

## IMPORTANT NOTICE

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

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

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

THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER RELEVANT JURISDICTION. THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF A **US PERSON** (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) UNLESS REGISTERED UNDER THE SECURITIES ACT, OR PURSUANT TO AN EXEMPTION FROM OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS OF THE UNITED STATES.

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

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Mercia No. 1 PLC, Lloyds TSB Bank plc (**LTSB**) nor Citicorp Trustee Company Limited (nor any person who controls it nor any director, officer, employee nor agent of it or affiliate of any such person) accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from LTSB.

**MERCIA NO. 1 PLC**

(Incorporated in England and Wales with limited liability, registered number 8239134)

Class of Notes	Initial Principal Amount	Issue Price	Interest Rate	Relevant Margin	Step-Up Date	Ratings (Fitch/Moody's)	Final Maturity Date
Class A1 Notes	£718,200,000	100%	3 month GBP LIBOR plus the Relevant Margin	Prior to the Class A1 Step-Up Date 0.9% per annum and on and after the Class A1 Step-Up Date 0.9% per annum	The first Interest Payment Date to occur following the date falling 5 years after the end of the Further Sale Period (the <b>Class A1 Step-Up Date</b> )	AAA sf/Aaa(sf)	The Interest Payment Date falling in December 2050
Class A2 Notes	£718,200,000	100%	3 month GBP LIBOR plus the Relevant Margin	Prior to the Class A2 Step-Up Date 1.1% per annum and on and after the Class A2 Step-Up Date 1.1% per annum	The first Interest Payment Date to occur following the date falling 5 years after the end of the Further Sale Period (the <b>Class A2 Step-Up Date</b> )	AAA sf/Aaa(sf)	The Interest Payment Date falling in December 2050
Class Z VFN Notes	£191,200,000	100%	3 month GBP LIBOR plus the Relevant Margin	0.0%	N/A	Not rated	The Interest Payment Date falling in December 2050

**Issue Date** The Issuer will issue the Notes in the classes set out above on 12 December 2012 (the **Closing Date**).

**Underlying Assets** The Issuer will make payments on the Notes from, *inter alia*, payments of principal and revenue received from a portfolio comprising buy to let mortgage loans originated by Godiva Mortgages Limited (**Godiva**) (the **Seller**) and secured over residential properties located in England and Wales (the **Initial Portfolio**) which will be purchased by the Issuer on the Closing Date. Substitution of the Loans contained in the Portfolio may occur in limited circumstances in accordance with the terms described herein.

See the section entitled "*Characteristics of the Cut-Off Date Portfolio and the Initial Portfolio*" for further details.

On each Business Day occurring during the Further Sale Period the Seller may sell Additional Loans (as defined below) and their Related Security to the Issuer subject to the satisfaction of certain conditions.

**Credit Enhancement and Liquidity Support** Prior to the service of a Note Acceleration Notice payments of principal on the Class A1 Notes will rank in priority to payments of principal on the Class A2 Notes.

- In respect of the Class A1 Notes and the Class A2 Notes (together, the **Class A Notes**) only, subordination by way of the Class Z VFN.
- In respect of the Class A Notes, the availability of the General Reserve Fund, as funded by the Class Z VFN on the Closing Date.
- Excess Available Revenue Receipts.
- In respect of the Class A Notes only, the application in certain circumstances of Principal Receipts to provide for any Revenue Deficiency (as defined herein) in the Available Revenue Receipts. Principal Receipts will not be available to pay interest on the Class A Notes if there is an outstanding balance on the Class A Principal Deficiency Ledger.

See the sections entitled "*Credit Structure*" and "*Terms and Conditions of the Notes*" for further details.

<b>Redemption Provisions</b>	Information on any optional and mandatory redemption of the Notes is summarised on page 55 (" <i>Transaction Overview - Overview of the Terms and Conditions of the Notes</i> ") and set out in full in Condition 7 ( <i>Redemption</i> ).
<b>Rating Agencies</b>	Fitch Ratings Ltd. ( <b>Fitch</b> ) and Moody's Investors Services Limited ( <b>Moody's</b> and, together with Fitch, the <b>Rating Agencies</b> ). As of the date of this Prospectus, each of the Rating Agencies is a credit rating agency established in the European Union and is registered under Regulation (EU) No 1060/2009 (as amended) (the <b>CRA Regulation</b> ). In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.
<b>Ratings</b>	<p>Ratings are expected to be assigned to the Class A Notes as set out above on or before the Closing Date. The rating of "AAAsf" is the highest rating that Fitch assigns to long-term obligations. Fitch ratings address only the credit risk associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors. The ratings of "Aaa(sf)" is the highest rating that Moody's assigns to long-term obligations. The rating of the Class A Notes by Moody's primarily addresses the expected credit loss posed to Class A Noteholders on or before the legal final maturity of the Class A Notes.</p> <p>The Class Z VFN will not be rated. The assignment of ratings to the Notes is not a recommendation to invest in the Notes or to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Any credit rating assigned to the Notes may be revised or withdrawn at any time.</p>
<b>Listing</b>	Application has been made to the Financial Services Authority (the <b>FSA</b> ) in its capacity as competent authority under the Financial Services and Markets Act 2000 (the <b>UK Listing Authority</b> ) for the Class A Notes to be admitted to the official list of the UK Listing Authority (the <b>Official List</b> ) and to the London Stock Exchange plc (the <b>London Stock Exchange</b> ) for the Class A Notes to be admitted to trading on the London Stock Exchange's Regulated Market. The London Stock Exchange's Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the <b>Markets in Financial Instruments Directive</b> ). This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC (the <b>Prospectus Directive</b> ). The Class Z VFN will not be admitted to the Official List of the UK Listing Authority nor will it be admitted to trading on the London Stock Exchange's Regulated Market.
<b>Obligations</b>	The Notes will be obligations of the Issuer alone and will not be guaranteed by, or be the responsibility of, any other entity. The Notes will not be obligations of the Seller, its affiliates or any other party named in the Prospectus.
<b>Retention Undertaking</b>	Godiva will undertake in the Deed of Charge to the Issuer and the Note Trustee, on behalf of the Noteholders, that it will retain a material net economic interest of at least 5 per cent. in accordance with Article 122a of Directive 2006/48/EC (as amended by Directive 2009/111/EC) (which does not take into account any implementing rules of the CRD in a relevant jurisdiction), referred to as the Capital Requirements Directive ( <b>CRD</b> ). As at the Closing Date, such interest will be comprised of an interest in the first loss tranche, in this case the Class Z VFN, as required by Article 122a.
<b>Significant Investor</b>	<p>CBS will on the Closing Date purchase 100 per cent. of the Class A Notes and Godiva will purchase 100 per cent. of the Class Z VFN.</p> <p>CBS may, on or after the Closing Date, enter into securities lending transactions or repurchase agreements with various counterparties in respect of a portion of the Class A Notes that CBS will purchase on the Closing Date (the <b>Securities Lending Transactions</b>).</p> <p>Any securities lending or repo counterparty with respect to the Class A Notes held by it pursuant to a Securities Lending Transaction, will be entitled to exercise its voting rights in respect of the Class A Notes held by it in accordance with the Conditions of the Notes.</p>

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

Arranger  
**Lloyds TSB Bank plc**

The date of this Prospectus is 10 December 2012

## IMPORTANT NOTICE

THE NOTES WILL BE OBLIGATIONS OF THE ISSUER ONLY. THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY PERSON OTHER THAN THE ISSUER. IN PARTICULAR, THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, THE SELLER, THE INTEREST RATE SWAP GUARANTOR, THE INTEREST RATE SWAP PROVIDER, THE ARRANGER, THE SERVICER, THE CASH MANAGER, THE ACCOUNT BANK, THE PRINCIPAL PAYING AGENT, THE AGENT BANK, THE REGISTRAR, THE CLASS Z VFN REGISTRAR, THE NOTE TRUSTEE, THE SECURITY TRUSTEE, THE CORPORATE SERVICES PROVIDER, THE BACK-UP SERVICER FACILITATOR (EACH AS DEFINED HEREIN), ANY COMPANY IN THE SAME GROUP OF COMPANIES AS ANY SUCH ENTITIES OR ANY OTHER PARTY TO THE TRANSACTION DOCUMENTS. NO LIABILITY WHATSOEVER IN RESPECT OF ANY FAILURE BY THE ISSUER TO PAY ANY AMOUNT DUE UNDER THE NOTES SHALL BE ACCEPTED BY THE SELLER, THE INTEREST RATE SWAP GUARANTOR, THE INTEREST RATE SWAP PROVIDER, THE ARRANGER, THE SERVICER, THE CASH MANAGER, THE ACCOUNT BANK, THE PRINCIPAL PAYING AGENT, THE AGENT BANK, THE REGISTRAR, THE CLASS Z VFN REGISTRAR, THE NOTE TRUSTEE, THE SECURITY TRUSTEE, THE CORPORATE SERVICES PROVIDER, THE BACK-UP SERVICER FACILITATOR OR BY ANY PERSON OTHER THAN THE ISSUER.

The Class A Notes will each initially be represented by a temporary global note in bearer form (each, a **Temporary Global Note**), without interest coupons attached. Each Temporary Global Note will be exchangeable, as described herein, for a permanent global note in bearer form which is recorded in the records of Euroclear System (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) (each, a **Permanent Global Note** and, together with the Temporary Global Notes, the **Global Notes** and each, a **Global Note**) without interest coupons attached, not earlier than 40 calendar days and not later than 180 calendar days after the Closing Date (provided that certification of non-U.S. beneficial ownership has been received). The Global Notes will be deposited with a common safekeeper (the **Common Safekeeper**) for Euroclear and Clearstream, Luxembourg on or before the Closing Date. The Common Safekeeper will hold the Global Notes in custody for Euroclear and Clearstream, Luxembourg. The Notes, issued in new global note form and represented by the Global Notes may be transferred in book-entry form only. The Class A1 Notes and the Class A2 Notes will be issued in the denomination of £100,000 and integral multiples of £1,000 in excess thereof. Except in the limited circumstances described under "*Description of the Notes — Issuance of Definitive Notes*", the Notes will not be available in definitive form (the **Definitive Notes**).

Each of Euroclear and Clearstream, Luxembourg will record the beneficial interests in the Global Notes (**Book-Entry Interests**). Book-Entry Interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear or Clearstream, Luxembourg, and their respective participants.

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

The Class A Notes are intended to be held in a manner which will allow European Central Bank eligibility but this does not necessarily mean that the Class A Notes will be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria, which criteria may change without notice. In particular, the Class A Notes are sterling denominated and would therefore require the continued application of the foreign currency-denominated collateral exemption announced by the Governing Council of the European Central Bank on 6 September 2012 (or another equivalent temporary or permanent eligibility criteria change) in order to be capable of being eligible. It is also intended that the

Class A Notes will comprise eligible collateral for funding programmes established by the Bank of England on the basis of the current eligibility criteria set out in relation to such programmes by the Bank of England. No assurance can be given as to the actual eligibility of the Class A Notes for the purposes of Eurosystem operations or the Bank of England operations.

The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. No representation is made by the Issuer, the Seller, the Note Trustee, the Security Trustee or the Arranger that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and none of them assumes any responsibility for facilitating any such distribution or offering. In particular, save for obtaining the approval of this Prospectus as a prospectus for the purposes of the Prospectus Directive by the UK Listing Authority, no action has been or will be taken by the Issuer, the Seller, the Note Trustee, the Security Trustee or the Arranger which would permit a public offering of the Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published, in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes are required by the Issuer and the Arranger to inform themselves about and to observe any such restrictions.

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

CBS and each subsequent purchaser of the Notes will be deemed by its acceptance of such Notes to have made certain acknowledgements, representations and agreements intended to restrict the resale or other transfer of the Notes as set forth therein and described in this Prospectus and, in connection therewith, may be required to provide confirmation of its compliance with such resale and other transfer restrictions in certain cases. See "*Transfer Restrictions and Investor Representations*".

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

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

Godiva accepts responsibility for the information set out in the sections headed "*Godiva Mortgages Limited*" "*The Loans*", "*Characteristics Of The Cut-Off Date Portfolio and the Initial Portfolio*" and "*Historical Amortisation Rates of Godiva Prime Mortgage Loans*". To the best of the knowledge and belief of Godiva (having taken all reasonable care to ensure that such is the case), the information contained in the sections referred to in this paragraph is in accordance with the facts and does not omit anything likely to affect the import of such information. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by Godiva as to the accuracy or completeness of any information

contained in this Prospectus (other than in the sections referred to above) or any other information supplied in connection with the Notes or their distribution.

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

No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger as to the accuracy or completeness of any information contained in this Prospectus or any other information supplied in connection with the Notes or their distribution.

No person is authorised to give any information or to make any representation in connection with the offering or sale of the Notes other than those contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Seller, the Note Trustee or the Security Trustee, the Arranger or any of their respective affiliates or advisers. Neither the delivery of this Prospectus nor any sale or allotment made in connection with the offering of the Notes shall, under any circumstances, create any implication or constitute a representation that there has been no change in the affairs of the Issuer or the Seller or in the other information contained herein since the date hereof. The information contained in this Prospectus was obtained from the Issuer and the other sources identified herein, but no assurance can be given by the Note Trustee, the Security Trustee or the Arranger as to the accuracy or completeness of such information. None of the Arranger, the Note Trustee or the Security Trustee has separately verified the information contained herein. Accordingly, none of the Note Trustee, the Security Trustee or the Arranger makes any representation, express or implied, or accepts any responsibility with respect to the accuracy or completeness of any of the information in this Prospectus. In making an investment decision, investors must rely on their own examination of the terms of this offering, including the merits and risks involved. The contents of this Prospectus should not be construed as providing legal, business, investment, accounting or tax advice. Each prospective investor should consult its own legal, business, accounting and tax advisers prior to making a decision to invest in the Notes.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Seller or the Arranger or any of them to subscribe for or purchase any of the Notes in any jurisdiction where such action would be unlawful and neither this Prospectus, nor any part thereof, may be used for or in connection with any offer to, or solicitation by, any person in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

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

In this Prospectus all references to **pounds, sterling, GBP** and **£** are references to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland (the **United Kingdom** or **UK**). References in this Prospectus to **€**, **EUR** and **euro** are references to the single currency introduced at the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Communities as amended from time to time.

### **Forward-Looking Statements**

Certain matters contained herein are forward-looking statements. Such statements appear in a number of places in this Prospectus, including with respect to assumptions on prepayment and certain other

characteristics of the Loans, and reflect significant assumptions and subjective judgements by the Issuer that may not prove to be correct. Such statements may be identified by reference to a future period or periods and the use of forward-looking terminology such as "may", "will", "could", "believes", "expects", "anticipates", "continues", "intends", "plans" or similar terms. Consequently, future results may differ from the Issuer's expectations due to a variety of factors, including (but not limited to) the economic environment and regulatory changes in the residential mortgage industry in the United Kingdom. Moreover, past financial performance should not be considered a reliable indicator of future performance and prospective purchasers of the Notes are cautioned that any such statements are not guarantees of performance and involve risks and uncertainties, many of which are beyond the control of the Issuer. The Arranger has not attempted to verify any such statements, nor does it make any representations, express or implied, with respect thereto. Prospective purchasers should therefore not place undue reliance on any of these forward-looking statements. Neither the Issuer nor the Arranger assumes any obligation to update these forward-looking statements or to update the reasons for which actual results could differ materially from those anticipated in the forward-looking statements.

### **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.

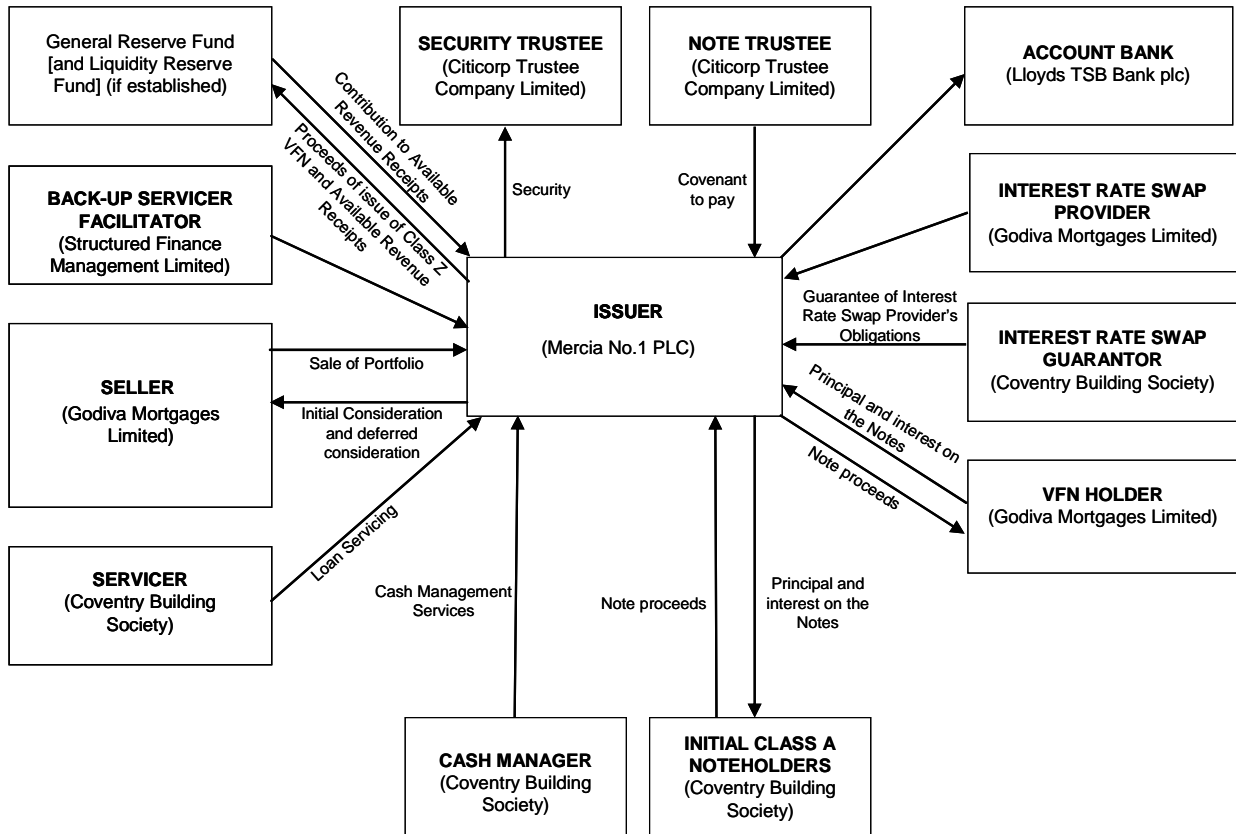


## TABLE OF CONTENTS

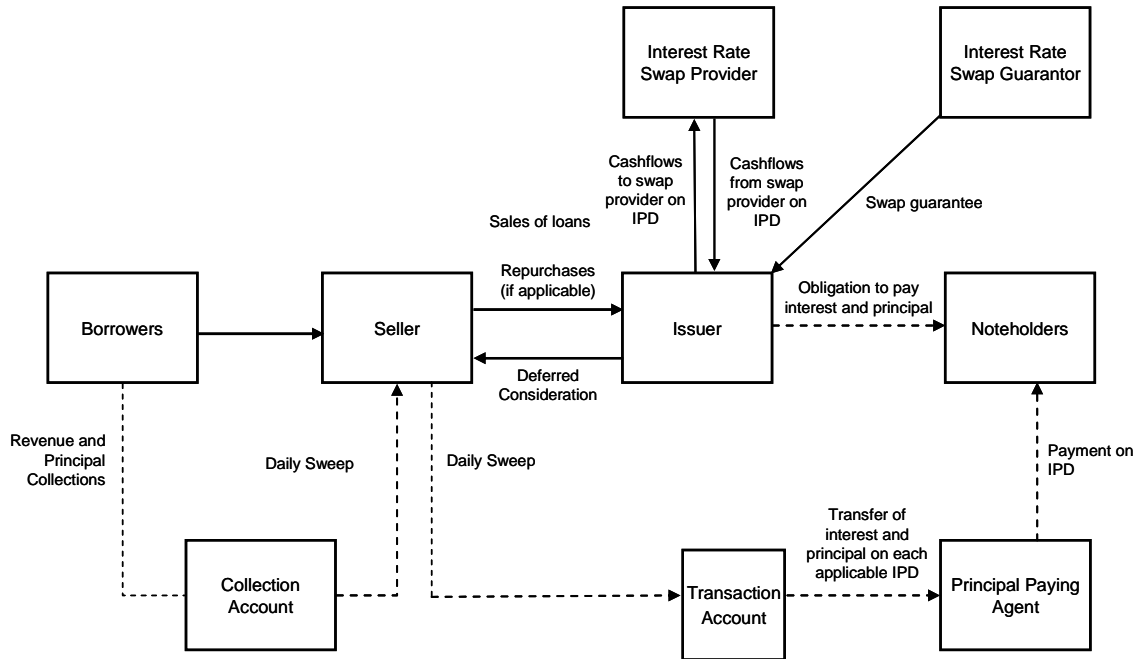
Structure Diagrams.....	1
Transaction Overview – Transaction Parties.....	4
Risk Factors.....	8
Transaction Overview - Portfolio and Servicing .....	42
Transaction Overview - Overview of the Terms and Conditions of the Notes .....	51
Transaction Overview - Credit Structure and Cashflow .....	64
Transaction Overview - Triggers Tables .....	73
Transaction Overview - Fees.....	78
Article 122a of the CRD.....	80
Overview of the Key Transaction Documents .....	81
Credit Structure .....	112
Cashflows .....	119
Description of the Notes in global form and the Variable Funding Notes .....	129
Terms and Conditions of the Notes.....	132
Use of Proceeds .....	161
Ratings.....	162
The Issuer.....	163
Holdings.....	165
Godiva Mortgages Limited.....	167
Coventry Building Society.....	168
The Note Trustee and Security Trustee .....	171
The Corporate Services Provider .....	172
The Loans.....	173
Characteristics of the Cut-Off Date Portfolio and Initial Portfolio .....	182
Historical Amortisation Rates of Godiva Prime Mortgage Loans .....	191
Weighted Average Lives of the Notes .....	193
United Kingdom Taxation .....	195
Subscription and Sale.....	197
Transfer Restrictions and Investor Representations .....	199
General Information.....	201
Index of Terms.....	203

## STRUCTURE DIAGRAMS

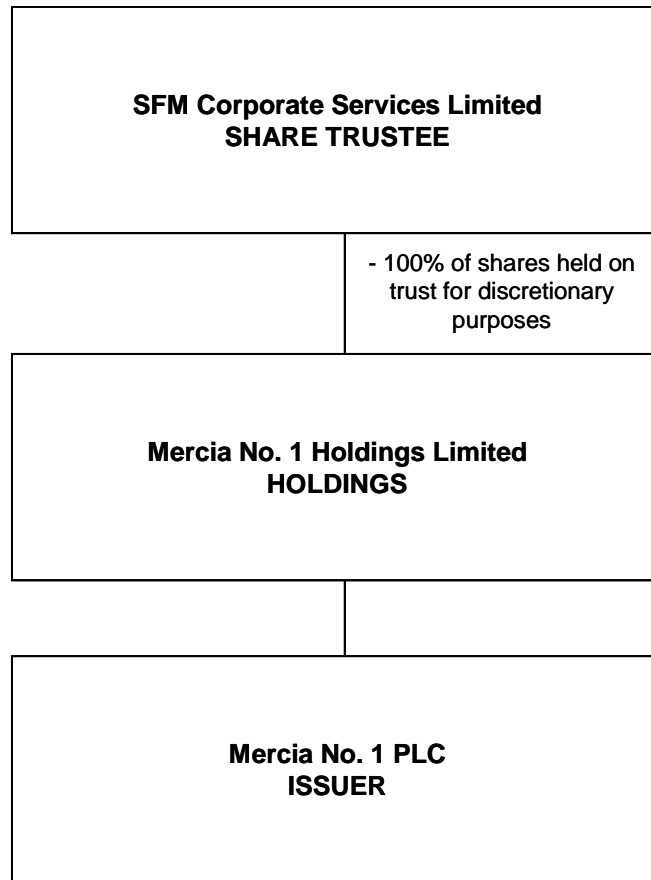
### Diagrammatic Overview of the Transaction



## DIAGRAMMATIC OVERVIEW OF ON-GOING CASH FLOWS



### OWNERSHIP STRUCTURE DIAGRAM OF THE ISSUER



The above diagram illustrates the ownership structure of the special purpose companies that are parties to the Transaction Documents, as follows:

- The Issuer is a wholly-owned subsidiary of Holdings in respect of its beneficial ownership.
- The entire issued share capital of Holdings is held on trust by the Share Trustee under the terms of a discretionary trust, the benefit of which is expressed to be for discretionary purposes.
- None of the Issuer, Holdings and the Share Trustee is either owned, controlled, managed, directed or instructed, whether directly or indirectly, by the Seller or any member of the group of companies of the Seller (including CBS).

## TRANSACTION OVERVIEW – TRANSACTION PARTIES

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

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

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

### TRANSACTION PARTIES ON THE CLOSING DATE

<b>Party</b>	<b>Name</b>	<b>Address</b>	<b>Document under which appointed/Further Information</b>
<b>Issuer</b>	Mercia No. 1 PLC	35 Great St. Helen's, London, EC3A 6AP	See the section entitled " <i>Issuer</i> " for further information.
<b>Holdings</b>	Mercia No. 1 Holdings Limited	35 Great St. Helen's, London, EC3A 6AP	See the section entitled " <i>Holdings</i> " for further information.
<b>Seller</b>	Godiva Mortgages Limited	Oakfield House, Binley Business Park, Harry Weston Road, Coventry CV3 2TQ	See the section entitled " <i>Godiva Mortgages Limited</i> " for further information.
<b>Servicer</b>	Coventry Building Society	Economic House, PO Box 9, High Street, Coventry CV1 5QN	Servicing Agreement by the Issuer and the Security Trustee. See the section entitled " <i>Overview of the Key Transaction Documents – Servicing Agreement</i> " for further information.
<b>Back-Up Servicer Facilitator</b>	Structured Finance Management Limited	35 Great St. Helen's, London, EC3A 6AP	Servicing Agreement by the Issuer and the Security Trustee. See the section

<b>Party</b>	<b>Name</b>	<b>Address</b>	<b>Document under which appointed/Further Information</b> entitled " <i>Overview of the Key Transaction Documents – Servicing Agreement</i> " for further information.
<b>Cash Manager</b>	Coventry Building Society	Economic House, PO Box 9, High Street, Coventry CV1 5QN	Cash Management Agreement by the Issuer. See the section entitled " <i>Overview of the Key Transaction Documents – Cash Management Agreement</i> " for further information.
<b>Class Z VFN Holder</b>	Godiva Mortgages Limited	Oakfield House, Binley Business Park, Harry Weston Road, Coventry CV3 2TQ	See the section entitled " <i>Godiva Mortgages Limited</i> " for further information.
<b>Interest Rate Swap Guarantor</b>	Coventry Building Society	Economic House, PO Box 9, High Street, Coventry CV1 5QN	Deed of Guarantee by the Issuer. See the section entitled " <i>Credit Structure – Interest Rate Risk for the Notes – Interest Rate Swap</i> " for further information.
<b>Interest Rate Swap Provider</b>	Godiva Mortgages Limited	Oakfield House, Binley Business Park, Harry Weston Road, Coventry CV3 2TQ	Interest Swap Agreement by the Issuer. See the section entitled " <i>Credit Structure – Interest Rate Risk for the Notes – Interest Rate Swap</i> " for further information.
<b>Account Bank</b>	Lloyds TSB Bank plc	25 Gresham Street, London, EC2V 7HN	The Bank Account Agreement by the Issuer. See the

<b>Party</b>	<b>Name</b>	<b>Address</b>	<b>Document under which appointed/Further Information</b>
			section entitled " <i>Overview of the Key Transaction Documents – Bank Account Agreement</i> " for further information.
<b>Security Trustee</b>	Citicorp Trustee Company Limited	Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB	Deed of Charge. See the sections entitled " <i>Overview of the Terms and Conditions of the Notes – Security</i> ", " <i>Overview of the Key Transaction Documents – Deed of Charge</i> " and the <i>Conditions</i> for further information.
<b>Note Trustee</b>	Citicorp Trustee Company Limited	Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB	Trust Deed. See the sections entitled " <i>Overview of the Key Transaction Documents – Trust Deed</i> " and the <i>Conditions</i> for further information.
<b>Principal Paying Agent and Agent Bank</b>	Citibank N.A., London Branch	Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB	Agency Agreement by the Issuer. See the <i>Conditions</i> and the section entitled " <i>Overview of the Key Transaction Documents – Agency Agreement</i> " for further information.
<b>Class Z VFN Registrar</b>	Coventry Building Society	Economic House, PO Box 9, High Street, Coventry CV1 5QN	See the <i>Conditions</i> for further information.

<b>Party</b>	<b>Name</b>	<b>Address</b>	<b>Document under which appointed/Further Information</b>
<b>Corporate Services Provider</b>	Structured Finance Management Limited,	35 Great St. Helens, London, EC3A 6AP, Coventry CV1 5QN	Corporate Services Agreement by the Issuer. See the section entitled " <i>Overview of the Key Transaction Documents – Corporate Services Agreement</i> " for further information.
<b>Share Trustee</b>	SFM Corporate Services Limited	35 Great St. Helen's, London, EC3A 6AP	Issuer Share Trust Deed



## RISK FACTORS

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

### **Liabilities Under the Notes**

The Notes will not be obligations of, or the responsibility of, or guaranteed by, any person other than the Issuer. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by any of the Seller, the Interest Rate Swap Guarantor, the Interest Rate Swap Provider, the Arranger, the Servicer, the Cash Manager, the Account Bank, the Principal Paying Agent, any other Paying Agent, the Agent Bank, the Class Z VFN Registrar, the Note Trustee, the Security Trustee, any company in the same group of companies as such entities, any other party to the Transaction Documents or by any person other than the Issuer.

### **Limited Source of Funds**

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

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

The yield to maturity of the Class A Notes will depend on, *inter alia*, the amount and timing of payment of principal and interest on the Loans and the price paid by the holders of the Notes of each Class. Prepayments on the Loans may result from refinancing, sales of Properties by Borrowers voluntarily or as a result of enforcement proceedings under the relevant Mortgages, as well as the receipt of proceeds under the insurance policies. In addition, repurchases of Loans required to be made under the Mortgage Sale Agreements will have the same effect as a prepayment of such Loans. The yield to maturity of the Notes of any Class may be adversely affected by, amongst other things, a higher or lower than anticipated rate of prepayments on the Loans, whether Borrowers elect to make any underpayments on their Loans and the amount of Substitute Loans substituted into the Portfolio as consideration or part consideration for a repurchase.

The rate of prepayment of Loans is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing programmes, the competitiveness of replacement products, the ability of a Borrower to remortgage, the impact of whether a Loan imposes an early repayment charge on a Borrower, the end of any incentive periods which a particular Borrower may currently be on, local and regional economic conditions and homeowner mobility. Generally, when market interest rates increase, borrowers are less likely to prepay their mortgage loans, while conversely, when market interest rates decrease, borrowers are generally more likely to prepay their mortgage loans. For instance, borrowers may prepay mortgage loans when they refinance their loans or sell their properties (either voluntarily or as a result of enforcement action taken). In addition, if the Seller is

required to repurchase a Loan or Loans under a Mortgage Account and their Related Security because, for example, one of the Loans does not comply with the Loan Warranties, then the payment received by the Issuer will have the same effect as a prepayment of all the Loans under that Mortgage Account although this is mitigated by the fact that, during the Further Sale Period, the Issuer may use principal proceeds to purchase Additional Loans. Because these and other relevant factors are not within the control of the Issuer, no assurance can be given as to the level of prepayments that the Portfolio will experience.

Payments and prepayments of principal on the Loans will be applied to reduce the Principal Amount Outstanding of the Notes on a pass-through basis on each Interest Payment Date after the Further Sale Period in accordance with the Pre-Acceleration Principal Priority of Payments (see "*Cashflows*" below) (to the extent not used to fund a Revenue Deficiency).

During the Further Sale Period, payments and prepayments of principal on the Loans will be credited to the Retained Principal Ledger and used to purchase Additional Loans and their Related Security and will not be applied to redeem the Notes (unless such amounts have not been used by the first Interest Payment Date falling 6 months after such amounts have been credited to the Retained Principal Ledger, in which case such amounts will be applied in accordance with the Pre-Acceleration Principal Priority of Payments to redeem the Notes). After the Further Sale Period End Date, payments and prepayments of principal on the Loans will be applied in accordance with the Pre-Acceleration Principal Priority of Payments to redeem the Notes.

At any time on or after the Class A1 Step-Up Date and the Class A2 Step-Up Date, the Issuer may, subject to certain conditions, redeem all of the Class A1 Notes and the Class A2 Notes. At any time on or after the Interest Payment Date on which the aggregate Principal Amount Outstanding of the Class A Notes is equal to or less than 10 per cent. of the aggregate Principal Amount Outstanding of all the Class A Notes on the Closing Date, the Issuer may, subject to certain conditions, redeem all of the Class A Notes. In addition, the Issuer may, subject to the Conditions, redeem all of the Notes if a change in tax law results in the Issuer, the Interest Rate Swap Guarantor or the Interest Rate Swap Provider being required to make a deduction or withholding for or on account of tax. This may adversely affect the yield to maturity on the Class A Notes.

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

***Decline in house prices may adversely affect the performance and market value of your Notes***

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

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

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

### ***Characteristics of the Cut-Off Date Portfolio and the Initial Portfolio***

The information in the section headed "*Characteristics of the Cut-Off Date Portfolio and the Initial Portfolio*" has been extracted from the system of the Seller as at the Cut-Off Date. The Portfolio will be randomly selected from the Cut-Off Date Portfolio. The Cut-Off Date Portfolio comprises 13,891 Loans with a current balance of £1,602,894,996. The characteristics of the Initial Portfolio as at the Closing Date will vary from those set out in the tables in this Prospectus as a result of, *inter alia*, repayments and redemptions of loans prior to the Closing Date. Neither the Seller nor the Servicer have provided any assurance that there will be no material change in the characteristics of the Cut-Off Date Portfolio and the Portfolio, or the characteristics of the Cut-Off Date Portfolio between the Cut-Off Date and the Closing Date.

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

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

For an overview of the geographical distribution of the Loans as at the Cut-Off Date, see "*Characteristics of the Initial Portfolio — Geographical Spread Distribution*".

### ***Limited Secondary Market for Loans***

The ability of the Issuer to redeem all of the Notes in full, including following the occurrence of an Event of Default (as defined in the Conditions) in relation to the Notes while any of the Loans are still outstanding, may depend upon whether the 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 mortgage loans of this type in the United Kingdom. There can be no assurance that a secondary market for the Loans will develop or, if a secondary market does develop, that it will provide sufficient liquidity of investment for the Loans to be realised or that if it does develop it will continue for the life of the Notes. The Issuer, and following the occurrence of an Event of Default, the Trustee, may not, therefore, be able to sell the Mortgages for an amount sufficient to discharge amounts due to the Secured Creditors (including the Noteholders) in full should they be required to do so.

### ***Subordination***

Prior to the service of a Note Acceleration Notice, the Class A2 Notes are subordinate in right of payment of principal to the Class A1 Notes following service of a Note Acceleration Notice the Class A1 Notes and the Class A2 Notes rank *pari passu* and rateably amongst themselves with no preference or priority among themselves.

The Class Z VFN is subordinated in right of payment of interest and principal to the Class A Notes. There is no assurance that the subordination of the Class Z VFN will protect the holders of Class A Notes from all risk of loss.

### ***Deferral of Interest Payments on the Class Z VFN***

If, on any Interest Payment Date whilst any of the Class A Notes remain outstanding, the Issuer has insufficient funds to make payment in full of all amounts of interest (including any accrued interest thereon) payable in respect of the Class Z VFN after having paid or provided for items of higher priority in the Pre-Acceleration Revenue Priority of Payments, then the Issuer will be entitled under Condition 16 (*Subordination by Deferral*) to defer payment of such amounts (to the extent of the insufficiency) until the following Interest Payment Date or such earlier date as interest in respect of the Class Z VFN, as applicable, becomes immediately due and repayable in accordance with the Conditions. Such deferral will not constitute an Event of Default. If there are no Class A Notes then outstanding, the Issuer will not be entitled, under Condition 16 (*Subordination by Deferral*), to defer payments of interest in respect of the Class Z VFN.

Failure to pay interest on the Class A Notes or, if there are no Class A Notes then outstanding, on the Class Z VFN shall constitute an Event of Default under the Notes which may result in the Security Trustee enforcing the Security.

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

No assurance is provided that there is an active and liquid secondary market for the Class A Notes, and no assurance is provided that a secondary market for the Class A Notes will develop. None of the Class A Notes have been, or will be, registered under the Securities Act or any other applicable securities laws and they are subject to certain restrictions on the resale and other transfer thereof as set forth under "*Subscription and Sale*" and "*Transfer Restrictions and Investor Representations*". To the extent that a secondary market exists or develops, it may not continue for the life of the Class A Notes or it may not provide Class A Noteholders with liquidity of investment with the result that a Class A Noteholder may not be able to find a buyer to buy its Class A Notes readily or at prices that will enable the Class A Noteholder to realise a desired yield. Any investor in the Class A Notes must be prepared to hold their Class A Notes until their Final Maturity Date.

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

The secondary market for mortgage-backed securities has recently experienced significant 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. While conditions in the secondary market for mortgage-backed securities have recently improved, it is not known whether current market conditions will worsen.

Whilst central bank schemes such as the Bank of England's Discount Window Facility which was launched in October 2008 and the European Central Bank liquidity scheme provide an important source of liquidity in respect of eligible securities, recent restrictions in respect of the relevant eligibility criteria for eligible collateral which applies and will apply in the future under such facilities are likely to adversely impact secondary market liquidity for mortgage-backed securities in general, regardless of whether the Notes are eligible securities. It is intended that the Class A Notes will comprise eligible collateral for the funding programmes established by the Bank of England. However there can be no assurance that the Class A Notes will remain eligible for such programmes in the future. Amongst other things, as part of the current eligibility criteria, the Cash Manager will on behalf of the Issuer comply with the current reporting requirements of the Bank of England as at the date of this Prospectus relating to the provision of information in relation to the Class A Notes including, *inter alia*, certain aggregated loan data in relation to the Portfolio. If the Cash Manager on behalf of the Issuer is unable to comply with the current reporting requirements of

the Bank of England following the date of this Prospectus then the Class A Notes will no longer comprise eligible collateral for the funding programmes established by the Bank of England. If, for this, or any other reason, the Class A Notes are no longer eligible collateral, the secondary market liquidity for the Notes is likely to be adversely impacted.

### ***Economic conditions in the Eurozone***

Concerns relating to credit risk (including that of sovereigns and of those entities which have exposure to sovereigns) have persisted over recent months after having intensified in the early part of 2012. In particular, concerns have been raised with respect to current economic, monetary and political conditions in the Eurozone. If such concerns persist and/or such conditions further deteriorate (including as may be demonstrated by any relevant credit rating agency action, any default or restructuring of indebtedness by one or more states or institutions and/or any changes to, including any break up of, the Eurozone), then these matters may cause further severe stress in the financial system generally and/or may adversely affect the Issuer, one or more of the other parties to the Transaction Documents (including the Seller, the Servicer, the Interest Rate Swap Guarantor and/or the Interest Rate Swap Provider) and/or any borrower in respect of the Loans. Given the current uncertainty and the range of possible outcomes, no assurance can be given as to the impact of any of the matters described above and, in particular, no assurance can be given that such matters 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.

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

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

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

The Banking Act 2009 (the **Banking Act**), which came into effect on 21 February 2009, includes (amongst other things) provision for a special resolution regime pursuant to which specified UK authorities have extended tools to deal with the failure (or likely failure) of a UK bank or building society. In particular, in respect of UK banks, such tools include share and property transfer powers (including powers for partial property transfers), certain ancillary powers (including powers to modify certain contractual arrangements in certain circumstances) and two new special insolvency procedures which may be commenced by UK authorities (i.e. bank insolvency and bank administration). In respect of UK building societies, the relevant tools include (i) modified property transfer powers which also refer to cancellation of shares and conferring rights and liabilities in place of such shares and (ii) in place of the share transfer powers, a public ownership tool which may involve (amongst other things) arranging for deferred shares in a building society to be publicly owned, cancellation of private membership rights and the eventual winding up or dissolution of the building society. The special insolvency proceedings contemplated by the Banking Act apply (with modifications) to building societies. It is possible that the extended tools described above could be used prior to the point at which an application for insolvency proceedings with respect to a relevant entity could be made.

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

If an instrument or order were to be made under the Banking Act in respect of CBS and/or Lloyds TSB Bank plc, such instrument or order may (amongst other things) affect the ability of such entities to satisfy their obligations under the Transaction Documents and/or result in modifications to such documents. In particular, modifications may be made pursuant to powers permitting certain trust arrangements to be removed or modified and/or via powers which permit provision to be included in an instrument or order such that the relevant instrument or order (and certain related events) is required to be disregarded in determining whether certain widely defined "default events" have occurred (which events would include certain trigger events included in the Transaction Documents in respect of the relevant entity, including termination events). As a result, the making of an instrument or order in respect of CBS and/or Lloyds TSB Bank plc may affect the ability of the Issuer to meet its obligations in respect of the Notes. While there is provision for compensation in certain circumstances under the Banking Act, there can be no assurance that Noteholders would recover compensation promptly and equal to any loss actually incurred.

At present, the UK authorities have not made an instrument or order under the Banking Act in respect of the entities referred to above and there has been no indication that they 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.

### ***European Commission proposals for the recovery and resolution of credit institutions***

The European Commission has published a legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms. Amongst other things, the proposed directive contemplates the introduction of a package of minimum early intervention and resolution-related tools and powers for relevant authorities and provides for special rules for cross-border groups. The resolution tools and powers referred to in the directive include certain tools and powers which overlap in part with those available under the Banking Act and also certain further tools, such as provision for authorities to bail-in eligible liabilities of relevant institutions. The proposed directive is not in final form and it is likely that changes will be made to it in the course of the corresponding legislative procedure. As such, it is too early to anticipate the full impact of the directive and there can be no assurance that the Noteholder will not be adversely affected by an action taken under it, once it is agreed upon and implemented.

### ***Ratings of the Class A Notes and confirmation of ratings***

The ratings assigned to the Class A Notes by each Rating Agency are based, amongst other things, on the terms of the Transaction Documents and other relevant structural features of this transaction, including (but not limited to) the short-term and/or long-term unsecured, unguaranteed and unsubordinated debt ratings or the short-term and/or the long-term issuer default ratings of the Interest Rate Swap Guarantor, the Servicer and the Account Bank and a credit assessment of the Loans and reflect only the views of the Rating Agencies. The ratings address the likelihood of full and timely payment to the Class A Noteholders of all payments of interest on each Interest Payment Date and ultimate payment of principal on the Final Maturity Date of each sub-class of Notes. The Class Z VFN will not be rated by the Rating Agencies.

The expected ratings of the Class A Notes assigned on the Closing Date are set out in "*Ratings*", below. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or

withdrawal at any time by the assigning rating organisation if, in its judgement, circumstances (including without limitation, a reduction in the credit rating of the Interest Rate Swap Guarantor, and/or the Account Bank in the future) so warrant. See also "*Change of Counterparties*" below.

There is no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by the Rating Agencies as a result of changes in or unavailability of information or if, in the judgement of the Rating Agencies, circumstances so warrant. A qualification, downgrade or withdrawal of any of the ratings mentioned above may impact upon the value of the Class A Notes.

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

### ***Credit Enhancement and Liquidity Support provided by the Class Z VFN Holder***

Condition 17 of the Notes provides that the Class Z VFN Holder may advance further funding under the Class Z VFN for the purposes of making a credit to (i) the Retained Principal Ledger (during the Further Sale Period) for the purposes of the purchase by the Issuer of Additional Loans and their Related Security or (ii) either the Retained Principal Ledger (during the Further Sale Period) or the General Reserve Ledger, as applicable, in order to maintain the then current rating of the Class A Notes. However, there is no obligation on the Class Z VFN Holder to further fund the Class Z VFN if so requested by the Issuer for either of the above reasons. If the Class Z VFN Holder does not exercise its discretion to further fund the Class Z VFN in these circumstances, this could result in a downgrade or withdrawal of the then current ratings of the Class A Notes and Noteholders should be aware that the value of the Notes may be adversely affected.

### ***Conflict between Noteholders and sub-classes of Noteholders***

The Conditions, the Trust Deed and the Deed of Charge contain provisions requiring the Note Trustee to have regard to the interests of the Class A Noteholders (including the interests of the holders of any sub-class of any Class A Notes) and the Class Z VFN Holder equally as regards all powers, trusts, authorities, duties and discretions of the Note Trustee, subject to the exception below. If in the Note Trustee's opinion, however, there is or may be a conflict between the interests of the Class A Noteholders (for so long as there are any Class A Notes outstanding) on one hand and the interests of the Class Z VFN Holder on the other hand, then the Note Trustee is required to have regard only to the interests of the Class A Noteholders, subject to certain exceptions. If, for example, any or all of a sub-class of Class A Notes are outstanding and held by, or for the benefit of, or on behalf of any of CBS, the Seller or the Issuer (or any of their subsidiaries or holding companies (each, a **Relevant Person**)), then the Note Trustee shall have regard only to the interests of the holders of Class A Notes or holders of a sub-class of Class A Notes who are not Relevant Persons.

In respect of the Class A Notes, the Conditions, the Deed of Charge and the Note Trust Deed contain provisions whereby if, in the sole opinion of the Note Trustee, the interests of a sub-class of the Class A Noteholders conflict with the interests of another sub-class of the Class A Noteholders, a resolution directing the Note Trustee to take any action must be passed at separate meetings of each sub-class of the Class A Notes, in lieu of being passed at a single meeting of the Noteholders of such sub-classes, subject to certain exceptions. If, for example, any or all of a sub-class of Class A Notes are outstanding and held by, or on behalf of, or for the benefit of any Relevant Person, then such Relevant Person shall not be entitled to attend any meetings of the Class A Noteholders, or be counted in any quorum requirements nor shall those Relevant Persons be entitled to exercise any voting rights in respect of such meeting or direct the Note Trustee to take any action by Written Resolution.

CBS will purchase all of the Class A Notes on the Closing Date (see "*Subscription and Sale*" below). Unless directing the Note Trustee in respect of an issue which would only affect a sub-class of the Class A Notes and where that sub-class is held by any Relevant Person, neither CBS nor any Relevant Persons will have any rights to attend meetings of Noteholders, be counted towards any quorum requirements nor shall any Relevant Persons be able to exercise any voting rights in respect of any Notes. Such restrictions do not apply if CBS or any Relevant Persons hold all of the Class A Notes then outstanding (see "*Relationship between Classes and sub-classes of Noteholders*" below).

In addition, CBS may, on or after the Closing Date, enter into securities lending transactions in relation to some or all of the Class A Notes. Any counterparty to such a transaction will not be disenfranchised pursuant to Condition 2.1 (Form and Denomination) and will be entitled to use its voting rights in respect of the Class A Notes held by it pursuant to that transaction in accordance with the Conditions of the Notes.

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

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

CBS also acts in various capacities in the transaction, including as Servicer and Cash Manager. Actual or potential conflicts may arise between the interests of such entities and the interests of the Issuer and the Noteholders.

### ***Certain material interests***

The Arranger and its respective affiliates and certain other transaction parties, such as the Agents and/or their affiliates or affiliates of the Note Trustee or the Security Trustee, have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the CBS Group. Lloyds TSB Bank plc (**LTSB**) is acting as Arranger and Account Bank. Other parties to the transaction may also perform multiple roles, including CBS, who will act as Servicer, Cash Manager and Interest Rate Swap Guarantor.

Nothing in the Transaction Documents shall prevent any of the parties to the Transaction Documents from rendering services similar to those provided for in the Transaction Documents to other persons, firms or companies or from carrying on any business similar to or in competition with the business of any of the parties to the Transaction Documents.

Accordingly, conflicts of interest may exist or may arise as a result of parties to this transaction:

- (a) having previously engaged or in the future engaging in transactions with other parties to the transaction;
- (b) having multiple roles in this transaction; and/or
- (c) carrying out other transactions for third parties.

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

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



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

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

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

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

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

- (a) it shall have been directed to do so by an Extraordinary Resolution of the Class A Noteholders (or, for so long as no Class A Notes remain outstanding, it has been directed to do so by the sole Class Z VFN Holder or the holders of all of the Class Z VFN) or in writing by the holders of at least 25 per cent. in Principal Amount Outstanding of the Class A Notes then outstanding; and
- (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction,

provided that the Note Trustee or the Security Trustee shall not, and shall not be bound to, act at the direction of the Class Z VFN Holder as aforesaid so long as any Class A Notes are outstanding.

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

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

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

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

The Class A Notes will be represented by Global Notes delivered to a common safekeeper for Clearstream, Luxembourg and Euroclear and will not be held by the beneficial owners or their nominees. The Global Notes will not be registered in the names of the beneficial owners or their nominees. As a result, unless and until Class A Notes in definitive form are issued, beneficial owners will not be recognised by the Issuer or the Note Trustee as Noteholders, as that term is used in the Trust Deed. Accordingly, each person owning a Book-Entry Interest must rely on the relevant procedures of Euroclear and Clearstream, Luxembourg and, if such person is not a participant in such entities, on the procedures of the participant through which such person owns its interest, to exercise any right of a Noteholder under the Trust Deed.

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

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

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

participants or account holders of their respective obligations under the rules and procedures governing their operations.

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

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

The Loans in the Portfolio are subject to variable interest rates, fixed interest rates, interest rates capped at a certain rate and interest rates which track a variable interest rate such as the Bank of England base rate while the Issuer's liabilities under the Notes are based on Three-Month Sterling LIBOR.

To hedge its interest rate exposure, the Issuer will enter into the Interest Rate Swap Agreement on the Closing Date with the Interest Rate Swap Provider (see "*Credit Structure — Interest Rate Risk for the Notes*" below).

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

The Interest Rate Swap is scheduled to terminate on the earlier of (i) the Final Maturity Date of the Notes, (ii) the date on which the aggregate Principal Amount Outstanding of the Class A Notes is reduced to zero; (iii) the date on which the Swap Notional Amount falls to zero, and (iv) the date on which the Security Trustee has enforced the security over the Class A Notes and distributed the proceeds thereof in full. Accordingly, if any of the Notes remain outstanding after such date, the Issuer will be subject to the potential variation between the fixed rates of interest payable in respect of Loans in the Portfolio and Three Month LIBOR. Unless one or more comparable replacement interest rate swaps are entered into, the Issuer may have insufficient funds to make payments due on the Notes after that date.

The amount payable by the Issuer under the Interest Rate Swap is not intended to be an exact match of the interest rates that the Issuer receives in respect of the Loans in the Portfolio. As such, there may be circumstances in which the amount payable by the Issuer under the Interest Rate Swap exceeds the amount that the Issuer receives in respect of the Loans in the Portfolio.

The Interest Rate Swap Guarantor will enter into an Interest Rate Swap Guarantee pursuant to which it shall guarantee the obligations of the Interest Rate Swap Provider under the Interest Rate Swap Agreement.

### ***Termination payments under the Interest Rate Swap***

Subject to the following, the Interest Rate Swap Agreement will provide that, upon the occurrence of certain events, the Interest Rate Swap may terminate and a termination payment by either the Issuer or the Interest Rate Swap Provider may be payable, depending on, among other things, the terms of such Interest Rate Swap and the cost of entering into a replacement transaction at the time. Any termination payment due by the Issuer (other than an Interest Rate Swap Excluded Termination Amount and to the extent not satisfied by any applicable replacement swap premium or, in certain circumstances and/or to a limited extent, amounts standing to the credit of the Swap Collateral Ledger or any swap collateral account(s), if any, which shall in each case be paid directly by the Issuer to the Interest Rate Swap Provider) will rank prior to payments in respect of the Notes. If any termination amount is payable, payment of such termination amounts may affect amounts available to pay interest and principal on all the Notes.

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

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

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

The Issuer is also party to contracts with a number of other third parties who have agreed to perform services in relation to the Notes. In particular, but without limitation, the Corporate Services Provider has agreed to provide certain corporate services to the Issuer pursuant to the Corporate Services Agreement, the Account Bank has agreed to provide the Transaction Account to the Issuer pursuant to the Bank Account Agreement, the Servicer has agreed to service the Portfolio pursuant to the Servicing Agreement, the Cash Manager has agreed to provide cash management services pursuant to the Cash Management Agreement, the Back-Up Servicer Facilitator has agreed to assist in appointing a back-up servicer pursuant to the Servicing Agreement and the Paying Agents, the Class Z VFN Registrar and the Agent Bank have all agreed to provide services with respect to the Notes pursuant to the Agency Agreement. In the event that any of the above parties were to fail to perform their obligations under the respective agreements to which they are a party, Noteholders may be adversely affected. In particular, any failure or delay in the delivery of a Servicer Report to the Cash Manager could affect the payment of interest and principal on the Notes (as to which see Condition 5.9 (*Determinations and Reconciliation*)) and Noteholders acquiring or disposing of an interest in the Notes following such delay or failure may be adversely affected by any subsequent reconciliations made under Condition 5.9 (*Determinations and Reconciliation*) in respect of payments of principal and interest made on the Notes on the basis of estimations made in the absence of a Servicer Report.

### ***Ability to appoint a Substitute Servicer***

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

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

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

There can be no assurance that a substitute servicer with sufficient experience of servicing the Loans would be found who would be willing and able to service the Loans on the terms, or substantially similar terms, of the Servicing Agreement and it may be that the terms on which a substitute servicer may be able to be appointed are different from those set out in the Servicing Agreement and the terms may be such that the Noteholders may be adversely affected. In addition, as described below, any substitute servicer will be required, *inter alia*, to be authorised under the Financial Services and Markets Act 2000 (the **FSMA**) and licensed under the Consumer Credit Act 1974 (the **CCA**) in order to service the Loans. The ability of a substitute servicer to fully perform the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect payments on the Loans and hence the Issuer's ability to make payments when due on the Notes.

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

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

The Seller will give certain warranties to each of the Issuer and the Security Trustee regarding the Loans and the Related Security sold to the Issuer on the Closing Date and on each Transfer Date during the Further Sale Period and will give similar warranties to each of the Issuer and the Security Trustee regarding any Further Advances, Substitutions and Product Switches, at the last day of the Monthly Period in which such Further Advance, Substitution, and Product Switch occurs (see "*Overview of Key Transaction Documents — Mortgage Sale Agreements*" below for a summary of these).

Neither the Note Trustee, the Security Trustee, the Arranger, nor the Issuer has undertaken, or will undertake, any investigations, searches or other actions of any nature whatsoever in respect of any Loan or its Related Security in the Portfolio and each relies instead on the warranties given in the Mortgage Sale Agreements by the Seller. The primary remedy of the Issuer against the Seller if any of the warranties made by such Seller is materially breached or proves to be materially untrue as at the Closing Date or as at Transfer Date during the Further Sale Period or on the last day of the Monthly Period in which the Further Advance, Substitution, or Product Switch (as applicable) was made, which breach is not remedied within 60 days after receiving written notice of such breach, is that the Seller shall be required to repurchase the relevant Loan and its Related Security in accordance with the repurchase provisions in the Mortgage Sale Agreement. In addition, CBS will provide a guarantee to the Issuer in respect of the repurchase obligations of the Seller under the Mortgage Sale Agreement. Under such guarantee, upon the failure of the Seller to repurchase a Loan pursuant to the terms of the Mortgage Sale Agreement, CBS will procure that it or one of its subsidiaries repurchases such Loan. However, there can be no assurance that the Seller (or CBS or one of its subsidiaries) will have the financial resources to honour such obligations under the Mortgage Sale Agreement. This may affect the quality of the Loans and their Related Security in the Portfolio and accordingly the ability of the Issuer to make payments due on the Notes.

It should also be noted that any warranties made by the Seller in relation to Further Advances, Substitutions and/or Product Switches (or, during the Further Sale Period, Additional Loans sold to the Issuer) may be amended from time to time and differ from the warranties made by the Seller at the Closing Date without the consent of the Noteholders, provided that the Note Trustee has given its consent to such amendments (and for such purpose, the Note Trustee may, but is not obliged to, have regard to (a) any confirmation from the Rating Agencies that certain actions proposed to be taken will not have an adverse effect on the then current rating of the Notes (a **Ratings Confirmation**) (and, for the avoidance of doubt, the Rating Agencies will not be required to provide such confirmation) or (b) a written certification from the Cash Manager to the Note Trustee and the Security Trustee that such proposed action (i) (while any Class A Notes remain outstanding)

has been notified to the Rating Agencies, (ii) would not adversely impact on the Issuer's ability to make payment when due in respect of the Notes, (iii) would not affect the legality, validity and enforceability of any of the Transaction Documents or any Security and (iv) would not have an adverse effect on the rating of the Class A Notes) (upon which confirmation or certificate the Note Trustee and the Security Trustee shall be entitled to rely absolutely without liability to any person for so doing). Changes to the warranties may affect the quality of Loans in the Portfolio and accordingly the ability of the Issuer to make payments due on the Notes.

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

Each Loan in the Portfolio may be repayable either on a capital repayment basis, an interest-only basis or a combination of capital repayment/interest payment basis (see "*The Loans — Repayment Terms*" below). Where the Borrower is only required to pay interest during the term of the Loan, with the capital being repaid in a lump sum at the end of the term, the Borrower is recommended to ensure that some repayment mechanism such as an investment policy is put in place to ensure that funds will be available to repay the capital at the end of the term. However, the Seller recommends that the Borrower has a suitable repayment mechanism in place in relation to the Loan but do not require proof of any such repayment mechanism and does not take security over any investment policies taken out by Borrowers.

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

### ***Risks relating to Buy-to-let Loans***

The Loans in the Portfolio are buy-to-let loans where the relevant Mortgaged Properties are not permitted to be owner occupied and may be let by the relevant Borrower to tenants. None of the Mortgaged Properties relating to Further Advances to be sold to the Issuer, if any, are permitted to be owner-occupied. The Borrowers' ability to service such Loans is likely to depend on the Borrowers' ability to lease the relevant Mortgaged Properties on appropriate terms. There can be no assurance that each such Mortgaged Property will be the subject of an existing tenancy when the relevant Loan is acquired by the Issuer or that any tenancy which is granted will subsist throughout the life of the Loan and/or that the rental income from such tenancy will be sufficient (whether or not there is any default of payment in rent) to provide the Borrower with sufficient income to meet the Borrower's interest obligations in respect of the Loan. Upon enforcement of a Mortgage in respect of a Mortgaged Property which is the subject of an existing tenancy, the Servicer may not be able to obtain vacant possession of the Mortgaged Property, in which case the Servicer will only be able to sell the Mortgaged Property as an investment property with one or more sitting tenants. This may affect the amount which the Servicer could realise upon enforcement of the Mortgage and the sale of the Mortgaged Property. In such a situation, amounts received in rent may not be sufficient to cover all amounts due under in respect of the Loan.

However, enforcement procedures in relation to such Mortgages include appointing a receiver of rent, in which case such a receiver must collect any rents payable in respect of the Mortgaged Property and apply them accordingly in payment of any interest and arrears accruing under the Mortgage.

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

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

As a consequence of the Issuer not obtaining legal title to the Loans and their Related Security or the Properties secured thereby, a *bona fide* purchaser from the Seller for value of any of such Loans and their Related Security without notice of any of the interests of the Issuer might obtain a good title free of any such interest. If this occurred, then the Issuer would not have good title to the affected Loan and its Related Security, and it would not be entitled to payments by a Borrower in respect of that Loan. However, the risk of third party claims obtaining priority to the interests of the Issuer in this way would be likely to be limited to circumstances arising from a breach by the Seller of its contractual obligations or fraud, negligence or mistake on the part of the Seller or the Issuer or their respective personnel or agents.

Further, prior to the insolvency of the Seller, unless notice of the assignment was given to a Borrower who is a creditor of the Seller in the context of the Loans and their Related Security is effected by the Seller to the Issuer and notice thereof is then given to a Borrower who is a creditor of the Seller, equitable or independent set-off rights may accrue in favour of the Borrower against his or her obligation to make payments to the Seller under the relevant Loan. These rights may result in the Issuer receiving reduced payments on the Loans. The transfer of the benefit of any Loans to the Issuer will continue to be subject to any prior rights the Borrower may become entitled to after the transfer. Where notice of the assignment or assignation is given to the Borrower, however, some rights of set-off (being those rights that are not connected with or related to the relevant Loan) may not arise after the date notice is given. We note, however, that the Seller is not a deposit taking institution, and set-off risks such as those described above would therefore not affect the payments received by the Issuer on the Loans.

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

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

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

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

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

The Seller or the Servicer (on behalf of the Seller) may offer a Borrower, or a Borrower may request, a Further Advance or Product Switch from time to time. Any Loan which has been the subject of a Further Advance or a Product Switch following an application by the Borrower will remain in the Portfolio. In addition, the Seller may offer Substitute Loans to the Issuer as consideration in whole, or in part together with any cash payment amount, for repurchases of Loans. If the Issuer subsequently determines that any Further Advance, Substitution or Product Switch does not satisfy an Asset Condition, as at such Advance Date, Substitution Date or Switch Date (where applicable), and such default is not remedied in accordance with the relevant Mortgage Sale Agreement, the Seller will be required to repurchase the relevant Loan and its Related Security. See further "*Overview of the Key Transaction Documents — Mortgage Sale Agreement — Repurchase by the Seller*".

It should be noted that any Loan Warranty made by the Seller in relation to a Further Advance, Substitution and/or Product Switch may be amended from time to time and such changes will be notified to the Rating Agencies. The consent of the Noteholders in relation to such amendments will not be obtained if the Note Trustee has given its prior consent to such amendment (and for such purpose, the Note Trustee may, but is not obliged to, have regard to (a) any Ratings Confirmation in respect of those amendments or (b) a written certification from the Cash Manager to the Note Trustee and the Security Trustee that such proposed action (i) (while any Class A Notes remain outstanding) has been notified to the Rating Agencies, (ii) would not adversely impact on the Issuer's ability to make payment when due in respect of the Notes, (iii) would not affect the legality, validity and enforceability of any of the Transaction Documents or any Security and (iv) would not have an adverse effect on the rating of the Class A Notes) (upon which confirmation or certificate the Note Trustee and the Security Trustee shall be entitled to rely absolutely without liability to any person for so doing). Where the Seller is required to repurchase because the warranties are not true, there can be no assurance that the Seller will have the financial resources to honour its repurchase obligations under the Mortgage Sale Agreement, although CBS will provide a guarantee to the Issuer in respect of such obligations pursuant to which, upon the failure of the Seller to repurchase a Loan pursuant to the terms of the Mortgage Sale Agreement, CBS will procure that it or one of its subsidiaries repurchases such loan. Either of these circumstances may affect the quality of the Loans and their Related Security in the Portfolio and accordingly the ability of the Issuer to make payments on the Class A Notes.

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

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

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

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

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



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

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

The parties to the Transaction Documents who receive and hold monies or provide support to the transaction pursuant to the terms of such documents (such as the Account Bank, the Interest Rate Swap Guarantor and the Interest Rate Swap Provider) are required to satisfy certain criteria in order that they can continue to be a counterparty to the Issuer.

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

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

### ***Insurance Policies***

The policies of the Seller in relation to buildings insurance are described under "*The Mortgage Sale Agreement — Buildings Insurance*" below. No assurance can be given that the Issuer will always receive the benefit of any claims made under any applicable buildings insurance contracts. This could adversely affect the Issuer's ability to redeem the Notes.

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

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

## **Change of Law**

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

## **Certain Regulatory Considerations**

### *Office of Fair Trading, Financial Services Authority and Other Regulatory Authorities*

In the United Kingdom, the Office of Fair Trading (the **OFT**) is responsible for the issue of licences under, and the superintendence of the working and enforcement of, the CCA, related consumer credit regulations and other consumer protection legislation. The OFT may review businesses and operations, provide guidelines to follow and take actions when necessary with regard to the mortgage market in the United Kingdom (except to the extent of the regulation of the market by the FSA under the FSMA, as described below). The licensing regime under the CCA is different from, and where applicable, additional to, the regime for authorisation under the FSMA. The Servicer holds a licence under the CCA.

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, which is £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.

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 be treated as such, and any credit agreement intended to be regulated by the CCA or treated as such, or unregulated, might instead be a regulated mortgage contract under the FSMA because of technical rules on:

- (i) determining whether any credit under the CCA arises, or whether any applicable financial limit of the CCA is exceeded;
- (ii) determining whether the credit agreement is an exempt agreement under the CCA (for example, certain types of credit agreement to finance the purchase of, or alteration to, homes or business premises, or regulated mortgage contracts under the FSMA, or certain buy-to-let credit agreements); or
- (iii) changes to credit agreements.

Any credit agreement that is wholly or partly regulated by the CCA or treated as such has to comply with the 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 requirements as to licensing of lenders and brokers are not met at the relevant time; (b) totally, for agreements entered into before 6 April 2007, if the form to be signed by the borrower was not signed by the borrower personally or omits or misstates 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 loan or further advance to the extent that the credit agreement is regulated by the CCA or treated as such. In dealing with such an application, the court has the power, if it appears just to do so, to amend the credit agreement or to impose conditions upon its performance or to make a time order (for example, giving extra time for arrears to be cleared).

Under section 75 of the CCA, in certain circumstances the lender is liable to the borrower in relation to misrepresentation and breach of contract by a supplier in a transaction financed by a credit agreement that is wholly or partly regulated by the CCA or treated as such. The borrower may set off the amount of the claim against the lender against the amount owing by the borrower under the loan or under any other loan that the borrower has taken. Any such set-off in relation to a Loan in the mortgage portfolio may adversely affect the Issuer's ability to make payments on the Notes.

### *Consumer Credit Act*

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

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 under the FSMA. If the court makes a determination that the relationship between the lender and the borrower is unfair, then it may make an order, among other things, requiring the originator, or any assignee such as the Issuer, to repay to the borrower any sum paid by him. In applying the unfair relationship test, the courts are able to consider a wider range of circumstances surrounding the transaction, including the creditor's conduct before and after making the agreement. There is no statutory definition of the word "unfair", as the intention is for the test to be flexible and subject to judicial discretion. However, the word "unfair" is not an unfamiliar term in United Kingdom legislation, due to the Unfair Terms in Consumer Contracts Regulations 1999. The courts may, but are not obliged to, look solely to the CCA for guidance. The FSA's principle of "treating customers fairly", and guidance published by the FSA on that principle and by the OFT on the unfair relationship test may also be relevant. Once the borrower alleges that an unfair relationship exists, then the burden of proof is on the creditor to prove the contrary. Recent cases concerning the scope of the unfair relationship test have generally adopted an interpretation which is favourable to borrowers.

An alternative dispute resolution scheme for consumer credit matters is run by the Financial Ombudsman Service (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 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 has also introduced an independent Consumer Credit Appeals Tribunal whose functions were transferred to a General Regulatory Chamber in the First-tier Tribunal 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 (a) certain changes to credit agreements, and (b) 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 credit agreement would, apart from this exemption, be regulated by the CCA or treated as such.

To the extent that a credit agreement is regulated by the CCA or treated as such, it is unenforceable for any period when the lender fails to comply with requirements as to default notices. From 1 October 2008: (a) the credit agreement is also unenforceable for any period when the lender fails to comply with further requirements as to annual statements and arrears notices; (b) the Borrower is not liable to pay interest or, in certain cases, default fees for any period that the lender fails to comply with further requirements as to post-contract disclosure; and (c) interest upon default fees is restricted to nil until the 29th day after the day on which a prescribed notice is given and then to simple interest (i.e. interest may only be calculated on the principal amount of the default sum).

Early repayment charges are restricted by a formula under the CCA, which applies to the extent that the credit agreement is regulated by the CCA or treated as such. A more restrictive formula applies generally to all such credit agreements made on or after 11 June 2010.

These changes to the CCA may adversely affect the ability of the Issuer to make payments in full on the Notes when due.

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

The Seller has given or, as applicable, will give, warranties to the Issuer in the relevant Mortgage Sale Agreement that, among other things, each Loan and its Related Security is enforceable (subject to exceptions). If a Loan or its Related Security does not comply with these warranties, and if the default cannot be or is not cured within 60 days, then the Seller will, upon receipt of notice from the Issuer, be required to repurchase all of the relevant Loans secured on the same Property (together, forming one **Mortgage Account**) and their Related Security from the Issuer. In addition, CBS will provide a guarantee to the Issuer in respect of the repurchase obligations of the Seller under the Mortgage Sale Agreement. Under such guarantee, upon the failure of the Seller to repurchase a Loan pursuant to the terms of the Mortgage Sale Agreement, CBS will procure that it or one of its subsidiaries repurchases such Loan.

#### *Mortgage regulation under the FSMA*

Residential mortgage lending in the United Kingdom became a regulated activity under the FSMA on 31 October 2004 (the date known as **N(M)**).

Certain provisions of the FSMA apply to a **regulated mortgage contract**. A mortgage loan contract is a regulated mortgage contract under the FSMA if it is entered into on or after N(M) or originated prior to N(M) but varied on or after N(M) such that a new contract is entered into and if, at the time it 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 a first legal mortgage on land (other than timeshare accommodation) in the United Kingdom; and (c) at least 40% of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person (broadly, the person's spouse, near relative or a person with whom the borrower has a relationship which is characteristic of a spouse). In general, buy-to-let credit agreements entered into on or after N(M) should not be regulated mortgaged contracts.

On and from N(M), subject to any exemption, persons carrying on any specified regulated mortgage-related activities by way of business must be authorised by the FSA under the FSMA. The specified activities currently are: (a) entering into a regulated mortgage contract as lender; (b) administering a regulated

mortgage contract (**administering** in this context broadly means notifying borrowers of changes in mortgage payments and/or collecting payments due under the mortgage loan); (c) advising on regulated mortgage contracts; and (d) arranging regulated mortgage contracts. Agreeing to carry on any of these activities is also a regulated activity. If requirements as to authorisation of lenders and brokers are not complied with, a regulated mortgage contract will be unenforceable against the borrower except with the approval of a court and the unauthorised person may commit a criminal offence. An unauthorised person who carries on the regulated mortgage activity of administering a regulated mortgage contract that has been validly entered into may commit an offence, although this will not render the contract unenforceable against the borrower. The regime under the FSMA regulating financial promotions covers the content and manner of promotion of agreements relating to qualifying credit and by whom such promotions can be issued or approved. In this respect, the FSMA regime not only covers financial promotions of regulated mortgage contracts but also promotions of certain other types of secured credit agreements under which the lender is a person (such as the Seller) who carry on the regulated activity of entering into a regulated mortgage contract. Failure to comply with the financial promotion regime (as regards by whom promotions can be issued or approved) is a criminal offence and will render the regulated mortgage contract or other secured credit agreement in question unenforceable against the borrower except with the approval of a court.

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 under the FSMA, because of technical rules on: (a) determining whether the credit agreement or any part of it falls within the definition of a regulated mortgage contract; and (b) changes to credit agreements.

The Seller is required to hold, and currently holds, authorisation and permission to enter into and to administer and, where applicable, to advise on regulated mortgage contracts. Subject to any exemption, brokers are required to hold authorisation and permission to arrange and, where applicable, to advise on regulated mortgage contracts.

The Issuer is not, nor proposes to become, an authorised person under the FSMA. The Issuer does not carry on the regulated activity of administering (servicing) regulated mortgage contracts, because the Loans are serviced pursuant to the Servicing Agreement by the Servicer, which has the required FSA authorisation and permission. If the Servicing Agreement terminates, however, the Issuer will have a period of not more than one month in which to arrange for mortgage servicing to be carried out by a replacement servicer having the required FSA authorisation and permission and a CCA licence. In addition, no variation is permitted to be made to the Loans and no further advance or product switch is permitted to be made in relation to a Loan where it would result in the Issuer arranging or advising in respect of, administering (servicing) or entering into a regulated mortgage contract or agreeing to carry on any of these activities, if the Issuer would be required to be authorised under the FSMA to do so.

A borrower who is a private person may be entitled to claim damages for loss suffered as a result of any contravention by an authorised person of an FSA rule, and may set off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken. Any such set-off in relation to a Loan in the mortgage portfolio may adversely affect the Issuer's ability to make payments on the Notes.

So as to avoid dual regulation, it is intended that regulated mortgage contracts under the FSMA are not regulated by the CCA, and relevant regulations made in 2005 and 2008 under the FSMA are designed to clarify the position in this regard. 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.

It should be noted that, prior to N(M), self-regulation of mortgage business existed in the UK under the Mortgage Code (the **Mortgage Code**) issued by the Council of Mortgage Lenders (the **CML**). CBS has

subscribed to the Mortgage Code (as an entity established in 2007, subscription to the Mortgage Code is not applicable in relation to Godiva). Membership of the CML and compliance with the Mortgage Code were voluntary. The Mortgage Code set out a minimum standard of good mortgage business practice, from marketing to lending procedures and dealing with borrowers experiencing financial difficulties. Since 30 April 1998, lender-subscribers to the Mortgage Code could not accept mortgage business introduced by intermediaries who were not registered with (before 1 November 2000) the Mortgage Code Register of Intermediaries or (on and after 1 November 2000 until 31 October 2004) the Mortgage Code Compliance Board. Complaints relating to breach of the Mortgage Code were dealt with by the relevant scheme, such as the Banking Ombudsman Scheme or the Mortgage Code Arbitration Scheme. The Mortgage Code ceased to have effect on N(M) when the FSA assumed responsibility for regulated mortgage contracts.

### ***Distance Marketing***

In the United Kingdom, the Financial Services (Distance Marketing) Regulations 2004 apply to credit agreements entered into on or after 31 October 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator and the borrower). A regulated mortgage contract under the FSMA, if originated by a United Kingdom lender from an establishment in the United Kingdom, will not be cancellable under these regulations, but will be subject to related pre-contract disclosure requirements under the FSA's rules. Certain other credit agreements 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. Where the credit agreement is cancellable under these regulations, the borrower may send notice of cancellation at any time before the end of the 14th day after the day on which the cancellable agreement is made, where all the prescribed information has been received, or, if later, the borrower receives the last of the prescribed information.

If the borrower cancels the credit agreement under these regulations, then: (a) the borrower is liable to repay the principal and any other sums paid by the originator to the borrower under or in relation to the cancelled agreement within 30 days beginning with the day of the borrower sending notice of cancellation or, if later, the lender 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 to be treated as never having had effect for the cancelled agreement. If a significant portion of the Loans are characterised as being cancellable under these regulations, then there could be an adverse effect on the Issuer's receipts in respect of the Loans, affecting the Issuer's ability to make payments in full on the Notes when due.

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

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

The proposed Directive requires (among other things): standard information to be included 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 creditors, including creditors who are not deposit-takers.

On 23 May 2012, the Presidency of the Council of the European Union announced its compromise proposal for the general approach to its negotiations with the European Parliament on the proposed Directive. The European Parliament has announced a revised indicative date of 15 to 18 April 2013 for its first plenary session on the proposed Directive. 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 proposed Directive is considered and adopted by the European Parliament and the Council, and implemented into UK law, it is too early to tell what effect the Directive and the implementation of the Directive into UK law would have on the Seller, the Issuer and/or the Servicer and their respective businesses and operations.

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

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

- a consumer 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 agreement itself continues to bind the parties if it is capable of continuing in existence without the unfair term); and
- the OFT and any "qualifying body" within the UTCCR (such as the FSA) may seek to enjoin a business from relying on unfair terms.

The UTCCR will not affect terms which define the main subject matter of the contract, such as the borrower's obligation to repay the principal, or price terms, provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer's attention. The UTCCR but may affect terms that are not considered to be terms which define the main subject matter of the contract or price terms, such as the lender's power to vary the interest rate and certain terms imposing early repayment charges and mortgage exit administration fees.

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

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 relation to regulated mortgage contracts under the FSMA originated by lenders authorised by the FSA, and the OFT is responsible for enforcement of the UTCCR in relation to other mortgage contracts.

In February 2000, the OFT issued a guidance note on what the OFT considers to be fair terms and unfair terms for interest variation in mortgage contracts. Where the interest variation term does not provide for precise and immediate tracking of an external rate outside the lender's control, and if the borrower is locked in, for example by an early repayment charge that is considered to be a penalty, the term is likely to be

regarded by the OFT as unfair under the UTCCR unless the lender: (a) notifies the affected borrower in writing at least 30 days before the rate change; and (b) permits the affected borrower to repay the whole loan during the next three months after the rate change, without paying the early repayment charge. The guidance note has been withdrawn from the OFT website, but may remain in effect as the OFT's view and a factor that the FSA and OFT may take into account.

In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts. This statement provides that, for locked-in borrowers, (i.e. where the borrower is required to give advance notice or to pay a cost or to give up a benefit in order to withdraw from the contract) a firm may consider drafting the contract to permit a change in the contract to be made only where any lock-in clause is not exercised. In the context of the OFT's investigation into credit card default fees, the OFT on 5 April 2006 issued a statement of its view of the principles that credit card issuers should follow in setting default fees, and that the principles are likely to apply to analogous default fees in other contracts such as mortgages. The principles are in essence that terms imposing default fees should not have the object of raising more in revenue than is reasonably expected to be necessary to recover certain limited administrative costs incurred as a result of a borrower's default.

In January 2007, the FSA issued a statement of good practice on mortgage exit administration fees. This statement provides that the lender should ensure that the fee represents in fact the cost of the administration services that the lender provides when a borrower exits the mortgage. The FSA issued a follow-up communication in November 2007 emphasising that this statement should not be interpreted narrowly and, where appropriate, firms should consider applying its principles to other charges.

The FSA's rules require that, for regulated mortgage contracts: (a) arrears charges represent a reasonable estimate of the cost of the additional administration required as a result of the borrower being in arrears; and (b) from 25 June 2010, the borrower's payments are allocated first towards paying off the balance of any payment shortfall, excluding any interest or charges on that balance. In October 2010, the FSA issued a statement that, in its view, early repayment charges are likely to amount to the price paid by the borrower in exchange for services provided and may not be reviewable for fairness under the UTCCR, provided that they are written in plain and intelligible language and are adequately drawn to the borrower's attention. In January 2012, the FSA issued a further statement intended to raise awareness of issues that it commonly identifies under the UTCCR.

In July 2012, The Law Commission and The Scottish Law Commission published a consultation on proposals to reform the UTCCR. The Commissions propose, among other things, that the UTCCR will not generally affect a term that defines the main subject matter of the contract, or a price term, only if the term is transparent and prominent, and that, once the consumer alleges that a term is unfair under the UTCCR, the burden of proof is on the business to prove to the contrary. The Commissions propose that such reforms could be included in the Consumer Bill of Rights, expected to be introduced to Parliament in 2013 to 2014.

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 underlying loans.

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, or reform of the UTCCR, will not have a material adverse effect on the Seller, the Servicer and their respective businesses and operations. This may adversely affect the ability of the Issuer to make payments in full on the Notes when due.



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

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

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

On 11 May 2005, the European Parliament and the Council adopted a Directive on unfair business-to-consumer commercial practices (the **Unfair Practices Directive**). Generally this Directive applies full harmonisation, which means that Member States may not impose more stringent provisions in the fields to which full harmonisation applies. By way of exception, this Directive permits Member States to impose more stringent provisions in the fields of financial services and immovable property, such as mortgage loans.

The Unfair Practices Directive provides that enforcement bodies may take administrative action or legal proceedings against a commercial practice on the basis that it is "unfair" within the Directive. The Unfair Practices Directive is intended to protect only collective interests of consumers, and so is not intended to give any claim, defence or right of set-off to an individual consumer.

The Unfair Practices Directive is implemented in the UK by the Consumer Protection from Unfair Trading Regulations 2008 (the **CPUTR**), which came into force on 26 May 2008. The CPUTR prohibit certain practices which are deemed "unfair" within the terms of the CPUTR. Breach of the CPUTR does not (of itself) render an agreement void or unenforceable, but the possible liabilities for misrepresentation or breach of contract in relation to the underlying credit agreement may result in irrecoverable losses on amounts to which such agreements apply. Breach of certain CPUTR provisions is a criminal offence. In addition, the OFT addresses commercial practices in administering licences under the CCA, and the FSA has taken the Unfair Practices Directive into account in reviewing its rules.

The Unfair Practices Directive provides for a transitional period until 12 June 2013 for applying full harmonisation in the fields to which it relates. This Directive also provides for a report (expected imminently) on the application of the Directive, including on the scope for future harmonisation in the fields of financial services and immovable property. No assurance can be given that the United Kingdom's implementation of the Unfair Practices Directive and any further harmonisation will not have a material adverse effect on the Loans or in the manner in which they are serviced and accordingly on the ability of the Issuer to make payments to Noteholders.

### ***Tenant Protection***

The Mortgage Repossessions (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 repossession claims. Delays in the initiation of responsive action in respect of the Loans may result in lower recoveries and may adversely affect the ability of the Issuer to make payments to Noteholders.

### ***UK proposals for changes to mortgage regulation and to the regulatory framework***

In June 2011, HM Treasury published a consultation paper, including a draft Financial Services Bill, that reiterates proposals to replace the FSA with a new Prudential Regulation Authority (the **PRA**), 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**), which will be responsible for conduct of business. These proposals include that consumer credit regulation (which includes certain new and existing residential mortgages) will be transferred from the OFT to the FCA. These proposals also include that the FCA will have power to render unenforceable contracts made in contravention of its product intervention rules, and that formalised cooperation will exist between the FCA and the Ombudsman, particularly where issues identified potentially have wider implication, with a view to the FCA requiring affected firms to operate consumer redress schemes. HM Treasury has announced that, subject to the Parliamentary timetable, the UK Government's aim is for the Financial Services Bill to become law by the end of 2012, and the FSA to be replaced by the PRA and FCA in early 2013, and consumer credit regulation to be transferred to the FCA in 2014.

Any further changes arising from HM Treasury's proposals to change mortgage regulation or the regulatory framework may adversely affect the Loans, the Seller and/or the Servicer and their respective businesses and operations.

### ***Changes to regulatory regimes generally***

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

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

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

As of the date of this Prospectus, no withholding or deduction for or on account of UK tax will be required on interest payments to any holders of the Class A Notes, provided that the Class A Notes carry a right to interest and are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for such purposes and the Class A Notes will be treated as listed on the London Stock Exchange if the Class A Notes are included in the Official List (within the meaning of and in accordance with the provisions of Part VI of the FSMA) and admitted to trading on the London Stock Exchange. The applicability of any withholding or deduction for or on account of United Kingdom taxes is discussed further under "*United Kingdom Taxation*" below.

### ***UK Taxation Position of the Issuer***

The Issuer has been advised that it should fall within the permanent regime for the taxation of securitisation companies (as introduced by the Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296) (the **Securitisation Regulations**)), and as such should be taxed only on the amount of its "retained profit" (as that term is defined in the Securitisation Regulations), for so long as it satisfies the conditions of the Securitisation Regulations. However, if the Issuer does not satisfy the conditions to be taxed in accordance with the Securitisation Regulations (or subsequently does not), then profits or losses could arise in the Issuer which could have tax effects not contemplated in the cashflows for the transaction described in this Prospectus and as such adversely affect the tax treatment of the Issuer and consequently payment on the Notes.

### ***U.S. Foreign Account Tax Compliance withholding may affect payments on the Notes***

The Foreign Account Tax Compliance provisions of the Hiring Incentives to Restore Employment Act, (**FATCA**), generally impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to certain non-US financial institutions (including entities such as the Issuer) that do not enter into and comply with an agreement with the U.S. Internal Revenue Service (the **IRS**), to provide certain information on the holders of its debt or equity (other than debt or equity interests that are regularly traded on an established securities market). The new withholding regime will be phased in beginning in 2014. The UK government, together with the governments of France, Germany, Italy, Spain and the United States, issued a joint statement on 26 July 2012 announcing the publication of the Model Intergovernmental Agreement to Improve Tax Compliance and to Implement FATCA, which follows from the joint statement made by the same countries on 8 February 2012 committing to an intergovernmental approach to implementing FATCA.

The IRS has not yet provided comprehensive guidance regarding FATCA and no assurance can be provided that the Issuer will enter into such an agreement with the IRS. If the Issuer does not enter such an agreement, amounts available to the Issuer to make payments on the Notes may be reduced. In the alternative, if the Issuer determines that it must comply with FATCA in order to receive certain payments free of U.S. withholding tax, Noteholders may be required to provide certain information (or, for certain non-US financial institutions, otherwise comply with FATCA) to avoid withholding on amounts paid to such Noteholder. If a Noteholder does not provide the necessary information or any other non-US financial institution through which payments on the notes are made is not in compliance with FATCA, amounts paid to Noteholders may be reduced.

FATCA is particularly complex and its application to the Issuer is uncertain at this time. Each prospective Noteholder should consult its own tax advisor to obtain a more detailed explanation of FATCA and to learn how this legislation might affect such Noteholder in its particular circumstance.

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

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

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

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

***Implementation of and/or changes to the Basel II framework may affect the capital requirements and/or the liquidity of the Notes***

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

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

It should also be noted that the Basel Committee has approved significant changes to the Basel II framework (such changes being commonly referred to as **Basel III**) and on 1 June 2011 issued its final standards, which envisage a substantial strengthening of existing capital rules, including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards and a minimum leverage ratio for financial institutions. In particular, the changes include, 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 Basel Committee is also considering introducing additional capital requirements for systemically important institutions from 2016. The changes approved by the Basel Committee may have an impact on the capital requirements in respect of the Notes and/or on incentives to hold the Notes for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the Notes.

The Basel Committee also published a consultation paper on 3 May 2012 as part of its fundamental review of the regime governing capital requirements for trading book assets. This paper proposed a number of reforms, designed (among other things) to avoid regulatory arbitrage, capture market illiquidity more effectively and strengthen risk measurement and valuation systems. A more detailed proposal is expected, which may result in changes to the Basel III capital framework.

The Basel Committee also gave a public speech on 13 September 2012, in which it outlined other current areas of ongoing review and confirmed, in particular, that it expects soon to publish a proposal for further reform of the securitisation framework, which will aim to make capital requirements more prudent and risk sensitive and reduce cliff effects. This may result in higher capital requirements for securitisations overall, including in the United Kingdom, which may affect the market for the Notes. The Basel Committee also

confirmed in this speech that it will continue to review the details of the Basel III framework, in particular the liquidity rules, to determine whether it strikes the appropriate balance between complexity and risk sensitivity, which could result in changes to the rules issued in June 2011.

The European authorities support the work of the Basel Committee on the approved changes in general and, on 20 July 2011, the European Commission published a legislative package of proposals (known as **CRD IV**) to implement the changes through the replacement of the existing Capital Requirements Directive with a new Directive and Regulation. As with Basel III, the proposals in principle contemplate the entry into force of the new legislation from January 2013, with full implementation by January 2019; however the proposals allow individual Member States to implement the stricter definition and/or level of capital more quickly than is envisaged under Basel III. The CRD IV proposals are, however, currently still in the process of being debated by the European authorities and are likely to enter into force from some point in 2013, but implementation from 1 January 2013 is unlikely to be achieved.

Significant uncertainty therefore remains at global, European and national level around the implementation of Basel III and related changes proposed to capital and liquidity standards. In general, investors should consult their own advisers as to the regulatory capital and liquidity requirements in respect of the Notes and as to the consequences for 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.

***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 Arranger or the Seller 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 Closing Date or at any time in the future.

In particular, investors should be aware of Article 122a of the CRD (and any implementing rules of the CRD in relation to a relevant jurisdiction) which applies in general to newly issued securitisations after 31 December 2010. Article 122a restricts an EU regulated credit institution and its consolidated group entities from investing in asset-backed securities 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 the relevant securitisation as contemplated by Article 122a. Article 122a also requires an EU regulated credit institution (or its consolidated group entities, as applicable) 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. Investors which are EU regulated credit institutions or form part of the consolidated group of an EU regulated credit institution should therefore make themselves aware of the requirements of Article 122a (and any implementing rules of the CRD in relation to a relevant jurisdiction) in addition to any other regulatory requirements applicable to them with respect to their investment in the Notes. Relevant investors are required to independently assess and determine the sufficiency of the information described in this Prospectus and in any investor reports provided in relation to the transaction for the purpose of complying with Article 122a and none of the Issuer, Godiva, CBS (in its capacities as the

Servicer or the Cash Manager), the Arranger, the or any other party to the transaction makes any representation that the information described above is sufficient in all circumstances for such purposes.

There remains considerable uncertainty with respect to Article 122a and its implementation in EEA states and it is not clear what will be required to demonstrate compliance to national regulators. It should be noted that EEA states may implement Article 122a and related provisions differently. Investors who are uncertain as to the requirements that will need to be complied with in order to avoid the additional regulatory charges for non compliance with Article 122a and any implementing rules of the CRD 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 investment firms, insurance and reinsurance undertakings and certain hedge fund managers) in the future.

Article 122a of the CRD 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.

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

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

It is possible that, prior to the maturity of the Notes, the United Kingdom may become a participating Member State in the European Economic and Monetary Union and that the Euro may become the lawful currency of the United Kingdom (although the UK coalition government has ruled out preparing for or joining the euro for the duration of the coalition agreement as published in full on 20 May 2010). In the event that the euro were to become the lawful currency of the United Kingdom, (a) all amounts payable in respect of the Notes may become payable in Euro; (b) applicable provisions of law may allow or require the Notes to be redenominated into Euro and additional measures to be taken in respect of such Notes; and (c) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in Sterling used to determine the rates of interest on the Notes or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the Euro could also be accompanied by a volatile interest rate environment which could adversely affect a Borrower's ability to repay its Loan as well as adversely affect investors in the Notes. It cannot be said with certainty what effect, if any, adoption of the euro by the United Kingdom will have on investors in the Notes.

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

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

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

- (a) in general, an administrator may not be appointed in respect of a company if an administrative receiver is in office. Amendments were made to the Insolvency Act 1986 in September 2003 which restrict the right of the holder of a floating charge to appoint an administrative receiver, unless an exception applies. Significantly, one of the exceptions allows for the appointment of an administrative receiver in relation to certain transactions in the capital market. While it is anticipated that the requirements of this exception will be met in respect of the Deed of Charge, it should be

noted that the Secretary of State for Business, Innovation & 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 market and/or which has a liability in excess of a certain amount. While the Issuer should fall within the current exceptions, it should be noted that the Secretary of State for Business, Innovation & 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 matter of fact as to whether the Issuer has any other such creditors at any time. There can be no assurance that the Noteholders will not be adversely affected by any such reduction in floating charge realisations upon the enforcement of the Security.

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

### ***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 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 rules 4.218A to 4.218E of the Insolvency Rules 1986 and rules 4.228A to 4.228E of the Insolvency Rules (Northern Ireland) 1991. In general, the reversal of the *Leyland Daf* case applies in respect of all liquidations commenced on or after 6 April 2008.

As a result of the changes described above, which bring the position in a liquidation into line with the position in an administration, upon the enforcement of the floating charge security granted by the Issuer, floating charge realisations which would otherwise be available to satisfy the claims of the Secured Creditors under the Deed of Charge may be reduced by at least a significant proportion of any liquidation or administration expenses. There can be no assurance that the Noteholders will not be adversely affected by such a reduction in floating charge realisations.

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

There is uncertainty as to the validity and/or enforceability of a provision which, based on contractual (such as the contractual Priority of Payments as contemplated in this transaction) 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 swap 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 included in the Transaction Documents relating to the subordination of Interest Rate Swap Excluded Termination Amounts payable in respect of the Interest Rate Swap Agreement (or any replacement interest rate swap agreement).

The English Supreme Court has held that a flip clause as described above is valid under English law. Contrary to this, however, the US Bankruptcy Court has held that such a subordination provision is unenforceable under US bankruptcy law and that any action to enforce such provision would violate the automatic stay which applies under such law in the case of a US bankruptcy of the counterparty. The implications of this conflicting judgment are not yet known, particularly as the US Bankruptcy Court approved, in December 2010, the settlement of the case to which the judgment relates and subsequently the appeal was dismissed. However, there remains a stayed action in the U.S. commenced by the Lehman Brothers Chapter 11 debtors concerning the enforceability of flip clauses and, in addition, in February 2012, a complaint was filed by certain parties seeking recognition and enforcement of the Belmont decision (and corresponding lower court decisions) and other declaratory relief with respect to the flip clause in question in the case described above. It is not yet known when the complaint will be addressed by the U.S. Bankruptcy Court.

If a creditor of the Issuer (such as the Interest Rate Swap Provider) 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 (such as a termination payment due under a swap agreement which has been subordinated as it is being made as a result of that swap provider's insolvency), 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 Payment which refers to the ranking of a swap provider's payment rights in respect of Interest Rate Swap Excluded Termination Amounts). 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 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 Class A Noteholders, the market value of the Class A Notes and/or the ability of the Issuer to satisfy its obligations under the Class A Notes.

Lastly, given the general relevance of the issues under discussion in the judgments referred to above and that the Transaction Documents include terms providing for the subordination of the Interest Rate Swap Excluded Termination Amounts, 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 Class A Notes. If any rating assigned to the Class A Notes is lowered, the market value of the Class A Notes may reduce.

### ***Limited recourse***

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



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

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

then the Secured Creditors (which include the Noteholders) shall have no further claim against the Issuer in respect of any amounts owing to them which remain unpaid (including, for the avoidance of doubt, payments of principal and interest in respect of the Notes). As such, amounts available to the Issuer in such circumstances may be insufficient to pay Noteholders in full and any unpaid amounts shall be deemed to be discharged in full and any relevant payment rights shall be deemed to cease.

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

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

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

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

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

It should be noted that, following the decision of the Court of Appeal in *Bloom & Ors v The Pensions Regulator and others* [2011] EWCA Civ 1124, it was held that contribution notices and financial support directions issued after the commencement of a liquidation or an administration (by the Pensions Regulator pursuant to its "moral hazard" powers) should be treated by the companies in liquidation/administration as a liquidation/administration expense, not an ordinary unsecured debt. This means that any such payments will be required to be made in priority to the claims of the Security Trustee in respect of the floating charge assets.

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

### ***CRA Regulations***

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

## TRANSACTION OVERVIEW - PORTFOLIO AND SERVICING

Please refer to the sections entitled "**Characteristics of the Cut-Off Date Portfolio and the Initial Portfolio**", "**Overview of the Key Transaction Documents – Mortgage Sale Agreement**" and "**Overview of the Key Transaction Documents – Servicing Agreement**" for further detail in respect of the characteristics of the Cut-Off Date Portfolio and the Initial Portfolio and the sale and the servicing arrangements in respect of the Portfolio.

### **Sale of Portfolio:**

The primary source of funds available to the Issuer to pay interest and principal on the Notes will be the Revenue Receipts and Principal Receipts generated by the Loans in the Portfolio. Pursuant to the Mortgage Sale Agreement, the Seller will sell its interest in the Initial Portfolio to the Issuer on the Closing Date. On each Business Day occurring during the Further Sale Period, the Seller may sell additional loans and their Related Security to the Issuer subject to the satisfaction of certain conditions (the **Additional Loans**) to the extent that (in respect of any Calculation Period after the Interest Payment Date falling in March 2013) there will be no Estimated Revenue Deficiency Amount (as defined below) on the Interest Payment Date falling after the Collection Period in which such purchase was to occur. The Issuer will purchase such Additional Loans and their Related Security using funds standing to the credit of the Retained Principal Ledger. The sale by the Seller to the Issuer of each Loan in the Portfolio which is secured by a Mortgage over a Property located in England or Wales will be given effect by an equitable assignment.

The terms **sale**, **sell** and **sold** when used in this Prospectus in connection with the Loans and their Related Security shall be construed to mean each such creation of an equitable interest and such equitable assignment.

Prior to the occurrence of a Perfection Event as set out below, notice of the sale of the Portfolio will not be given to the relevant individual or individuals specified as borrowers in the relevant mortgage together with the individual or individuals (if any) from time to time assuming an obligation to repay a relevant Loan or any part of it (the **Borrowers**) under those Loans transferred and the Issuer will not apply to the Land Registry or the Central Land Charges Registry to register or record its equitable or beneficial interest in the Mortgages

### **The Loans:**

The **Portfolio** will consist of the Loans, the Related Security and all monies derived therefrom from time to time.

The term **Loans** when used in this Prospectus means the residential mortgage loans, secured by Mortgages and Related Security, in the Portfolio to be sold to the Issuer by the Seller from time to time together with, where the context so requires, each Further Advance (as defined in "**Overview of the Key Transaction Documents – Mortgage Sale Agreement**") sold to the Issuer by the Seller after the Closing Date, each Substitute Loan sold or to be sold (as applicable) to the Issuer by the Seller on any Substitution Date each additional Loan sold to the Issuer by the Seller during the Further Sale Period and any alteration to a Loan by

the Seller pursuant to a Product Switch but excluding (for the avoidance of doubt) each Loan and its Related Security which is repurchased by the Seller pursuant to the relevant Mortgage Sale Agreement or otherwise sold by the Issuer in accordance with the terms of the Transaction Documents and no longer beneficially owned by the Issuer. Furthermore, the Transaction is not and the Notes are not a re-securitisation, as none of the assets backing the Notes is itself an asset-backed security or other securitisation position, and also are not a "synthetic" securitisations, in which risk transfer would be achieved through the use of credit derivatives or other similar financial instruments.

When used in this Prospectus:

**Business Day** means a day other than a Saturday or Sunday on which banks are open for business in London.

**Calculation Date** means the 1st of March, June, September and December of each year or if such day is not a Business Day, the immediately preceding Business Day.

**Collection Period** means the quarterly period commencing on and including 1st of February, May, August and November in each year as applicable and ending on but excluding the immediately following 1st of May, August, November and February in each year as applicable except that the first Collection Period will commence on 1 December 2012 and end on but exclude 1 February 2012.

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

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

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

Advances committed to be made but not made by the end of the Business Day immediately preceding that given date.

**Further Sale Period** means the period commencing on the Closing Date and ending on the earliest to occur of any of (a) an Event of Default; (b) the Interest Payment Date falling in December 2016; (c) the Class Z VFN Principal Deficiency Ledger is greater than 50% of the Principal Amount Outstanding of the Class Z VFN; (d) the aggregate of Losses in respect of all Loans comprising the Portfolio is greater than 5% of the aggregate Current Balance of all Loans in the Portfolio as of the Closing Date or (e) the aggregate Current Balance of Loans in the Portfolio which are more than three monthly payments in arrears is greater than 5% of the aggregate Current Balance of all of the Loans in the Portfolio; or (e) any such earlier date as may be specified by the Seller.

**Monthly Period** means the monthly period commencing on and including the first calendar day of each month and ending on and including the last calendar day of each month.

**Monthly Pool Date** means the 7th of each calendar month or if such day is not a Business Day the immediately preceding Business Day.

**Monthly Test Date** means the 7th of each calendar month or if such day is not a Business Day the immediately preceding Business Day.

**Mortgage** means in respect of any Loan each first fixed charge by way of legal mortgage, which is, or is to be, sold by the Seller to the Issuer pursuant to the Mortgage Sale Agreement and which secures the repayment of the relevant Loan including the Mortgage Conditions applicable to it.

**Property** means a freehold, leasehold or commonhold property located in England or Wales, which is subject to a Mortgage.

**Related Security** means, in relation to a Loan, the security granted for the repayment of that Loan by the relevant Borrower including the relevant Mortgage and all other matters applicable thereto acquired as part of any Portfolio sold to the Issuer pursuant to the Mortgage Sale Agreement.

As at the Closing Date, the Loans in the Initial Portfolio will comprise Loans which pay interest based on:

- (a) discretionary rates of interest set by the Seller based on general interest rates and competitive forces in the UK mortgage market from time to time;
- (b) fixed rates of interest or series of rates set for a fixed period or periods;
- (c) rates of interest capped at a specific rate; and
- (d) rates of interest which track a base rate such as the Bank of England base rate.

In addition, the Loans will comprise repayment Loans and/or interest-only Loans. See "*The Loans*" for a full description of the Loans.

If a Borrower ports a Loan comprised in the Portfolio (i.e. transfers its Loan to a new property), the proceeds of the redemption of such Loan will, at the discretion of the Seller, either be credited to the Ported Loan Repurchase Ledger or credited to the Principal Ledger. If the proceeds of redemption are credited to the Ported Loan Repurchase Ledger, such amounts will be applied to purchase any new loan which is ported to and secured on the new Property of such Borrower (which such new Loan shall be treated as a Further Advance and, as such, will be subject to the same Loan Warranties and Asset Conditions applicable to Further Advances), provided that if such a new loan has not been created on or prior to the date falling three months after the date of deposit (the **Porting Deadline Date**), the amount deposited will be treated as Available Principal Receipts and paid in accordance with the Pre-Acceleration Principal Priority of Payments or the Post-Acceleration Priority of Payments (as applicable) on the Interest Payment Date immediately following the relevant Porting Deadline Date. If the proceeds of redemption of such Loans are credited to the Principal Ledger immediately upon receipt by the Issuer at the direction of the Seller or are credited following the redemption proceeds standing to the credit of the Ported Loan Repurchase Ledger following the Porting Deadline Date, the Loan and its Related Security shall be transferred from the Issuer to the Seller.

**Features of the Loans  
comprised in the Cut-Off  
Date Portfolio:**

All of the loans are buy-to-let loans secured over residential properties located in England and Wales. The following is a summary of certain features of the Loans comprised in the Cut-Off Date Portfolio as at 31 October 2012 (the **Cut-Off Date**) and Noteholders should refer to, and carefully consider, further details in respect of the Loans set out in "*Characteristics of The Cut-Off Date Portfolio*".

Type of Borrower	Prime		
Type of mortgage	Repayment, Interest Only, Part & Part		
Self-certified Loans	No		
Buy-to-Let	Yes		
Number of Loans	13,891		
	Average	Minimum	Maximum
Current Balance	£115,390.90	£126.84	£999,836.90
	Weighted Average	Minimum	Maximum
Indexed LTV	48.29%	0.05%	65.02%

Original LTV	51.83%	5.90%	75.00%
Seasoning (months)	30.66	4.74	66.39
Remaining Term (years)	15.46	0.04	34.45

**Consideration:**

The Issuer will use the proceeds of the issue of the Class A Notes to pay the Initial Consideration. If the proceeds of the Class A Notes are insufficient to pay the Initial Consideration in respect of the Portfolio, the remaining portion of the Initial Consideration will be funded using the proceeds of the Class Z VFN. During the Further Sale Period, the Issuer may on any Business Day use funds standing to the credit of the Retained Principal Ledger to purchase Additional Loans and their Related Security from the Seller provided that (in respect of any Calculation Period after the Interest Payment Date falling in March 2013) there would be no Estimated Revenue Deficiency Amount (as defined below) on the Interest Payment Date immediately following the Collection Period in which such purchase was to occur. The Loans will be sold to the Issuer at a price equal to their Current Balance. The Issuer will pay Deferred Consideration to the Seller from excess Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments or the Post-Acceleration Priority of Payments.

**Representations and Warranties:**

The Seller will make certain Loan Warranties regarding the Loans and Related Security to the Issuer on the Closing Date and each date on which Additional Loans and their Related Security are sold to the Issuer (each, a **Transfer Date**), and in respect of those Loans subject to a Further Advance, Substitution and/or Product Switch on the last day of the Monthly Period in which each Further Advance, Substitution and/or Product Switch takes place.

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

- first ranking security in respect of properties located in England or Wales;
- no Loan has a Current Balance of more than £1,000,000;
- no Loan is one or more months in arrears;
- no Loan is a Self-certified Loan, an Offset Loan or a Right to Buy Loan;
- no Loan has a maturity date falling later than three years earlier than the Final Maturity Date;
- to the best of the Seller's knowledge at the time of the relevant application for a Mortgage, no Borrower had filed for bankruptcy or been sequestrated or had a county court judgment or court decree entered or awarded against him in the period commencing

on the date falling 6 years prior to the date they executed the relevant Mortgage and ending on the date they executed the relevant Mortgage; and

- to the best of the Seller's knowledge, no Borrower had been in arrears with another mortgage lender at any point during the 12 months prior to the date of such Borrower's Initial Advance under its Loan.

See section "*Overview of the Key Transaction Documents – Mortgage Sale Agreement*" for further details.

**Substitution Criteria:**

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

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

See the section entitled "*Overview of the Key Transaction Documents – Mortgage Sale Agreement*" for further details.

**Additional Loan Conditions:**

The sale of Additional Loans and their related security to the Issuer during the Further Sale Period is subject to the satisfaction of certain conditions as at the relevant Transfer Date (in addition to the satisfaction of the Loan Warranties), which include conditions relating to limits on certain LTV ratios and geographical concentration limits in relation to the Portfolio taking into account the addition of any Additional Loans.

See the section entitled "*Overview of the Key Transaction Documents – Mortgage Sale Agreement*" for further details.

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

The Issuer shall offer to sell and the Seller shall repurchase the relevant Loans and their Related Security in the following circumstances:

- Upon a breach of Loan Warranties or Eligibility Criteria (which is either not capable of remedy or if the Seller failed to remedy it within a 60 day grace period) in respect of Loans sold into the Portfolio on the Closing Date or on any Transfer Date;
- If the Issuer is unable to fund the purchase of any Further



Advance from funds standing to the credit of the Principal Ledger and the Class Z VFN Holder fails to advance an amount equal to such shortfall;

- Upon a breach of the Asset Conditions in respect of Loans subject to a Further Advance, Substitution and/or Product Switch (which is either not capable of remedy or if the Seller failed to remedy it within the agreed 60 day grace period);
- Upon a breach of the Additional Loan Conditions (which is either not capable of remedy or if the Seller failed to remedy it within a 60 day grace period) in respect of Additional Loans sold to the Issuer during the Further Sale Period; and
- On the earlier to occur of (i) the proceeds of redemption of a Loan which is being ported by a Borrower being credited to the Principal Ledger and (ii) any amounts in respect of any such Loan remaining on the Ported Loan Repurchase Ledger following the Porting Deadline Date in relation to such amounts.

CBS will provide a guarantee to the Issuer in respect of the repurchase obligations of the Seller under the Mortgage Sale Agreement. Under such guarantee, upon the failure of the Seller to repurchase a Loan pursuant to the terms of the Mortgage Sale Agreement, CBS will procure that it or one of its subsidiaries repurchases such Loan.

**Consideration for repurchase:**

The amount payable by the Seller in respect of the repurchase of the Loans and Related Security shall be equal to the aggregate of the Current Balance (excluding, if applicable, the amount of any Further Advance which has not yet been paid for by the Issuer) of the relevant Loan calculated as at the actual date on which such Loan is repurchased.

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

**Perfection Events:**

Completion of transfer of the legal title of the Loans by the Seller to the Issuer will be completed on or before the 20th Business Day after the earliest to occur of the following:

- (a) the Seller being required: (i) by law; (ii) by an order of a court of competent jurisdiction; (iii) by a regulatory authority which has jurisdiction over the Seller; or (iv) by any organisation of which the Seller is a member, or whose members comprise, but are not necessarily limited to, mortgage lenders and with whose instructions it is customary for the Seller to comply, to perfect legal title to the Loans;
- (b) the Seller requesting a transfer by way of assignment or assignation by giving notice in writing to the Issuer and the Security Trustee; or
- (c) the occurrence of a Seller Insolvency Event.

Prior to the completion of the transfer of legal title to the relevant Loans and Related Security, the Issuer will hold only the equitable title to those Loans and will therefore be subject to certain risks as set out in the risk factor entitled "*Seller to Initially Retain Legal Title to the Loans and risks relating to set-off*" in the Risk Factors section.

The Seller will if its long-term unsecured, unsubordinated and unguaranteed debt obligations or (where the Seller does not have an independent rating) those of CBS cease to be assigned a long-term credit rating from Moody's of at least Baa3 or a long-term issuer default rating from Fitch of at least BBB- (or such other long term rating which is otherwise acceptable to the relevant Rating Agency), unless Moody's and/or, as the context may require, Fitch, as applicable, confirms that the then current ratings of the Class A Notes will not be adversely affected, deliver to the Issuer and the Security Trustee details of the names and addresses of the Borrowers with Loans then in the Portfolio, which may be provided in a document stored upon electronic media, and a draft letter of notice to such Borrowers of the sale and assignment and assignation of those Loans and the Related Security to the Issuer.

#### **Servicing of the Portfolio:**

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

The Servicer will be appointed by the Seller and the Issuer to service the Portfolio on a day-to-day basis, comprising the Loans sold to the Issuer and their Related Security, on behalf of the Issuer (such services, *inter alia*, the **Services**).

So long as CBS (or any member of the CBS Group) is the Servicer, the Issuer will, on each Interest Payment Date, pay to the Servicer a servicing fee (inclusive of VAT) (the **Servicing Fee**) totalling 0.03 per cent. per annum on the aggregate Current Balance of the Loans in the Portfolio as determined on the preceding Calculation Date. If a substitute servicer from outside the CBS Group is appointed in accordance with the terms of the Servicing Agreement, the Issuer shall pay the successor servicer for its services a fee to be determined at the time of such appointment. The Servicing Fee will rank ahead of all payments to Noteholders on the Notes.

The appointment of the Servicer may be terminated by the Issuer (subject to the prior written consent of the Security Trustee) and (following the delivery of a Note Acceleration Notice) the Security Trustee upon the occurrence of the following events (the **Servicer Termination Events**):

- the Servicer defaults in the payment on the due date of any payment due and payable by it under the Servicing Agreement and such default continues unremedied for a period of 30 Business Days after the earlier of the Servicer becoming aware of such default and receipt by the Servicer of written notice from the Issuer, the Seller or (following the delivery of a Note Acceleration Notice) the Security Trustee, as the case may be, requiring the

same to be remedied;

- the Servicer defaults in the performance or observance of any of its other covenants and obligations under the Servicing Agreement, which failure in the opinion of the Note Trustee as notified to the Security Trustee is materially prejudicial to the interests of the Noteholders, and the Servicer does not remedy that failure within 30 Business Days after the earlier of the Servicer becoming aware of the failure or of receipt by the Servicer of written notice from the Issuer, either of the Seller or (following the delivery of a Note Acceleration Notice) the Security Trustee requiring the Servicer's non-compliance to be remedied; or
- an insolvency event occurs in relation to the Servicer.

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

In the absence of a Servicer Termination Event, Noteholders have no right to instruct the Issuer to terminate the appointment of the Servicer. Once a Servicer Termination Event has occurred, Noteholders may by Extraordinary Resolution instruct the Issuer to replace the Servicer.

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

**Delegation:**

The Servicer will be permitted to delegate some or all of its obligations under the Servicing Agreement.

The Servicer may delegate some of its servicing functions to a third party (including, but without limitation, another entity in the CBS Group) provided that the Servicer remains responsible for the performance of any functions so delegated.

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

## TRANSACTION OVERVIEW - OVERVIEW OF THE TERMS AND CONDITIONS OF THE NOTES

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

### FULL CAPITAL STRUCTURE OF THE NOTES

	Class A1 Notes	Class A2 Notes	Class Z VFN
Currency:	GBP	GBP	GBP
Principal Amount:	£718,200,000	£718,200,000	£191,200,000 (being the Initial Principal Amount subscribed for as at the Closing Date) up to a maximum of £500,000,000
Credit enhancement and liquidity support features:	<ul style="list-style-type: none"> <li>- Prior to the service of a Note Acceleration Notice, payments of principal on the Class A1 Notes will rank in priority to payments of principal on the Class A2 Notes.</li> <li>- Subordination of the Class Z VFN.</li> <li>- The availability of the General Reserve Fund, as funded by the Class Z VFN on the Closing Date.</li> <li>- Excess Available Revenue Receipts.</li> <li>- The application in certain circumstances of Principal Receipts to provide for any Revenue Deficiency (as defined herein) in the Available Revenue Receipts. Principal Receipts will not be available to pay interest on the Class A1 Notes if there is an</li> </ul>	<ul style="list-style-type: none"> <li>- Subordination of the Class Z VFN.</li> <li>- The availability of the General Reserve Fund, as funded by the Class Z VFN on the Closing Date.</li> <li>- Excess Available Revenue Receipts.</li> <li>- The application in certain circumstances of Principal Receipts to provide for any Revenue Deficiency (as defined herein) in the Available Revenue Receipts. Principal Receipts will not be available to pay interest on the Class A2 Notes if there is an outstanding balance on the Class A Principal Deficiency Ledger.</li> </ul>	<ul style="list-style-type: none"> <li>- Excess Available Revenue Receipts.</li> </ul>

	Class A1 Notes	Class A2 Notes	Class Z VFN
	outstanding balance on the Class A Principal Deficiency Ledger.		
Issue Price:	100%	100%	100%
Interest Rate:	3 month GBP LIBOR plus the Relevant Margin	3 month GBP LIBOR plus the Relevant Margin	3 month GBP LIBOR plus the Relevant Margin
Relevant Margin:	Prior to the Class A1 Step-Up Date 0.9% per annum and on and after the Class A1 Step-Up Date 0.9% per annum	Prior to the Class A2 Step-Up Date 1.1% per annum and on and after the Class A2 Step-Up Date 1.1% per annum	0.0% per annum
Step-Up Date:	The first Interest Payment Date to occur following the date falling 5 years after the end of the Further Sale Period	The first Interest Payment Date to occur following the date falling 5 years after the end of the Further Sale Period	N/A
Interest Accrual Method:	Actual/365	Actual/365	Actual/365
Interest Payment Dates:	7th day of March, June, September and December in each year	7th day of March, June, September and December in each year	7th day of March, June, September and December in each year
Business Day Convention:	Following	Following	Following
First Interest Payment Date:	Interest Payment Date falling in March 2013	Interest Payment Date falling in March 2013	Interest Payment Date falling in March 2013
Final Maturity Date:	Interest Payment Date falling in December 2050	Interest Payment Date falling in December 2050	Interest Payment Date falling in December 2050
Form of the Notes:	Bearer	Bearer	Registered
Application for Exchange Listing:	London Stock Exchange's Regulated Market	London Stock Exchange's Regulated Market	Not listed
Clearance/Settlement:	Euroclear / Clearstream, Luxembourg	Euroclear / Clearstream, Luxembourg	N/A
ISIN:	XS0864239529	XS0864240295	N/A

	Class A1 Notes	Class A2 Notes	Class Z VFN
Common Code:	086423952	086424029	N/A
Ratings* (Fitch / Moody's):	AAA sf/Aaa (sf)	AAA sf / Aaa (sf)	Not rated
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 £100 in excess thereof

\* As of the date of this Prospectus, each of the Rating Agencies is a credit rating agency established in the European Union and is registered under Regulation (EU) No 1060/2009 (as amended) (the **CRA Regulation**). In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

The rating of "AAAsf" is the highest rating that Fitch assigns to long-term obligations. Fitch ratings address only the credit risk associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors. The ratings of "Aaa(sf)" is the highest rating that Moody's assigns to long-term obligations. The rating of the Class A Notes by Moody's primarily addresses the expected credit loss posed to Class A Noteholders on or before the legal final maturity of the Class A Notes.

#### **Ranking and Form of the Notes:**

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

- Class A1 Mortgage Backed Floating Rate Notes due 2050 (the **Class A1 Notes**);
- Class A2 Mortgage Backed Floating Rate Notes due 2050 (the **Class A2 Notes** and together with the Class A1 Notes, the **Class A Notes**);
- Class Z VFN due 2050 (the **Class Z VFN**),

and together, the Class A Notes and the Class Z VFN are the **Notes** and the holders thereof from time to time, the **Noteholders**.

The Class A Notes will rank *pari passu* and *pro rata* amongst themselves as to payments of interest. The Class A Notes will, with respect to interest and principal rank ahead of the Class Z VFN at all times.

The Class A1 Notes will rank *pari passu* and *pro rata* in priority to the Class A2 Notes as to payments of principal provided that if a Note Acceleration Notice has been served, the Class A Notes will rank *pari passu* and rateably without any preference or priority among themselves as to payments of principal and interest.

Pursuant to the Deed of Charge, the Notes will all share the same Security. Certain other amounts, being the amounts owing to the other

Secured Creditors, will also be secured by the Security. Amounts due in respect of the Class A Notes will rank in priority to amounts due in respect of the Class Z VFN. Certain amounts due by the Issuer to its other Secured Creditors will rank in priority to amounts due in respect of the Notes.

The Class A Notes will be issued in bearer form. The Class Z VFN will be issued in dematerialised registered form. Each Class of Notes will be issued pursuant to Regulation S and the Class A Notes will be cleared through Euroclear and/or Clearstream, Luxembourg as set out in "Description of the Notes" below.

**Variable Funding Notes:**

The Issuer will issue the Class Z VFN on the Closing Date.

So long as the Class A Notes are outstanding, the Principal Amount Outstanding of the Class Z VFN shall not fall below 5 per cent. of the initial aggregate Current Balance of the Loans as at the Closing Date.

On the Closing Date, the Class Z VFN will be subscribed for in the amount of £191,200,000. Prior to the Class Z VFN Commitment Termination Date, the Class Z VFN will have a maximum principal amount of £500,000,000 or such other amount as may be agreed from time to time by the Issuer and the holder of the Class Z VFN (on the Closing Date, Godiva) (the **Class Z VFN Holder**) and notified to the Note Trustee (the **Maximum Class Z VFN Amount**), that can be funded by the Class Z VFN Holder at the request of the Issuer.

The commitment of the Class Z VFN Holder in respect of holding the Class Z VFN will be extinguished on the earlier to occur of:

- (a) the Interest Payment Date falling in December 2050; and
- (b) an Event of Default,

(the **Class Z VFN Commitment Termination Date**).

The maximum principal amount outstanding under the Class Z VFN shall not exceed the Maximum Class Z VFN Amount.

If the Maximum Class Z VFN Amount in relation to the Class Z VFN has been drawn and, in accordance with the Conditions, the Issuer repays some of the principal due on such Class Z VFN, such repaid principal amount will be available to be redrawn by the Issuer up to the Maximum Class Z VFN Amount.

**Security:**

Pursuant to a deed of charge to be entered into between, *inter alios*, the Issuer and the Security Trustee (the **Deed of Charge**) on the Closing Date, the Notes will be secured by, *inter alia*, the following security (the **Security**):

- (a) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's right, title, interest

and benefit in and to the Transaction Documents (subject to any rights of set-off or netting provided for therein);

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

See "*Overview of the Key Transaction Documents - Deed of Charge*" below.

<b>Collateral:</b>	Mortgage loans that were originated by the Seller on the Seller's Standard Documentation from time to time comprised in the Cut-Off Date Portfolio as at the Cut-Off Date.
<b>Interest Provisions:</b>	Please refer to the " <i>Full Capital Structure of the Notes</i> " table above and as fully set out in Condition 5.
<b>Interest Deferral:</b>	Interest due and payable on the Class A Notes outstanding will not be deferred. Interest due and payable on the Class Z VFN may be deferred in accordance with Condition 17.
<b>Gross up:</b>	None of the Issuer nor any Paying Agent or any other person will be obliged to gross up if there is any withholding or deduction in respect of the Notes on account of taxes.
<b>Redemption:</b>	The Notes are subject to the following optional or mandatory redemption events: <ul style="list-style-type: none"><li>• mandatory redemption in whole on the Interest Payment Date falling in December 2050 (the <b>Final Maturity Date</b>), as fully set out in Condition 7.1;</li><li>• prior to the service of a Note Acceleration Notice mandatory</li></ul>



partial redemption in part on any Interest Payment Date commencing on the first Interest Payment Date but subject to availability of Available Principal Receipts which shall be applied (a) to repay the Class A1 Notes *pro rata* and *pari passu* until they are repaid in full and then (b) to repay the Class A2 Notes *pro rata* and *pari passu* until they are repaid in full and then (c) to repay the Class Z VFN until it is repaid in full, as fully set out in Condition 7.2;

- in relation to the Class A Notes, optional redemption exercisable by the Issuer in whole on the Optional Redemption Date, as fully set out in Condition 7.3;
- optional redemption exercisable by the Issuer in whole for tax reasons on any Interest Payment Date following the date on which there is a change in tax law or other law, as fully set out in Condition 7.4.

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

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

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

**Event of Default:**

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

- non-payment of interest and/or principal in respect of the Class A Notes;
- breach of contractual obligations by the Issuer under the Transaction Documents; and
- an insolvency event occurs in respect of the Issuer.

**Limited Recourse:**

The Notes are limited recourse obligations of the Issuer, and, if not repaid in full, amounts outstanding are subject to a final write-off, which is described in more detail in Condition 11.4.

**Governing Law:**

English law.

## RIGHTS OF NOTEHOLDERS AND RELATIONSHIP WITH OTHER SECURED CREDITORS

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

**Prior to an Event of Default:** Prior to the occurrence of an Event of Default, Noteholders holding not less than 10 per cent. of the Principal Amount Outstanding of the Notes then outstanding are entitled to request that the Note Trustee convene a Noteholders' meeting or participate in a Noteholders' meeting convened by the Issuer or the Note Trustee to consider any matter affecting their interests. The Note Trustee shall have no obligation to convene a Noteholders' meeting unless it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

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

**Following an Event of Default:** Following the occurrence of an Event of Default, Noteholders may, if they hold not less than 25 per cent. of the Principal Amount Outstanding of the Class A Notes then outstanding or if they pass an Extraordinary Resolution at a single meeting (or any adjourned meeting) of the Class A Noteholders, direct the Note Trustee (subject to the Note Trustee being indemnified and/or secured and/or prefunded to its satisfaction) to give a Note Acceleration Notice to the Issuer that all Classes of the Notes are immediately due and repayable at their respective Principal Amount Outstanding.

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

### **Noteholders Meeting provisions:**

Notice period:	21 clear days for an initial meeting	10 clear days for an adjourned meeting
Quorum:	For an initial meeting, 25 per cent. of the Principal Amount Outstanding of the relevant Class of Notes then outstanding for all Ordinary Resolutions;	Any percentage holding for an adjourned meeting (other than a Basic Terms Modification, which requires 25 per cent. of the Principal

50 per cent. of the Principal Amount Outstanding of the relevant Class of Notes for an Extraordinary Resolution (other than a Basic Terms Modification, which requires 75 per cent. of the Principal Amount Outstanding of the relevant Class of Notes then outstanding)

Required majority:	For initial meetings, 50 per cent. of votes cast for matters requiring Ordinary Resolution and 75 per cent. of votes cast for matters requiring Extraordinary Resolution (including a Basic Terms Modification)	For adjourned meetings, 50 per cent. of votes cast for matters requiring Ordinary Resolution and 75 per cent. of votes cast for matters requiring Extraordinary Resolution (including a Basic Terms Modification)
--------------------	---	---

Written Resolution: 75 per cent. of the Principal Amount Outstanding of the relevant class of Notes then outstanding. A Written Resolution has the same effect as an Extraordinary Resolution.

**Extraordinary Resolution** means:

- (a) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed and the Conditions by a majority consisting of not less than three-quarters of the votes cast; or
- (b) a resolution in writing signed by or on behalf of the Noteholders of not less than three-quarters in aggregate Principal Amount Outstanding of any Class or sub-class of the Notes then outstanding which resolution may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Noteholders of such Class or sub-Class.

**Ordinary Resolution** means

- (a) a resolution passed at a meeting duly convened and held in accordance with the "Provisions for Meetings of Noteholders" of the Trust Deed by a clear majority; or
- (b) a resolution in writing signed by or on behalf of the Noteholders of not less than a clear majority in aggregate Principal Amount Outstanding of the relevant Class or sub-class 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 the Noteholders.

**Matters requiring  
Extraordinary Resolution:**

Broadly speaking, the following matters require an Extraordinary Resolution:

- to approve any Basic Terms Modification;
- to approve the substitution of any person for the Issuer as principal obligor under the Notes;
- to approve or assent to any modification of the provisions contained in the Notes, the Conditions or the Trust Deed or any other Transaction Document;
- to waive any breach or authorise any proposed breach by the Issuer of its obligations under the Notes or any Transaction Document or any act or omission which might otherwise constitute an Event of Default under the Notes;
- to remove the Note Trustee and/or the Security Trustee;
- to approve the appointment of a new Note Trustee and/or Security Trustee;
- to authorise the Note Trustee or any other person to execute all documents and do all things necessary to give effect to any Extraordinary Resolution;
- to discharge or exonerate the Note Trustee from any liability in respect of any act or omission for which it may become responsible under the Trust Deed or the Notes;
- to give any other authorisation or approval which under the Trust Deed or the Notes or any other Transaction Document is required to be given by Extraordinary Resolution; and
- to appoint any persons as a committee to represent the interests of the Noteholders and to convey upon such committee any powers which the Noteholders could themselves exercise by Extraordinary Resolution.

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

**Relationship between  
Classes and sub-classes of  
Noteholders:**

Subject to the provisions governing a Basic Terms Modification, the more detailed provisions of the Deed of Charge and the Trust Deed, an Extraordinary Resolution of Class A Noteholders shall be binding on the Class Z VFN Holder and would override any resolutions to the contrary by the Class Z VFN Holders.

In respect of the Class A Notes:

- (a) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Noteholders of one sub-class only of the Class A Notes shall be deemed to have been duly passed if passed at a meeting of the Noteholders of that sub-class of the Class A Notes, subject in all cases to (d), below;
- (b) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Noteholders of any two or more sub-classes of the Class A Notes but does not give rise to a conflict of interest between the Noteholders of any such two or more sub-classes of Class A Notes, shall be deemed to have been duly passed if passed at a single meeting of the Noteholders of Class A Notes, subject in all cases to (d), below;
- (c) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Noteholders of any two or more sub-classes of the Class A Notes and gives or may give rise to a conflict of interest between the Noteholders of any such two or more sub-classes of Class A Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Noteholders of such two or more sub-classes of Class A Notes, it shall be passed at separate meetings of the Noteholders of each of such two or more sub-classes of Class A Notes, subject in all cases to (d), below; and
- (d) if, from time to time, any or all of a sub-class of the Class A Notes are held by, on behalf of or for the benefit of any of the Issuer, CBS, the Seller, any holding company of any of them or any other Subsidiary of any of them or of either such holding company, in each case as beneficial owner (a **Relevant Person**), such Class A Notes held by such Relevant Person shall (unless and until ceasing to be so held) be deemed not to remain outstanding, except where such Relevant Person holds all of (but not some only) of the relevant sub-class of Class A Notes or if the Relevant Person or Relevant Persons holds all of the Class A Notes and provided that there is not any other Class or sub-class of Notes ranking pari passu with, or junior to, the relevant sub-class of Class A Notes and one or more Relevant Persons are not the beneficial owners of all the Notes of such Class or sub-class, then the relevant sub-class of Class A Notes shall be deemed not to remain outstanding.

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

The Note Trustee shall, except where expressly provided otherwise, have regard to the interests of each class of Noteholders equally, provided that, the Note Trustee shall have regard to the interests of the Class A Noteholders only if in the Note Trustee's opinion there is a conflict between the interests of the Class A Noteholders and the Class Z VFN Holder.

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

So long as the Notes are outstanding, the Note Trustee and the Security Trustee (acting in accordance with instructions from the Note Trustee) will have regard solely to the interests of the Noteholders and shall not have regard to the interests of any other Secured Creditor.

**Provision of Information to  
the Noteholders:**

The Cash Manager on behalf of the Issuer will publish the monthly Investor Report detailing, *inter alia*, certain aggregated loan data in relation to the Portfolio. Such Investor Reports will be published on the CBS website which, as at the date of this Prospectus, is at [www.coventrybuildingsociety.co.uk](http://www.coventrybuildingsociety.co.uk). The website and the contents thereof do not form part of this Prospectus.

In addition, the Cash Manager on behalf of the Issuer will comply with the current reporting requirements of the Bank of England as at the date of this Prospectus relating to the provision of information in relation to the Notes including, *inter alia*, certain segregated loan data in relation to the Portfolio. Such information does not form part of this Prospectus.

**Communication with  
Noteholders:**

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

- so long as the Class A Notes are held in the Clearing Systems, by delivery to the relevant Clearing System for communication by it to Noteholders; or
- if the Class A Notes are no longer held in the Clearing Systems, by publication in a leading English language daily newspaper published in London (which is expected to be the Financial Times) or such other English language daily newspaper with general circulation in Europe as the Note Trustee may approve; and
- so long as the Class A Notes are listed on a recognised stock exchange, by delivery in accordance with the notice requirements of that exchange.

Any notice to be given by the Issuer or the Note Trustee to the Class Z VFN Holder shall be sent to it at the fax number or email address notified to the Issuer from time to time in writing.

The Note Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or category of them if, in its sole opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchanges, competent

listing authorities and/or quotation systems on or by which the Notes are then listed, quoted and/or traded and provided that notice of such other method is given to the Noteholders in such manner as the Note Trustee shall require.

**Notes which are outstanding:**

In relation to the Notes, all the Notes issued from time to time will be outstanding other than:

- (a) those Notes which have been redeemed in full and cancelled pursuant to the Conditions;
- (b) those Notes in respect of which the date for redemption in accordance with the Conditions has occurred and the redemption monies (including all interest payable thereon) have been duly paid to the Note Trustee or to the Principal Paying Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the relevant Noteholders in accordance with the Conditions) and remain available for payment against presentation of the relevant Notes;
- (c) those Notes which have been cancelled in accordance with Condition 7.8 (*Cancellation*) of the Notes;
- (d) those Notes which have become void or in respect of which claims have become prescribed, in each case under Condition 9 (*Prescription*) of the Notes;
- (e) those mutilated or defaced Notes which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Notes*) with respect to the Notes;
- (f) (for the purpose only of ascertaining the Principal Amount Outstanding of the Notes outstanding and without prejudice to the status for any other purpose of the relevant Instrument) those Notes which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 14 (*Replacement of Notes*) with respect to the Notes; and
- (g) any Global Note to the extent that it shall have been exchanged for another Global Note in respect of the Notes of the relevant Class or for the Notes of the relevant Class in definitive form pursuant to its provisions,

provided that for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of the Noteholders of any Class or Classes, an Extraordinary Resolution in writing or an Ordinary Resolution in writing as envisaged by paragraph 1 of Schedule 4 to the Trust Deed and any direction or request by the holders of Notes of any Class or Classes;

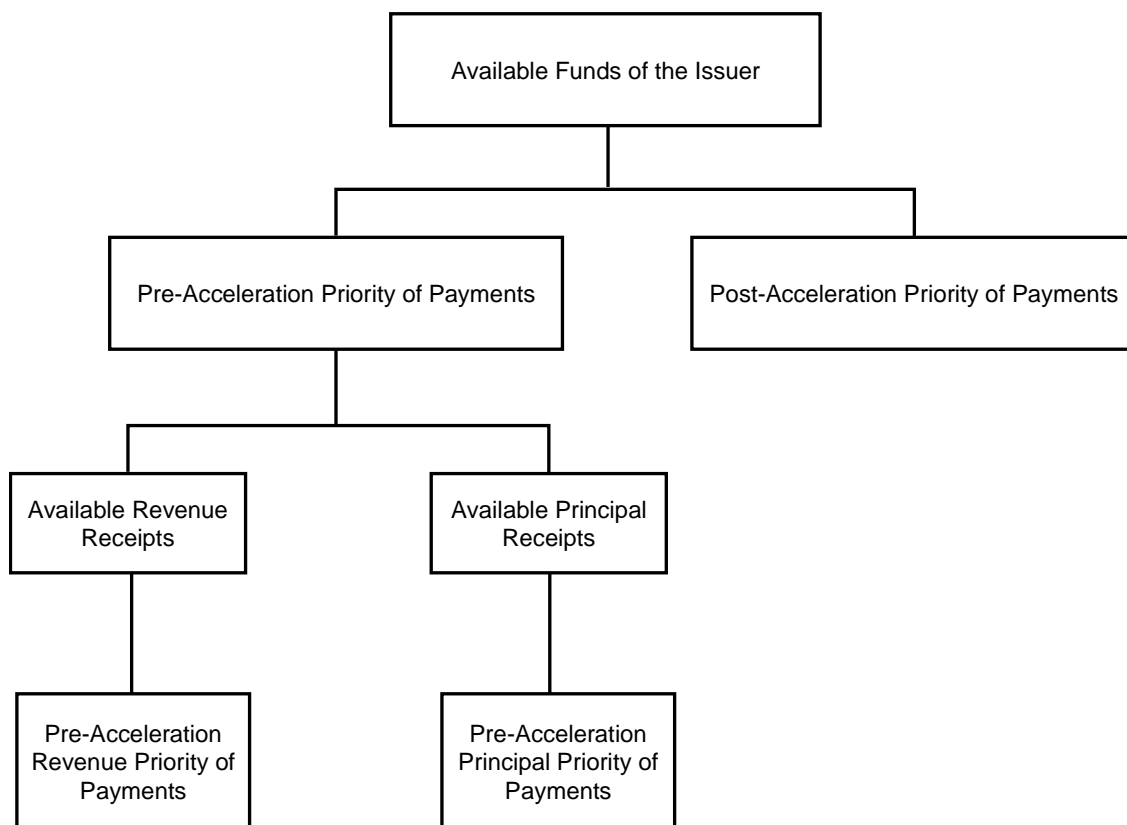
- (ii) the determination of how many and which Notes are for the time being outstanding for the purposes of Clause 10.1 and Schedule 4 to the Trust Deed, Conditions 10 (*Events of Default*) and 11 (*Enforcement*) of the Notes;
- (iii) any discretion, power or authority (whether contained in the trust presents, or vested by operation of law) which the Note Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the Noteholders or any Class or Classes thereof; and
- (iv) the determination by the Note Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the Noteholders or any Class or Classes thereof,

on any day, if any or all of a sub-class of Class A Notes are held by or on behalf of or for the benefit of a Relevant Person such Class A Notes held by such Relevant Person shall (unless and until ceasing to be so held) be deemed not to remain outstanding, except where such Relevant Person holds all of (but not some only) of the relevant sub-class of Class A Notes or if the Relevant Person or Relevant Persons holds all of the Class A Notes and provided that there is not any other Class or sub-class of Notes ranking pari passu with, or junior to, the relevant sub-class of Class A Notes and one or more Relevant Persons are not the beneficial owners of all the Notes of such Class or sub-class, then the relevant sub-class of Class A Notes shall be deemed not to remain outstanding.



## TRANSACTION OVERVIEW - CREDIT STRUCTURE AND CASHFLOW

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



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

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

**Available Revenue Receipts** will, broadly speaking, include the following:

- (a) Revenue Receipts received during the immediately preceding Collection Period or, if in a Determination Period, Calculated Revenue Receipts, in each case, excluding any Reconciliation Amounts to be applied as Available Principal Receipts on that Interest Payment Date;
- (b) interest payable to the Issuer on the Bank Accounts (excluding any interest accrued on amounts credited to the Swap Collateral Ledger) and income from any Authorised Investments in each case received during the immediately preceding Collection Period;
- (c) amounts received by the Issuer under the Interest Rate Swap Agreement (other than (i) any early termination amount received by the Issuer under the Interest Rate Swap Agreement which is to be applied in acquiring a replacement swap, (ii) in the case of the Interest Rate

Swap Agreement, Excess Swap Collateral or Swap Collateral, except to the extent that the value of such Swap Collateral has been applied, pursuant to the provisions of the Interest Rate Swap Agreement, to reduce the amount that would otherwise be payable by the Interest Rate Swap Provider to the Issuer on early termination of the Interest Rate Swaps under the Interest Rate Swap Agreement and, to the extent so applied in reduction of the amount otherwise payable by the Interest Rate Swap Provider, such Swap Collateral is not to be applied in acquiring a replacement swap, (iii) any Replacement Swap Premium but only to the extent applied directly to pay any termination payment due and payable by the Issuer to the Interest Rate Swap Provider and (iv) amounts in respect of Swap Tax Credits) on such Interest Payment Date);

- (d) the amounts standing to the credit of the General Reserve Ledger as at the last day of the immediately preceding Collection Period;
- (e) other net income of the Issuer received during the immediately preceding Collection Period, excluding any Principal Receipts (except for amounts deemed to be Available Revenue Receipts in accordance with paragraph (d) of the Pre-Acceleration Principal Priority of Payments);
- (f) amounts deemed to be Available Revenue Receipts in accordance with paragraph (e) of the Pre-Acceleration Principal Priority of Payments;
- (g) amounts credited to the Transaction Account on the immediately preceding Interest Payment Date in accordance with paragraph (n) of the Pre-Acceleration Revenue Priority of Payments;
- (h) following a Determination Period, any Reconciliation Amounts deemed to be Available Revenue Receipts in accordance with Condition 5.9(c);

less:

- (i) amounts applied from time to time during the immediately preceding Collection Period in making payment of certain monies which properly belong to third parties (including the Seller) such as (but not limited to):
  - payments of certain insurance premiums provided that such cash amounts have been paid by the relevant Borrower and form part of Revenue Receipts;
  - amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup such amount itself from its customer's account;
  - payments by the Borrower of any fees (including Early Repayment Fees) and other charges which are due to the Seller; and
  - any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a

service to that Borrower or the Seller,

(items within (i) of the definition of Available Revenue Receipts being collectively referred to herein as **Third Party Amounts**). Third Party Amounts may be deducted by the Cash Manager on a daily basis from the Transaction Account to make payment to the persons entitled thereto except where such payments have already been provided for elsewhere;

*plus*

- (j) if a Revenue Deficiency occurs such that the aggregate of items (a) to (h) less (i) above is insufficient to pay or provide for items (a) to (g), or if there is an outstanding balance on the Class A Principal Deficiency Ledger (a) to (f), of the Pre-Acceleration Revenue Priority of Payments, Available Principal Receipts in an aggregate amount sufficient to cover such Revenue Deficiency.

**Available Principal Receipts** will broadly speaking include the following (without double counting):

- (a) all Principal Receipts (excluding any amounts covered by (f), below) or, if in a Determination Period, any Calculated Principal Receipts, in each case, excluding an amount equal to any Reconciliation Amounts to be applied as Available Revenue Receipts on that Interest Payment Date (i) received by the Issuer during the immediately preceding Collection Period (less an amount equal to the aggregate of all Further Advance Purchase Prices paid by the Issuer in such Collection Period) and (ii) received by the Issuer from the Seller during the immediately preceding Collection Period in respect of any repurchases of Loans and their Related Security that were repurchased by the Seller pursuant to the relevant Mortgage Sale Agreement;
- (b) (in respect of the first Interest Payment Date only) the amount paid into the Transaction Account on the Closing Date from the excess of the proceeds of the Notes (excluding the proceeds of the Class Z VFN used to establish the General Reserve Fund and to pay the initial expenses of the Issuer incurred in connection with the issue of the Notes on the Closing Date) over the Initial Consideration;
- (c) the amounts (if any) calculated on that Interest Payment Date pursuant to the Pre-Acceleration Revenue Priority of Payments, to be the amount by which the debit balance of each of the Class A Principal Deficiency Ledger and/or the Class Z VFN Principal Deficiency Ledger is reduced;
- (d) following a Determination Period, any Reconciliation Amounts deemed to be Available Principal Receipts in accordance with Condition 5.9(c);
- (e) amounts credited to the Ported Loan Repurchase Ledger which remain in such ledger after the relevant Porting Deadline Date applicable to such amounts;
- (f) the amount standing to the credit of the Retained Principal Ledger;

less

- (g) any amounts utilised to pay a Revenue Deficiency pursuant to paragraph (j) of the definition of Available Revenue Receipts; and
- (h) any amounts used to purchase Additional Loans and their Related Security during the immediately preceding Collection Period *provided that* amounts may only be applied to purchase Additional Loans in a Collection Period where the aggregate amount of Revenue Receipts and Principal Receipts received during that Collection Period and amounts standing to the credit of the Reserve Fund would be greater than the Estimated Revenue Deficiency Amount (as defined in *Definition of Available Principal Receipts – Available Principal Receipts*, below) and only to the extent of such excess.

**Overview of Priorities of Payments:**

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

Pre-Acceleration Revenue Priority of Payments:	Pre-Acceleration Principal Priority of Payments:	Post-Acceleration Priority of Payments:
(a) Amounts due or provided for in respect of the Note Trustee and Security Trustee fees, costs and expenses	(a) In relation to amounts other than those which have been standing to the credit of the Retained Principal Ledger for longer than 6 months), during the Further Sale Period to pay the Further Consideration for any Additional Loans and their Related Security to be sold to the Issuer pursuant to the terms of the Mortgage Sale Agreement or if no Loans are available for sale to the Issuer on such Interest Date, or if there is an excess after paying such Further	(a) Amounts due or provided for in respect of the Note Trustee, the Security Trustee and the Receiver fees, costs and expenses
(b) Amounts due in respect of the fees, costs and expenses of the Agent Bank, Paying Agents, Corporate Services Provider, Back-Up Servicer Facilitator and Account Bank	(b) Amounts due in respect of the fees, costs and expenses of the Agent Bank, the Paying Agents, Corporate Services Provider, Back-Up Servicer Facilitator and Account Bank	(b) Amounts due in respect of the fees, costs and expenses of the Agent Bank, the Paying Agents, Corporate Services Provider, Back-Up Servicer Facilitator and Account Bank
(c) Amounts due in respect of the fees and costs of the Class Z VFN Registrar	(c) Amounts due in respect of the fees and costs of the	(c) Amounts due in respect of the fees and costs of the
(d) Third party expenses	(d) Amounts due in respect of the fees and costs of the	(d) Amounts due in respect of the fees and costs of the

(e)	Amounts due in respect of the fees and costs of the Servicer and Cash Manager	(b)	Consideration, to make a credit to the Retained Principal Ledger	(d)	Class Z VFN Registrar
(f)	Amounts due to the Interest Rate Swap Provider	(c)	to repay Principal on the Class A1 Notes	(e)	Amounts due in respect of the fees and costs of the Servicer and Cash Manager
(g)	Interest due on the Class A1 Notes and the Class A2 Notes	(d)	to repay Principal on the Class A2 Notes.	(f)	Amounts due to the Interest Rate Swap Provider
(h)	Amounts to be credited to the General Reserve Ledger	(e)	to repay Principal on the Class Z VFN	(g)	Interest and principal amounts due on the Class A1 Notes and Class A2 Notes
(i)	Amounts to be credited to the Class A Principal Deficiency Ledger	(f)	Any further amounts to be applied as Available Revenue Receipts	(h)	Amounts due in respect of principal and interest on the Class Z VFN
(j)	Amounts to be credited to the Class Z VFN Principal Deficiency Ledger	(g)		(i)	Interest Rate Swap Excluded Termination Amounts
(k)	Interest due on the Class Z VFN	(h)		(j)	Deferred Consideration
(l)	Issuer Profit Amount	(i)			
(m)	Interest Rate Swap Excluded Termination Amounts				
(n)	If such Interest Payment Date falls within a Determination Period, then the excess (if any) to the Transaction Account				

(o) Principal  
Amounts due on  
the Class Z VFN

(p) Deferred  
Consideration

**General Credit  
Structure:**

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

- availability of the **General Reserve Fund**, funded on the Closing Date by the Class Z VFN up to the General Reserve Required Amount from a portion of the proceeds of the Class Z VFN Holder's subscription of the Class Z VFN. Monies standing to the credit of the General Reserve Fund will be used as Available Revenue Receipts on each Interest Payment Date. After the Closing Date, the General Reserve Fund will be replenished up to the General Reserve Required Amount on each Interest Payment Date from Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments (see section "*Credit Structure – General Reserve Fund and General Reserve Ledger*" for further details);
- a Principal Deficiency Ledger will be established for each Class of Notes to record the Losses corresponding to each Class of Notes in reverse sequential order, Principal Receipts used to pay a Revenue Deficiency. Available Revenue Receipts will be applied in accordance with the relevant Priority of Payment to eliminate any balance on the relevant Principal Deficiency Ledger in sequential order (see section "*Credit Structure – Principal Deficiency Ledgers*" for further details); and
- availability of an interest rate swap provided by the Interest Rate Swap Provider (and guaranteed by the Interest Rate Swap Guarantor) to hedge against the possible variance between the rates of interest received on the Loans in the Portfolio (which may, for instance, include variable rates of interest, capped rates of interest, fixed rates of interest and/or rates of interest which track a base rate such as the Bank of England base rate) and the rates of interest payable on the Notes (see section "*Credit Structure – Interest Rate Risk for the Notes*" for further details).

**Bank Accounts:**

The Issuer will enter into the Bank Account Agreement with the Account Bank on the Closing Date in respect of the Transaction Account and any additional accounts to be established by the Issuer pursuant to the Bank Account Agreement (including any swap collateral account(s)) (together, the **Bank Accounts**).

Collections of revenue and principal in respect of the Loans in the Portfolio are received by the Seller into its collection account. The Seller (and, where relevant, the Servicer) is obliged to transfer collections in respect of the Loans in the Portfolio to the Transaction Account on a daily basis. On each Interest Payment Date, the Cash Manager will transfer monies from the Transaction Account to be applied in accordance with the relevant Priority of Payments. Monies may also be transferred from the Transaction Account on any Monthly Pool Date to pay the Further Advance Purchase Price in respect of any Further Advance.

**Cash Management:**

Pursuant to the Cash Management Agreement, the Cash Manager will agree to provide certain cash management and other services to the Issuer. The Cash Manager's principal function will be effecting payments to and from the Transaction Account. In addition, the Cash Manager will (among other things):

- (a) publish, on the website of the Cash Manager ([www.coventrybuildingsociety.co.uk](http://www.coventrybuildingsociety.co.uk)) an investor report, on or about the last Business Day of each month setting out certain aggregated loan data in relation to the Portfolio (the **Investor Report**) and, upon written request, provide the Issuer, the Security Trustee, the Seller, the Class A Noteholder and the Rating Agencies with a separate electronic copy;
- (b) calculate the Available Revenue Receipts and Available Principal Receipts of the Issuer;
- (c) calculate any Revenue Deficiency;
- (d) apply, or cause to be applied, Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments and Available Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments;
- (e) if required by the Security Trustee, apply, or cause to be applied, Available Revenue Receipts and Available Principal Receipts in accordance with the Post-Acceleration Priority of Payments;
- (f) record credits to, and debits from, the General Reserve Ledger, the Revenue Ledger, the Issuer Profit Ledger, the Principal Deficiency Ledger, the Principal Ledger, the Retained Principal Ledger, the Swap Collateral Ledger and the Ported Loan Repurchase Ledger as and when required;
- (g) make payments of any Further Advance Purchase Price to the Seller;
- (h) make a drawing under the Class Z VFN as required, including, without limitation, any drawing required to fund the Further Advance Purchase

Price;

- (i) make any determinations required to be made by the Issuer under the Interest Rate Swap Agreement;
- (j) establish one or more swap collateral accounts if required in the event that any collateral is posted by the Interest Rate Swap Provider pursuant to the Interest Rate Swap Agreement and credit all swap collateral to the relevant swap collateral account (to the extent such collateral is not credited to the Swap Collateral Ledger on the Transaction Account);
- (k) make any determinations and calculations in respect of the Reconciliation Amount, if necessary; and
- (l) during the Further Sale Period, apply Principal Receipts (together with any amounts standing to the credit of the Retained Principal Ledger) on any Business Day to purchase Additional Loans and their Related Security.

**Overview of key Interest Rate Swap Terms:**

On or about the Closing Date, the Interest Rate Swap Provider will enter into an ISDA Master Agreement (including a schedule and a credit support annex thereto and a confirmation thereunder) with the Issuer (as amended from time to time) (the **Interest Rate Swap Agreement**). On or about the Closing Date, the Interest Rate Swap Provider will enter into an interest rate swap guarantee agreement (as may be amended or supplemented from time to time) (the **Interest Rate Swap Guarantee**) pursuant to which CBS (as Interest Rate Swap Guarantor) will guarantee certain obligations of the Interest Rate Swap Provider under the Interest Rate Swap Agreement.

Payments received by the Issuer under the Loans will be subject to various interest rates including fixed interest rates, variable interest rates, capped interest rates and interest rates that track a variable interest rate such as the Bank of England base rate. The interest amounts payable by the Issuer in respect of the Notes will be calculated by reference to Three-Month Sterling LIBOR. Pursuant to the Interest Rate Swap Agreement the Issuer will enter into a swap to hedge against the possible variance between the rates of interest received on the Loans in the Portfolio and the rates of interest payable on the Notes (the **Interest Rate Swap**).

**Three-Month Sterling LIBOR** means the London Interbank Offered Rate for three-month Sterling deposits as displayed on Reuters Screen LIBOR01.

The Interest Rate Swap has the following key commercial terms:

**Swap Notional Amount:** an amount in Sterling equal to the product of (i) the Performance Ratio and (ii) the average daily aggregate Current Balance of the Loans in the Portfolio during the relevant Collection Period.

**Issuer payment:** the aggregate of the amounts produced, for each of the Interest Periods as a result of the product of (A) the sum of (i) the weighted average fixed rate of interest (as defined in the Interest Rate Swap) multiplied by the ratio of Fixed Rate Loans in the Portfolio; (ii) the weighted average



variable rate of interest (as defined in the Interest Rate Swap) multiplied by the ratio of Variable Rate Loans in the Portfolio; (iii) the weighted average tracker rate of interest (as defined in the Interest Rate Swap) multiplied by the ratio of Tracker Rate Loans in the Portfolio and (iv) the weighted average capped rate of interest (as defined in the Interest Rate Swap) multiplied by the ratio of Capped Rate Loans in the Portfolio, (B) the Swap Notional Amount and (C), the day count fraction specified in the Interest Rate Swap and in each case for the relevant Interest Period.

**Interest Rate Provider payment:** the sum, for each of the Interest Periods, of the amounts produced by applying Three-Month Sterling LIBOR (or in respect of the Interest Period ending on or around 7 March 2013, the linear interpolation of Two-Month Sterling LIBOR and Three-Month Sterling LIBOR), plus a spread for the relevant Interest Period to the Swap Notional Amount of the Interest Rate Swap for the relevant Interest Period.

**Frequency of payment:** each Interest Payment Date.

**Performance Ratio:** in respect of a Collection Period, the lesser of (i) (A) the greater of (x) zero; and (y) the sum of all payments received in respect of each Loan in the Portfolio during that Collection Period, divided by (B) the sum of all payments due in respect of each Loan in the Portfolio during that Collection Period; and (ii) 1.

**Termination Date:** the earlier of (i) the Final Maturity Date of the Notes, (ii) the date on which the aggregate Principal Amount Outstanding of the Class A Notes is reduced to zero, (iii) the date on which the Swap Notional Amount falls to zero and (iv) the date on which the Security Trustee has enforced the Security under the Deed of Charge and distributed the proceeds thereof in full.

**Two-Month Sterling LIBOR** means the London Interbank Offered Rate for two-month Sterling deposits as displayed on Reuters Screen LIBOR01.

See section "*Credit Structure – Interest Rate Risk for the Notes – Interest Rate Swap*" for further details.

## TRANSACTION OVERVIEW - TRIGGERS TABLES

### Rating Triggers Table

<u>Transaction Party</u>	<u>Required Ratings</u>	<u>Contractual requirements on occurrence of breach of ratings trigger include the following:</u>
<b>Cash Manager:</b>	<p>Ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 (or such other long term rating which is otherwise acceptable to Moody's)</p>	<p>Under the Cash Management Agreement the Issuer shall require the Cash Manager, within 60 days, to use best efforts to appoint a back-up cash manager which meets the requirements for a substitute cash manager provided for by the Cash Management Agreement.</p>
<b>Seller:</b>	<p>(a) The short-term, unsecured, unsubordinated debt obligations of the Seller or (where the Seller does not have an independent rating) CBS fall below P-2 by Moody's or the issuer default rating falls below F-2 by Fitch, respectively as at a Monthly Pool Date;</p> <p>(b) The long-term unsecured, unsubordinated and unguaranteed debt obligations of CBS cease to be assigned a long-term credit rating from Moody's of at least Baa3 or a long term issuer default rating from Fitch of at least BBB- (or such other long term rating which is otherwise acceptable to the relevant Rating Agency);</p> <p>(c) The long-term unsecured, unsubordinated and unguaranteed debt obligations of either of the Seller or (where the Seller does not have an</p>	<p>(a) The Seller must provide to the Issuer and the Security Trustee a Solvency Certificate (in form and substance acceptable to the Security Trustee), in accordance with the terms of the Mortgage Sale Agreement.</p> <p>(b) The Seller (unless Moody's and/or, as the context may require, Fitch, as applicable, confirms that the then current ratings of the Class A Notes will not be adversely affected) will deliver to the Issuer and the Security Trustee details of the names and addresses of the Borrowers with Loans then in the Portfolio, which may be provided in a document stored upon electronic media and a draft letter of notice to such Borrowers of the sale and assignment and assignation of those Loans and the Related Security to the Issuer.</p> <p>(c) The Seller shall deliver an update of such information required as mentioned in (b) above to the same parties on a monthly basis thereafter.</p>

<u>Transaction Party</u>	<u>Required Ratings</u>	<u>Contractual requirements on occurrence of breach of ratings trigger include the following:</u>
<b>Servicer:</b>	<p>independent rating) CBS cease to be assigned a long-term credit rating from Moody's of at least Baa3 (in each case, unless Moody's and/or, as the context may require, Fitch, as applicable, confirms that the current ratings of the Class A Notes will not be adversely affected)</p> <p>Ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 (or such other long term rating which is otherwise acceptable to Moody's); or ceasing to be assigned a long-term issuer default rating by Fitch of at least BBB- (or such other long term rating which is otherwise acceptable to Fitch).</p>	<p>The Servicer, with the assistance of the Back-Up Servicer Facilitator, shall, within 60 days, use best efforts to appoint a back-up servicer which meets the requirements for a substitute servicer provided for by the Servicing Agreement;</p>
<b>Interest Rate Swap Guarantor:</b>	<p>Short-term, unsecured and unsubordinated debt or counterparty obligations must be rated at least P-1 and long-term, unsecured and unsubordinated debt or counterparty obligations must be rated at least A2 by Moody's (or, if the Interest Rate Swap Provider (or any guarantor thereof) is not the subject of a short-term rating by Moody's, the long-term, unsecured and unsubordinated debt or counterparty obligations must be rated at least A1 by Moody's); and (ii) short-term issuer default rating must be at least F1 and long-term issuer default rating must be at least A by Fitch.</p>	<p>The consequences of breach include collateral posting, replacement of the Interest Rate Swap Provider or guarantee of the Interest Rate Swap Provider's obligations.</p>
<b>Interest Rate Swap Provider:</b>	<p>Short-term, unsecured and unsubordinated debt or counterparty obligations must be rated at least P-1 and long-term, unsecured and unsubordinated debt or counterparty obligations must be rated at least A2 by Moody's (or, if the Interest Rate Swap Provider (or any guarantor thereof) is not the subject of a short-term rating by</p>	<p>The consequences of breach may include the requirement to provide collateral or replace the relevant Interest Rate Swap Provider or procure a guarantee of such Interest Rate Swap Provider's obligations or such other remedial action (which may include taking no action) acceptable to the Rating Agencies which would maintain</p>

<u>Transaction Party</u>	<u>Required Ratings</u>	<u>Contractual requirements on occurrence of breach of ratings trigger include the following:</u>
	Moody's, the long-term, unsecured and unsubordinated debt or counterparty obligations must be rated at least A1 by Moody's); and (ii) short-term issuer default rating must be at least F1 and long-term issuer default rating must be at least A by Fitch (or, if the Interest Rate Swap Provider (or any guarantor thereof) is not the subject of a short-term rating by Fitch, the long-term, issuer default rating or counterparty obligations must be rated at least A by Fitch).	the then current rating of the Notes and ensure that the Notes are not placed on rating watch negative by Fitch. If none of these remedial measures is taken within the timeframes stipulated in the relevant Interest Rate Swap Agreement, such Interest Rate Swap Agreement may be terminated early and a termination payment may become payable either by the Issuer or the relevant Interest Rate Swap Provider.
<b>Account Bank:</b>	A short term issuer default rating of at least F1 by Fitch and P-1 by Moody's, and (b) issuer default rating of at least A by Fitch and A2 by Moody's (if a short-term rating is assigned by Moody's) or A1 by Moody's (if no short-term rating is assigned by Moody's), or, in each case, 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 Class A Notes.	The consequences of breach are that the Account Bank's appointment may be terminated by the Issuer (within 30 calendar days) (such termination being effective on a replacement account bank being appointed by the Issuer with the prior written consent of the Security Trustee).

### Non-Rating Triggers Table

<u>Nature of Trigger</u>	<u>Description of Trigger</u>	<u>Contractual requirements on occurrence of breach of ratings trigger include the following:</u>
<b>Servicer Termination Event:</b>  See the section entitled " <i>Overview of the Transaction documents – The Servicing Agreement</i> " for further information.	The occurrence of any of the following:  (a) the Servicer defaults in the payment on the due date of any payment due and payable by it under the Servicing Agreement and such default continues unremedied for a period of 30 Business Days after the earlier of the Servicer becoming aware of such default and receipt by the	(a) Following the occurrence of Servicer Termination Event the Issuer may terminate the appointment of the Servicer under the Servicing Agreement. The Servicer may also resign its appointment on no less than 12 months' written notice to, among others, the Issuer and the Security Trustee with a copy being sent to the Rating Agencies provided that such

<u>Nature of Trigger</u>	<u>Description of Trigger</u>	<u>Contractual requirements on occurrence of breach of ratings trigger include the following:</u>
	<p>Servicer of written notice from the Issuer, the Seller or (following the delivery of a Note Acceleration Notice) the Security Trustee, as the case may be, requiring the same to be remedied;</p> <p>(b) the Servicer defaults in the performance or observance of any of its other covenants and obligations under the Servicing Agreement, and the Servicer does not remedy that failure within 30 Business Days after the earlier of the Servicer becoming aware of the failure or of receipt by the Servicer of written notice from the Issuer, the Seller or the Security Trustee requiring the Servicer's non-compliance to be remedied;</p> <p>(c) a third party becomes obliged to undertake the servicing of the Loans (other than as master servicer), pursuant to any back-up servicing agreement contemplated under the Servicing Agreement; or</p> <p>(d) an insolvency event occurs in relation to the Servicer.</p>	<p>resignation shall not take effect unless the Issuer and the Security Trustee consent to such resignation and until a substitute servicer which has been approved by the Security Trustee has been appointed in its place.</p> <p>(b) If the Servicer's appointment is terminated, the Issuer shall use all reasonable efforts to appoint a substitute servicer which must first be approved by the Security Trustee.</p>
<b>Cash Manager Termination Event:</b>	(a) default is made by the Cash Manager in the payment, on the due date, of any payment due and payable by it under the Cash Management Agreement and such default continues unremedied for a period of 7 Business Days after the earlier of the Cash Manager becoming aware of such default and receipt by the Cash Manager of written notice from the Issuer or (following the service of a Note	(a) Following the occurrence of a Cash Manager Termination Event the Issuer prior to the delivery of a Note Acceleration Notice (with the written consent of the Security Trustee) or following the delivery of a Note Acceleration Notice the Security Trustee may, at once or at any time thereafter while such default continues by notice in writing to the Cash Manager terminate its appointment as

<u>Nature of Trigger</u>	<u>Description of Trigger</u>	<u>Contractual requirements on occurrence of breach of ratings trigger include the following:</u>
	<p>Acceleration Notice) the Security Trustee, as the case may be, requiring the same to be remedied; or</p> <p>(b) default is made by the Cash Manager in the performance or observance of any of its other covenants and obligations under the Cash Management Agreement which default in the opinion of the Note Trustee as notified to the Security Trustee is materially prejudicial to the interests of the Noteholders and such default continues unremedied for a period of 30 Business Days after the earlier of the Cash Manager becoming aware of such default and receipt by the Cash Manager of written notice from the Issuer or (following the service of a Note Acceleration Notice) the Security Trustee, as the case may be, requiring the same to be remedied; or</p> <p>(c) an insolvency event occurs in respect of the Cash Manager; or</p> <p>(d) a third party has commenced providing cash management services pursuant to any back-up cash management services contemplated by the Cash Management Agreement.</p>	<p>Cash Manager under the Cash Management Agreement. The Cash Manager may also resign by giving not less than 12 months notice to the Issuer, the Seller and the Security Trustee, subject to the appointment of a suitably experienced substitute cash manager and (if Notes remain outstanding), the then current ratings of the Class A Notes are not adversely affected.</p> <p>(b) If the Cash Manager's appointment is terminated, the Issuer shall use all reasonable efforts to appoint a substitute cash manager (but shall have no liability to any person in the event that, having used all reasonable endeavours, it is unable to appoint a substitute cash manager).</p>
<b>Perfection Events:</b>	<p>Completion of transfer of the legal title of the Loans by the Seller to the Issuer will be completed on or before the 20th Business Day after the earliest to occur of the Perfection Events set out in the section of this Prospectus headed "<i>Transaction Overview – Portfolio and Servicing</i>".</p>	

## TRANSACTION OVERVIEW - FEES

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

<b>Type of Fee</b>	<b>Amount of Fee</b>	<b>Priority in Cashflow</b>	<b>Frequency</b>
Servicing Fees	for so long as CBS (or any member of the CBS Group) is the Servicer, 0.03 per cent. per annum on the aggregate Current Balance of the Loans in the Portfolio as determined on the preceding Calculation Date (if a substitute servicer from outside the CBS Group is appointed in accordance with the terms of the Servicing Agreement, the Issuer shall pay the successor servicer for its services a fee to be determined at the time of such appointment)	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Cash management fee	for so long as CBS (or any member of the CBS Group) is the Cash Manager, 0.01 per cent. per annum on the aggregate Current Balance of the Loans in the Portfolio as determined on the preceding Calculation Date (if a replacement cash manager from outside the CBS Group is appointed in accordance with the terms of the Cash Management Agreement, the Issuer shall pay the replacement cash manager for its services a fee to be determined at the time of such appointment).	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date

<b>Type of Fee</b>	<b>Amount of Fee</b>	<b>Priority in Cashflow</b>	<b>Frequency</b>
Other fees and expenses of the Issuer	Estimated at £21,500 each year (exclusive of VAT)	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Expenses related to the admission to trading of the Class A Notes	Estimated at £2,975 (exclusive of any applicable VAT)		On or about the Closing Date

VAT is currently chargeable at 20.0 per cent.



## ARTICLE 122A OF THE CRD

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

For a description of the information to be made available after the Closing Date by Godiva or CBS pursuant to paragraph 7 of Article 122a (in its capacity as the Servicer or the Cash Manager on the Issuer's behalf), please see the summary in relation to the Investor Reports set out in "*Overview of the Key Transaction Documents – Cash Management Agreement*". Further information in respect of individual loan level data may be obtained on the following website: [www.coventrybuildingsociety.co.uk](http://www.coventrybuildingsociety.co.uk). The website and the contents thereof do not form part of this Prospectus.

Godiva has provided a corresponding undertaking with respect to (i) the provision of such investor information specified in the paragraph above and (ii) the interest to be retained by Godiva to the Arranger in the Subscription Agreement and to the Issuer, the Swap Provider and the Note Trustee on behalf of the Noteholders in the Deed of Charge.

Each prospective investor is required to independently assess and determine the sufficiency of the information described above and in this Prospectus generally for the purposes of complying with Article 122a and none of the Issuer, Godiva (in its capacity as a Seller), CBS (in its capacities as the Servicer or the Cash Manager) or the Arranger makes any representation that the information described above or in this Prospectus is sufficient in all circumstances for such purposes. In addition each prospective Noteholder should ensure that they comply with the implementing provisions in respect of Article 122a and the CRD in their relevant jurisdiction. Investors who are uncertain as to the requirements which apply to them in respect of their relevant jurisdiction, should seek guidance from their regulator.

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

## OVERVIEW OF THE KEY TRANSACTION DOCUMENTS

### Mortgage Sale Agreement

Under the Mortgage Sale Agreement, on the Closing Date the Issuer will pay the Initial Consideration to the Seller and a portfolio of English and Welsh buy-to-let mortgage loans and their associated mortgages and other Related Security (together, the **Loans**) will be assigned by way of equitable assignment to the Issuer (the **Mortgages** and, together with the other security for the Loans, the **Related Security**), referred to as the sale by the Seller to the Issuer of the Loans and Related Security. The Loans and Related Security and all monies derived therefrom from time to time are referred to herein as the **Portfolio**. The "Loans" and "Related Security" are further defined in "Transaction Overview".

The Consideration due to the Seller in respect of the sale of the Initial Portfolio will consist of:

- (a) an amount equal to the Current Balance of the Loans in the Initial Portfolio as at the close of business on 30 November 2012 (the **Initial Consideration**); and
- (b) a covenant by the Issuer to pay any Deferred Consideration.

On any Business Day during the Further Sale Period, the Issuer may pay Further Consideration and the Seller may assign further Loans to the Seller on such date (such date being the **Transfer Date** in relation to the relevant Loan) provided that (in respect of any Calculation Period after the Interest Payment Date falling in March 2013) there would be no Estimated Revenue Deficiency Amount (as defined below) on the Interest Payment Date immediately following the Collection Period in which such purchase was to occur.

The Further Consideration due to the Seller in respect of the sale of Additional Loans and their Related Security will consist of:

- (a) an amount equal to the Current Balance of the Additional Loans and their Related Security on the relevant Transfer Date (the **Further Consideration**); and
- (b) a covenant by the Issuer to pay any Deferred Consideration.

**Deferred Consideration** means all remaining Available Revenue Receipts after payment of items (a) to (o) of the Pre-Acceleration Revenue Priority of Payments or the items described in (a) to (h) inclusive of the Post-Acceleration Priority of Payments.

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

**Consideration** means the Initial Consideration and the Deferred Consideration.

### *Title to the Mortgages, Registration and Notifications*

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

The transfers to the Issuer of the legal title to the Loans will be completed on or before the twentieth Business Day after the earliest to occur of the following:

- (a) the Seller being required: (i) by law; (ii) by an order of a court of competent jurisdiction; (iii) by a regulatory authority which has jurisdiction over the Seller; or (iv) by any organisation of which the Seller is a member, or whose members comprise, but are not necessarily limited to, mortgage lenders and with whose instructions it is customary for the Seller to comply, to perfect legal title to the Loans;
- (b) the Seller requesting a transfer by way of assignment or assignation by giving notice in writing to the Issuer and the Security Trustee; or
- (c) the occurrence of a Seller Insolvency Event

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

The Seller will, if its short-term, unsecured unsubordinated debt obligations or (where the Seller does not have an independent rating), those of CBS, falls below P-2 by Moody's or if its short-term issuer default rating falls below F-2 by Fitch, respectively as at a Monthly Pool Date; or if its long-term unsecured, unsubordinated and unguaranteed debt obligations or (where the Seller does not have an independent rating) those of CBS cease to be assigned a long-term credit rating from Moody's of at least Baa3 or a long-term issuer default rating from Fitch of at least BBB- (or such other long term rating which is otherwise acceptable to the relevant Rating Agency), unless Moody's and/or, as the context may require, Fitch, as applicable, confirms that the then current ratings of the Class A Notes will not be adversely affected, deliver to the Issuer and the Security Trustee details of the names and addresses of the Borrowers with Loans then in the Portfolio, which may be provided in a document stored upon electronic media, and a draft letter of notice to such Borrowers of the sale and assignment and assignation of those Loans and the Related Security to the Issuer.

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

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

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

None of the Security Trustee, the Note Trustee nor the Issuer has made or has caused to be made on its behalf any enquiries, searches or investigations, but each is relying entirely on the representations and warranties made by the Seller contained in the Mortgage Sale Agreement.

#### *Loan Porting*

If a Borrower ports (i.e. transfers its Loan to a new property) a Loan comprised in the Portfolio, the proceeds of the redemption of such Loan will, at the discretion of the Seller, either be credited to the Ported Loan Repurchase Ledger or will be credited to the Principal Ledger. If the proceeds of redemption are credited to the Ported Loan Repurchase Ledger, such amounts will be applied to purchase any new loan which is ported to and secured on the new Property of such Borrower (which such new Loan shall be treated as a Further Advance and, as such, will be subject to the same Loan Warranties and Asset Conditions applicable to Further Advances), provided that if such a new loan has not been created on or prior to the Porting Deadline Date in relation to such deposit, the amount deposited will be treated as Available Principal Receipts and paid in accordance with the Pre-Acceleration Principal Priority of Payments or the Post-Acceleration Priority of Payments (as applicable) on the Interest Payment Date immediately following the relevant Porting Deadline Date. If the proceeds of redemption of such Loans are credited to the Principal Ledger or remain standing to the credit of the Ported Loan Repurchase Ledger following the Porting Deadline Date, the Loan and its Related Security shall be transferred from the Issuer to the Seller.

#### *Eligibility Criteria*

On the Closing Date, the sale of Loans and their Related Security to the Issuer will be subject to the condition (the **Eligibility Criteria**) that no Event of Default or Potential Event of Default shall have occurred which is continuing as at the Closing Date.

If the Eligibility Criteria are breached in respect of a Loan as at the Closing Date, such Loan will be repurchased by the Seller in accordance with the terms of the Mortgage Sale Agreement. (See "*– Repurchase by the Seller*" below for more details).

If the Seller accepts an application from or makes an offer (which is accepted) to a Borrower for a Further Advance or Product Switch or if a Substitute Loan is substituted into the Portfolio and if any of the Loan Warranties and/or Asset Conditions and/or Substitution Conditions relating to the Loan subject to that Further Advance or Product Switch or Substitution is not satisfied as at the relevant Switch Date, or Advance Date and/or Substitution Date then such Loan will be repurchased by the Seller in accordance with the provisions of the Mortgage Sale Agreement. (See "*– Repurchase by the Seller*" below for more details).

#### *Representations and Warranties*

On the Closing Date and on each Transfer Date, the Loan Warranties will be given by the Seller in respect of the Loans comprised in the Portfolio and their Related Security sold by the Seller to the Issuer.

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

- (a) in relation to any Further Advance, as at the last day of the Monthly Period in which the relevant Advance Date occurred;
- (b) in relation to each Loan which is a Substitute Loan, as at the last day of the Monthly Period in which the relevant Substitution occurred; and

- (c) in relation to each Loan which is subject to a Product Switch, as at the last day of the Monthly Period in which the relevant Switch Date occurred.

If any of the Loan Warranties are breached in respect of a Loan as at the Closing Date, the applicable Transfer Date or as at the last day of the Monthly Period in which the relevant Advance Date, Substitution Date and/or Switch Date (as the case may be) occurred, such Loan will be repurchased by the Seller in accordance with the provisions of the Mortgage Sale Agreement. (See "*– Repurchase by the Seller*" below for more details).

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

**1. Loans**

- (a) The particulars of the Loans set out in the Portfolio Notice are true, complete and accurate in all material respects.
- (b) Each Loan was originated by Godiva as sole principal without any agent lender and in the ordinary course of business on or after 1 January 2000 and was denominated in the lawful currency of the UK upon origination.
- (c) No Loan has a Current Balance of more than £1,000,000.
- (d) Prior to the making of each Initial Advance or Further Advance, the Lending Criteria and all preconditions to the making of any Loan were satisfied in all material respects subject only to such exceptions and waivers as made on a case-by-case basis as would be acceptable to a Reasonable, Prudent Mortgage Lender.
- (e) The Lending Criteria are consistent with the criteria that would be used by a Reasonable, Prudent Mortgage Lender.
- (f) Each Loan was made and its Related Security taken or received substantially on the terms of the Standard Documentation without any material variation thereto and nothing has been done subsequently to add to, lessen, modify or otherwise vary the express provisions of any of the same in any material respect.
- (g) At least two monthly payments due in respect of each Loan have been paid by the relevant Borrower.
- (h) The Current Balance on each Loan and its Related Security constitute a legal, valid, binding and enforceable debt due to the Seller from the relevant Borrower and the terms of each Loan and its Related Security constitute valid and binding obligations of the Borrower enforceable in accordance with their terms and non-cancellable except that enforceability may be limited by bankruptcy, insolvency or other similar laws of general applicability affecting the enforcement of creditors' rights generally and the court's discretion in relation to equitable remedies.
- (i) The rate of interest under each Loan is charged in accordance with the Standard Documentation, subject to the terms of any offer letter in relation thereto.
- (j) No agreement for a Loan is wholly or partly regulated by the CCA or treated as such or, to the extent that it is so regulated or partly regulated or treated as such, the procedures and requirements under the CCA have been complied with in all material respects.

- (k) No agreement for a Loan (whether alone or with any related agreement) constitutes an unfair relationship for the purposes of sections 140A to 140D of the CCA.
- (l) All of the Borrowers are individuals (and not partnerships) and were aged 18 years or older at the date they executed the relevant Mortgage.
- (m) No Loan has a maturity date falling later than three years earlier than the Final Maturity Date.
- (n) All approvals, consents and other steps necessary to permit a legal or equitable or beneficial transfer, or a transfer of servicing or other disposal as and in the manner contemplated by the Transaction Documents from the Seller to the Issuer, of the Loans and their related Mortgages to be sold under the Mortgage Sale Agreement have been obtained or taken and there is no requirement in order for the transfer to be effective to obtain the consent of the Borrower before, on or after any equitable or beneficial transfer or before any legal transfer of the Loans and their related Mortgages and such transfer or disposal shall not give rise to any claim by the Borrower against the Issuer, the Security Trustee or any of their successors in title or assigns.
- (o) No Related Security consists of "stock" or "marketable" securities (in either case for the purposes of section 122 of the Stamp Act 1891), "chargeable securities" (for the purposes of section 99 of the Finance Act 1986) or a "chargeable interest" for the purposes of section 48 of the Finance Act 2003.
- (p) The provisions of the Loans may be waived, altered or modified in any way by the Seller, provided that if such waiver, alteration or modification constitutes a Product Switch, such Product Switch will be a Permitted Product Switch.
- (q) No Loan is one month or more in arrears for an amount greater than the Monthly Payment for the Loan.
- (r) So far as the Seller is aware, no Borrower is in breach of any obligation under a Loan other than in respect of Monthly Payments.
- (s) No Loan is a Self-certified Loan, an Offset Loan or a Right to Buy Loan.
- (t) No Loan had an Unindexed LTV greater than 75% as at the Cut-Off Date (in respect of the Initial Portfolio) and, in relation to any Additional Loans, as at the relevant Transfer Date in relation to such Loan.
- (u) No Loan had an Indexed LTV greater than 75% as at the Cut-Off Date (in respect of the Initial Portfolio) and, in relation to any Additional Loans, as at the relevant Transfer Date in relation to such Loan.
- (v) No Loan had an original LTV greater than 75% as at the Cut-Off Date (in respect of the Initial Portfolio) and, in relation to any Additional Loans, as at the relevant Transfer Date in relation to such Loan.
- (w) To the best of the Seller's knowledge at the time of the relevant application for a Mortgage, no Borrower had filed for bankruptcy or been sequestrated or had a county court judgment or court decree entered or awarded against him in the period commencing on the date falling 6 years prior to the date they executed the relevant Mortgage and ending on the day they executed the relevant Mortgage.
- (x) No Loan is guaranteed by a third-party guarantor.

- (y) Each Loan has been designated as a prime Loan under the Seller's designated origination policies.
- (z) The Seller is not required to make any future further advances under any Loan (such as with future reserve loans and retention loans).
- (aa) To the best of the Seller's knowledge, no Borrower had been in arrears with another mortgage lender at any point during the 12 months prior to the date of such Borrower's Initial Advance under its Loan.

## **2. Mortgages**

- (a) Subject in certain appropriate cases to the completion of an application for registration or recording at the Land Registry, the whole of the Current Balance on each Loan and all future interest, fees, costs and expenses payable under or in respect of such Mortgage is secured by a first-ranking Mortgage or Mortgages over a residential Property in favour of the Seller and each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage or charge over the relevant Property.
- (b) Each Mortgage is substantially in the form of the pro forma contained in the Standard Documentation which was applicable at the time the Mortgage was executed.
- (c) The Borrower has good and marketable title to the relevant Property (subject to registration of the title at the Land Registry) free from any encumbrance (except the Mortgage and any subsequent ranking mortgage) which would materially adversely affect such title or the value of the Property for security purposes and, without limiting the foregoing, in the case of a leasehold or long lease Property:
  - (i) the lease cannot be forfeited on the bankruptcy or sequestration of the tenant;
  - (ii) any requisite consent of the landlord to or notice to the landlord of, the creation of the Related Security has been obtained or given; and
  - (iii) a copy of the consent or notice has been or will be placed with the Title Deeds.

## **3. The Properties**

- (a) All of the Properties are in England or Wales.
- (b) Each Property is either freehold or leasehold.
- (c) As far as the Seller is aware, no Property has been let by the Borrower otherwise than by way of:
  - (i) an assured shorthold tenancy which meets the requirements of Section 19A or Section 20 of the Housing Act 1988;
  - (ii) an assured tenancy;
  - (iii) any other tenancy which does not give the tenant security of tenure beyond the contractual expiry of the tenancy; or

in each case which meets the Seller's Policy in connection with lettings to non-owners.

- (d) No Loan relates to a Property which is not a residential Property.

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

- (a) The Seller has not agreed to waive any of its rights against any valuer, solicitor, licensed or qualified conveyancer or other professional who has provided information, carried out work or given advice in connection with any Loan or Related Security.
- (b) Unless the Loan is a Loan without an independent valuation, not more than 12 months (or a longer period as may be acceptable to a Reasonable, Prudent Mortgage Lender) prior to the granting of each Mortgage, the Seller received a Valuation Report on the relevant Property (or such other form of report as would be acceptable to a Reasonable, Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender.
- (c) Prior to the making of each Mortgage (other than a remortgage), the Seller:
  - (i) instructed its solicitor or licensed or qualified conveyancer to carry out an investigation of title to the relevant Property and to undertake other searches, investigations, enquiries and other actions on behalf of the Seller in accordance with the instructions which the Seller issued to the relevant solicitor or licensed or qualified conveyancer as are set out in the CML's Lenders' Handbook for England and Wales or other comparable or successor instructions and/or guidelines as may for the time being be in place, subject only to those variations as would be acceptable to a Reasonable, Prudent Mortgage Lender; and
  - (ii) received a Certificate of Title from the solicitor or licensed or qualified conveyancer relating to such Property, the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender in order to proceed with the Loan.

#### **5. Buildings Insurance**

At origination, each Property was insured under:

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

and since origination the Seller has not received notice that any such property has since become uninsured or, to the extent that the Seller has received such notice, the Seller has arranged Freedom of Agency insurance, the benefit of which has been assigned to the Issuer.

#### **6. The Seller's Title**

- (a) Immediately prior to the purchase of any Loan and the Related Security by the Issuer, and subject to registration or recording at the Land Registry, the Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits in relation to the Loans and Related Security agreed to be sold and/or assigned and/or held in trust by the Seller to or for the Issuer pursuant to the Mortgage Sale Agreement free and clear of all Security Interests, claims and equities (including, without limitation, rights of set-off or counterclaim and unregistered dispositions which override first registration and unregistered interests which override registered dispositions (as listed in Schedule 1 and Schedule 3 respectively to the Land Registration Act 2002) in the case of any property, interests or rights governed by English law, subject in each case only to



the Mortgage Sale Agreement and the Borrower's equity of redemption and the Seller is not in breach of any covenant or warranty implied by reason of its selling the Portfolio with full title guarantee.

- (b) As far as the Seller is aware, all steps necessary to perfect the Seller's title to the Loans and the Related Security were duly taken at the appropriate time or are in the process of being taken, in each case (where relevant) within any applicable priority periods or time limits for registration with all due diligence and without undue delay.
- (c) The Loan Files relating to each of the Loans and their Related Security are held by, or are under the control of:
  - (i) the Seller; or
  - (ii) the Servicer.
- (d) Neither the entry by the Seller into the Mortgage Sale Agreement nor any transfer, assignment, assignation or creation of trust contemplated by the Mortgage Sale Agreement affects or will adversely affect any of the Loans and their Related Security and the Seller may freely assign and enter into trust arrangements in respect of all its rights, title, interests and benefits therein as contemplated in the Mortgage Sale Agreement without breaching any term or condition applying to any of them.
- (e) The Seller has not knowingly waived or acquiesced in any breach of any of its rights in respect of a Loan or its Related Security, other than waivers and acquiescence such as a Reasonable, Prudent Mortgage Lender might make on a case-by-case basis.

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

- (a) Each Loan in the Portfolio is either:
  - (i) a Variable Rate Loan, Fixed Rate Loan, Capped Rate Loan or Tracker Rate Loan; or
  - (ii) a New Loan Type which will not result in the then current ratings of the Class A Notes being downgraded, withdrawn or qualified.

## **8. FSA Regulation**

- (a) The Seller has complied with all regulatory requirements in respect of the Mortgages, in particular the provisions of the FSA's rules.
- (b) The Seller is not aware of any pending action or proceeding by an applicant against the Seller in respect of the Mortgages.
- (c) Each officer or employee of the Seller in any capacity which involves a controlled function (as defined in the FSA Rules) or involves the supervision of any person or persons so engaged is and was at all relevant times a validly registered "approved person" in accordance with the FSA Rules.
- (d) The Seller has created and maintained all records in respect of the Mortgages in accordance with the FSA Rules and any other Regulatory Requirement.
- (e) The Seller has not altered the terms of any letter of offer accepted by a Borrower relating to a Loan or otherwise changed any of the terms and conditions relating to any Loan other than in accordance

with the terms and conditions of the letter of offer relating to a Loan as accepted by the applicable Borrower or other than as requested by a Borrower.

- (f) No agreement for a Loan and its Related Security is a distance contract for the purposes of the Financial Services (Distance Marketing) Regulations 2004 or the FSA Rules (as applicable) or, to the extent that a Loan and its Related Security is such a distance contract, the procedures and requirements in the Financial Services (Distance Marketing) Regulations 2004 and the FSA Rules (as applicable) have been complied with in all material respects.
- (g) All fees and commissions payable to brokers and intermediaries by the Seller were fully disclosed to the relevant borrowers.

## **9. General**

- (a) The Seller has, since the making of each Loan, kept or procured the keeping of full and proper accounts, books and records as are necessary to show all material transactions, payments, receipts, proceedings and notices relating to such Loan.
- (b) Neither the Seller (nor as far as the Seller is aware any of its agents) has received written notice of any litigation, claim, dispute or complaint (in each case, subsisting, threatened or pending) in respect of any Borrower, Property, Loan or Related Security which (if adversely determined) might have a material adverse effect on the value of the Portfolio or any part of it.
- (c) There are no governmental authorisations, approvals, licences or consents required as appropriate for the Seller to enter into or to perform its obligations under the Mortgage Sale Agreement or to render the Mortgage Sale Agreement legal, valid, binding, enforceable and admissible in evidence in a court in England and Wales which have not been obtained.

**Bank of England base rate** means the Bank of England's official dealing rate (the bank rate) as set by the UK Monetary Policy Committee;

**Capped Rate Loan** means a Loan or any sub-account(s) of such Loan to the extent that and for such period as its Mortgage Conditions provide that it is subject to an interest rate that is capped at a set rate;

**Fixed Rate Loan** means a Loan or any sub-account(s) of such Loan to the extent that and for such time as the interest rate payable by the relevant Borrower on all or part of the outstanding balance does not vary and is fixed for a certain period of time by the Seller;

**FSA Rules** means the rules made by the FSA under the FSMA;

**Further Advance** means, in relation to a Loan, any advance of further money to the relevant Borrower (including any commitment to fund any further amount which has not yet been advanced or any further amount advanced but not yet drawn) following the making of the Initial Advance, which is secured by the same Mortgage as the Initial Advance, but does not include the amount of any retention advanced to the relevant Borrower as part of the Initial Advance after completion of the Mortgage;

**Governmental Authority** means any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government;

**Indexed LTV** means the ratio of the Current Balance of the relevant Loan divided by the indexed valuation of the relevant Property based on the Nationwide House Price Index, from the date falling at the end of the quarter immediately following the date of the latest recorded Valuation of the Property to the date falling at the end of the quarter immediately prior to the Cut-Off Date (in relation to Loans sold to the Issuer on the

Closing Date) or the relevant Transfer Date (in relation to Loans sold to the Issuer during the Further Sale Period);

**Loan Agreement** means, in relation to a Loan, the loan agreement entered into between the relevant Borrower and the Seller, as amended and/or restated from time to time;

**Loan Files** means the file or files relating to each Loan (including files kept in microfiche format or similar electronic data retrieval system or the substance of which is transcribed and held on an electronic data retrieval system) containing *inter alia* correspondence between the Borrower and the Seller and including mortgage documentation applicable to the Loan, each letter of offer for that Loan, the Valuation Report (if applicable) and, to that extent available, the solicitor's or licensed or qualified conveyancer's certificate of title;

**LTV, LTV ratio or loan-to-value ratio** means the ratio (expressed as a percentage) of the outstanding balance of a Loan to the value of the Property securing that Loan;

**Monthly Payment** means the amount which the relevant Mortgage Conditions require a Borrower to pay on each monthly payment date in respect of that Borrower's Loan;

**Mortgage Conditions** means all the terms and conditions applicable to a Loan, including without limitation those set out in the Seller's relevant mortgage conditions booklet and the Seller's relevant general conditions, each as varied from time to time by the relevant Loan Agreement and the relevant Mortgage Deed;

**Mortgage Deed** means, in respect of any Mortgage, the deed in written form creating that Mortgage;

**New Loan Type** means a new type of mortgage loan originated or acquired by a Seller, which that Seller intends to transfer to the Issuer, the terms and conditions of which are materially different (in the opinion of the Seller, acting reasonably) from the Loans comprised in the Portfolio. For the avoidance of doubt, a mortgage loan will not constitute a New Loan Type if it differs from the Loans due to it having different interest rates and/or interest periods and/or time periods for which it is subject to a fixed rate or any other interest rate or the benefit of any discounts, cash backs and/or rate guarantees or if it has flexible features;

**Offset Loan** means a Loan which permits the Borrower to offset the amount of monies standing to the credit of specified savings account(s) against the current balance of their Loan for the purposes of reducing the interest bearing balance of their Loan;

**Ported Loan** means a Loan which is transferred by a Borrower from one Property to another.

**Right to Buy Loan** means a Loan in respect of a Property made in whole or in part to a Borrower for the purpose of enabling that Borrower to exercise his right to buy the relevant Property under the Housing Act 1985 and the Housing Act 1996 (each as amended and updated from time to time);

**Reasonable, Prudent Mortgage Lender** means a reasonably prudent residential mortgage lender lending to borrowers in England or Wales who generally satisfies the lending criteria of traditional sources of residential mortgage capital;

**Regulatory Requirement** means any law, rule, code or regulatory requirement of any Governmental Authority;

**Self-certified Loan** means a Loan where the application was taken on the understanding that evidence of the declared income was unavailable and would not be required in order to underwrite the case;

**Standard Documentation** means the standard documentation applicable to the Portfolio, a list of which is set out in Exhibit 1 to the Mortgage Sale Agreement, respectively, or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender;

**Switch Date** means the date that the Product Switch is made;

**Third Party Buildings Policies** means the buildings insurance policies referable to each Property;

**Title Deeds** means, in relation to each Loan and its Related Security and the Property relating thereto, all conveyancing deeds and documents which relate to the title to the Property and the security for the Loan and all searches and enquiries undertaken in connection with the grant by the Borrower of the related Mortgage;

**Tracker Rate Loan** means a Loan or any sub-account(s) of such Loan to the extent that and for such period that its Mortgage Conditions provide that it is subject to an interest rate which is linked to a variable interest rate other than the Standard Variable Rate;

**Unindexed LTV** means the ratio of the Current Balance of the relevant Loan divided by the latest recorded valuation of the relevant Property;

**Valuation Report** means the valuation report or reports for mortgage purposes, in the form of one of the pro forma contained in the Standard Documentation, obtained by the Seller from a valuer in respect of each Property or a valuation report in respect of a valuation made using a methodology which would be acceptable to a Reasonable, Prudent Mortgage Lender and which has been approved by the relevant officers of the Seller; and

**Variable Rate Loans** means those Loans or any sub-account(s) of such Loan to the extent that and for such period that their Mortgage Conditions provide that they are subject to a rate of interest which may at any time be varied in accordance with the relevant Mortgage Conditions, including, for the avoidance of doubt, Capped Rate Loans (and shall, for the avoidance of doubt, exclude Loans or any sub-account(s) of such Loan during the period that they are Fixed Rate Loans or Tracker Rate Loans).

#### *Further Advances and Product Switches*

As used in this Prospectus, **Initial Advance** means all amounts advanced by the Seller to a Borrower under a Loan other than a Further Advance. Subject to the satisfaction of certain conditions described generally below, the Issuer will acquire Further Advances.

**Further Advances:** The Issuer shall purchase Further Advances from the Seller on the date that the relevant Further Advance is advanced to the relevant Borrowers by the Seller (the **Advance Date**). The Issuer will pay the Seller an amount equal to the principal amount of the relevant Further Advance (the **Further Advance Purchase Price**) on the Monthly Pool Date immediately following the Monthly Period in which the relevant Advance Date occurred by using amounts standing to the credit of the Principal Ledger (or, in relation to a Further Advance which is a Ported Loan, the amount credited to the Ported Loan Repurchase Ledger in relation to the redemption proceeds received by the Issuer from the redemption of the Loan being ported). Where the Issuer (or the Cash Manager on its behalf) determines that the aggregate of the amounts standing to the credit of the Principal Ledger (or, in relation to a Further Advance which is a Ported Loan, the amount credited to the Ported Loan Repurchase Ledger in relation to the redemption proceeds received by the Issuer from the redemption of the Loan being ported) would not be sufficient to fund such Further Advance Purchase Price, the Issuer will, prior to the Class Z VFN Commitment Termination Date, make a drawing under the Class Z VFN in an amount equal to the difference between (i) amounts standing to the credit of the Principal Ledger (or the amount credited to the Ported Loan

Repurchase Ledger in relation to the redemption proceeds received by the Issuer from the redemption of the Loan being ported, as applicable) and (ii) the Further Advance Purchase Price and use such proceeds of the Class Z VFN to fund the purchase of Further Advances under the Loans. If the Issuer is unable to fund the purchase of any Further Advance from funds standing to the credit of the Principal Ledger and the Class Z VFN Holder fails to advance an amount equal to such shortfall in the Further Advances Purchase Price to be paid on the Monthly Pool Date, the Issuer shall not complete the purchase of the relevant Further Advance and the Seller must repurchase the related Loan and its Related Security in accordance with the terms of the Mortgage Sale Agreement. (See "*– Repurchase by the Seller*" below for more details).

If it is determined by the Servicer on the Monthly Test Date immediately following the Monthly Period in which the relevant Advance Date occurred that any of the Asset Conditions have not been met as at the last day of the Monthly Period in which the relevant Advance Date occurred (or if it is subsequently discovered that the Asset Conditions were breached as at last day of the Monthly Period in which the relevant Advance Date occurred) in respect of the Loan subject to such Further Advance, then the Seller will have an obligation to remedy such breach within 60 days after receiving written notice of such breach from the Servicer. If such breach is not capable of remedy, or, if capable of remedy, is not remedied within the 60 day period, the Seller has an obligation to repurchase such Loan and its Related Security in accordance with the provisions of the Mortgage Sale Agreement. (See "*– Repurchase by the Seller*" below for more details).

Neither the Servicer nor the Seller shall make an offer to a Borrower for a Further Advance if it would result in the Issuer arranging or advising in respect of, administering (servicing) or entering into a regulated mortgage contract or agreeing to carry on any of these activities, if the Issuer would be required to be authorised under the FSMA to do so.

**Product Switches:** The Seller (or the Servicer on behalf of the Seller) may offer a Borrower (and the Borrower may accept), or a Borrower may request, a Product Switch. Any Loan which has been subject to a Product Switch will remain in the Portfolio provided that it satisfied the Asset Conditions and it is a Permitted Product Switch. If it is subsequently determined by the Servicer on the Monthly Test Date immediately following the Monthly Period in which the Product Switch was made that any of the Asset Conditions have not been met or the Product Switch was not a Permitted Product Switch as at the last day of the Monthly Period in which the relevant Switch Date occurred (or such breach was subsequently discovered in respect of such date) in respect of a Loan which is the subject of a Product Switch and which remains in the Portfolio, then the Seller will have an obligation to remedy such breach within 60 days after receiving written notice of such breach from the Servicer. If such breach is not capable of remedy, or, if capable of remedy, is not remedied within the 60 day period, the Seller has an obligation to repurchase such Loan and its Related Security. (See "*– Repurchase by the Seller*" below for more details).

The Seller (or the Servicer on its behalf) will be solely responsible for offering and documenting any Product Switch. Neither the Servicer nor the Seller shall make an offer to a Borrower for a Product Switch if it would result in the Issuer arranging or advising in respect of, administering (servicing) or entering into a regulated mortgage contract or agreeing to carry on any of these activities, if the Issuer would be required to be authorised under the FSMA to do so.

**Product Switch** means any variation in the financial terms and conditions applicable to a Loan other than any variation:

- (i) agreed with a Borrower to control or manage arrears on the Loan;
- (ii) in the maturity date of the Loan unless the maturity date would be extended to a date later than three years before the Final Maturity Date of the Notes;
- (iii) imposed by statute;

- (iv) in the rate of interest payable in respect of a Loan provided that suitable hedging arrangements will be in place for such Loan for the term of such Loan, which for non-floating rates will be compliant with Moody's and Fitch criteria;
- (v) in the rate of interest payable (a) as a result of any variation in SVR or other applicable floating rates or (b) where the terms of the Mortgage change the rate of interest payable by a Borrower on termination of an interest discount for a fixed period of time; or
- (vi) in the frequency with which the interest payable in respect of the Loan is charged,

where in the case of (iv) above, the notional of the relevant Interest Rate Swap would be adjusted to take account of a change to or from a fixed or floating rate until the maturity of such Loan or Loans.

**Permitted Product Switch** is a Product Switch where:

- (a) the relevant Borrower has made at least two Monthly Payments, in full, on its Loan;
- (b) the new loan for which the prior Loan is to be exchanged is subject to either a Fixed Rate or the Seller's Standard Variable Rate or is a Variable Rate Loan or a Tracker Rate Loan; and
- (c) on the Monthly Test Date immediately following the making of the Product Switch, each of the Asset Conditions are satisfied.

*Repurchase by the Seller*

As set out above and below, the Seller shall repurchase the relevant Loans and their Related Security in the following circumstances:

- (a) *Breach of Loan Warranties or Eligibility Criteria on the Closing Date or on a Transfer Date.* If it is determined that a Loan sold to the Issuer on the Closing Date or on any applicable Transfer Date had breached any of the Loan Warranties or Eligibility Criteria as at the Closing Date or the relevant Transfer Date (as applicable), and where such breach is either not capable of remedy or has not been remedied by the Seller within 60 days of receiving notice of such breach from the Issuer, then the Issuer shall serve a notice on the Seller (the **Loan Repurchase Notice**) requiring the Seller to repurchase such Loan on the Monthly Pool Date following the receipt by the Seller of such Loan Repurchase Notice. The repurchase price for such Loan shall be equal to its Current Balance determined as at such Monthly Pool Date;
- (b) *Insufficient Funds to fund Further Advance.* If the Issuer is unable to fund the purchase of any Further Advance from funds standing to the credit of the Principal Ledger and the Class Z VFN Holder fails to advance an amount equal to such shortfall, then the Issuer shall serve a Loan Repurchase Notice on the Seller requiring the Seller to repurchase the Loan subject to such Further Advance on the Monthly Pool Date following the period in which such Further Advance was advanced. The repurchase price for such Loan shall be equal to its Current Balance determined as at such Monthly Pool Date (excluding the amount of the Further Advance);
- (c) *Breach of the Asset Conditions (described below) in respect of Loans subject to a Further Advance, Substitution and/or Product Switch.* If it is determined that a Loan subject to a Further Advance, Substitution or Product Switch had not complied with the Asset Conditions on the relevant Monthly Test Date and where such breach is either not capable of remedy or has not been remedied by the Seller within 60 days of receiving notice of such breach from the Issuer, then the Issuer shall serve a Loan Repurchase Notice on the Seller requiring the Seller to repurchase such Loan subject to the relevant Further Advance, Substitution or Product Switch on the Monthly Pool Date following the

receipt by the Seller of such Loan Repurchase Notice. The repurchase price for such Loan shall be equal to its Current Balance determined as at such Monthly Pool Date (excluding, if applicable, the amount of any Further Advance which has not yet been paid for by the Issuer);

- (d) *Breach of the Additional Loan Conditions (described below) in respect of Additional Loans sold to the Issuer during the Further Sale Period.* If it is determined that an Additional Loan sold to the Issuer during the Further Sale Period had not complied with the Additional Loan Conditions as at the relevant Transfer Date, where such breach is either not capable of remedy or has not been remedied by the Seller within 60 days of receiving notice of such breach from the Issuer, then the Issuer shall serve a Loan Repurchase Notice on the Seller requiring the Seller to repurchase such Loan on the Monthly Pool Date following the receipt by the Seller of such Loan Repurchase Notice. The repurchase price for such Loan shall be equal to its Current Balance determined as at such Monthly Pool Date; and
- (e) *Amounts deposited in the Principal Ledger or remaining on the Ported Loan Repurchase Ledger following the Porting Deadline Date in relation to Loans ported from one Property to another.* On the earlier to occur of (i) the proceeds of redemption of a Loan which is being ported by a Borrower being credited to the Principal Ledger and (ii) any amounts in respect of any such Loan remaining on the Ported Loan Repurchase Ledger following the Porting Deadline Date in relation to such amounts (the date of such occurrence, the **Ported Loan Repurchase Date**) the Issuer shall serve a Loan Repurchase Notice on the Seller requiring the Seller to repurchase such Loan. Such repurchase shall be deemed to have occurred on the Ported Loan Repurchase Date.

Consideration for such repurchase shall be provided by payment in cash and/or the substitution of equivalent Loan(s) such that the aggregate of the Current Balance(s) of the Substitute Loan(s), if any, and the cash payment amount, if any, equals at least the Current Balance(s) of the Loan(s) subject to repurchase.

### **CBS Guarantee**

CBS will provide a guarantee to the Issuer in respect of the repurchase obligations of the Seller under the Mortgage Sale Agreement. If the Seller is required to repurchase a Loan pursuant to the terms of the Mortgage Sale Agreement and fails to do so, then CBS will procure that it or one of its subsidiaries repurchases such Loan or substitutes a Substitute Loan subject to the Asset Conditions and the Substitution Conditions on the relevant Monthly Pool Date at a repurchase price equal to its Current Balance determined as at such Monthly Pool Date.

### **Asset Conditions**

In order for any Loan which has been the subject of a Further Advance, Substitution or Product Switch to remain in the Portfolio, the following conditions (the **Asset Conditions**) must be complied with as of the last day of the Monthly Period in which the relevant Switch Date, Substitution Date or Advance Date (as applicable) occurred. The Asset Conditions will be tested on the Monthly Test Date immediately following the Monthly Period in which such sale of the Further Advance or Product Switch took place or the Substitute Loan was assigned to the Issuer.

The Asset Conditions are:

- (i) the Current Balance of the Loans comprising the Portfolio, in respect of which the aggregate amount in arrears is more than three times the Monthly Payment then due, is less than 3 per cent. of the aggregate Current Balance of the Loans comprising the Portfolio at that date;

- (ii) the General Reserve Fund is at the General Reserve Required Amount, or failing such condition, a drawing is made under the Class Z VFN in order to replenish the General Reserve Fund to the General Reserve Required Amount;
- (iii) the Cash Manager is not aware that the then current ratings of the Class A Notes then outstanding would be downgraded, withdrawn or qualified as a result of the relevant Further Advance, Substitution and/or Product Switch remaining in the Portfolio;
- (iv) each Loan and its Related Security which is the subject of a Further Advance, Substitution and/or Product Switch complies at the date of such Further Advance, Substitution and/or Product Switch with the Loan Warranties;
- (v) the Rating Agency Tests will not be breached as a result of the relevant Further Advance, Substitution and/or Product Switch remaining in the Portfolio (after taking into account any drawing under the Class Z VFN);
- (vi) the Eligibility Criteria have not been breached;
- (vii) if the making of a Product Switch would result in a New Loan Type being included in the Portfolio and advance notice in writing of any such Loans subject to a Product Switch and/or Further Advance remaining in the Portfolio has been provided to Moody's and Fitch and there being no reduction, qualification or withdrawal by Moody's or Fitch of the then current ratings of the Class A Notes as a consequence thereof;
- (viii) the Interest Rate Swap Agreement, which complies with Moody's and Fitch's interest rate hedging criteria at the time, hedges against the interest rates payable in respect of such Further Advance, Substitution and/or Product Switch until the maturity of such Loan;
- (ix) the Class A Principal Deficiency Ledger does not have a debit balance as at the most recent Interest Payment Date after applying all Available Revenue Receipts on that Interest Payment Date;
- (x) the aggregate amount of all Further Advances (including the Further Advances made since the Closing Date) does not exceed 3 per cent. of the Current Balance of the Loans comprised in the Portfolio on the Closing Date;
- (xi) if the short-term, unsecured, unsubordinated debt obligations of the Seller or (where the Seller does not have an independent rating) CBS are rated less than P-2 by Moody's or if the short-term issuer default rating is rated less than F-2 by Fitch, respectively as at a Monthly Pool Date, the Seller has delivered a certificate confirming various matters as to the solvency of that Seller (a **Solvency Certificate**) to the Issuer and the Security Trustee in accordance with the Mortgage Sale Agreement;
- (xii) in respect of Further Advances or Product Switches, the Further Advance Date or the Switch Date (as the case may be) falls before the Class A1 Step-Up Date;
- (xiii) if a Product Switch would result in a Loan switching from capital repayment to interest only payment, the resulting Loan must have an Indexed LTV of less than or equal to 75 per cent.; and
- (xiv) if a Further Advance is made in respect of an interest only Loan, the resulting Loan must have an Indexed LTV of less than or equal to 75 per cent.;

**Rating Agency Tests** means tests which satisfy each of the following conditions as at the last day of the Monthly Period immediately preceding the relevant Monthly Test Date:



- (a) for Further Advances, the weighted average original LTV ratio (calculated by dividing Total Debt Advanced by the Original Valuation) of the Loans in the Portfolio does not exceed 60 per cent.;
- (b) for Further Advances and Product Switches, the outstanding Current Balance of any Loans in the Portfolio (including the relevant Further Advances) with an interest only part does not exceed 85 per cent. of the aggregate Current Balance of the Portfolio; and
- (c) for Further Advances, the original LTV ratio (calculated by dividing Total Debt Advanced by Original Valuation) of each Loan is less than 75 per cent.

**Original Valuation** means the property valuation at the time of the latest advance or, if applicable any later valuation carried out in respect of the relevant Loan.

**Total Debt Advanced** means the total amount of debt outstanding immediately following the last advance.

### **Substitution of Loans**

Either Seller may offer the Issuer (and the Issuer shall accept) a Substitute Loan as consideration for the repurchase of a Loan which was in breach of any representation or warranty sold by such Seller to the Issuer. Any Substitute Loan will be assigned to the Issuer provided that it satisfies the Asset Conditions and the Substitution Conditions. If it is subsequently determined by the Servicer on the Monthly Test Date immediately following the Monthly Period in which the Substitution was made that any of the Asset Conditions or the following conditions (the **Substitution Conditions**) have not been met as at the last day of the Monthly Period in which the relevant Substitution Date occurred (or such breach was subsequently discovered in respect of such date) in respect of a Loan which is the subject of a Substitution and which remains in the Portfolio, then the Seller will have an obligation to remedy such breach within 60 days after receiving written notice of such breach from the Servicer. If such breach is not capable of remedy, or, if capable of remedy, is not remedied within the 60 day period, the Seller has an obligation to repurchase such Loan and its Related Security. (See "*– Repurchase by the Seller*" above for more details).

The Substitution Conditions are:

- (a) the Substitution Date falls before the Class A1 Step-Up Date;
- (b) no Event of Default has occurred and is continuing;
- (c) no Seller Insolvency Event has occurred;
- (d) if required, the Interest Rate Swap Agreement may be appropriately varied or, if appropriate, the Issuer may enter into new swaps in order to hedge against the interest rate payable on the Substitute Loan and the floating rate of interest payable on the Notes;
- (e) the Substitute Loan and its Related Security constitutes the same ranking and priority security over a Property as the security provided in respect of the relevant repurchased Loan; and
- (f) each Substitute Loan will be included in the calculation of the notional amount in respect of the Interest Rate Swap in respect of the calculation period which immediately follows the calculation period in which such Substitute Loan is added to the Portfolio.

**Substitute Loan** means a Loan and its Related Security which has been assigned to the Issuer as consideration for the repurchase of a Loan which was found to be in breach of any representation or warranty in accordance with the terms of the relevant Mortgage Sale Agreement.

**Substitution** means the substitution of a Loan following the acceptance of the Issuer of a Substitute Loan or Substitute Loans as consideration (or part consideration) for the repurchase of a Loan which was in breach of any representation or warranty.

**Substitution Date** means the date on which a Substitute Loan is assigned to the Issuer.

### **Additional Loan Conditions**

In order for any additional Loan which has been sold to the Issuer during the Further Sale Period to remain in the Portfolio, the following conditions (the **Additional Loan Conditions**) must be complied with (in addition to the Loan Warranties) as of the applicable Transfer Date in relation to such Loan. The Additional Loan Conditions will be tested on the Monthly Test Date (on the basis of the position in relation to such additional Loan as at the relevant Transfer Date) immediately following the Monthly Period in which such sale of the Loan to the Issuer took place.

The Additional Loan Conditions are:

- (a) The weighted average original LTV ratio (calculated by dividing Total Debt Advanced by the Original Valuation) of the Loans in the Portfolio does not exceed 60 per cent.;
- (b) No additional Loan sold to the Issuer during the Further Sale Period has an original LTV ratio (calculated by dividing Total Debt Advanced by Original Valuation) of greater than 75 per cent.;
- (c) The aggregate Current Balance of Loans in the Portfolio with an original LTV ratio (calculated by dividing Total Debt Advanced by the Original Valuation) of greater than 60 per cent. and less than or equal to 65 per cent. does not exceed 20 per cent. of the aggregate Current Balance of all Loans in the Portfolio;
- (d) The aggregate Current Balance of Loans in the Portfolio with an original LTV ratio (calculated by dividing Total Debt Advanced by the Original Valuation) of greater than 65 per cent. and less than or equal to 70 per cent. does not exceed 7 per cent. of the aggregate Current Balance of all Loans in the Portfolio;
- (e) The aggregate Current Balance of Loans in the Portfolio with an original LTV ratio (calculated by dividing Total Debt Advanced by the Original Valuation) of greater than 70 per cent. and less than or equal to 75 per cent. does not exceed 2 per cent. of the aggregate Current Balance of all Loans in the Portfolio;
- (f) The Portfolio does not contain more than three Loans made to any single Borrower;
- (g) The aggregate Current Balance of all Loans in the Portfolio made to a single Borrower does not exceed £3,000,000;
- (h) The aggregate Current Balance of Loans in the Portfolio made to the top ten Borrowers (based on the Current Balance of such Borrower's Loan, or where a Borrower has more than one Loan, of such Borrower's loans, in each case which are included in the Portfolio) is not more than £30,000,000;
- (i) No Loans in relation to which a receiver of rent is currently appointed by the Seller shall be included in the Portfolio;
- (j) At least six monthly payments due in respect of each Loan have been paid by the relevant Borrower;

- (k) In respect of any Loan the expected rental income arising in respect of the relevant Property is not less than 125% of the relevant monthly payment in relation to such Loan;
- (l) The aggregate Current Balance of all Interest only Loans in the Portfolio does not exceed 85per cent. of the aggregate Current Balance of all Loans in the Portfolio;
- (m) No Loan has been made for an original term of longer than 35 years from the date of origination;
- (n) No Loan has an Indexed LTV of greater than 75 per cent.;
- (o) The aggregate Current Balance of Loans in the Portfolio made to Borrowers in London and the South East does not exceed 70 per cent. of the aggregate Current Balance of all Loans in the Portfolio;
- (p) The aggregate Current Balance of Loans in the Portfolio made to Borrowers in any single region (other than London and the South East) does not exceed 15 per cent. of the aggregate Current Balance of all Loans in the Portfolio;
- (q) The aggregate Current Balance of those Loans (if any) in the Portfolio made to Borrowers in respect of a new build flats does not exceed 5 per cent. of the aggregate Current Balance of all of the Loans in the Portfolio;
- (r) The aggregate Current Balance of those Loans (if any) in the Portfolio made to Borrowers who are retired or unemployed does not exceed 10 per cent. of the aggregate Current Balance of all of the Loans in the Portfolio; and
- (s) The aggregate Current Balance of all interest only Loans in the Portfolio which mature in a single calendar year does not exceed 15 per cent. of the aggregate Current Balance of all of the Loans in the Portfolio.

#### *Annual Agreed Upon Procedures of the Portfolio*

Pursuant to the Mortgage Sale Agreement, during the Further Sale Period the Seller undertakes to procure that the Portfolio will be subject to an agreed upon procedures review to be conducted by an independent, third party firm of auditors of international standing on each anniversary of the Closing Date and the date upon which more than 40 per cent. of the Portfolio is replenished.

#### *Governing Law*

The Mortgage Sale Agreement will be governed by English law.

### **Servicing Agreement**

#### *Introduction*

On or about the Closing Date, the Servicer will be appointed by the Issuer to service the Loans and their Related Security. The Servicer must comply with any proper directions and instructions that the Issuer or, following service of a Note Acceleration Notice, the Security Trustee may from time to time give to it in accordance with the provisions of the Servicing Agreement.

The Servicer's actions in servicing the Loans and their Related Security in accordance with its procedures are binding on the Issuer. The Servicer may, in some circumstances, delegate or sub-contract some or all of its responsibilities and obligations under the Servicing Agreement. However, the Servicer remains liable at all

times for servicing the Loans and their Related Security and for the acts or omissions of any delegate or sub-contractor.

#### *Powers*

Subject to the guidelines for servicing set forth in the preceding section, the Servicer has the power, among other things:

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

#### *Undertakings by the Servicer*

The Servicer has undertaken to the Issuer and the Security Trustee, among other things, to:

- (a) service the Loans and their Related Security sold by the Seller to the Issuer as if the same had not been sold to the Issuer but had remained with the Seller in accordance with the originating, underwriting, administration, arrears and enforcement policy for their repayment applied by the Seller from time to time to such Loans and their Related Security (the **Seller's Policy**);
- (b) provide the Services in such manner and with the same level of skill, care and diligence as would a Reasonable, Prudent Mortgage Lender;
- (c) comply with any proper directions, orders and instructions which the Issuer may from time to time give to it in accordance with the provisions of the Servicing Agreement;
- (d) keep in force all approvals, authorisations, permissions, consents and licences required in order properly to service the Loans and their Related Security and to perform or comply with its obligations under the Servicing Agreement, and to prepare and submit all necessary applications and requests for any further approvals, authorisations, permissions, registrations, consents and licences required in connection with the performance of the Services under the Servicing Agreement and in particular any necessary notification under the Data Protection Act, licence under the CCA and any authorisation and permissions under the FSMA;
- (e) save as otherwise agreed with the Issuer, provide upon written request free of charge to the Issuer, office space, facilities, equipment and staff sufficient to enable the Issuer to perform its obligations under the Servicing Agreement;
- (f) not knowingly fail to comply with any legal or regulatory requirements in the performance of the Services;
- (g) make all payments required to be made by it pursuant to the Servicing Agreement on the due date for payment thereof in Sterling (or as otherwise required under the Transaction Documents) in immediately available funds for value on such day without set-off (including, without limitation, in respect of any fees owed to it) or counterclaim but subject to any deductions required by law;
- (h) not without the prior written consent of the Security Trustee amend or terminate any of the Transaction Documents save in accordance with their terms;

- (i) as soon as reasonably practicable upon becoming aware of any event which may reasonably give rise to an obligation of a Seller to repurchase any Loan sold by such Seller to the Issuer pursuant to the relevant Mortgage Sale Agreement, notify the Issuer in writing of such event;
- (j) upon the occurrence of certain events, to use best efforts (with the assistance of the Back-Up Servicer Facilitator) to appoint a back-up servicer acceptable to the Security Trustee on terms substantially the same as those set out in the Servicing Agreement, subject to any modification to comply with any applicable law or regulation as at the relevant time, or, where, taking into account the then prevailing market conditions, the Issuer determines it is not practicable to agree terms substantially the same as those set out in the Servicing Agreement, the Issuer certifies in writing to the Note Trustee and the Security Trustee, upon which certificate the Note Trustee and the Security Trustee shall be entitled to rely absolutely and without any liability to any person for so doing, that such terms are equivalent terms on which such services in respect of similar residential mortgage backed securities transactions are provided in the then current market, such certificate being conclusive and binding on all parties and provided further that neither the Note Trustee nor the Security Trustee shall be obliged to enter into any such arrangements if to do so would, in the sole opinion of the Note Trustee and/or the Security Trustee, have the effect of (a) exposing the Note Trustee and/or the Security Trustee to any Liability which it has not been indemnified and/or secured and/or prefunded to its satisfaction; or (b) increasing the obligations or duties, or decreasing the protections, of the Note Trustee and/or Security Trustee in the Transaction Documents and/or the Conditions;
- (k) on or prior to each Monthly Test Date, provide the Cash Manager and Seller with a report detailing the information relating to the Portfolio necessary to produce the Investor Report (the **Servicer Report**);
- (l) deliver to the Issuer and the Security Trustee as soon as reasonably practicable but in any event within five Business Days of becoming aware thereof a notice of any Servicer Termination Event or any event which with the giving of notice or lapse of time or certification would constitute the same.

#### *Setting of Interest Rates on the Loans*

In addition to the undertakings described above, the Servicer has also undertaken in the Servicing Agreement to determine and set, in relation to the Loans in the Portfolio, the Issuer Standard Variable Rate and any other discretionary rates or margins applicable in relation to the Loans comprising the Portfolio from time to time. The Servicer will not (except in limited circumstances) at any time set or maintain:

- (a) the Issuer Standard Variable Rate applicable to any Loans with a Standard Variable Rate in the Portfolio at rates which are higher than (although they may be equal to) the then prevailing relevant standard variable rate which applies to Loans beneficially owned by the Seller outside the Portfolio (the **Seller Standard Variable Rates** and together with the Issuer Standard Variable Rates, the **Standard Variable Rates**); or
- (b) any other discretionary rate or margin (together with the Standard Variable Rates, the **Discretionary Rates**) in respect of any other Loan in the Portfolio which is higher than (although it may equal to) the interest rate or margin of the Seller, which applies to that type of Loan beneficially owned by such Seller outside the Portfolio.

In particular, the Servicer shall determine as of each Calculation Date immediately preceding each Interest Payment Date, having regard to the aggregate of:

- (a) the revenue which the Issuer would expect to receive during the next succeeding Collection Period;

- (b) the Discretionary Rates or margins applicable in respect of the Loans which the Servicer proposes to set under the Servicing Agreement; and
- (c) the other resources available to the Issuer, including the Interest Rate Swap Agreement and the General Reserve Fund,

whether the Issuer would receive an amount of revenue during the relevant Interest Period which is less than the amount which is the aggregate of the amount of interest which would be payable in respect of the Notes on the Interest Payment Date falling at the end of that Interest Period and amounts which rank in priority thereto under the Priority of Payments.

If the Servicer determines that there would be a shortfall in the foregoing amounts, it will give written notice to the Issuer, within three Business Days of such determination of the amount of the shortfall.

If the Issuer notifies the Servicer that, having regard to the obligations of the Issuer, the Discretionary Rates should be increased, then the Servicer will take all steps which are necessary to increase the Discretionary Rates, including publishing any notice which is required in accordance with the applicable mortgage terms.

The Issuer (prior to the delivery of a Note Acceleration Notice) with the prior written consent of the Security Trustee, acting on the direction of the Note Trustee and (following delivery of a Note Acceleration Notice), the Security Trustee may terminate the authority of the Servicer under the Servicing Agreement to determine and set the Discretionary Rates on or after the occurrence of a Servicer Termination Event defined under "*Removal or Resignation of the Servicer*" below (provided that neither the Issuer nor the Security Trustee will be entitled to terminate such authority if the Servicer has been appointed as substitute servicer under any master servicing agreement), in which case the Issuer shall set the Discretionary Rates itself in accordance with the above provisions.

As soon as reasonably practicable following a Perfection Event, the Servicer shall take all steps which are necessary to set the Issuer Standard Variable Rate (including publishing any notice which is required in accordance with the Mortgage Terms to effect such change in the Issuer Standard Variable Rate) to a rate not less than Three-Month Sterling LIBOR at the most recent Rate Fixing Date falling in February, May, August or November, as applicable, plus 2.00 per cent. and thereafter the Servicer shall set the Issuer Standard Variable Rate on a quarterly basis at a rate not less than Three-Month Sterling LIBOR at the most recent Rate Fixing Date falling in February, May, August or November plus 2.00 per cent.

**Rate Fixing Date** means the first London Business Day of the relevant month.

**Issuer Standard Variable Rate** means the standard variable rate applicable to Loans in the Portfolio as set, other than in limited circumstances, by the Servicer pursuant to the Servicing Agreement.

*Reasonable, Prudent Mortgage Lender*

For the avoidance of doubt, any action taken by the Servicer to set the Discretionary Rates which are lower than that of the competitors of either of the Seller will be deemed to be in accordance with the standards of a Reasonable, Prudent Mortgage Lender.

*Compensation of the Servicer*

The Servicer receives a fee for servicing the Loans and their Related Security. So long as CBS (or any member of the CBS Group) is the Servicer, the Issuer pays to the Servicer a servicing fee (inclusive of VAT, if any) of 0.03 per cent. per annum on the aggregate Current Balance of the Loans in the Portfolio as determined on the preceding Calculation Date. The fee is payable quarterly in arrear on each Interest Payment Date in the manner contemplated by and in accordance with the Pre-Acceleration Revenue Priority

of Payments or, as the case may be, the Post-Acceleration Priority of Payments. If a substitute servicer from outside the CBS Group is appointed in accordance with the terms of the Servicing Agreement, the Issuer shall pay the successor servicer for its services a fee to be determined at the time of such appointment.

#### *Removal or Resignation of the Servicer*

The Issuer (subject to the prior written consent of the Security Trustee, acting on the direction of the Note Trustee) or, following the delivery of a Note Acceleration Notice, the Security Trustee, may, upon written notice to the Servicer, terminate the Servicer's appointment under the Servicing Agreement if any of the following events (each a **Servicer Termination Event**) occurs and while such event continues:

- the Servicer defaults in the payment on the due date of any payment due and payable by it under the Servicing Agreement and such default continues unremedied for a period of thirty Business Days after the earlier of the Servicer becoming aware of such default and receipt by the Servicer of written notice from the Issuer, the Seller or (following the delivery of a Note Acceleration Notice) the Security Trustee, as the case may be, requiring the same to be remedied;
- the Servicer defaults in the performance or observance of any of its other covenants and obligations under the Servicing Agreement, which failure in the opinion of the Note Trustee as notified to the Security Trustee is materially prejudicial to the interests of the Noteholders, and the Servicer does not remedy that failure within 30 Business Days after the earlier of the Servicer becoming aware of the failure or of receipt by the Servicer of written notice from the Issuer, either of the Seller or (following the delivery of a Note Acceleration Notice) the Security Trustee requiring the Servicer's non-compliance to be remedied provided that where the relevant default occurs as a result of a default by any person to whom the Servicer has sub-contracted or delegated part of its obligations hereunder, such default shall not constitute a Servicer Termination Event if, within such period of 30 Business Days of receipt of such notice from the Issuer and the Security Trustee, the Servicer terminates the relevant sub-contracting or delegation arrangements and takes such steps as the Issuer and (following the delivery of a Note Acceleration Notice) the Security Trustee may (in the case of the Security Trustee, acting on the directions of the Note Trustee) specify to remedy such default or to indemnify and/or secure and/or prefund the Issuer and/or the Security Trustee against the consequences of such default; or
- an insolvency event occurs in relation to the Servicer.

Subject to the fulfilment of a number of conditions, the Servicer may voluntarily resign by giving not less than 12 months' written notice to the Issuer and the Security Trustee (or such shorter time as may be agreed between the Servicer, the Issuer and the Security Trustee) provided that a substitute servicer qualified to act as such under the FSMA and the CCA and with a management team with experience of servicing residential mortgages in the United Kingdom has been appointed and enters into a servicing agreement with the Issuer substantially on the same terms as the Servicing Agreement. The resignation of the Servicer is conditional on the resignation having no adverse effect on the then current ratings of the Notes unless the Noteholders agree otherwise by Extraordinary Resolution.

If the appointment of the Servicer is terminated or the Servicer resigns, the Servicer must deliver the title deeds and customer files relating to the Loans comprised in the Portfolio in its possession to, or at the direction of, the Issuer. The Servicing Agreement will terminate at such time as the Issuer has no further interest in any of the Loans or their Related Security serviced under the Servicing Agreement that have been comprised in the Portfolio.

Neither the Note Trustee nor the Security Trustee is obliged to act as servicer in any circumstances.

### *Liability of the Servicer*

The Servicer will indemnify each of the Issuer, the Security Trustee and the Note Trustee on demand on an after-tax basis for any loss, liability, claim, expense or damage suffered or incurred by it in respect of the negligence, fraud or wilful default of the Servicer or any of its sub-contractors or delegates in carrying out its functions as Servicer under, or as a result of a breach by the Servicer of the terms and provisions of the Servicing Agreement or such other Transaction Documents to which the Servicer is a party (in its capacity as such) in relation to such functions.

### *Back-Up Servicer Facilitator*

Under the Servicing Agreement in the event that the long-term unsecured and unsubordinated debt rating of the Servicer (i) has fallen below Baa3 by Moody's (or such other lower long term rating which is otherwise acceptable to Moody's); or (ii) the long-term issuer default rating has fallen below BBB- by Fitch (or such other long term rating which is otherwise acceptable to Fitch), the Servicer, with the assistance of the Back-Up Servicer Facilitator, shall, within 60 days of the date on which the ratings of the Servicer have so fallen, use best efforts to appoint a back-up servicer which meets the requirements for a substitute servicer provided for by the Servicing Agreement identified by the Back-Up Servicer Facilitator in accordance with the provisions of the Servicing Agreement.

### *Delegation*

CBS may delegate its obligations under the Servicing Agreement to another entity within the CBS Group. CBS will not be released or discharged from any liability under the Servicing Agreement and will remain responsible for the performance of all obligations as Servicer notwithstanding any delegation under the Servicing Agreement.

### *Governing Law*

The Servicing Agreement will be governed by English law and will be made by way of deed.

### **Deed of Charge**

On the Closing Date, the Issuer will enter into the Deed of Charge with, *inter alios*, the Security Trustee.

### *Security*

Under the terms of the Deed of Charge, the Issuer will provide the Security Trustee with the benefit of, *inter alia*, the following security (the **Security**) as trustee for itself and for the benefit of the Secured Creditors (including the Noteholders):

- (a) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's right, title, interest and benefit in and to the Transaction Documents (subject to any set-off or netting provisions provided therein) (other than the Trust Deed and the Deed of Charge);
- (b) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's interest in the Loans and the Mortgages and their other Related Security and other related rights comprised in the Portfolio;
- (c) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's right, title, interest and benefit to and under insurance policies sold to the Issuer pursuant to the Mortgage Sale Agreement;



- (d) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in its bank accounts maintained with the Account Bank and any sums standing to the credit thereof;
- (e) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in all Authorised Investments permitted to be made by the Issuer; and
- (f) a floating charge over all other assets of the Issuer not otherwise subject to a fixed charge.

**Authorised Investments** means:

- (a) Sterling gilt-edged securities;
- (b) money market funds; and
- (c) Sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper),

provided that in all cases such investments will only be made such that there is no withholding or deduction for or on account of taxes applicable thereto and such investments (i) (aa) have a maturity date of 90 days or less and mature on or before the next following Interest Payment Date or within 90 days, whichever is sooner, and are rated at least F1+ (short term) and/or AA- (long term) by Fitch and at least P-1 (short term) and A1 (long term) by Moody's (or, as applicable, AAmmf by Fitch and Aaa –mf by Moody's, in respect of money market funds) or (bb) have a maturity date of 30 days or less and mature on or before the next Interest Payment Date or within 30 days, whichever is sooner, and are rated at least F1 (short term) and A (long term) by Fitch and at least P-1 (short term) and A2 (long term) by Moody's (or, as applicable, AAmmf by Fitch and Aaa –mf by Moody's, in respect of money market funds) and (ii) may be broken or demanded by the Issuer (at no cost to the Issuer) on or before the next following Interest Payment Date or within 30 or 90 days, whichever is sooner, as specified in (i) above

**Transaction Documents** means the Servicing Agreement, the Agency Agreement, the Bank Account Agreement, the Cash Management Agreement, the Corporate Services Agreement, the Deed of Charge (and any documents entered into pursuant to the Deed of Charge), the Interest Rate Swap Guarantee, the Interest Rate Swap Agreement, the Issuer Power of Attorney, the Master Definitions and Construction Schedule, the Mortgage Sale Agreement, the Seller Power of Attorney, the Trust Deed and such other related documents which are referred to in the terms of the above documents or which relate to the issue of the Notes, the transactions contained in the Transaction Documents are collectively referred to in this Prospectus as the **Transaction**.

**Secured Creditors** means the Security Trustee, the Note Trustee, the Noteholders, the Seller, the Servicer, the Back-Up Servicer Facilitator, the Cash Manager, the Interest Rate Swap Provider, any replacement interest rate swap provider, the Account Bank, the Corporate Services Provider, the Paying Agents, the Class Z VFN Registrar, the Agent Bank and any other person who is expressed in any deed supplemental to the Deed of Charge to be a secured creditor.

The floating charge created by the Deed of Charge may "crystallise" and become a fixed charge over the relevant class of assets owned by the Issuer at the time of crystallisation. Crystallisation will occur automatically following the occurrence of specific events set out in the Deed of Charge, including, among other events, when an Event of Default occurs, where crystallisation will occur on the appointment of administrative receiver or receiver or upon commencement of the winding up of the Issuer. A crystallised floating charge will rank ahead of the claims of unsecured creditors which are in excess of the prescribed part but will rank behind the expenses of any administration or liquidator, the claims of preferential creditors and the beneficiaries of the prescribed part on enforcement of the Security.

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

Prior to the Note Trustee serving a Note Acceleration Notice on the Issuer pursuant to Condition 10 (*Events of Default*) of the Notes, declaring the Notes to be immediately due and payable, the Cash Manager (on behalf of the Issuer) shall apply monies standing to the credit of the Transaction Account as described in "*Cashflows — Application of Available Revenue Receipts prior to service of a Note Acceleration Notice on the Issuer*" and "*Application of Available Principal Receipts prior to the service of a Note Acceleration Notice on the Issuer*" below.

### *Post-Acceleration Priority of Payments*

After the Note Trustee has served a Note Acceleration Notice (which has not been withdrawn) on the Issuer pursuant to Condition 10 (*Events of Default*) of the Notes, declaring the Notes to be immediately due and payable, the Security Trustee (or the Cash Manager on its behalf) shall apply the monies available in accordance with the Post-Acceleration Priority of Payments defined in "*Cashflows — Distribution of Available Principal Receipts and Available Revenue Receipts following the service of a Note Acceleration Notice on the Issuer*" below.

The Security will become enforceable following the service of a Note Acceleration Notice on the Issuer pursuant to Condition 10 (*Events of Default*) of the Notes provided that, if the Security has become enforceable otherwise than by reason of a default in payment of any amount due on the Notes, the Security Trustee will not be entitled to dispose of the assets comprised in the Security or any part thereof unless either:

- (a) the Cash Manager certifies to the Security Trustee that a sufficient amount would be realised to allow discharge in full on a *pro rata* and *pari passu* basis of all amounts owing to the Class A Noteholders and all persons ranking in priority to the Class A Noteholders as set out in the order of priority of payment below or, once all of the Class A Noteholders have been repaid, to the Class Z VFN Holder (and all persons ranking in priority thereto); or
- (b) the Security Trustee is of the opinion (which opinion shall be binding on the Secured Creditors and reached after considering at any time and from time to time the advice of any financial adviser (or such other professional adviser selected by the Security Trustee for the purpose of giving such advice) that the cashflow expected to be received by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class A Noteholders and all persons ranking in priority to the Class A Noteholders as set out in the order of priority below or, once all of the Class A Noteholders have been repaid, to the Class Z VFN Holder (and all persons ranking in priority thereto); and
- (c) the Security Trustee shall not be bound to make the determination contained herein unless the Security Trustee shall have been indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

The fees and expenses of the aforementioned financial adviser or other professional adviser selected by the Security Trustee shall be paid by the Issuer.

### *Remuneration of the Security Trustee*

In accordance with the terms of the Deed of Charge, the Issuer will pay a fee to the Security Trustee for its services under the Deed of Charge at the rate and times agreed between the Issuer and the Security Trustee together with payment of any liabilities incurred by the Security Trustee in relation to the Security Trustee's performance of its obligations under or in connection with the Deed of Charge and the other

Transaction Documents. In certain circumstances, the Issuer will also pay additional remuneration to the Security Trustee which may be calculated by reference to the Security Trustee's normal hourly rates from time to time.

#### *Governing Law*

The Deed of Charge will be governed by English law.

#### **Trust Deed**

On or about the Closing Date, the Issuer, the Note Trustee and the Security Trustee will enter into the Trust Deed pursuant to which the Issuer and the Note Trustee will agree that the Notes are subject to the provisions in the Trust Deed. The Conditions and the forms of the Notes are constituted by, and set out in, the Trust Deed.

The Note Trustee will agree to hold the benefit of the Issuer's covenant to pay amounts due in respect of the Notes on trust for the Noteholders.

In accordance with the terms of the Trust Deed, the Issuer will pay a fee to the Note Trustee for its services under the Trust Deed at the rate and times agreed between the Issuer and the Note Trustee together with payment of any liabilities incurred by the Note Trustee in relation to the Note Trustee's performance of its obligations under or in connection with the Trust Deed and the other Transaction Documents. In certain circumstances the Issuer will also pay additional remuneration to the Note Trustee which may be calculated by reference to the Note Trustee's normal hourly rates from time to time.

#### *Retirement of Note Trustee*

The Note Trustee may retire at any time upon giving not less than 60 days' notice in writing to the Issuer without assigning any reason therefor and without being responsible for any costs occasioned by such retirement. The Class A Noteholders may by Extraordinary Resolution remove all trustees (but not some only) for the time being who are acting pursuant to the Trust Deed and the Deed of Charge. The retirement of the Note Trustee shall not become effective unless there remains a trustee (being a trust corporation) in office after such retirement or being removed by Extraordinary Resolution of both the Class A1 Noteholders and the Class A2 Noteholders, at a single meeting. The Issuer will agree in the Trust Deed that, in the event of the sole trustee or the only trustee under the Trust Deed giving notice of its retirement, it shall use its best endeavours to procure a new trustee to be appointed as soon as practicable thereafter and if, after 45 days from the date the Note Trustee gives its notice of retirement or Extraordinary Resolution of the Class A Noteholders, the Issuer is not able to find such replacement, the Note Trustee will be entitled to procure that a new trustee be appointed but no such appointment shall take effect unless previously approved by Extraordinary Resolution of the Class A Noteholders.

#### *Governing Law*

The Trust Deed will be governed by English law.

#### **Agency Agreement**

On or prior to the Closing Date, the Issuer, the Note Trustee, the Principal Paying Agent, the Agent Bank, the Class Z VFN Registrar and the Security Trustee will enter into the Agency Agreement pursuant to which provision will be made for, among other things, payment of principal and interest in respect of the Notes.

## *Governing Law*

The Agency Agreement will be governed by English law.

## **Cash Management Agreement**

On the Closing Date, the Cash Manager, the Issuer, and the Security Trustee will enter into the Cash Management Agreement.

### *Cash Management Services to be Provided to the Issuer*

Pursuant to the Cash Management Agreement, the Cash Manager will agree to provide certain cash management and other services to the Issuer. The Cash Manager's principal function will be effecting payments to and from the Transaction Account. In addition, the Cash Manager will (among other things):

- (a) publish, on the website of the Cash Manager ([www.coventrybuildingsociety.co.uk](http://www.coventrybuildingsociety.co.uk)) the Investor Report, on or about the last Business Day of each month setting out certain aggregated loan data in relation to the Portfolio and, upon written request, provide the Issuer, the Note Trustee, the Security Trustee, the Seller, the Class A Noteholder and the Rating Agencies with a separate electronic copy;
- (b) calculate the Available Revenue Receipts and Available Principal Receipts of the Issuer;
- (c) calculate any Revenue Deficiency;
- (d) apply, or cause to be applied, Available Revenue Receipts, in accordance with the Pre-Acceleration Revenue Priority of Payments and Available Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments;
- (e) if required by the Security Trustee, acting in accordance with the direction of the Note Trustee apply, or cause to be applied, all amounts available to the Issuer (other than Excess Swap Collateral), Swap Collateral (to the extent not applied to reduce the payment obligations of the Interest Rate Swap Provider, Swap Credits and Replacement Swap Premium to the extent it is not applied to pay a termination payment due and payable by the Issuer) in accordance with the Post-Acceleration Priority of Payments;
- (f) record credits to, and debits from, the General Reserve Ledger, the Principal Ledger, the Revenue Ledger, the Issuer Profit Ledger, the Principal Deficiency Ledger, the Retained Principal Ledger, the Swap Collateral Ledger and the Ported Loan Repurchase Ledger as and when required;
- (g) make payments of the Further Advance Purchase Price to the Seller;
- (h) make a drawing under the Class Z VFN as required, including, without limitation, any drawing required to fund the Further Advance Purchase Price;
- (i) make any determinations required to be made by the Issuer under the Interest Rate Swap Agreement;
- (j) establish one or more swap collateral accounts if required in the event that any collateral is posted by the Interest Rate Swap Provider pursuant to the Interest Rate Swap Agreement and credit all swap collateral to the relevant swap collateral accounts (to the extent such swap collateral is not credited to the Swap Collateral Ledger on the Transaction Account);
- (k) make any determinations and calculations in respect of the Reconciliation Amount, if necessary; and

- (l) on any Business Day during the Further Sale Period, apply Principal Receipts (together with any amounts standing to the credit of the Retained Principal Ledger) to purchase Additional Loans and their Related Security provided that (in respect of any Calculation Period after the Interest Payment Date falling in March 2013) there would be no Estimated Revenue Deficiency Amount (as defined below) on the Interest Payment Date immediately following the Collection Period in which such purchase was to occur.

In addition, the Cash Manager will or, in respect of paragraph (d) below, may:

- (a) maintain the following ledgers (the **Ledgers**) on behalf of the Issuer:
- (i) the **Principal Ledger**, which will record all Principal Receipts received by the Issuer and the distribution of the Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments or the Post-Acceleration Priority of Payments (as applicable);
  - (ii) the **Revenue Ledger**, which will record all Revenue Receipts received by the Issuer and distribution of the same in accordance with the Pre-Acceleration Revenue Priority of Payments or the Post-Acceleration Priority of Payments (as applicable);
  - (iii) the **General Reserve Ledger** which will record amounts credited to the general reserve fund (the **General Reserve Fund**) from the proceeds of the Class Z VFN Holder's funding of the Class Z VFN and thereafter from Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments and withdrawals from the General Reserve Ledger on each Interest Payment Date (see "*Credit Structure — General Reserve Fund and General Reserve Fund Ledger*" below);
  - (iv) the **Principal Deficiency Ledger** which will record on the appropriate sub-ledger as a debit deficiencies arising from Losses on the Portfolio and Principal Receipts used to pay a Revenue Deficiency and record as a credit Available Revenue Receipts applied pursuant to the Pre-Acceleration Revenue Priority of Payments (if any) (which amounts shall, for the avoidance of doubt, thereupon be applied as Available Principal Receipts) (see "*Credit Structure — Principal Deficiency Ledger*" below);
  - (v) the **Retained Principal Ledger** which shall record any credits made in accordance with the Pre-Acceleration Principal Priority of Payments or arising as the proceeds of a funding under the Class Z VFN to fund the purchase of any Additional Loans and their Related Security to be sold to the issuer pursuant to the terms of the Mortgage Sale Agreement and record as a debit any amounts applied to fund the purchase of New Loans by the Issuer;
  - (vi) the **Swap Collateral Ledger** which will record as a credit amounts of Swap Collateral provided by, or on behalf of, an Interest Rate Swap Provider to the Issuer under the Interest Rate Swap Agreement and record as a debit any amounts of Swap Collateral (including any interest accrued thereon) returned to an Interest Rate Swap Provider pursuant to the Interest Rate Swap Agreement;
  - (vii) the **Issuer Profit Ledger** which shall record as a credit the Issuer Profit Amount retained by the Issuer as profit in accordance with the relevant Priority of Payments; and
  - (viii) the **Ported Loan Repurchase Ledger** which shall record as a credit any proceeds of redemption of any Loans which are ported by a Borrower (which such proceeds are not credited to the Principal Ledger at the discretion of the Servicer) and record as a debit any amount paid by the Issuer to purchase a new loan which is ported to and secured on the new Property of such Borrower, provided that if such a new loan has not been created on or

prior to the relevant Porting Deadline Date in respect of any deposit made to the Ported Loan Repurchase Ledger, such amount shall be treated as Available Principal Receipts and be distributed in accordance with the Pre-Acceleration Principal Priority of Payments or the Post-Acceleration Priority of Payments (as applicable) on the Interest Payment Date immediately following such Porting Deadline Date;

- (b) calculate on each Calculation Date the amount of Available Revenue Receipts and Available Principal Receipts to be applied on the relevant Interest Payment Date;
- (c) following the receipt of the Servicer Report from the Servicer in accordance with paragraph (k) of the section entitled "*Servicing Agreement – Undertakings of the Servicer*", provide the Issuer, the Seller, the Security Trustee, the Noteholders by publication on the CBS website at [www.coventrybuildingsociety.co.uk](http://www.coventrybuildingsociety.co.uk) (the details of which are correct as at the date of this Prospectus) and the Rating Agencies with the Investor Report on or around the final Business Day of each month; and
- (d) invest monies standing from time to time to the credit of a Bank Account in Authorised Investments as determined by the Issuer or by the Cash Manager subject to the following provisions:
  - (i) any such Authorised Investment shall be made in the name of the Issuer;
  - (ii) any costs properly and reasonably incurred in making and changing Authorised Investments will be reimbursed to the Cash Manager by the Issuer; and
  - (iii) all income and other distributions arising on, or proceeds following the disposal or maturity of, Authorised Investments shall be credited to the relevant Bank Account.

**Issuer Profit Amount** means an amount equal to £300 as at each Interest Payment Date (£1,200 per annum), less any amounts in respect of the Issuer's liability for corporation tax provided for in the Priorities of Payments.

#### *Investor Reports*

Under the Cash Management Agreement, with the assistance of the Servicer, the Cash Manager will agree, to prepare and deliver, on or around the final Business Day of each month, the Investor Report addressed to the Issuer, the Security Trustee, the Seller and the Rating Agencies setting out the payments into and out of each of the Bank Accounts and payments to other third parties.

The Investor Report will be posted on the following website (the details of which are correct as at the date of this Prospectus): [www.coventrybuildingsociety.co.uk](http://www.coventrybuildingsociety.co.uk). The website and the contents thereof do not form part of this Prospectus.

#### *Remuneration of Cash Manager*

The Cash Manager will be paid a fee (inclusive of VAT, if any) for its cash management services under the Cash Management Agreement quarterly in arrear on each Interest Payment Date. So long as CBS (or any member of the CBS Group) is the Cash Manager, the Issuer will pay to the Cash Manager a cash management fee (inclusive of VAT, if any) of 0.01 per cent. per annum on the aggregate Current Balance of the Loans in the Portfolio as determined on the preceding Calculation Date. The fee is payable quarterly in arrear on each Interest Payment Date in the manner contemplated by and in accordance with the Pre-Acceleration Revenue Priority of Payments or, as the case may be, the Post-Acceleration Priority of Payments. If a replacement cash manager from outside the CBS Group is appointed, the Issuer shall pay the replacement cash manager for its services a fee to be determined at the time of such appointment.

### *Termination of Appointment and Replacement of Cash Manager*

In certain circumstances the Issuer and (following delivery of a Note Acceleration Notice) the Security Trustee will each have the right to terminate the appointment of the Cash Manager and to appoint a substitute (the appointment of which will be subject to the Security Trustee's written approval). Any substitute cash manager will have substantially the same rights and obligations as the Cash Manager (although the fee payable to the substitute cash manager may be higher).

The Cash Management Agreement provides that on the Cash Manager ceasing to be assigned a long-term unsecured, unguaranteed and unsubordinated debt obligation rating by Moody's of at least Baa3 the Issuer shall require the Cash Manager, within 60 days, to use best efforts to appoint a back-up cash manager which meets the requirements for a substitute cash manager provided for by the Cash Management Agreement.

### *Liability of the Cash Manager*

The Cash Manager will indemnify each of the Issuer and the Security Trustee on an after-tax basis for any loss, liability, claim, expense or damage suffered or incurred by it in respect of the negligence, fraud or wilful default of the Cash Manager in carrying out its functions as Cash Manager under, or as a result of a breach by the Cash Manager of, the terms and provisions of the Cash Management Agreement or such other Transaction Documents to which the Cash Manager is a party (in its capacity as such) in relation to such functions.

### *Governing Law*

The Cash Management Agreement will be governed by English law.

### **Bank Account Agreement**

Pursuant to the terms of the Bank Account Agreement entered into on the Closing Date between the Issuer, the Account Bank, the Cash Manager and the Security Trustee, the Issuer will maintain with the Account Bank the Transaction Account and (where appropriate) any swap collateral account(s), which will be operated by the Cash Manager (on behalf of the Issuer) in accordance with the Cash Management Agreement, the Deed of Charge and the Interest Rate Swap Agreement.

All amounts received from Borrowers in respect of Loans in the Portfolio will be paid into the Transaction Account from the Seller's collection account and credited to the Revenue Ledger or the Principal Ledger, as the case may be, and as set out in the Cash Management Agreement. On each Interest Payment Date, amounts will be transferred from the Transaction Account and applied by the Cash Manager pursuant to the Cash Management Agreement and in accordance with the Priorities of Payments described below under "*Cashflows*".

If at any time the short-term unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank are downgraded below the Account Bank Rating, the Issuer will be required (within 30 days) to arrange for the transfer (at its own cost) of the Bank Accounts to an appropriately rated bank or financial institution on substantially similar terms to those set out in the Bank Account Agreement in order to maintain the ratings of the Notes at their then current ratings.

The Bank Account Agreement may be terminated in other circumstances by the Cash Manager or the Issuer (in each case with the consent of the Security Trustee) including the occurrence of an insolvency event in respect of the Account Bank or default by the Account Bank in the performance of its obligations under the Bank Account Agreement which continues unremedied for a period of 20 Business Days after receiving notice or becoming aware of such default.

The Bank Account Agreement will be governed by English law.

**Account Bank Rating** means a short-term issuer default rating of F1 by Fitch and a short-term unsecured, unsubordinated and unguaranteed default debt rating of P-1 by Moody's and a long-term issuer default rating of A by Fitch and a long-term unsecured, unsubordinated and unguaranteed debt rating of A2 by Moody's (if a short-term rating is assigned by Moody's) or A1 by Moody's (if no short-term rating is assigned by Moody's), or, in each case, such other rating as may from time to time be specified in the most recently published Rating Agency criteria as being required to maintain the then current rating of the Class A Notes.

### **The Corporate Services Agreement**

On or prior to the Closing Date, *inter alia*, the Issuer and the Corporate Services Provider will enter into the Corporate Services Agreement pursuant to which the Corporate Services Provider will provide the Issuer and Holdings with certain corporate and administrative functions against the payment of a fee. Such services include, *inter alia*, the performance of all general book-keeping, secretarial, registrar and company administration services for the Issuer and Holdings (including the provision of directors), the providing of the directors with information in connection with the Issuer and Holdings and the arrangement for the convening of shareholders' and directors' meetings.

#### *Governing Law*

The Corporate Services Agreement will be governed by English law.

### **Interest Rate Swap Agreement**

For a description of the Interest Rate Swap Agreement see "*Credit Structure*" below.

### **Interest Rate Swap Guarantee**

Pursuant to the terms of an interest rate swap guarantee, CBS in its capacity as the Interest Rate Swap Guarantor will provide a guarantee as primary obligor in favour of Godiva (as Interest Rate Swap Counterparty) (the **Interest Rate Swap Guarantee**) in respect of the payment and delivery obligations of the Interest Rate Swap Provider under the Interest Rate Swap Agreement. The amount payable by the Interest Rate Swap Guarantor will be limited to a maximum amount equal to the sum of all amounts payable by the Interest Rate Swap Provider under the Interest Rate Swap and, if any withholding or deduction is required by law for or on account of any tax, such additional amounts as may be necessary in order that the net amount received by the Issuer shall equal the full amount which would have been receivable in respect of the Interest Rate Swap in the absence of such withholding or deduction.

For further information on the Interest Rate Swap Guarantee, see the section headed "*Credit Structure*" for more detail.



## CREDIT STRUCTURE

The Notes are obligations of the Issuer only. The Notes are not obligations of, or the responsibility of, or guaranteed by, any person other than the Issuer. In particular, the Notes are not obligations of, or the responsibility of, or guaranteed by, any of the Seller, the Interest Rate Swap Provider, the Arranger, the Servicer, the Cash Manager, the Account Bank, the Principal Paying Agent, any other paying Agent, the Agent Bank, the Class Z VFN Registrar, the Note Trustee, the Security Trustee, any company in the same group of companies as any such entities or any other party to the Transaction Documents. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by any of the Seller, the Interest Rate Swap Provider, the Arranger, the Servicer, the Cash Manager, the Account Bank, the Principal Paying Agent, any other Paying Agents, the Agent Bank, the Class Z VFN Registrar, the Note Trustee, the Security Trustee or by any other person other than the Issuer.

The structure of the credit support arrangements may be summarised as follows:

### 1. Credit Support for the Notes provided by Available Revenue Receipts

It is anticipated that, during the life of the Notes, the interest payable by Borrowers on the Loans will, assuming that all of the Loans are fully performing, be sufficient so that the Available Revenue Receipts will be sufficient to pay the amounts payable under items (a) to (p) (inclusive) of the Pre-Acceleration Revenue Priority of Payments. The actual amount of any excess payable under item (p) of the Pre-Acceleration Revenue Priority of Payments will vary during the life of the Notes. Two of the key factors determining such variation are the interest rates applicable to the Loans in the Portfolio (as to which, see "*Interest Rate Risk for the Notes*" below) and the performance of the Portfolio.

Available Revenue Receipts may be applied (after making payments or provisions ranking higher in the Pre-Acceleration Revenue Priority of Payments) on each Interest Payment Date in accordance with the Pre-Acceleration Revenue Priority of Payments, towards reducing any Principal Deficiency Ledger entries which may arise from Losses on the Portfolio.

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

### 2. General Reserve Fund and General Reserve Ledger

On the Closing Date, the Issuer will establish a fund called the **General Reserve Fund** to provide credit enhancement for the Class A Notes which will be credited with the General Reserve Required Amount on the Closing Date. The General Reserve Fund will be funded from the proceeds of the Class Z VFN Holder's funding of the Class Z VFN on the Closing Date and following the Closing Date, to the extent required in connection with Further Advances, Substitutions or Product Switches from time to time. To the extent required, the General Reserve Fund may also be funded from the proceeds of additional funding under the Class Z VFN from time to time following the Closing Date. There is no obligation on Godiva, as Class Z VFN Holder, to make available any further drawings under the Class Z VFN to fund the General Reserve Fund. The General Reserve Fund will be deposited in the Transaction Account (with a corresponding credit being made to the General Reserve Ledger). The Cash Manager on behalf of the Issuer may invest the amounts standing to the credit of the Transaction Account in Authorised Investments. For more information about the application of the amounts standing to the credit of the General Reserve Fund, see the section "*Cashflows – Application of Monies Released from the General Reserve Fund*" below.

The Cash Manager will maintain the General Reserve Ledger pursuant to the Cash Management Agreement to record the balance from time to time of the General Reserve Fund.

After the Closing Date, the General Reserve Fund will be funded up to the General Reserve Required Amount from Available Revenue Receipts and will be replenished from Available Revenue Receipts in accordance with the provisions of the Pre-Acceleration Revenue Priority of Payments on every Interest Payment Date.

The **General Reserve Required Amount** will be an amount equal to £39,700,000 on the Closing Date (being an amount at least equal to 2.5 per cent. of the Current Balance of the Portfolio as at the Closing Date) and will be maintained at such amount on each subsequent Interest Payment Date. On any Interest Payment Date on which the Class A Notes are fully repaid or provided for, the General Reserve Required Amount will be reduced to zero.

On any Interest Payment Date on which the Class A Notes are fully repaid or provided for, the Issuer will not be required to maintain the General Reserve Fund and any amounts held in the General Reserve Fund will form part of Available Revenue Receipts and will be applied in accordance with the Pre-Acceleration Revenue Priority of Payments.

### 3. Use of Principal Receipts to pay Revenue Deficiency

On each Calculation Date, the Cash Manager will calculate whether the aggregate of items (a) to (h) less (i) of the definition of Available Revenue Receipts is insufficient to pay items (a) to (f) and provided that there is no outstanding balance on the Class A Principal Deficiency Ledger, items (g) of the Pre-Acceleration Revenue Priority of Payments. If there is a deficit (the **Revenue Deficiency**), then the Issuer (or the Cash Manager on its behalf) shall pay or provide for that Revenue Deficiency by the application of amounts standing to the credit of the Principal Ledger, if any, and the Cash Manager shall make a corresponding entry in the relevant Principal Deficiency Ledger, as described in "*Principal Deficiency Ledgers*" below as well as making a debit in the Principal Ledger. Any such entry and debit shall be made and taken into account prior to the application of Available Principal Receipts on the relevant Interest Payment Date. For more information about the application of Principal Receipts to pay a Revenue Deficiency, see the section "*Cashflows – Applications of Principal Receipts to Revenue Deficiency*".

### 4. Principal Deficiency Ledgers

A Principal Deficiency Ledger, comprising two sub ledgers, known as the Class A Principal Deficiency Ledger (relating to each of the Class A Notes) (the **Class A Principal Deficiency Ledger**) and the Class Z VFN Principal Deficiency Ledger (the **Class Z VFN Principal Deficiency Ledger**, each a **Principal Deficiency Ledger** and, together, the **Principal Deficiency Ledgers**), will be established on the Closing Date in order to record any Losses on the Portfolio as allocated against each of the Classes of Notes referenced above and/or the application of Principal Receipts to pay any Revenue Deficiency and/or on an Interest Payment Date to fund senior expenses and interest payments on the Class A Notes. Losses or debits recorded on the Class A Principal Deficiency Ledger shall be recorded in respect of the Class A Notes. Losses or debits recorded on the Class Z VFN Principal Deficiency Ledger shall be recorded in respect of the Class Z VFN. Losses of principal to be credited to the Principal Deficiency Ledger will be calculated after applying any recoveries to outstanding interest amounts due and payable on the relevant Loan.

The application of any Principal Receipts to meet any Losses on the Portfolio will be recorded as a debit:

- (a) first, to the Class Z VFN Principal Deficiency Ledger up to a maximum of the Class Z VFN Principal Deficiency Limit; and

(b) second, to the Class A Principal Deficiency Ledger.

**Losses** means all realised losses in respect of a Loan after enforcement of that Loan.

Realised losses will be calculated after applying any recoveries following enforcement of a Loan (but on or prior to the completion of enforcement proceedings in respect of such Loan) to outstanding fees and interest amounts due and payable on the relevant Loan.

**Class Z VFN Principal Deficiency Limit** means the Principal Amount Outstanding of the subscription under the Class Z VFN used to fund the Current Balance (calculated as at the Closing Date) of the Loans.

Amounts allocated to each Principal Deficiency Ledger shall be reduced to the extent of Available Revenue Receipts available for such purpose on each Interest Payment Date in accordance with the Pre-Acceleration Revenue Priority of Payments. Such amounts will be applied in repayment of principal as Available Principal Receipts in accordance with the Pre-Acceleration Principal Priority of Payments.

## 5. Available Receipts

To the extent that the Available Revenue Receipts and Available Principal Receipts are sufficient on any Calculation Date, they shall be paid on the immediately following Interest Payment Date to the persons entitled thereto (or a relevant provision made) in accordance with the Pre-Acceleration Revenue Priority of Payments or the Pre-Acceleration Principal Priority of Payments, as applicable. It is not intended that any surplus will be accumulated in the Issuer, which for the avoidance of doubt does not include the Issuer Profit Amount which the Issuer expects to generate each accounting period as its profit in respect of the business of the Issuer or the amounts standing to the credit of the General Reserve Ledger.

If, on any Interest Payment Date whilst there are Class A Notes outstanding, the Issuer has insufficient Available Revenue Receipts to pay the interest otherwise due on the Class Z VFN then the Issuer will be entitled under Condition 17 (*Subordination by Deferral*) to defer payment of that amount (to the extent of the insufficiency) until the following Interest Payment Date. Such deferral will not constitute an Event of Default. If there are no Class A Notes then outstanding, the Issuer will not be entitled to defer payments of interest in respect of the Class Z VFN.

Failure to pay interest on the Class A Notes (or the Class Z VFN where the Class A Notes have been redeemed in full) within any applicable grace period in accordance with the Conditions shall constitute an Event of Default under the Notes which may result in the Security Trustee enforcing the Security.

## 6. Transaction Account

Pursuant to the Bank Account Agreement, the Account Bank will pay interest on funds in the Transaction Account at a rate per annum equal to the rate of interest accruing on the balance standing to the credit of the Transaction Account equal to the Bank of England base rate minus 0.05 per cent. (the **Transaction Account Rate**). The Account Bank may at any time apply a new rate of interest to the Transaction Account, which new rate shall be effective on a date not less than 30 Business Days after the Account Bank has given written notice to the Issuer of the same. The Cash Manager, on behalf of the Issuer, may invest amounts standing to the credit of the Transaction Account in Authorised Investments.

If, at any time the short-term unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank are downgraded below the Account Bank Rating, the Issuer will be required (within 30 days) to transfer (at its own cost) the Transaction Account to an appropriately rated bank or financial institution on substantially similar terms to those set out in the Bank Account Agreement, in order to maintain the ratings of the Notes at their then current ratings.

## 7. Interest Rate Risk for the Notes

Some of the Loans in the Portfolio pay a fixed rate of interest for a period of time. Other Loans in the Portfolio pay a variable rate of interest, a capped rate of interest or a rate of interest which tracks a variable rate such as the Bank of England base rate. However, the interest rate payable by the Issuer with respect to the Notes is an amount calculated by reference to Three-Month Sterling LIBOR.

To provide a hedge against the possible variance between:

- (a) the various rates of interest payable on the Loans in the Portfolio; and
- (b) a rate of interest calculated by reference to Three-Month Sterling LIBOR,

the Issuer will enter into the Interest Rate Swap with the Interest Rate Swap Provider on the Closing Date.

The Interest Rate Swap will be governed by the Interest Rate Swap Agreement.

### Interest Rate Swap

Under the Interest Rate Swap, for each Interest Period falling prior to the termination date of the Interest Rate Swap, the following amounts will be calculated:

- (a) the sum of the amounts produced by applying, for each of the Interest Periods Three-Month Sterling LIBOR (or in respect of the Interest Period ending on or around 7 March 2013, the linear interpolation of Two-Month Sterling LIBOR and Three-Month Sterling LIBOR) plus a spread to the Swap Notional Amount of the Interest Rate Swap for such Interest Period (the **Swap Provider Amount**); and
- (b) the aggregate of the amounts (the **Issuer Amount**) produced, for each of the Interest Periods as a result of the product of (A) the sum of (i) the weighted average fixed rate of interest (as defined in the Interest Rate Swap) multiplied by the ratio of Fixed Rate Loans in the Portfolio; (ii) the weighted average variable rate of interest (as defined in the Interest Rate Swap) multiplied by the ratio of Variable Rate Loans in the Portfolio; (iii) the weighted average tracker rate of interest (as defined in the Interest Rate Swap) multiplied by the ratio of Tracker Rate Loans in the Portfolio; and (iv) the weighted average capped rate of interest (as defined in the Interest Rate Swap) multiplied by the ratio of Capped Rate Loans in the Portfolio, (B) the Swap Notional Amount and (C) the day count fraction specified in the Interest Rate Swap and in each case for the relevant Interest Period.

After these two amounts are calculated in relation to an Interest Period, the following payments will be made on the relevant Interest Payment Date:

- (a) if the Swap Provider Amount for that Interest Payment Date is greater than the Issuer Amount for that Interest Payment Date, then the Interest Rate Swap Provider will pay the difference to the Issuer;
- (b) if the Issuer Amount for that Interest Payment Date is greater than the Swap Provider Amount for that Interest Payment Date, then the Issuer will pay the difference to the Interest Rate Swap Provider; and
- (c) if the two amounts are equal, neither party will make a payment to the other.

If a payment is to be made by the Interest Rate Swap Provider, that payment will be included in the Available Revenue Receipts and will be applied on the relevant Interest Payment Date according to the relevant

Priority of Payments. If a payment is to be made by the Issuer, it will be made according to the relevant Priority of Payments of the Issuer.

For the purposes of calculating both the Issuer Amount and Swap Provider Amount, the notional amount (the **Swap Notional Amount**) of the Interest Rate Swap will be an amount in Sterling equal to the product of (i) the Performance Ratio and (ii) the average daily aggregate Current Balance of the Loans in the Portfolio during the relevant Collection Period.

The **Performance Ratio** means in respect of a Collection Period, the lesser of (i) (A) the greater of (x) zero; and (y) the sum of all payments received in respect of each Loan in the Portfolio during that Collection Period, divided by (B) the sum of all payments due in respect of each Loan in the Portfolio during that Collection Period; and (ii) 1.

Subject to the circumstances described below, unless an Early Termination Event (as defined below), occurs, the Interest Rate Swap will terminate on the earlier of (i) the Final Maturity Date of the Notes, (ii) the date on which the aggregate Principal Amount Outstanding of the Class A Notes is reduced to zero (iii) the date on which the Swap Notional Amount falls to zero and (iv) the date on which the Security Trustee has enforced the security over the Class A Notes and distributed the proceeds thereof in full. In the event that the Interest Rate Swap is terminated prior to the service of a Note Acceleration Notice or the date on which the aggregate Principal Amount Outstanding of the Notes is reduced to zero, the Issuer shall enter into replacement interest rate swaps subject to Security Trustee consent in accordance with the provisions set out in the Deed of Charge and outlined below.

Under the terms of the Interest Rate Swap Agreement, in the event that the relevant rating(s) of the Interest Rate Swap Provider (or its guarantor, if applicable) assigned by a Rating Agency is or are below the rating specified in the Interest Rate Swap Agreement (in accordance with the requirements of the Rating Agencies) (the **Required Swap Ratings**), the Interest Rate Swap Provider will, in accordance with the Interest Rate Swap Agreement, be required to take certain remedial measures within the timeframe stipulated in the Interest Rate Swap Agreement and at its own cost which may include providing collateral for its obligations under the Interest Rate Swap Agreement, arranging for its obligations under the Interest Rate Swap Agreement to be transferred to an entity with the Required Swap Ratings, procuring another entity with the Required Swap Ratings to become co-obligor or guarantor, as applicable, in respect of its obligations under the Interest Rate Swap Agreement or taking such other action that would result in the rating of the Class A Notes being maintained at, or restored to, the level it would have been at prior to such rating being assigned by the relevant Rating Agency.

The Interest Rate Swap Agreement may be terminated in certain circumstances, including the following, each as more specifically defined in the Interest Rate Swap Agreement (an **Early Termination Event**):

- (a) if there is a failure by a party to pay amounts due under an Interest Rate Swap Agreement and any applicable grace period has expired;
- (b) if certain insolvency events occur with respect to a party;
- (c) if a breach of a provision of the Interest Rate Swap Agreement by the Interest Rate Swap Provider is not remedied within the applicable grace period;
- (d) if a change of law results in the obligations of one of the parties becoming illegal;
- (e) in certain circumstances, if a deduction or withholding for or on account of taxes is imposed on payments under the Interest Rate Swap due to change in law or if certain tax representations made by the Interest Rate Swap Provider prove to have been incorrect or misleading in any material respect;

- (f) if the Interest Rate Swap Provider is downgraded and fails to comply with the requirements of the downgrade provisions contained in the Interest Rate Swap Agreement and described above;
- (g) the earlier to occur of (i) an acceleration in respect of the Notes and (ii) service by the Note Trustee of a Note Acceleration Notice on the Issuer pursuant to Condition 10 (*Events of Default*) of the Notes;
- (h) if there is a redemption of the all of the Class A Notes pursuant to Condition 7.3 (*Optional Redemption of the Class A Notes*) or Condition 7.4 (*Optional Redemption of the Class A Notes for Taxation or Other Reasons*); and
- (i) if any of the Transaction Documents is amended in any material respect in a manner detrimental to the Interest Rate Swap Provider's interests (other than with the prior written consent of the Interest Rate Swap Provider).

Upon an early termination of the Interest Rate Swaps, depending on the type of Early Termination Event and circumstances prevailing at the time of termination, the Issuer or the Interest Rate Swap Provider may be liable to make a termination payment to the other. This termination payment will be calculated and made in Sterling. The amount of any termination payment will be based on the market value of the terminated swaps as determined on the basis of quotations sought from leading dealers as to the costs of entering into a transaction with the same terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (or based upon a good faith determination of total losses and costs (or gains) if an insufficient number of quotations can be obtained or if basing the valuation on quotations would not produce a commercially reasonable result) and will include any unpaid amounts that became due and payable prior to the date of termination, taking account of any collateral transferred by the Interest Rate Swap Provider to the Issuer.

Depending on the terms of the Interest Rate Swaps and the circumstances prevailing at the time of termination, any such termination payment could be substantial and may affect the funds available to pay amounts due to the Noteholders.

The Interest Rate Swap Provider may, subject to certain conditions specified in the Interest Rate Swap Agreement including (without limitation) the satisfaction of certain requirements of the Rating Agencies and prior written consent of the Issuer, transfer its obligations under the Interest Rate Swap Agreement to another entity with the Required Swap Ratings as specified in the Interest Rate Swap Agreement.

The Issuer is not obliged under the Interest Rate Swap Agreement to gross up payments made by it if a withholding or deduction for or on account of taxes is imposed on payments made under the Interest Rate Swaps.

The Interest Rate Swap Provider will generally be obliged to gross up payments made by it to the Issuer if a withholding or deduction for or on account of tax is imposed on payments made by it under the Interest Rate Swaps. However, if the Interest Rate Swap Provider is required to gross up a payment under the Interest Rate Swaps due to a change in the law, the Interest Rate Swap Provider may terminate the Interest Rate Swaps.

The Interest Rate Swap Agreement may not be terminated and any replacement interest rate swap agreement or, as the case may be, replacement interest rate swap agreements may not be entered into unless the Security Trustee is satisfied that:

- (a) the terms of the replacement interest rate swap agreement or interest rate swap agreements have the same effect as the terms of the Interest Rate Swap Agreement in respect of any obligation

(whether absolute or contingent) to make payment or delivery to the Issuer after the effective date of such transfer;

- (b) the terms of the replacement interest rate swap agreement or interest rate swap agreements, insofar as the terms do not relate to payment or delivery obligations, are, in all material respects, no less beneficial for the Issuer than the terms of the Interest Rate Swap Agreement immediately before such transfer; and
- (c) the ratings of the Class A Notes at that time outstanding will not be downgraded, withdrawn or qualified as a result of the entering into of the replacement interest rate swap agreement or interest rate swap agreements.

The Security Trustee will be satisfied with (a), (b) and (c) above and will provide its consent if it has received a certificate from the Cash Manager certifying, *inter alia*, the matters set out in (a), (b) and (c) above, that the Cash Manager has notified the Rating Agencies of the intention to enter into the replacement interest rate swap agreement or interest rate swap agreements and has not, within 14 days of such notification, received any written notification from the Rating Agencies that such replacement interest rate swap agreement would cause the then current ratings of the Class A Notes to be downgraded and that, in the Cash Manager's opinion, the ratings of the Class A Notes at all times outstanding will not be downgraded, withdrawn or qualified as a result of the entering into of the replacement interest rate swap agreement. For the avoidance of doubt, the Interest Rate Swap Agreement may be novated either in whole or in part to different replacement swap providers. The Security Trustee shall be entitled to rely on any such certificate provided by the Cash Manager as described above without further investigation and with no liability to any person for so doing.

The Interest Rate Swap Agreement and any non-contractual obligations arising out of or in connection with it will be governed by English law.

Under a guarantee (the **Interest Rate Swap Guarantee**) in relation to, and dated on or about, the Closing Date, the Interest Rate Swap Guarantor will guarantee in favour of the Issuer the payment and delivery obligations of the Interest Rate Swap Provider, or its successor, assignee or transferee, under the Interest Rate Swap Agreement. The Interest Rate Swap Guarantee will terminate upon the earliest to occur of: (i) the Interest Rate Swap Provider, or its successor, assignee or transferee, satisfying the relevant requirements of each Rating Agency such that the ratings of the Notes would not be withdrawn, qualified or downgraded if the Interest Rate Swap Guarantee was terminated; (ii) the Interest Rate Swap Provider, or its successor, assignee or transferee, procuring another person to become co-obligor or guarantor in respect of its payment and delivery obligations under the Interest Rate Swap Agreement, whose procurement would not cause the ratings of the Notes to be withdrawn, qualified or downgraded due to such person satisfying the relevant requirements of each Rating Agency and, in the case of a guarantee, such guarantee satisfying the relevant requirements of each Rating Agency in respect of guarantees; (iii) the obligations of the Interest Rate Swap Provider, or its successor, assignee or transferee, under the Interest Rate Agreement being irrevocably discharged in full; or (iv) the Interest Rate Swap Provider, or its successor, assignee or transferee, assigning or novating any of its rights, undertakings or obligations under the Interest Rate Swap Agreement without the express written consent of the Issuer and the notification of such assignment or novation to Fitch. The Issuer may not assign or novate any of its rights, undertakings or obligations under the Interest Rate Swap Guarantee without the express written consent of the Interest Rate Swap Guarantor (save in respect of an assignment by way of security by the Issuer in favour of the Security Trustee pursuant to the Deed of Charge). The Interest Rate Swap Agreement and the Interest Rate Swap Guarantee are governed by English law.

## CASHFLOWS

### Definition of Revenue Receipts

**Revenue Receipts** means (a) payments of interest and other fees due from time to time under the Loans (including Early Repayment Fees and any Arrears of Interest) and other amounts received by the Issuer in respect of the Loans other than Principal Receipts, (b) recoveries of interest from defaulting Borrowers under Loans being enforced and (c) recoveries of any amounts (including any interest and principal amounts) from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed if such recoveries are identifiable by the Seller as pertaining to a Loan in the Portfolio.

### Definition of Available Revenue Receipts

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

- (a) Revenue Receipts received during the immediately preceding Collection Period or, if in a Determination Period, Calculated Revenue Receipts, in each case, excluding any Reconciliation Amounts to be applied as Available Principal Receipts on that Interest Payment Date;
- (b) interest payable to the Issuer on the Bank Accounts (excluding any interest accrued on amounts credited to the Swap Collateral Ledger) and income from any Authorised Investments in each case received during the immediately preceding Collection Period;
- (c) amounts received by the Issuer under the Interest Rate Swap Agreement (other than (i) any early termination amount received by the Issuer under the Interest Rate Swap Agreement which is to be applied in acquiring a replacement swap, (ii) in the case of the Interest Rate Swap Agreement, Excess Swap Collateral or Swap Collateral, except to the extent that the value of such Swap Collateral has been applied, pursuant to the provisions of the Interest Rate Swap Agreement, to reduce the amount that would otherwise be payable by the Interest Rate Swap Provider to the Issuer on early termination of the Interest Rate Swaps under the Interest Rate Swap Agreement and, to the extent so applied in reduction of the amount otherwise payable by the Interest Rate Swap Provider, such Swap Collateral is not to be applied in acquiring a replacement swap, (iii) any Replacement Swap Premium but only to the extent applied directly to pay any termination payment due and payable by the Issuer to the Interest Rate Swap Provider and (iv) amounts in respect of Swap Tax Credits on such Interest Payment Date);
- (d) the amounts standing to the credit of the General Reserve Ledger as at the last day of the immediately preceding Collection Period;
- (e) other net income of the Issuer received during the immediately preceding Collection Period, excluding any Principal Receipts (except for amounts deemed to be Available Revenue Receipts in accordance with paragraph (d) of the Pre-Acceleration Principal Priority of Payments);
- (f) amounts deemed to be Available Revenue Receipts in accordance with paragraph (e) of the Pre-Acceleration Principal Priority of Payments;
- (g) amounts credited to the Transaction Account on the immediately preceding Interest Payment Date in accordance with paragraph (n) of the Pre-Acceleration Revenue Priority of Payments;
- (h) following a Determination Period, any Reconciliation Amounts deemed to be Available Revenue Receipts in accordance with Condition 5.9(c);



less:

- (i) amounts applied from time to time during the immediately preceding Collection Period in making payment of certain monies which properly belong to third parties (including the Seller) such as (but not limited to):
  - (i) payments of certain insurance premiums provided that such cash amounts have been paid by the relevant Borrower and form part of Revenue Receipts;
  - (ii) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup such amount itself from its customer's account;
  - (iii) payments by the Borrower of any fees (including Early Repayment Fees) and other charges which are due to the Seller; and
  - (iv) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service to that Borrower or the Seller,

(items within (i) of the definition of Available Revenue Receipts being collectively referred to herein as **Third Party Amounts**). Third Party Amounts may be deducted by the Cash Manager on a daily basis from the Transaction Account to make payment to the persons entitled thereto except where such payments have already been provided for elsewhere;

plus

- (j) if a Revenue Deficiency occurs such that the aggregate of items (a) to (h) less (i) above is insufficient to pay or provide for items (a) to (g) or, if there is an outstanding balance on the Class A Principal Deficiency Ledger items (a) to (f) of the Pre-Acceleration Revenue Priority of Payments, Available Principal Receipts in an aggregate amount sufficient to cover such Revenue Deficiency.

#### **Application of Monies Released from the General Reserve Fund**

Prior to service of a Note Acceleration Notice on the Issuer, monies standing to the credit of the General Reserve Ledger as at the end of the immediately preceding Collection Period will be applied on each Interest Payment Date as Available Revenue Receipts in accordance with the Pre-Acceleration Revenue Priority of Payments. Following service of a Note Acceleration Notice on the Issuer, monies standing to the credit of the General Reserve Ledger will be applied in accordance with the Post-Acceleration Priority of Payments.

#### **Application of Principal Receipts to pay Revenue Deficiency**

Prior to service of a Note Acceleration Notice on the Issuer, monies standing to the credit of the Principal Ledger as at the end of the immediately preceding Collection Period may be applied on each Interest Payment Date to make payments to items (a) to (g) or if there is an outstanding balance on the Class A Principal Deficiency Ledger items (a) to (f) of the Pre-Acceleration Revenue Priority of Payments in an amount equal to the Revenue Deficiency on such Interest Payment Date.

If any amounts are applied from the Principal Ledger to pay or provide for a Revenue Deficiency on any Interest Payment Date, the Issuer (or the Cash Manager on its behalf) will make a corresponding entry in the relevant Principal Deficiency Ledger.

Following service of a Note Acceleration Notice on the Issuer, monies standing to the credit of the Principal Ledger will be applied in accordance with the Post-Acceleration Priority of Payments.

### **Application of Monies following redemption of the Notes in full**

On any Optional Redemption Date (which is not an Interest Payment Date) on which the Notes are repaid or provided for in full, the Issuer (or the Cash Manager on its behalf) shall apply all amounts standing to the credit of any Bank Account of the Issuer to repay any liabilities of the Issuer and to discharge all other amounts required to be paid by the Issuer in accordance with the order of priority set out in the Pre-Acceleration Revenue Priority of Payments.

### **Application of Available Revenue Receipts Prior to the Service of a Note Acceleration Notice on the Issuer**

On each relevant Interest Payment Date prior to the service of a Note Acceleration Notice by the Note Trustee on the Issuer, the Cash Manager, on behalf of the Issuer, shall apply or provide for the application of the Available Revenue Receipts in the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full (the **Pre-Acceleration Revenue Priority of Payments**):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any fees, costs, charges, liabilities, expenses and all other amounts then due or to become due and payable in the immediately succeeding Interest Period to the Note Trustee and any Appointee under the provisions of the Trust Deed and the other Transaction Documents together with (if payable) value added tax (**VAT**) thereon as provided therein; and
  - (ii) any fees, costs, charges, liabilities, expenses and all other amounts then due or to become due and payable in the immediately succeeding Interest Period to the Security Trustee and any Appointee under the provisions of the Deed of Charge and the other Transaction Documents together with (if payable) VAT thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Agent Bank and the Paying Agents, and any fees, costs, charges, liabilities, expenses and all other amounts then due or to become due and payable in the immediately succeeding Interest Period to them under the provisions of the Agency Agreement, together with (if payable) VAT thereon as provided therein;
  - (ii) any amounts then due and payable to the Corporate Services Provider and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Corporate Services Provider in the immediately succeeding Interest Period under the provisions of the Corporate Services Agreement, together with (if payable) VAT thereon as provided therein;
  - (iii) any amounts then due and payable to the Back-Up Servicer Facilitator and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Back-Up Servicer Facilitator in the immediately succeeding Interest Period under the provisions of the Servicing Agreement, together with (if payable) VAT thereon as provided therein; and
  - (iv) any amounts then due and payable to the Account Bank and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Account Bank in the immediately succeeding Interest Period under the provisions of the Bank Account Agreement, together with (if applicable) VAT thereon as provided therein;

- (c) *third*, in or towards satisfaction of any amounts then due and payable to the Class Z VFN Registrar and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Class Z VFN Registrar in the immediately succeeding Interest Period under the provisions of the Agency Agreement, together with (if payable) VAT thereon as provided therein;
- (d) *fourth*, in or towards satisfaction of any amounts due and payable by the Issuer to third parties and incurred without breach by the Issuer of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and any amounts necessary to provide for any such amounts expected to become due and payable by the Issuer in the immediately succeeding Interest Period and any amounts required to pay or discharge any liability of the Issuer for corporation tax on any income or chargeable gain of the Issuer (but only to the extent not capable of being satisfied out of amounts retained by the Issuer under item (l) below));
- (e) *fifth*, to provide for amounts due on the relevant Interest Payment Date, to pay, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any amounts then due and payable to the Servicer and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the immediately succeeding Interest Period under the provisions of the Servicing Agreement, together with VAT (if payable) thereon as provided therein; and
  - (ii) any amounts then due and payable to the Cash Manager and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding Interest Period under the provisions of the Cash Management Agreement, together with VAT (if payable) thereon as provided therein;
- (f) *sixth*, to provide for amounts due on the relevant Interest Payment Date, to pay, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any amounts due to the Interest Rate Swap Provider in respect of the Interest Rate Swap Agreement including any termination payment due and payable by the Issuer to the extent it is not satisfied by the payment by the Issuer to the Interest Rate Swap Provider of any Replacement Swap Premium or amounts standing to the credit of the Swap Collateral Ledger or (as applicable) swap collateral account(s) but excluding, if applicable, any related Interest Rate Swap Excluded Termination Amount;
- (g) *seventh*, to provide for amounts due on the relevant Interest Payment Date, to pay *pro rata* and *pari passu* according to the respective Principal Amount Outstanding thereof interest due and payable on the Class A1 Notes and the Class A2 Notes;
- (h) *eighth*, provided such Interest Payment Date is not the final interest payment date of the transaction, to credit the General Reserve Ledger up to the General Reserve Required Amount;
- (i) *ninth*, to credit (so long as any Class A Notes will remain outstanding following such Interest Payment Date) the Class A Principal Deficiency Ledger in an amount sufficient to eliminate any debit thereon (any such amounts to be applied in repayment of principal as Available Principal Receipts);
- (j) *tenth*, (so long as the Notes will remain outstanding following such Interest Payment Date), to credit the Class Z VFN Principal Deficiency Ledger in an amount sufficient to eliminate any debit thereon (any such amounts to be applied in repayment of principal as Available Principal Receipts);
- (k) *eleventh*, to provide for amounts due on the relevant Interest Payment Date to pay interest (including any Deferred Interest) due and payable on the Class Z VFN according to the respective Principal Amount Outstanding thereof;

- (l) *twelfth*, to pay the Issuer the Issuer Profit Amount to be retained by the Issuer as profit in respect of the business of the Issuer;
- (m) *thirteenth*, to pay *pro rata* and *pari passu* according to the amount thereof and in accordance with the terms of the Interest Rate Swap Agreement to the Interest Rate Swap Provider in respect of the Interest Rate Swap Excluded Termination Amount;
- (n) *fourteenth*, (so long as any Class A Notes will remain outstanding following such Interest Payment Date), if such Interest Payment Date falls within a Determination Period, then the excess (if any) to the Transaction Account to be applied as Available Revenue Receipts on the next following Interest Payment Date;
- (o) *fifteenth*, (so long as no Class A Notes remain outstanding following such Interest Payment Date), to pay principal due and payable on the Class Z VFN in an amount equal to the Class Z Repayment Amount; and
- (p) *sixteenth*, *pro rata* and *pari passu*, any Deferred Consideration due and payable under the Mortgage Sale Agreement to the Seller.

As used in this Prospectus:

**Accrued Interest** means in respect of a Loan as at any date the aggregate of all interest accrued but not yet due and payable on the Loan from (and including) the monthly payment date in respect of that Borrower's Loan immediately preceding the relevant date to (but excluding) the relevant date;

**Appointee** means any attorney, manager, agent, delegate, nominee, Receiver, receiver and manager, custodian or other person properly appointed by the Note Trustee under the Trust Deed or the Security Trustee under the Deed of Charge (as applicable) to discharge any of its functions;

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

**Class Z Repayment Amount** means, as at an Interest Payment Date, the greater of (A) (i) the Principal Amount Outstanding of the Class Z VFN on such Interest Payment Date (taking into account any amounts to be applied to pay principal on the Class Z VFN on such Interest Payment Date in accordance with the Pre-Acceleration Principal Priority of Payments) less (ii) the Current Balance of the Loans as at such Interest Payment Date and (B) zero;

**Early Repayment Fee** means any fee (other than a Redemption Fee) which a Borrower is required to pay in the event that such Borrower repays all or any part of the relevant Loan before a specified date in the Mortgage Conditions;

**Early Repayment Fee Receipts** means an amount equal to sums received by the Issuer from time to time in respect of Early Repayment Fees;

**Excess Swap Collateral** means, in respect of an Interest Rate Swap Agreement, an amount (which will be transferred directly to the Interest Rate Swap Provider in accordance with the Interest Rate Swap Agreement) equal to the amount by which the value of the collateral (or the applicable part of any collateral) provided by the Interest Rate Swap Provider to the Issuer pursuant to the Interest Rate Swap Agreement exceeds the Interest Rate Swap Provider's liability under the Interest Rate Swap Agreement as at the date of termination of the Interest Rate Swap Agreement or which it is otherwise entitled to have returned to it under the terms of the Interest Rate Swap Agreement;

**Interest Rate Swap Excluded Termination Amount** means the amount of any termination payment due and payable to that Interest Rate Swap Provider as a result of an Interest Rate Swap Provider Default or Interest Rate Swap Provider Downgrade Event (to the extent such payment cannot be satisfied by (i) payment by the Issuer of any Replacement Swap Premium and/or (ii) amounts standing to the credit of the Swap Collateral Ledger or any swap collateral account(s));

**Interest Period** means, in relation to a Note, the period from (and including) an Interest Payment Date for that Note (except in the case of the first Interest Period for the Notes, where it shall be the period from (and including) the Closing Date to (but excluding) the next succeeding (or first) Interest Payment Date for that Note;

**Interest Rate Swap Provider Default** means the occurrence of an Event of Default (as defined in the Interest Rate Swap Agreement) where the Interest Rate Swap Provider is the Defaulting Party (as defined in the Interest Rate Swap Agreement);

**Interest Rate Swap Provider Downgrade Event** means the occurrence of an Additional Termination Event (as defined in the Interest Rate Swap Agreement) following the failure by the Interest Rate Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the Interest Rate Swap Agreement;

**Redemption Fee** means the standard redemption fee charged to the Borrower by the Seller where the Borrower makes a repayment of the full outstanding principal of a Loan on the maturity date of such Loan;

**Replacement Swap Premium** means an amount received by the Issuer from a replacement interest rate swap provider upon entry by the Issuer into an agreement with such replacement interest rate swap provider to replace the Interest Rate Swap (or a portion of the Interest Rate Swap, as applicable);

**Swap Collateral** means an amount equal to the value of collateral (other than Excess Swap Collateral) provided by an Interest Rate Swap Provider to the Issuer under the Interest Rate Swap Agreement and includes any interest and distributions in respect thereof; and

**Swap Tax Credits** means any credit, allowance, set-off or repayment received by the Issuer in respect of tax from the tax authorities of any jurisdiction relating to any deduction or withholding giving rise to an increased payment by an Interest Rate Swap Provider to the Issuer.

#### **Definition of Principal Receipts**

**Principal Receipts** means (a) principal repayments under the Loans, (b) recoveries of principal from defaulting Borrowers under Loans being enforced (including the proceeds of sale of the relevant Property), (c) any payment pursuant to any insurance policy in respect of a Mortgaged Property in connection with a Loan in the Portfolio and (d) the proceeds of the repurchase of any Loan by the Seller from the Issuer pursuant to the relevant Mortgage Sale Agreement (other than any amount representing accrued interest); less any amounts received in relation to the redemption of a Loan which is being ported and which are credited to the Ported Loan Repurchase Ledger.

#### **Definition of Available Principal Receipts**

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

- (a) all Principal Receipts (excluding any amounts covered by (f), below) or, if in a Determination Period, any Calculated Principal Receipts, in each case, excluding an amount equal to any Reconciliation Amounts to be applied as Available Revenue Receipts on that Interest Payment Date (i) received by

the Issuer during the immediately preceding Collection Period (less an amount equal to the aggregate of all Further Advance Purchase Prices paid by the Issuer in such Collection Period) and (ii) received by the Issuer from the Seller during the immediately preceding Collection Period in respect of any repurchases of Loans and their Related Security that were repurchased by the Seller pursuant to the Mortgage Sale Agreement;

- (b) (in respect of the first Interest Payment Date only) the amount paid into the Transaction Account on the Closing Date from the excess of the proceeds of the Notes (excluding the proceeds of the Class Z VFN used to establish the General Reserve Fund and to pay the initial expenses of the Issuer incurred in connection with the issue of the Notes on the Closing Date) over the Initial Consideration;
  - (c) the amounts (if any) calculated on that Interest Payment Date pursuant to the Pre-Acceleration Revenue Priority of Payments, to be the amount by which the debit balance of each of the Class A Principal Deficiency Ledger and/or the Class Z VFN Principal Deficiency Ledger is reduced;
  - (d) following a Determination Period, any Reconciliation Amounts deemed to be Available Principal Receipts in accordance with Condition 5.9(c);
  - (e) amounts credited to the Ported Loan Repurchase Ledger which remain standing to the credit of such ledger after the relevant Porting Deadline Date applicable to such amounts; and
  - (f) the amount standing to the credit of the Retained Principal Ledger;
- less
- (g) any amounts utilised to pay a Revenue Deficiency pursuant to paragraph (j) of the definition of Available Revenue Receipts; and
  - (h) any amounts used to purchase Additional Loans and their Related Security during the immediately preceding Collection Period provided that amounts may only be applied to purchase Additional Loans in a Collection Period where the aggregate amount of Revenue Receipts and Principal Receipts received during that Collection Period and amounts standing to the credit of the Reserve Fund would be greater than the Estimated Revenue Deficiency Amount and only to the extent of such excess.

**Estimated Revenue Deficiency Amount** means, on any Business Day falling on or after the Interest Payment Date falling in March 2013, an amount calculated by the Cash Manager equal to the aggregate of amounts to be paid in respect of items (a) to (h) of the Pre-Acceleration Revenue Priority of Payments on the immediately following Interest Payment Date taking into account amounts to be paid to and received from the Interest Rate Swap Provider under the Interest Rate Swap.

**Application of Available Principal Receipts Prior to the Service of a Note Acceleration Notice on the Issuer**

Prior to the service of a Note Acceleration Notice on the Issuer, the Issuer is required pursuant to the terms of the Cash Management Agreement to apply Available Principal Receipts on each Interest Payment Date in the following order of priority (the **Pre-Acceleration Principal Priority of Payments**) (in each case only if and to the extent that payments or provisions of higher priority have been paid in full):

- (a) *first*, (i) (in relation to amounts other than those which have been standing to the credit of the Retained Principal Ledger for longer than 6 months) during the Further Sale Period to pay the Further Consideration for any Additional Loans and their Related Security to be sold to the Issuer pursuant to the terms of the Mortgage Sale Agreement or (ii) if no Loans are available for sale to the

Issuer or if there is an excess after paying such Further Consideration, such excess amount shall be applied to credit the Retained Principal Ledger;

- (b) *second, pro rata and pari passu*, in or towards repayment of the principal amounts outstanding on the Class A1 Notes, until the Principal Amount Outstanding on the Class A1 has been reduced to zero;
- (c) *third, pro rata and pari passu*, in or towards repayment of the principal amounts outstanding on the Class A2 Notes, until the Principal Amount Outstanding on the Class A2 Notes has been reduced to zero;
- (d) *fourth*, in or towards repayment of the principal amounts outstanding on the Class Z VFN until the Principal Amount Outstanding of the subscription under the Class Z VFN used to fund the Current Balance of the Loans has been reduced to zero; and
- (e) *fifth*, the excess (if any) to be applied as Available Revenue Receipts.

#### **Distribution of Amounts Following the Service of a Note Acceleration Notice on the Issuer**

Following the service of a Note Acceleration Notice (which has not been revoked) on the Issuer, the Security Trustee (or the Cash Manager on its behalf) or a Receiver will apply amounts received or recovered following the service of a Note Acceleration Notice on the Issuer (including, for the avoidance of doubt, on enforcement of the Security) other than:

- (a) amounts representing any Excess Swap Collateral which shall be returned directly to an Interest Rate Swap Provider under the Interest Rate Swap Agreement;
- (b) any Swap Collateral, except to the extent that the value of such Swap Collateral has been applied, pursuant to the provisions of the Interest Rate Swap Agreement, to reduce the amount that would otherwise be payable by the Interest Rate Swap Provider to the Issuer on early termination of the Interest Rate Swap under the Interest Rate Swap Agreement which shall be returned directly to the Interest Rate Swap Provider;
- (c) any Swap Tax Credits which shall be returned directly to an Interest Rate Swap Provider; and
- (d) any Replacement Swap Premium (only to the extent it is applied directly to pay a termination payment due and payable by the Issuer to an Interest Rate Swap Provider) which shall be paid directly to an Interest Rate Swap Provider,

in the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full) (the **Post-Acceleration Priority of Payments** and, together with the Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments, the **Priority of Payments**):

- (a) *first*, in or towards satisfaction *pro rata and pari passu* according to the respective amounts thereof of:
  - (i) any fees, costs, charges, liabilities, expenses and all other amounts then due and payable or provided for as being or to be payable to the Note Trustee and any Appointee under the provisions of the Trust Deed and the other Transaction Documents, together with (if payable) VAT thereon as provided therein; and

- (ii) any fees, costs, charges, liabilities, expenses and all other amounts then due and payable or provided for as being or to be payable to the Security Trustee, any Receiver appointed by the Security Trustee and any Appointee under the provisions of the Deed of Charge and the other Transaction Documents, together with (if payable) VAT thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable or provided for as being or to be payable to the Agent Bank and the Paying Agents and any fees, costs, charges, liabilities, expenses and all other amounts then due and payable to them under the provisions of the Agency Agreement, together with (if payable) VAT thereon as provided therein;
  - (ii) any amounts then due and payable to the Corporate Services Provider and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Corporate Services Provider in the immediately succeeding Interest Period under the provisions of the Corporate Services Agreement, together with (if payable) VAT thereon as provided therein;
  - (iii) any amounts then due and payable to the Back-Up Servicer Facilitator and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Back-Up Servicer Facilitator in the immediately succeeding Interest Period under the provisions of the Servicing Agreement, together with (if payable) VAT thereon as provided therein; and
  - (iv) any amounts then due and payable to the Account Bank and any fees, costs, charges, liabilities and expenses then due and payable to the Account Bank under the provisions of the Bank Account Agreement, together with (if payable) VAT thereon as provided therein;
- (c) *third*, in or towards satisfaction of any amounts then due and payable to the Class Z VFN Registrar and any fees, costs, charges, liabilities and expenses then due and payable to the Class Z VFN Registrar under the provisions of the Agency Agreement together with (if payable) VAT thereon as provided therein;
- (d) *fourth*, to pay, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any amounts due and payable to the Servicer and any fees, costs, charges, liabilities and expenses then due and payable to the Servicer under the provisions of the Servicing Agreement, together with (if payable) VAT thereon as provided therein;
  - (ii) any amounts then due and payable to the Cash Manager and any fees, costs, charges, liabilities and expenses then due and payable to the Cash Manager under the provisions of the Cash Management Agreement, together with (if payable) VAT thereon as provided therein;
- (e) *fifth*, to pay amounts due and payable *pro rata* and *pari passu* according to the respective amounts thereof of any amounts due to the Interest Rate Swap Provider in respect of the Interest Rate Swap Agreement including any termination payment due and payable by the Issuer to the extent it is not satisfied by the payment by the Issuer to the Interest Rate Swap Provider of amounts standing to the credit of the Swap Collateral Ledger or any swap collateral account(s) but excluding, where applicable, any related Interest Rate Swap Excluded Termination Amount;



- (f) *sixth*, to pay according to the respective outstanding amounts thereof, any interest and principal due and payable on the Class A1 Notes and the Class A2 Notes until the Principal Amount Outstanding on the Class A Notes has been reduced to zero;
- (g) *seventh*, to pay according to the respective outstanding amounts thereof, interest and principal due and payable on the Class Z VFN until the Principal Amount Outstanding on the Class Z VFN has been reduced to zero;
- (h) *eighth*, to pay *pro rata* and *pari passu* according to the amount thereof and in accordance with the terms of the Interest Rate Swap Agreement to an Interest Rate Swap Provider in respect of any Interest Rate Swap Excluded Termination Amount; and
- (i) *ninth*, *pro rata* and *pari passu* to pay any Deferred Consideration due and payable under the Mortgage Sale Agreement to the Seller.

**Application of Amounts in Respect of Swap Collateral, Excess Swap Collateral, Swap Tax Credits and Replacement Swap Premium**

Amounts received by the Issuer in respect of Excess Swap Collateral, Swap Collateral (except to the extent that the value of such Swap Collateral has been applied, pursuant to the provisions of an Interest Rate Swap Agreement, to reduce the amount that would otherwise be payable by the Interest Rate Swap Provider to the Issuer on early termination of the relevant Interest Rate Swap under the Interest Rate Swap Agreement and, to the extent so applied in reduction of the amount otherwise payable by the Interest Rate Swap Provider (or the Interest Rate Swap Guarantor, if applicable), such Swap Collateral is not to be applied in acquiring a replacement swap), Swap Tax Credits and Replacement Swap Premium (only to the extent it is applied directly to pay a termination payment due and payable by the Issuer to the Interest Rate Swap Provider) shall, to the extent due and payable under the terms of the Interest Rate Swap Agreement, be paid directly to the Interest Rate Swap Provider without regard to the Priority of Payments and in accordance with the terms of the Deed of Charge.

## DESCRIPTION OF THE NOTES IN GLOBAL FORM AND THE VARIABLE FUNDING NOTES

### General

Each of the Class A Notes, as at the Closing Date, will initially be represented by a Temporary Global Note. All capitalised terms not defined in this paragraph shall be as defined in the Conditions of the Notes.

The Temporary Global Notes will be deposited on or about the Closing Date on behalf of the subscribers for the Class A Notes with a Common Safekeeper for both Euroclear and Clearstream, Luxembourg (together, the **Clearing Systems**). Upon deposit of the Temporary Global Note, the Clearing Systems will credit each subscriber of Notes with the principal amount of Notes of the relevant class equal to the aggregate principal amount thereof for which the subscriber will have subscribed and paid. Interests in the Temporary Global Notes are exchangeable on and after the date which is 40 days after the Closing Date, upon certification of non-U.S. beneficial ownership by the relevant Noteholder, for interests recorded in the records of the Clearing Systems in a Permanent Global Note.

For so long as the Class A Notes are represented by Global Notes and the Clearing Systems so permit, the Class A1 Notes and the Class A2 Notes will be tradeable only in the minimum authorised denomination of £100,000 and integral multiples of £1,000 in excess thereof.

### Payments on the Global Note

Payments in respect of principal, premium (if any) and interest in respect of any Global Note will be made only against presentation of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders in accordance with Condition 15 (*Notice to Noteholders*) for such purpose, subject, in the case of any Temporary Global Note, to certification of non-US beneficial ownership as provided in such Temporary Global Note. Each payment of principal, premium or interest made in respect of a Global Note will be recorded by the Clearing Systems in their records (which records are the records each relevant Clearing System holds for its customers which reflect such customers' interest in the Notes) and such records shall be prima facie evidence that the payment in question has been made. No person appearing from time to time in the records of either of the Clearing Systems as the holder of a Note shall have any claim directly against the Issuer in respect of payments due on such Note whilst such Note is represented by a Global Note and the Issuer shall be discharged by payment of the relevant amount to the bearer of the relevant Global Note. The Issuer shall procure that each payment shall be entered *pro rata* in the records of the relevant Clearing Systems but any failure to make such entries shall not affect the discharge referred to above.

Payments will be made, in respect of the Global Notes, by credit or transfer to an account in sterling maintained by the payee with a bank in London.

Payments in respect of principal, premium (if any) and interest on the Global Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment.

A holder shall be entitled to present a Global Note for payment only on a Presentation Date and shall not, except as provided in Condition 5 (*Interest*), be entitled to any further interest or other payment if a Presentation Date is after the due date.

## **Information Regarding Euroclear and Clearstream, Luxembourg**

Euroclear and Clearstream, Luxembourg have advised the Issuer as follows:

Euroclear and Clearstream, Luxembourg each hold securities for their account holders and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders, thereby eliminating the need for physical movements of certificates and any risk from lack of simultaneous transfers of securities.

Euroclear and Clearstream, Luxembourg each provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg each also deal with domestic securities markets in several countries through established depositary and custodial relationships. The respective systems of Euroclear and of Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective account holders may settle trades with each other.

Account holders in both Euroclear and Clearstream, Luxembourg are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to both Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

An account holder's overall contractual relations with either Euroclear or Clearstream, Luxembourg are governed by the respective rules and operating procedures of Euroclear or Clearstream, Luxembourg and any applicable laws. Both Euroclear and Clearstream, Luxembourg act under such rules and operating procedures only on behalf of their respective account holders, and have no record of or relationship with persons holding through their respective account holders.

The Issuer understands that under existing industry practices, if any of the Issuer, the Note Trustee or the Security Trustee requests any action of Noteholders or if a Noteholder desires to give instructions or to take any action that a Noteholder is entitled to give or take under the Trust Deed or the Deed of Charge, Euroclear or Clearstream, Luxembourg, as the case may be, would authorise the participants to give instructions or take such action, and such participants would authorise indirect participants to give or take such action or would otherwise act upon the instructions of such indirect participants.

### **Redemption**

In the event that the Global Note (or portion thereof) is redeemed, the Principal Paying Agent will deliver all amounts received by it in respect of the redemption of such Global Note to or to the order of the Common Safekeeper and, upon final payment, will surrender such Global Note (or portion thereof) to or to the order of the Principal Paying Agent for cancellation. The redemption price payable in connection with the redemption will be equal to the amount received by the Principal Paying Agent in connection with the redemption of the Global Note (or portion thereof) relating thereto. Any redemptions of the Global Note in part will be made by Euroclear or Clearstream, Luxembourg, as the case may be, on a *pro rata* basis (or on such basis as Euroclear or Clearstream, Luxembourg, as the case may be, deems fair and appropriate). Upon any redemption in part, the Principal Paying Agent will mark down the schedule to such Global Note by the principal amount so redeemed.

### **Cancellation**

Cancellation of any Note represented by a Global Note and required by the Conditions to be cancelled following its redemption will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant schedule thereto.

## **Transfers and Transfer Restrictions**

All transfers of Book-Entry Interests will be recorded in accordance with the book-entry systems maintained by Euroclear or Clearstream, Luxembourg, as applicable, pursuant to customary procedures established by each respective system and its participants. See "*Description of the Notes in global form and the Variable Funding Notes — General*", above.

## **Issuance of Definitive Notes**

If, while any of the Notes are represented by a Permanent Global Note, (a) either of the Clearing Systems is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Note Trustee is available or (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration by a revenue authority or a court or in the administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required were such Notes in definitive form, then the Issuer will issue Definitive Notes in exchange for such Permanent Global Note (free of charge to the persons entitled to them) within 30 days of the occurrence of the relevant event. The Conditions and the Transaction Documents will be amended in such manner as the Note Trustee and the Security Trustee require to take account of the issue of Definitive Notes.

Any Notes issued in definitive form will be issued in definitive bearer form in the denominations set out in the Conditions and will be subject to the provisions set forth under "*Transfers and Transfer Restrictions*" above.

## **Notices to Noteholders**

Subject as provided below, all notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if in the opinion of the Note Trustee such publication shall not be practicable, such other English language daily newspaper with general circulation in Europe as the Note Trustee may approve. The Issuer will also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or the relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Note Trustee may approve. The holders of any coupons will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with the Conditions.

While the Class A Notes are represented by a Global Note, notices to Noteholders (other than the Class Z VFN Holder) will be valid if published as described above, or, at the option of the Issuer, if submitted to Euroclear and/or Clearstream, Luxembourg for communication by them to Noteholders (other than the Class Z VFN Holder). Any notice delivered to Euroclear and/or Clearstream, Luxembourg, as aforesaid shall be deemed to have been given to Noteholders (other than the Class Z VFN Holder) on the day of such delivery. See also Condition 15 (Notice to Noteholders) of the Notes.

## **Variable Funding Notes**

The Class Z VFN will be issued in dematerialised registered form and no certificate evidencing entitlement to the Class Z VFN will be issued. The Issuer will also maintain a register, to be kept on the Issuer's behalf by the Class Z VFN Registrar, in which the Class Z VFN will be registered in the name of the Class Z VFN Holder. Transfers of the Class Z VFN may be made only through the register maintained by the Issuer and are subject to the transfer restrictions set out in Condition 2.2 (*Title*).

## TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions (the **Conditions** of the Notes and any reference to a **Condition** shall be construed accordingly) of the Notes in the form (subject to amendment) in which they will be set out in the Trust Deed (as defined below).

### 1. GENERAL

The £718,200,000 class A1 asset backed floating rate Notes due 2050 (the **Class A1 Notes**), the £718,200,000 class A2 asset backed floating rate Notes due £2050 (the **Class A2 Notes**, and together with the Class A1 Notes, the **Class A Notes**) and the £191,200,000 variable funded note due 2050 (the **Class Z VFN** and, together with the Class A Notes, the **Notes**), in each case of Mercia No.1 PLC (the **Issuer**) are constituted by a trust deed (the **Trust Deed**) dated on or about 12 December 2012 (the **Closing Date**) and made between, *inter alios*, the Issuer and Citicorp Trustee Company Limited as trustee for the Noteholders (in such capacity, the **Note Trustee**). Any reference in these terms and conditions (the **Conditions**) to (a) a **Class** of Notes or of Noteholders shall be a reference to the Class A Notes or the Class Z VFN, as the case may be, or to the respective holders thereof in each case except where the context otherwise requires and (b) to a **sub-class** of Notes or Class A Notes shall be a reference to either the Class A1 Notes or the Class A2 Notes, as the context requires.

The security for the Notes is constituted by and pursuant to a deed of charge and assignment (the **Deed of Charge**) dated on the Closing Date and made between, among others, the Issuer and Citicorp Trustee Company Limited as trustee for the Secured Creditors (in such capacity, the **Security Trustee**).

Pursuant to an agency agreement (the **Agency Agreement**) dated on the Closing Date and made between the Issuer, the Note Trustee, Citibank N.A., London Branch as principal paying agent (in such capacity, the **Principal Paying Agent** and, together with any further or other paying agent appointed under the Agency Agreement, the **Paying Agents**), Coventry Building Society as Class Z VFN registrar (in such capacity, the **Class Z VFN Registrar**) and Citibank N.A., London Branch as agent bank (in such capacity, the **Agent Bank**), provision is made for, *inter alia*, the payment of principal and interest in respect of the Notes.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Deed of Charge, the Agency Agreement and the master definitions and construction schedule (the **Master Definitions and Construction Schedule**) entered into by, *inter alios*, the Issuer, the Note Trustee and the Security Trustee on the Closing Date and the other Transaction Documents (as defined therein).

Copies of the Trust Deed, the Deed of Charge, the Agency Agreement, the Master Definitions and Construction Schedule and the other Transaction Documents are available for inspection during normal business hours at the specified office for the time being of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

Capitalised terms not otherwise defined in these Conditions shall bear the meanings given to them in the Master Definitions and Construction Schedule available as described above. These Conditions shall be construed in accordance with the principles of construction set out in the Master Definitions and Construction Schedule.

## 2. FORM, DENOMINATION AND TITLE

### 2.1 *Form and Denomination*

The Class A1 Notes and Class A2 Notes are initially represented by a temporary global note (each, a **Temporary Global Note**) in bearer form in the aggregate principal amount on issue of £718,200,000 for the Class A1 Notes and £718,200,000 for the Class A2 Notes. Each Temporary Global Note has been deposited on behalf of the subscribers of the relevant Class of Notes with a common safekeeper (the **Common Safekeeper**) for Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**) and Euroclear Bank S.A/N.V. (**Euroclear** and together with Clearstream, Luxembourg, the **Clearing Systems**) on the Closing Date. Upon deposit of the Temporary Global Notes, the Clearing Systems credited each subscriber of Class A Notes with the principal amount of Class A Notes of the relevant class equal to the aggregate principal amount thereof for which it had subscribed and paid. Interests in the Temporary Global Notes are exchangeable on and after the date which is 40 days after the Closing Date, upon certification of non-U.S. beneficial ownership by the relevant Noteholder, for interests in a permanent global note (a **Permanent Global Note**) representing the Class A Notes of the relevant class (the expressions **Global Notes** and **Global Note** meaning, the relevant Temporary Global Note or the relevant Permanent Global Note, as the context may require). The relevant Permanent Global Notes have also been deposited with the Common Safekeeper for the Clearing Systems.

Interests in a Global Note will be transferable in accordance with the rules and procedures for the time being of the relevant Clearing System.

The Class Z VFN will be in dematerialised registered form.

For so long as the Class A1 Notes and the Class A2 Notes are represented by a Global Note and Euroclear and Clearstream, Luxembourg so permit, each such Class of Notes shall be tradable only in the minimum nominal amount of £100,000 and higher integral multiples of £1,000, notwithstanding that no Definitive Notes (as defined below) will be issued with a denomination above £199,000.

A Permanent Global Note will be exchanged for Class A Notes in definitive form (such exchanged Global Note, the **Definitive Notes**) (free of charge to the persons entitled to them) only if either of the following applies:

- (a) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business and do so cease to do business and no alternative clearing system satisfactory to the Note Trustee is available; or
- (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political subdivision thereof) or of any authority therein or thereof having power to tax, or in the interpretation or administration by a revenue authority or a court or in the application of such laws or regulations, which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding for or on account of tax from any payment in respect of the Class A Notes which would not be required were the Class A Notes in definitive form.

If Definitive Notes are issued in respect of Class A Notes originally represented by a Global Note, the beneficial interests represented by the relevant Global Note shall be exchanged by the Issuer for the relevant Class of Notes in definitive form. The aggregate principal amount of the Definitive Notes shall be equal to the Principal Amount Outstanding at the date on which notice of exchange is given of the Global Note, subject to and in accordance with the detailed provisions of these Conditions, the Agency Agreement, the Trust Deed and the Global Note.

Definitive Notes (which, if issued, will be in the denomination set out below) will be serially numbered and will be issued in bearer form with (at the date of issue) interest coupons, principal coupons and, if necessary, talons attached.

Definitive Notes, if issued, will only be printed and issued in denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000 in the case of the Class A1 Notes and the Class A2 Notes. No Definitive Notes will be issued with a denomination above £199,000 in the case of the Class A1 Notes and the Class A2 Notes.

The Class Z VFN has a minimum denomination of £100,000 and may be issued and redeemed in integrals of £100. No certificate evidencing entitlement to the Class Z VFN will be issued. The Class Z VFN will be in dematerialised registered form.

The Class Z VFN will be issued on the Closing Date with a nominal principal amount of up to £500,000,000 and a Principal Amount Outstanding of which £191,200,000 will be subscribed for on the Closing Date. So long as the Class A Notes are outstanding, the Principal Amount Outstanding of the Class Z VFN shall not fall below 5 per cent. of the aggregate Current Balance of the Loans as at the Closing Date. If a further funding is made in respect of any of the Class Z VFN, the Class Z VFN Registrar shall record such increase in the Principal Amount Outstanding of the Class Z VFN in the register for the Class Z VFN (the **Class Z VFN Register**).

References to **Notes** in these Conditions shall include the Global Notes, the Class Z VFN and the Definitive Notes.

For the purposes of these Conditions, **outstanding** means, in relation to the Notes, all the Notes issued from time to time other than:

- (a) those Notes which have been redeemed in full and cancelled pursuant to the Conditions;
- (b) those Notes in respect of which the date for redemption in accordance with the Conditions has occurred and the redemption monies (including all interest payable thereon) have been duly paid to or to the order of the Note Trustee or to the Principal Paying Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the relevant Noteholders in accordance with these Conditions) and remain available for payment against presentation of the relevant Notes;
- (c) those Notes which have been cancelled in accordance with Condition 7.8 (Cancellation) of the Notes;
- (d) those Notes which have become void or in respect of which claims have become prescribed, in each case under Condition 9 (Prescription) of the Notes;
- (e) those mutilated or defaced Notes which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 14 (Replacement of Notes) with respect to the Notes;
- (f) (for the purpose only of ascertaining the Principal Amount Outstanding of the Notes outstanding and without prejudice to the status for any other purpose of the relevant Instrument) those Notes which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 14 (Replacement of Notes) with respect to the Notes; and

- (g) any Global Note to the extent that it shall have been exchanged for another Global Note in respect of the Notes of the relevant Class or for the Notes of the relevant Class in definitive form pursuant to its provisions,

provided that for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of the Noteholders of any Class, sub-class, Classes or sub-classes (as applicable), on an Extraordinary Resolution in writing or an Ordinary Resolution in writing as envisaged by paragraph 1 of Schedule 4 to the Trust Deed and any direction or request by the holders of Notes of any Class, sub-class, Classes or sub-classes (as applicable);
- (ii) the determination of how many and which Notes are for the time being outstanding for the purposes of Clause 10.1 and Schedule 4 to the Trust Deed, Conditions 10 (Events of Default) and 11 (Enforcement) of the Notes;
- (iii) any discretion, power or authority (whether contained in the trust presents, or vested by operation of law) which the Note Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the Noteholders or any Class, sub-class, Classes or sub-classes thereof; and
- (iv) the determination by the Note Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the Noteholders or any Class, sub-class, Classes or sub-classes thereof,

those Notes (if any) which are for the time being held by or on behalf of or for the benefit of any Relevant Person, the Issuer, CBS, the Seller, any holding company of any of them or any other Subsidiary of any of them or of either such holding company, in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain outstanding, except, in the case of CBS or the Seller, any holding company CBS or the Seller, or any other Subsidiary of such holding company (the **Relevant Persons**) where all of the Notes of any Class or sub-class are held by or on behalf of or for the benefit of one or more Relevant Persons, in which case such Class or sub-class (as applicable) of Notes (the **Relevant Notes**) shall be deemed to remain outstanding except that, if there is any other Class or sub-class of Notes ranking *pari passu* with, or junior to, the Relevant Notes and one or more Relevant Persons are not the beneficial owners of all the Notes of such Class or sub-class (as applicable), then the Relevant Notes shall be deemed not to remain outstanding.

## **2.2 Title**

Title to the Global Notes or Definitive Notes shall pass by delivery.

Title to a Class Z VFN shall only pass by and upon registration of the transfer in the Class Z VFN Register provided that no transferee shall be registered as a new Class Z VFN Holder unless (i) the prior written consent of the Issuer and (for so long as any Class A Notes are outstanding) the Note Trustee has been obtained (such consent of the Note Trustee to such a transfer having been sanctioned by an Extraordinary Resolution of the Class A Noteholders) and (ii) such transferee has certified to, *inter alios*, the Class Z VFN Registrar, the Issuer and the Note Trustee (upon which certificate the Note Trustee shall be entitled to rely without further investigation and with no liability to any person for so doing) that it is (A) a person falling within paragraph 3 of Schedule 2A to the Insolvency Act 1986, (B) independent of the Issuer within the meaning of regulation 2(1) of the Taxation of Securitisation Companies Regulations 2006 and (C) a Qualifying Noteholder.



**Qualifying Noteholder** means:

- (a) a person which is beneficially entitled to interest in respect of the Class Z VFN and is:
  - (i) a company resident in the United Kingdom for United Kingdom tax purposes;
  - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which will bring into account payments of interest in respect of the Notes in computing the chargeable profits (for the purposes of section 19 of the Corporation Tax Act 2009 (the **CTA**) of that company; or
  - (iii) a partnership each member of which is:
    - (A) a company resident in the United Kingdom; or
    - (B) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which will bring into account in computing its chargeable profits (for the purposes of section 19 of the CTA) the whole of any share of a payment of interest in respect of the Notes that is attributable to it by reason of Part 17 of the CTA; or
- (b) a person which falls within any of the other descriptions in section 935 or 936 of the Income Tax Act 2007 (**ITA 2007**) and satisfies any conditions set out therein in order for the interest to be an excepted payment for the purposes of section 930 ITA 2007.

**Noteholders** means (i) the Class A1 Noteholders, (ii) the Class A2 Noteholders and (iii) the person(s) in whose name a Class Z VFN is registered in the Class Z VFN Register (or in the case of joint holders, the first named thereof).

**Class A1 Noteholders** means holders of the Class A1 Notes.

**Class A2 Noteholders** means holders of the Class A2 Notes (and together with the Class A1 Noteholders, the **Class A Noteholders**);

**Class Z VFN Holder** means holders of the Class Z VFN.

### **3. STATUS AND RELATIONSHIP BETWEEN THE NOTES AND SECURITY**

#### **3.1 *Status and relationship between the Notes***

- (a) The Class A Notes constitute direct, secured and (subject to the limited recourse provision in Condition 11 (*Enforcement*)) unconditional obligations of the Issuer. The Class A1 Notes will rank *pari passu* and *pro rata* with the Class A2 Notes as to payments of interest but in priority to the Class A2 Notes as to payments of principal provided that following the service of a Note Acceleration Notice or if there is a balance outstanding on the Class A Principal Deficiency Ledger, the Class A Notes will rank *pari passu* and *pro rata* without any preference or priority among themselves as to payments of principal and interest.
- (b) The Class Z VFN constitutes direct, secured and (subject as provided in Condition 16 (*Subordination by Deferral*)) and the limited recourse provisions in Condition 11 (*Enforcement*)) unconditional obligations of the Issuer. The Class Z VFNs rank *pari passu* without preference or priority amongst themselves but junior to the Class A Notes, as provided in these Conditions and the Transaction

Documents. Accordingly, the interests of the Class Z VFN Holder will be subordinated to the interests of the Class A Noteholders (so long as any Class A Notes remain outstanding).

- (c) The Trust Deed and the Deed of Charge contain provisions requiring the Note Trustee and the Security Trustee, respectively, to have regard to the interests of the Noteholders equally as regards all rights, powers, trusts, authorities, duties and discretions of the Note Trustee and the Security Trustee (except where expressly provided otherwise) but requiring the Note Trustee and the Security Trustee in any such case to have regard only to the interests of the Class A Noteholders if, in the Note Trustee's or, as the case may be, the Security Trustee's opinion, there is a conflict between the interests of, on the one hand, the Class A Noteholders and the Class Z VFN Holder.

As long as the Notes are outstanding but subject to Condition 12.5, the Security Trustee shall not have regard to the interests of the other Secured Creditors.

- (d) In respect of the Class A Notes and subject to the definition of **outstanding** in Condition 2:
- (i) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Noteholders of one sub-class only of the Class A Notes shall be deemed to have been duly passed if passed at a meeting of the Noteholders of that sub-class of the Class A Notes;
  - (ii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Noteholders of any two or more sub-classes of the Class A Notes but does not give rise to a conflict of interest between the Noteholders of any such two or more sub-classes of Class A Notes and a resolution of the Class A Noteholders directing the Note Trustee to give notice that all Classes of the Notes are immediately due and repayable in accordance with Condition 10, shall be deemed to have been duly passed if passed at a single meeting of the Noteholders of Class A Notes; and
  - (iii) other than a resolution of the Class A Noteholders given pursuant to Condition 10 referred to in sub-paragraph (ii) above, a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Noteholders of any two or more sub-classes of the Class A Notes and gives or may give rise to a conflict of interest between the Noteholders of any such two or more sub-classes of Class A Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Noteholders of such two or more sub-classes of Class A Notes, it shall be passed at separate meetings of the Noteholders of each of such two or more sub classes of Class A Notes, provided that if any sub-class of Class A Notes is deemed not to be outstanding pursuant to Condition 2.1 (Form and Denomination), a duly passed resolution of the other sub-class shall be binding on all Noteholders,

and the provisions of Condition 12.4 (*Quorum*) shall be construed accordingly in relation to each such sub-class of the Class A Notes.

For the purposes of these Conditions and the Trust Deed, each of the Class A1 Notes and the Class A2 Notes shall constitute a separate sub-class of the Class A Notes.

- (e) The Trust Deed and the Deed of Charge contain provisions limiting the powers of the Class Z VFN Holder to request or direct the Note Trustee or the Security Trustee to take any action according to the effect thereof on the interests of the Class A Noteholders.
- (f) Except in certain circumstances set out in the Trust Deed and the Deed of Charge, there is no such limitation on the powers of the Class A Noteholders, the exercise of which will be binding on the Class Z VFN Holder.

### 3.2 **Security**

- (a) The security constituted by or pursuant to the Deed of Charge is granted to the Security Trustee for it to hold on trust for the Noteholders and the other Secured Creditors, upon and subject to the terms and conditions of the Deed of Charge.
- (b) The Noteholders and the other Secured Creditors will share in the benefit of the security constituted by or pursuant to the Deed of Charge, upon and subject to the terms and conditions of the Deed of Charge and in accordance with the relevant Priority of Payments.

## 4. **COVENANTS**

Save with the prior written consent of the Note Trustee or unless otherwise permitted under any of the Transaction Documents, the Issuer shall not, so long as any Note remains outstanding:

- (a) **Negative pledge:** create or permit to subsist any encumbrance (unless arising by operation of law) or other security interest whatsoever over any of its assets or undertaking;
- (b) **Restrictions on activities:** (i) engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities in which the Transaction Documents provide or envisage that the Issuer will engage or (ii) have any subsidiaries, any subsidiary undertaking (as defined in the Companies Act 1985 and the Companies Act 2006 (as applicable)) or any employees (but shall procure that, at all times, it shall retain at least one independent director) or premises;
- (c) **Disposal of assets:** transfer, assign, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein;
- (d) **Equitable Interest:** permit any person, other than itself and the Security Trustee, to have any equitable or beneficial interest in any of its assets or undertakings or any interest, estate, right, title or benefit therein;
- (e) **Dividends or distributions:** pay any dividend or make any other distribution to its shareholders except out of amounts of profit retained by the Issuer in accordance with the Priorities of Payments which are available for distribution in accordance with the Issuer's Memorandum and Articles of Association and with applicable laws or issue any further shares;
- (f) **Indebtedness:** incur any financial indebtedness or give any guarantee in respect of any financial indebtedness or of any other obligation of any person;
- (g) **Merger:** consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;
- (h) **No modification or waiver:** permit any of the Transaction Documents to which it is a party to become invalid or ineffective or permit the priority of the security interests created or evidenced thereby or pursuant thereto to be varied or agree to any modification of, or grant any consent, approval, authorisation or waiver pursuant to, or in connection with, any of the Transaction Documents to which it is a party or permit any party to any of the Transaction Documents to which it is a party to be released from its obligations or exercise any right to terminate any of the Transaction Documents to which it is a party;

- (i) **Bank accounts:** have an interest in any bank account other than the Bank Accounts (including any swap collateral account(s)), unless such account or interest therein is charged to the Security Trustee on terms acceptable to the Security Trustee;
- (j) **US activities:** engage in any activities in the United States (directly or through agents), or derive any income from United States sources as determined under United States income tax principles, or hold any property if doing so would cause it to be engaged in a trade or business within the United States as determined under United States income tax principles;
- (k) **Corporation tax:** prejudice its eligibility for its corporation tax liability to be calculated in accordance with regulation 14 of the Taxation of Securitisation Companies Regulations 2006;
- (l) **Class Z VFN:** so long as the Class A Notes are outstanding, allow the Principal Amount Outstanding of the Class Z VFN to be less than 5 per cent. of the aggregate Current Balance of the Loans as at the Closing Date; or
- (m) **VAT:** apply to become part of any group for the purposes of sections 43 to 43D of the Value Added Tax Act 1994 and the VAT (Groups: eligibility) Order (S.I. 2004/1931) with any other company or group of companies, or such act, regulation, order, statutory instrument or directive which may from time to time re enact, replace, amend, vary, codify, consolidate or repeal any of the same.

## 5. INTEREST

### 5.1 *Interest Accrual*

Each Note bears interest on its Principal Amount Outstanding from (and including) the Closing Date. Each Note (or, in the case of the redemption of part only of a Class A Note, that part only of such Class A Note) will cease to bear interest from and including the due date for redemption unless, upon due presentation in accordance with Condition 6 (*Payments*), payment of the principal in respect of the Note is improperly withheld or refused or default is otherwise made in respect of the payment, in which event interest shall continue to accrue as provided in the Trust Deed.

### 5.2 *Interest Payment Dates*

The first Interest Payment Date will be the Interest Payment Date falling in March 2013.

Interest will be payable quarterly in arrears on the 7th of March, June, September and December in each year or, if such day is not a Business Day, on the immediately succeeding Business Day (each such date being an **Interest Payment Date**), for all classes of Notes. The **Initial Interest Period** means the period from and including the Closing Date to the Interest Payment Date falling in March 2013.

In these Conditions, **Interest Period** shall mean the period from (and including) an Interest Payment Date (except in the case of the first Interest Period for the Notes, where it shall be the period from (and including) the Closing Date to (but excluding) the next succeeding (or first) Interest Payment Date).

### 5.3 *Rate of Interest*

- (a) The rate of interest payable from time to time in respect of each class or sub-class of the Notes (each a **Rate of Interest** and together the **Rates of Interest**) will be determined in accordance with paragraphs (i) - (ii) below:
  - (i) in respect of the Notes, the Agent Bank will determine the Relevant Screen Rate as at or about 11.00 a.m. (London time) on the Determination Date (as defined below) in question. If

the Relevant Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks for three-month Sterling deposits (or, in respect of the first Interest Period for the Notes the linear interpolation of LIBOR for two and three month deposit in Sterling) in the London interbank market as at or about 11.00 a.m. (London time) on the relevant Determination Date. The Rates of Interest for the relevant Interest Period shall be the aggregate of (A) the Relevant Margin and (B) the Relevant Screen Rate (or, if the Relevant Screen Rate is unavailable, the arithmetic mean of such offered quotations for three-month Sterling deposits (rounded upwards, if necessary, to five decimal places)); and

- (ii) if, on any Determination Date, the Relevant Screen Rate is unavailable and only two or three of the Reference Banks provide offered quotations, the Rates of Interest for the relevant Interest Period shall be determined in accordance with the provisions of subparagraph (i) above on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Determination Date, only one or none of the Reference Banks provides the Agent Bank with such an offered quotation, the Agent Bank shall forthwith consult with the Issuer for the purposes of agreeing two banks (or, where one only of the Reference Banks provided such a quotation, one additional bank) to provide such a quotation or quotations to the Agent Bank and the Rates of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does or do not provide such a quotation or quotations, then the Rates of Interest for the relevant Interest Period shall be the Rates of Interest in effect for the last preceding Interest Period to which subparagraph (i) shall have applied but taking account of any change in the Relevant Margin.

There will be no minimum or maximum Rate of Interest.

- (b) The margin on the Class A1 Notes changes from (and including) the first Interest Payment Date to occur following the date falling 5 years after the end of the Further Sale Period (the **Class A1 Step-Up Date**) and the margin on the Class A2 Notes changes from (and including) the first Interest Payment Date to occur following the date falling 5 years after the end of the Further Sale Period (the **Class A2 Step-Up Date**) and each of the Class A1 Step-Up Date and the Class A2 Step-Up Date a **Step-Up Date**).
- (c) In these Conditions (except where otherwise defined), the expression:
  - (i) **Business Day** means a day (other than a Saturday or a Sunday) on which banks are generally open for business in London;
  - (ii) **Determination Date** means the first day of the Interest Period for which the rate will apply;
  - (iii) **LIBOR** means the London Interbank Offered Rate;
  - (iv) **Reference Banks** means the principal London office of each of five major banks engaged in the London interbank market selected by the Agent Bank with the approval of the Issuer;
  - (v) **Relevant Margin** means in respect of each Class of the Notes the following per cent. per annum:

- (A) in respect of the Class A Notes, prior to the Class A1 Step-Up Date 0.9 per cent. per annum and on and after the Class A1 Step-Up Date 0.9 cent. per annum (the **Class A1 Margin**);
  - (B) in respect of the Class A2 Notes, prior to the Class A2 Step-Up Date 1.1 per cent. per annum and on and after the Class A2 Step-Up Date 1.1 cent. per annum (the **Class A2 Margin**); and
  - (C) in respect of the Class Z VFN, 0.0 per cent. per annum (the **Class Z VFN Margin**); and
- (vi) **Relevant Screen Rate** means the arithmetic mean of offered quotations for three-month Sterling deposits (or, with respect to the first Interest Period the rate which represents the linear interpolation of LIBOR for two and three month deposits in Sterling) in the London interbank market displayed on the Reuters Screen page LIBOR01.

#### **5.4 Determination of Rates of Interest and Interest Amounts**

The Agent Bank shall, as soon as practicable after 11.00 a.m. (London time) (on each Determination Date but in no event later than the third Business Day thereafter, determine the Sterling amount (the **Sterling Interest Amounts**) payable in respect of interest on the Principal Amount Outstanding of each Class of the Notes for the relevant Interest Period.

The Sterling Interest Amounts shall be determined by applying the relevant Rate of Interest to such Principal Amount Outstanding, multiplying the sum by the actual number of days in the Interest Period concerned divided by 365 (or, if any portion of the Interest Period concerned falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period concerned falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Interest Period concerned falling in a non-leap year divided by 365) and rounding the resulting figure downwards to the nearest penny.

#### **5.5 Publication of Rates of Interest and Sterling Interest Amounts**

The Agent Bank shall cause the Rates of Interest and the Sterling Interest Amounts for each Interest Period and each Interest Payment Date to be notified to the Issuer, the Cash Manager, the Note Trustee, the Class Z VFN Registrar and the Paying Agents (as applicable) and to any stock exchange or other relevant authority on which the Notes are at the relevant time listed and to be published in accordance with Condition 15 (*Notice to Noteholders*) as soon as possible after their determination and in no event later than the second Business Day thereafter. The Sterling Interest Amounts and Interest Payment Date may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period.

#### **5.6 Determination by the Note Trustee**

The Note Trustee or any agent acting on its behalf may, without liability therefor and subject to its being indemnified and/or secured and/or prefunded to its satisfaction, if the Agent Bank defaults at any time in its obligation to determine the Rates of Interest and Sterling Interest Amounts in accordance with the above provisions and the Note Trustee has been notified of this default by the Cash Manager, determine or cause to be determined the Rates of Interest and Sterling Interest Amounts, the Rates of Interest at such rates as, in its absolute discretion (having such regard as it shall think fit to the procedure described above), it shall deem fair and reasonable in all the circumstances and the Sterling Interest Amounts in the manner provided in Condition 5.4 (*Determination of Rates of Interest and Interest Amounts*). In each case, the Note Trustee may, at the expense of the Issuer, employ an expert to make the determination and any such determination shall be deemed to be determinations made by the Agent Bank.

## 5.7 **Notifications, etc. to be Final**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5, whether by the Reference Banks (or any of them), the Agent Bank, the Cash Manager or the Note Trustee, will (in the absence of wilful default, gross negligence, or fraud) be binding on the Issuer, the Cash Manager, the Note Trustee, the Agent Bank, the Class Z VFN Registrar, the Paying Agents and all Noteholders and (in the absence of wilful default, gross negligence, or fraud) no liability to the Issuer or the Noteholders shall attach to the Reference Banks (or any of them), the Cash Manager, the Agent Bank, the Class Z VFN Registrar or, if applicable, the Note Trustee in connection with the exercise or non-exercise by any of them of their powers, duties and discretions under this Condition 5.

## 5.8 **Agent Bank**

The Issuer shall procure that, so long as any of the Notes remain outstanding, there is at all times an Agent Bank for the purposes of the Notes and the Issuer may, subject to the prior written approval of the Note Trustee, terminate the appointment of the Agent Bank. In the event of the appointed office of any bank being unable or unwilling to continue to act as the Agent Bank or failing duly to determine the Rates of Interest and the Sterling Interest Amounts for any Interest Period, the Issuer shall, subject to the prior written approval of the Note Trustee, appoint another major bank engaged in the relevant interbank market to act in its place. Subject to the detailed provisions of the Agency Agreement, the Agent Bank may not resign its duties or be removed without a successor having been appointed.

## 5.9 **Determinations and Reconciliation**

- (a) In the event that the Cash Manager does not receive any Servicer Report due during a Collection Period (the **Determination Period**), then the Cash Manager may use the Servicer Reports in respect of the three most recent Collection Periods for which all relevant Servicer Reports are available (or, where there are not at least three such previous Collection Periods, any previous such Collection Periods) for the purposes of calculating the amounts available to the Issuer to make payments, as set out in this Condition 5.9 (Determinations and Reconciliation). If and when the Cash Manager receives all Servicer Reports relating to the Determination Period, it will make the reconciliation calculations and reconciliation payments as set out in Condition 5.9(c). Any (i) calculations properly done on the basis of such estimates in accordance with Conditions 5.9(b) and/or 5.9(c); (ii) payments made under any of the Notes and Transaction Documents in accordance with such calculations; and (iii) reconciliation calculations and reconciliation payments made as a result of such reconciliation calculations, each in accordance with Condition 5.9(b) and/or 5.9(c), shall be deemed to be done in accordance with the provisions of the Transaction Documents and will in themselves not lead to an Event of Default and no liability will attach to the Cash Manager in connection with the exercise by it of its powers, duties and discretion for such purposes.
- (b) Where, in respect of any Determination Period the Cash Manager shall:
- (i) determine the Interest Determination Ratio by reference to the three most recent Collection periods in respect of which all relevant Servicer Reports are available (or, where there are not at least three such previous Collection Periods, any previous such Collection Periods);
  - (ii) calculate the Revenue Receipts for such Determination Period as the product of (i) the Interest Determination Ratio and (ii) all collections received by the Issuer during such Determination Period (the **Calculated Revenue Receipts**);

- (iii) calculate the Principal Receipts for such Determination Period as the product of (i) 1 minus the Interest Determination Ratio and (ii) all collections received by the Issuer during such Determination Period (the **Calculated Principal Receipts**).
- (c) Following any Determination Period, upon receipt by the Cash Manager of all Servicer Reports in respect of such Determination Period, the Cash Manager shall reconcile the calculations made in accordance with Condition 5.9(b) above to the actual collections set out in the Servicer Reports by allocating the Reconciliation Amount as follows:
- (i) If the Reconciliation Amount is a positive number, the Cash Manager shall apply an amount equal to the lesser of (i) the absolute value of the Reconciliation Amount and (ii) the amount standing to the credit of the Revenue Ledger, as Available Principal Receipts (with a corresponding debit of the Revenue Ledger);
  - (ii) If the Reconciliation Amount is a negative number, the Cash Manager shall apply an amount equal to the lesser of (i) the absolute value of the Reconciliation Amount and (ii) the amount standing to the credit of the Principal Ledger, as Available Revenue Receipts (with a corresponding debit of the Principal Ledger),

*provided that* the Cash Manager shall apply such Reconciliation Amount in determining Available Revenue Receipts and Available Principal Receipts for such Collection Period in accordance with the terms of the Cash Management Agreement and the Cash Manager shall promptly notify the Issuer, the Note Trustee and the Security Trustee of such Reconciliation Amount.

- (d) In this Condition, the expression:

**Interest Determination Ratio** means (i) the aggregate Revenue Receipts calculated in the three preceding Collection Periods used by the Cash Manager as described in Condition 5.9(a) above divided by (ii) the aggregate of all Revenue Receipts and all Principal Receipts calculated in such Servicer Reports;

**Reconciliation Amount** means in respect of any Collection Period which is a Determination Period, (i) the actual Principal Receipts as determined in accordance with the available Servicer Reports, less (ii) the Calculated Principal Receipts in respect of such Collection Period, plus (iii) any Reconciliation Amount not applied in previous Collection Periods; and

**Servicer Report** means a report to be provided by the Servicer on or prior to each Monthly Test Date and detailing the information relating to the Portfolio necessary to produce the Investor Report.

## 6. PAYMENTS

### 6.1 *Payment of Interest and Principal*

Payments in respect of principal, premium (if any) and interest in respect of any Global Note will be made only against presentation of such Global Note to or to the order of the Principal Paying Agent (or the Class Z VFN Registrar in respect of the Class Z VFN) or such other Paying Agent as shall have been notified to the Noteholders in accordance with Condition 15 (*Notice to Noteholders*) for such purpose, subject, in the case of the Temporary Global Note, to certification of non-US beneficial ownership as provided in such Temporary Global Note. Each payment of principal, premium or interest made in respect of a Global Note will be recorded by the Clearing Systems in their records (which records are the records each relevant Clearing System holds for its customers and reflect such customers' interest in the Notes) and such records shall be *prima facie* evidence that the payment in question has been made. No person appearing from time to time in the records of either of the Clearing Systems as the holder of a Note shall have any claim directly against the



Issuer in respect of payments due on such Note whilst such Note is represented by a Global Note and the Issuer shall be discharged by payment of the relevant amount to the bearer of the relevant Global Note. The Issuer shall procure that each payment shall be entered *pro rata* in the records of the relevant Clearing System but any failure to make such entries shall not affect the discharge referred to above.

Payments will be made in respect of the Notes by credit or transfer to an account in Sterling maintained by the payee with a bank in London.

## **6.2 Laws and Regulations**

Payments of principal and interest in respect of the Notes are subject, in all cases, to (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction and (ii) any withholding or deduction required pursuant to an agreement described in section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto. Noteholders will not be charged commissions or expenses on payments.

## **6.3 Payment of Interest following a Failure to pay Principal**

If payment of principal is improperly withheld or refused on or in respect of any Note or part thereof, the interest which continues to accrue in respect of such Note in accordance with Condition 5.1 (*Interest Accrual*) and Conditions 5.3(a) and 5.3(b) (*Rate of Interest*) will be paid, in respect of a Global Note, as described in Condition 6.1 (*Payment of Interest and Principal*) above and, in respect of any Definitive Note, in accordance with this Condition 6.

## **6.4 Change of Paying Agents**

Subject to the detailed provisions of the Agency Agreement, the Issuer reserves the right, subject to the prior written approval of the Note Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent or the Class Z VFN Registrar and to appoint additional or other agents provided that:

- (a) there will at all times be a person appointed to perform the obligations of the Principal Paying Agent;
- (b) there will at all times be at least one Paying Agent (who may be the Principal Paying Agent) having its specified office in such place as may be required by the rules and regulations of the relevant stock exchange and competent authority which, for so long as the Notes are admitted to trading on the London Stock Exchange and to trading on its regulated market and the relevant listing rules require, shall be a place in the United Kingdom (such as London) or such other place as the London Stock Exchange may approve; and
- (c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Except where otherwise provided in the Trust Deed or the Agency Agreement, the Issuer will cause notice of no more than 30 days and no less than 15 days of any change in or addition to the Paying Agents or the Class Z VFN Registrar or their specified offices to be given to the Noteholders in accordance with Condition 15 (*Notice to Noteholders*) and will notify the Rating Agencies of such change or addition.

## **6.5 No Payment on non-Business Day**

If the date for payment of any amount in respect of a Note is not a Presentation Date, Noteholders shall not be entitled to payment until the next following Presentation Date in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. In this Condition 6.5, the expression **Presentation Date** means a day which is (a) a Business Day and (b) a day on which banks are generally open for business in the relevant place.

## **6.6 Partial Payment**

If the Class Z VFN Registrar (in respect of the Class Z VFN) makes a partial payment in respect of the Class Z VFN, the Class Z VFN Registrar will, in respect of the Class Z VFN, annotate the Class Z VFN Register, indicating the amount and date of such payment.

## **6.7 Payment of Interest**

If interest is not paid in respect of the Class Z VFN on the date when due and payable (other than because the due date is not a Presentation Date (as defined in Condition 6.5 (*No Payment on non-Business Day*)) or by reason of non-compliance by the Noteholder with Condition 6.1 (*Payment of Interest and Principal*)), then such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to such Class Z VFN until such interest and interest thereon are available for payment and notice thereof has been duly given in accordance with Condition 15 (*Notice to Noteholders*).

## **7. REDEMPTION**

### **7.1 Redemption at Maturity**

- (a) Unless previously redeemed in full or purchased and cancelled as provided below, the Issuer will redeem the Notes at their respective Principal Amounts Outstanding on the Interest Payment Date falling in May 2050.

### **7.2 Mandatory Redemption**

- (a) Each Note shall, subject to Condition 7.3 (*Optional Redemption of the Class A Notes*) and 7.4 (*Optional Redemption of the Class A Notes for Taxation or Other Reasons*), be redeemed on each Interest Payment Date prior to the service of a Note Acceleration Notice in an amount equal to the Available Principal Receipts available for such purpose which shall be applied (a) first to repay the Class A1 Notes until they are repaid in full and then (b) to repay the Class A2 Notes until they are repaid in full and then (c) to repay the Class Z VFN until it is repaid in full, subject, in each case, to the Pre-Acceleration Principal Priority of Payments and, as applicable, the Pre-Acceleration Revenue Priority of Payments.
- (b) With respect to each Class of Notes on (or as soon as practicable after) each Calculation Date, the Issuer shall determine (or cause the Cash Manager to determine) (i) the amount of any principal repayment due on the Interest Payment Date next following such Calculation Date, (ii) the Principal Amount Outstanding of each such Class of Notes and (iii) in relation to each sub-class of the Class A Notes only, the fraction expressed as a decimal to the sixth point (the **Pool Factor**), of which the numerator is the Principal Amount Outstanding of that Note (as referred to in (ii) above) and the denominator, in the case of that Note, is the Principal Amount Outstanding of that Note on the Closing Date and the Pool Factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

- (c) The Issuer will cause each determination of a principal repayment, Principal Amount Outstanding and, in the case of the of each sub-class of Class A Notes only, Pool Factor to be notified by not less than two Business Days prior to the relevant Interest Payment Date to the Note Trustee, the Security Trustee, the Paying Agents, the Agent Bank and (for so long as the Class A Notes are listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange) the London Stock Exchange, and will immediately cause notice of each such determination to be given in accordance with Condition 15 (*Notice to Noteholders*) by not later than two Business Days prior to the relevant Interest Payment Date. If no principal repayment is due to be made on the Class A Notes on any Interest Payment Date a notice to this effect will be given by the Issuer to the Class A Noteholders, the Note Trustee, the Security Trustee, the Paying Agents, the Agent Bank and (for so long as the Class A Notes are listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange) the London Stock Exchange.

### 7.3 **Optional Redemption of the Class A Notes**

- (a) On giving not more than 60 nor less than 30 days' notice to (i) the Class A Noteholders in accordance with Condition 15 (*Notice to Noteholders*), (ii) the Note Trustee and the (iii) Interest Rate Swap Provider, and provided that:

- (i) on or prior to the Interest Payment Date on which such notice expires (the **Optional Redemption Date**), no Note Acceleration Notice has been served;
- (ii) the Issuer has, immediately prior to giving such notice, certified to the Note Trustee that it will have the necessary funds, not subject to the interest of any other person, to pay all principal and interest due in respect of the Class A Notes to be redeemed on the relevant Optional Redemption Date and to discharge all other amounts required to be paid in priority to or *pari passu* with all the Class A Notes to be redeemed on such Optional Redemption Date and, as the case may be, on the immediately following Interest Payment Date (such certification to be provided by way of certificate signed by two directors of the Issuer) and upon which certificate the Note Trustee shall be entitled to rely without enquiry and without incurring any liability to any person (and for the avoidance of doubt, the order of priority shall be as set out in the Pre-Acceleration Priority of Payments); and
- (iii) the Optional Redemption Date is (i) in relation to the Class A1 Notes, the Class A1 Step-Up Date or any Interest Payment Date thereafter; (ii) in relation to the Class A2 Notes, the Class A2 Step-Up Date or any Interest Payment Date thereafter; or (iii) any Interest Payment Date on which the aggregate Principal Amount Outstanding of all the Class A Notes is equal to or less than 10 per cent. of the aggregate Principal Amount Outstanding of the Class A Notes on the Closing Date,

the Issuer may redeem on any Optional Redemption Date all (but not some only) of the relevant sub-class of Class A Notes in relation to which the Step-Up Date has occurred on such Optional Redemption Date (provided that, in relation to item (iii) of Condition 7.3(a)(iii), the Issuer may redeem all (but not some only) of the Class A Notes on such Optional Redemption Date. If the Issuer redeems only one sub-class of the Class A Notes on any Optional Redemption Date, such redemption will be subject to the receipt by the Issuer and the Note Trustee of written confirmation from the Cash Manager that such redemption will not have a material adverse effect on the rating of the remaining sub-class of the Class A Notes following such redemption.

- (b) Any Class A Note redeemed pursuant to Condition 7.3(a) will be redeemed at an amount equal to the Principal Amount Outstanding of the relevant Class A Note to be redeemed together with accrued (and unpaid) interest on the Principal Amount Outstanding of the relevant Class A Note up to, but excluding, the Optional Redemption Date.

#### **7.4 Optional Redemption of the Class A Notes for Taxation or Other Reasons**

If:

- (a) by reason of a change in tax law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, on or before the next Interest Payment Date the Issuer or the Paying Agents would be required to deduct or withhold from any payment of principal or interest on any Class A Notes (other than because the relevant holder has some connection with the United Kingdom other than the holding of such Class A Notes) any amount for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political sub-division thereof or any authority thereof or therein having power to tax; or
- (b) by reason of a change in law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, on or before the next Interest Payment Date the Issuer or the Interest Rate Swap Provider would be required to deduct or withhold from any payment under the Interest Rate Swap Agreement any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature,

then the Issuer shall, if the same would avoid the effect of such relevant event described in subparagraph (a) or (b) above, appoint a Paying Agent in another jurisdiction or use its reasonable endeavours to arrange the substitution of a company incorporated and/or tax resident in another jurisdiction approved in writing by the Note Trustee as principal debtor under the Class A Notes and the Trust Deed, provided that (i) the Note Trustee is satisfied that such substitution will not be materially prejudicial to the interests of each of the Class A1 Noteholders and the Class A2 Noteholders and the conditions for any such substitution of the Issuer as provided in the Trust Deed are complied with (and in making such determination, the Note Trustee may rely, without further investigation or inquiry, on confirmation from the Rating Agencies that such substitution will not have an adverse effect on the then current rating of each of the Class A1 Notes and the Class A2 Notes) and (ii) a legal opinion of independent legal advisers of recognised standing, in form and substance satisfactory to the Note Trustee is delivered to the Issuer and to the Note Trustee confirming that such substitution would not require registration of any new security under US securities laws or materially increase the disclosure requirements under US law.

If the Issuer satisfies the Note Trustee immediately before giving the notice referred to below that one or more of the events described in subparagraph (a) or (b) above is continuing and that the appointment of a Paying Agent or a substitution as referred to above would not avoid the effect of the relevant event or that, having used its reasonable endeavours, the Issuer is unable to arrange such appointment or substitution, then the Issuer may, on any Interest Payment Date and having given not more than 60 nor less than 30 days' notice to the Note Trustee, the Interest Rate Swap Provider and Class A Noteholders in accordance with Condition 15 (*Notice to Noteholders*), redeem all (but not some only) of the Class A Notes at their respective Principal Amount Outstanding together with any interest accrued (and unpaid) thereon up to (but excluding) the date of redemption provided that (in either case), prior to giving any such notice, the Issuer shall have provided to the Note Trustee (a) a certificate signed by two directors of the Issuer stating that (i) one or more of the circumstances referred to in subparagraph (a) or (b) above prevail(s), (ii) setting out details of such circumstances and (iii) confirming that the appointment of a Paying Agent or a substitution as referred to above would not avoid the effect of the relevant event or that, having used its reasonable endeavours, the Issuer is unable to arrange such appointment or substitution and (b) an opinion in form and substance satisfactory to the Note Trustee of independent legal advisers of recognised standing to the effect that the Issuer, the Paying Agents or the Interest Rate Swap Provider have or will become obliged to deduct or withhold amounts as a result of such change. The Note Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstance set out in the paragraph immediately above, in which event they shall be conclusive and binding on the Class A Noteholders.

The Issuer may only redeem the Class A Notes as described above if the Issuer has certified to the Note Trustee that it will have the necessary funds, not subject to the interest of any other person, required to redeem the Class A Notes as aforesaid and any amounts required under the Pre-Acceleration Revenue Priority of Payments to be paid in priority to or *pari passu* with the Class A Notes outstanding in accordance with the Conditions, such certification to be provided by way of a certificate signed by two directors of the Issuer.

#### **7.5 Principal Amount Outstanding**

The **Principal Amount Outstanding**:

- (a) in respect of the Class A1 Notes on any date shall be their original principal amount of £718,200,000 less the aggregate amount of all principal payments in respect of such Class A1 Notes which have been made since the Closing Date;
- (b) in respect of the Class A2 Notes on any date shall be their original principal amount of £718,200,000 less the aggregate amount of all principal payments in respect of such Class A2 Notes which have been made since the Closing Date; and
- (c) in respect of the Class Z VFN shall be, as at a particular day (the **Reference Date**), the total principal amount of all drawings under the Class Z VFN on and since the Closing Date less the aggregate amount of all principal payments in respect of such Class Z VFN which have been made since the Closing Date and not later than the Reference Date (such amounts to be notified in writing by the Class Z VFN Registrar to the Principal Paying Agent and any other Paying Agents).

#### **7.6 Notice of Redemption**

Any such notice as is referred to in Condition 7.3 (*Optional Redemption of the Class A Notes*) or Condition 7.4 (*Optional Redemption of the Class A Notes for Taxation or Other Reasons*) above shall be irrevocable and, upon the expiry of such notice, the Issuer shall be bound to redeem the relevant Notes at the applicable amounts specified above. Any certificate or legal opinion given by or on behalf of the Issuer pursuant to Condition 7.3 (*Optional Redemption of the Class A Notes*) or Condition 7.4 (*Optional Redemption of the Class A Notes for Taxation or Other Reasons*) may be relied on by the Note Trustee without further investigation and without incurring any liability for so doing and, if so relied on, shall be conclusive and binding on the Noteholders.

#### **7.7 No Purchase by the Issuer**

The Issuer will not be permitted to purchase any of the Notes.

#### **7.8 Cancellation**

All Notes (other than the Class Z VFN) redeemed in full will be cancelled upon redemption and may not be resold or re-issued.

On each Interest Payment Date on which the Class Z VFN is redeemed pursuant to Condition 7.2 (*Mandatory Redemption*), the Class Z VFN Registrar shall cancel the Class Z VFN in an amount equal to such mandatory redemption, thereby reducing the nominal principal amount of the Class Z VFN by an amount equal to such mandatory redemption.

Each Class Z VFN will be cancelled when redeemed in full after the Class Z VFN Commitment Termination Date and may not be resold or re-issued once cancelled.

## 8. TAXATION

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**), unless the withholding or deduction of the Taxes is required by applicable law or by agreement of the Issuer (or any Paying Agent or the Class Z VFN Registrar) under the provisions of section 1471(b) of the Code or otherwise imposed pursuant to sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto. In that event, subject to Condition 7.4, the Issuer or, as the case may be, the relevant Paying Agent or the Class Z VFN Registrar shall make such payment after the withholding or deduction has been made and shall account to the relevant authorities for the amount required to be withheld or deducted. Neither the Issuer, the Class Z VFN Registrar nor any Paying Agent nor any other person shall be obliged to make any additional payments to Noteholders in respect of such withholding or deduction.

## 9. PRESCRIPTION

Claims in respect of principal and interest on the Notes will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the relevant payment.

In this Condition 9, the **Relevant Date**, in respect of a payment, is the date on which such payment first becomes due or (if the full amount of the monies payable on that date has not been duly received by the Principal Paying Agent or the Note Trustee on or prior to such date) the date on which, the full amount of such monies having been received, notice to that effect is duly given to the relevant Noteholders in accordance with Condition 15 (*Notice to Noteholders*).

## 10. EVENTS OF DEFAULT

### 10.1 Class A Notes

The Note Trustee at its absolute discretion may, and if so directed in writing whilst any Class A1 Notes and Class A2 Notes remain outstanding, by the holders of not less than 25 per cent. in aggregate of the Principal Amount Outstanding of those Class A Notes then outstanding or if so directed by an Extraordinary Resolution of the Class A Noteholders passed at a single meeting of the Class A Noteholders (or at any adjourned meeting) the Note Trustee shall, (subject, in each case, to being indemnified and/or secured and/or prefunded to its satisfaction) give a notice (a **Note Acceleration Notice**) to the Issuer and the Interest Rate Swap Provider that all Classes of the Notes are immediately due and repayable at their respective Principal Amounts Outstanding, together with Accrued Interest as provided in the Trust Deed, in any of the following events (each, an **Event of Default**):

- (a) if default is made in the payment of any principal or interest due in respect of the Class A Notes or any of them and the default continues for a period of seven days in the case of principal or 14 days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these Conditions or any Transaction Document to which it is a party and (except in any case where the Note Trustee considers the failure to be incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for a period of 30 days (or such longer period as the Note Trustee may permit) following the service by the Note Trustee on the Issuer of notice requiring the same to be remedied; or

- (c) if any order is made by any competent court or any resolution is passed for the winding up or dissolution of the Issuer, save for the purposes of reorganisation on terms approved in writing by the Note Trustee or by Extraordinary Resolution of the Class A Noteholders; or
- (d) if the Issuer ceases or threatens to cease to carry on the whole or (in the opinion of the Note Trustee) substantially all of its business, save for the purposes of reorganisation on terms approved in writing by the Note Trustee or by Extraordinary Resolution of the Class A Noteholders, or the Issuer stops or threatens to stop payment of, or is unable to, or admits inability to, pay its debts (or any class of its debts) as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account its contingent and prospective liabilities) or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law or is adjudicated or found bankrupt or insolvent; or
- (e) if (i) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, application to the court for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) or an administration order is granted or the appointment of an administrator takes effect or an administrative or other receiver, manager or other similar official is appointed, in relation to the Issuer or in relation to the whole or any part of the undertaking or assets of the Issuer or an encumbrancer takes possession of the whole or any part of the undertaking or assets of the Issuer, or a distress, diligence, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of the Issuer and (ii) in the case of any such possession or any such last-mentioned process, unless initiated by the Issuer, is not discharged or otherwise ceases to apply within 30 days; or
- (f) if the Issuer (or its directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or takes steps with a view to obtaining a moratorium in respect of any of its indebtedness or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors).

## 10.2 **Class Z VFN**

This Condition 10.2 (*Class Z VFN*) shall not apply as long as any Class A Note is outstanding. Subject thereto, for so long as any Class Z VFN is outstanding, the Note Trustee shall if so directed by the sole Class Z VFN Holder or holders of all the Class Z VFN, (subject, in each case, to being indemnified and/or secured and/or prefunded to its satisfaction) give a Note Acceleration Notice to the Issuer in any of the following events (each, an **Event of Default**):

- (a) if default is made in the payment of any principal or interest due in respect of the Class Z VFN and the default continues for a period of seven days in the case of principal or 14 days in the case of interest; or
- (b) if any of the Events of Default referred to in Condition 10.1(b) to 10.1(f) (*Class A Notes*) occurs with references, where applicable, to Class A Noteholders being read as Class Z VFN Holder.

## 10.3 **General**

Upon the service of a Note Acceleration Notice by the Note Trustee in accordance with Conditions 10.1 (*Class A Notes*) and Condition 10.2 (*Class Z VFN*) above, all the Notes then outstanding shall thereby

immediately become due and repayable at their respective Principal Amounts Outstanding, together with Accrued Interest as provided in the Trust Deed.

## **11. ENFORCEMENT**

### **11.1 General**

Each of the Note Trustee and the Security Trustee may, at any time, at its discretion and without notice, take such proceedings, actions or steps against the Issuer or any other party to any of the Transaction Documents as it may think fit to enforce the provisions of (in the case of the Note Trustee) the Notes or the Trust Deed (including these Conditions) or (in the case of the Security Trustee) the Deed of Charge or (in either case) any of the other Transaction Documents to which it is a party and, at any time after the service of a Note Acceleration Notice, the Security Trustee may, at its discretion and without notice, take such steps as it may think fit to enforce the Security, but neither of them shall be bound to take any such proceedings, action or steps unless:

- (a) subject in all cases to restrictions contained in the Trust Deed and the Deed of Charge to protect the interests of any higher ranking class or classes of Noteholders (including the provisions set out in Clause 10 and Schedule 4 of the Trust Deed), it shall have been so directed by an Extraordinary Resolution of the Class A Noteholders or so directed in writing by the holders of at least 25 per cent. in aggregate Principal Amount Outstanding of the Class A Notes or, if there are no Class A Notes then outstanding, the holders of all the Class Z VFN; and
- (b) in all cases, it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

### **11.2 Preservation of Assets**

If the Security has become enforceable otherwise than by reason of a default in payment of any amount due on the Notes, the Security Trustee will not be entitled to dispose of any of the Charged Assets or any part thereof unless either

- (i) the Cash Manager certifies to the Security Trustee that a sufficient amount would be realised to allow discharge in full on a *pro rata* and *pari passu* basis of all amounts owing to the Class A Noteholders (and all persons ranking in priority to the Class A Noteholders) (or once all of the Class A Noteholders have been repaid, to the Class Z VFN Holder (and all persons ranking in priority thereto)), or
- (ii) the Security Trustee is of the opinion, which shall be binding on the Secured Creditors, reached after considering at any time and from time to time the advice of any financial adviser (or such other professional advisers selected by the Security Trustee for the purpose of giving such advice), that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class A Noteholders (or once all of the Class A Noteholders have been repaid, to the Class Z VFN Holder (and all persons ranking in priority thereto)). The fees and expenses of the aforementioned financial adviser or other professional adviser selected by the Security Trustee shall be paid by the Issuer.

The Security Trustee shall not be bound to make the determinations contained in Condition 11.2(ii) unless the Security Trustee shall have been indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby become liable or which it may incur by so doing.



### **11.3 Limitations on Enforcement**

No Noteholder shall be entitled to take any steps or proceedings to procure the winding-up, administration or liquidation of the Issuer.

Amounts available for distribution after enforcement of the Security shall be distributed in accordance with the terms of the Deed of Charge.

### **11.4 Limited Recourse**

Notwithstanding any other Condition or any provision of any Transaction Document, all obligations of the Issuer to the Noteholders are limited in recourse to the property, assets and undertakings of the Issuer the subject of any security created under the Deed of Charge (the **Charged Assets**). If:

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

then the Noteholders shall have no further claim against the Issuer in respect of any amounts owing to them which remain unpaid (including, for the avoidance of doubt, payments of principal, premium (if any), interest in respect of the Notes) and such unpaid amounts shall be deemed to be discharged in full and any relevant payment rights shall be deemed to cease.

## **12. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION**

**12.1** The Trust Deed contains provisions for convening meetings of the Noteholders of each Class and sub-class and, in certain cases, more than one Class or sub-class to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of these Conditions or the provisions of any of the Transaction Documents.

**12.2** An Extraordinary Resolution (other than in relation to a Basic Terms Modification) passed at any meeting of the Class A Noteholders shall be binding on the Class Z VFN Holder irrespective of the effect upon them, subject to Condition 12.4 (*Quorum*).

**12.3** In certain circumstances (as set out in Condition 3.1(d) and more specifically in the Trust Deed), the Note Trustee may in its sole discretion, allow a resolution to be passed by the Noteholders of one Class or sub-class of the Class A Notes or require such a resolution to be passed by the Noteholders of one or more Classes or sub-classes of the Class A Notes separately.

### **12.4 Quorum**

(a) Subject as provided below, the quorum at any meeting of any Class or sub-class of the Class A Noteholders for passing an Extraordinary Resolution will be one or more persons holding or representing not less than 50 per cent. of the aggregate Principal Amount Outstanding of such relevant Class or sub-class of Notes, or, at any adjourned meeting, one or more persons being or representing a Class A Noteholder of the relevant Class or sub-class, Classes or sub-classes,

whatever the aggregate Principal Amount Outstanding of the Notes of such Class then outstanding held or represented by it or them.

- (b) Subject to the more detailed provisions set out in the Trust Deed, the quorum at any meeting of any Class or sub-class of the Class A Noteholders for passing an Extraordinary Resolution to (i) sanction a modification of the date of maturity of any Notes, (ii) sanction a modification of the date of payment of principal or interest in respect of the Notes, or where applicable, of the method of calculating the date of payment of principal or interest in respect of the Notes, (iii) sanction a modification of the amount of principal or the rate of interest payable in respect of the Notes, or where applicable, of the method of calculating the amount payable of any principal or interest in respect of the Notes, (iv) alter the currency in which payments under the Notes are to be made (v) alter the quorum or majority required in relation to this exception, (vi) sanction any scheme or proposal or substitution for the sale, conversion or cancellation of the Notes or (vii) alter any of the provisions contained in this exception (each a **Basic Terms Modification**) shall be one or more persons holding or representing not less than three-quarters or, at any adjourned meeting, not less than one-quarter of the aggregate Principal Amount Outstanding of the Notes of such Class or sub-class then outstanding and an Extraordinary Resolution in respect of such a modification shall only be effective if duly passed at a meeting (or meetings, as appropriate) of the relevant affected Class A Noteholders (or if applicable, the relevant sub-class thereof).

**12.5** Other than in respect of a Basic Terms Modification, the Note Trustee may agree with the Issuer (and direct the Security Trustee to agree with the Issuer) and any other parties but without the consent of the Noteholders or the other Secured Creditors (but with the written consent of the Secured Creditors which are a party to the relevant Transaction Document):

- (a) to any modification, or to any waiver or authorisation of any breach or proposed breach, of these Conditions or any of the Transaction Documents which, in the opinion of the Note Trustee is not materially prejudicial to the interests of the Noteholders of any Class or sub class thereof; or
- (b) to any modification to these Conditions or any of the Transaction Documents which, in the opinion of the Note Trustee is of a formal, minor or technical nature or to correct a manifest error,

provided that in respect of any modifications to any of the Transaction Documents which would (in the opinion of the Issuer and the Interest Rate Swap Provider and, if applicable, the Interest Rate Swap Guarantor, which shall be confirmed in writing to the Note Trustee prior to such modification) have the effect that immediately after such modification, the Interest Rate Swap Provider and, if applicable, the Interest Rate Swap Guarantor would be reasonably required to pay more or receive less under the Interest Rate Swap Agreement if the Interest Rate Swap Provider were to replace itself as swap counterparty under an Interest Rate Swap than it would otherwise have been required to prior to such modification, the written consent of the Interest Rate Swap Provider is required. Unless the Note Trustee received such confirmation from the Issuer and the Interest Rate Swap Provider prior to agreeing a modification to any Transaction Documents, it shall be entitled to assume (without liability to any person) that no such consent is required.

**12.6** The Note Trustee may also, without the consent or sanction of the Noteholders or the other Secured Creditors, if it is of the opinion that such determination will not be materially prejudicial to the interests of the Noteholders of any Class or any sub-class thereof, waive or authorise any breach or proposed breach of the Conditions or the Transaction Documents (or direct the Security Trustee to waive or authorise any breach or proposed breach) of the Transaction Documents or determine that an Event of Default or Potential Event of Default shall not, or shall not subject to specified conditions, be treated as such provided that the Note Trustee shall not exercise any power conferred on it in

contravention of any express direction given by Extraordinary Resolution or by a direction under Condition 10 (Events of Default) but so that no such direction or request shall affect any waiver, authorisation or determination previously given or made.

- 12.7** Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Note Trustee agrees otherwise, any such modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 15 (*Notice to Noteholders*).
- 12.8** Any modification to the Transaction Documents shall be notified by the Issuer in writing to the Rating Agencies.
- 12.9** In connection with any such substitution of principal debtor referred to in Condition 7.4 (*Optional Redemption of the Class A Notes for Taxation or Other Reasons*), the Note Trustee may also agree, without the consent of the Noteholders or the other Secured Creditors, to a change of the laws governing the Notes, these Conditions and/or any of the Transaction Documents, provided that such change would not, in the opinion of the Note Trustee, be materially prejudicial to the interests of the Noteholders.

**12.10** In determining whether a proposed action will not be materially prejudicial to the Noteholders or any Class or sub-class thereof, the Note Trustee may, among other things, be entitled, but not obliged to assume, that a proposed action would not be materially prejudicial to the Noteholders if the Rating Agencies have confirmed orally or in writing that such exercise would not have an adverse effect on the then current rating of the Notes or that the Cash Manager has certified in writing to the Note Trustee and the Security Trustee that such proposed action (i) (while any Class A Notes remain outstanding) has been notified to the Rating Agencies, (ii) would not adversely impact on the Issuer's ability to make payment when due in respect of the Notes, (iii) would not affect the legality, validity and enforceability of any of the Transaction Documents or any Security and (iv) would not have an adverse effect on the rating of the Class A Notes) (upon which confirmation or certificate the Note Trustee and the Security Trustee shall be entitled to rely absolutely without liability to any person for so doing). In being entitled to take into account that each of the Rating Agencies have confirmed that the then current rating of the Notes would not be adversely affected or any such confirmation from the Cash Manager, it is agreed and acknowledged by the Note Trustee and the Security Trustee this does not impose or extend any actual or contingent liability for each of the Rating Agencies to the Security Trustee, the Note Trustee, the Noteholders or any other person or create any legal relations between each of the Rating Agencies and the Security Trustee, the Note Trustee, the Noteholders or any other person whether by way of contract or otherwise.

**12.11** Where, in connection with the exercise or performance by the Note Trustee of any right, power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Transaction Documents (including, without limitation, in relation to any modification, waiver, authorisation, determination, substitution or change of laws as referred to above), the Note Trustee is required to have regard to the interests of the Noteholders of any Class, sub-class thereof or Classes, it shall have regard to the general interests of the Noteholders of such Class, sub-class thereof or Classes as a Class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise or performance for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof and the Note Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim from the Issuer, the Note Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

**12.12** **Extraordinary Resolution** means:

- (a) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed and these Conditions by a majority consisting of not less than three-quarters of the votes cast;
- (b) a resolution in writing signed by or on behalf of the Noteholders of not less than three-quarters in aggregate Principal Amount Outstanding of any Class or sub-class of the Notes then outstanding which resolution may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Noteholders of such Class or sub-class.
- (c) a resolution in writing signed by the sole Class Z VFN Holder or the holders of all of the Class Z VFN.

**12.13** **Issuer Substitution Condition**

The Note Trustee may concur, with the Issuer to any substitution under these Conditions and subject to such amendment of these Conditions and of any of the Transaction Documents and to such other conditions as the Note Trustee may require and subject to the terms of the Trust Deed, but without the consent of the Noteholders, to the substitution of another body corporate in place of the Issuer as

principal debtor under the Trust Deed and the Notes and in respect of the other Secured Obligations, provided that the conditions set out in the Trust Deed are satisfied including, *inter alia*, that the Notes are unconditionally and irrevocably guaranteed by the Issuer (unless all of the assets of the Issuer are transferred to such body corporate) and that such body corporate is a single purpose vehicle and undertakes itself to be bound by provisions corresponding to those set out in Condition 4 (*Covenants*). In the case of a substitution pursuant to this Condition 12.12, the Note Trustee may in its absolute discretion agree, without the consent of the Noteholders, to a change in law governing the Notes and/or any of the Transaction Documents unless such change would, in the opinion of the Note Trustee, be materially prejudicial to the interests of the Noteholders.

### **13. INDEMNIFICATION AND EXONERATION OF THE NOTE TRUSTEE AND THE SECURITY TRUSTEE**

The Trust Deed and the Deed of Charge contain provisions governing the responsibility (and relief from responsibility) of the Note Trustee and the Security Trustee respectively and providing for their indemnification in certain circumstances, including provisions relieving them from taking action or, in the case of the Security Trustee, enforcing the Security, unless indemnified and/or secured and/or prefunded to their satisfaction.

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

### **14. REPLACEMENT OF NOTES**

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

### **15. NOTICE TO NOTEHOLDERS**

#### **15.1 *Publication of Notice***

- (a) Subject to paragraphs (b) below, all notices to the Class A1 Noteholders and the Class A2 Noteholders will be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if in the opinion of the Note Trustee such publication shall not be practicable, such other English language daily newspaper with general circulation in Europe as the Note Trustee may approve. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or the relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Note Trustee may approve. The holders of any coupons will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this paragraph.

- (b) Whilst the Class A Notes are represented by a Global Note, notices to Noteholders (other than the Class Z VFN Holder) will be valid if published as described above, or, at the option of the Issuer, if submitted to Euroclear and/or Clearstream, Luxembourg for communication by them to Noteholders (other than the Class Z VFN Holder). Any notice delivered to Euroclear and/or Clearstream, Luxembourg, as aforesaid shall be deemed to have been given on the day of such delivery.
- (c) In respect of the Class Z VFN, notices to the Class Z VFN Holder will be sent to it by the Issuer to the fax number or email address notified to the Issuer from time to time in writing.

## **15.2 Note Trustee's Discretion to Select Alternative Method**

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

## **16. SUBORDINATION BY DEFERRAL**

### **16.1 Interest**

If, on any Interest Payment Date, the Issuer has insufficient funds to make payment in full of all amounts of interest (which shall, for the purposes of this Condition 16, include any interest previously deferred under this Condition 16.1 and Accrued Interest thereon) payable in respect of the Class Z VFN after having paid or provided for items of higher priority in the Pre-Acceleration Revenue Priority of Payments, then the Issuer shall be entitled to defer to the next Interest Payment Date the payment of interest (such interest, the **Deferred Interest**) in respect of the Class Z VFN (unless there are no Class A Notes then outstanding) to the extent only of any insufficiency of funds (only after having paid or provided for all amounts specified as having a higher priority in the Pre-Acceleration Revenue Priority of Payments than interest payable in respect of the Class Z VFN).

### **16.2 General**

Any amounts of Deferred Interest in respect of the Class Z VFN shall accrue interest (**Additional Interest**) at the same rate and on the same basis as scheduled interest in respect of the corresponding Class of Notes. Such Deferred Interest and Additional Interest shall, in any event, become payable on the next Interest Payment Date (unless and to the extent that Condition 16.1 (*Interest*) applies) or on such earlier date as the Class Z VFN becomes due and repayable in full in accordance with these Conditions.

### **16.3 Notification**

As soon as practicable after becoming aware that any part of a payment of interest on the Class Z VFN will be deferred or that a payment previously deferred will be made in accordance with this Condition 16, the Issuer will give notice thereof to the Class Z VFN Holder, as appropriate, in accordance with Condition 15 (*Notice to Noteholders*). Any deferral of interest in accordance with this Condition 16 will not constitute an Event of Default. The provisions of this Condition 16 shall cease to apply on the Final Maturity Date, or any earlier date on which the Notes are redeemed in full or required to be redeemed in full at which time all deferred interest and Accrued Interest thereon shall become due and payable.

**17. INCREASING THE PRINCIPAL AMOUNT OUTSTANDING OF THE CLASS Z VFN AND ADJUSTING THE MAXIMUM CLASS Z VFN AMOUNT**

**17.1 Class Z VFN**

- (a) If the Issuer (or the Cash Manager on behalf of the Issuer) receives a notice from a Seller prior to the Class Z VFN Commitment Termination Date notifying the Issuer (i) that a Further Advance has been made in respect of which there are insufficient funds standing to the credit of the Principal Ledger (or the amount credited to the Ported Loan Repurchase Ledger in relation to the redemption proceeds received by the Issuer from the redemption of the Loan being ported, as applicable) to fund the purchase of the Further Advance Purchase Price and of the amount of the Further Advance Purchase Price and/or the shortfall which is insufficiently funded by amounts standing to the credit of the Principal Ledger (or the amount credited to the Ported Loan Repurchase Ledger in relation to the redemption proceeds received by the Issuer from the redemption of the Loan being ported, as applicable), (ii) that amounts standing to the credit of the General Reserve Fund are less than the General Reserve Required Amount; (iii) of any premiums payable under any Interest Rate Swap Agreement, (iv) that an amount is required to be deposited to the Retained Principal Ledger (during the Further Sale Period) in order to purchase Additional Loans and their Related Security and/or (v) an amount is required to be deposited in the Retained Principal Ledger (during the Further Sale Period) or the General Reserve Fund, in each case in order to maintain the then current rating of the Class A Notes, the Issuer (or the Cash Manager on its behalf) shall notify (by serving a Notice of Increase) the holder of the Class Z VFN (the **Class Z VFN Holder**) requesting that such Class Z VFN Holder further fund the Class Z VFN on the next following Monthly Pool Date or other Business Day specified in the Notice of Increase in an amount equal to the lower of:
- (i) (A) in respect of (i) above, the Further Advance Purchase Price less amounts standing to the credit of the Principal Ledger (or the amount credited to the Ported Loan Repurchase Ledger in relation to the redemption proceeds received by the Issuer from the redemption of the Loan being ported, as applicable) available to pay such Further Advance Purchase Price (which such amount shall be apportioned to the Seller and shall not constitute Available Revenue Receipts or Available Principal Receipts);
  - (B) in respect of (ii) above, the General Reserve Required Amount less all amounts standing to the credit of the General Reserve Fund;
  - (C) in respect of (iii) above, the amount of any premium payable under the Interest Rate Swap Agreement;
  - (D) in respect of (iv) above, the amount required to be deposited in the Retained Principal Ledger; or
  - (E) in respect of (v) above, the amount required to be deposited in the Retained Principal Ledger or the General Reserve Fund, as applicable; and
- (ii) the Maximum Class Z VFN Amount less the current Principal Amount Outstanding of the Class Z VFN (taking into account any likely reductions to the Principal Amount Outstanding of the Class Z VFN on the following Interest Payment Date).
- (b) The Class Z VFN Holder, upon receipt of such a notice from the Issuer or the Cash Manager (on behalf of the Issuer) prior to the Class Z VFN Commitment Termination Date requesting that the relevant Class Z VFN Holder further fund the Class Z VFN, shall (in relation to a request under paragraph (i), (ii) or (iii) of Condition 17.1(a)) or may (in relation to a request under paragraph (iv) or

(v) of Condition 17.1(a)) notify the Issuer that the relevant Class Z VFN Holder is prepared to make such further funding (the **Further Class Z VFN Funding**), provided the relevant Class Z VFN Holder shall not be obliged to make any such further funding unless and until such time as the Issuer has complied with the requirements of Condition 17.1(d) below.

- (c) The proceeds of the Further Class Z VFN Funding shall be applied by the Issuer to fund (i) the Further Advance Purchase Price, (ii) the General Reserve Fund up to and including an amount equal to the General Reserve Required Amount, (iii) any premiums payable under the Interest Rate Swap Agreement, (iv) the amount to be deposited in the Retained Principal Ledger or (v) the amount to be deposited in the Retained Principal Ledger or the General Reserve Fund, as applicable.
- (d) The Class Z VFN Holder shall (in relation to a request under paragraph (i), (ii) or (iii) of Condition 17.1(a)) or may (in relation to a request under paragraph (iv) or (v) of Condition 17.1(a)) advance the amount of such Further Class Z VFN Funding to the Issuer for value on the relevant Monthly Pool Date or other Business Day specified in the Notice of Increase, if the following conditions are satisfied:
- (i) not later than 2.00 p.m. four Business Days prior to the proposed date for the making of such Further Class Z VFN Funding (or such lesser time as may be agreed by the Class Z VFN Holder), the relevant Class Z VFN Holder has received from the Issuer a completed and irrevocable Notice of Increase therefor, receipt of which shall oblige the relevant Class Z VFN Holder to accept the amount of the Further Class Z VFN Funding therein requested on the date therein stated upon the terms and subject to the conditions contained therein;
  - (ii) as a result of the making of such Further Class Z VFN Funding, the aggregate amount plus all Further Class Z VFN Funding made in respect of the relevant Class Z VFN (provided no reference shall be made in respect of any principal amount due on the relevant Class Z VFN which has already been repaid) would not exceed the Maximum Class Z VFN Amount;
  - (iii) either:
    - (A) the Issuer confirms in the Notice of Increase that no Event of Default has occurred or will occur as a result of the Further Class Z VFN Funding; or
    - (B) the relevant Class Z VFN Holder agrees in writing (notwithstanding any matter mentioned at (i) above) to make such Further Class Z VFN Funding available; and
  - (iv) the proposed date of such Further Class Z VFN Funding falls on a Business Day prior to the Class Z VFN Commitment Termination Date.

In this Condition, the expression:

**Notice of Increase** means a notice, substantially in the form set out in the Trust Deed.

**Maximum Class Z VFN Amount** for the Class Z VFN shall be £500,000,000 or such other amount as may be agreed from time to time by the Issuer and the Class Z VFN Holder, and notified to the Note Trustee.

## 18. GOVERNING LAW

The Trust Deed, the Deed of Charge, the Notes and these Conditions (and any non-contractual obligations arising out of or in connection with them) are governed by, and shall be construed in accordance with, English law.



## **19. RIGHTS OF THIRD PARTIES**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Notes or these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **USE OF PROCEEDS**

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

The Issuer will use the gross proceeds of the issue of the Class Z VFN to fund (i) to the extent that the proceeds of the Class A Notes are insufficient to pay the Initial Consideration on the Closing Date, the remaining portion of the Initial Consideration, (ii) any Further Advance Purchase Price (to the extent not funded by amounts standing to the credit of the Principal Ledger), (iii) the establishment of the General Reserve Fund on the Closing Date, (iv) any increase in the General Reserve Fund up to the General Reserve Required Amount in order to satisfy the Asset Conditions for Further Advances, Substitutions and/or Product Switches, (v) initial expenses of the Issuer incurred in connection with the issue of the Notes on the Closing Date, (vi) amounts to be deposited in the Retained Principal Ledger in order to purchase Additional Loans and their Related Security and (vii) amounts to be deposited in the Retained Principal Ledger or the General Reserve Fund, as applicable, in order to maintain the then current rating of the Class A Notes.

## RATINGS

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

<b>Class of Notes</b>	<b>Fitch</b>	<b>Moody's</b>
Class A1 Notes	AAA sf	Aaa (sf)
Class A2 Notes	AAA sf	Aaa (sf)
Class Z VFN	Not rated	Not rated

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

## THE ISSUER

### Introduction

The Issuer was incorporated in England and Wales on 3 October 2012 (registered number 8239134) as a public limited company under the Companies Act 2006 (as amended). The registered office of the Issuer is c/o Structured Finance Management Limited, 35 Great St. Helen's, London, EC3A 6AP. The telephone number of the Issuer's registered office is +44 (0)20 7398 6300. The authorised share capital of the Issuer comprises 50,000 ordinary shares of £1 each. The issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, 49,999 shares of which are partly-paid up in cash of 25p each, and 1 of which is fully paid up, all of which are beneficially owned by Holdings (see "*Holdings*" below).

The Issuer is organised as a special purpose company for the purposes of issuing asset backed securities. The Issuer has no subsidiaries. The Seller does not own directly or indirectly any of the share capital of Holdings or the Issuer. The principal objects of the Issuer are set out in its Memorandum of Association and are, *inter alia*, to carry on business as a general commercial company. The Issuer was established solely for the purpose of issuing the Notes. The activities of the Issuer will be restricted by its Memorandum and Articles of Association and the Transaction Documents and will be limited to the issues of the Notes, the exercise of related rights and powers and other activities referred to herein or reasonably incidental thereto.

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

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

The Issuer, since its incorporation, has not commenced operations and no statutory accounts have been prepared or delivered to the Registrar of Companies on behalf of the Issuer, other than those incidental to its registration as a public company under the Companies Act 2006 (as amended) and to the proposed issues of the Notes and the authorisation of the other Transaction Documents referred to in this Prospectus to which it is or will be a party and other matters which are incidental or ancillary to the foregoing. The Issuer, as necessary, has made a notification under the Data Protection Act 1998 and has applied for a consumer credit licence under the CCA. The Issuer's application for a consumer credit licence under the CCA was received by the OFT on 15 October 2012 and was granted by the OFT to the Issuer on 23 November 2012. The accounting reference date of the Issuer is 31 December and the first statutory accounts of the Issuer will be drawn up to 31 December 2013.

There is no intention to accumulate surpluses in the Issuer (other than amounts standing to the credit of the Retained Principal Ledger, the General Reserve Ledger and the Issuer Profit Ledger, if established).

## Directors

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

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

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

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities</b>
Jonathan Keighley	35 Great St. Helen's, London, EC3A 6AP	Director
Robert Berry	35 Great St. Helen's, London, EC3A 6AP	Director
J-P Nowacki	35 Great St. Helen's, London, EC3A 6AP	Director
Claudia Wallace	35 Great St. Helen's, London, EC3A 6AP	Director
Vinoy Nursiah	35 Great St. Helen's, London, EC3A 6AP	Director
Helena Whitaker	35 Great St. Helen's, London, EC3A 6AP	Director
Jocelyn Coad	35 Great St. Helen's, London, EC3A 6AP	Director
Jennifer Jones	35 Great St. Helen's, London, EC3A 6AP	Company Secretary
Debra Parsall	35 Great St. Helen's, London, EC3A 6AP	Company Secretary
Michael Drew	35 Great St. Helen's, London, EC3A 6AP	Company Secretary

The company secretary of the Issuer is Structured Finance Management Limited whose principal office is at 35 Great St. Helen's, London, EC3A 6AP. The Issuer has no loan capital, borrowings or material contingent liabilities (including guarantees) as at the date of this Prospectus.

## HOLDINGS

### Introduction

Holdings was incorporated in England and Wales on 3 October 2012 (registered number 8239131) as a private limited company under the Companies Act 2006 (as amended). The registered office of Holdings is c/o Structured Finance Management Limited, 35 Great St. Helen's, London, EC3A 6AP. The issued share capital of Holdings comprises 1 ordinary share of £1. SFM Corporate Services Limited (the **Share Trustee**) holds the entire beneficial interest in the issued share under a discretionary trust for discretionary purposes. Holdings holds the entire beneficial interest in the issued share capital of the Issuer.

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

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

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

### Directors

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

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

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

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities</b>
Jonathan Keighley	35 Great St. Helen's, London, EC3A 6AP	Director
Robert Berry	35 Great St. Helen's, London, EC3A 6AP	Director
J-P Nowacki	35 Great St. Helen's, London, EC3A 6AP	Director
Claudia Wallace	35 Great St. Helen's, London, EC3A 6AP	Director
Vinoy Nursiah	35 Great St. Helen's, London, EC3A 6AP	Director
Helena Whitaker	35 Great St. Helen's, London, EC3A 6AP	Director
Jocelyn Coad	35 Great St. Helen's, London, EC3A 6AP	Director
Jennifer Jones	35 Great St. Helen's, London, EC3A 6AP	Company Secretary
Debra Parsall	35 Great St. Helen's, London, EC3A 6AP	Company Secretary
Michael Drew	35 Great St. Helen's, London, EC3A 6AP	Company Secretary

The company secretary of Holdings is Structured Finance Management Limited whose principal office is at 35 Great St. Helen's, London, EC3A 6AP.

The accounting reference date of Holdings is 31 December and the first statutory accounts of Holdings will be drawn up to 31 December 2013.

Holdings has no employees.

## **GODIVA MORTGAGES LIMITED**

Godiva will be appointed as the Seller under the Mortgage Sale Agreement and is a wholly owned subsidiary of CBS.

### **Introduction**

Godiva is a private limited company, incorporated and registered under the laws of England and Wales with company registration number 05830727. Its registered address is Oakfield House, Binley Business Park, Harry Weston Road, Coventry, CV3 2TQ. As at 31 December 2011 Godiva Mortgages Limited had assets of £4,693 million.

CBS launched Godiva in 2007 for the principal purpose of originating residential mortgage loans to borrowers in England, Wales, Scotland and Northern Ireland. Building on the proven service standards and expertise of CBS, Godiva is the dedicated intermediary-only brand of the CBS Group and provides mortgage products across some of the key intermediary business areas. Godiva offers a range of competitive products that include standard residential mortgages, buy-to-let mortgages, product transfers and further advances. It is well established in the intermediary market and operates in accordance with the same origination, underwriting and servicing criteria as CBS. Both CBS and Godiva share the same staff and infrastructure. Principal areas of distinction between CBS and Godiva relate to product range and the ability to differentiate on back book pricing. Furthermore, Godiva borrowers do not become members of CBS.

Godiva is authorised and regulated by the Financial Services Authority, registration number 457622. Further details of the products offered from time to time by Godiva are available on the Godiva website at <http://www.coventrybuildingsociety.co.uk/intermediaries/home.aspx> (this website and the contents thereof do not form part of this Prospectus).

### **Directors**

Godiva's directors are:

- David Stewart;
- John Lowe; and
- Colin Franklin.

### **Corporate Governance**

It is the practice of Godiva to apply a high standard of corporate governance. In this regard, all relevant activities are fully considered by the CBS Group's Audit Committee, which is comprised of independent non-executive directors.



## COVENTRY BUILDING SOCIETY

CBS (together with its consolidated subsidiary undertakings from time to time, the **CBS Group**) will be appointed as the Servicer pursuant to the Servicing Agreement, Cash Manager pursuant to the Cash Management Agreement and Class Z VFN Registrar pursuant to the Conditions. CBS will also be the Interest Rate Swap Provider, and pursuant to the terms of the Interest Rate Swap Guarantee, the Interest Rate Swap Guarantor.

### Introduction

CBS's principal office is at Economic House, PO Box 9, High Street, Coventry, CV1 5QN (telephone number: +44 24 7655 5255). The CBS Group was, in terms of total assets, at 30 June 2012 the third largest building society in the United Kingdom with total assets of £25.95 billion.

CBS was originally founded in 1884 and in its present form was created as a result of a merger between Coventry Economic Building Society and Coventry Provident Building Society on 30 June 1983 and, more recently, as a result of a merger between CBS and Stroud & Swindon on 1 September 2010.

CBS operates exclusively in the United Kingdom and has a branch network across the UK, with its heartland in Coventry and Warwickshire. Mortgage, savings and related products are also offered via the internet, by telephone and through the post and intermediary network to customers both inside and outside the branch operating area.

Except as otherwise stated, financial information contained herein is either (i) extracted from the audited consolidated annual accounts of CBS and the CBS Group, (ii) calculated using financial information extracted from such annual accounts, or (iii) extracted from the Interim Group Accounts for the six months ended June 2012.

### Constitution

CBS is incorporated under the Building Societies Act 1986 (the **Act**) and operates in accordance with the Act, regulations made thereunder and the Rules and Memorandum. CBS is an authorised building society for the purposes of the Act and is authorised and regulated by the FSA under firm reference number 150892. CBS, as a building society, is a mutual organisation and, unlike a company incorporated under the Companies Act 1985 or the Companies Act 2006 (as amended), does not have equity shareholders in the usual sense. A share in CBS is not the same as a share in a company and voting power is not weighted according to the number or value of shares held. No individual member is entitled to more than one vote on any resolution proposed at a general meeting. CBS is a mutual organisation with both retail investors and borrowers having membership.

A building society may, subject to the approval of its members (by a requisite shareholders' resolution of investing members and a borrowing members' resolution) and confirmation by the FSA, transfer its business to a specially formed public company limited by shares incorporated in the United Kingdom or an EEA company which has power to offer its shares or debentures to the public in a procedure commonly referred to as "conversion" or to an existing successor company which is a public company limited by shares incorporated in the United Kingdom or an EEA company with power to offer its shares or debentures to the public in a procedure commonly referred to as a "takeover".

The Mutual Societies Transfer Order modifies section 97 of the Act to permit a building society to transfer the whole of its business to a relevant subsidiary of a building society, friendly society or industrial and provident society incorporated in the United Kingdom or other EEA mutual society (as defined in the Act).

The affairs of CBS are conducted and managed by a board of directors who are elected by the members of CBS and who serve in accordance with the rules of CBS. The board is responsible to the members for the proper conduct of the affairs of CBS and appoints and supervises the senior executives of CBS who are responsible to the board for the day-to-day management of CBS. Eligibility to vote at general meetings is governed by the Act and the rules of CBS.

There exist no potential conflicts of interest between (i) any duties owed to CBS by any member of the board of directors or any of the senior executives listed above and (ii) their private interests and/or other duties.

### **Business and Strategy of CBS**

The principal purpose of CBS, as stated in Clause 3 of its Rules and Memorandum, is making loans which are secured on residential property and are funded substantially by its members.

CBS obtains funds from the retail market through personal savings and deposit accounts and also raises funds in the wholesale markets. It advances funds so raised mainly to borrowers on the security of first mortgages on freehold and leasehold property located in England or Wales or first ranking standard securities on properties located in Scotland.

CBS concentrates on its core business of personal savings, residential mortgage lending and related insurances and loans. It is an appointed introducer of Aviva. As at 31 December 2011 loans fully secured on residential property represented 97.5 per cent. of its business assets.

CBS operates across a number of distribution channels including its national network of branches, the internet and post. The CBS Group distributes its mortgages to members via CBS and through the intermediary market via its wholly owned subsidiary Godiva.

Further details of CBS's strategy, and the steps being taken by the CBS Group to implement the strategy, are set out in the Annual Report and Accounts of CBS for the financial year ended 31 December 2011.

The other purposes and powers of CBS are specified in its Rules and Memorandum.

### **Other Activities**

Aside from its core activities, CBS operates the following key subsidiary companies:

- Godiva
- ITL Mortgages Limited
- Five Valleys Property Trading Company Limited

In addition, CBS has the following direct, wholly owned subsidiary companies, none of which are carrying on a business:

- Coventry Financial Services Limited
- Coventry Property Services Limited
- Godiva Financial Services Limited
- Godiva Housing Developments Limited
- Godiva Savings Limited

- Godiva Securities and Investments Limited

CBS also has an interest in Coventry Building Society Covered Bonds LLP which gives rise to risks and rewards that are in substance no different than if it was a subsidiary undertaking.

## THE NOTE TRUSTEE AND SECURITY TRUSTEE

Citicorp Trustee Company Limited (registered number 00235914) will be appointed pursuant to the Trust Deed as Note Trustee for the Noteholders. It will also be appointed pursuant to the Deed of Charge as Security Trustee for the Secured Creditors.

Citicorp Trustee Company Limited's registered office is at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB.

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

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

## **THE CORPORATE SERVICES PROVIDER**

Structured Finance Management Limited (registered number 3853947), having its principal address at 35 Great St. Helen's, London, EC3A 6AP will be appointed to provide corporate services to the Issuer and Holdings pursuant to the Corporate Services Agreement.

Structured Finance Management Limited has served and is currently serving as corporate service provider for numerous securitisation transactions and programmes involving pools of mortgage loans.

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

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

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

## THE LOANS

### The Portfolio

#### Introduction

The following is a description of some of the characteristics of the Loans originated by the Seller and comprised in the Cut-Off Date Portfolio including details of loan types, the underwriting process, lending criteria and selected statistical information.

The Seller will select the Loans for transfer into the Portfolio using a system containing defined data on each of the qualifying loans in the Seller's overall portfolio of loans available for selection. This system allows the setting of exclusion criteria among others corresponding to relevant Loan Warranties that the Seller make in the Mortgage Sale Agreement in relation to the Loans (see "*Mortgage Sale Agreement – Representations and Warranties*"). This system also allows a limit to be set on some criteria. Once the criteria have been determined, the system identifies all loans owned by the Seller that are consistent with the criteria. From this subset, loans are selected at random until the target balance for Loans has been reached, or the subset has been exhausted. After a pool of Loans is selected in this way, the constituent Loans are monitored to ensure their compliance with the Loan Warranties on the Closing Date.

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

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

#### Characteristics of the Loans

##### (1) **Repayment terms**

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

Loans are typically repayable on one of the following bases:

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

- **Part and Part Loan:** a combination of the above two types of Loan.

In the case of either Repayment Loans or Interest-only Loans, the required accrued rate of interest on the Loans will vary from month to month as a result of changes in interest rates (unless such Loan is a Fixed Rate Loan).

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

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

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

- direct debit instruction from a bank or building society account, and
- standing order from a bank or building society account.

## (2) ***Interest payments and interest rate setting***

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

- **SVR Loans** are loans which are subject to the **Standard Variable Rate** or **SVR** of the Seller (as applicable). As at the Closing Date, the Seller's discretionary SVR is 4.74% per cent. The Standard Variable Rate is currently only available to customers at the end of a predetermined period, usually between 2 and 5 years, at the commencement of the Loan (the **Product Period**). Where the Loan is set at a discount rate (a **Discount Rate**), the Borrower receives an initial discount from the SVR.
- **Fixed Rate Loans** are loans which are subject to a fixed rate of interest for a specified period of time, usually for 2, 3 or 5 years.
- **Capped Rate Loans** are loans which are subject to an interest rate that is capped at a set rate for a specified period of time.
- **Tracker Rate Loans** are loans which are subject to an interest rate which is linked to a variable interest rate other than the Standard Variable Rate.
- **Privileged Rate Loans** are variable rate loans and are expressed to be given only where a borrower has been with CBS for more than 5 years.
- **Flex Rate Loans** are also variable (or administered) rate loans. The rate is set independently of the Standard Variable Rate of the Seller but is in some cases, but not all, guaranteed to be no higher than the Standard Variable Rate payable under the SVR Loans.

Some of the Loans may be subject to caps, minimum rates and discounts for agreed periods and some of the Loans may comprise elements of each type of loan (e.g. part tracker, part flex, part capped).

The Seller's Standard Variable Rate may apply for the life of the Loan following the end of the Product Period. Otherwise, each of the above rates is offered for the Product Period. At the end of the Product Period the rate of interest charged will either (a) move to another interest rate type for a predetermined period or (b) revert to, or remain at, a discretionary rate (currently SVR) or a fixed rate of interest. In addition, following a period of time at SVR, the rate of interest charged may change again to the Seller's privilege rates. The Seller may introduce other Discretionary Rates in the future. In certain instances, Early Repayment Charges are payable by the Borrower if the Loan is redeemed within the Product Period. See "*The Loans – Early repayment charges*" below.

All Loans originated by the Seller provide for interest to be calculated on a daily basis. The interest calculated on the outstanding balance of the loan at the end of each day is added to the amount of the Loan on which the Borrower will pay interest on the following monthly payment day. Consequently any payment by the Borrower will, generally, immediately reduce the Borrower's balance on which interest will be calculated.

Except in limited circumstances as set out in "*The Servicing Agreement – Undertakings by the Servicer*", the Servicer is responsible for setting the Discretionary Rates on the Loans in the Portfolio that are sold to the Issuer. Under the Godiva Deed of Conditions for Standard Securities (version 01062G) March 2011 and the Mortgage Conditions Issue '2' (Godiva Mortgages) – June 2010 version of the Mortgage Loan Terms the Seller has a right to vary the interest rate for any one or more of the following reasons:

- (a) to respond to changes in the Bank of England base rate, or mortgage or investment rates generally;
- (b) to respond to changes in the law or the decisions of a court or ombudsman;
- (c) to meet relevant regulatory requirements;
- (d) to respond to new (or changes to any) statements or codes of practice designed to enhance consumer protection;
- (e) to respond to changes in the costs or risks incurred by the Seller in providing the mortgage;
- (f) to respond to increased cost or risk incurred as a result of any change of use of the Property (for example, letting the Property, with or without the Seller's permission); or
- (g) for any other reason set out specifically in the mortgage offer letter.

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

If the Seller wishes to increase the interest rate applicable to a Loan for which a Discretionary Rate or a discounted Discretionary Rate is charged, the Seller will advertise the change in the national press or will write directly to Borrowers.

During the course of their mortgage origination business, the Seller have originated mortgage loans under a number of standard conditions, however, the Mortgage Loan Terms represent the most recent origination policy of the Seller relating to the Loans comprised in the Cut-Off Date Portfolio and dictate the specified reasons to change the interest rate.

### **(3) *Early Repayment Charges***

The Borrower may be required to pay an early repayment charge (an **Early Repayment Charge**) if certain events occur during the predetermined Product Period and the loan agreement states that the Borrower is



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

The Seller permit Borrowers during the Product Period to make a lump sum repayment to reduce the loan amount in each 12 month period up to a maximum of 10% of the balance outstanding on the loan amount without incurring an Early Repayment Charge.

If the Borrower repays its mortgage during a Product Period to move house, the Borrower may not have to pay the charge if the Borrower takes out a new loan for the new home with the Seller, subject to certain qualifying criteria and provided that the Borrower completes the new purchase within 6 months of redeeming the previous mortgage.

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

#### **(4) *Overpayments and Authorised Underpayments***

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

Since interest is calculated on a daily basis, if Borrowers pay more than the scheduled monthly payment, the balance on their mortgage loan will be reduced immediately. The Seller will charge interest on the reduced balance, which reduces the amount of interest the Borrower must pay.

**Authorised Underpayments** – some products have a payment holiday feature where the Borrower can apply to defer monthly payments. The terms of the Mortgages provide that the Borrower can (with the Seller's proper approval and at the Seller's discretion) take payment holidays for a period not exceeding 3 months in any year provided the relevant Borrower is not in arrears and has made at least 6 consecutive payments on the Loan. Approval may also be subject to conditions set by the Seller from time to time.

#### **(5) *Further Advances***

If a Borrower wishes to take out a further loan secured by the same mortgage the Borrower will need to make a further advance application and the Seller will use the lending criteria applicable to further advances at that time in determining whether to approve the application. The original mortgage deed or standard security is expressed to cover all amounts due under the relevant loan which would cover any Further Advances. (See "*Overview of the Key Transaction Documents – Further Advances and Product Switches*").

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

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

such Further Advance or if the Loan which is subject to the Further Advance breaches the Asset Conditions as tested on the Monthly Test Date following the Monthly Period in which such Further Advance was made.

## **(6) Product Switches**

From time to time, Borrowers may request or the Servicer may send an offer of a variation in the financial terms and conditions applicable to the Borrower's loan. If a Loan is subject to a Product Switch as a result of a variation, then the Seller may be required to repurchase the Loan or Loans and their Related Security from the Issuer if it breaches the Asset Conditions as tested on the Monthly Test Date immediately following the Monthly Period in which the Switch was made. (See "Overview of the Key Transaction Documents – Further Advances, and Product Switches").

## **Origination channels**

The Seller currently derives the majority of its mortgage-lending business through a network of intermediaries throughout the United Kingdom (except for certain loan related features, such as Further Advances, which are originated directly by the Seller) and from internet and telephone sales

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

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

## **Underwriting**

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

- (a) initial qualification: applications go through a rigorous initial qualification by intermediaries or mortgage advisers before any applications reach the underwriting stage; and
- (b) credit scorecard: based on a combination of application and credit bureau data.

The lending system is supported by a structure with authority limits varying according to seniority. Applications which receive a system recommendation of "accept" follow a verification process which would include, but not be limited to, verification of identification and income, prior to the making of an offer. Applications which receive a system recommendation of "refer" will be reviewed manually by an underwriter.

Mandated officers may approve loans up to a maximum of £500,000.

Loans between £500,001 up to £750,000 must be presented to the Head of Business Operations or a member of the executive team for authorisation.

Loans over £750,000 must be presented to a member of the executive team for authorisation.

## **Lending Criteria**

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

This section of the Prospectus reflects the lending criteria applied for originations as of the date of the Prospectus.

### **(1) *Type of property***

Properties may be either freehold or leasehold. In the case of leasehold properties, there must be a minimum of 70 years remaining on inception of the mortgage. The property must be used solely as a single residential dwelling. Properties must be of good quality, in sound structural condition and in a reasonable state of repair. House boats, mobile homes, and any property on which buildings insurance cannot be arranged are not acceptable. All persons who are to be legal owners of the property on completion must be named as Borrowers under the Mortgage.

All properties have been valued by a valuer approved by the Seller to the standards of a Reasonable, Prudent Mortgage Lender.

### **(2) *Term of loan***

The minimum term of a Loan is generally 5 years for new residential mortgages and home owner loans. The maximum term for residential loans is generally 35 years. A repayment period for a Further Advance that would extend beyond the term of the original advance may in exceptional circumstances also be accepted at the Seller's discretion. However, Further Advances may only be sold to the Issuer subject to the Asset Conditions being met on the relevant Advance Date.

### **(3) *Details of applicant***

All Borrowers must be aged 18 or over and the mortgage term must normally end before the Borrower reaches 75.

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

Under the Seller's current Lending Criteria, to be accepted for a mortgage, generally all applicants must have been in permanent employment for at least 12 months or, if self-employed, trading for at least 1 year.

### **(4) *Loan-to-value (or LTV) ratio***

Normally, the maximum original LTV ratio of Loans in each expected portfolio would be 75%. Where fees were added to the Loan, they may have taken the total lending over the specified LTV limit.

When the Seller's make a Loan on a property which requires repairs, the property is either valued on a "when done" basis and the loan (or a portion of it) retained until works have been completed, or if the

property is acceptable security in its existing condition, it may be valued on that basis and the loan released prior to works commencing.

**(5) Status of applicant(s) and Bank reference/Proof of Income**

Lending assessment is currently made using the lending system outlined in the section headed "*The Loans – Underwriting*".

Subject to the results of the Seller's credit score test and subject to certain exceptions applied by the Seller acting as a Reasonable, Prudent Mortgage Lender in accordance with the Seller's practice and procedures from time to time, the Seller would seek and review satisfactory bank statements and references from existing or previous lenders. Supporting information required of employed applicants and self-employed applicants is set out below.

*Employed applicant(s):*

Where an applicant is in PAYE employment and the income of that applicant is required to support the loan, the Seller generally requires the applicant to be in a permanent position and not under notice of termination. However, fixed term/temporary workers are accepted where the applicant meets certain minimum requirements. For a standard residential mortgage, the Seller requires either the applicant's latest P60 and/or pay slip as evidence of income. A formal reference may also be requested from the applicant's employer. For first time buyers, the Seller requires the applicant's latest P60, two months bank statements and latest pay slip.

*Self Employed Applicant(s):*

The applicant must have been trading for at least 1 year. The Seller requires the latest tax assessments or accountants' certificates.

**(6) Credit history**

The current policy is as follows:

*Credit search:*

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

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

*Existing lender's reference:*

Any reference must satisfy the Seller that the account has been properly conducted and that no history of material arrears exists.

**(7) Scorecard**

Under the current policy, the Seller uses some of the criteria described here and various other criteria to produce an overall score for the application that reflects a statistical analysis of the risk of advancing the

Loan. The lending policies and processes are determined centrally to ensure consistency in the management and monitoring of credit risk exposure. Full use is made of software technology in credit scoring new applications. Credit scoring applies statistical analysis to publicly available data and customer-provided data to assess the likelihood of an account going into arrears.

The Seller reserves the right to decline an application that has received a passing score. The Seller does have an appeals process if a potential borrower believes his or her application has been unfairly denied. It is the Seller's policy to allow only authorised individuals to exercise discretion in granting variances from the scorecard.

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

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

### **Insurance policies**

#### **(1) *Insurance on the Mortgaged Property***

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

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

#### **(2) *Borrower-arranged buildings insurance***

The Seller requires that a Borrower maintains home insurance for the duration of the mortgage and the Seller check that such insurance is in place at the time when the mortgage commences. The Seller issues warnings on each annual statement to Borrowers that home insurance must be in place. The Seller maintains a policy which indemnifies them for any losses incurred due to the failure of a Borrower to maintain home insurance.

#### **(3) *Properties in possession cover***

When a Mortgaged Property is taken into possession by the Seller, the Seller take the necessary actions to ensure that the property is placed on to their block properties in possession insurance policy so that appropriate insurance cover is provided on the Mortgaged Property. The Seller may claim under this policy for any damage occurring to the Mortgaged Property while in the Seller's possession.

#### **(4) *Title and Search insurance***

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

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

### **Arrears policy**

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

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

### **Governing law**

Each of the Loans is governed by English law.

## CHARACTERISTICS OF THE CUT-OFF DATE PORTFOLIO AND INITIAL PORTFOLIO

The statistical and other information contained in this Prospectus has largely been compiled by reference to certain Loans in a portfolio as at the Cut-Off Date (the **Cut-Off Date Portfolio**). The Cut-Off Date Portfolio will consist of 13,891 Loans originated by the Seller and secured over properties located in England and Wales. The Current Balance of the Cut-Off Date Portfolio is £1,602,894,996. The Initial Portfolio has been randomly selected from the Cut-Off Date Portfolio. Columns may not add up to 100 per cent. due to rounding. A Loan will be removed from the Initial Portfolio if in the period from (and including) the Cut-Off Date up to (but excluding) the Closing Date such Loan is repaid in full or if such Loan does not comply with the Loan Warranties on the Closing Date. Except as otherwise indicated, these tables have been prepared using the Current Balance as at the Cut-Off Date, which includes all principal and Accrued Interest for the Loans in the Initial Portfolio.

The Initial Portfolio as at the Cut-Off Date consisted of a randomly selected pool of 13,794 Loans originated by the Seller, selected from the Cut-Off Date Portfolio and transferred to the Issuer and secured over properties located in England and Wales having an aggregate Current Balance of £1,587,087,609 (and an amount equal to such balance constituting the **Initial Consideration**).

Pursuant to the Mortgage Sale Agreement, during the Further Sale Period the Seller undertakes to procure that the Portfolio will be subject to an agreed upon procedures review to be conducted by an independent, third party firm of auditors of international standing on each anniversary of the Closing Date and the date upon which more than 40 per cent. of the portfolio is replenished.

In this section:

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

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

Further information in respect of individual loan level data may be obtained on the following website: [www.coventrybuildingsociety.co.uk](http://www.coventrybuildingsociety.co.uk). The website and the contents thereof do not form part of this Prospectus.

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

### **Current Balances as at the Cut-Off Date**

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

<b>Range of Current Balances (£)</b>	<b>Aggregate Current Balance (£)</b>	<b>% of Total</b>	<b>Number of Mortgage Accounts</b>	<b>% of Total</b>
<= £50,000	77,388,656	4.8%	2,149	15.5%
>£50,000 and <=£100,000	402,455,761	25.1%	5,497	39.6%
>£100,000 and <=£150,000	370,651,569	23.1%	3,071	22.1%
>£150,000 and <=£200,000	257,034,401	16.0%	1,511	10.9%
>£200,000 and <=£250,000	150,078,335	9.4%	683	4.9%
>£250,000 and <=£300,000	103,925,246	6.5%	387	2.8%
>£300,000 and <=£350,000	72,924,459	4.5%	229	1.6%
>£350,000 and <=£400,000	47,076,957	2.9%	128	0.9%
>£400,000 and <=£1,000,000	121,359,613	7.6%	236	1.7%
>£1,000,000	-	0.0%	-	0.0%
<b>Total</b>	<b>1,602,894,996</b>	<b>100.0%</b>	<b>13,891</b>	<b>100.0%</b>

The maximum Current Balance of the Loans as of the Cut-Off Date is £999,836.90.

The minimum Current Balance of the Loans as of the Cut-Off Date is £126.84.

The average Current Balance of the Loans as of the Cut-Off Date is £115,390.90.



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

The following table shows the range of LTV ratios, which express the outstanding balance of the aggregate of Loans (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees and incorporating all Loans secured on the same Property) in the Mortgage Accounts (which incorporate all Loans secured on the same Property) as at the Cut-Off Date based on the original amount of the initial advance on the date of origination of the Loan divided by the value of the Property securing the Loans in the Mortgage Account as at the date of the latest advanced Loan on the Property. The Seller has not revalued any of the mortgaged properties since the date of the origination of the related Loan other than where additional lending has been applied for or advanced, and in certain product switch and re-arrangement application cases (where such case is completed or not). In these cases the original valuation may have been updated with a more recent valuation.

<b>Range of LTV Ratios at Origination</b>	<b>Aggregate Current Balance (£)</b>	<b>% of Total</b>	<b>Number of Mortgage Accounts</b>	<b>% of Total</b>
<=10%	729,996	0.0%	17	0.1%
>10% and <= 20%	11,988,365	0.7%	221	1.6%
>20% and <= 30%	46,988,789	2.9%	702	5.1%
>30% and <= 40%	129,530,599	8.1%	1,534	11.0%
>40% and <= 50%	469,669,438	29.3%	4,250	30.6%
>50% and <= 60%	777,119,505	48.5%	5,935	42.7%
>60% and <= 65%	162,439,476	10.1%	1,165	8.4%
>65% and <= 70%	3,282,494	0.2%	46	0.3%
>70% and <= 75%	1,146,335	0.1%	21	0.2%
>75%	-	0.0%	-	0.0%
<b>Total</b>	<b>1,602,894,996</b>	<b>100.0%</b>	<b>13,891</b>	<b>100.0%</b>

The weighted average original LTV ratio as at the Cut-Off Date of the Loans in the Cut-Off Date Portfolio is 51.83 per cent.

The maximum original LTV ratio of the Loans as of the Cut-Off Date is 75.00 per cent.

The minimum original LTV ratio of the Loans as of the Cut-Off Date is 5.90 per cent.

### Current Indexed LTV Ratios

The following table shows the range of LTV ratios, which are calculated by dividing the Current Balance of a Loan (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees and incorporating all Loans secured on the same Property) as at the Cut-Off Date by the indexed original valuation of the Property securing that Loan at the same date.

Range of Current Indexed LTV Ratios	Aggregate Current		Number of Mortgage	
	Balance (£)	% of Total	Accounts	% of Total
<=10%	2,637,674	0.2%	157	1.1%
>10% and <= 20%	20,915,410	1.3%	425	3.1%
>20% and <= 30%	67,355,416	4.2%	929	6.7%
>30% and <= 40%	166,184,990	10.4%	1,831	13.2%
>40% and <= 50%	490,258,973	30.6%	4,134	29.8%
>50% and <= 60%	853,075,077	53.2%	6,393	46.0%
>60% and <= 65%	2,441,639	0.2%	21	0.2%
>65% and <= 70%	25,815	0.0%	1	0.0%
>70% and <= 75%	-	0.0%	-	0.0%
>75%	-	0.0%	-	0.0%
<b>Total</b>	<b>1,602,894,996</b>	<b>100.0%</b>	<b>13,891</b>	<b>100.0%</b>

\* Most recent property valuation was indexed using the Nationwide House Price Index (non seasonally adjusted) based on quarterly data as at 30 September 2012

The weighted average current Indexed LTV ratio as at the Cut-Off Date of all the Loans (including any capitalised interest, capitalised high LTV fees, insurance fees, valuation fees and booking fees) is 48.29 per cent. The maximum Indexed LTV ratio of the Loans as of the Cut-Off Date is 65.02 per cent. The minimum Indexed LTV ratio of the Loans as of the Cut-Off Date is 0.05 per cent.

### Current Unindexed Loan to Value Ratios

The following table shows the range of LTV ratios, which are calculated by dividing the Current Balance of a Loan as at the Cut-Off Date by the unindexed Original Valuation of the Property securing that Loan at the same date.

Range of Current Unindexed LTV Ratios	Aggregate Current		Number of Mortgage	
	Balance (£)	% of Total	Accounts	% of Total
<=10%	2,515,364	0.2%	155	1.1%
>10% and <= 20%	19,163,476	1.2%	414	3.0%
>20% and <= 30%	62,468,677	3.9%	915	6.6%
>30% and <= 40%	144,979,537	9.0%	1,675	12.1%
>40% and <= 50%	377,716,382	23.6%	3,496	25.2%
>50% and <= 60%	743,575,057	46.4%	5,673	40.8%
>60% and <= 65%	208,431,586	13.0%	1,323	9.5%
>65% and <= 70%	44,044,917	2.7%	240	1.7%
>70% and <= 75%	-	0.0%	-	0.0%
>75%	-	0.0%	-	0.0%
<b>Total</b>	<b>1,602,894,996</b>	<b>100.0%</b>	<b>13,891</b>	<b>100.0%</b>

The weighted average current Unindexed LTV ratio as at the Cut-Off Date of all the Loans (including any capitalised interest, capitalised high LTV fees, insurance fees, valuation fees and booking fees) is 50.37 per

cent. The maximum Unindexed LTV ratio of the Loans as of the Cut-Off Date is 68.72 per cent. The minimum Unindexed LTV ratio of the Loans as of the Cut-Off Date is 0.05 per cent.

#### **Arrears Analysis of Non Repossessed Mortgage Accounts**

<b>Month(s) in Arrears</b>	<b>Aggregate Current</b>		<b>Number of</b>	
	<b>Balance (£)</b>	<b>% of Total</b>	<b>Mortgage</b>	<b>% of Total</b>
<1	1,602,894,996	100.0%	13,891	100.0%
<b>Total</b>	<b>1,602,894,996</b>	<b>100.0%</b>	<b>13,891</b>	<b>100.0%</b>

- \* Arrears are calculated in accordance with standard market practice in the UK. A Mortgage is identified as being in arrears when, on any due date, the overdue amounts which were due on previous due dates equal, in the aggregate, one or more full monthly payments. In making an arrears determination, the Servicer calculates as of the date of determination the difference between the sum of all monthly payments that were due and payable by a Borrower on any due date up to that date of determination (less the aggregate amount of all authorised underpayments made by such Borrower up to such date of determination) and the sum of all payments actually made by that Borrower up to that date of determination. If the result arrived at by dividing that difference (if any) by the amount of the required monthly payment equals or exceeds 1 the Loan is deemed to be in arrears. Arrears classification is determined based on the number of full Monthly Payments that have been missed. A Borrower that has missed payments that in the aggregate equal or exceeding 2 monthly payments (but for which the aggregate of missed payments is less than 3 monthly payments) would be classified as being between 2 – 3 months in arrears, and so on.

#### **Geographical Distribution**

The following table shows the distribution of Properties securing the Loans throughout England or Wales as at the Cut-Off Date. No properties are situated outside England or Wales.

<b>Region</b>	<b>Aggregate Current</b>		<b>Number of</b>	
	<b>Balance (£)</b>	<b>% of Total</b>	<b>Mortgage</b>	<b>% of Total</b>
Outer Metropolitan	219,593,958	13.7%	1,762	12.7%
London	712,006,355	44.4%	4,114	29.6%
West Midlands	68,772,902	4.3%	945	6.8%
Outer South East	167,151,787	10.4%	1,640	11.8%
South West	155,209,209	9.7%	1,649	11.9%
North West	59,524,432	3.7%	831	6.0%
East Midlands	58,528,305	3.7%	798	5.7%
Yorkshire and Humberside	53,134,061	3.3%	743	5.3%
North	26,957,954	1.7%	412	3.0%
East Anglia	57,733,848	3.6%	660	4.8%
Wales	24,282,185	1.5%	337	2.4%
<b>Total</b>	<b>1,602,894,996</b>	<b>100.0%</b>	<b>13,891</b>	<b>100.0%</b>

### Seasoning of Loans

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

Seasoning (months)	Aggregate Current		Number of	
	Balance (£)	% of Total	Mortgage Accounts	% of Total
>1 and <=6	11,840,337	0.7%	96	0.7%
>6 and <=12	211,897,875	13.2%	1,905	13.7%
>12 and <=18	191,499,720	11.9%	1,723	12.4%
>18 and <=24	219,585,489	13.7%	1,878	13.5%
>24 and <=30	169,908,934	10.6%	1,534	11.0%
>30 and <=36	129,837,271	8.1%	1,151	8.3%
>36 and <=42	267,094,105	16.7%	2,135	15.4%
>42 and <=48	150,032,900	9.4%	1,219	8.8%
>48 and <=54	140,557,091	8.8%	1,131	8.1%
>54 and <=60	69,732,724	4.4%	661	4.8%
>60 and <=66	40,391,888	2.5%	453	3.3%
>66 and <=72	516,663	0.0%	5	0.0%
>72	-	0.0%	-	0.0%
<b>Total</b>	<b>1,602,894,996</b>	<b>100.0%</b>	<b>13,891</b>	<b>100.0%</b>

The maximum seasoning of Loans in the Cut-Off Date Portfolio as at the Cut-Off Date is 66.39 months. The minimum seasoning of Loans in the Cut-Off Date Portfolio as at the Cut-Off Date is 4.74 months. The weighted average seasoning of Loans in the Cut-Off Date Portfolio as at the Cut-Off Date is 30.66 months.

### Years to Maturity of Loans

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

Years to Maturity	Aggregate Current		Number of	
	Balance (£)	% of Total	Mortgage Accounts	% of Total
<5	50,796,207	3.2%	587	4.2%
>=5 and <10	274,222,395	17.1%	2,642	19.0%
>=10 and <15	365,696,080	22.8%	3,366	24.2%
>=15 and <20	506,166,814	31.6%	4,118	29.6%
>=20 and <25	391,497,800	24.4%	3,050	22.0%
>=25 and <30	11,558,997	0.7%	105	0.8%
>=30 and <35	2,956,704	0.2%	23	0.2%
>=35	-	0.0%	-	0.0%
<b>Total</b>	<b>1,602,894,996</b>	<b>100.0%</b>	<b>13,891</b>	<b>100.0%</b>

The maximum remaining term of the Loans in the Cut-Off Date Portfolio as at the Cut-Off Date is 34.45 years. The minimum remaining term of the Loans in the Cut-Off Date Portfolio as at the Cut-Off Date is 0.04 years. The weighted average remaining term of the Loans in the Cut-Off Date Portfolio as at the Cut-Off Date is 15.46 years.

### ***Purpose of Loan***

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

<b>Use of Proceeds</b>	<b>Aggregate Current Balance (£)</b>	<b>% of Total</b>	<b>Number of Mortgage Accounts</b>	<b>% of Total</b>
Purchase	423,177,369	26.4%	4,031	29.0%
Remortgage	1,179,717,627	73.6%	9,860	71.0%
<b>Total</b>	<b>1,602,894,996</b>	<b>100.0%</b>	<b>13,891</b>	<b>100.0%</b>

### ***Repayment Terms***

The following table shows the repayment terms for the Loans in a Mortgage Account as at the Cut-Off Date.

<b>Repayment Terms</b>	<b>Aggregate Current Balance (£)</b>	<b>% of Total</b>	<b>Number of Mortgage Accounts</b>	<b>% of Total</b>
Repayment	307,055,070	19.2%	3,848	27.7%
Interest Only	1,278,864,580	79.8%	9,880	71.1%
Part and part	16,975,346	1.1%	163	1.2%
<b>Total</b>	<b>1,602,894,996</b>	<b>100.0%</b>	<b>13,891</b>	<b>100.0%</b>

### ***Product Types***

The following table shows the distribution of special rate loans as at the Cut-Off Date.

<b>Product Type</b>	<b>Aggregate Current Balance (£)</b>	<b>% of Total</b>	<b>Number of Mortgage Accounts</b>	<b>% of Total</b>
Fixed	479,489,372	29.9%	4,236	30.5%
Administered	775,394,597	48.4%	6,956	50.1%
Tracker	218,125,144	13.6%	1,678	12.1%
Capped	129,885,883	8.1%	1,021	7.4%
<b>Total</b>	<b>1,602,894,996</b>	<b>100.0%</b>	<b>13,891</b>	<b>100.0%</b>

### **Current Interest Rates**

The following table shows the distribution of Loans by their current rate of interest as at the Cut-Off Date.

<b>Current Interest Rate (%)</b>	<b>Aggregate Current Balance (£)</b>	<b>% of Total</b>	<b>Number of Mortgage Accounts</b>	<b>% of Total</b>
<=1.5%	-	0.0%	-	0.0%
>1.5% and <=2.0%	18,982,098	1.2%	97	0.7%
>2.0% and <=2.5%	56,712,004	3.5%	475	3.4%
>2.5% and <=3.0%	3,158,125	0.2%	23	0.2%
>3.0% and <=3.5%	125,336,792	7.8%	911	6.6%
>3.5% and <=4.0%	333,715,983	20.8%	2,505	18.0%
>4.0% and <=4.5%	257,736,396	16.1%	2,645	19.0%
>4.5% and <=5.0%	702,875,818	43.9%	6,252	45.0%
>5.0% and <=5.5%	95,182,423	5.9%	886	6.4%
>5.5% and <=6.0%	8,659,956	0.5%	91	0.7%
>6.0%	535,402	0.0%	6	0.0%
<b>Total</b>	<b>1,602,894,996</b>	<b>100.0%</b>	<b>13,891</b>	<b>100.0%</b>

The maximum interest rate in the Cut-Off Date Portfolio as at the Cut-Off Date is 6.89 per cent. The minimum interest rate in the Cut-Off Date Portfolio as at the Cut-Off Date is 1.70 per cent. The weighted average interest rate in the Cut-Off Date Portfolio as at the Cut-Off Date is 4.31 per cent.

### **Employment Type**

The following table shows the distribution of employment type for the Loans as at the Cut-Off Date.

<b>Employment Type</b>	<b>Aggregate Current Balance (£)</b>	<b>% of Total</b>	<b>Number of Mortgage Accounts</b>	<b>% of Total</b>
Employed	833,281,853	52.0%	7,655	55.1%
Self-Employed	557,359,440	34.8%	4,457	32.1%
Other	212,253,703	13.2%	1,779	12.8%
<b>Total</b>	<b>1,602,894,996</b>	<b>100.0%</b>	<b>13,891</b>	<b>100.0%</b>

### **Number of Properties per Borrower**

The following table shows the distribution of Properties per Borrower as at the Cut-Off Date.

<b>Number of properties per borrower</b>	<b>Aggregate Current Balance (£)</b>	<b>% of Total</b>	<b>Number of Mortgage Accounts</b>	<b>% of Total</b>
1	1,409,906,740	88.0%	12,101	87.1%
2	155,434,382	9.7%	1,452	10.5%
3	37,553,874	2.3%	338	2.4%
>3	-	0.0%	-	0.0%
<b>Total</b>	<b>1,602,894,996</b>	<b>100.0%</b>	<b>13,891</b>	<b>100.0%</b>

### **Debt Service Coverage Ratio**

The following table shows the distribution of the debt service coverage ratio as at the Cut-Off Date.

<b>Debt Service Coverage Ratio</b>	<b>Aggregate Current Balance (£)</b>	<b>% of Total</b>	<b>Number of Mortgage Accounts</b>	<b>% of Total</b>
<100%	66,126,587	4.1%	686	4.9%
>=100 and <125%	131,703,244	8.2%	1,246	9.0%
>=125 and <150%	238,913,121	14.9%	1,780	12.8%
>=150 and <175%	267,052,073	16.7%	1,903	13.7%
>=175 and <200%	234,406,037	14.6%	1,763	12.7%
>=200%	664,693,935	41.5%	6,513	46.9%
<b>Total</b>	<b>1,602,894,996</b>	<b>100.0%</b>	<b>13,891</b>	<b>100.0%</b>

## HISTORICAL AMORTISATION RATES OF GODIVA PRIME MORTGAGE LOANS

Month	Average of Monthly Amortisation Rate (Annualised)	Year	Average of Monthly Amortisation Rate (Annualised) Over Year
Jan-08	23%		
Feb-08	18%		
Mar-08	15%		
Apr-08	24%		
May-08	30%		
Jun-08	34%		
Jul-08	29%		
Aug-08	20%		
Sep-08	18%		
Oct-08	13%		
Nov-08	8%		
Dec-08	25%	2008	21%
Jan-09	19%		
Feb-09	12%		
Mar-09	9%		
Apr-09	9%		
May-09	5%		
Jun-09	6%		
Jul-09	7%		
Aug-09	7%		
Sep-09	9%		
Oct-09	8%		
Nov-09	7%		
Dec-09	8%	2009	9%
Jan-10	7%		
Feb-10	6%		
Mar-10	8%		
Apr-10	9%		
May-10	8%		
Jun-10	10%		
Jul-10	11%		
Aug-10	11%		
Sep-10	11%		
Oct-10	10%		
Nov-10	11%		
Dec-10	7%	2010	9%
Jan-11	8%		
Feb-11	7%		
Mar-11	7%		
Apr-11	7%		
May-11	7%		
Jun-11	8%		
Jul-11	10%		
Aug-11	8%		
Sep-11	8%		
Oct-11	9%		
Nov-11	10%		
Dec-11	8%	2011	8%
Jan-12	10%		
Feb-12	8%		
Mar-12	7%		
Apr-12	10%		
May-12	9%		
Jun-12	7%		
Jul-12	17%		
Aug-12	10%		
Sep-12	8%		
Oct-12	12%	2012	10%



Note: the monthly amortisation rate above has been calculated by the following formula  $(1-(1-C)^{12})$  where  $C = A / B$  where A = Total Repayments and external Redemptions relating to the Godiva prime mortgages in the prior month and B = Godiva prime mortgage balance at previous month end.

## WEIGHTED AVERAGE LIVES OF THE NOTES

The average lives of the Notes cannot be stated, as the actual rate of repayment of the Loans and redemption of the Mortgages and a number of other relevant factors are unknown. This may be further impacted by the purchase of Additional Loans by the Issuer during the Further Sale Period. However, calculations of the possible average lives of the Notes can be made based on certain assumptions. For example, based on the assumptions that:

- (a) the Issuer exercises its option to redeem the Class A1 Notes or the Class A2 Notes, as applicable, on the relevant Step-Up Date, in the first scenario, or the Issuer does not exercise its option to redeem the Notes on or after the relevant Step-Up Date, in the second scenario;
- (b) the Loans are subject to a constant annual rate of repayment (inclusive of scheduled and unscheduled principal redemptions) of between 0 per cent. and 20 per cent. per annum as shown on the table below;
- (c) the assets of the Issuer are not sold by the Issuer except as may be necessary to enable the Issuer to realise sufficient funds to exercise its option to redeem the Notes;
- (d) no Note Acceleration Notice has been served on the Issuer and no Event of Default has occurred;
- (e) no Borrowers are offered and accept different mortgage products or Further Advances by the Seller or any of its subsidiaries and the Seller is not required to repurchase any Loan (including any Further Advance thereon since the Closing Date) in accordance with the relevant Mortgage Sale Agreement;
- (f) the Further Sale Period ends immediately after the Closing Date and no Additional Loans are purchased by the Issuer;
- (g) the Security is not enforced;
- (h) the Mortgages continue to be fully performing;
- (i) Loans repayable on a combination of capital repayment basis and interest-only basis are assumed to be on an interest-only basis;
- (j) the ratio of the Principal Amount Outstanding of the Class A Notes to the Current Balance of the Portfolio as at the Closing Date is 90.5 per cent.;
- (k) the ratio of the Principal Amount Outstanding of the Class Z VFN to the Current Balance of the Portfolio as at the Closing Date is 12 per cent; and
- (l) the Notes are issued on or about 12 December 2012.

	Assuming Issuer call on relevant Step-Up Date		Assuming no Issuer call	
	Possible Average Life of Class A1 Notes (years)	Possible Average Life of the Class A2 Notes (years)	Possible Average Life of Class A1 Notes (years)	Possible Average Life of the Class A2 Notes (years)
0%	4.79	5.24	8.16	17.84
5%	3.50	5.24	3.90	12.67
10%	2.36	5.23	2.36	8.96
12.5%	1.94	5.13	1.94	7.66
15%	1.65	4.93	1.65	6.64
20%	1.26	4.43	1.26	5.15

Assumption (a) (in relation to the Issuer exercising its option to redeem the Class A1 Notes or the Class A2 Notes, as applicable, on the relevant Step-Up Date) reflects the current intention of the Issuer but no assurance can be given that such assumption will occur as described.

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

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

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

## UNITED KINGDOM TAXATION

*The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of United Kingdom current law and published HM Revenue & Customs (HMRC) practice relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Each prospective purchaser is urged to consult its own tax advisers about the tax consequences under its circumstances of purchasing, holding and selling the Notes under the laws of the United Kingdom, its political subdivisions and any other jurisdiction in which the prospective purchaser may be subject to tax.*

*In this summary references to "Notes" and "Noteholder" excludes the Class Z VFN and the Class Z VFN Holder. The Class Z VFN Holder is urged to consult its own tax advisers about the tax consequences under its circumstances of purchasing, holding and selling the Class Z VFN under the laws of the United Kingdom, its political subdivisions and any other jurisdiction in which the Class Z VFN Holder may be subject to tax.*

### **Interest on the Notes**

#### *Payment of Interest on the Notes*

Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for such purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part VI of the FSMA) and admitted to trading on the regulated market of the London Stock Exchange. Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom income tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Noteholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

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

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

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

## SUBSCRIPTION AND SALE

CBS has, pursuant to a subscription agreement dated on or about the date of this Prospectus and made between CBS, the Seller, and the Issuer (the **Subscription Agreement**), agreed with the Issuer (subject to certain conditions) to subscribe and pay for £718,200,00 of the Class A1 Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A1 Notes and £718,200,000 of the Class A2 Notes and the Issuer Price of 100 per cent. of the aggregate principal amount of the Class A2 Notes. Pursuant to the Subscription Agreement, Godiva has agreed with the Issuer (subject to certain conditions) to subscribe and pay for £191,200,000 of the up to £500,000,000 Class Z VFN at the issue price of 100 per cent. of the aggregate principal amount of the Class Z VFN as at the Closing Date.

CBS may sell any of the Notes to subsequent purchasers in individually negotiated transactions at negotiated prices which may vary among different purchasers and which may be greater or less than the issue price of the Notes.

The Issuer has agreed to indemnify CBS and the Arranger against certain liabilities and to pay certain costs and expenses in connection with the issue of the Notes.

Other than admission of the Class A Notes to the Official List and the admission of the Class A Notes to trading on the London Stock Exchange's Regulated Market, no action has been taken by the Issuer or CBS, which would or has been intended to permit a public offering of the Notes, or possession or distribution of this Prospectus or other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

This Prospectus does not constitute, and may not be used for the purpose of, an offer or a solicitation by anyone to subscribe for or purchase any of the Notes in or from any country or jurisdiction where such an offer or solicitation is not authorised or is unlawful.

Pursuant to the Subscription Agreement, Godiva has covenanted that it will, *inter alia*, retain a material net economic interest of not less than 5 per cent. in the securitisation in accordance with Article 122a of Directive 2006/48/EC (as amended) (which does not take into account any implementing rules of the CRD in a relevant jurisdiction). As at the Closing Date, such retention requirement will be satisfied by Godiva holding the first loss tranche as required by Article 122a (comprising the Class Z VFN). Any change to the manner in which such interest is held will be notified to the Noteholders. In addition, Godiva in its capacity as a Seller, will comply with the requirements of paragraph 7 of Article 122a by posting the Investor Reports on a monthly basis on the following website (the details of which are correct as at the date hereof): [www.coventrybuildingsociety.co.uk](http://www.coventrybuildingsociety.co.uk).

### **United States**

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to an exemption from registration requirements. Accordingly, the Notes are being offered and sold in offshore transactions in reliance on Regulation S.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations, Terms used in this paragraph have the meanings given to them in the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each of the Seller and CBS has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes (a) as part of its distribution at any time or (b) otherwise until 40 days after the later of

the commencement of the offering and the closing date within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each affiliate or other dealer (if any) to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. See "*Transfer Restrictions and Investor Representations*", below.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### ***United Kingdom***

Each of the Seller and CBS has represented to and agreed with the Issuer that:

- (a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated any invitation or inducement to engage in any activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Each of the Seller and CBS has acknowledged that, save for the Issuer having obtained the approval of the Prospectus as a prospectus in accordance with Part VI of the FSMA and having applied for the admission of the Class A Notes to the Official List of the UK Listing Authority and admission of the Class A Notes to trading on the London Stock Exchange, no further action has been or will be taken in any jurisdiction by the Seller or CBS that would, or is intended to, permit a public offering of the Notes, or possession or distribution of the Prospectus or any other offering material in relation to the Notes, in any country or jurisdiction where such further action for that purpose is required.

### **General**

No action has been taken by the Issuer, CBS or the Seller that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each of the Seller and CBS has undertaken that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in respect of the Notes in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations.

## TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS

### Offers and Sales by CBS

The Notes (including interests therein represented by a Global Note, a Definitive Note or a Book-Entry Interest) have not been and will not be registered under the Securities Act or any state securities laws, and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to such registration requirements. Accordingly, the Notes are being offered and sold in offshore transactions pursuant to Regulation S.

### *Investor Representations and Restrictions on Resale*

Each purchaser (other than CBS) of the Notes (which term for the purposes of this section will be deemed to include any interests in the Notes, including Book-Entry Interests) will be deemed to have represented and agreed as follows:

- (a) the Notes have not been and will not be registered under the Securities Act and such Notes are being offered only in a transaction that does not require registration under the Securities Act and, if such purchaser decides to resell or otherwise transfer such Notes, then it agrees that it will offer, resell, pledge or transfer such Notes only (i) to a purchaser who is not a U.S. person (as defined in Regulation S) or an affiliate of the Issuer or a person acting on behalf of such an affiliate, and who is not acquiring the Notes for the account or benefit of a U.S. person and who is acquiring the Notes in an offshore transaction pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S or (ii) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States; provided, that the agreement of such purchaser is subject to any requirement of law that the disposition of the purchaser's property shall at all times be and remain within its control;
- (b) unless the relevant legend set out below has been removed from the Notes such purchaser shall notify each transferee of Notes (as applicable) from it that (i) such Notes have not been registered under the Securities Act, (ii) the holder of such Notes is subject to the restrictions on the resale or other transfer thereof described in paragraph (a) above, (iii) such transferee shall be deemed to have represented that such transferee is acquiring the Notes in an offshore transaction and that such transfer is made pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S and (iv) such transferee shall be deemed to have agreed to notify its subsequent transferees as to the foregoing;
- (c) the Issuer, the Arranger, CBS, the Class Z VFN Registrar and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

The Notes bear a legend to the following effect:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, AS A MATTER OF U.S. LAW, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) (1) AS PART OF THEIR DISTRIBUTION AT ANY TIME OR (2) OTHERWISE PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES AND THE CLOSING OF THE OFFERING OF THE NOTES, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION



REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES."

*Additional representations and restrictions applicable to a Class Z VFN*

Any holder of a Class Z VFN may only make a transfer of the whole of its Class Z VFN or create or grant any Encumbrance in respect of such Class Z VFN if all of the following conditions are satisfied:

- (a) the holder of such Class Z VFN making such transfer or subjecting the Class Z VFN to such Encumbrance shall be solely responsible for any costs, expenses or taxes which are incurred by the Issuer, the holder of such Class Z VFN or any other person in relation to such transfer or Encumbrance;
- (b) the holder of such Class Z VFN has received the prior written consent of the Issuer and (for so long as any Class A Notes are outstanding) the Note Trustee (the Note Trustee shall give its consent to such a transfer if the same has been sanctioned by an Extraordinary Resolution of the Class A Noteholders);
- (c) the person to which such transfer is to be made falls within paragraph 3 of Schedule 2A to the Insolvency Act;
- (d) the transferee of such Class Z VFN is independent of the Issuer (within the meaning of regulation 2(1) of the Taxation of Securitisation Companies Regulations 2006); and
- (e) the transferee is a Qualifying Noteholder.

The Class Z VFN Registrar shall pay Interest Amounts directly to the holder of a Class Z VFN, provided that it shall not pay any relevant Interest Amount to the holder of a Class Z VFN and such holder shall not be entitled to receive such relevant Interest Amount on any Interest Payment Date free of any relevant withholding or deduction for or on account of United Kingdom income tax, unless and until it has provided to the Issuer a tax certificate substantially in the form set out in Schedule 1 (Form of Tax Certificate) to the Agency Agreement (the **Tax Certificate**) and the Issuer (or the Cash Manager on behalf of the Issuer in accordance with the terms of the Cash Management Agreement) has confirmed in writing to the Class Z VFN Registrar that such Interest Amount in respect of the Class Z VFN can be paid free of any relevant withholding or deduction for or on account of United Kingdom income tax. The Class Z VFN Registrar shall upon receipt of such confirmation make a note of such confirmation in the Class Z VFN Register.

*Because of the foregoing restrictions, purchasers of Notes are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such securities offered and sold.*

## GENERAL INFORMATION

1. It is expected that the admission of the Class A Notes to the Official List and the admission of the Class A Notes to trading on the London Stock Exchange's Regulated Market will be granted on or around 10 December 2012. Prior to listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in Sterling and for delivery on the third working day after the date of the transaction. The Class Z VFN will not be listed.
2. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or Holdings respectively is aware), since 3 October 2012 (being the date of incorporation of the Issuer and Holdings) which may have, or have had in the recent past, significant effects upon the financial position or profitability of the Issuer or Holdings (as the case may be).
3. The auditors of the Issuer are Deloitte LLP. Deloitte LLP is a member of the Institute of Chartered Accountants in England and Wales. No statutory or non-statutory accounts within the meaning of section 434 and 435 of the Companies Act 2006 (as amended) in respect of any financial year of the Issuer have been prepared. So long as the Class A Notes are admitted to trading on the London Stock Exchange's Regulated Market, the most recently published audited annual accounts of the Issuer from time to time shall be available at the specified office of the Principal Paying Agent in London. The Issuer does not publish interim accounts.
4. For so long as the Class A Notes are admitted to the Official List and to trading on the London Stock Exchange's Regulated Market, the Issuer shall maintain a Paying Agent in the United Kingdom.
5. Since the date of its incorporation, the Issuer has not entered into any contracts or arrangements not being in the ordinary course of business.
6. Since 3 October 2012 (being the date of incorporation of the Issuer and Holdings), there has been (a) no material adverse change in the financial position or prospects of the Issuer or Holdings and (b) no significant change in the financial or trading position of the Issuer or Holdings.
7. The issue of the Notes was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 5 December 2012.
8. The Class A Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following ISIN and Common Code:

<b>Class of Notes</b>	<b>ISIN</b>	<b>Common Code</b>
Class A1 Notes	XS0864239529	086423952
Class A2 Notes	XS0864240295	086424029

9. From the date of this Prospectus and for so long as the Class A Notes are listed on the London Stock Exchange's Regulated Market, copies of the following documents may be inspected at the registered office of the Issuer during usual business hours, on any weekday (public holidays excepted):
  - (a) the Memorandum and Articles of Association of each of the Issuer and Holdings;

- (b) copies of the following documents (which will also be made available on the following website at [www.coventrybuildingsociety.co.uk](http://www.coventrybuildingsociety.co.uk)):
- (i) the Agency Agreement;
  - (ii) the Deed of Charge;
  - (iii) the Cash Management Agreement;
  - (iv) the Master Definitions and Construction Schedule;
  - (v) the Mortgage Sale Agreement;
  - (vi) the Corporate Services Agreement;
  - (vii) the Bank Account Agreement;
  - (viii) the Servicing Agreement;
  - (ix) the Interest Rate Swap Guarantee;
  - (x) the Interest Rate Swap Agreement; and
  - (xi) the Trust Deed.

10. The Cash Manager on behalf of the Issuer will publish the monthly Investor Report detailing, *inter alia*, certain aggregated loan data in relation to the Portfolio. Such Investor Reports will be published on the following website (the details of which are correct as at the date of this Prospectus): [www.coventrybuildingsociety.co.uk](http://www.coventrybuildingsociety.co.uk). The website and the contents thereof do not form part of this Prospectus. Investor Reports will also be made available to the Seller and the Rating Agencies. In addition, the Cash Manager will on behalf of the Issuer comply with the current reporting requirements of the Bank of England as at the date of this Prospectus relating to the provision of information in relation to the Notes including, *inter alia*, certain aggregated loan data in relation to the Portfolio. Other than as outlined above, the Issuer does not intend to provide post-issuance transaction information regarding the Notes or the Loans.
11. The Issuer confirms that the Loans backing the issue of the Notes have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. However, investors are advised that this confirmation is based on the information available to the Issuer at the date of this Prospectus and may be affected by the future performance of such assets backing the issue of the Notes. Consequently investors are advised to review carefully any disclosure in the Prospectus together with any amendments or supplements thereto.

## INDEX OF TERMS

£.....	vi	Collection Period.....	42
€.....	vi	Common Safekeeper.....	iv, 135
1999 Regulations.....	30	Conditions.....	134
Account Bank.....	5	Consideration.....	81
Account Bank Rating.....	111	Corporate Services Provider.....	7
Accrued Interest.....	125	CRA Regulation.....	ii
Act.....	169	CRD.....	ii
Additional Interest.....	159	CTA.....	138
Additional Loan Conditions.....	97	Current Balance.....	42
Additional Loans.....	42	Cut-Off Date.....	45
Advance Date.....	91	Cut-Off Date Portfolio.....	183
Agency Agreement.....	134	Deed of Charge.....	54, 134
Agent Bank.....	6, 134	Deferred Consideration.....	81
Appointee.....	125	Deferred Interest.....	158
Arrears of Interest.....	125	Definitive Notes.....	iv, 135
Asset Conditions.....	94	Determination Date.....	142
Authorised Investments.....	104	Determination Period.....	144
Available Principal Receipts.....	64, 126	Discount Rate.....	175
Available Revenue Receipts.....	64, 121	Discretionary Rates.....	101
Back-Up Servicer Facilitator.....	4	Early Repayment Charge.....	177
Bank Accounts.....	70	Early Repayment Fee.....	125
Banking Act.....	12	Early Repayment Fee Receipts.....	125
Basic Terms Modification.....	155	Early Termination Event.....	117
Book-Entry Interests.....	iv	Eligibility Criteria.....	83
Borrowers.....	42	EU Savings Directive.....	34
Business Day.....	42, 142	EUR.....	vi
Calculated Principal Receipts.....	145	euro.....	vi
Calculated Revenue Receipts.....	145	Euroclear.....	iv, 135
Calculation Date.....	42	Event of Default.....	151, 152
Capped Rate Loan.....	89, 175	Excess Swap Collateral.....	125
Cash Manager.....	5	Extraordinary Resolution.....	58, 157
CBS Group.....	169	FATCA.....	34
CCA.....	20	Final Maturity Date.....	55
CCA 2006.....	26	Fitch.....	ii
Charged Assets.....	154	Fixed Rate Loan.....	89, 175
Class.....	134	Flex Rate Loan.....	175
Class A Noteholders.....	138	FSA.....	ii
Class A Notes.....	53	FSA Rules.....	89
Class A Principal Deficiency Ledger.....	114	FSMA.....	20
Class A1 Margin.....	143	Further Advance.....	89
Class A1 Step-Up Date.....	142	Further Advance Purchase Price.....	91
Class A2 Step-Up Date.....	142	Further Class Z VFN Funding.....	160
Class Z Repayment Amount.....	125	Further Consideration.....	81
Class Z VFN.....	53, 134	GBP.....	vi
Class Z VFN Commitment Termination Date.....	54	General Reserve Fund.....	69, 108, 113
Class Z VFN Holder.....	5, 54, 138, 159	General Reserve Ledger.....	108
Class Z VFN Margin.....	143	General Reserve Required Amount.....	114
Class Z VFN Principal Deficiency Ledger.....	114	Global Notes.....	iv, 135
Class Z VFN Principal Deficiency Limit.....	114, 115	Godiva.....	i
Class Z VFN Register.....	136	Governmental Authority.....	89
Class Z VFN Registrar.....	6, 134	HMRC.....	196
Clearing Systems.....	131, 135	Indexed LTV.....	89
Clearstream, Luxembourg.....	iv, 135	Initial Advance.....	91
Closing Date.....	i, ii, 134	Initial Consideration.....	81
Code.....	146	Initial Portfolio.....	i

Interest Determination Ratio.....	145	Ombudsman .....	26, 32
Interest Payment Date.....	141	Optional Redemption Date .....	148
Interest Period .....	126, 141	Ordinary Resolution .....	58, 59
Interest Rate Swap .....	71	Original Valuation.....	96
Interest Rate Swap Agreement .....	71	outstanding .....	136
Interest Rate Swap Excluded Termination		Overpayments.....	177
Amount .....	126	Part and Part.....	175
Interest Rate Swap Guarantee .....	71	Paying Agents.....	134
Interest Rate Swap Guarantor.....	5	Perfection Event.....	82
Interest Rate Swap Provider.....	5	Performance Ratio .....	117
Interest Rate Swap Provider Default .....	126	Permanent Global Note .....	iv, 135
Interest Rate Swap Provider Downgrade Event	126	Permitted Product Switch .....	93
Interest-only Loan .....	174	Pool Factor.....	147
Investor Report .....	70	Ported Loan .....	90
IRS.....	34	Ported Loan Repurchase Date .....	94
Issuer .....	i, 134	Ported Loan Repurchase Ledger.....	109
Issuer Amount.....	116	Portfolio .....	42, 81
Issuer Profit Amount .....	109	Porting Deadline Date.....	42
Issuer Profit Ledger .....	109	Post-Acceleration Priority of Payments .....	128
Issuer Standard Variable Rate .....	102	pounds .....	vi
ITA 2007 .....	138	Pre-Acceleration Principal Priority of Payments	127
Ledgers .....	108	Pre-Acceleration Revenue Priority of Payments	123
Lending Criteria .....	179	Presentation Date .....	147
LIBOR .....	142	Principal Amount Outstanding .....	150
Loan Agreement .....	90	Principal Deficiency Ledger .....	108, 114
Loan Files .....	90	Principal Ledger .....	108
Loan Repurchase Notice .....	93	Principal Paying Agent.....	6, 134
Loan Warranties .....	84	Principal Receipts .....	126
Loans .....	42, 45	Priority of Payments.....	128
Loans .....	81	Privileged Rate Loan.....	175
loan-to-value ratio.....	90	Product Period .....	175
London Stock Exchange.....	ii	Product Switch .....	93
Losses .....	115	Property .....	42
LTSB.....	15	Prospectus .....	4
LTV .....	90	Prospectus Directive .....	ii
LTV ratio .....	90	Qualifying Noteholder .....	138
Markets in Financial Instruments Directive.....	ii	Rate Fixing Date .....	101
Master Definitions and Construction Schedule	134	Rate of Interest .....	141
Maximum Class Z VFN Amount .....	54, 161	Rating Agencies.....	ii
Monthly Payment.....	90	Rating Agency Tests.....	96
Monthly Period.....	42	Ratings Confirmation .....	20
Monthly Pool Date .....	42	Reasonable, Prudent, Mortgage Lender .....	90
Monthly Test Date.....	42	Reconciliation Amount.....	145
Moody's.....	ii	Redemption Fee .....	126
Mortgage.....	42	Reference Banks .....	142
Mortgage Account .....	27	Reference Date.....	150
Mortgage Conditions .....	90	regulated mortgage contract.....	27
Mortgage Deed .....	90	Regulation S .....	v
Mortgages.....	81	Regulatory Requirement.....	91
N(M).....	27	Related Security.....	42, 81
New Loan Type.....	90	Relevant Date .....	151
Note Acceleration Notice .....	151	Relevant Margin.....	143
Note Trustee .....	6, 134	Relevant Screen Rate.....	143
Noteholders .....	53, 138	Repayment Loan.....	174
Notes .....	i, 51, 53, 134	Replacement Swap Premium .....	126
Notice of Increase.....	161	Required Swap Ratings .....	117
Official List .....	ii	Retained Principal Ledger .....	109
Offset Loan .....	90	Revenue Deficiency .....	114
OFT.....	25	Revenue Ledger .....	108

Revenue Receipts .....	121	Substitution Conditions .....	96
Right to Buy Loan .....	90	Substitution Date .....	97
sale .....	42, 81	SVR .....	175
Secured Creditors .....	105	SVR Loans .....	175
Securities Act .....	v, 200	Swap Collateral .....	126
Securitisation Regulations .....	34	Swap Collateral Ledger .....	109
Security .....	54, 104	Swap Notional Amount .....	117
Security Trustee .....	6, 134	Swap Provider Amount .....	116
Self-certified Loan .....	91	Swap Tax Credits .....	126
sell .....	42	Switch Date .....	91
Seller Insolvency Event .....	82	Tax Certificate .....	201
Seller Standard Variable Rates .....	101	Taxes .....	151
Seller's Policy .....	99	Temporary Global Note .....	iv, 135
Servicer .....	4	Third Party Amounts .....	64, 122
Servicer Report .....	100, 145	Third Party Buildings Policies .....	91
Servicer Termination Event .....	102	Three-Month Sterling LIBOR .....	71
Servicer Termination Events .....	49	Title Deeds .....	91
Services .....	49	Total Debt Advance .....	96
Servicing Agreement .....	49	Tracker Rate Loans .....	91, 175
Servicing Fee .....	49	Transaction Account Rate .....	115
Share Trustee .....	7, 166	Transaction Documents .....	104
sold .....	42	Trust Deed .....	134
Solvency Certificate .....	95	U.S. Persons .....	v
Standard Documentation .....	91	UK .....	vi
Standard Variable Rate .....	175	UK Listing Authority .....	ii
Standard Variable Rates .....	101	Unfair Practices Directive .....	32
Step-Up Date .....	142	Unindexed LTV .....	91
sterling .....	vi	United Kingdom .....	vi
Sterling Interest Amounts .....	143	UTCCR .....	30
Subscription Agreement .....	198	Valuation Report .....	91
Substitute Loan .....	97	Variable Rate Loans .....	91
Substitution .....	97	VAT .....	123

Registered Office of the Issuer

**Mercia No.1 PLC**  
35 Great St. Helen's  
London EC3A 6AP

**SELLER AND INTEREST RATE SWAP PROVIDER**

**Godiva Mortgages Limited**  
Oakfield House  
Binley Business Park, Harry Weston Road,  
Coventry, CV3 2TQ

**SERVICER, CASH MANAGER, CLASS Z VFN  
REGISTRAR AND THE INTEREST RATE SWAP  
GUARANTOR**

**Coventry Building Society**  
Economic House,  
PO Box 9,  
High Street,  
Coventry,  
CV1 5QN

**ARRANGER**

**Lloyds TSB Bank plc**  
25 Gresham Street  
London  
EC2V 7HN

**ACCOUNT BANK**

**Lloyds TSB Bank plc**  
25 Gresham Street  
London  
EC2V7HN

**NOTE TRUSTEE AND SECURITY TRUSTEE**

**Citicorp Trustee Company Limited**  
Citigroup Centre  
25 Canada Square  
Canary Wharf  
London  
E14 5LB

**AGENT BANK AND PRINCIPAL PAYING AGENT**

**Citibank N.A., London Branch**  
Citigroup Centre  
25 Canada Square  
Canary Wharf  
London  
E14 5LB

**LEGAL ADVISERS TO THE SELLER AND THE SERVICER**

(as to English law)  
**Allen & Overy LLP**  
One Bishops Square  
London  
E1 6AD

**LEGAL ADVISERS TO THE ARRANGER**

(as to English law)  
**Linklaters LLP**  
One Silk Street  
London  
EC2Y 8HQ

**LEGAL ADVISERS TO THE NOTE TRUSTEE AND THE SECURITY TRUSTEE**

(as to English law)  
**Linklaters LLP**  
One Silk Street  
London  
EC2Y 8HQ