the A1 Notes will rank *pari passu* and without preference or priority amongst themselves for all purposes but will rank in priority to the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes as to payment of interest and, to the extent set out in Condition 2 (*Status, Security and*

*Administration*) and Condition 5 (*Redemption*) below, the M1 Notes, the M2 Notes, the B1 Notes, the B2 Notes, the R1 Notes, the R2 Notes and the R3 Notes as to payment of principal;

- (ii) the M1 Notes will rank *pari passu* without preference or priority amongst themselves for all purposes but will rank in priority to the M2 Notes, the B1 Notes and the B2 Notes as to payment of interest and, to the extent set out in Condition 2 (*Status, Security and Administration*) and Condition 5 (*Redemption*) below, the M2 Notes, the B1 Notes, the B2 Notes, the R1 Notes, the R2 Notes and the R3 Notes as to payment of principal;
  - (iii) the M2 Notes will rank *pari passu* without preference or priority amongst themselves for all purposes but will rank in priority to the B1 Notes and the B2 Notes as to payment of interest and, to the extent set out in Condition 2 (*Status, Security and Administration*) and Condition 5 (*Redemption*) below, the B1 Notes, the B2 Notes, the R1 Notes, the R2 Notes and the R3 Notes as to payment of principal;
  - (iv) the B1 Notes will rank *pari passu* without preference or priority amongst themselves for all purposes but will rank in priority to the B2 Notes as to payment of interest and to the extent set out in Condition 2 (*Status, Security and Administration*) and Condition 5 (*Redemption*) below, the B2 Notes, the R1 Notes, the R2 Notes and the R3 Notes as to payment of principal;
  - (v) the B2 Notes will rank *pari passu* without preference or priority amongst themselves for all purposes but will rank in priority to, to the extent set out in Condition 2 (*Status, Security and Administration*) and Condition 5 (*Redemption*) below, the R1 Notes, the R2 Notes and the R3 Notes as to payment of principal;
  - (vi) the R1 Notes will not bear interest, will rank *pari passu* without preference or priority amongst themselves for all purposes but will rank in priority to, to the extent set out in Condition 2 (*Status, Security and Administration*) and Condition 5 (*Redemption*) below, the R2 Notes and R3 Notes as to payment of principal;
  - (vii) the R2 Notes will not bear interest, will rank *pari passu* without preference or priority amongst themselves for all purposes but will rank in priority to, to the extent set out in Condition 2 (*Status, Security and Administration*) and Condition 5 (*Redemption*) below, the R3 Notes as to payment of principal;
  - (viii) the R3 Notes will not bear interest, will rank *pari passu* without preference or priority amongst themselves for all purposes, will rank after the A1 Notes, the M Notes, the B Notes, the R1 Notes and the R2 Notes as to payment of principal and all R3 Notes Residual Revenue will be subordinated to payment of interest on the A1 Notes, the M Notes and the B Notes in accordance with the Pre-Enforcement Priority of Payments; and
- (b) upon enforcement of security:
- (i) the A1 Notes will rank *pari passu* and without preference or priority amongst themselves for all purposes but will rank in priority to the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes as to payment of interest and, to the extent set out in Condition 2 (*Status, Security and Administration*) and Condition 5 (*Redemption*) below, the M1 Notes, the M2 Notes, the B1 Notes, the B2 Notes, the R1 Notes, the R2 Notes and the R3 Notes as to payment of principal;
  - (ii) the M1 Notes will rank *pari passu* without preference or priority amongst themselves for all purposes but will rank in priority to the M2 Notes, the B1 Notes and the B2 Notes as to payment of interest and, to the extent set out in Condition 2 (*Status, Security and Administration*) and Condition 5 (*Redemption*) below, the M2 Notes, the B1 Notes, the B2 Notes, the R1 Notes, the R2 Notes and the R3 Notes as to payment of principal;
  - (iii) the M2 Notes will rank *pari passu* without preference or priority amongst themselves for all purposes but will rank in priority to the B1 Notes and the B2 Notes as to payment of interest and, to the extent set out in Condition 2 (*Status, Security and Administration*) and Condition 5 (*Redemption*) below, the B1 Notes, the B2 Notes, the R1 Notes, the R2 Notes and the R3 Notes as to payment of principal;
  - (iv) the B1 Notes will rank *pari passu* without preference or priority amongst themselves for all purposes but will rank in priority to the B2 Notes as to payment of interest and to the extent set out in Condition 2 (*Status, Security and Administration*) and Condition 5 (*Redemption*) below, the B2 Notes, the R1 Notes, the R2 Notes and the R3 Notes as to payment of principal;

- (v) the B2 Notes will rank *pari passu* without preference or priority amongst themselves for all purposes but will rank in priority to, to the extent set out in Condition 2 (*Status, Security and Administration*) and Condition 5 (*Redemption*) below, the R1 Notes, the R2 Notes and the R3 Notes as to payment of principal;
- (vi) the R1 Notes will not bear interest, will rank *pari passu* without preference or priority amongst themselves for all purposes but will rank in priority to, to the extent set out in Condition 2 (*Status, Security and Administration*) and Condition 5 (*Redemption*) below, the R2 Notes and the R3 Notes as to payment of principal;
- (vii) the R2 Notes will not bear interest, will rank *pari passu* without preference or priority amongst themselves for all purposes but will rank in priority to, to the extent set out in Condition 2 (*Status, Security and Administration*) and Condition 5 (*Redemption*) below, the R3 Notes as to payment of principal; and
- (viii) the R3 Notes will not bear interest, will rank *pari passu* without preference or priority amongst themselves for all purposes, will rank after the A1 Notes, the M Notes, the B Notes, the R1 Notes and the R2 Notes as to payment of principal and all residual amounts due to the R3 Noteholders will be subordinated to payment of interest on the A1 Notes, the M Notes and the B Notes and payment of principal on the A1 Notes, the M Notes, the B Notes, the R1 Notes and the R2 Notes in accordance with the Post-Enforcement Priority of Payments.

Interest on the Notes will be payable in arrear as provided in Condition 4 (*Interest*).

#### **Revenue Shortfall**

On each Determination Date, the Cash/Bond Administrator will determine whether there is a Revenue Shortfall. If there is a Revenue Shortfall, the Issuer shall pay or provide for such Revenue Shortfall (to the extent permitted below) on the immediately succeeding Interest Payment Date:

- (i) *first*, by applying the Reserve Fund then standing to the credit of the Reserve Fund Ledger, provided that the Reserve Fund may not be used to pay interest on the M1 Notes, M2 Notes, B1 Notes and/or the B2 Notes where the relevant Default Trigger for such Class of Notes has been met as at the most recent Non-Rating Trigger Determination Date;
- (ii) *second*, if there are any A1 Notes, M Notes or B Notes outstanding, by applying the Reserve Fund Cap Amount then standing to the credit of the Reserve Fund Cap Ledger;
- (iii) *third*, in order to make up a Shortfall in Senior Fees and/or to pay interest on the A1 Notes, M1 Notes, M2 Notes, B1 Notes and/or B2 Notes only by applying the Yield Reserve Fund then standing to the credit of the Yield Reserve Ledger, provided that the Yield Reserve Fund may not be used to pay interest on the M1 Notes, M2 Notes, B1 Notes and/or B2 Notes (as applicable) where the relevant Default Trigger for such Class of Notes has been met as at the most recent Non-Rating Trigger Determination Date;
- (iv) *fourth*, in order to make up a Shortfall in Senior Fees and/or to pay interest on the A1 Notes only, by applying the Liquidity Reserve Fund then standing to the credit of the Liquidity Reserve Ledger; and
- (v) *fifth* in order to make up a Shortfall in Senior Fees and/or to pay interest due on the Most Senior Class only, by applying Available Principal Funds;

subject always to the amounts in (i) to (v) above being applied in accordance with the Pre-Enforcement Revenue Priority of Payments.

#### **Principal Deficiency Ledger**

A Principal Deficiency Ledger comprising five sub-ledgers, being the A1 Principal Deficiency Ledger, the M1 Principal Deficiency Ledger, the M2 Principal Deficiency Ledger, the B1 Principal Deficiency Ledger and the B2 Principal Deficiency Ledger, respectively, will be established in order to record Losses on the Mortgage Pool and the utilisation of principal receipts to pay a Revenue Shortfall.

Any losses on the Mortgage Pool shall:

- (a) first be debited to the B2 Principal Deficiency Ledger (such debit items being reccredited at item (xvi) of the Pre-Enforcement Revenue Priority of Payments) so long as the debit balance on such sub-ledger does not exceed the relevant Principal Deficiency Cap for the B2 Notes;
- (b) if the relevant Principal Deficiency Cap for the B2 Notes is exceeded, be debited to the B1 Principal Deficiency Ledger (such debit items being reccredited at item (xiv) of the Pre-Enforcement Revenue

Priority of Payments) so long as the debit balance on such sub-ledger does not exceed the relevant Principal Deficiency Cap for the B1 Notes;

- (c) if the relevant Principal Deficiency Cap for the B1 Notes is exceeded, be debited to the M2 Principal Deficiency Ledger (such debit items being recredited at item (xii) of Pre-Enforcement Revenue Priority of Payments) so long as the debit balance on such sub-ledger does not exceed the relevant Principal Deficiency Cap for the M2 Notes;
- (d) if the relevant Principal Deficiency Cap for the M2 Notes is exceeded, be debited to the M1 Principal Deficiency Ledger (such debit items being recredited at item (x) of the Pre-Enforcement Revenue Priority of Payments) so long as the debit balance on such sub-ledger does not exceed the relevant Principal Deficiency Cap for the M1 Notes; and
- (e) if the relevant Principal Deficiency Cap for the M1 Notes is exceeded, be debited to the A1 Principal Deficiency Ledger (such debit items being recredited at item (vii) of the Pre-Enforcement Revenue Priority of Payments) so long as the debit balance on such sub-ledger is less than the Principal Amount Outstanding of the A1 Notes.

The Most Senior Class shall not have a Principal Deficiency Cap. If the debit balance on the Principal Deficiency Ledger of the Most Senior Class is equal to the Principal Amount Outstanding of that Class of Notes, then any remaining unapplied amounts will be debited to the Principal Deficiency Ledger of the next Most Senior Class.

The effect of the Principal Deficiency Cap is to increase the likelihood of debits being made on the Principal Deficiency Ledger of the more senior Classes of Notes. For the avoidance of doubt, this would not result in the senior Classes of Notes suffering any loss of principal or any reduction in interest payable due to the existence of a debit balance on the relevant Principal Deficiency Ledger as a result of the application of the Principal Deficiency Caps. Instead, the effect of the Principal Deficiency Cap is to further subordinate the payment of Interest Amounts due on the junior Classes of Notes. This is because, in accordance with the Pre-Enforcement Revenue Priority of Payments, interest on a junior Class of Notes cannot be paid until the balance standing to the credit of the Principal Deficiency Ledger of each of the more senior Classes of Notes is equal to zero. With respect to the A1 Notes, this means that any amount debited to the A1 Principal Deficiency Ledger as a result of the operation of the Principal Deficiency Caps of the other Classes of Notes would need to be cleared to zero on an Interest Payment Date prior to interest being paid on the M Notes or B Notes.

Amounts standing to the credit of the Swap Collateral Accounts will only be available to the Secured Creditors to the extent that such amounts are applied in or towards a Swap Counterparty's obligations to the Issuer upon termination of a Swap Agreement. Any amount in excess of such obligations shall not be available to Secured Creditors and shall be returned to the relevant Swap Counterparty in accordance with the relevant Swap Agreement.

#### **Interest Rate Cap Agreements**

The Interest Rate Cap Agreements will provide for (i) an interest rate cap to the extent LIBOR is in excess of 7 per cent. in the first 84 months from the Issue Date (the "**First Interest Rate Cap**") and (ii) an interest rate cap to the extent LIBOR is in excess of 4 per cent. in the first 42 months from the Issue Date (the "**Second Interest Rate Cap**" and, together with the First Interest Rate Cap, and any replacement thereof, the "**Interest Rate Cap Agreements**"). The Issuer will enter into the Interest Rate Cap Agreements with the Cap Counterparty on the Issue Date. Under the Interest Rate Cap Agreements, amounts equal to the excess of (a) the amount produced by applying LIBOR for the relevant Determination Period to the notional amount of £48,000,000 in respect of the First Interest Rate Cap (the "**First Interest Rate Cap Notional Amount**") and £36,000,000 in respect of the Second Interest Rate Cap (the "**Second Interest Rate Cap Notional Amount**") over (b) the amount produced by applying (i) 7 per cent. to the First Interest Rate Cap Notional Amount for the same period in respect of the First Interest Rate Cap and (ii) 4 per cent. to the Second Interest Rate Cap Notional Amount for the same period in respect of the Second Interest Rate Cap will be paid (if either such figure is positive) by the Cap Counterparty to the Issuer on the next following payment date under the applicable Interest Rate Cap Agreement. Any such amounts received by the Issuer shall, to the extent not required to cover any Revenue Shortfall, be credited to the Reserve Fund Cap Ledger and retained in a GIC Account.

#### **Fixed/Floating Swap Agreement**

The Issuer will enter into the Fixed/Floating Swap Agreement with the Fixed/Floating Swap Provider on the Issue Date. Under the Fixed/Floating Swap Agreement, the Issuer will pay to the Fixed/Floating Swap

Provider on each Interest Payment Date fixed rate payments calculated on the basis of a scheduled amortising notional amount and a fixed rate of 1.5 per cent. The notional amount will be scheduled to track the outstanding balance of the fixed rate Loans each quarter assuming that they amortise at 5 per cent. per annum (reflecting an assumed CPR (as defined in "*Weighted Average Lives of the Notes*") on the underlying mortgages of 5 per cent. per annum). The Swap Counterparty will pay to the Issuer on each Interest Payment Date an amount equal to the floating rate of interest on such amortising notional amount, calculated on the basis of Libor-three-month sterling deposits on the basis of the actual number of days elapsed in an Interest Period divided by 365.

### **Terms of the Swap Agreements**

As at the Issue Date, each Swap Counterparty and the Issuer will enter into an ISDA Master Agreement and Schedule and a Credit Support Annex under which separate confirmations will be entered into setting out the terms of the Fixed/Floating Swap Agreement, the First Interest Rate Cap and the Second Interest Rate Cap.

As at the Issue Date, each Swap Counterparty will be required to have:

(i) short-term unsecured, unsubordinated and unguaranteed debt obligations of at least A-1 by S&P and a rating assigned for its long-term unsecured, unsubordinated and unguaranteed debt obligations of at least A by S&P or, where the short term unsecured debt rating by S&P is less than A-1, a long term rating of at least A+, or such lower rating as may be required in line with the rating of the Most Senior Class as further described in each Swap Agreement;

(ii) prior to the redemption in full of the A1 Notes, (A) a rating assigned for its long term, unsecured, unsubordinated and unguaranteed debt obligations of at least A by DBRS with no classification of "Under Review (Negative)" applicable to the relevant Swap Counterparty (or any credit support provider) such that DBRS deems the relevant Swap Counterparty to have been downgraded to below the long term rating of A; or (B) in the absence of a rating by DBRS, the lower of the then Initial/First Trigger Swap Counterparty Required Ratings required by S&P and Fitch or if only one of S&P and Fitch rates such entity, the relevant Initial Swap Counterparty Required Rating; and

(iii) prior to the redemption in full of the A1 Notes, (x) in the event the A1 Notes are assigned a rating by Fitch of AA-sf or above, a long-term issuer default rating of A and a short-term issuer default rating of F1 with no Rating Watch Negative, in each case, applicable to the relevant Swap Counterparty's (or any credit support provider's) long-term or short-term issuer default rating such that Fitch deems the relevant Swap Counterparty (or any credit support provider) to have been downgraded to below the long-term rating of A or the short-term rating of F1 or, (y) in the event the A1 Notes are assigned a rating by Fitch of A+sf or below, a long-term issuer default rating of BBB+ and a short-term issuer default rating of F2 with no Rating Watch Negative, in each case, applicable to the relevant Swap Counterparty's (or any credit support provider's) long-term or short-term issuer default rating such that Fitch deems the relevant Swap Counterparty (or any credit support provider) to have been downgraded to below the long-term rating of BBB+ or the short-term rating of F2,

(in each case an "**Initial/First Trigger Swap Counterparty Required Rating**").

If any short-term or long-term debt rating of the relevant Swap Counterparty falls below an Initial Swap Counterparty Required Rating, or if a Swap Counterparty is on "Rating Watch Negative" such that Fitch (whilst any A1 Notes are outstanding), deems the relevant Swap Counterparty to have been downgraded to below the short term rating of F1 or the long term rating of A or if DBRS classifies a Swap Counterparty as "Under Review (Negative)" such that DBRS (whilst any A1 Notes are outstanding) deems the relevant Swap Counterparty to have been downgraded to below the long term rating of A (each, a "**Swap Counterparty Required Rating Downgrade**") the relevant Swap Counterparty will be obliged to take one or more of the following actions in relation to the relevant Swap Agreement:

- (a) within 10 Business Days (in the case of S&P), and prior to the redemption in full of the A1 Notes, 30 Business Days (in the case of DBRS) and 14 days (in the case of Fitch), provide collateral in support of its obligations under the relevant Swap Agreement in accordance with the swap criteria of the relevant Rating Agency as set out in the relevant Swap Agreement;
- (b) procure a guarantee of its obligations under the relevant Swap Agreement from an appropriately rated entity in accordance with the relevant Rating Agency criteria for eligible guarantees;
- (c) procure a replacement counterparty being another appropriately rated entity who takes a transfer or enters into a replacement swap; or

- (d) take such other action (which may include inaction) necessary so that the rating of the Rated Notes following such action will be rated no lower than the Rated Notes would be rated but for the downgrade.

In addition, if a First Subsequent Fitch Rating Event occurs or the ratings of a Swap Counterparty falls below the Subsequent/Second Trigger Swap Counterparty Required Ratings (in the case of Fitch and DBRS, only prior to the redemption in full of the A1 Notes), additional collateral requirements and obligations will apply. Any costs in relation to such remedial action will be borne by the relevant Swap Counterparty. The timing and extent of such action required to be taken may vary based on the individual criteria of the Rating Agencies and the level to which the rating of the relevant Swap Counterparty has been downgraded.

For all the abovementioned ratings, after the redemption in full of the A1 Notes, the ratings required by Fitch and DBRS shall no longer be taken into account.

Where a Swap Counterparty provides collateral in accordance with the terms of the relevant Swap Agreement, such collateral will not form part of the Available Revenue Funds but will be credited to the Fixed/Floating Swap Collateral Account or the Cap Collateral Account (as applicable). Amounts standing to the credit of the Swap Collateral Accounts will only be available to the Secured Creditors following payment of any termination amount due to the Swap Counterparty from such accounts upon termination of a Swap Agreement. Any amount in excess of such obligations shall not be available to Secured Creditors and shall be returned to the relevant Swap Counterparty.

Each Swap Agreement may be amended from time to time as agreed in writing between the Issuer, the Trustee and the relevant Swap Counterparty, subject to Rating Agency Confirmation. The Issuer and the relevant Swap Counterparty will each represent and warrant in the relevant Swap Agreement that, under current applicable law, each of them is entitled to make all payments required to be made by them under the relevant Swap Agreement free and clear of, and without deduction for or on account of, any taxes, assessments, or other governmental or regulatory charges. However, neither the Issuer nor a Swap Counterparty will be required to indemnify the other party for any withholding taxes or other taxes, assessments or charges imposed on payments under the Swap Agreements as a result of a change in applicable law.

If any withholding or other taxes, assessments or charges would be imposed on any payments made or required to be made under a Swap Agreement as a result of a change in applicable law and the obligation to deduct or withhold cannot be avoided by the relevant Swap Counterparty, the affected party may terminate the relevant Swap Agreements. If such a tax event occurs with respect to payments due from the Issuer to the relevant Swap Counterparty, each of the Issuer and the relevant Swap Counterparty must seek to find an alternative office, branch or affiliate to replace itself so that such event ceases.

Apart from for reason of the imposition of withholding tax, each of the Swap Agreements may be terminated by:

- (a) the relevant Swap Counterparty in circumstances including, broadly, *inter alia*, where the Issuer is in default by reason of failure by the Issuer to make payments, upon certain insolvency related events affecting the Issuer or acceleration or redemption of the Notes prior to their stated maturity or enforcement of the Security; and
- (b) by the Issuer in circumstances, broadly, *inter alia*, where the relevant Swap Counterparty is in default by reason of failure by the relevant Swap Counterparty to make payments, certain insolvency related or corporate reorganisation events which affect the relevant Swap Counterparty, acceleration or redemption of the Notes prior to their stated maturity or enforcement of the Security.

Except where a Swap Counterparty has caused a Swap Agreement to terminate prior to its scheduled termination date by its own default or pursuant to its failure to take action following a Swap Counterparty Required Rating Downgrade (pursuant to which a Swap Subordinated Amount is due), any termination payment in respect of a Swap Agreement due by the Issuer to a Swap Counterparty will rank in priority to payments due on the A1 Notes.

In the event that a Swap Agreement is terminated prior to its scheduled termination date, and prior to the service of an Enforcement Notice or the redemption in full of all outstanding Rated Notes, the Issuer shall use its best endeavours to enter into a replacement swap. Such replacement swap must be entered into on terms acceptable to the Rating Agencies, the Issuer and the Trustee with a replacement Swap Counterparty that the Rating Agencies have previously confirmed in writing to the Issuer and the Trustee will not cause the then current ratings of the Notes to be downgraded, withdrawn or qualified.

Termination payments received by the Issuer will not initially comprise Available Revenue Funds or Available Principal Funds. Instead, the Issuer will apply any termination payment it receives from a termination of any Swap Agreement (including, for the avoidance of doubt, any Swap Collateral to the extent not required to pay a termination payment to the Swap Counterparty that provided such Swap Collateral) to purchase a replacement swap (as described above). Following the application of a termination payment to purchase a replacement swap, any excess amount of the termination payment remaining will constitute Available Revenue Funds. To the extent that the Issuer receives a premium in respect of the entry into any replacement swap, it shall apply such premium first to make any termination payment due under the related terminated swap(s). If a replacement Swap Counterparty has not been appointed, any termination payment due under the terminated swap from the relevant Swap Counterparty shall be retained by the Issuer in a swap replacement costs ledger until such time as the Notes have been redeemed in full, whereupon the termination payment shall be paid to the Seller as Deferred Consideration.

Any cash credited to the Swap Collateral Accounts may be invested by the Issuer or the Cash/Bond Administrator acting as the agent of the Cash/Bond Administrator, acting in consultation with the Swap Counterparty, in eligible swap collateral investments (as defined in the relevant Credit Support Annex and which includes money market funds). Such eligible swap collateral investments shall be held by the Custodian provided that the Custodian retains the right to refuse to hold such eligible swap collateral investments at its discretion if the Custodian reasonably considers that it is unable to hold such assets.

### **Bank Accounts and Authorised Investments**

#### *Collection Account*

Unless otherwise agreed in writing by the Issuer and the Trustee, payments by Borrowers in respect of amounts due under the Loans will be made in the majority of cases by direct debits, into an account in the name of the Legal Title-Holder (the "**Collection Account**") at the Account Bank pursuant to the Bank Agreement. No payments from Borrowers with mortgage loans from the Legal Title-Holder which are not Loans in the Mortgage Pool should be paid into the Collection Account. The Legal Title-Holder will declare a trust over the Collection Account (the "**Collection Account Declaration of Trust**") in favour of the Issuer.

The Account Bank shall be entitled at any time to deduct from the Collection Account or the First GIC Account any amounts to satisfy any of its obligations and/or liabilities properly incurred under the direct debiting scheme or in respect of other unpaid sums (including but not limited to cheques and payment reversals) in each case relating to Borrowers under the Mortgage Portfolio, or to pay amounts due or owing to the Account Bank under the terms of the Bank Agreement.

#### *GIC Accounts*

All amounts received from Borrowers will be credited initially to the Collection Account and will be transferred daily to the Transaction Account. On the same day, such amounts will be transferred from the Transaction Account to the First GIC Account. The Cash/Bond Administrator may, from time to time, debit amounts standing to the credit of the First GIC Account and credit such amounts to the Second GIC Account (such transfer being effected through the Transaction Account).

In the event that the balance standing to the credit of the Second GIC Account (excluding amounts representing Principal Collections in the current Determination Period) exceeds an amount equal to five per cent. of the Principal Amount Outstanding of the Rated Notes at the Issue Date (the "**Original Rated Notes Amount**"), the amount by which the Original Rated Notes Amount is exceeded shall be transferred, at the close of each Business Day, to the First GIC Account via the Transaction Account. In the event that the balance standing to the credit of the First GIC Account (excluding amounts representing Principal Collections in the current Determination Period) exceeds an amount equal to five per cent. of the Original Rated Notes Amount, the amount by which the Original Rated Notes Amount is exceeded shall be transferred, at the close of each Business Day, to the Transaction Account and, if possible, transferred to the Second GIC Account.

The First GIC Provider will contract, on the terms set out in the First Guaranteed Investment Contract to pay a rate of interest agreed from time to time with the Cash/Bond Administrator on the funds on deposit in the First GIC Account and the Second GIC Provider will contract, on the terms set out in the Second Guaranteed Investment Contract to pay a specific rate of interest for a period of six years from the Issue Date on the funds on deposit in the Second GIC Account for each Interest Period (after which the Second GIC Provider will pay a rate of interest agreed from time to time with the Cash/Bond Administrator).

On each Determination Date, any amounts standing to the credit of the First GIC Account and any amounts standing to the credit of the Second GIC Account required to be applied in accordance with the Priority of

Payments on the immediately following Interest Payment Date shall be transferred to the Transaction Account.

#### *Transaction Account*

The Issuer will open the Transaction Account with the Account Bank, which will be used as the Issuer's operational account in respect of the Mortgage Pool and from which the Issuer will make payments in accordance with the applicable Priority of Payments.

Any amounts (including but not limited to, amounts from the Collection Account) transferred into the Transaction Account will be transferred daily from the Transaction Account to the First GIC Account, unless the amount standing to the credit of the First GIC Account (excluding amounts representing Principal Collections in the current Determination Period) exceeds five per cent. of the Original Rated Notes Amount, in which case the relevant amounts shall be retained in the Transaction Account or transferred to the Second GIC Account subject to the amount standing to the credit of the Second GIC Account not exceeding the Original Rated Notes Amount.

Subject to sufficient funds being available to the Issuer in the GIC Accounts, amounts from the GIC Accounts will be transferred to the Transaction Account to ensure that the Issuer always has sufficient funds in the Transaction Account to meet its payment obligations.

#### *Authorised Investments*

Funds of the Issuer will be deposited into the GIC Accounts and if, in the opinion of the Cash/Bond Administrator, the rate of interest earned is likely to exceed the rate of interest paid on the relevant GIC Account, the Issuer will be entitled to invest, and the Cash/Bond Administrator will, upon instruction by the Issuer, invest on behalf of the Issuer in Authorised Investments.

#### **Mortgage Early Redemption Amounts**

Mortgage Early Redemption Amounts which have not been refunded by the Cash/Bond Administrator to the Borrower as set out in "*Constitution of the Mortgage Pool – Mortgage Early Redemption Amounts*" will be included as Available Revenue Funds.



## **ADMINISTRATION, SERVICING AND CASH MANAGEMENT OF THE MORTGAGE POOL**

### **Mortgage Administration Agreement and Special Servicer Agreement**

The Mortgage Administrator is required to administer the Mortgage Pool on behalf of the Issuer and the Trustee under the Mortgage Administration Agreement. The duties of the Mortgage Administrator include, *inter alia*:

- (a) maintaining the Loan account in respect of each Borrower, making appropriate debit and credit entries in accordance with the terms of the applicable Mortgage, and sending each Borrower an account statement every three months;
- (b) collecting the scheduled monthly payments due on the Loans. Payments due on the majority of the Loans are settled by direct debit. The Mortgage Administrator is, therefore, required to present to the relevant bank the direct debit instruction approximately five days before the relevant payment date;
- (c) notifying Borrowers of changes in their scheduled monthly payments;
- (d) dealing with the administrative aspects of redemption of a Loan. This includes arranging for the release of the deeds relating to the relevant Property together with the deed of release of the Mortgage to the relevant Borrower upon receipt of amounts required to pay the Loan; and
- (e) dealing with enquiries and requests from Borrowers. These may include (but are not limited to) providing a credit reference from the lender, consenting to a transfer from joint Borrowers to a single Borrower (for example, upon a divorce), approving a tenancy agreement where a Borrower wishes temporarily to let the Property and providing details of the current outstanding balance.

The Mortgage Administrator will be obliged under the Mortgage Administration Agreement to act upon the instructions of the Special Servicer in relation to certain aspects of the administration of the Loans and the Mortgages. The Special Servicer shall exercise such discretion as is vested in it for the purpose of administering the Mortgage Pool as would be exercised by a Prudent Mortgage Lender.

The Mortgage Administrator is permitted, with the prior notification to the Issuer, the Trustee and the Special Servicer, to sub-contract or delegate its obligations under the Mortgage Administration Agreement, subject to (a) Rating Agency Confirmation and (b) the relevant sub-contractor or delegate being required to perform the mortgage administration functions on behalf of the Mortgage Administrator so as to ensure that KMC (in its various capacities as Legal Title-Holder, Mortgage Administrator and Special Servicer) complies with its obligations under the FSMA and the MCOB. On or about the Issue Date, the Mortgage Administrator will delegate certain of its obligations under the Mortgage Administration Agreement to Homeloan Management Limited.

The Mortgage Administrator is entitled to charge a fee for its mortgage settlement and related administration services under the Mortgage Administration Agreement, payable on each Interest Payment Date (subject to the proviso below and to the relevant Priority of Payments) of an amount, exclusive of value added tax, equal (i) to the product of 0.25 per cent. of the average aggregate current balance of each of the Loans in the Mortgage Pool on the last day of each calendar month, or if such day is not a Business Day, the following Business Day during the Interest Period immediately preceding the relevant Interest Payment Date divided by four and (ii) various sundry fees.

The appointment of KMC as Mortgage Administrator may be terminated by the Issuer (with the consent of the Trustee) or the Trustee on the happening of certain events of default, including non-performance of its obligations under the Mortgage Administration Agreement or if insolvency or similar events occur in relation to KMC or if, following the filing of an Enforcement Notice in relation to the Notes, the Trustee is entitled to dispose of the assets comprised in the Security in accordance with the Trust Deed. Following any such termination, HML as the Standby Mortgage Administrator will assume the functions of KMC as the Mortgage Administrator.

Provided prior notification has been given to the Issuer and the Trustee, the Special Servicer is permitted to sub-contract or delegate its obligations under the Special Servicer Agreement subject to (a) Rating Agency Confirmation and (b) the relevant sub-contractor or delegate being required to perform the special servicer functions on behalf of the Special Servicer so as to ensure that KMC (in its various capacities as Legal Title-Holder, Mortgage Administrator and Special Servicer) complies with its obligations under the FSMA and the MCOB.

The Special Servicer is entitled to charge a fee for its services under the Special Servicer Agreement payable on each Interest Payment Date (subject to and in accordance with the relevant Priority of Payments) of (i) an amount, inclusive of value added tax, equal to the product of 0.03 per cent. and the average aggregate current balance of each of the Loans in the Mortgage Pool on the first day of each calendar month or if such day is not a Business Day, the following Business Day during the Interest Period immediately preceding the relevant Interest Payment Date divided by four and (ii) various sundry fees.

The appointment of KMC as Special Servicer may be terminated by the Issuer (with the consent of the Trustee) or the Trustee upon the happening of certain events of default or if insolvency or similar events occur in relation to KMC or if, following the giving of an Enforcement Notice in relation to the Notes, the Trustee is entitled to dispose of the assets comprising the Security in accordance with the Trust Deed.

#### **Cash/Bond Administration Agreement**

For the purpose of the administration of the Mortgage Pool, the Cash/Bond Administrator will be authorised to operate the Collection Account, the GIC Accounts and the Transaction Account under the Cash/Bond Administration Agreement. The duties of the Cash/Bond Administrator include, *inter alia*:

- (a) making the required ledger entries and calculations in respect of such ledger entries;
- (b) maintaining and/or replenishing the Reserve Fund, the Cap Reserve Fund, the Yield Reserve Fund, the Contingency Reserve and the Liquidity Reserve Fund; and
- (c) distributing the Available Revenue Funds in accordance with the Pre-Enforcement Revenue Priority of Payments, the Available Principal Funds in accordance with the relevant Pre-Enforcement Principal Priority of Payments and, following the delivery of an Enforcement Notice, distributing available funds in accordance with the Post-Enforcement Priority of Payments and making arrangements for the payment by the Issuer of interest and principal in respect of the Notes subject to the terms thereof and to the availability of funds.

The Cash/Bond Administrator is entitled to charge a fee for its services under the Cash/Bond Administration Agreement, payable on each Interest Payment Date as provided for in the Pre-Enforcement Revenue Priority of Payments and Post-Enforcement Priority of Payments.

The appointment of the Cash/Bond Administrator may be terminated by the Issuer (with the consent of the Trustee) or the Trustee upon the happening of certain events of default or if insolvency or similar events occur in relation to the Cash/Bond Administrator or if, following the giving of an Enforcement Notice in relation to the Notes, the Trustee is entitled to dispose of the assets comprised in the Security. Following any such termination, the Issuer (with the consent of the Trustee) or the Trustee may appoint a substitute cash/bond administrator.

#### **Enforcement Procedures**

The Legal Title-Holder has established the Enforcement Procedures, including early contact with Borrowers in order to find a solution to any financial difficulties they may be experiencing. These same procedures as from time to time varied in accordance with the practice of a Prudent Mortgage Lender as dictated by the Special Servicer will continue to be applied in respect of arrears arising on the Mortgages. In this context, the non-discretionary elements of the Enforcement Procedures will be operated by the Mortgage Administrator or the Standby Mortgage Administrator, as the case may be, whereas the majority of the discretionary elements will remain with the Special Servicer, who may appoint the Mortgage Administrator or the Standby Mortgage Administrator, as the case may be, to undertake certain of these elements.

#### **Insurance Contracts**

At the time of completion, the relevant Property must have been insured by the Borrower under an insurance policy to an amount not less than the full reinstatement value as set out in the valuation report provided prior to origination plus 12.5 per cent.. Where the Borrower has not entered into an insurance policy, has under-insured the property, has allowed his or her insurance policy to lapse (and the Legal Title-Holder is not aware of that lapse), has had his or her insurance policy cancelled or restricted in any way without the consent of the Legal Title-Holder or any relevant insurer is unable to meet its obligations, the Legal Title-Holder and the beneficial owner of the relevant Loan will have the benefit of a Contingency Policy. Where the Legal Title-Holder becomes aware that the Borrower has allowed his or her insurance policy to lapse, the Mortgage Administrator will arrange for the LIO at the expense of the Borrower. The Legal Title-Holder and the beneficial owner of the relevant Loan will then have the benefit of the LIO.

## WEIGHTED AVERAGE LIVES OF THE NOTES

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

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

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

- (a) there are no arrears or enforcements;
- (b) no Loan is sold by the Issuer;
- (c) no Principal Deficiency arises;
- (d) no Loan is required to be repurchased by Investec due to any warranty breach;
- (e) the portfolio mix of loan characteristics remain the same throughout the life of the Notes;
- (f) the interest payment as well as the principal payment for each Loan is calculated on a loan-by-loan basis assuming each Loan amortises monthly (meaning the amortisation of each Loan is determined by the loan specific (i) term, (ii) principal outstanding and (iii) margin plus LIBOR);
- (g) the amortisation of any Repayment Loan is calculated as an annuity loan on a 30/360 basis, and the interest on any Loan is calculated on an actual/365 basis;
- (h) all Loans which are not Repayment Loans are assumed to be Interest Only Loans;
- (i) there are 117 days between the Issue Date and the first Interest Payment Date;
- (j) a LIBOR rate of 1.0356 per cent. on the Notes;
- (k) there is collateral of £240,526,735.21 and there are liabilities of £240 million;
- (l) all Loans are sold to the Issuer on the Issue Date;
- (m) all Loans have a floating interest rate; and
- (n) no further advances are made on a Loan.

The actual characteristics and performance of the Loans are likely to differ from the assumptions used in constructing the tables set forth below, which are hypothetical in nature and are provided only to give a general sense of how the principal cash flows might behave under varying prepayment scenarios. For example, it is not expected that the Loans will prepay at a constant rate until maturity, that all of the Loans will prepay at the same rate or that there will be no defaults or delinquencies on the Loans. Moreover, the diverse remaining terms to maturity of the Loans could produce slower or faster principal distributions than indicated in the tables at the various percentages of CPR specified, even if the weighted average remaining term to maturity of the Loans is assumed.

Any difference between such assumptions and the actual characteristics and performance of the Loans will cause the weighted average lives of the Notes to differ (which difference could be material) from the corresponding information in the tables for each indicated percentage of CPR.

### **Weighted Average Life in Years**

The weighted average lives shown below were determined by (i) multiplying the net reduction, if any, of the Principal Amount Outstanding of each class of Notes by the number of years from the date of issue of the Notes to the related Interest Payment Date, (ii) adding the results and (iii) dividing the sum by the aggregate of the net reductions of the Principal Amount Outstanding described in (i) above.

Subject to the foregoing discussion and assumptions, the following tables indicate the weighted average lives of the A1 Notes. The weighted average lives have been calculated on an actual/365 basis.

**Weighted Average Life in Years (with auction on the Interest Payment Date falling in May 2017 but with optional 10% call).**

	<i>CPR</i>								
	<b>0.00%</b>	<b>2.00%</b>	<b>5.00%</b>	<b>7.00%</b>	<b>10.00%</b>	<b>12.00%</b>	<b>15.00%</b>	<b>20.00%</b>	<b>1.5% to 10% at month 17</b>
<b>Up to call date</b>	4.88	4.61	4.22	3.98	3.64	3.42	3.12	2.66	4.11

**Weighted Average Life in Years (without auction on the Interest Payment Date falling in May 2017 but with optional 10% call).**

	<i>CPR</i>								
	<b>0.00%</b>	<b>2.00%</b>	<b>5.00%</b>	<b>7.00%</b>	<b>10.00%</b>	<b>12.00%</b>	<b>15.00%</b>	<b>20.00%</b>	<b>1.5% to 10% at month 17</b>
<b>Up to maturity</b>	14.01	11.03	7.98	6.6	5.15	4.46	3.69	2.84	6.03

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Temporary Global Notes and the Permanent Global Notes (each a "**Global Note**" as the context may require) contain provisions which apply to the Notes while they are in global form, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

### 1 Nominal Amount and Exchange

The nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear and Clearstream, Luxembourg or any alternative clearing system approved by the Trustee and permitted to hold the Temporary Global Note and the Permanent Global Note as eligible collateral for Eurosystem monetary policy and intra-day credit operations (each a "**relevant Clearing System**"). The Notes are intended to be held in a manner which will allow Eurosystem eligibility. This simply means that the Notes will be issued in the form of new global notes and are intended upon issue to be deposited with a common safekeeper. It does not necessarily mean that the 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.

As far as the Lead Managers are aware, the Notes will not be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem and neither the Lead Managers nor, so far as they are aware, any other person is intending to apply to any national central bank for the Notes to be added to the European Central Bank's list of eligible marketable assets.

The records of such relevant Clearing System shall be conclusive evidence of the nominal amount of Notes represented by the Temporary Global Note and the Permanent Global Note and a statement issued by such relevant Clearing System at any time shall be conclusive evidence of the records of that relevant Clearing System at that time. The Trustee will not 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.

The Temporary Global Note is exchangeable in whole or in part for interests recorded in the records of the relevant Clearing Systems in the Permanent Global Note on the date falling after the expiry of 40 days from the Issue Date, upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Note. The Permanent Global Note is exchangeable in whole but not in part (free of charge to the holder) for the definitive Notes described below if any of the following events (each an "**Exchange Event**") occurs:

- (a) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which becomes effective on or after the Issue Date, the Issuer 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 relevant Notes in definitive form; or
- (b) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

Thereupon, the holder may give notice to the Principal Paying Agent of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date specified in the notice. Neither the Trustee nor any of its agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

On or after the Exchange Date the holder of the Permanent Global Note may surrender the Permanent Global Note to or to the order of Principal Paying Agent. In exchange for the Permanent Global Note the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Trust Deed. On exchange of the Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant definitive Notes.

## **2 Payments**

No payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by the Global Note will be made to its holder. The Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant Clearing System and, in the case of payments of principal, the nominal amount of the Notes will be reduced accordingly. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant Clearing System shall not affect such discharge. For the purpose of any payments made in respect of a Global Note, Condition 6(d) (*Payments on business days*) shall not apply, and all such payments shall be made on a day which is a business day (as defined in Condition 6(d) (*Payments on business days*)).

## **3 Notices**

So long as the Notes are represented by the Global Note and the Global Note is held on behalf of a relevant Clearing System, notices to Noteholders may be given by delivery of the relevant notice to that relevant Clearing System for communication by it to entitled accountholders in substitution for publication as required by the Conditions.

## **4 Prescription**

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by the Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate relevant date (as defined in Condition 7 (*Prescription*)).

## **5 Meetings**

The holder of the Global Note shall (unless the Global Note represents only one Note) be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each £1.00 in principal amount of Notes.

## **6 Purchase and Cancellation**

On cancellation of any Note required by the Conditions to be cancelled following its purchase, the Issuer shall procure that details of such cancellation shall be entered *pro rata* in the records of the relevant Clearing Systems and, upon any such entry being made, the nominal amount of the Notes recorded in the records of the relevant Clearing Systems and represented by this Global Note shall be reduced by the aggregate nominal amount of the Notes so cancelled.

## **7 Trustee's Powers**

In considering the interests of Noteholders while the Global Note is held on behalf of a relevant Clearing System, the Trustee may have regard to any information provided to it by such relevant Clearing System or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Note and may consider such interests as if such accountholders were the holder of the Global Note.

## TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes (the "**Conditions**") which (subject to amendment and completion) will be endorsed or attached on each Global Note and each Note in definitive form (if applicable) and (subject to the provisions thereof) will apply to each such Note.

The issue of £201,600,000 Class A1 Notes due 2045 (the "**A1 Notes**"), £3,600,000 Class M1 Notes due 2045 (the "**M1 Notes**"), £6,000,000 Class M2 Notes due 2045 (the "**M2 Notes**" and, together with the M1 Notes, the "**M Notes**"), £13,200,000 Class B1 Notes due 2045 (the "**B1 Notes**"), £15,600,000 Class B2 Notes due 2045 (the "**B2 Notes**" and, together with the B1 Notes, the "**B Notes**"), £3,600,000 Class R1 Notes due 2045 (the "**R1 Notes**"), £2,400,000 Class R2 Notes due 2045 (the "**R2 Notes**") and £500,000 Class R3 Notes due 2045 (the "**R3 Notes**" and, together with the R1 Notes and the R2 Notes, the "**R Notes**" and, together with the A1 Notes, the M Notes, the B Notes, the "**Notes**") of Gemgarto 2012-1 Plc (the "**Issuer**") was authorised by a resolution of the board of directors of the Issuer passed on 16 April 2012.

The Notes are constituted by a trust deed (the "**Trust Deed**") dated on or about 19 April 2012 (the "**Issue Date**") between the Issuer and Wells Fargo Trust Corporation Limited (the "**Trustee**") as trustee for the holders of the Notes (the "**Noteholders**"). Any reference in these terms and conditions (the "**Conditions**") to a "**Class**" of Notes or Noteholders shall be a reference to, as the case may be, the A1 Notes, the M1 Notes, the M2 Notes, the B1 Notes, the B2 Notes, the R1 Notes, the R2 Notes or the R3 Notes or to the respective holders thereof.

These Conditions include summaries of, and are subject to, the detailed provisions of (1) the Trust Deed, which includes the form of the Notes and the coupons (the "**Coupons**") relating to them, (2) the paying agency agreement (the "**Paying Agency Agreement**") dated the Issue Date relating to the Notes between the Issuer, the Trustee, HSBC Bank plc as agent bank (the "**Agent Bank**"), HSBC Bank plc as principal paying agent (the "**Principal Paying Agent**") and the other paying agents named in it (together with the Principal Paying Agent and any other or further paying agent appointed under the Paying Agency Agreement, the "**Paying Agents**"), (3) the deed of charge and assignment (the "**Deed of Charge**") dated the Issue Date between the Issuer and the Trustee and (4) the cash/bond administration agreement (the "**Cash/Bond Administration Agreement**") dated the Issue Date between, *inter alios*, the Issuer and Investec Bank plc (the "**Cash/Bond Administrator**").

In these Conditions, capitalised words and expressions shall, unless otherwise defined below, have the same meanings as those given in the Master Definitions Schedule dated on or about the Issue Date between, *inter alios*, the Issuer, the Trustee and the Principal Paying Agent.

Copies of the Trust Deed, the Paying Agency Agreement, the Deed of Charge, the Cash/Bond Administration Agreement, the Master Definitions Schedule and the other Transaction Documents are available (i) for inspection during usual business hours at the specified offices from time to time of the Principal Paying Agent and (ii) online at [www.ctslink.com](http://www.ctslink.com), and will be available in such manner for at least as long as the Notes are admitted to listing on the Irish Stock Exchange and the guidelines of the Irish Stock Exchange so require. The Noteholders and the holders of the Coupons (whether or not attached to the relevant Notes) (the "**Couponholders**") are entitled to the benefit of the Trust Deed and are bound by, and are deemed to have notice of, the provisions of the Trust Deed, the Paying Agency Agreement, the Deed of Charge, the Master Definitions Schedule and the other Transaction Documents.

### 1 Form, Denomination and Title

(a) Form and denomination:

The Notes are serially numbered and in bearer form in the denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000, each with Coupons attached on issue. No definitive Notes will be issued with a denomination above £199,000.

(b) Title

Title to the Notes and Coupons passes by delivery. The Noteholder or Couponholder will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

## 2 Status, Security and Administration

- (a) The Notes and Coupons constitute direct, secured and unconditional obligations of the Issuer, recourse in respect of which is limited in the manner described in Condition 10 (*Enforcement of Notes, Limited Recourse and Non-Petition*).

As regards payments of interest:

- (i) prior to enforcement of the Security, the A1 Notes shall at all times rank *pari passu* and without any preference or priority amongst themselves and in priority to the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes, the M1 Notes shall at all times rank *pari passu* and without any preference or priority amongst themselves and in priority to the M2 Notes, the B1 Notes and the B2 Notes, the M2 Notes shall at all times rank *pari passu* and without any preference or priority amongst themselves and in priority to the B1 Notes and the B2 Notes, the B1 Notes shall at all times rank *pari passu* and without any preference or priority amongst themselves and in priority to the B2 Notes, and the B2 Notes shall at all times rank *pari passu* and without any preference or priority amongst themselves; and
- (ii) upon enforcement of the Security, the A1 Notes shall at all times rank *pari passu* and without any preference or priority amongst themselves and in priority to the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes, the M1 Notes shall at all times rank *pari passu* and without any preference or priority amongst themselves and in priority to the M2 Notes, the B1 Notes and the B2 Notes, the M2 Notes shall at all times rank *pari passu* and without any preference or priority amongst themselves and in priority to the B1 Notes and the B2 Notes, the B1 Notes shall at all times rank *pari passu* and without any preference or priority amongst themselves and in priority to the B2 Notes, and the B2 Notes shall at all times rank *pari passu* and without any preference or priority amongst themselves.

As regards repayments of principal:

prior to enforcement of the Security, the A1 Notes shall rank *pari passu* and without any preference or priority amongst themselves and in priority to the M1 Notes, the M2 Notes, the B1 Notes, the B2 Notes, the R1 Notes, the R2 Notes and the R3 Notes, the M1 Notes shall rank *pari passu* and without any preference or priority amongst themselves and in priority to the M2 Notes, the B1 Notes, the B2 Notes, the R1 Notes, the R2 Notes and the R3 Notes, the M2 Notes shall rank *pari passu* and without any preference or priority amongst themselves and in priority to the B1 Notes, the B2 Notes, the R1 Notes, the R2 Notes and the R3 Notes, the B1 Notes shall rank *pari passu* and without any preference or priority amongst themselves and in priority to the B2 Notes, the R1 Notes, the R2 Notes and the R3 Notes, the B2 Notes shall rank *pari passu* and without any preference or priority amongst themselves and in priority to the R1 Notes, the R2 Notes and the R3 Notes, the R1 Notes shall rank *pari passu* and without any preference or priority amongst themselves and in priority to the R2 Notes and the R3 Notes, the R2 Notes shall rank *pari passu* and without any preference or priority amongst themselves and in priority to the R3 Notes and the R3 Notes shall rank *pari passu* and without any preference or priority amongst themselves.

Upon enforcement of the Security, the provisions of Condition 2(d) (*Post-Enforcement Priority of Payments*) shall apply.

The Notes are constituted by the Trust Deed and are secured by the same security, but upon enforcement of the Security, the A1 Notes will rank in priority to the M1 Notes, the M2 Notes, the B1 Notes, the B2 Notes, the R1 Notes, the R2 Notes and the R3 Notes in point of security; the M1 Notes will rank in priority to the M2 Notes, the B1 Notes, the B2 Notes, the R1 Notes, the R2 Notes and the R3 Notes in point of security; the M2 Notes will rank in priority to the B1 Notes, the B2 Notes, the R1 Notes, the R2 Notes and the R3 Notes in point of security; the B1 Notes will rank in priority to the B2 Notes, the R1 Notes, the R2 Notes and the R3 Notes in point of security; the B2 Notes will rank in priority to the R1 Notes, the R2 Notes and the R3 Notes in point of security; the R1 Notes will rank in priority to the R2 Notes and the R3 Notes in point of security and the R2 Notes will rank in priority to the R3 Notes in point of security pursuant to the Deed of Charge.

The Trust Deed contains provisions requiring the Trustee to have regard to the interests of the Noteholders equally as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee to have regard only to the interests of the holders of the Most Senior Class if, in the Trustee's opinion, there is a conflict between the interests of the holders of the Most Senior Class and the interests of any of the other Noteholders



and the other Noteholders (not being holders of the Most Senior Class) shall have no claim against the Trustee for so doing.

The Trust Deed contains provisions limiting the powers of the holders of those Classes of Notes other than the Most Senior Class, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the holders of the Most Senior Class. Except in certain circumstances set out in Condition 11 (*Meetings of Noteholders; Modifications; Consents; Waiver*), the Trust Deed contains no such limitation on the powers of the holders of the Most Senior Class, the exercise of which will be binding on the holders of the other Classes of Notes, irrespective of the effect thereof on their interests.

The Trust Deed and Condition 11 (*Meetings of Noteholders; Modifications; Consents; Waiver*) also contain provisions regarding the resolution of disputes between the holders of more than one Class of Notes other than the Most Senior Class.

The Trust Deed contains provisions to the effect that, so long as any of the Notes are outstanding, the Trustee shall not be required, when exercising its powers, authorities and discretions, to have regard to the interests of any other persons having the benefit of the Security constituted by the Deed of Charge and, in relation to the exercise of such powers, authorities and discretions, the Trustee shall have no liability to such persons as a consequence of so acting.

So long as any of the Notes remain outstanding, in the exercise of its rights, authorities and discretions under the Trust Deed, the Trustee is not required to have regard to the interests of the other Secured Creditors.

In determining whether the exercise of any right, power, trust, authority, duty or discretion by it under or in relation to the Conditions and/or any of the Transaction Documents is materially prejudicial to the interests of the Noteholders (or any class thereof), the Trustee may take into account, if available, amongst any other things it may consider necessary and/or appropriate in its absolute discretion, whether the then rating of the Rated Notes will be adversely affected.

(b) *Security*

As security for the payment of all moneys payable in respect of the Notes and otherwise under the Trust Deed (including the remuneration, expenses and any other claims of the Trustee and any receiver appointed under the Deed of Charge) and in respect of certain amounts payable to the Mortgage Administrator under the Mortgage Administration Agreement, the Standby Mortgage Administrator under the Standby Mortgage Administration Agreement, the Special Servicer under the Special Servicer Agreement, the Cash/Bond Administrator under the Cash/Bond Administration Agreement, the Principal Paying Agent and Agent Bank under the Paying Agency Agreement, the Account Bank and GIC Providers under the Bank Agreement and the Guaranteed Investment Contracts respectively, the Corporate Services Provider under the Corporate Services Agreement, the Custodian under the Custody Agreement, the Paying Agents under the Paying Agency Agreement, the Cap Counterparty under the Interest Rate Cap Agreements, the Fixed/Floating Swap Provider under the Fixed/Floating Swap Agreement and any other party which accedes to the Deed of Charge as a secured party, the Issuer will enter into the Deed of Charge, creating the following security in favour of the Trustee for itself and on trust for the other persons expressed to be secured parties thereunder:

- (i) first fixed equitable charges and security in favour of the Trustee over the Issuer's present and future right, title, benefit and interest in, to and under the Loans, the Mortgages and the Collateral Security relating to the Loans;
- (ii) an equitable assignment in favour of the Trustee of the Issuer's interests in the Insurance Contracts to the extent that they relate to the Loans;
- (iii) an assignment in favour of the Trustee of the Issuer's right, title, interest and benefit in, to and under the Bank Agreement, the Cash/Bond Administration Agreement, the Standby Cash/Bond Administration Agreement, the Collection Account Declaration of Trust, the Corporate Services Agreement, the Custody Agreement, the Guaranteed Investment Contracts, the Swap Agreements, the Mortgage Administration Agreement, the Standby Mortgage Administration Agreement, the Mortgage Sale Agreement, the Paying Agency Agreement, the Issuer/ICSD Agreement and any other agreement entered into between the Issuer and a secured party to the Deed of Charge (the "**Charged Obligation Documents**");
- (iv) a first fixed charge in favour of the Trustee over the Issuer's interest in the Bank Accounts, any Authorised Investments and the Custody Accounts; and

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

(c) *Pre-Enforcement Revenue Priority of Payments*

Prior to the enforcement of the Security, on each Interest Payment Date the Cash/Bond Administrator shall apply an amount equal to the Available Revenue Funds as at the immediately preceding Determination Date in making the following payments in the following order of priority, but in each case only to the extent that all payments of a higher priority have been made in full (the "**Pre-Enforcement Revenue Priority of Payments**"):

- (i) *first*, to pay *pro rata* when due the remuneration payable to the Trustee (plus value added tax, if any) and any fees (including legal fees), costs, charges, liabilities and expenses incurred by it under the provisions of or in connection with the Trust Deed or the Deed of Charge or either or both of them together or any other documents entered into by the Trustee in its capacity as trustee under the Trust Deed or the Deed of Charge or either or both of them with interest as provided in the Trust Deed or the Deed of Charge or either or both of them;
- (ii) *second*, to pay *pro rata* when due:
  - (a) amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable by the Issuer to third parties and incurred without breach by the Issuer pursuant to the Trust Deed or the Deed of Charge and not provided for payment elsewhere and to provide for any such amounts expected to become due and payable by the Issuer after that Interest Payment Date and prior to the next Interest Payment Date and to provide for the Issuer's liability or possible liability for corporation tax; and
  - (b) an amount equal to any premia in respect of Insurance Contracts;
- (iii) *third*, to pay *pro rata* and *pari passu*:
  - (a) if the Mortgage Administration Agreement has not been terminated and prior to the Standby Mortgage Administrator performing its obligations pursuant to the Standby Mortgage Administration Agreement and stepping in as Mortgage Administrator (i) (except to the extent already paid to the Mortgage Administrator since the preceding Interest Payment Date or, in the case of the first Interest Payment Date, since the Issue Date) the mortgage administration fee (exclusive of value added tax, if any), payable under the Mortgage Administration Agreement, such fee being up to a maximum of the product of 0.25 per cent. and the average aggregate current balance of each of the Loans in the Mortgage Pool on the last day of each calendar month during the Interest Period ending on such Interest Payment Date divided by four together with costs, expenses and sundry fees incurred or charged by the Mortgage Administrator in accordance with the Mortgage Administration Agreement and (ii) (except to the extent already paid to the Standby Mortgage Administrator since the preceding Interest Payment Date or, in the case of the first Interest Payment Date, since the Issue Date), the standby mortgage administration fee of £25,000 (exclusive of value added tax, if any) payable under the Standby Mortgage Administration Agreement on the Issue Date and then annually in advance on the Interest Payment Date falling closest to the anniversary of the Issue Date of each year;
  - (b) if the Mortgage Administrator's appointment under the Mortgage Administration Agreement has been terminated and the Standby Mortgage Administrator has become the replacement Mortgage Administrator (except to the extent already paid to the Standby Mortgage Administrator since the preceding Interest Payment Date or, in the case of the first Interest Payment Date, since the Issue Date) the mortgage administration fee (exclusive of value added tax, if any), payable under the Standby Mortgage Administration Agreement, such fee being up to a maximum of the product of 0.25 per cent. and the average of the aggregate current balance of each of the Loans in the Mortgage Pool on the last day of each calendar month during the Interest Period ending on such Interest Payment Date divided by four together with costs, expenses and sundry fees incurred or charged by the Standby Mortgage Administrator in accordance with the Standby Mortgage Administration Agreement;
  - (c) (i) the cash/bond administration fee (inclusive of value added tax, if any), payable under the Cash/Bond Administration Agreement to the Cash/Bond Administrator, such

fee being up to a maximum of the product of 0.02 per cent. and the aggregate Principal Amount Outstanding of all the Rated Notes on the first day of each Interest Period immediately preceding the said Interest Payment Date divided by four in respect of each full Interest Period together with costs and expenses incurred by the Cash/Bond Administrator in accordance with the Cash/Bond Administration Agreement; (ii) the special servicer fee (inclusive of value added tax, if any), payable under the Special Servicer Agreement to the Special Servicer, such fee being up to a maximum of the product of 0.03 per cent. and the average aggregate current outstanding balances of the Loans in the Mortgage Pool on the first day of each calendar month during the Interest Period ending on such Interest Payment Date divided by four in respect of each full Interest Period together with costs and expenses incurred by the Special Servicer in accordance with the Special Servicer Agreement; and (iii) any fees payable to the Auction Agent under the Cash/Bond Administration Agreement;

- (d) if the Cash/Bond Administration Agreement has not been terminated and prior to the Standby Cash/Bond Administration performing its obligations under the Standby Cash/Bond Administration Agreement and stepping in as Cash/Bond Administrator (except to the extent already paid to the Standby Cash/Bond Administrator since the preceding Interest Payment Date or, in the case of the first Interest Payment Date, since the Issue Date) the standby cash/bond administration fee (inclusive of value added tax, if any), payable under the Standby Cash/Bond Administration Agreement to the Standby Cash/Bond Administrator in respect of each full Interest Period with costs and expenses incurred by the Standby Cash/Bond Administrator in accordance with the Standby Cash/Bond Administration Agreement;
- (e) amounts due (plus value added tax, if any) and any fees (including legal fees), costs, charges, liabilities, and expenses incurred by it to the Paying Agents and Agent Bank under the Paying Agency Agreement, the Account Bank under the Bank Agreement and the Custodian under the Custody Agreement;
- (f) amounts due and payable to the Corporate Services Provider under and in accordance with the Corporate Services Agreement;
- (iv) *fourth*, to pay amounts due and payable to the GIC Providers under the Guaranteed Investment Contracts;
- (v) *fifth*, in or towards payment *pro rata* and *pari passu* of any amounts to Swap Counterparties in respect of a Swap Agreement (other than any Swap Subordinated Amounts which are due and payable under item (xix) below or Swap Excluded Amounts);
- (vi) *sixth*, to pay amounts (other than in respect of principal) payable in respect of the A1 Notes (including, for the avoidance of doubt, any A1 Notes Step-up Amount) (such amounts to be paid *pro rata* according to the respective interest entitlements of the A1 Noteholders);
- (vii) *seventh*, amounts to be credited to the A1 Principal Deficiency Ledger (such amounts to be applied in redemption of the Notes in accordance with Condition 5 (*Redemption*)) until the balance of the A1 Principal Deficiency Ledger has reached zero;
- (viii) *eighth*, to pay the Issuer £1,125 to be retained in a GIC Account and credited to the Issuer Turn Ledger to be used for the purpose of the Issuer Turn;
- (ix) *ninth*, to pay *pari passu* and *pro rata* amounts (other than in respect of principal) payable in respect of the M1 Notes (such amounts to be paid *pro rata* according to the respective interest entitlements of the M1 Noteholders);
- (x) *tenth*, amounts to be credited to the M1 Principal Deficiency Ledger (such amounts to be applied in redemption of the Notes in accordance with Condition 5 (*Redemption*)) until the balance of the M1 Principal Deficiency Ledger has reached zero;
- (xi) *eleventh*, to pay *pari passu* and *pro rata* amounts (other than in respect of principal) payable in respect of the M2 Notes (such amounts to be paid *pro rata* according to the respective interest entitlements of the M2 Noteholders);
- (xii) *twelfth*, amounts to be credited to the M2 Principal Deficiency Ledger (such amounts to be applied in redemption of the Notes in accordance with Condition 5 (*Redemption*)) until the balance of the M2 Principal Deficiency Ledger has reached zero;

- (xiii) *thirteenth*, to pay *pari passu* and *pro rata* amounts (other than in respect of principal) payable in respect of the B1 Notes (such amounts to be paid *pro rata* according to the respective interest entitlements of the B1 Noteholders);
- (xiv) *fourteenth*, amounts to be credited to the B1 Principal Deficiency Ledger (such amounts to be applied in redemption of the Notes in accordance with Condition 5 (*Redemption*)) until the balance of the B1 Principal Deficiency Ledger has reached zero;
- (xv) *fifteenth*, to pay *pari passu* and *pro rata* amounts (other than in respect of principal) payable in respect of the B2 Notes (such amounts to be paid *pro rata* according to the respective interest entitlements of the B2 Noteholders);
- (xvi) *sixteenth*, amounts to be credited to the B2 Principal Deficiency Ledger (such amounts to be applied in redemption of the Notes in accordance with Condition 5 (*Redemption*)) until the balance of the B2 Principal Deficiency Ledger has reached zero;
- (xvii) *seventeenth*, amounts to be credited to the Reserve Ledger, until the balance of the Reserve Fund reaches the Reserve Fund Required Amount;
- (xviii) *eighteenth*, amounts to be credited to the Yield Reserve Ledger, until the balance of the Yield Reserve Fund reaches the Yield Reserve Required Amount;
- (xix) *nineteenth*, in or towards payment according to the amount thereof and in accordance with the terms of the relevant Swap Agreement to any Swap Counterparties *pro rata* and *pari passu* of any Swap Subordinated Amounts (other than Swap Excluded Amounts);
- (xx) *twentieth*,:
  - i. on each Interest Payment Date falling before the Step-up Date, to pay *pari passu* and *pro rata* amounts payable to the R3 Noteholders equal to the balance of the Available Revenue Funds after deduction of all amounts referred to in items (i) to (xix) (inclusive) above up to and including the date the principal of the R3 Notes are redeemed in full; or
  - ii. on each Interest Payment Date on which there are A1 Notes are outstanding and which falls on or after the Step-up Date, to transfer an amount equal to the balance of the Available Revenue Funds after deduction of all amounts referred to in items (i) to (xix) (inclusive) above to the Principal Ledger for application as Available Principal Funds on such Interest Payment Date; or
  - iii. on each Interest Payment Date on which there are no A1 Notes are outstanding and which falls after the Step-up Date, to pay *pari passu* and *pro rata* amounts payable to the R3 Noteholders equal to the balance of the Available Revenue Funds after deduction of all amounts referred to in items (i) to (xix) (inclusive) above up to and including the date the principal of the R3 Notes are redeemed in full;
- (xxi) *twenty-first*, to pay the surplus (if any) to the Issuer which shall be retained in a GIC Account and credited to the Issuer Turn Ledger as part of the Issuer Turn.

(d) *Post-Enforcement Priority of Payments*

Upon the earlier to occur of (i) the Trustee giving notice to the Issuer pursuant to Condition 9(a) (*Events of Default*) declaring the Notes to be due and repayable, (ii) the Final Maturity Date and (iii) the Interest Payment Date on which the Notes are redeemed in accordance with Condition 5(d) (*Optional Redemption in Full*) or Condition 5(e) (*Optional Redemption for Taxation or Other Reasons*) the Trustee shall, to the extent that such funds are available, use funds standing to the credit of the Transaction Account and GIC Accounts other than Swap Excluded Amounts (after making payments of certain moneys which properly belong to third parties) to make payments in the following order of priority pursuant to, in accordance with and as set out more fully in the Deed of Charge (the "**Post-Enforcement Priority of Payments**"):

- (i) *first*, to pay, *pro rata*, any remuneration then due to any receiver and all amounts due in respect of legal fees and other costs, charges, liabilities, losses, damages, proceedings, claims and demands then incurred by such receiver together with interest thereon and to pay all amounts due to the Trustee in respect of the Trustee's remuneration, fees (including legal fees), costs, charges, losses, damages, proceedings, claims, demands, expenses and liabilities due to the Trustee (plus value added tax, if any);

- (ii) *second*, to pay, *pro rata* and *pari passu*, the fees, costs, expenses and liabilities due to the Mortgage Administrator, the Standby Mortgage Administrator (if any), the Cash/Bond Administrator, the Standby Cash/Bond Administrator, the Paying Agents, the Auction Agent, the Agent Bank, the Account Bank, the Corporate Services Provider, the Custodian and the GIC Providers;
- (iii) *third*, to pay amounts *pro rata* and *pari passu* payable to Swap Counterparties (other than any Swap Subordinated Amounts which are due payable under item (xi) below or Swap Excluded Amounts);
- (iv) *fourth*, to pay, *pro rata* and *pari passu*:
  - (a) amounts (other than in respect of principal) payable in respect of the A1 Notes (including, for the avoidance of doubt, any A1 Notes Step-up Amount) (such amounts to be paid *pro rata* according to the respective interest entitlements of the A1 Noteholders) in accordance with Condition 4 (*Interest*); and
  - (b) amounts payable to the A1 Noteholders in respect of principal on the A1 Notes until the A1 Notes are redeemed in full;
- (v) *fifth*, to pay, *pro rata* and *pari passu*:
  - (a) amounts (other than in respect of principal) payable in respect of the M1 Notes (such amounts to be paid *pro rata* according to the respective interest entitlements of the M1 Noteholders) in accordance with Condition 4 (*Interest*); and
  - (b) amounts payable to the M1 Noteholders in respect of principal on the M1 Notes until the M1 Notes are redeemed in full;
- (vi) *sixth*, to pay, *pro rata* and *pari passu*:
  - (a) amounts (other than in respect of principal) payable in respect of the M2 Notes (such amounts to be paid *pro rata* according to the respective interest entitlements of the M2 Noteholders) in accordance with Condition 4 (*Interest*); and
  - (b) amounts payable to the M2 Noteholders in respect of principal on the M2 Notes until the M2 Notes are redeemed in full;
- (vii) *seventh*, to pay, *pro rata* and *pari passu*:
  - (a) amounts (other than in respect of principal) payable in respect of the B1 Notes (such amounts to be paid *pro rata* according to the respective interest entitlements of the B1 Noteholders) in accordance with Condition 4 (*Interest*); and
  - (b) amounts payable to the B1 Noteholders in respect of principal on the B1 Notes until the B1 Notes are redeemed in full;
- (viii) *eighth*, to pay, *pro rata* and *pari passu*:
  - (a) amounts (other than in respect of principal) payable in respect of the B2 Notes (such amounts to be paid *pro rata* according to the respective interest entitlements of the B2 Noteholders) in accordance with Condition 4 (*Interest*); and
  - (b) amounts payable to the B2 Noteholders in respect of principal on the B2 Notes until the B2 Notes are redeemed in full;
- (ix) *ninth*, to pay, *pro rata* and *pari passu* an amount up to £3,600,000 to the R1 Noteholders in respect of principal on the R1 Notes;
- (x) *tenth*, to pay, *pro rata* and *pari passu* an amount up to (A) £2,400,000 less (B) an amount equal to the R2 Notes Write-down Amount to the R2 Noteholders in respect of principal on the R2 Notes;
- (xi) *eleventh*, to pay *pro rata* and *pari passu* to Swap Counterparties any Swap Subordinated Amounts (other than Swap Excluded Amounts);
- (xii) *twelfth*, to pay *pro rata* and *pari passu*:
  - (a) amounts payable to the R3 Noteholders in respect of principal on the R3 Notes until the R3 Notes are redeemed in full; and

- (b) amounts payable to the R3 Noteholders equal to the balance of funds available to the Trustee after payment in full of all amounts referred to in items (i) to (xi) (inclusive) above; and

(xiii) *thirteenth*, to pay the surplus (if any) to the Issuer.

The Security will become enforceable upon the occurrence of an Event of Default 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 Trustee will not be entitled to dispose of the assets comprised in the Security or any part thereof unless either a sufficient amount would be realised to allow discharge in full of all amounts owing in respect of the Rated Notes or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of an investment bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing in respect of the Rated Notes.

### 3 Covenants of the Issuer

Save with the prior written consent of the Trustee or as expressly provided in or expressly envisaged by any of the Bank Agreement, the Cash/Bond Administration Agreement, the Collection Account Declaration of Trust, the Corporate Services Agreement, the Custody Agreement, the Deed of Charge, the Guaranteed Investment Contract, the Swap Agreements, the Mortgage Administration Agreement, the Standby Mortgage Administration Agreement, the Mortgage Sale Agreement, the Paying Agency Agreement, the Trust Deed and the Issuer/ICSD Agreement (together, the "**Transaction Documents**"), the Issuer shall not, so long as any Note remains outstanding (as defined in the Trust Deed), *inter alia*:

(a) *Negative Pledge*

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

(b) *Restrictions on Activities*

(i) engage in any activity which is not reasonably incidental to any of the activities which the Transaction Documents provide or envisage that the Issuer will engage in;

(ii) open nor have any interest in any account whatsoever with any bank or financial institution other than the Transaction Account and the GIC Accounts, save where such account is immediately charged in favour of the Trustee so as to form part of the Security described in Condition 2 (*Status, Security and Administration*) and where the Trustee receives an acknowledgement from such bank or financial institution of the security rights and interests of the Trustee and an agreement that it will not exercise any right of set-off it might otherwise have against the account in question;

(iii) have any subsidiaries or employees or premises; or

(iv) act as a director of any company;

(c) *Dividends or Distributions*

pay any dividend or make any other distribution to its shareholders save for the Issuer Turn;

(d) *Borrowings*

incur or permit to subsist any indebtedness in respect of borrowed money whatsoever or give any guarantee in respect of any obligation of any person;

(e) *Merger*

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

(f) *Disposal of Assets*

transfer, sell, lend, part with or otherwise dispose of or deal with, or grant any option over or present or future right to acquire, any of its assets or undertaking or any interest, estate, right, title or benefit therein provided that the Issuer may (and may agree to) transfer, sell, lend, pledge, part with or otherwise dispose of or deal with, or grant any option over any present or future right to acquire any of

its assets or undertaking or any interest, estate, right, title or benefit therein where the proceeds of the same are applied, *inter alia*, in or towards redemption of the Notes in accordance with the terms and conditions of the Notes and the terms of the Transaction Documents;

(g) *Tax Grouping*

be (and never has been) a member of a VAT (Value Added Tax) group;

(h) *Centre of Main Interests:*

conduct its business and affairs such that, its centre of main interests for the purposes of the EU Insolvency Regulation (EC) No. 1346/2000 ceases to be in England and Wales;

(i) *Independent Director*

at any time have fewer than one independent director;

(j) *Other*

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

In giving any consent to the foregoing, the Trustee may require the Issuer to make such modifications or additions to the provisions of any of the Transaction Documents or may impose such other conditions or requirements as the Trustee may deem expedient in the interests of the Noteholders.

#### 4 Interest

(a) *Period of Accrual*

Each Note of each Class (other than the R1 Notes, the R2 Notes and the R3 Notes) bears interest from (and including) the Issue Date. Each Note shall cease to bear interest from its due date for redemption unless, upon due presentation, payment of the relevant amount of principal is improperly withheld or refused. In such event, interest will continue to accrue thereon in accordance with this Condition 4 (*Interest*) (before as well as after any judgment) up to (but excluding) the date on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder, or (if earlier) the seventh day after notice is duly given by the Principal Paying Agent to the holder thereof (in accordance with Condition 14 (*Notice to Noteholders*)) that it has received all sums due in respect of such Note (except to the extent that there is any subsequent default in payment).

(b) *Interest Payment Dates and Interest Periods*

Subject to Condition 6 (*Payments*), interest on the Notes is payable on the A1 Notes, the M Notes and the B Notes on 14 August 2012, and thereafter quarterly in arrear on the 14<sup>th</sup> day in February, May, August and November in each year unless such day is not a Business Day, in which case interest shall be payable on the following Business Day (each such date an "**Interest Payment Date**"). The period from (and including) an Interest Payment Date (or the Issue Date) to (but excluding) the next (or first) Interest Payment Date is called an "**Interest Period**" in these Conditions.

(c) *Rate of Interest*

The interest rate applicable to the A1 Notes shall be equivalent to LIBOR plus 2.95 per cent. per annum (the "**A1 Notes Interest Rate**"). In addition, following the Step-up Date, the A1 Notes shall have an additional interest rate applicable of 1.5 per cent. per annum (the "**A1 Notes Step-up Rate**").

The interest rate applicable to the M1 Notes shall be equivalent to LIBOR plus 2.25 per cent. per annum (the "**M1 Notes Interest Rate**").

The interest rate applicable to the M2 Notes shall be equivalent to LIBOR plus 2.25 per cent. per annum (the "**M2 Notes Interest Rate**").

The interest rate applicable to the B1 Notes shall be equivalent to LIBOR plus 2.25 per cent. per annum (the "**B1 Notes Interest Rate**").

The interest rate applicable to the B2 Notes shall be equivalent to LIBOR plus 2.25 per cent. per annum (the "**B2 Notes Interest Rate**" and, together with the A1 Notes Interest Rate, the A1 Step-up Rate, the M1 Notes Interest Rate, the M2 Notes Interest Rate and the B1 Notes Interest Rate, the "**Notes Interest Rates**").

The R1 Notes, R2 Notes and R3 Notes are zero coupon notes so do not bear interest. The R3 Notes bear an entitlement to the R3 Note Residual Revenue.

LIBOR will be determined by the Agent Bank on the following basis:

- (i) at or about 11.00 a.m. on the Interest Payment Date on which the relevant Interest Period commences (each such day, a "**LIBOR Determination Date**"), the Agent Bank will determine the offered quotation to leading banks in the London interbank market ("**LIBOR**") for three month Sterling deposits or, in the case of the first Interest Period from (and including) the Issue Date to (but excluding) the Interest Payment Date falling in August 2012) an interpolation of LIBOR for three and four month Sterling deposits (rounded to five decimal places with the mid-point rounded up) by reference to the display designated as the British Bankers' Association's Interest Settlement Rate as quoted on page LIBOR01 of the Reuters screen service (the "**Screen Rate**"). If the agreed page is replaced or service ceases to be available, the Agent Bank may specify another page or service displaying the appropriate rate after consultation with the Trustee and the Paying Agent; or
- (ii) if the LIBOR Screen Rate is not then available for Sterling or for the Interest Period, the arithmetic mean of the rates (rounded to five decimal places with the mid-point rounded up) as supplied to the Agent Bank at its request by the principal London office of each of Barclays Bank PLC, The Royal Bank of Scotland plc and HSBC Bank plc or such other banks which the Issuer (in consultation with the Trustee and the Principal Paying Agent) shall appoint from time to time (the "**Reference Banks**") at or about 11.00 a.m. on the LIBOR Determination Date for the offering of deposits to the leading banks in the London interbank market in Sterling and for a period comparable to the Interest Period for the Notes. If on any LIBOR Determination Date, only two of three of the Reference Banks provide such offered quotations to the Agent Bank, the relevant rate shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If on any such LIBOR Determination Date, only one quotation is provided as requested, the rate for that LIBOR Determination Date will be the arithmetic mean (rounded to five decimal places with the mid-point rounded up) of the rates quoted by leading banks in London selected by the Agent Bank (which bank or banks is or are in the opinion of the Trustee suitable for such purpose).

(d) *Calculation of Interest*

The amount of interest payable in respect of each A1 Note, M1 Note, M2 Note, B1 Note and B2 Note on any Interest Payment Date shall be calculated not later than on the first day of the Interest Period by applying the relevant Notes Interest Rate for the relevant Interest Period to the Principal Amount Outstanding of the relevant Class of Notes immediately prior to the relevant Interest Payment Date and multiplying the result by the actual number of days in the relevant Interest Period divided by 365 and rounding the result to the nearest full pence, all as determined by the Agent Bank.

The Agent Bank will, on the LIBOR Determination Date in relation to each Interest Period, calculate the amount of interest (the "**Interest Amount**") payable in respect of each A1 Note, M1 Note, M2 Note, B1 Note and the B2 Note for such Interest Period.

The Interest Amount in respect of the A1 Notes (the "**A1 Notes Interest Amount**") will be calculated by (i) on each Determination Date prior to the Step-up Date, applying the A1 Notes Interest Rate for such Interest Period to the Principal Amount Outstanding of such A1 Notes during such Interest Period, multiplying the product by the actual number of days in such Interest Period divided by 365 rounding the resulting figure to the nearest £0.01 (half of £0.01 being rounded upwards) and (ii) on each Determination Date after the Step-up Date, applying the aggregate of the A1 Notes Interest Rate and the A1 Notes Step-up Rate for such Interest Period to the Principal Amount Outstanding of such A1 Notes during such Interest Period, multiplying the product by the actual number of days in such Interest Period divided by 365 rounding the resulting figure to the nearest £0.01 (half of £0.01 being rounded upwards)

The Interest Amount in respect of the M1 Note (the "**M1 Note Interest Amount**") will be calculated by applying the M1 Note Interest Rate for such Interest Period to the Principal Amount Outstanding of such M1 Note during such Interest Period, multiplying the product by the actual number of days in



such Interest Period divided by 365 and rounding the resulting figure to the nearest £0.01 (half of £0.01 being rounded upwards).

The Interest Amount in respect of the M2 Note (the "**M2 Note Interest Amount**") will be calculated by applying the M2 Note Interest Rate for such Interest Period to the Principal Amount Outstanding of such M2 Note during such Interest Period, multiplying the product by the actual number of days in such Interest Period divided by 365 rounding the resulting figure to the nearest £0.01 (half of £0.01 being rounded upwards).

The Interest Amount in respect of the B1 Note (the "**B1 Note Interest Amount**") will be calculated by applying the B1 Note Interest Rate for such Interest Period to the Principal Amount Outstanding of such B1 Note during such Interest Period, multiplying the product by the actual number of days in such Interest Period divided by 365 and rounding the resulting figure to the nearest £0.01 (half of £0.01 being rounded upwards).

The Interest Amount in respect of the B2 Note (the "**B2 Note Interest Amount**" and, together with the A1 Note Interest Amount, the M1 Note Interest Amount, the M2 Note Interest Amount and the B1 Note Interest Amount, the "**Note Interest Amounts**") will be calculated by applying the B2 Note Interest Rate for such Interest Period to the Principal Amount Outstanding of such B2 Note during such Interest Period, multiplying the product by the actual number of days in such Interest Period divided by 365 and rounding the resulting figure to the nearest £0.01 (half of £0.01 being rounded upwards).

The R1 Notes, the R2 Notes and the R3 Notes are zero coupon notes so do not bear interest.

In addition to the Note Interest Amounts, an amount in aggregate equal to funds available for payment at item (xx)(i) or item (xx)(iii) of Condition 2(c) (*Pre-Enforcement Revenue Priority of Payments*) or item (xii) of Condition 2(d) (*Post-Enforcement Priority of Payments*) shall be payable (the "**R3 Note Residual Revenue**") in respect of the R3 Notes on each Interest Payment Date, subject to Condition 6 (*Payments*).

(e) *Failure of Agent Bank*

If the Agent Bank fails at any time to determine the Notes Interest Rate for any Class of Notes and/or the Notes Interest Amount for any Class of Notes, the Trustee or its appointed agent without accepting any liability therefore, will determine such Notes Interest Rate or Notes Interest Amount, as the case may be, as it considers fair and reasonable in the circumstances (having such regard as it thinks fit to Condition 4 (a)-(d) above) or (as the case may be) calculate such Notes Interest Amount in accordance with Condition 4 (a)-(d) above, and each such determination or calculation shall be deemed to have been made by the Agent Bank.

In doing so, the Trustee shall apply all of these Conditions with any necessary consequential amendments to the extent that, in its sole opinion and with absolute discretion, it can do so and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all circumstances and will not be liable for any loss, liability, cost, charge or expense which may arise as a result thereof, and any such determination and/or calculation made by the Trustee shall, in the absence of wilful default, bad faith or manifest error, be final and binding on the Issuer and the Noteholders.

(f) *Publication of Interest Rates, Interest Amounts and other Notices*

The Agent Bank will cause each Notes Interest Rate and Notes Interest Amount applicable for the relevant Interest Period and the immediately succeeding Interest Payment Date to be notified to the Issuer, the Trustee, the Cash/Bond Administrator, the Paying Agents, the Irish Stock Exchange (for so long as the Notes are admitted to listing on the Irish Stock Exchange and the guidelines of the Irish Stock Exchange so require) and, so long as the Notes are in global form, each of Euroclear and Clearstream, Luxembourg and will cause notice thereof to be given to the Noteholders in accordance with Condition 14 (*Notices to Noteholders*). The Agent Bank will also notify the Second GIC Provider and the Standby Cash/Bond Administrator of the rate of LIBOR applicable to the next Interest Period.

The Cash/Bond Administrator will notify the Agent Bank and the Trustee on or before the Interest Payment Date of the amount (if any) payable to (i) R3 Noteholders as R3 Note Residual Revenue and (ii) A1 Noteholders as to payment of any A1 Notes Step-up Amount.

(g) *Notifications to be Final and Binding*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 (*Interest*), whether by the Reference Banks (or any of them) or the Agent Bank or the Cash/Bond Administrator or the Trustee shall (in the absence of fraud, wilful default, or negligence) be final and binding on the Issuer, the Cash/Bond Administrator, the Reference Banks, the Agent Bank, the Trustee and all Noteholders and (in such absence as aforesaid) no liability to the Trustee or the Noteholders shall attach to the Issuer, to the Reference Banks, the Agent Bank or the Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions hereunder.

(h) *Reference Banks and Agent Bank*

The Issuer shall ensure that, so long as any of the Notes remains outstanding, there shall at all times be three Reference Banks and an Agent Bank. The initial Agent Bank shall be HSBC Bank plc. In the event of the principal London office of any such bank being unable or unwilling to continue to act as a Reference Bank or in the event of HSBC Bank plc being unwilling to act as the Agent Bank, the Issuer shall appoint such other bank in consultation with the Trustee to act as such in its place. The Agent Bank may not resign until a successor approved by the Trustee has been appointed.

(i) *Deferral of Interest*

In the event that it is determined on any Determination Date that there are insufficient Available Revenue Funds to make payment in full on the immediately succeeding Interest Payment Date of Note Interest Amounts which are, subject to this Condition 4(i) (*Deferral of Interest*), due in respect of a particular Class of Notes other than the Most Senior Class then, to that extent, interest shall be deferred until the next Interest Payment Date on which there are sufficient Available Revenue Funds.

For the avoidance of doubt, in respect of the R3 Notes, no amount of R3 Note Residual Revenue shall accrue where there are insufficient Available Revenue Funds to pay such amount pursuant to the Pre-Enforcement Revenue Priority of Payments.

In the event that the amount of Available Revenue Funds are insufficient to pay a Note Interest Amount other than the Note Interest Amount for the Most Senior Class (a "**Class Residual Amount**"), there shall be payable by way of interest on such Class of Notes on such Interest Payment Date a *pro rata* share of the Class Residual Amount relating to such Class of Notes. Such shortfall (the "**Interest Shortfall**") shall accrue additional interest ("**Additional Interest**") at a rate for each Interest Period during which it is outstanding equal to the relevant Notes Interest Rate for such Class of Notes for such Interest Period. A *pro rata* share of such shortfall thereon shall be aggregated with the amount of, and treated for the purpose of this Condition 4 (*Interest*) as if it were interest due, subject to this Condition 4(i) (*Deferral of Interest*), on each M1 Note, M2 Note, B1 Note or B2 Note, as the case may be, on the next succeeding Interest Payment Date. This Condition 4(i) (*Deferral of Interest*) shall not apply to the Most Senior Class and for each other Class of Notes it shall cease to apply on the Final Maturity Date, at which time all accrued interest shall become due and payable.

For the avoidance of doubt, there shall not be an Event of Default caused by reason only of the non-payment when due of interest on any Class of Notes other than for non-payment of interest on the Most Senior Class.

## 5 Redemption

(a) *Final Redemption of the Notes*

Unless previously redeemed as provided in this Condition 5 (*Redemption*), the Issuer shall, in accordance with the Post-Enforcement Priority of Payments, redeem (i) the A1 Notes at their Principal Amount Outstanding, together with accrued and unpaid interest on the Interest Payment Date falling in May 2045, (ii) the M1 Notes at their Principal Amount Outstanding, together with accrued and unpaid interest on the Interest Payment Date falling in May 2045, (iii) the M2 Notes at their Principal Amount Outstanding, together with accrued and unpaid interest on the Interest Payment Date falling in May 2045, (iv) the B1 Notes at their Principal Amount Outstanding, together with accrued and unpaid interest on the Interest Payment Date falling in May 2045, (v) the B2 Notes at their Principal Amount Outstanding, together with accrued and unpaid interest on the Interest Payment Date falling in May 2045, (vi) the R1 Notes at their Principal Amount Outstanding on the Interest Payment Date falling in May 2045, (vii) the R2 Notes at their Principal Amount Outstanding minus the R2 Notes Write-Down Amount on the Interest Payment Date falling in May 2045 and (viii) the R3 Notes at their Principal

Amount Outstanding, together with residual amounts payable in accordance with the Post-Enforcement Priority of Payments, on the Interest Payment Date falling in May 2045.

The Issuer may not redeem Notes in whole or in part prior to that date except as provided in paragraphs (b), (c), (d), (e) or (f) of this Condition 5 (*Redemption*) but without prejudice to Condition 9 (*Events of Default*).

(b) *Mandatory Redemption of the A1 Notes, the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes*

Prior to enforcement of the Security, on each Interest Payment Date, other than the Interest Payment Date on which the A1 Notes, the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes are to be redeemed under paragraph (a) above or (d) or (e) below, the Cash/Bond Administrator shall apply an amount equal to the Available Principal Funds as at the immediately preceding Determination Date, in making the following payments in the following priority (the "**Pre-Enforcement Principal Priority of Payments**"):

- (i) *first*, amounts to be credited to the Liquidity Reserve Ledger until the balance of the Liquidity Reserve Fund reaches the Liquidity Reserve Maximum Amount for the first time. For the avoidance of doubt, after the Liquidity Reserve Maximum Amount has been reached for the first time, no further amount will be credited to the Liquidity Reserve Ledger pursuant to this item (i);
- (ii) *second*, in redeeming the A1 Notes on a *pari passu pro rata* basis until the Interest Payment Date on which the A1 Notes have been redeemed in full;
- (iii) *third*, after the A1 Notes have been redeemed in full, in redeeming the M1 Notes on a *pari passu pro rata* basis until the Interest Payment Date on which the M1 Notes have been redeemed in full;
- (iv) *fourth*, after the A1 Notes and the M1 Notes have been redeemed in full, in redeeming the M2 Notes on a *pari passu pro rata* basis until the Interest Payment Date on which the M2 Notes have been redeemed in full;
- (v) *fifth*, after the A1 Notes, the M1 Notes and the M2 Notes have been redeemed in full, in redeeming the B1 Notes on a *pari passu pro rata* basis until the Interest Payment Date on which the B1 Notes have been redeemed in full; and
- (vi) *sixth*, after the A1 Notes, the M1 Notes, the M2 Notes and the B1 Notes have been redeemed in full, in redeeming the B2 Notes on a *pari passu pro rata* basis until the Interest Payment Date on which the B2 Notes have been redeemed in full.

The Cash/Bond Administrator is responsible, pursuant to the Cash/Bond Administration Agreement, for determining the amount of the Available Principal Funds as at any Determination Date and each determination so made shall (in the absence of negligence, fraud, wilful default, bad faith or manifest error) be final and binding on the Issuer, the Mortgage Administrator or the Standby Mortgage Administrator (as the case may be), the Trustee and all Noteholders, and no liability to the Noteholders, shall attach to the Issuer, the Trustee or (in such absence as aforesaid) to the Cash/Bond Administrator in connection therewith.

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

With respect to each Note on (or as soon as practicable after) each Determination Date, the Issuer shall determine (or cause the Cash/Bond Administrator to determine) (i) the amount of any principal amount due on the Interest Payment Date next following such Determination Date (a "**Note Principal Payment**"), (ii) the principal amount outstanding of each such Note of such Class on the Interest Payment Date next following such Determination Date (after deducting any Note Principal Payment due to be made on that Interest Payment Date) (the "**Principal Amount Outstanding**") and (iii) the fraction expressed as a decimal to the sixth point (the "**Pool Factor**"), of which the numerator is the Principal Amount Outstanding of a Note of that class (as referred to in (ii) above) and the denominator is 100,000. Each determination by or on behalf of the Issuer of any Note Principal Payment, the Principal Amount Outstanding of a Note and the Pool Factor shall in each case (in the absence of fraud, wilful default, bad faith or manifest error) be final and binding on all persons.

With respect to each of the Classes of Notes, the Issuer will cause each determination of a Note Principal Payment, Principal Amount Outstanding and Pool Factor to be notified forthwith to the Trustee, the Paying Agents, the Agent Bank and (for so long as the Notes are listed on one or more stock exchanges) the relevant stock exchanges, and will immediately cause notice of each such

determination to be given in accordance with Condition 14 (*Notice to Noteholders*) by not later than 2 Business Days prior to the relevant Interest Payment Date. If no Note Principal Payment is due to be made on the Notes of any Class on any Interest Payment Date a notice to this effect will be given to the Noteholders. If the Issuer does not at any time for any reason determine (or cause the Cash/Bond Administrator to determine) with respect to each of the Classes of Notes, a Note Principal Payment, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this paragraph, such determination may be made by the Trustee in accordance with this paragraph and each such determination or calculation shall be deemed to have been made by the Issuer and in the absence of fraud, wilful default, bad faith or manifest error shall be final and no liability to the Noteholders shall attach to the Trustee in connection with the exercise or non exercise by the Trustee of its powers, duties, determinations and discretions under this Condition 5 (*Redemption*).

(d) *Optional Redemption in Full*

(i) Provided that:

- (A) the aggregate Principal Amount Outstanding of the A1 Notes, the M1 Notes and the B Notes is less than or equal to 10 per cent. of the aggregate Principal Amount Outstanding of the A1 Notes, the M Notes and the B Notes upon issue;
- (B) the Issuer delivers to the Trustee a certificate signed by two directors of the Issuer stating that it will on the date for redemption have the necessary funds required to redeem the Notes in full such amount being equal to or greater than an amount being the aggregate of (a) the aggregate Principal Amount Outstanding of the A1 Notes, the M Notes and the B Notes on the relevant Interest Payment Date on which the Notes are to be redeemed; (b) the accrued interest on the A1 Notes, the M Notes and the B Notes (which, for the avoidance of doubt, shall include any amount of A1 Notes Step-up Amounts) on the relevant Interest Payment Date on which the Notes are to be redeemed and (c) any debit on any Principal Deficiency Ledger; and (d) amounts required under the then applicable Priority of Payments to be paid in priority to or *pari passu* with the A1 Notes, M Notes and B Notes on such Interest Payment Date; and
- (C) on or prior to the Interest Payment Date on which such notice expires, no Enforcement Notice has been served following an Event of Default,

the Issuer may redeem the Notes in whole, but not in part, on any Interest Payment Date, on giving not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14 (*Notice to Noteholders*) (which notice shall be irrevocable).

- (ii) On the Step-up Date and on any Interest Payment Date thereafter, the Issuer may redeem all (but not some only) of the Notes at their Principal Amount Outstanding plus accrued and unpaid interest if the Issuer is successful in securing a bid to purchase the Loans and the Collateral Security outstanding in accordance with the following provisions. In order to secure such bid, on a date at least 60 days prior to the Step-up Date and, to the extent that the Loans remain unsold, at least 60 days prior to each Interest Payment Date thereafter, the Auction Agent will, acting on behalf of the Issuer, solicit bids to purchase all (but not some only) of the Loans and the Collateral Security outstanding on the Step-up Date or such later Interest Payment Date. All bids must be submitted to the Issuer and the Trustee, and the Issuer and the Trustee will approve acceptance of the bid to purchase the Loans on the Step-up Date or such later Interest Payment Date if the highest bid is equal to or greater than an amount being the aggregate of (a) the aggregate Principal Amount Outstanding of the A1 Notes, M Notes and B Notes on the relevant Interest Payment Date on which the A1 Notes, M Notes and B Notes are to be redeemed; (b) the accrued interest on the A1 Notes, M Notes and B Notes (which for the avoidance of doubt, shall include any A1 Notes Step-up Amounts) on the relevant Interest Payment Date on which the A1 Notes, M Notes and B Notes are to be redeemed and (c) any debit on any Principal Deficiency Ledger; and (d) amounts required under the then applicable Priority of Payments to be paid in priority to or *pari passu* with the A1 Notes, M Notes and B Notes on such Interest Payment Date.
- (iii) In the event a bid is approved by the Issuer and the Trustee in accordance with the foregoing provisions, the Cash/Bond Administrator on behalf of the Issuer may give notice at least 14 days prior to the next Interest Payment Date to the Trustee and the relevant Noteholders in accordance with Condition 14 (*Notice to Noteholders*), and following the giving of such notice, the Auction Agent shall administer the sale of the Loans and the Issuer shall be obliged to

redeem the A1 Notes, the M Notes and the B Notes at their Principal Amount Outstanding plus accrued and unpaid interest on the relevant Interest Payment Date.

- (iv) Any Note redeemed pursuant to this Condition 5(d) (*Optional Redemption in Full*) will be redeemed at an amount equal to the Principal Amount Outstanding of the relevant Note to be redeemed with accrued (and unpaid) interest on the Principal Amount Outstanding of the relevant Note up to but excluding the date of redemption.
- (v) In the event of a redemption of the Notes pursuant to this Condition 5(d) (*Optional Redemption in Full*), the R Notes will not be redeemed in full if the Issuer does not have the necessary funds required to fully redeem the R Notes. For the avoidance of doubt, the R1 Notes, the R2 Notes and the R3 Notes shall be redeemed in the manner set out in the Post-Enforcement Priority of Payments.

(e) *Optional Redemption for Taxation or Other Reasons*

If by reason of a change in tax law (or the application or official interpretation thereof), which change becomes effective on or after the Issue Date, on 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 of the Notes (other than because the relevant holder has some connection with the United Kingdom other than the holding of Notes of such Class) any amount for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein, then the Issuer shall, if the same would avoid the effect of such relevant event described in this subparagraph (e), 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 as principal debtor under the Notes, provided that the Trustee is satisfied that such substitution will not be materially prejudicial to the Noteholders.

If the Issuer satisfies the Trustee immediately before giving the notice referred to below that one or more of the events described in this subparagraph (e) 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 a substitution, then the Issuer may, on any Interest Payment Date and having given not more than 45 nor less than 30 days' notice to the Trustee and Noteholders in accordance with Condition 14 (*Notice to Noteholders*) redeem all (but not some only) of the Notes on the next following Interest Payment Date 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 Trustee (i) a certificate signed by a director of the Issuer stating that one or more of the circumstances referred to in this subparagraph (e) above prevail(s) and setting out details of such circumstances and (ii) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer, the Paying Agents (as the case may be) has or will become obliged to deduct or withhold amounts as a result of such change or amendment. The 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 Noteholders.

The Issuer may only redeem the Notes as described above if the Issuer has certified to the Trustee that it will have the necessary funds, not subject to the interest of any other person, required to redeem the Notes as aforesaid and any amounts required under items (i) to (v) of the Pre-Enforcement Revenue Priority of Payments in accordance with the terms and conditions thereof.

(f) *Notice of Redemption*

Any such notice as is referred to in paragraph (d) or (e) above shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the A1 Notes, the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes at the Principal Amount Outstanding plus accrued and unpaid interest of the relevant Note and to redeem the R1 Notes, the R2 Notes and the R3 Notes in the manner set out in the Post-Enforcement Priority of Payments.

(g) *Purchase*

The Issuer shall not purchase any Notes.

(h) *Cancellation*

All Notes redeemed will be cancelled upon redemption, and may not be resold or re-issued.

## 6 Payments

(a) *Method of Payment*

Payments of principal and interest will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Notes or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent outside the United States by transfer to a sterling-denominated account maintained by the payee with a bank in London. Payments of interest due in respect of any Note other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Note.

(b) *Payments subject to laws*

All payments are subject in all cases to any applicable laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(c) *Unmatured Coupons*

Upon the due date for redemption of any Note, unmaturing Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Note is presented for redemption without all unmaturing Coupons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(d) *Payments on business days*

If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place, and shall not be entitled to any further interest or other payment in respect of such delay. In this paragraph, "**business day**" means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a sterling-denominated account as referred to above, on which dealings in foreign currencies may be carried on both in London and in such place of presentation.

(e) *Paying Agents*

The initial Paying Agent and its initial specified office is listed below. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will maintain (i) a Principal Paying Agent, and (ii) a Paying Agent with a specified office in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

The initial specified office of the Paying Agent is at:

*Principal Paying Agent*  
HSBC Bank plc  
8 Canada Square  
London  
E14 5HQ

Notice of any change in the Paying Agents or their specified offices will promptly be given to the Trustee and the Noteholders in accordance with Condition 14 (*Notice to Noteholders*).

## 7 Prescription

Claims in respect of principal and interest shall become void unless made within a period of ten years, in the case of principal, and five years, in the case of interest, from the appropriate relevant date on which such sums became due and payable. After the date on which a Note becomes void in its entirety, no claim may be made in respect thereof. In this Condition 7 (*Prescription*), the "**relevant date**", in respect of a Note or Coupon is the date on which a payment in respect thereof first becomes due or (if the full amount of the monies payable in respect of all the Notes and Coupons due on or before that date has not been duly received

by the Principal Paying Agent or the Trustee on or prior to such date) the date on which the full amount of such monies having been so received, notice to that effect having been duly given to the Noteholders in accordance with Condition 14 (*Notice to Noteholders*).

## 8 Taxation

All payments in respect of the Notes and the Coupons will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer or any Paying Agent (as applicable) is required by applicable law to make any payment in respect of the Notes and the Coupons subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event, the Issuer or such Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. None of the Issuer, the Principal Paying Agent, any other Paying Agent, nor any other person will be obliged to make any additional payments to holders of notes in respect of such withholding or deduction.

## 9 Events of Default

- (a) After the occurrence of any of the following events (each an "**Event of Default**") occurs, the Trustee at its discretion may, and (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) if so requested by holders of at least 25 per cent. of the aggregate in Principal Amount Outstanding of the Most Senior Class or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Most Senior Class, shall, give notice to the Issuer (an "**Enforcement Notice**") that the Notes are, and they shall immediately become, due and payable at their Principal Amount Outstanding together (if applicable) with accrued interest:
- (i) default being made for a period of 10 Business Days in the payment of the principal of or any interest when and as the same ought to be paid in accordance with these Conditions (other than any interest which falls to be deferred pursuant to Condition 4(i) (*Deferral of Interest*)) on the Notes; or
  - (ii) the Issuer failing duly to perform or observe any other obligation binding upon it under the Notes or the Trust Deed, as applicable, and, in any such case (except where the Trustee certifies that, in its opinion, such failure is incapable of remedy when no notice will be required) such failure is continuing for a period of 30 days (or such longer period as the Trustee may permit) following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
  - (iii) the Issuer, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in sub-paragraph (iv) below, ceasing or, through an official action of the Board of Directors of the Issuer, threatening to cease to carry on business or being unable to pay its debts as and when they fall due; or
  - (iv) an order being made or an effective resolution being passed for the winding-up of the Issuer except a winding-up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the holders of the Most Senior Class; or
  - (v) proceedings being otherwise initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition or filing documents with the court or making an application for the appointment of an administrator or liquidator or serving a notice of intent to appoint an administrator) and such proceedings not, in the opinion of the Trustee, being disputed in good faith with a reasonable prospect of success, or an administrator being appointed, or a receiver, liquidator or other similar official being appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer, or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the Issuer, or a distress, execution, diligence or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and such possession or process (as the case may be) not being discharged or not otherwise ceasing to apply within 30 days, or the Issuer initiating or consenting to proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors generally; or

- (vi) it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Transaction Documents,

provided that, in the case of each of the events described in sub-paragraph (ii), (iii) or (v) of this paragraph (a), the Trustee shall have certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of one or more Classes of Noteholders.

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

## **10 Enforcement of Notes, Limited Recourse and Non-Petition**

- (a) Enforcement of Notes

At any time after the Notes have become due and repayable and without prejudice to its rights of enforcement in relation to the Security, the Trustee may, in its absolute discretion and without further notice, take such proceedings against the Issuer as it may think fit to enforce payment of the Notes together with accrued interest, but it shall not be bound to take any such proceedings unless:

- (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders of the Most Senior Class provided that:
  - (a) no Extraordinary Resolution of the M1 Noteholders, the M2 Noteholders, the B1 Noteholders, the B2 Noteholders, the R1 Notes, the R2 Noteholders or the R3 Noteholders or any request of the M1 Noteholders, the M2 Noteholders, the B1 Noteholders, the B2 Noteholders, the R1 Noteholders, the R2 Noteholders or the R3 Noteholders shall be effective unless there is an Extraordinary Resolution of the A1 Noteholders or a direction of the A1 Noteholders to the same effect or none of the A1 Notes remain outstanding;
  - (b) if no A1 Notes remain outstanding, no Extraordinary Resolution of the M2 Noteholders, the B1 Noteholders, the B2 Noteholders, the R1 Notes, the R2 Noteholders or the R3 Noteholders or any request of the M2 Noteholders, the B1 Noteholders, the B2 Noteholders, the R1 Noteholders, the R2 Noteholders or the R3 Noteholders shall be effective unless there is an Extraordinary Resolution of the M1 Noteholders or a direction of the M1 Noteholders to the same effect or none of the M1 Notes remain outstanding;
  - (c) if no A1 Notes and M1 Notes remain outstanding, no Extraordinary Resolution of the B1 Noteholders, the B2 Noteholders, the R1 Noteholders, the R2 Noteholders or the R3 Noteholders or any request of the B1 Noteholders, the B2 Noteholders, the R1 Noteholders, the R2 Noteholders or the R3 Noteholders shall be effective unless there is an Extraordinary Resolution of the M2 Noteholders or a direction of the M2 Noteholders to the same effect or none of the M2 Notes remain outstanding;
  - (d) if no A1 Notes, M1 Notes and M2 Notes remain outstanding, no Extraordinary Resolution of the B2 Noteholders, the R1 Noteholders, the R2 Noteholders or the R3 Noteholders or any request of the B2 Noteholders, the R1 Noteholders, the R2 Noteholders or the R3 Noteholders shall be effective unless there is an Extraordinary Resolution of the B1 Noteholders or a direction of the B1 Noteholders to the same effect or none of the B1 Notes remain outstanding;
  - (e) if no A1 Notes, M1 Notes, M2 Notes and B1 Notes remain outstanding, no Extraordinary Resolution of the R1 Noteholders, the R2 Noteholders or the R3 Noteholders or any request of the R1 Noteholders, the R2 Noteholders or the R3 Noteholders shall be effective unless there is an Extraordinary Resolution of the B2 Noteholders or a direction of the B2 Noteholders to the same effect or none of the B2 Notes remain outstanding;
  - (f) if no A1 Notes, M1 Notes, M2 Notes, B1 Notes and B2 Notes remain outstanding, no Extraordinary Resolution of the R2 Noteholders or the R3 Noteholders or any request of the R2 Noteholders or the R3 Noteholders shall be effective unless there is an Extraordinary Resolution of the R1 Noteholders or a direction of the R1 Noteholders to the same effect or none of the R1 Notes remain outstanding; and



(g) if no A1 Notes, M1 Notes, M2 Notes, B1 Notes, B2 Notes and R1 Notes remain outstanding, no Extraordinary Resolution of the R3 Noteholders or any request of the R3 Noteholders or the R3 Noteholders shall be effective unless there is an Extraordinary Resolution of the R2 Noteholders or a direction of the R2 Noteholders to the same effect or none of the R2 Notes remain outstanding; and

(ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

No Noteholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing.

(b) Limited Recourse

(i) **Enforcement of Security:** Only the Trustee may enforce the Security over the Charged Property in accordance with, and subject to the terms of, the Deed of Charge.

(ii) **Insufficient Recoveries:** If, or to the extent that, after the Charged Property has been realised and the proceeds thereof have been applied in accordance with the applicable Priority of Payments the amounts recovered on realisation of the Charged Property are insufficient to pay or discharge amounts due from the Issuer to the Noteholders in full for any reason, the Issuer will have no liability to pay or otherwise make good any such insufficiency.

(iii) **Noteholder Acknowledgments:** Each Noteholder, by subscribing for or purchasing Notes, is deemed to accept and acknowledge that:

(a) in the event of realisation or enforcement of the Charged Property, its right to obtain payment of interest and repayment of principal on the Notes in full is limited to recourse against the undertaking, property and assets of the Issuer comprised in the Charged Property;

(b) the Issuer will have duly and entirely fulfilled its payment obligations by making available to such Noteholder its proportion of the proceeds of realisation or enforcement of the Charged Property in accordance with the Post-Enforcement Priority of Payments and all claims in respect of any shortfall will be extinguished and discharged; and

(c) in the event that a shortfall in the amount available to pay principal of the Notes of a Class exists on the Final Maturity Date or on any earlier date for redemption in full of the Notes or any Class of Notes, after payment on the Final Maturity Date or such date of earlier redemption of all other claims ranking higher in priority to or pari passu with the Notes or the related Class of Notes, and the Charged Property has not become enforceable as at the Final Maturity Date or such date of earlier redemption, the liability of the Issuer to make any payment in respect of such shortfall will cease and all claims in respect of such shortfall will be extinguished.

(c) Non-Petition

No Noteholder may take any corporate action or other steps or legal proceedings for the winding-up, dissolution, arrangement, reconstruction or reorganisation of the Issuer unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing or for the appointment of a liquidator, receiver, administrative receiver, administrator, trustee, manager or similar officer in respect of the Issuer or over any or all of its assets or undertaking.

## 11 Meetings of Noteholders; Modifications; Consents; Waiver

(a) The Trust Deed contains provisions for convening meetings of the Noteholders of a particular Class to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution or Ordinary Resolution, as appropriate, of, among other things, the removal of the Trustee, the Mortgage Administrator, the Standby Mortgage Administrator, the Special Servicer, the Cash/Bond Administrator, the Account Bank, the Agent Bank, the Principal Paying Agent, the Custodian or the Corporate Services Provider, a modification of the Notes or the Trust Deed (including these Conditions) or the provisions of any of the other Transaction Documents.

The Trust Deed provides that a resolution in writing signed by all of the holders of at least 75 per cent. by Principal Amount Outstanding of a Class of Notes shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of the Noteholders of such Class duly convened and

held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more of the Noteholders of such Class.

- (b) Any Extraordinary Resolution duly passed by a meeting of the Noteholders of a particular Class shall be binding on all Noteholders of such Class (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders of such Class.

An Extraordinary Resolution passed at a meeting of the holders of the Most Senior Class shall be binding on the holders of all other Classes of Notes irrespective of the effect on them, except an Extraordinary Resolution of the holders of the Most Senior Class to sanction a Basic Terms Modification, which shall not take effect unless it has also been sanctioned by an Extraordinary Resolution of the holders of each other Class of Notes or the Trustee.

Subject to the foregoing, an Extraordinary Resolution of the M1 Noteholders shall be effective when, *inter alia*, the Trustee is of the opinion that it will not be materially prejudicial to the interests of the A1 Noteholders or it is sanctioned by an Extraordinary Resolution of the A1 Noteholders. Except in certain circumstances the Trust Deed imposes no such limitations on the powers of the A1 Noteholders, the exercise of which will be binding on the M1 Noteholders, the M2 Noteholders, the B1 Noteholders, the B2 Noteholders, the R1 Noteholders, the R2 Noteholders and the R3 Noteholders, irrespective of the effect on their interests.

Subject to the foregoing, an Extraordinary Resolution of the M2 Noteholders shall be effective when, *inter alia*, the Trustee is of the opinion that it will not be materially prejudicial to the interests of the A1 Noteholders and the M1 Noteholders or it is sanctioned by an Extraordinary Resolution of the A1 Noteholders and the M1 Noteholders. Except in certain circumstances the Trust Deed imposes no such limitations on the powers of the A1 Noteholders or the M1 Noteholders, the exercise of which will be binding on the M2 Noteholders, the B1 Noteholders, the B2 Noteholders, the R1 Noteholders, the R2 Noteholders and the R3 Noteholders, irrespective of the effect on their interests.

Subject to the foregoing, an Extraordinary Resolution of the B1 Noteholders shall be effective when, *inter alia*, the Trustee is of the opinion that it will not be materially prejudicial to the interests of the A1 Noteholders, the M1 Noteholders and the M2 Noteholders or it is sanctioned by an Extraordinary Resolution of the A1 Noteholders, the M1 Noteholders and the M2 Noteholders. Except in certain circumstances the Trust Deed imposes no such limitations on the powers of the A1 Noteholders, the M1 Noteholders or the M2 Noteholders, the exercise of which will be binding on the B1 Noteholders, the B2 Noteholders, the R1 Noteholders, the R2 Noteholders and the R3 Noteholders, irrespective of the effect on their interests.

Subject to the foregoing, an Extraordinary Resolution of the B2 Noteholders shall be effective when, *inter alia*, the Trustee is of the opinion that it will not be materially prejudicial to the interests of the A1 Noteholders, the M1 Noteholders, the M2 Noteholders and the B1 Noteholders or it is sanctioned by an Extraordinary Resolution of the A1 Noteholders, the M1 Noteholders, the M2 Noteholders and the B1 Noteholders. Except in certain circumstances the Trust Deed imposes no such limitations on the powers of the A1 Noteholders, the M1 Noteholders, the M2 Noteholders or the B1 Noteholders, the exercise of which will be binding on the B2 Noteholders, the R1 Noteholders, the R2 Noteholders and the R3 Noteholders, irrespective of the effect on their interests.

Subject to the foregoing, an Extraordinary Resolution of the R1 Noteholders shall be effective when, *inter alia*, the Trustee is of the opinion that it will not be materially prejudicial to the interests of the A1 Noteholders, the M1 Noteholders, the M2 Noteholders, the B1 Noteholders and the B2 Noteholders or it is sanctioned by an Extraordinary Resolution of the A1 Noteholders, the M1 Noteholders, the M2 Noteholders, the B1 Noteholders and the B2 Noteholders. Except in certain circumstances the Trust Deed imposes no such limitations on the powers of the A1 Noteholders, the M1 Noteholders, the M2 Noteholders, the B1 Noteholders or the B2 Noteholders, the exercise of which will be binding on the R1 Noteholders, the R2 Noteholders and the R3 Noteholders, irrespective of the effect on their interests.

Subject to the foregoing, an Extraordinary Resolution of the R2 Noteholders shall be effective when, *inter alia*, the Trustee is of the opinion that it will not be materially prejudicial to the interests of the A1 Noteholders, the M1 Noteholders, the M2 Noteholders, the B1 Noteholders, the B2 Noteholders or the R1 Noteholders or it is sanctioned by an Extraordinary Resolution of the A1 Noteholders, the M1 Noteholders, the M2 Noteholders, the B1 Noteholders, the B2 Noteholders and the R1 Noteholders. Except in certain circumstances the Trust Deed imposes no such limitations on the powers of the A1 Noteholders, the M1 Noteholders, the M2 Noteholders, the B1 Noteholders, the B2 Noteholders or

the R1 Noteholders, the exercise of which will be binding on the R2 Noteholders and the R3 Noteholders, irrespective of the effect on their interests.

Subject to the foregoing, an Extraordinary Resolution of the R3 Noteholders shall be effective when, *inter alia*, the Trustee is of the opinion that it will not be materially prejudicial to the interests of the A1 Noteholders, the M1 Noteholders, the M2 Noteholders, the B1 Noteholders, the B2 Noteholders, the R1 Noteholders or the R2 Noteholders or it is sanctioned by an Extraordinary Resolution of the A1 Noteholders, the M1 Noteholders, the M2 Noteholders, the B1 Noteholders, the B2 Noteholders, the R1 Noteholders and the R2 Noteholders. Except in certain circumstances the Trust Deed imposes no such limitations on the powers of the A1 Noteholders, the M1 Noteholders, the M2 Noteholders, the B1 Noteholders, the B2 Noteholders, the R1 Noteholders or the R2 Noteholders, the exercise of which will be binding on the R3 Noteholders, irrespective of the effect on their interests.

The Trust Deed provides that:

- (i) meetings of Noteholders of separate Classes may be held at the same time;
- (ii) meetings of Noteholders of separate Classes will normally be held separately, but the Trustee may from time to time determine that meetings of Noteholders of separate Classes shall be held together;
- (iii) an Ordinary Resolution or an Extraordinary Resolution that in the opinion of the Trustee affects one Class alone shall be deemed to have been duly passed if passed at a separate meeting of the Noteholders of the Class concerned;
- (iv) an Extraordinary Resolution that in the opinion of the Trustee affects the Noteholders of more than one Class but does not give rise to a conflict of interest between the Noteholders of the different Classes concerned shall be deemed to have been duly passed if passed at a single meeting of the Noteholders of the relevant Classes;
- (v) subject to Condition 11(b)(vi) below, an Extraordinary Resolution that in the opinion of the Trustee affects the Noteholders of more than one Class and gives or may give rise to a conflict of interest between the Noteholders of the different Classes concerned shall be deemed to have been duly passed only if it shall be duly passed at separate meetings of the Noteholders of each of the relevant Classes;
- (vi) an Extraordinary Resolution (other than one involving a Basic Terms Modification) that in the opinion of the Trustee affects the Noteholders of more than one Class which has been passed by the Noteholders of the Most Senior Class shall be binding on all other Classes ranking behind such Most Senior Class; and
- (vii) If a poll is called at a meeting of a Class of Noteholders, the number of votes which can be cast by each person present shall be proportionate to the Principal Amount Outstanding of the Notes of such Class that such person holds or represents at that meeting.

An Extraordinary Resolution or an Ordinary Resolution passed at any meeting or duly signed by the required majority of Noteholder (or any Class thereof) shall be binding on all Noteholders (or, as the case may be, all Noteholders of such Class) whether or not they are present at such meeting or signed such resolution.

The Issuer, the Trustee or the Cash/Bond Administrator may propose an Extraordinary Resolution or an Ordinary Resolution, in addition to an Extraordinary Resolution relating to a Basic Terms Modification.

- (c) **Negative Consent:** means, in relation to an Extraordinary Resolution (other than an Extraordinary Resolution relating to a Basic Terms Modification) or an Ordinary Resolution of the Noteholders of any Class of Noteholders, the process whereby such Extraordinary Resolution or Ordinary Resolution is duly passed and shall be binding on all of the Noteholders or the Noteholders of such Class in accordance with its terms where:
  - (i) notice of such Extraordinary Resolution or Ordinary Resolution, as applicable, (including the full text of the same) has been given by the Issuer, the Trustee, the Cash/Bond Administrator, the Mortgage Administrator, the Standby Mortgage Administrator or the Special Servicer to the Noteholders or the Noteholders of such Class in accordance with the provisions of Condition 14 (*Notice to Noteholders*);

- (ii) such notice contains a statement requiring such Noteholders to inform the Trustee via the Clearing Systems and the Principal Paying Agent in writing if they object to such Extraordinary Resolution or Ordinary Resolution, stating that unless holders of (i) in the case of an Extraordinary Resolution, 10 per cent. or more in aggregate Principal Amount Outstanding of the Notes or the Notes of such Class; or (ii) in the case of an Ordinary Resolution, 15 per cent. or more in aggregate Principal Amount Outstanding of the Notes or the Notes of such Class, makes such objection, the Extraordinary Resolution or Ordinary Resolution will be deemed to be passed by the Noteholders or the Noteholders of such Class and specifying the requirements for the making of such objections (including addresses, email addresses and deadlines) further as set out in the following paragraph; and
- (iii) holders of (i) in the case of an Extraordinary Resolution, 10 per cent. or more in aggregate Principal Amount Outstanding of the Notes or the Notes of such Class or (ii) in the case of an Ordinary Resolution, 15 per cent. or more in aggregate Principal Amount Outstanding of the Notes or the Notes of such Class, have not informed the Trustee via the Clearing Systems and the Principal Paying Agent in writing of their objection to such Extraordinary Resolution or Ordinary Resolution within 40 days of the date of the relevant notice.

Upon the Trustee receiving objections from Noteholders of 10 per cent. or more (in the case of an Extraordinary Resolution) or 15 per cent. or more (in the case of an Ordinary Resolution) in aggregate of the Principal Amount Outstanding of the Notes of the relevant Class or Classes, the Trustee shall give notice to the relevant Class or Classes of Noteholders in accordance with the provisions of Condition 14 (*Notice to Noteholders*) that the relevant Extraordinary Resolution or the Ordinary Resolution (as the case may be) has not passed. In such circumstance, a meeting of Noteholders may be called in accordance with the provisions of this Condition 11.

(d) **Quorum:** The quorum at any meeting of Noteholders of a particular Class for passing:

- (i) an Extraordinary Resolution to approve a Basic Terms Modification shall be two or more persons holding or representing (x) not less than 75 per cent. of the Principal Amount Outstanding of the Notes of such Class or (y) in relation to any adjourned meeting, not less than 25 per cent. of the Principal Amount Outstanding of the Notes of such Class;
- (ii) an Extraordinary Resolution to approve any matter other than a Basic Terms Modification, shall be two or more persons holding or representing (x) a majority of the Principal Amount Outstanding of the Notes of such Class or (y) in relation to any adjourned meeting, any proportion of the Notes which the persons constituting the quorum is holding or representing; and
- (iii) an Ordinary Resolution shall be two or more persons holding or representing (x) not less than 25 per cent. of the Principal Amount Outstanding of the Notes of such Class or (y) in relation to any adjourned meeting, any proportion of the Notes which the persons constituting the quorum is holding or representing.

(e) **Modification and Waiver:**

- (i) The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed, the Conditions or any of the other Transaction Documents which is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law or regulation, and (ii) any other modification, and any waiver or authorisation of any breach or proposed breach of the Notes of such Class, of any of the provisions of the Trust Deed, the Conditions or any of the other Transaction Documents which is in the opinion of the Trustee not materially prejudicial to the interests of the holders of the Most Senior Class, provided that in the case of both (i) and (ii), such modification, waiver or authorisation does not relate to a Basic Terms Modification.
- (ii) The Trustee may, without the consent of the Noteholders or Couponholders and without prejudice to its rights in respect of any subsequent breach, condition, event or act, from time to time and at any time, if in its opinion the interests of the Noteholders will not be materially prejudiced thereby, waive or authorise on behalf of the Issuer, on such terms and subject to such conditions as it shall deem fit and proper, any breach or proposed breach by the Issuer or any other party of the Trust Deed, the Conditions or any other Transaction Document or determine that an Event of Default or Potential Event of Default will not be treated as such provided that the Trustee will not do so in contravention of an express direction given by an Extraordinary

Resolution of the holders of the Most Senior Class or a request made pursuant to Condition 9 (*Events of Default*).

- (iii) The Trustee shall, without the need for consent or sanction of any of, or any liability to, the Noteholders or any other Secured Creditor, concur with the Issuer and grant consent to the Issuer for it to make any modification to the Transaction Documents and/or the Conditions that are requested by the Issuer in order to comply with any criteria of the Rating Agencies which may be published after the Issue Date without the need to consider whether such modification affects the Noteholders, Couponholders or any other Secured Creditors if:
- I. the Issuer has certified to the Trustee in writing that:
    1. such modifications are required to avoid a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of the Rated Notes by any of the Rating Agencies or to otherwise comply with the then current criteria of the Rating Agencies applicable to the Rated Notes; and
    2. such modification will not adversely impact the ability of the Issuer to make payments when due in respect of any Class of the Rated Notes; and
    3. such modification will not cause the current rating of any Class of the Rated Notes to be reduced; and
    4. such modification will not increase the obligations, liabilities or duties, or decrease the protections of any of the Noteholders and the Couponholders in respect of the Notes, the Transaction Documents and/or the Conditions; and
    5. such modification will not conflict with the then published credit rating criteria of any Rating Agency which is relevant to the Rated Notes; and
    6. only in the case of any amendment to be made to the Conditions, the Issuer has provided 15 days notice to the Secured Creditors (other than the Noteholders and the Couponholders) of the proposed modification and none of the Secured Creditors (other than the Noteholders and Couponholders) has notified the Issuer as at the date of the relevant certificate that it does not consent to such modification being made; and
  - II. the Issuer furnishes the Trustee with such legal opinions as the Trustee may reasonably require; and
  - III. the Trustee, in its sole discretion, is of the opinion that such modification would not have the effect of exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction.

Such modifications may include, without limitation, modifications which would allow the Cap Counterparty or the Fixed/Floating Swap Provider not to post collateral in circumstances where it previously would have been obliged to do so or relate to a matter which otherwise would be a Basic Terms Modification.

For the avoidance of doubt, the Trustee does not have any power to compel any Transaction Party to agree to any modification to the Transaction Documents and/or the Conditions pursuant to the provisions of this Condition 11(e)(iii).

- (iv) Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.
- (f) **Substitution:** The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as are set out in the Trust Deed or as the Trustee may otherwise require, but without the consent of the Noteholders or the Couponholders, to the substitution of certain other entities in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders or Couponholders, to a change of the law governing

the Notes, the Coupons and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

- (g) **Evidence of Notes:** Where for the purposes of these Conditions the Trustee or any other party to the Transaction Documents requires a Noteholder holding Notes through Euroclear or Clearstream, Luxembourg to establish its holding of the Notes to the satisfaction of such party, such holding shall be considered to be established if such Noteholder provides to the requesting party with regard to the relevant date:
- (i) a Euclid Statement (in the case of Euroclear) or a Creation Online Statement (in the case of Clearstream, Luxembourg) in each case providing confirmation at the time of issue of the same of such person's holding in the Notes; and
  - (ii) if the relevant Notes are held through one or more custodians, a signed letter dated as of the date of the Euclid Statement or the Creation Online Statement from each such custodian confirming on whose behalf it is holding such Notes such that the Trustee or any other party to the Transaction Documents is able to verify to its satisfaction the chain of ownership to the beneficial owner.

If in connection with verifying its holding the Trustee or any other party to the Transaction Documents requires a Noteholder to temporarily block its Notes in Euroclear or Clearstream, Luxembourg, such Noteholder will be required to instruct Euroclear or Clearstream, Luxembourg (via its custodian) to do so.

- (h) **Entitlement of the Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition 11 (*Meetings of Noteholders; Modifications; Consents; Waiver*)) the Trustee:
- (i) shall have regard to the interests of the Noteholders (or, as applicable, the Noteholders of a particular Class) as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders; and
  - (ii) may, in determining whether or not a proposed action will be materially prejudicial to the Noteholders (or, as applicable, the Noteholders of a particular Class), have regard to, among other things, a Rating Agency Confirmation.

## 12 Indemnification and Exoneration of the Trustee

The Trust Deed contains provisions governing the responsibility (and relief from responsibility) of the Trustee and providing for its indemnification in certain circumstances including provisions relieving it from taking enforcement proceedings or enforcing the Security unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee and its related companies are entitled to enter into business transactions with, *inter alios*, the Issuer, the Mortgage Administrator, the Standby Mortgage Administrator, the Cash/Bond Administrator and/or related companies of any of them without accounting for any profit resulting therefrom. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of, *inter alia*, any assets comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Mortgage Administrator or the Standby Mortgage Administrator (as the case may be), the Cash/Bond Administrator or any agent or related company of the Mortgage Administrator, the Standby Mortgage Administrator, the Cash/Bond Administrator or by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Trustee. The Trust Deed provides that the Trustee shall be under no obligation to monitor or supervise compliance by the Issuer, the Mortgage Administrator, the Standby Mortgage Administrator or the Cash/Bond Administrator with their respective obligations or to make any searches, enquiries, or independent investigations of title in relation to any of the properties secured by the Mortgages.

## 13 Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent, as listed in Condition 6(e) (*Paying Agents*) above, subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing

market practice). Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

#### 14 Notice to Noteholders

- (a) **Forms of Notice:** All notices, other than notices given in accordance with any one or more of the following paragraphs of this Condition 14 (*Notice to Noteholders*), to Noteholders shall be deemed to have been validly given if:
- (i) for so long as the Notes are listed on a stock exchange, and the rules of such stock exchange and the Market Abuse Directive so require, or at the option of the Issuer, if delivered through the announcements section of the relevant stock exchange and a regulated information service maintained or recognised by such stock exchange; and
  - (ii) for so long as the Notes are represented by Global Notes, and if, for so long as the Notes are listed on a stock exchange, the rules of such stock exchange so allow if delivered to Euroclear and/or Clearstream, Luxembourg for communication by them to their participants and for communication by such participants to entitled account holders; or
  - (iii) for so long as the Notes are represented by Global Notes and if, for so long as the Notes are listed on a stock exchange, rules of such stock exchange so allow if delivered to the electronic communications systems maintained by Bloomberg L.P. for publication on the relevant page for the Notes or such other medium for the electronic display of data as may be previously approved in writing by the Trustee; or
  - (iv) if the Notes are in definitive form, if published in a leading daily newspaper printed in the English language and with general circulation in Ireland (which is expected to be *The Irish Times*) or, if that is not practicable, in such English language newspaper or newspapers as the Trustee shall approve having a general circulation in Ireland and the rest of Europe.

Any such notice shall be deemed to have been given on:

- (i) in the case of a notice delivered to the regulated information service of a stock exchange, the day on which it is delivered to such stock exchange;
- (ii) in the case of a notice delivered to Euroclear and/or Clearstream, Luxembourg, the day on which it is delivered to Euroclear and/or Clearstream, Luxembourg;
- (iii) in the case of a notice delivered to Bloomberg L.P., the day on which it is delivered to Bloomberg L.P.; and
- (iv) in the case of a notice published in a newspaper, the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required.

If it is impossible or impractical to give notice in accordance with paragraphs (i), (ii) or (iii) of Condition 14(a) (*Notice to Noteholders*) then notice of the relevant matters shall be given in accordance with paragraph (iv) of Condition 14(a) (*Notice to Noteholders*).

- (b) **Other Methods:** The Trustee may approve some other method of giving notice to the Noteholders if, in its opinion, that other method is reasonable having regard to market practice then prevailing and to the requirements of any stock exchange on which Notes are then listed and provided that notice of that other method is given to the Noteholders in the manner required by the Trustee.
- (c) **Notices to Irish Stock Exchange and Rating Agencies:** A copy of each notice given in accordance with this Condition 14 (*Notice to Noteholders*) shall be provided to the Rating Agencies and, for so long as the Notes are listed on the Irish Stock Exchange and the guidelines of the Irish Stock Exchange so require, the Irish Stock Exchange.
- (d) **Publication of Prospectus:** The Prospectus dated 17 April 2012 relating to the issue of the Notes will be published on the website of the Central Bank of Ireland ([www.centralbank.ie](http://www.centralbank.ie)).
- (e) **Noteholder Notices:** Any Verified Noteholder shall be entitled from time to time to request the Cash/Bond Administrator to post a notice on its investor reporting website requesting other Verified Noteholders of any class or classes to contact it subject to and in accordance with the following provisions.

Following receipt of a request for the publication of a notice from a Verified Noteholder (the "**Initiating Noteholder**"), the Cash/Bond Administrator shall publish such notice on its investor reporting website as an addendum to any Performance Report or other report to Noteholders due for publication within 5 Business Days of receipt of the same (or, if there is no such report, through a special notice for such purpose as soon as is reasonably practical after receipt of the same) provided that such notice contains no more than:

- (i) an invitation to other Verified Noteholders (or any specified class or classes of the same) to contact the Initiating Noteholder;
- (ii) the name of the Initiating Noteholder and the address, phone number, website or email address at which the Initiating Noteholder can be contacted; and
- (iii) the date(s) from, on or between which the Initiating Noteholder may be so contacted.

The Cash/Bond Administrator shall not request any further or different information through this mechanism.

The Cash/Bond Administrator shall have no responsibility or liability for the contents, completeness or accuracy of any such published information and shall have no responsibility (beyond publication of the same in the manner described above) for ensuring Noteholders receive the same.

## 15 Governing Law

The Transaction Documents and the Notes 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.

## 16 European Economic and Monetary Union

### (a) *Notice of redenomination*

The Issuer may, without the consent of the Noteholders, on giving at least 30 days' prior notice to the Noteholders, the Trustee and the Principal Paying Agent, designate a date as a redenomination date (the "**Redenomination Date**"), being an Interest Payment Date under the Notes falling on or after the date on which the United Kingdom becomes a Participating Member State.

### (b) *Redenomination*

Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

- (i) the Redenominated Notes shall be deemed to be redenominated into Euro in the denomination of Euro 0.01 with a principal amount for each Redenominated Note equal to the principal amount of that Redenominated Note in pounds sterling, converted into Euro at the rate for conversion of such currency into Euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations), provided, however, that, if the Issuer determines, with the agreement of the Trustee, that then market practice in respect of the redenomination into Euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, each stock exchange (if any) on which the Notes are then listed and the Principal Paying Agent of such deemed amendments;
- (ii) if Redenominated Notes have been issued in definitive form:
  - (A) the payment obligations contained in all Redenominated Notes denominated in sterling will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 16 (*European Economic and Monetary Union*)) shall remain in full force and effect; and
  - (B) new Redenominated Notes denominated in Euro will be issued in exchange for Redenominated Notes denominated in sterling in such manner as the Issuer may specify and as shall be notified to the Noteholders in the Euro Exchange Notice;
- (iii) all payments in respect of the Redenominated Notes (other than, unless the Redenomination Date is on or after such date as the sterling ceases to be a sub-division of the Euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in Euro by credit or transfer to a Euro account (or any other account to which Euro may be



credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Member State of the European Communities; and

- (iv) a Redenominated Note relating thereto may only be presented for payment on a day which is a business day in the place of presentation.

In this Condition 16 (*European Economic and Monetary Union*):

"**business day**" means, in respect of any place of presentation, any day which is a day on which commercial banks are open for general business in such place of presentation.

"**Euro Exchange Date**" means the date on which the Issuer gives notice to the Noteholders and the Trustee (such notice, the "**Euro Exchange Notice**") that replacement Notes denominated in Euro are available for exchange (provided that such Notes are available).

"**Redenominated Note**" means Notes which the Issuer may re-denominate in Euro following a Redenomination Date in accordance with this Condition 16 (*European Economic and Monetary Union*).

## **17 Privity of Contract**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any terms of the Notes 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 is a summary of the Issuer's understanding of the tax law in the United Kingdom and the generally published practice of H.M. Revenue & Customs as at the date of this document in relation to certain aspects of the United Kingdom taxation of payments in respect of, and of the issue and transfers of, the Notes. The comments do not deal with all United Kingdom tax aspects of acquiring, holding or disposing of the Notes and relate only to the position of persons who are absolute beneficial owners of the Notes and may not apply to certain classes of Noteholders (such as dealers or persons connected with the Issuer). The comments are made on the assumption that there will be no substitution of the Issuer pursuant to the Trust Deed and do not consider the tax consequences of any such substitution.*

*The following is a general guide and should be treated with appropriate caution. Noteholders who are in any doubt as to their tax position should consult their own professional advisors. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom are particularly advised to consult their professional advisors as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.*

### **United Kingdom Withholding Tax**

While the Notes continue to be listed on a recognised stock exchange within the meaning of Section 1005 Income Tax Act 2007, payments of interest by the Issuer may be made without withholding or deduction for or on account of United Kingdom income tax. The Irish Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the Irish Stock Exchange if they are both admitted to trading on the Irish Stock Exchange and are officially listed in Ireland in accordance with provisions corresponding to those generally applicable in countries in the European Economic Area.

If the Notes cease to be listed interest will generally be paid by the Issuer under deduction of income tax at the basic rate of 20 per cent. unless: (i) another relief applies; or (ii) the Issuer has received a direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Persons in the United Kingdom paying interest to or receiving interest on behalf of another person who is an individual may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

### **Direct assessment of Non-United Kingdom Resident Noteholders to United Kingdom Tax**

The interest has a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment. Where the interest is paid without withholding or deduction, the interest will not be assessed to United Kingdom tax in the hands of holders of the Notes who are not resident in the United Kingdom, except where the Noteholder carries on a trade, profession or vocation through a branch or agency, or in the case of a corporate holder, carries on a trade through a permanent establishment in the United Kingdom in connection with which the interest is received or to which the Notes are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the United Kingdom branch or agency or permanent establishment.

If interest were paid under deduction of United Kingdom income tax (e.g. if the Notes lost their listing), Noteholders who are not resident in the United Kingdom may be able to recover part of the tax deducted if there is an appropriate provision in an applicable double tax treaty.

### **Accrued Income – Noteholders who are not United Kingdom Corporate Taxpayers**

A transfer of a Note by a Noteholder resident or ordinarily resident for tax purposes in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Note is attributable may give rise to a charge to tax on income in respect of an amount representing interest on the Note which has accrued since the preceding Interest Payment Date.

However, the Notes may be treated as being “variable rate securities”, in which case a transfer of a Note by a Noteholder resident or ordinarily resident for tax purposes in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Note is attributable, may give rise to a charge to tax on income in respect of interest on the Note which has accrued since the

preceding Interest Payment Date in such an amount a HM Revenue & Customs deem just and reasonable. A transferee of such Notes with accrued interest will not be entitled to any corresponding allowance under Chapter 2 of Part 12 of the Income Tax Act 2007 (Accrued Income Profits and Losses).

#### **United Kingdom Capital Gains Tax – Non-corporate Noteholders**

Except where the Notes constitute “deeply discounted securities” (see below), the Notes should not be regarded by HM Revenue & Customs as qualifying corporate bonds within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal (including redemption) of Notes by an individual Noteholder who is resident or ordinarily resident in the United Kingdom, or by a Noteholder who is not resident or ordinarily resident in the United Kingdom but who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable, and who in neither case is within the charge to corporation tax, could give rise to a chargeable gain or an allowable loss for the purposes of capital gains tax.

#### **Deeply Discounted Securities – Non-corporate Noteholders**

As the M1 Notes, M2 Notes, B1 Notes, B2 Notes, the R1 Notes and R2 Notes (together, the “**Discount Notes**”) may be issued at a discount, they may constitute “deeply discounted securities” within the meaning of Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005. In that event, any profit made on the transfer (including the redemption) of such Discount Notes by a Noteholder who is not within the charge to corporation tax but who is resident in the United Kingdom or not resident in the United Kingdom but who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable, may be subject to income tax. Further, in that event that the Discount Notes constitute deeply discounted securities, they should be regarded as qualifying corporate bonds, with the result that on a disposal (which also includes a redemption) of the Discount Notes, neither chargeable gains nor allowable losses would arise for the purposes of capital gains tax.

#### **United Kingdom Corporation Tax – Corporate Noteholders**

Noteholders within the charge to United Kingdom corporation tax (including non-resident Noteholders whose Notes are used, held or acquired for the purposes of a trade carried on in the United Kingdom through a permanent establishment), will be subject to tax as income on all profits and gains from the Notes broadly in accordance with their statutory accounting treatment. Such Noteholders will generally be charged in each accounting period by reference to interest and other amounts which, in accordance with generally accepted accounting practice, are recognised in determining the Noteholder’s profit or loss for that period. Fluctuations in value relating to foreign exchange gains and losses in respect of the Notes will be brought into account as income. Such Noteholders will be outside the application of the rules described in the paragraphs above headed “*Accrued Income – Noteholders who are not United Kingdom Corporate Taxpayers*” and “*United Kingdom Capital Gains Tax – Non-corporate Noteholders*”.

#### **EU Directive on the Taxation of Savings Income**

The EU has adopted a Directive regarding the taxation of savings income. The Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual or to certain other persons in another Member State, except that Austria and Luxembourg may instead impose a withholding system for a transitional period unless during such period they elect otherwise (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). A number of third countries and territories have adopted similar measures to the EU Directive.

#### **Stamp Duty and Stamp Duty Reserve Tax**

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Notes or on the transfer of a Note.

## PURCHASE AND SALE

This Prospectus has been approved by the Central Bank of Ireland as the Irish competent authority under the Prospectus Directive. The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive 2003/71/EC. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market.

Investec Bank plc and Barclays Bank PLC as lead managers (each, a "**Lead Manager**" and together, the "**Lead Managers**") have, pursuant to a subscription agreement entered into between, the Issuer, the Lead Managers and the Seller (the "**Subscription Agreement**"), agreed to subscribe for the A1 Notes at their issue price of 100 per cent. of their respective Principal Amount. Investec Bank plc have, pursuant to the Subscription Agreement, agreed to subscribe for the M1 Notes at their issue price of 94.49 per cent of their respective Principal Amount, the M2 Notes at their issue price of 92.39 per cent of their respective Principal Amount, the B1 Notes at their issue price of 90.33 per cent of their respective Principal Amount, the B2 Notes at their issue price of 82.61 per cent of their respective Principal Amount, the R1 Notes at their issues price of 92.55 per cent., the R2 Notes at their issue price of 10.00 per cent of their respective Principal Amount and the R3 Notes at a premium, being an issue price of 2646 per cent. of their respective Principal Amount.

The Issuer has agreed in the Subscription Agreement to reimburse and indemnify the Lead Managers for certain of their expenses and liabilities in connection with the issue of Notes.

The Subscription Agreement is subject to a number of conditions and may be terminated by the Lead Managers in certain circumstances prior to payment for the Notes to the Issuer.

### United Kingdom

Each Lead Manager has represented to and agreed with the Issuer that:

- (a) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer.

### 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 under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Notes are being offered and sold outside the United States only to persons other than U.S. persons (as defined in and pursuant to Regulation S under the Securities Act).

Each Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes (i) as part of its distribution at any time or (ii) until 40 days after the later of the commencement of the offering of the Notes and the Issue Date (the "**Distribution Compliance Period**") or (iii) except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act to, or for the account or benefit of, U.S. persons, and it will have sent to each affiliate or other note purchaser (if any) to which it sells the Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes to, or for the account or benefit of, U.S. persons.

### Ireland

Each Lead Manager has represented and agreed with the Issuer that:

- (a) it will not underwrite the issue of, or place the Notes, otherwise than in conformity with the provisions of S.I. No. 60 of 2007, European Communities (Markets in Financial Instruments) Regulations 2007 ("**MiFID Regulations**"), including, without limitation, Parts 6, 7 and 12 thereof and the provisions of the Investor Compensation Act 1998;
- (b) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the Irish Central Bank Acts 1942 – 1999 (as amended) and any codes of conduct rules made under Section 117(1) thereof;

- (c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 and any rules issued under Section 51 of the Irish Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the Central Bank of Ireland; and
- (d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of the Notes otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations 2005 and any rules issued under Section 34 of the Irish Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank of Ireland.

#### **Public Offer Selling Restriction under the Prospectus Directive**

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "**relevant member state**"), each Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the "**relevant implementation date**") it has not made and will not make an offer of notes which are the subject of the offering contemplated by this prospectus in relation thereto to the public in that relevant member state except that it may, with effect from and including the relevant implementation date, make an offer of such notes to the public in that relevant member state:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the relevant member state has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of notes referred to in (a) to (c) above shall require the issuer or any Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of notes to the public" in relation to any notes in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant member state) and includes any relevant implementing measure in the relevant member state and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

#### **General**

Under the Subscription Agreement, each Lead Manager has acknowledged that, save for making such applications and for having procured the delivery of a copy of the Prospectus for registration to the Central Bank of Ireland, no action has been or will be taken in any jurisdiction by it that would permit a public offering of the Notes, or possession or distribution of the Prospectus (in preliminary or final form) or any amendment or supplement thereto or any other offering material relating to the Notes in any country or jurisdiction where action for that purpose is required. Under the Subscription Agreement, each Lead Manager has agreed to comply with all applicable laws and regulations in each jurisdiction in or from which it may offer or sell the Notes or have in its possession or distribute the Prospectus (in preliminary or in final form) or any amendment or supplement thereto or any other offering material.

Attention is drawn to the information set out on the inside front cover of this Prospectus.

## GENERAL INFORMATION

- (1) The issue of the Notes has been authorised by resolution of the Board of Directors of the Issuer passed on or about 16 April 2012.
- (2) It is expected that the Notes will be admitted to the Official List and admitted for trading on the Irish Stock Exchange on or around 19 April 2012, subject only to issue of the Global Notes of each class of Notes. Prior to official listing, however, dealings in the Notes will be permitted by the Irish Stock Exchange in accordance with its rules. The issue will be cancelled if the Global Notes are not issued.
- (3) The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg as follows:

	Common Code	ISIN (Clearstream/Euroclear)
A1 Notes .....	076901902	XS0769019026
M1 Notes.....	076901970	XS0769019703
M2 Notes.....	076902038	XS0769020388
B1 Notes.....	076902127	XS0769021279
B2 Notes.....	076902151	XS0769021519
R1 Notes.....	076902178	XS0769021782
R2 Notes.....	076902194	XS0769021949
R3 Notes.....	076902216	XS0769022160

- (4) The auditors of the Issuer, Ernst & Young LLP, are members of the Institute of Chartered Accountants of England and Wales. The financial year end of the Issuer is 31 March. The first statutory financial statements of the Issuer will be prepared for the period ended 31 March 2012.
- (5) The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings which may have or have had since its date of incorporation a significant effect on its financial position nor is the Issuer aware that any such proceedings are pending or threatened.
- (6) In relation to this transaction the Issuer, on or about the date of this Prospectus, has entered into the Subscription Agreement referred to under "Purchase and Sale" above which is or may be material.
- (7) Since 31 August 2011 (being the date of incorporation of the Issuer), there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or the financial position of the Issuer. On 1 December 2011 the Issuer changed its name to Gemgarto 2012-1 plc.
- (8) The Issuer will provide ongoing performance data on this transaction (including quarterly investor reports, and other statistical information regarding the securities to be admitted to trading and the performance of the Mortgage Pool (including anonymised loan level data)), being available at [www.ctslink.com](http://www.ctslink.com) in electronic form. The contents of this website are for information purposes only and do not form part of this Prospectus.
- (9) Copies of the following documents may be inspected in electronic or physical form during usual business hours at the registered office of the Issuer or online at [www.ctslink.com](http://www.ctslink.com) and will be available in such manner for at least as long as the Notes are admitted to listing on the Irish Stock Exchange and the guidelines of the Irish Stock Exchange so require:
  - (a) the Memorandum and Articles of Association of the Issuer;
  - (b) the Subscription Agreement;
  - (c) final versions of the following documents:
    - (i) the Master Definitions Schedule;
    - (ii) the Bank Agreement;
    - (iii) the Cash/Bond Administration Agreement;
    - (iv) the Standby Cash/Bond Administration Agreement;
    - (v) the Collection Account Declaration of Trust;
    - (vi) the Corporate Services Agreement;

- (vii) the Custody Agreement;
  - (viii) the Deed of Charge;
  - (ix) the Guaranteed Investment Contracts;
  - (x) the Swap Agreements;
  - (xi) the Mortgage Administration Agreement;
  - (xii) the Standby Mortgage Administration Agreement;
  - (xiii) the Mortgage Sale Agreement;
  - (xiv) the Paying Agency Agreement;
  - (xv) the Trust Deed; and
  - (xvi) the Issuer/ICSD Agreement.
- (10) As at the date hereof, save for the issue of the Notes, the Issuer, since its incorporation on 31 August 2011, has not commenced operations nor prepared any accounts.
- (11) The aggregate transaction fees and expenses for the issue and listing of the Notes are estimated to be in the region of £20,000 (as converted, where necessary from Euro to Sterling).

## GLOSSARY OF DEFINED TERMS

"£", "Sterling" and "Pounds Sterling"	are references to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland.
"€" or "Euro"	are references to the lawful currency of the member states of the European Union participating in Economic and Monetary Union as contemplated by the Treaty.
"1999 Regulations"	means the Unfair Terms in Consumer Contracts Regulations 1999 as amended.
"A1 Interest Amount"	means the Interest Amount in respect of the A1 Notes.
"A1 Noteholder"	means the persons who are for the time being holders of the A1 Notes.
"A1 Notes"	means the £201,600,000 Class A1 mortgage backed floating rate notes due 2045 and, unless expressly stated to the contrary, all references to an "A1 Note" shall be a reference to such A1 Note whether in global or definitive form.
"A1 Notes Interest Rate"	means LIBOR plus 2.95 per cent. per annum.
"A1 Notes Step-up Amount"	means any amounts of interest payable on the A1 Notes as a result of the application of the A1 Notes Step-up Rate.
"A1 Notes Step-up Rate"	means 1.5 per cent. per annum.
"A1 Permanent Global Note"	means the permanent Global Note which will represent the A1 Notes, or some of them, after exchange of the A1 Temporary Global Note, which will be substantially in the form set out in Schedule 2 Part 2 ( <i>Form of Permanent Global Note</i> ) to the Trust Deed and which is intended to be held in a manner which would allow Eurosystem eligibility.
"A1 Principal Deficiency"	has the meaning given to it in "Principal Deficiency" below.
"A1 Principal Deficiency Ledger"	means the sub-ledger of such name created for the purpose of recording the A1 Principal Deficiency, and maintained by the Cash/Bond Administrator as a sub-ledger of the Principal Deficiency Ledger.
"A1 Temporary Global Note"	means the temporary Global Note representing the A1 Notes on issue, which will be substantially in the form set out in Schedule 2 Part 1 ( <i>Form of Temporary Global Note</i> ) to the Trust Deed and which is intended to be held in a manner which would allow Eurosystem eligibility.
"Account Bank"	means Barclays Bank PLC.
"Accrued Mortgage Interest"	means any accrued interest on the Loans accruing prior to the Issue Date.
"Additional Interest"	means additional interest accruing on an Interest Shortfall in accordance with Condition 4(i) ( <i>Deferral of Interest</i> ).
"Agent Bank"	means HSBC Bank plc.
"Agents"	means the Paying Agents and the Agent Bank or any of them.
"Arranger"	means Investec Capital Markets.
"Article 122a"	means Article 122a of CRD 2.
"Auction Agent"	means Investec Bank plc.



<p><b>"Authorised Investments"</b></p>	<p>means investments of the funds standing to the credit of any GIC Account where:</p> <ul style="list-style-type: none"> <li>(a) in the opinion of the Cash/Bond Administrator, the rate of interest earned on such investments is likely to exceed the rate of interest paid on the relevant GIC Account; and</li> <li>(b) the Authorised Investments have a maturity date of 60 days or less and mature on or before two Business Days prior to the Interest Payment Date immediately succeeding the date on which the investments are made; and</li> <li>(c) the investments are sterling gilt-edged securities or sterling demand or time deposits, certificates of deposit or short-term debt obligations (including commercial paper); and</li> <li>(d) <ul style="list-style-type: none"> <li>(i) the entity to which the investments are made with is an authorised person under the FSMA and (aa) the rating of the long-term unsecured, unguaranteed and unsubordinated debt obligations of such entity is at least A by S&amp;P and the rating of the short-term unsecured, unguaranteed and unsubordinated debt obligations of such entity is at least A-1 by S&amp;P, or (bb) the rating of the long-term unsecured, unguaranteed and unsubordinated debt obligations of such entity is at least A+ by S&amp;P if no such short-term rating has been assigned; or</li> <li>(ii) only prior to the redemption in full of the A1 Notes, the entity to which the investments are made with is an authorised person under the FSMA and the rating of the long term unsecured, unguaranteed and unsubordinated debt obligations of such entity is at least AA (low) by DBRS or such other rating by any other Rating Agency that considers acceptable to maintain the rating of the A1 Notes;</li> <li>(iii) only prior to the redemption in full of the A1 Notes, the relevant investments are rated at least (a) in the case of investments where the residual maturity is up to 30 calendar days, A or F1 by Fitch or (b) in the case of investments where the residual maturity of the relevant investments is from 31 to 365 calendar days, AA- or F1+ by Fitch, provided that where Fitch has placed the rating of an investment on 'Rating Watch Negative', the rating of the investment shall be considered to have been lowered by one notch; or</li> <li>(iv) if the issuer of the investment is not authorised under FSMA, the Authorised Investment itself has short-term ratings from S&amp;P of at least A1+ and, prior to the redemption in full of the A1 Notes, has short-term ratings from DBRS of at least R 1 (middle) and long-term ratings from DBRS of at least AA (low).</li> </ul> </li> </ul>
<p><b>"Available Principal Funds"</b></p>	<p>means an amount calculated by the Cash/Bond Administrator on a Determination Date, being the sum of the following amounts:</p> <ul style="list-style-type: none"> <li>(a) the Principal Collections received for the preceding Determination Period;</li> <li>(b) any amount which has been released from the Liquidity Reserve Ledger and credited to the Principal Ledger;</li> </ul>

	<p>(c) the proceeds of any Authorised Investments attributable to Principal Collections for the Determination Period immediately preceding the relevant Determination Date;</p> <p>(d) the amount (if any) calculated on that Determination Date pursuant to the Pre-Enforcement Revenue Priority of Payments to be the amount by which the debit balance on any of the Principal Deficiency Ledgers is expected to be reduced by the application of the Available Revenue Funds on the immediately succeeding Interest Payment Date;</p> <p>(e) on the Determination Date immediately following the redemption in full of the A1 Notes, amounts standing to the credit of the Liquidity Reserve Ledger; and</p> <p>(f) on the Determination Date immediately preceding the Step-up Date and on each Determination Date thereafter until such time as all of the A1 Notes have been redeemed in full, any R3 Note Residual Revenue which would otherwise be paid to the R3 Noteholders on the relevant Interest Payment Date and is instead applied under item (xx)(ii) of the Pre-Enforcement Revenue Priority of Payments;</p> <p>minus the Rounding Balance.</p>
<p><b>"Available Revenue Funds"</b></p>	<p>means an amount calculated by the Cash/Bond Administrator on a Determination Date, being the sum of the following amounts:</p> <p>(a) interest earned pursuant to the Guaranteed Investment Contracts for the Determination Period immediately preceding the Determination Date and interest received on the Transaction Account for the Determination Period immediately preceding the relevant Determination Date;</p> <p>(b) the proceeds of any Authorised Investments attributable to Revenue Collections for the Determination Period immediately preceding the relevant Determination Date;</p> <p>(c) the Revenue Collections received for the Determination Period immediately preceding the relevant Determination Date;</p> <p>(d) on the Determination Date immediately following the redemption in full of the A1 Notes, M1 Notes, M2 Notes, B1 Notes and B2 Notes, amounts standing to the credit of the Yield Reserve Ledger;</p> <p>(e) any amounts received by the Issuer under the Fixed/Floating Swap Agreement or any replacement Fixed/Floating Swap Agreement on the relevant Interest Payment Date (excluding Swap Excluded Amounts and any early termination payment received by the Issuer from the Fixed/Floating Swap Provider to the extent utilised to acquire, at any time, a new fixed/floating swap);</p> <p>(f) any amount standing to the credit of the Reserve Ledger if and to the extent required to make payment of certain amounts in the Pre-Enforcement Revenue Priority of Payments to the extent there will be a Revenue Shortfall on the immediately following Interest Payment Date after application of all other Available Revenue Funds (excluding paragraphs (g), (h), (i) and (j) below) in respect thereof, provided that amounts standing to the credit of the Reserve Ledger shall only be utilised to make payments of interest on the M1 Notes, M2 Notes, B1 Notes and/or B2 Notes if the Default Trigger for such Class of Notes has not been met as of the most recent Non-Rating Trigger Determination Date;</p> <p>(g) for so long as there are any A1 Notes, M Notes or B Notes outstanding, any Reserve Fund Cap Amount if and to the extent required to make payment of certain amounts in the Pre-Enforcement Revenue Priority of Payments to the extent there will be a Revenue Shortfall on the</p>

	<p>immediately following Interest Payment Date after application of all other Available Revenue Funds (including paragraph (g) above but excluding paragraphs (h), (i) and (j) below) in respect thereof;</p> <p>(h) for so long as there are any A1 Notes, M Notes or B Notes outstanding, any amount standing to the credit of the Yield Reserve Ledger if and to the extent required to make payment of certain amounts in the Pre-Enforcement Revenue Priority of Payments to the extent there will be a Shortfall in Senior Fees and/or an Interest Shortfall on the A1 Notes, M Notes and/or B Notes on the immediately following Interest Payment Date after application of all other Available Revenue Funds (including paragraphs (f) and (g) above but excluding paragraphs (i) and (j) below) in respect thereof, provided that amounts standing to the credit of the Yield Reserve Ledger shall not be utilised to make payments of interest on the M1 Notes, M2 Notes, B1 Notes and/or B2 Notes if the Default Trigger for the relevant Class of Notes has been met as of the most recent Non-Rating Trigger Determination Date;</p> <p>(i) for so long as there are any A1 Notes outstanding, any amount standing to the credit of the Liquidity Reserve Ledger if and to the extent required to make payment of certain amounts in the Pre-Enforcement Revenue Priority of Payments to the extent there will be a Shortfall in Senior Fees and/or an Interest Shortfall on the A1 Notes on the immediately following Interest Payment Date after application of all other Available Revenue Funds (including paragraphs (f), (g) and (h) above but excluding paragraph (j) below)); and</p> <p>(j) such amounts of Available Principal Funds on the relevant Determination Date if and to the extent required to make payment of certain amounts in the Pre-Enforcement Revenue Priority of Payments to the extent there will be a Shortfall in Senior Fees and/or an Interest Shortfall on the Most Senior Class on the immediately following Interest Payment Date after application of all other Available Revenue Funds (including paragraphs (f), (g), (h) and (i) above but, excluding any Deferred Consideration.</p>
"B Noteholder"	means a B1 Noteholder and/or a B2 Noteholder, as applicable.
"B Notes"	means the B1 Notes and the B2 Notes.
"B1 Interest Amount"	means the Interest Amount in respect of the B1 Notes.
"B1 Noteholder"	means the persons who are for the time being holders of the B1 Notes.
"B1 Notes"	means the £13,200,000 Class B1 mortgage backed floating rate notes due 2045 and, unless expressly stated to the contrary, all references to a "B1 Note" shall be a reference to such B1 Note whether in global or definitive form.
"B1 Notes Interest Rate"	means LIBOR plus 2.25 per cent. per annum.
"B1 Permanent Global Note"	means the permanent Global Note which will represent the B1 Notes, or some of them, after exchange of the B1 Temporary Global Note, which will be substantially in the form set out in Schedule 2 Part 2 ( <i>Form of Permanent Global Note</i> ) to the Trust Deed and which is intended to be held in a manner which would allow Eurosystem eligibility.
"B1 Principal Deficiency"	has the meaning given to it in "Principal Deficiency" below.
"B1 Principal Deficiency Ledger"	means the sub-ledger of such name created for the purpose of recording the B1 Principal Deficiency and maintained by the Cash/Bond Administrator as a sub-

	ledger of the Principal Deficiency Ledger.
<b>"B1 Temporary Global Note"</b>	means the temporary Global Note representing the B1 Notes on issue, which will be substantially in the form set out in Schedule 2 Part 1 ( <i>Form of Temporary Global Note</i> ) to the Trust Deed and which is intended to be held in a manner which would allow Eurosystem eligibility.
<b>"B2 Interest Amount"</b>	means the Interest Amount in respect of the B2 Notes.
<b>"B2 Noteholder"</b>	means the persons who are for the time being holders of the B2 Notes.
<b>"B2 Notes"</b>	means the £15,600,000 Class B2 mortgage backed notes due 2045 and, unless expressly stated to the contrary, all references to a <b>"B2 Note"</b> shall be a reference to such B2 Note whether in global or definitive form.
<b>"B2 Notes Interest Rate"</b>	means LIBOR plus 2.25 per cent. per annum.
<b>"B2 Permanent Global Note"</b>	means the permanent Global Note which will represent the B2 Notes, or some of them, after exchange of the B2 Temporary Global Note, which will be substantially in the form set out in Schedule 2 Part 2 ( <i>Form of Permanent Global Note</i> ) to the Trust Deed and which is intended to be held in a manner which would allow Eurosystem eligibility.
<b>"B2 Principal Deficiency"</b>	has the meaning given to it in "Principal Deficiency" below.
<b>"B2 Principal Deficiency Ledger"</b>	means the sub-ledger of such name created for the purpose of recording the B2 Principal Deficiency and maintained by the Cash/Bond Administrator as a sub-ledger of the Principal Deficiency Ledger.
<b>"B2 Temporary Global Note"</b>	means the temporary Global Note representing the B2 Notes on issue, which will be substantially in the form set out in Schedule 2 Part 1 ( <i>Form of Temporary Global Note</i> ) to the Trust Deed and which is intended to be held in a manner which would allow Eurosystem eligibility.
<b>"Balance"</b>	means in relation to any Loan and on any date, the principal amount outstanding as at that date plus any other disbursement, legal expense, fee, charge or premium capitalised and added to the amounts secured by the relevant Mortgage in accordance with the conditions of the Loan on or prior to such date (including, for the avoidance of doubt, capitalised interest) less any repayments of such amounts.
<b>"Bank Accounts"</b>	means the Transaction Account and the GIC Accounts.
<b>"Bank Agreement"</b>	means the agreement so named dated on or about the Issue Date between, <i>inter alios</i> , the Issuer and the Account Bank.
<b>"Basic Terms Modification"</b>	means any modification to: <ul style="list-style-type: none"> <li>(a) the maturity of the Notes or the dates on which interest is payable in respect of the Notes;</li> <li>(b) any reduction of the amount due in respect of or cancellation of the principal amount of, or interest on or variation of the method of calculating the rate of interest on, the Notes;</li> <li>(c) the priority of payment of interest or principal on the Notes;</li> <li>(d) the currency of payment of the Notes or the Coupons;</li> <li>(e) the definition of Basic Terms Modification; or</li> <li>(f) the provisions concerning the quorum required at any meeting of Noteholders or the majority required to effect a Basic Terms Modification or to pass an Extraordinary Resolution.</li> </ul>

" <b>Book-Entry Interests</b> "	means the beneficial interests in the Global Notes recorded by Euroclear and Clearstream, Luxembourg.
" <b>Borrower</b> "	means, in relation to each Loan, the borrower or borrowers specified in such Loan.
" <b>Business Day</b> "	means a day on which commercial banks and foreign exchange markets settle payments in London and Dublin.
" <b>Buy-to-Let Loans</b> "	means Loans which are buy-to-let loans.
" <b>Cap Collateral Account</b> "	means the account held with the Custodian in connection with the Interest Rate Cap Agreements with sort code 40-05-15 and account number 73057243 (746994 in the case of securities) to which any Swap Collateral provided by the Cap Counterparty is credited.
" <b>Cap Counterparty</b> "	means Wells Fargo Bank, National Association and any transferees, novatees, or assignees from time to time following a Swap Counterparty Required Rating Downgrade.
" <b>Capped Rate Mortgage</b> "	means a Loan under the terms of which the interest rate is initially capped and thereafter pays a rate of interest equal to the rate which would be payable under a LIBOR Standard Mortgage.
" <b>Cap Reserve Fund</b> "	means the fund which may be established by depositing any Reserve Fund Cap Amounts received by the Issuer into a GIC Account and crediting the Reserve Fund Cap Ledger.
" <b>Capital Requirements Directive</b> "	means EU Directive 2006/48/EC (as amended).
" <b>Cash/Bond Administration Agreement</b> "	means the agreement so named dated on or about the Issue Date between, <i>inter alios</i> , the Issuer and the Cash/Bond Administrator.
" <b>Cash/Bond Administrator</b> "	means Investec Bank plc.
" <b>CCA</b> "	means the Consumer Credit Act 1974, as amended.
" <b>Charged Obligation Documents</b> "	means the documents set out at Condition 2(b)(iii) ( <i>Security</i> ).
" <b>Charged Property</b> "	means the property, assets, rights and undertaking for the time being comprised in or subject to the security contained in or granted pursuant to the Deed of Charge and references to the Charged Property shall include references to any part of it.
" <b>Class</b> "	means any class of Notes.
" <b>Clearing Systems</b> "	means Clearstream, Luxembourg and Euroclear.
" <b>Clearstream, Luxembourg</b> "	means Clearstream Banking, société anonyme.
" <b>Collateral Security</b> "	means the Mortgages and any other collateral security relating to the Mortgage Loans including, but not limited to, any rights under the Insurance Contracts.
" <b>Collection Account</b> "	means the account in the name of Kensington Mortgage Company Limited at the Account Bank with sort code 20-19-90 and account number 73856631 or such other replacement account(s) as may be established from time to time in accordance with the Transaction Documents.
" <b>Collection Account Declaration of Trust</b> "	means the declaration of trust dated on or about the Issue Date created in favour of the Issuer in respect of KMC's interest in the Collection Account.
" <b>Common Safekeeper</b> "	means HSBC Bank plc.

<b>"Completion Mortgage Pool"</b>	means the loans selected in accordance with clause 4 ( <i>Period to Completion</i> ) of the Mortgage Sale Agreement and to be sold and assigned to the Issuer pursuant to the Mortgage Sale Agreement on the Issue Date, as set out in Annexure A of the Mortgage Sale Agreement.
<b>"Conditions"</b>	means the terms and conditions applicable to the Notes as set out in Schedule 3 ( <i>Terms and Conditions of the Notes</i> ) to the Trust Deed as may from time to time be modified in accordance with the Trust Deed and, with respect to any Notes represented by a Global Note, as modified by the provisions of such Global Note and any reference to a particularly numbered Condition shall be construed accordingly.
<b>"Contingency Policy"</b>	means a contingency insurance policy.
<b>"Contingency Reserve"</b>	means the reserve fund established by the Issuer from part of the proceeds from the R Note on the Issue Date in the sum of £150,000 for the purposes of holding an amount to cover exceptional extraordinary expenses that may arise whilst the Rated Notes are outstanding and are not as at the Issue Date identifiable costs.
<b>"Contingency Reserve Ledger"</b>	means the ledger maintained by the Cash/Bond Administrator to record amounts credited to the Contingency Reserve.
<b>"Corporate Services Agreement"</b>	means the agreement so named dated on or about the Issue Date between, <i>inter alios</i> , the Issuer and the Corporate Services Provider.
<b>"Corporate Services Provider"</b>	means Structured Finance Management Limited, a company incorporated in England and Wales with registered number 3853947 and having its registered office at 35 Great St. Helen's, London, EC3A 6AP.
<b>"Couponholder"</b>	means the bearer of a Coupon.
<b>"Coupons"</b>	means the bearer coupons relating to the Notes or, as the context may require, a specific number of them and includes any replacement Coupons issued pursuant to the Conditions.
<b>"CPR"</b>	means the constant per annum rate of prepayment.
<b>"CRA Regulation"</b>	means Regulation (EC) 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.
<b>"CRD 2"</b>	means Directive 2006/48/EC (as amended) (as such article is at the time implemented by the Relevant Rules).
<b>"Credit Support Annex"</b>	means a 1995 ISDA Credit Support Annex (Bilateral Form - Transfer) entered into between a Swap Counterparty and the Issuer in connection with a Swap Agreement (or any 1995 ISDA Credit Support Annex (Bilateral Form - Transfer) entered into between the Issuer and any replacement Swap Counterparty).
<b>"Custodian"</b>	means HSBC Bank plc.
<b>"Custody Accounts"</b>	means the Cap Collateral Account and the Fixed/Floating Swap Collateral Account.
<b>"Custody Agreement"</b>	means the agreement so named entered into between the Custodian and the Issuer on or about the Issue Date.
<b>"Cut-Off Date"</b>	means 29 February 2012.
<b>"DBRS"</b>	means DBRS Ratings Limited.
<b>"Deed of Charge"</b>	means the deed so named dated on or about the Issue Date between, <i>inter alios</i> , the Issuer and the Security Trustee.
<b>"Default Trigger"</b>	means, on a Non-Rating Trigger Determination Date, in respect of the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes:

	<p>(a) in the case of the M1 Notes, the aggregate principal amount of all Loans where the Legal Title-Holder or its agent is seeking or has obtained possession of property granted as security for the relevant Loans is equal to or greater than 24 per cent. of the sum of the Balance of the Loans in the Completion Mortgage Pool;</p> <p>(b) in the case of the M2 Notes, the aggregate principal amount of all Loans where the Legal Title-Holder or its agent is seeking or has obtained possession of property granted as security for the relevant Loans is equal to or greater than 21 per cent. of the sum of the Balance of the Loans in the Completion Mortgage Pool;</p> <p>(c) in the case of the B1 Notes, the aggregate principal amount of all Loans where the Legal Title-Holder or its agent is seeking or has obtained possession of property granted as security for the relevant Loans is equal to or greater than 14.5 per cent. of the sum of the Balance of the Loans in the Completion Mortgage Pool; and</p> <p>(d) in the case of the B2 Notes, the aggregate principal amount of all Loans where the Legal Title-Holder or its agent is seeking or has obtained possession of property granted as security for the relevant Loans is equal to or greater than 8.75 per cent. of the sum of the Balance of the Loans in the Completion Mortgage Pool,</p> <p>provided that if the M1 Notes, the M2 Notes, the B1 Notes or the B2 Notes are, on such Non-Rating Trigger Determination Date, the Most Senior Class, the Default Trigger for such Class of M1 Notes, M2 Notes, B1 Notes or B2 Notes (as applicable) shall not be considered to have been met.</p>
<b>"Deferred Consideration"</b>	<p>means:</p> <p>(a) the aggregate of all Reserve Fund Cap Amounts then standing to the credit of the Reserve Fund Cap Ledger on the date when the A1 Notes, M1 Notes, M2 Note, B1 Notes and B2 Notes are redeemed in full;</p> <p>(b) all amounts standing to the credit of the Contingency Ledger on the date when all the Rated Notes are redeemed in full;</p> <p>(c) the aggregate of all amounts (if any) which remain standing to the credit of the Start-Up Costs Ledger after all Issuer Costs and Expenses have been finally determined and paid by the Issuer; and</p> <p>(d) following redemption in full of the Rated Notes, any swap termination amounts received by the Issuer which have not been utilised in purchasing a replacement swap agreement.</p>
<b>"Determination Date"</b>	means the date which falls two Business Days prior to an Interest Payment Date or, if such day is not a Business Day, the immediately preceding Business Day.
<b>"Determination Period"</b>	means the period ending on the fourth Business Day of the calendar month in which a Determination Date falls and starting on the calendar day immediately following the fourth Business Day of the calendar month in which the immediately preceding Determination Date falls.
<b>"EMU"</b>	means European Economic and Monetary Union.
<b>"Enforcement Liabilities"</b>	means the entirety of amounts owed by a Borrower under a Loan.
<b>"Enforcement Notice"</b>	means a notice given by the Trustee to the Issuer under Condition 9 ( <i>Events of Default</i> ) of the Notes.
<b>"Enforcement Procedures"</b>	means the exercise of the rights and remedies against a Borrower or in relation to the security for the Borrower's obligations arising from any default by the Borrower under or in connection with such Borrower's Loan or related security in accordance

	with the procedures adopted by the Mortgage Administrator and for the avoidance of doubt, in accordance with the procedures that could reasonably be expected of a Prudent Mortgage Lender and " <b>completion of the Enforcement Procedures</b> " shall be deemed to have occurred in respect of a particular Loan and its related security when the Mortgage Administrator has been notified by the Special Servicer that, having regard to the circumstances of the relevant Borrower and the then applicable Enforcement Procedures, the prospect of any further recovery of amounts due by that Borrower is remote or such further recovery is uneconomic.
" <b>Enforcement Proceeds</b> "	means the proceeds arising from any enforcement proceedings, including any sale proceeds.
" <b>English Security</b> "	means security created in favour of the Trustee by, and contained in or granted pursuant to the Deed of Charge.
" <b>Euro</b> "	means the single currency introduced at the start of the third stage of EMU pursuant to the Treaty.
" <b>Euroclear</b> "	means Euroclear Bank SA/NV or its successor.
" <b>Eurozone</b> "	means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union and the Treaty of Amsterdam.
" <b>Event of Default</b> "	has the meaning given to it in Condition 9 ( <i>Events of Default</i> ).
" <b>Exchange Date</b> "	means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the cities in which the relevant Clearing System is located.
" <b>Extraordinary Resolution</b> "	<p>means:</p> <ul style="list-style-type: none"> <li>(a) a resolution passed at a duly convened meeting of the Noteholders or the Noteholders of such Class and held in accordance with the provisions of the Trust Deed by a majority consisting of not less than 75 per cent. of the persons voting thereat upon a show of hands, or if a poll is demanded, by a majority consisting of not less than 75 per cent. of the votes cast on such poll; or</li> <li>(b) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. of the Principal Amount Outstanding of the relevant Class or Classes of 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 such holders,</li> </ul> <p>and (in the circumstances set out in Condition 11 (<i>Meetings of Noteholders, Modifications; Consents; Waiver</i>) an Extraordinary Resolution (other than in respect of a Basic Terms Modification) will pass unless 10 per cent. or more in aggregate Principal Amount Outstanding of the Notes of such class have informed the Trustee in the prescribed manner of their objection to such Extraordinary Resolution within 40 days after the date on which a notice containing the text of such Extraordinary Resolution which acts as an invitation to Noteholders of such class to object to the same and details the manner in which such objections should be made has been given to such class in accordance with the provisions of Condition 14 (<i>Notice to Noteholders</i>) provided that any such notice shall in all cases also be delivered through the systems of Bloomberg L.P. (or such other medium as may be approved in writing by the Trustee) by the Issuer, the Trustee, the Cash/Bond Administrator, the Mortgage Administrator, the Standby Mortgage Administrator or the Special Servicer and for so long as the Notes are listed in the Irish Stock Exchange, by making it available to any Regulatory Information Service</p>



	maintained by the Irish Stock Exchange.
"Final Maturity Date"	means the Interest Payment Date falling in May 2045.
"First GIC Account"	means the sterling-denominated account in the name of the Issuer at the Account Bank, sort code 20-19-90, account number 83086674, or such other replacement account as may be established from time to time in accordance with the Transaction Documents.
"First GIC Provider"	means Barclays Bank PLC.
"First Guaranteed Investment Contract"	means the agreement so named dated on or about the Issue Date between the Issuer and the First GIC Provider.
"First Subsequent Fitch Rating Event"	means, in the event the A1 Notes are rated AA-sf or above by Fitch, if the Swap Counterparty is not rated by Fitch with a long-term issuer default rating of BBB+ and a short-term issuer default rating of F2 with no Rating Watch Negative, in each case, applicable to the relevant Swap Counterparty's (or any credit support provider's) long-term or short-term issuer default rating such that Fitch deems the relevant Swap Counterparty (or any credit support provider) to have been downgraded to below the long-term rating of BBB+ or the short-term rating of F2.  After the redemption in full of the A1 Notes, the ratings required by Fitch shall no longer apply.
"Fitch"	means Fitch Ratings Ltd.
"Fixed/Floating Swap Agreement"	means the fixed/floating interest rate swap agreements entered into pursuant to the terms of a 1992 ISDA Master Agreement (Multicurrency - Cross Border) dated on or about the Issue Date (together with the schedule, confirmation relating to a fixed/floating interest rate swap, Credit Support Annex and any amendment agreements thereto) between the Issuer and the Fixed/Floating Swap Provider, or any replacement agreement between the Issuer and a Fixed/Floating Swap Provider (other than Barclays Bank PLC) as a consequence of a failure to take appropriate remedial action following a Swap Counterparty Required Rating Downgrade.
"Fixed/Floating Swap Collateral Account"	means the account held with the Custodian in connection with the Fixed/Floating Swap Agreement with sort code 40-05-15 and account number 73057251 (747019 in the case of securities) to which any Swap Collateral provided by the Fixed/Floating Swap Provider is credited.
"Fixed/Floating Swap Provider"	means Barclays Bank PLC or such transferees, novatees or assignees from time to time following a Swap Counterparty Required Rating Downgrade.
"Fixed Rate Mortgage"	means a fixed rate mortgage loan under the terms of which the Borrower pays a fixed rate for a limited period and thereafter pays a rate of interest equal to the rate which would be payable under a LIBOR Standard Mortgage.
"FSA"	means the Financial Services Authority.
"FSMA"	means the Financial Services and Markets Act 2000.
"GIC Accounts"	means the First GIC Account and/or the Second GIC Account, as applicable.
"GIC Providers"	means the First GIC Provider and the Second GIC Provider.
"Global Note"	means each of the Temporary Global Notes and the Permanent Global Notes.
"Guaranteed Investment Contracts"	means the First Guaranteed Investment Contract and the Second Guaranteed Investment Contract.
"HML"	means Homeloan Management Limited.
"Holdings"	means Gemgarto Holdings Limited (registered number 7757482), a private limited company incorporated under the laws of England and Wales, whose registered

	office is at 35 Great St. Helen's, London, EC3A 6AP.
"ICSDs"	means Euroclear and Clearstream, Luxembourg.
"Initial Available Revenue"	means, on each Determination Date, the amount standing to the credit of the Revenue Ledger as at the end of the preceding Determination Period.
"Initial/First Trigger Swap Counterparty Required Rating"	<p>means:</p> <p>(a) In the case of S&amp;P, a short term senior unsecured debt rating of at least A-1 and a long term rating of at least A, or (where the short term unsecured debt rating by S&amp;P is less than A-1 or there is no short term rating) a long term rating of at least A+, or such lower rating as may be required in line with the rating of the Most Senior Class as further described in the Swap Agreement.</p> <p>(b) In the case of DBRS, prior to the redemption in full of the A1 Notes if the A1 Notes are rated higher than "A(high)(sf)":</p> <p>(A) a long-term, unsecured, unsubordinated and unguaranteed debt obligations rating of at least A by DBRS with no classification of "Under Review (Negative)" applicable to the relevant Swap Counterparty (or any credit support provider) such that DBRS deems the relevant Swap Counterparty to have been downgraded to below the long term rating of A; or</p> <p>(B) in the absence of a rating by DBRS, the lower of the then Initial/First Trigger Swap Counterparty Required Ratings required by S&amp;P and Fitch or if only one of S&amp;P and Fitch rates such entity, the relevant Initial/First Trigger Swap Counterparty Required Rating.</p> <p>(c) in relation to Fitch, prior to the redemption in full of the A1 Notes:</p> <p>(i) in the event the A1 Notes are assigned a rating of AA-sf or above, a long-term issuer default rating of A and a short-term issuer default rating of F1 with no Rating Watch Negative, in each case, applicable to the relevant Swap Counterparty's (or any credit support provider's) long-term or short-term issuer default rating such that Fitch deems the relevant Swap Counterparty (or any credit support provider) to have been downgraded to below the long-term rating of A or the short-term rating of F1; or</p> <p>(ii) in the event the A1 Notes are assigned a rating of A+sf or below, a long-term issuer default rating of BBB+ and a short-term issuer default rating of F2 with no Rating Watch Negative, in each case, applicable to the relevant Swap Counterparty's (or any credit support provider's) long-term or short-term issuer default rating such that Fitch deems the relevant Swap Counterparty (or any credit support provider) to have been downgraded to below the long-term rating of BBB+ or the short-term rating of F2.</p> <p>After the redemption in full of the A1 Notes, the ratings required by Fitch and DBRS shall no longer be taken into account.</p>
"Insurance Contracts"	means the insurance contracts referred to in Schedule 6 ( <i>Insurance Contracts</i> ) of the Mortgage Sale Agreement, including the right to receive the proceeds of any claims, in so far as they relate to the Loans and any other insurance contracts in replacement, addition or substitution therefor from time to time and which relate to the Mortgage Loans.
"Interest Amount"	means, in respect of an Interest Period, the amount of interest payable on a Class of Notes.
"Interest Determination"	means, in the case of the first Interest Period, the Issue Date, and, for each

<b>"Date"</b>	subsequent Interest Period, the relevant Interest Payment Date.
<b>"Interest Only Loan"</b>	means a Loan under the terms of which the principal amount is not repayable before maturity and may require an endowment policy to be charged by way of collateral security or may require the deposit (but not by way of security) of a pension policy or may have no collateral as security other than the relevant Property.
<b>"Interest Payment Date"</b>	means the 14 <sup>th</sup> day in February, May, August and November in each year unless such day is not a Business Day, in which case interest shall be payable on the following Business Day.
<b>"Interest Period"</b>	means the period from (and including) an Interest Payment Date (or the Issue Date) to (but excluding) the next (or first) Interest Payment Date.
<b>"Interest Rate Cap Agreements"</b>	means the interest rate cap agreements entered into pursuant to the terms of a 1992 ISDA Master Agreement (Multicurrency - Cross Border) dated on or about the Issue Date (together with the schedule, confirmations relating to interest rate cap agreements, Credit Support Annex and any amendment agreements thereto) between the Issuer and the Cap Counterparty or any later agreement entered between the Issuer and a new Cap Counterparty as a result of a Swap Counterparty Required Rating Downgrade.
<b>"Interest Shortfall"</b>	has the meaning given to it in Condition 4(i) ( <i>Deferral of Interest</i> ).
<b>"Investec"</b>	means Investec Bank plc.
<b>"Investec Capital Markets"</b>	means Investec Capital Markets, a division of Investec Bank plc.
<b>"Irish Stock Exchange"</b>	means the Irish Stock Exchange Limited.
<b>"Issue Date"</b>	means 19 April 2012.
<b>"Issuer"</b>	means Gemgarto 2012-1 Plc whose registered number is 7757442 and whose registered office is at 35 Great St. Helen's, London, EC3A 6AP.
<b>"Issuer Costs and Expenses"</b>	means the costs and expenses arising in respect of the purchase of Loans and the issuance of the Notes.
<b>"Issuer/ICSD Agreement"</b>	means the agreement so named dated on or before the date hereof between the Issuer and each of Euroclear and Clearstream, Luxembourg.
<b>"Issuer Turn"</b>	means the payment of a distribution (if any) to Holdings.
<b>"Issuer Turn Ledger"</b>	means a ledger established in a GIC Account used to record the retained revenue of the Issuer.
<b>"KMC"</b>	means Kensington Mortgage Company Limited, a company registered in England and Wales with company number 3049877.
<b>"Land Registry"</b>	means HM Land Registry.
<b>"Lead Managers"</b>	means Barclays Bank PLC and Investec Bank plc.
<b>"Legal Title-Holder"</b>	means Kensington Mortgage Company Limited.
<b>"Lending Criteria"</b>	means the lending criteria as set out in Schedule 7 ( <i>Lending Criteria</i> ) of the Mortgage Sale Agreement as may from time to time be applicable generally to loans and further advances made by the Legal Title-Holder.
<b>"LIBOR"</b>	means the offered quotation to leading banks in the London interbank market for three month Sterling deposits.
<b>"LIBOR Determination Date"</b>	means the Interest Payment Date on which an Interest Period commences.

"LIBOR Standard Mortgage"	means a mortgage loan under the terms of which interest is payable at a variable rate of interest which is set quarterly at three-month LIBOR plus a margin.
"LIO"	means a lenders' interest only insurance policy.
"Liquidity Reserve Fund"	means the amount reserved from time to time in a GIC Account by depositing amounts into a GIC Account and crediting the Liquidity Reserve Ledger in accordance with the Cash/Bond Administration Agreement.
"Liquidity Reserve Ledger"	means the ledger of such name created and maintained by the Cash/Bond Administrator in a GIC Account.
"Liquidity Reserve Maximum Amount"	means on each Interest Payment Date an amount equal to 1.6 per cent. of the Principal Amount Outstanding on the A1 Notes as determined on the immediately preceding Determination Date;
"Loan Conditions"	means, in relation to each Loan, the terms and conditions on which it was made.
"Loan to Value Ratio" or "LTV"	means the ratio, expressed as a percentage, which the amount of a Loan (exclusive of any arrangement fee) bears to the valuation of the relevant Property at origination of the Loan or, in some cases as set out in the Lending Criteria, the lower of such valuation and the sale price of such Property.
"Loans"	means a loan secured by a Mortgage.
"Losses"	means any losses arising in relation to a Loan in the Mortgage Pool which results in a shortfall in the amount of principal received on such Loan.
"M Noteholder"	means a M1 Noteholder and/or a M2 Noteholder, as applicable.
"M Notes"	means the M1 Notes and the M2 Notes.
"M1 Interest Amount"	means the Interest Amount in respect of the M1 Notes.
"M1 Noteholder"	means the persons who are for the time being holders of the M1 Notes.
"M1 Notes"	means the £3,600,000 Class M1 mortgage backed floating rate notes due 2045 and, unless expressly stated to the contrary, all references to an "M1 Note" shall be a reference to such M1 Note whether in global or definitive form.
"M1 Notes Interest Rate"	means LIBOR plus 2.25 per cent. per annum.
"M1 Permanent Global Note"	means the permanent Global Note which will represent the M1 Notes, or some of them, after exchange of the M1 Temporary Global Note, which will be substantially in the form set out in Schedule 2 Part 2 ( <i>Form of Permanent Global Note</i> ) to the Trust Deed and which is intended to be held in a manner which would allow Eurosystem eligibility.
"M1 Principal Deficiency"	has the meaning given to it in "Principal Deficiency" below.
"M1 Principal Deficiency Ledger"	means the sub-ledger of such name created for the purpose of recording the M1 Principal Deficiency, and maintained by the Cash/Bond Administrator as a sub-ledger of the Principal Deficiency Ledger.
"M1 Temporary Global Note"	means the temporary Global Note representing the M1 Notes on issue, which will be substantially in the form set out in Schedule 2 Part 1 ( <i>Form of Temporary Global Note</i> ) to the Trust Deed and which is intended to be held in a manner which would allow Eurosystem eligibility.
"M2 Interest Amount"	means the Interest Amount in respect of the M2 Notes.
"M2 Noteholder"	means the persons who are for the time being holders of the M2 Notes.

"M2 Notes"	means the £6,000,000 Class M2 mortgage backed floating rate notes due 2045 and, unless expressly stated to the contrary, all references to an "M2 Note" shall be a reference to such M2 Note whether in global or definitive form.
"M2 Notes Interest Rate"	means LIBOR plus 2.25 per cent. per annum.
"M2 Permanent Global Note"	means the permanent Global Note which will represent the M2 Notes, or some of them, after exchange of the M2 Temporary Global Note, which will be substantially in the form set out in Schedule 2 Part 2 ( <i>Form of Permanent Global Note</i> ) to the Trust Deed and which is intended to be held in a manner which would allow Eurosystem eligibility.
"M2 Principal Deficiency"	has the meaning given to it in "Principal Deficiency" below.
"M2 Principal Deficiency Ledger"	means the sub-ledger of such name created for the purpose of recording the M2 Principal Deficiency, and maintained by the Cash/Bond Administrator as a sub-ledger of the Principal Deficiency Ledger.
"M2 Temporary Global Note"	means the temporary Global Note representing the M2 Notes on issue, which will be substantially in the form set out in Schedule 2 Part 1 ( <i>Form of Temporary Global Note</i> ) to the Trust Deed and which is intended to be held in a manner which would allow Eurosystem eligibility.
"Market Abuse Directive"	means EU Directive 2003/6/EC.
"Master Definitions Schedule"	means the document named dated on or about the Issue Date between, <i>inter alios</i> , the Issuer, the Trustee and the Principal Paying Agent.
"MCOB"	means the FSA's Mortgages and Home Finance: Conduct of Business sourcebook, as the same may be amended, revised or supplemented from time to time.
"Meeting"	means a meeting of Noteholders of any Class or Classes (whether originally convened or resumed following an adjournment).
"Moody's"	means Moody's Investors Service Ltd or any of its affiliates.
"Mortgage"	means the first legal mortgage or charge of Property which is security for a Loan.
"Mortgage Administration Agreement"	means the agreement so named dated on or about the Issue Date between, <i>inter alios</i> , the Issuer and the Mortgage Administrator.
"Mortgage Administrator"	means (a) KMC under the Mortgage Administration Agreement or (b) if KMC's appointment is terminated under the Mortgage Administration Agreement, the Standby Mortgage Administrator under the Standby Mortgage Administration Agreement.
"Mortgage Early Redemption Amounts"	means the compensation amounts payable by a Borrower if a Loan is redeemed (whether pre enforcement or post enforcement) within the Relevant Period (excluding, for the avoidance of doubt, any principal received in respect of the Loans to which the relevant Mortgages relate).
"Mortgage Pool"	means the Completion Mortgage Pool and the Substitute Loans less any Loan which has been redeemed or transferred in accordance with the Transaction Documents.
"Mortgage Rights"	has the meaning given in the Mortgage Sale Agreement.
"Mortgage Sale Agreement"	means the mortgage sale agreement dated on or about the Issue Date between the Issuer, KMC, Investec and the Trustee.
"Most Senior Class "	means:

	<ul style="list-style-type: none"> <li>(a) the A1 Notes whilst they remain outstanding;</li> <li>(b) thereafter the M1 Notes whilst they remain outstanding;</li> <li>(c) thereafter the M2 Notes whilst they remain outstanding;</li> <li>(d) thereafter the B1 Notes whilst they remain outstanding;</li> <li>(e) thereafter the B2 Notes whilst they remain outstanding;</li> <li>(f) thereafter the R1 Notes whilst they remain outstanding;</li> <li>(g) thereafter the R2 Notes whilst they remain outstanding; and</li> <li>(h) thereafter the R3 Notes whilst they remain outstanding.</li> </ul>
"N(M)"	means 31 October 2004.
"Non-Rating Trigger Determination Date"	means the last day of a Non-Rating Trigger Determination Period.
"Non-Rating Trigger Determination Period"	means the period ending on the last day of the calendar month immediately preceding an Interest Payment Date and starting on the first day of the calendar month in which the immediately preceding Interest Payment Date falls or, if there has been no preceding Interest Payment Date, the Issue Date.
"Note Interest Amounts"	means the A1 Note Interest Amount, the M1 Note Interest Amount, the M2 Note Interest Amount, the B1 Note Interest Amount and the B2 Note Interest Amount.
"Noteholders"	means holders of the Notes.
"Notes"	means the A1 Notes, the M Notes, the B Notes and the R Notes.
"Notes Interest Rates"	means the A1 Notes Interest Rate, the M1 Notes Interest Rate, the M2 Notes Interest Rate, the B1 Notes Interest Rate and the B2 Notes Interest Rate.
"OFT"	means the Office of Fair Trading.
"Ombudsman"	means the Financial Ombudsman Service.
"Ordinary Resolution"	<p>means:</p> <ul style="list-style-type: none"> <li>(a) a resolution passed at a duly convened meeting of the Noteholders or the Noteholders of such Class and held in accordance with the provisions of the Trust Deed by a majority consisting of not less than 50.1 per cent. of the persons voting thereat upon a show of hands, or if a poll is demanded, by a majority consisting of not less than 50.1 per cent. of the votes cast on such poll; or</li> <li>(b) a resolution in writing signed by or on behalf of the holders of not less than 50.1 per cent. of the Principal Amount Outstanding of the relevant Class or Classes of 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 such holders,</li> </ul> <p>and (in the circumstances set out in Condition 11 (<i>Meetings of Noteholders; Modifications; Consents; Waiver</i>)) an Ordinary Resolution will pass unless 15 per cent. or more in aggregate Principal Amount Outstanding of the Notes of such Class have informed the Trustee in the prescribed manner of their objection to such Ordinary Resolution within 40 days after the date on which a notice containing the text of such Ordinary Resolution which acts as an invitation to Noteholders of such Class to object to the same and details the manner in which such objections should be made has been given to such Class in accordance with the provisions of Condition 14 (<i>Notice to Noteholders</i>) provided that any such notice shall in all cases also be delivered through the systems of Bloomberg L.P. (or such other medium as may be approved in writing by the Trustee) by the Issuer, the Trustee, the</p>

	Cash/Bond Administrator, the Mortgage Administrator, the Standby Mortgage Administrator or the Special Servicer and for so long as the Notes are listed in the Irish Stock Exchange, by making it available to any Regulatory Information Service maintained by the Irish Stock Exchange.
<b>"Part and Part Loans"</b>	means mortgage loans under the terms of which, prior to completion of the Loan, the loan is effectively separated (at the option of, and at a level decided by, the Borrower) into two fixed, principal amounts, one in respect of which the Borrower pays interest only and the other in respect of which the Borrower pays interest and principal.
<b>"Participating Member State"</b>	means a Member State of the European Communities which adopts the Euro as its lawful currency in accordance with the Treaty.
<b>"Paying Agency Agreement"</b>	means the agreement so named and dated on or about the Issue Date between the Issuer, the Trustee and the Agents.
<b>"Paying Agents"</b>	means the Principal Paying Agent and any additional paying agent appointed pursuant to the Paying Agency Agreement or any of them.
<b>"Performance Report"</b>	means the quarterly performance report in the form scheduled as Schedule 2 (Form of Reports) to the Cash/Bond Administration Agreement from time to time agreed between the Issuer, KMC, the Special Servicer, the Mortgage Administrator and the Trustee.
<b>"Permanent Global Notes"</b>	means the A1 Permanent Global Note, the M1 Permanent Global Note, the M2 Permanent Global Note, the B1 Permanent Global Note, the B2 Permanent Global Note, the R1 Permanent Global Note, the R2 Permanent Global Note and the R3 Permanent Global Note.
<b>"Post-Enforcement Priority of Payments"</b>	means the Post-Enforcement Priority of Payments set out in Condition 2(d) ( <i>Post-Enforcement Priority of Payments</i> ).
<b>"Potential Event of Default"</b>	means any condition, event, act or circumstance which would or could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 9 ( <i>Events of Default</i> ), become an Event of Default.
<b>"Pre-Enforcement Principal Priority of Payments"</b>	means the Pre-Enforcement Principal Priority of Payments as set out in Condition 5(b) ( <i>Mandatory Redemption of the A1 Notes, the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes</i> ).
<b>"Pre-Enforcement Priority of Payments"</b>	means the Pre-Enforcement Revenue Priority of Payments or the Pre-Enforcement Principal Priority of Payments, as the case may be.
<b>"Pre-Enforcement Revenue Priority of Payments"</b>	means the Pre-Enforcement Revenue Priority of Payments set out in Condition 2(c) ( <i>Pre-Enforcement Revenue Priority of Payments</i> ).
<b>"Principal Amount Outstanding"</b>	means the principal amount outstanding of each note as determined in accordance with Condition 5(c) ( <i>Note Principal Payments, Principal Amount Outstanding and Pool Factor</i> ).
<b>"Principal Collections"</b>	means an amount determined by the Cash/Bond Administrator on a Determination Date or being the aggregate of: <ul style="list-style-type: none"> <li>(a) all repayments or prepayments of principal received by the Issuer in relation to the Loans in respect of the Determination Period ending on or immediately prior to such Determination Date;</li> <li>(b) recoveries received by the Issuer and allocable to principal upon an enforcement of the Collateral Security, and recoveries received by the Issuer and allocable to principal upon a purchase or a repurchase of the Loans by the Seller in accordance with the terms of the Mortgage Sale</li> </ul>

	Agreement in each case received by the Issuer in the Determination Period preceding such Determination Date.
<b>"Principal Deficiency"</b>	means the amount debited from time to time to the Principal Deficiency Ledger for the purposes of recording Losses and shortfalls on the Mortgage Pool, the utilisation of principal receipts to pay a Revenue Shortfall and/or any drawings from the Liquidity Reserve Fund and allocated towards either the A1 Notes, M1 Notes, M2 Notes, B1 Notes or B2 Notes (each respectively the " <b>A1 Principal Deficiency</b> ", the " <b>M1 Principal Deficiency</b> ", the " <b>M2 Principal Deficiency</b> ", the " <b>B1 Principal Deficiency</b> " and the " <b>B2 Principal Deficiency</b> ") in accordance with the Cash/Bond Administration Agreement.
<b>"Principal Deficiency Cap"</b>	<p>means on a Determination Date, in respect of the M1 Notes, the M2 Notes, the B1 Notes and the B2 Notes:</p> <p>(a) in the case of the M1 Notes, an amount debited to the M1 Principal Deficiency Ledger equal to 25 per cent. of the Principal Amount Outstanding of the M1 Notes as at such Determination Date;</p> <p>(b) in the case of the M2 Notes, an amount debited to the M2 Principal Deficiency Ledger equal to 20 per cent. of the Principal Amount Outstanding of the M2 Notes as at such Determination Date;</p> <p>(c) in the case of the B1 Notes, an amount debited to the B1 Principal Deficiency Ledger equal to 15 per cent. of the Principal Amount Outstanding of the B1 Notes as at such Determination Date; and</p> <p>(d) in the case of the B2 Notes, an amount debited to the B2 Principal Deficiency Ledger equal to 10 per cent. of the Principal Amount Outstanding of the B2 Notes as at such Determination Date,</p> <p>if the M1 Notes, the M2 Notes, the B1 Notes or the B2 Notes are, on such Determination Date, the Most Senior Class, the Principal Deficiency Cap for such Class of M1 Notes, M2 Notes, B1 Notes or B2 Notes (as applicable) shall instead be an amount equal to the Principal Amount Outstanding of such Class of Notes as at such Determination Date and provided further that if the amount standing to the credit of the Principal Deficiency Ledger of the Most Senior Class is equal to the Principal Amount Outstanding of the Notes of such Class, the Principal Deficiency Cap for the next Most Senior Class of Notes shall instead be an amount equal to the Principal Amount Outstanding of such Class of Notes as at such Determination Date.</p>
<b>"Principal Deficiency Ledger"</b>	means the A1 Principal Deficiency Ledger, M1 Principal Deficiency Ledger, M2 Principal Deficiency Ledger, B1 Principal Deficiency Ledger and/or B2 Principal Deficiency Ledger.
<b>"Principal Ledger"</b>	means the ledger of such name created for the purpose of recording Principal Collections and maintained by the Cash/Bond Administrator in a GIC Account.
<b>"Principal Paying Agent"</b>	means HSBC Bank plc.
<b>"Priority of Payments"</b>	means the Pre-Enforcement Priority of Payments or the Post-Enforcement Priority of Payments, as applicable.
<b>"Property"</b>	means a freehold or long leasehold residential property (having an unexpired term at least 35 years longer than the mortgage term) in England or Wales.
<b>"Prospectus"</b>	means this prospectus of the Issuer for the purposes of the Prospectus Directive.
<b>"Prospectus Directive"</b>	means EU Directive 2003/71/EC.
<b>"Provisional Completion Mortgage"</b>	means the Mortgage Pool as at the Cut-Off Date.



<b>Pool"</b>	
<b>"Prudent Mortgage Lender"</b>	means a competent mortgage lender acting reasonably in a manner consistent with that of (as the context requires) an experienced lender, servicer or administrator of residential mortgage loans lending to Borrowers in England and Wales.
<b>"R1 Noteholder"</b>	means the persons who are for the time being holders of the R1 Notes.
<b>"R1 Notes"</b>	means the £3,600,000 Class R1 Notes due 2045 and, unless expressly stated to the contrary, all references to an <b>"R1 Note"</b> shall be a reference to such R1 Note whether in global or definitive form.
<b>"R1 Permanent Global Note"</b>	means the permanent Global Note which will represent the R1 Notes, or some of them, after exchange of the R1 Temporary Global Note, which will be substantially in the form set out in Schedule 2 Part 2 ( <i>Form of Permanent Global Note</i> ) to the Trust Deed and which is intended to be held in a manner which would allow Eurosystem eligibility.
<b>"R1 Temporary Global Note"</b>	means the temporary Global Note representing the R1 Notes on issue, which will be substantially in the form set out in Schedule 2 Part 1 ( <i>Form of Temporary Global Note</i> ) to the Trust Deed and which is intended to be held in a manner which would allow Eurosystem eligibility.
<b>"R2 Noteholder"</b>	means the persons who are for the time being holders of the R2 Notes.
<b>"R2 Notes"</b>	means the £2,400,000 Class R2 Notes due 2045 and, unless expressly stated to the contrary, all references to an <b>"R2 Note"</b> shall be a reference to such R2 Note whether in global or definitive form.
<b>"R2 Notes Write-down Amount"</b>	means an amount equal to the lower of (a) £2,400,000 and (b) the aggregate amount of any losses and principal shortfalls on the Mortgage Pool that have been debited to a Principal Deficiency Ledger.
<b>"R2 Permanent Global Note"</b>	means the permanent Global Note which will represent the R2 Notes, or some of them, after exchange of the R2 Temporary Global Note, which will be substantially in the form set out in Schedule 2 Part 2 ( <i>Form of Permanent Global Note</i> ) to the Trust Deed and which is intended to be held in a manner which would allow Eurosystem eligibility.
<b>"R2 Temporary Global Note"</b>	means the temporary Global Note representing the R2 Notes on issue, which will be substantially in the form set out in Schedule 2 Part 1 ( <i>Form of Temporary Global Note</i> ) to the Trust Deed and which is intended to be held in a manner which would allow Eurosystem eligibility.
<b>"R3 Noteholder"</b>	means the persons who are for the time being holders of the R3 Notes.
<b>"R3 Note Residual Revenue"</b>	has the meaning given to it in Condition 4(d) ( <i>Calculation of Interest</i> ).
<b>"R3 Notes"</b>	means the £500,000 Class R3 Notes due 2045 and, unless expressly stated to the contrary, all references to an <b>"R3 Note"</b> shall be a reference to such R3 Note whether in global or definitive form.
<b>"R3 Permanent Global Note"</b>	means the permanent Global Note which will represent the R3 Notes, or some of them, after exchange of the R3 Temporary Global Note, which will be substantially in the form set out in Schedule 2 Part 2 ( <i>Form of Permanent Global Note</i> ) to the Trust Deed and which is intended to be held in a manner which would allow Eurosystem eligibility.
<b>"R3 Temporary Global Note"</b>	means the temporary Global Note representing the R3 Notes on issue, which will be substantially in the form set out in Schedule 2 Part 1 ( <i>Form of Temporary Global Note</i> ) to the Trust Deed and which is intended to be held in a manner which would allow Eurosystem eligibility.

"R Noteholder"	means a R1 Noteholder and/or a R2 Noteholder and/or a R3 Noteholder, as applicable.
"R Notes"	means the R1 Notes, the R2 Notes and the R3 Notes.
"Rate of Interest"	means the rate of interest as determined by the Agent Bank in accordance with Condition 4 ( <i>Interest</i> ).
"Rated Notes"	means the A1 Notes, the M Notes and B Notes only.
"Rating Agencies"	means S&P and, prior to the redemption in full of the A1 Notes, DBRS and Fitch and " <b>Rating Agency</b> " means any of them.
"Rating Agency Confirmation"	means written confirmation from each Rating Agency then rating the Notes and willing to provide such a written confirmation that the then current ratings of each Class of Notes rated thereby will not be qualified, downgraded or withdrawn as a result of such modification.
"Receiver"	means a receiver appointed under the Deed of Charge or pursuant to statutory powers, and includes more than one such receiver and any substituted receiver.
"Reference Banks"	has the meaning given that term in Condition 4(c)(ii) ( <i>Rate of Interest</i> ).
"Regulated Mortgage Contract"	means any regulated mortgage contract under FSMA.
"Regulation S"	means Regulation S of the Securities Act.
"Relevant Period"	means three years of the date of advance of the relevant Loan to the Borrower.
"Relevant Rules"	means the rules and guidance of the Financial Services Authority or any successor regulatory authority implementing CRD 2.
"Repayment Loan"	means a Loan under the terms of which monthly instalments covering both interest and principal are paid by the Borrower until the Loan is fully repaid by its maturity in accordance with the relevant Loan Conditions.
"Repurchase Price"	means the sum of: <ul style="list-style-type: none"> <li>(a) 100 per cent. of the principal amount outstanding of the relevant Loan;</li> <li>(b) interest accrued but not due on the Loan as at the date of repurchase, minus an amount equal to any interest not yet accrued on such Loan as at the date of repurchase but paid in advance to the Issuer;</li> <li>(c) an amount equal to all other amounts that are due and payable as at the date of repurchase under the Loan; and</li> <li>(d) with respect to repurchase as a result of a breach of a Warranty only, the reasonable costs of the Issuer incurred in relation to such repurchase.</li> </ul>
"Reserve Fund"	means the amount reserved from time to time in a GIC Account by depositing the Reserve Fund Required Amount into a GIC Account and crediting the Reserve Ledger.
"Reserve Fund Cap Amount"	means an amount equal to: <ul style="list-style-type: none"> <li>(a) all proceeds received from the Cap Counterparty under the Interest Rate Cap Agreements including all swap termination payments received by the Issuer from the Cap Counterparty under the Interest Rate Cap Agreements in the event the Issuer is not able to appoint a replacement hedging provider on a reasonable commercial basis, excluding any swap termination payments received by the Issuer pursuant to paragraph (c) below (the "<b>Swap Termination Amounts</b>"); and</li> <li>(b) in the event the Issuer appoints a replacement hedging provider in accordance with the Interest Rate Cap Agreements, any Swap</li> </ul>

	<p>Termination Amounts remaining after such appointment provided always that such Swap Termination Amounts shall first be applied towards payment due to any replacement hedging provider;</p> <p>and excluding:</p> <p>(c) amounts paid to the Issuer on early termination of the Interest Rate Cap Agreements that are to be used or are used to pay any premium to a replacement Cap Counterparty to enter into replacement Interest Cap Agreements; and</p> <p>(d) any collateral standing to the credit of the Cap Collateral Account.</p>
<b>"Reserve Fund Cap Ledger"</b>	means the ledger maintained for the purpose of detailing credits made by the Issuer from time to time into the Cap Reserve Fund with any Reserve Fund Cap Amounts in a GIC Account.
<b>"Reserve Fund Required Amount"</b>	means: <p>(a) on the Issue Date, £6,000,000;</p> <p>(b) on any subsequent Interest Payment Date, £ 12,000,000.</p>
<b>"Reserve Ledger"</b>	means the ledger of such name created for the purpose of depositing the Reserve Fund Required Amount and maintained by the Cash/Bond Administrator in a GIC Account.
<b>"Return Amounts"</b>	means Return Amounts as defined in a Credit Support Annex.
<b>"Revenue Collections"</b>	means an amount determined by the Cash/Bond Administrator on a Determination Date being the aggregate of: <p>(a) all payments of interest, fees, breakage costs and other sums not comprising Principal Collections, if any, received by the Issuer in relation to the Loans in the Mortgage Pool in respect of the Determination Period ending immediately prior to such Determination Date;</p> <p>(b) recoveries received by the Issuer and allocable to interest upon an enforcement of the Collateral Security, and recoveries received by the Issuer and allocable to interest upon a purchase or a repurchase of any Loans in the Mortgage Pool by the Seller in accordance with the terms of the Mortgage Sale Agreement, in each case received by the Issuer in the Determination Period ending immediately prior to such Determination Date; and</p> <p>(c) all Mortgage Early Redemption Amounts in respect of the Determination Period ending immediately prior to such Determination Date.</p>
<b>"Revenue Ledger"</b>	means the ledger of such name created and maintained by the Cash/Bond Administrator in a GIC Account.
<b>"Revenue Shortfall"</b>	means, on each Determination Date, the amount by which the Initial Available Revenue for the immediately following Interest Payment Date is insufficient to provide for payment of interest on the Rated Notes then outstanding or to reduce the debit balance on any Principal Deficiency Ledger to zero or to provide for all payments of a higher priority to interest on the A1 Notes pursuant to the Pre-Enforcement Revenue Priority of Payments on the immediately following Interest Payment Date.
<b>"Revolving Period"</b>	means the period from the Issue Date to the Business Day immediately preceding the first Interest Payment Date.
<b>"Rounding Balance"</b>	means, as at any Determination Dates:

	<p>(a) if there are A1 Notes outstanding on such Determination Date, an amount required to round down Available Principal Funds to the nearest one thousand pounds; and</p> <p>(b) otherwise, zero.</p>
"S&P"	means Standard & Poor's Credit Market Services Europe Limited.
"Screen Rate"	means, on an Interest Determination Date, Reuters Screen LIBOR01 Page or, if such page is no longer available, as specified by the Agent Bank, another page or service displaying the appropriate rate after consultation with the Trustee and the Paying Agent.
"Second GIC Account"	means the sterling-denominated account in the name of the Issuer with the Second GIC Provider as may be established from time to time in accordance with the Transaction documents.
"Second GIC Provider"	means Wells Fargo Bank National Association, London Branch.
"Second Guaranteed Investment Contract"	means the agreement so named dated on or about the Issue Date between the Second GIC Provider and the Issuer.
"Secured Creditors"	<p>means each of the following:</p> <ul style="list-style-type: none"> <li>(a) the Noteholders;</li> <li>(b) the Couponholders;</li> <li>(c) the Trustee;</li> <li>(d) the Security Trustee;</li> <li>(e) the Lead Managers;</li> <li>(f) the Arranger;</li> <li>(g) any Receiver (in its capacity as a creditor secured by the Deed of Charge);</li> <li>(h) the Agents;</li> <li>(i) the Cash/Bond Administrator;</li> <li>(j) the Standby Cash/Bond Administrator;</li> <li>(k) the Mortgage Administrator;</li> <li>(l) the Standby Mortgage Administrator;</li> <li>(m) the Special Servicer;</li> <li>(n) the Custodian;</li> <li>(o) the Account Bank;</li> <li>(p) the Auction Agent;</li> <li>(q) each GIC Provider;</li> <li>(r) each Swap Counterparty;</li> <li>(s) Holdings;</li> <li>(t) the Corporate Services Provider;</li> <li>(u) the Seller; and</li> <li>(v) any party who accedes to the Deed of Charge and any other person who is expressed in any deed supplemental to the Deed of Charge to be a Secured Creditor.</li> </ul>

"Securities Act"	means the United States Securities Act of 1933, as amended.
"Security"	means the English Security.
"Seller"	means Investec acting as seller of the Loans under the Mortgage Sale Agreement.
"Share Trustee"	means SFM Corporate Services Limited (registered number 3920255), a company incorporated under the laws of England and Wales, whose principal office is at 35 Great St. Helen's, London, EC3A 6AP.
"Shortfall in Senior Fees"	means, as at any Determination Date, any shortfall in the fees due and payable under items (i) to (v) of the Pre-Enforcement Revenue Priority of Payments.
"Special Servicer"	means KMC.
"Special Servicer Agreement"	means the agreement so named dated the Issue Date between, <i>inter alios</i> , the Issuer and the Special Servicer.
"Standard Documentation"	means the documents used by the relevant lender in connection with its activities as residential mortgage lender in relation to the origination of the relevant Loans in substantially the forms identified in Annexure C (Standard Documents) to the Mortgage Sale Agreement and such other documents as may from time to time be substituted or added thereto with the prior written approval of the Trustee.
"Standard Mortgage"	means each of a LIBOR Standard Mortgage, a Capped Rate Mortgage and Fixed Rate Mortgage.
"Standby Cash/Bond Administration Agreement"	means the agreement so named dated on or about the Issue Date between, <i>inter alios</i> , the Issuer and the Standby Cash/Bond Administrator.
"Standby Cash/Bond Administrator"	means Wells Fargo Bank International.
"Standby Mortgage Administration Agreement"	means the agreement so named dated on or about the Issue Date between, <i>inter alios</i> , the Issuer and the Standby Mortgage Administrator.
"Standby Mortgage Administrator"	means HML.
"Start-up Costs Ledger"	means the ledger of such name created for the purpose of meeting the costs and expenses arising in respect of the purchase of Loans and the issuance of the Notes and maintained by the Cash/Bond Administrator as a ledger of a GIC Account.
"Step-up Date"	means the Interest Payment Date falling in May 2017.
"Subscription Agreement"	means the subscription agreement dated 17 April 2012 between the Issuer and the Lead Managers.
"Subsequent/Second Trigger Swap Counterparty Required Rating"	means: <ul style="list-style-type: none"> <li>(a) in the case of S&amp;P, a long term rating of at least BBB+, or such lower rating as may be required in line with the rating of the Most Senior Class as further described in the Swap Agreement.</li> <li>(b) in relation to DBRS, prior to the redemption in full of the A1 Notes: <ul style="list-style-type: none"> <li>(i) a long-term, unsecured, unsubordinated and unguaranteed debt obligations rating of at least BBB by DBRS with no classification of "Under Review (Negative)" applicable to the relevant Swap Counterparty (or any credit support provider) such that DBRS deems the relevant Swap Counterparty to have been downgraded to below the long term rating of BBB; or</li> </ul> </li> </ul>

	<p>(ii) in the absence of a rating by DBRS, the lower of the then Subsequent/Second Trigger Swap Counterparty Required Ratings required by S&amp;P and Fitch or if only one of S&amp;P and Fitch rates such entity, the relevant Subsequent/Second Trigger Swap Counterparty Required Rating;</p> <p>(c) in relation to Fitch, prior to the redemption in full of the A1 Notes, a long-term issuer default rating of BBB- and a short-term issuer default rating of F3 with no Rating Watch Negative applicable to the relevant Swap Counterparty's (or any credit support provider's) long-term or short-term issuer default rating such that Fitch deems the relevant Swap Counterparty (or any credit support provider) to have been downgraded to below the long-term rating of BBB- or the short-term rating of F3.</p> <p>After the redemption in full of the A1 Notes, the ratings required by Fitch and DBRS shall no longer be taken into account.</p>
<b>"Substitute Loans"</b>	means such alternative residential mortgage loans of an appropriate value which are substituted in the Mortgage Pool by the Seller following a breach of warranty.
<b>"Swap Agreement"</b>	means the Interest Rate Cap Agreements and/or the Fixed/Floating Swap Agreement, as applicable.
<b>"Swap Collateral"</b>	means any collateral which may be provided by a Swap Counterparty in accordance with the terms of a Swap Agreement.
<b>"Swap Collateral Accounts"</b>	means the Fixed/Floating Swap Collateral Account and the Cap Collateral Account.
<b>"Swap Counterparty"</b>	means the Cap Counterparty and/or the Fixed/Floating Swap Provider, as applicable.
<b>"Swap Counterparty Required Rating "</b>	means an Initial/First Trigger Required Rating or a Subsequent/Second Trigger Required Rating as applicable.
<b>"Swap Counterparty Required Rating Downgrade"</b>	shall occur if any short-term or long-term debt rating of the relevant Swap Counterparty falls below a Swap Counterparty Required Rating, or if a Swap Counterparty is on "Rating Watch Negative" such that Fitch deems the relevant Swap Counterparty to have been downgraded to below the Swap Counterparty Required Rating or if a Swap Counterparty has a classification of "Under Review (Negative)" such that DBRS deems the relevant Swap Counterparty to have been downgraded to below the Swap Counterparty Required Rating. After the redemption in full of the A1 Notes, the ratings required by Fitch and DBRS shall no longer be taken into account.
<b>"Swap Excluded Amounts"</b>	means any amounts payable by the Issuer to a Swap Counterparty (i) that represent Return Amounts due under a Credit Support Annex; (ii) that are termination payments to the extent such payments can be satisfied from Swap Collateral provided by such Swap Counterparty; or (iii) that are termination payments to the extent such payment can be satisfied from premiums received from a replacement Swap Counterparty.
<b>"Swap Replacement Costs Ledger"</b>	means the ledger set up in a GIC Account for the purpose of recording any swap termination payments prior to the use of such funds by the Issuer to enter into a replacement Swap Agreement.
<b>"Swap Subordinated Amounts"</b>	means any termination payment due to a Swap Counterparty which arises due to either (i) an Event of Default (as defined in a Swap Agreement) where the Swap Counterparty is the Defaulting Party (as defined in the relevant Swap Agreement) or (ii) an Additional Termination Event (as defined in a Swap Agreement) which occurs as a result of a Swap Counterparty Required Rating Downgrade.
<b>"Temporary Global"</b>	means the A1 Temporary Global Note, the M1 Temporary Global Note, the M2

<b>Notes"</b>	Temporary Global Note, the B1 Temporary Global Note, the B2 Temporary Global Note and the R Temporary Global Note.
<b>"Title Insurance Policy"</b>	means a policy of insurance in respect of title (howsoever described) to a Property.
<b>"Transaction Account"</b>	means the account in the name of the Issuer at the Account Bank, sort code 20-19-90, account number 53584062, or such other replacement account as may be established from time to time in accordance with the Transaction Documents.
<b>"Transaction Documents"</b>	means the Master Definitions Schedule, the Bank Agreement, the Cash/Bond Administration Agreement, the Standby Cash/Bond Administration Agreement, the Collection Account Declaration of Trust, the Corporate Services Agreement, the Custody Agreement, the Deed of Charge, the Guaranteed Investment Contracts, the Swap Agreements, the Mortgage Administration Agreement, the Standby Mortgage Administration Agreement, the Special Servicer Agreement, the Mortgage Sale Agreement, the Paying Agency Agreement, the Trust Deed and the Issuer/ICSD Agreement.
<b>"Transaction Parties"</b>	means each of the following: <ul style="list-style-type: none"> <li>(a) the Trustee;</li> <li>(b) the Security Trustee;</li> <li>(c) the Agents;</li> <li>(d) the Cash/Bond Administrator;</li> <li>(e) the Standby Cash/Bond Administrator;</li> <li>(f) the Mortgage Administrator;</li> <li>(g) the Standby Mortgage Administrator;</li> <li>(h) the Special Servicer;</li> <li>(i) the Auction Agent;</li> <li>(j) the Account Bank;</li> <li>(k) each GIC Provider;</li> <li>(l) the Custodian;</li> <li>(m) each Swap Counterparty;</li> <li>(n) the Corporate Services Provider; and</li> <li>(o) the Seller.</li> </ul>
<b>"Treaty"</b>	means the Treaty on the functioning of the European Union (as amended).
<b>"Trust Deed"</b>	means the trust deed to be entered into between the Issuer and the Trustee on or about on or about the Issue Date.
<b>"Trustee"</b>	means: <ul style="list-style-type: none"> <li>(a) in the context of the Notes, Wells Fargo Trust Corporation Limited in its capacity as trustee for the Noteholders; and</li> <li>(b) in the context of the Security created pursuant to the Deed of Charge, Wells Fargo Trust Corporation Limited in its capacity as security trustee for the Secured Creditors and references to "Security Trustee" shall in this context, have the same meaning as that given to "Trustee".</li> </ul>
<b>"UTCCR"</b>	means the 1999 Regulations and (in so far as applicable) the Unfair Terms in Consumer Contracts Regulations 1994.
<b>"VAT"</b>	shall be construed as a reference to value added tax as that term is used in the Value Added Tax Act 1994 and all subsequent amendments thereto, and shall include any

	similar tax which may be imposed in addition thereto or in place thereof from time to time.
<b>"Verified Noteholder"</b>	means a Noteholder which has satisfied the Cash/Bond Administrator that it is a Noteholder in accordance with Condition 11(g)(l) ( <i>Evidence of Notes</i> ).
<b>"Warranties"</b>	means, in relation to the Loans, the representations, warranties and undertakings referred to in clause 7.1 ( <i>Warranties and Representations</i> ) of the Mortgage Sale Agreement.
<b>"Yield Reserve Fund"</b>	means the amount reserved from time to time in a GIC Account by depositing the Yield Reserve Required Amount into a GIC Account and crediting the Yield Reserve Ledger.
<b>"Yield Reserve Ledger"</b>	means the ledger of such name created and maintained by the Cash/Bond Administrator in one of the GIC Accounts.
<b>"Yield Reserve Required Amount"</b>	means: <ul style="list-style-type: none"> <li>(a) on the Issue Date, £1,200,000; and</li> <li>(b) on any Interest Payment Date following the redemption of the A1 Notes, M Notes and B Notes, zero.</li> </ul>



**THE ISSUER**

**Gengarto 2012-1 Plc**  
35 Great St. Helen's  
London  
EC3A 6AP

**TRUSTEE**

**Wells Fargo Trust Corporation Limited**  
6-8 Underwood Street  
London  
N1 7JQ

**LEAD MANAGERS**

**Barclays Bank PLC**  
5 The North Colonnade  
Canary Wharf  
London E14 4BB

**Investec Bank plc**  
2 Gresham Street  
London EC2V 7QP

**PRINCIPAL PAYING AGENT AND AGENT BANK**

**HSBC Bank plc**  
8 Canada Square  
London  
E14 5HQ

**FIXED/FLOATING SWAP PROVIDER**

**Barclays Bank PLC**  
5 The North Colonnade  
Canary Wharf  
London E14 4BB

**CAP COUNTERPARTY**

**Wells Fargo, National Association**  
301 South College Street, MAC D1053-077  
Charlotte  
NC 28202-0600  
United States of America

**LEGAL ADVISERS**

*To the Lead Managers*

**Weil, Gotshal & Manges**  
110 Fetter Lane  
London  
EC4A 1AY

*To the Trustee*

**White & Case LLP**  
5 Old Broad Street  
London  
EC2N 1DW

*To Investec Bank plc and the Issuer*

**Baker & McKenzie LLP**  
100 New Bridge Street  
London  
EC4V 6JA

**AUDITORS TO THE ISSUER**

**Ernst & Young LLP**  
1, More London Place  
London  
SE1 2AF

