

## IMPORTANT NOTICE

**NOT FOR DISTRIBUTION TO ANY U.S. PERSON (AS DEFINED IN REGULATION S UNDER UNITED STATES SECURITIES ACT OF 1933, AS AMENDED) OR TO ANY PERSON OR ADDRESS IN THE U.S.**

**IMPORTANT: You must read the following before continuing.** The following applies to the prospectus attached to this electronic transmission, 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 at 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 IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT). THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

EXCEPT WITH THE PRIOR WRITTEN CONSENT OF OPTIMUM CREDIT LIMITED IN THE FORM OF A WAIVER ("**U.S. RISK RETENTION WAIVER**") AND WHERE SUCH SALE FALLS WITHIN THE EXEMPTION PROVIDED BY SECTION 20 OF THE FINAL RULES PROMULGATED UNDER SECTION 15G OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (THE "**U.S. RISK RETENTION RULES**"), THE NOTES OFFERED AND SOLD BY THE ISSUER MAY NOT BE PURCHASED BY, OR FOR THE ACCOUNT OR BENEFIT OF, ANY "U.S. PERSON" AS DEFINED IN THE U.S. RISK RETENTION RULES ("**RISK RETENTION U.S. PERSONS**"). PROSPECTIVE INVESTORS SHOULD NOTE THAT THE DEFINITION OF "U.S. PERSON" IN THE U.S. RISK RETENTION RULES IS SUBSTANTIALLY SIMILAR TO, BUT NOT IDENTICAL TO, THE DEFINITION OF "U.S. PERSON" IN REGULATION S. EACH PURCHASER OF NOTES, INCLUDING BENEFICIAL INTERESTS THEREIN, WILL BE DEEMED TO HAVE MADE CERTAIN REPRESENTATIONS AND AGREEMENTS, INCLUDING THAT IT (1) IS NOT A RISK RETENTION U.S. PERSON (UNLESS IT HAS OBTAINED A PRIOR WRITTEN CONSENT OF OPTIMUM CREDIT LIMITED), (2) IS ACQUIRING SUCH NOTE OR A BENEFICIAL INTEREST THEREIN FOR ITS OWN ACCOUNT AND NOT WITH A VIEW TO DISTRIBUTE SUCH NOTE, AND (3) IS NOT ACQUIRING SUCH NOTE OR A BENEFICIAL INTEREST THEREIN AS PART OF A SCHEME TO EVADE THE REQUIREMENTS OF THE U.S. RISK RETENTION RULES.

THE NOTES ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTORS. FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU; (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE 2002/92/EC, WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU; OR (III) NOT A QUALIFIED INVESTOR AS DEFINED IN DIRECTIVE 2003/71/EC. CONSEQUENTLY NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO. 1286/2014 (AS AMENDED, THE "**PRIIPS REGULATION**") FOR OFFERING OR SELLING THE NOTES OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE NOTES OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTORS IN THE EEA MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

THIS PROSPECTUS HAS BEEN DELIVERED TO YOU ON THE BASIS THAT YOU ARE A PERSON INTO WHOSE POSSESSION THIS PROSPECTUS MAY BE LAWFULLY DELIVERED IN ACCORDANCE WITH THE LAWS OF THE JURISDICTION IN WHICH YOU ARE LOCATED. BY ACCESSING THE PROSPECTUS, YOU SHALL BE DEEMED TO HAVE CONFIRMED AND REPRESENTED TO US THAT (A) YOU HAVE UNDERSTOOD AND AGREE TO THE TERMS SET OUT HEREIN, (B) YOU CONSENT TO DELIVERY OF THE PROSPECTUS BY ELECTRONIC TRANSMISSION, (C) YOU ARE NOT A U.S. PERSON (WITHIN THE MEANING OF REGULATIONS UNDER THE SECURITIES ACT) OR ACTING FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON AND THE ELECTRONIC MAIL ADDRESS THAT YOU HAVE GIVEN TO US AND TO WHICH THIS EMAIL HAS BEEN DELIVERED IS NOT LOCATED IN THE UNITED STATES, ITS TERRITORIES AND POSSESSIONS (INCLUDING PUERTO RICO, THE U.S. VIRGIN ISLANDS, GUAM, AMERICAN SAMOA, WAKE ISLAND AND THE NORTHERN MARIANA ISLANDS) OR THE DISTRICT OF COLUMBIA AND (D) IF YOU ARE A PERSON IN THE UNITED KINGDOM, THEN YOU ARE A PERSON WHO (I) 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 (THE "FPO") OR (II) IS AN INVESTMENT PROFESSIONAL WITHIN THE MEANING OF ARTICLE 19 OF THE FPO.

THE NOTES ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTORS. FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU; (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE 2002/92/EC, WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF DIRECTIVE 2014/65/EU; OR (III) NOT A QUALIFIED INVESTOR AS DEFINED IN DIRECTIVE 2003/71/EC.

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 neither Castell 2018-1 PLC, the Lead Manager (as defined herein) nor any person who controls any of them respectively (nor any director, officer, employee or 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 the Lead Manager (as defined herein).

# CASTELL 2018-1 PLC

(Incorporated under the laws of England and Wales with limited liability, registered number 11321580)

<b>Class of Notes</b>	<b>Initial Principal Amount</b>	<b>Issue Price</b>	<b>Reference Rate*</b>	<b>Margin</b>	<b>Step-Up Margin (payable from Optional Redemption Date)</b>	<b>Ratings (Moody's/DBRS)</b>	<b>Final Maturity Date</b>
Class A Notes	£244,872,000	100%	Three Month LIBOR**	1.14% per annum	Margin + 1.14% per annum	Aaa (sf) / AAA (sf)	The Interest Payment Date falling in January 2046
Class B Notes	£22,572,000	100%	Three Month LIBOR**	1.65% per annum	Margin + 1.00% per annum	Aa1 (sf) / AA (low) (sf)	The Interest Payment Date falling in January 2046
Class C Notes	£20,862,000	100%	Three Month LIBOR**	1.90% per annum	Margin + 1.00% per annum	Aa3 (sf) / A (low) (sf)	The Interest Payment Date falling in January 2046
Class D Notes	£14,364,000	100%	Three Month LIBOR**	2.40% per annum	Margin + 1.00% per annum	Baa1 (sf) / BBB (high) (sf)	The Interest Payment Date falling in January 2046
Class E Notes	£10,602,000	100%	Three Month LIBOR**	3.50% per annum	Margin + 1.25% per annum	Ba2 (sf) / BB (high) (sf)	The Interest Payment Date falling in January 2046
Class F Notes	£11,628,000	100%	Three Month LIBOR**	4.40% per annum	Margin + 1.25% per annum	Caa2 (sf) / B (low) (sf)	The Interest Payment Date falling in January 2046
Class X Notes	£15,000,000	100%	Three Month LIBOR**	4.75% per annum	N/A	Not Rated	The Interest Payment Date falling in January 2046
Class Z Notes	£17,100,000	100%	Three Month LIBOR**	5.50% per annum	N/A	Not Rated	The Interest Payment Date falling in January 2046

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**NATWEST MARKETS**

LEAD MANAGER

**NATWEST MARKETS**

\* Except in respect of the first Interest Period, where the reference rate will be the linear interpolation of LIBOR for one and three monthly Sterling deposits.

\*\* "Three Month LIBOR" means LIBOR for three month sterling deposits.

The date of this Prospectus is 30 October 2018.

<b>Issue Date</b>	The Issuer will issue the Notes (in the classes set out above) on or about 1 November 2018 (the " <b>Closing Date</b> ").
<b>Standalone/Programme Issuance</b>	Standalone issuance.
<b>Listing</b>	This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC (as amended) (the " <b>Prospectus Directive</b> "). This Prospectus has been approved by the Central Bank of Ireland (the " <b>Central Bank</b> ") as the competent authority under the Prospectus Directive. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates to the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes (together, the " <b>Rated Notes</b> "), the Class X Notes and the Class Z Notes (together with the Rated Notes the " <b>Notes</b> ") which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU (as amended, " <b>MIFID II</b> ") and/or which are to be offered to the public in any Member State of the European Economic Area. Application has been made to the Irish Stock Exchange plc, trading as Euronext Dublin (" <b>Euronext Dublin</b> ") for the Notes to be admitted to the official list (the " <b>Official List</b> ") and trading on its regulated market (the " <b>Main Securities Market</b> "). Euronext Dublin's Main Securities Market is a regulated market for the purposes of the Markets in Financial Instruments Directive.
<b>Underlying Assets</b>	<p>The Issuer will make payments on the Notes from, <i>inter alia</i>, payments of principal and interest received from a portfolio comprising second or subsequent ranking mortgage loans originated by Optimum Credit Limited ("<b>OCL</b>" and the "<b>Seller</b>") and secured over residential properties located in England, Wales and Scotland (the "<b>Mortgage Portfolio</b>") which will be purchased by the Issuer from the Seller on the Closing Date. Substitution of the Mortgage Loans contained in the Mortgage Portfolio may occur in accordance with the terms described herein.</p> <p>In addition, on any Business Day during the period (the "<b>Further Sale Period</b>") from (but excluding) the Closing Date up to the earliest to occur of (a) 5 December 2018 (including that date); and (b) the occurrence of a Further Sale Period Termination Event (excluding that date) (the "<b>Further Sale Period End Date</b>"), the Issuer may purchase Additional Mortgage Loans originated by OCL, subject to the satisfaction of certain conditions (as detailed in the section entitled "<i>Assignment of the Mortgage Loans and Related Security – Acquisition of Additional Mortgage Loans</i>").</p> <p>See the sections entitled "<i>Transaction Overview – Mortgage Portfolio and Servicing</i>", "<i>The Mortgage Portfolio and the Mortgage Loans</i>" and "<i>Characteristics of the Provisional Mortgage Portfolio</i>" for further details.</p>
<b>Credit Enhancement</b>	<p>Credit enhancement of the Notes is provided in the following manner:</p> <ul style="list-style-type: none"> <li>• in relation to any Class of Rated Notes, the subordination of the Notes ranking junior to such Class of Rated Notes (other than the Class X Notes, which may be redeemed in priority to more senior Classes of Rated Notes, pursuant to the operation of the Pre-Enforcement Revenue Priority of Payments) in the relevant Priority of Payments;</li> <li>• in relation to each Class of Rated Notes, the amount by which Available Revenue Receipts exceed the amounts required to pay interest on such Class of Notes (and in the case of the Class B</li> </ul>

Notes, also amounts required to maintain the Liquidity Reserve Fund Required Amount) and all other amounts ranking in priority thereto in accordance with the Pre-Enforcement Revenue Priority of Payments;

- prior to the service of an Enforcement Notice and in respect of the Rated Notes only, the availability of amounts credited to the General Reserve Fund;
- following service of an Enforcement Notice, all amounts standing to the credit of the General Reserve Fund and the Liquidity Reserve Fund (if any) will be applied in accordance with the Post-Enforcement Priority of Payments;
- on the Final Rated Notes Redemption Date, amounts standing to the credit of the General Reserve Fund will be applied as Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments;
- in relation to the Rated Notes (other than the Class A Notes and the Class B Notes), on the Senior Notes Redemption Date, amounts standing to the credit of the Liquidity Reserve Fund (if any, after having applied any Liquidity Reserve Fund Drawings to meet any Revenue Deficit on the Senior Notes Redemption Date) will be applied as Available Redemption Receipts in accordance with the Pre-Enforcement Redemption Priority of Payments; and
- in relation to the Class X Notes, the cumulative excess (if any) accumulating from the Closing Date until the Final Discharge Date of Available Revenue Receipts after providing for items (a) to (w) of the Pre-Enforcement Revenue Priority of Payments over the original principal amount of the Class X Notes.

See the sections entitled "*Transaction Overview – Credit Structure and Cashflow*" and "*Credit Structure*" for further details. In relation to the General Reserve Fund and Liquidity Reserve Fund, see the sections entitled "*Credit Structure – General Reserve Fund and General Reserve Fund Ledger*", "*Credit Structure – Liquidity Reserve Fund and Liquidity Reserve Fund Ledger*" and "*Cashflows – Application of Monies released from the General Reserve Fund and the Liquidity Reserve Fund*" respectively for further details. In relation to the application of Available Revenue Receipts and the application of Available Redemption Receipts, see the sections entitled "*Cashflows – Application of Available Revenue Receipts prior to the service of an Enforcement Notice on the Issuer*" and "*Cashflows – Application of Available Revenue Receipts prior to the service of an Enforcement Notice on the Issuer*" respectively for further details. In relation to the application of cashflows following the service of an Enforcement Notice, see the section entitled "*Cashflows – Distributions following the service of an Enforcement Notice on the Issuer*" for further details.

## **Liquidity Support**

Liquidity support for the Notes is provided in the following manner:

- in relation to each Class of Rated Notes, the subordination in payment of those Classes of Notes (if any) ranking junior in the Pre-Enforcement Revenue Priority of Payments;
- in relation to each Class of Rated Notes, all amounts standing to the credit of the General Reserve Fund will be applied as

Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments;

- the availability of the Liquidity Reserve Fund to provide for any Revenue Deficits in respect of the Class A Notes and the Class B Notes in the event that Available Revenue Receipts are not sufficient;
- in relation to the Class A Notes and the Class B Notes, subject to the PDL Condition, the Principal Addition Amounts; and
- in relation to each Class of Rated Notes (but on the first Interest Payment Date only), amounts standing to the credit of the Pre-Funding Revenue Reserve Ledger will be applied as Available Revenue Funds in accordance with the Pre-Enforcement Priority of Payments.

See the sections entitled "*Transaction Overview – Credit Structure and Cashflow*" and "*Credit Structure*" for further details. In relation to the General Reserve Fund and Liquidity Reserve Fund, see the sections entitled "*Credit Structure – General Reserve Fund and General Reserve Fund Ledger*" and "*Credit Structure – Liquidity Reserve Fund and Liquidity Reserve Fund Ledger*" for further details. In relation to the Pre-Funding Revenue Reserve Ledger, see the section entitled "*Credit Structure – Pre-Funding Revenue Reserve Ledger*" for further details.

#### **Redemption Provisions**

Information on any mandatory redemption of the Notes is summarised on page 71 ("*Transaction Overview – Overview of the Characteristics of the Notes*") and set out in full in Condition 8 (*Redemption*) of the terms and conditions of the Notes (the "**Conditions**").

#### **Credit Rating Agencies**

Moody's Investors Service Limited ("**Moody's**") and DBRS Ratings Limited ("**DBRS**") (each a "**Rating Agency**" and together, the "**Rating Agencies**"). As of the date of this prospectus (the "**Prospectus**"), each of the Rating Agencies is a credit rating agency established in the European Union (the "**EU**") and is registered under Regulation (EU) No 1060/2009 (as amended) (the "**CRA Regulation**"). As such, each of the Rating Agencies is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation.

#### **Credit Ratings**

The ratings assigned to the Rated Notes by Moody's address, *inter alia*:

- the likelihood of full and timely payments to the holders of the Rated Notes (other than the Class E Notes and the Class F Notes) of interest on each Interest Payment Date;
- the likelihood of ultimate payment to the holders of the Class E Notes and the Class F Notes of interest on or prior to the Final Maturity Date; and
- the likelihood of ultimate payment to the holders of the Rated Notes of principal in relation to the Rated Notes on or prior to the Final Maturity Date.

The ratings assigned to the Rated Notes by DBRS address, *inter alia*:

- the likelihood of full and timely payments to the holders of the Rated Notes of interest on each Interest Payment Date; and

- the likelihood of ultimate payment to the holders of the Rated Notes of principal in relation to the Rated Notes on or prior to the Final Maturity Date.

Ratings are expected to be assigned to the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes on or before the Closing Date.

The Class X Notes and the Class Z Notes will not be rated.

The assignment of a rating to the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes by any Rating Agency is not a recommendation to invest in the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes or the Class F Notes respectively or to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning Rating Agency.

#### **Obligations**

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

#### **Risk Retention Undertaking**

On the Closing Date, Optimum Credit Limited (the "**Retention Holder**") will, as an originator for the purposes of the CRR, the AIFM Regulation and the Solvency II Regulation (each as defined below), retain a material net economic interest of not less than 5 per cent. in the securitisation in accordance with the text of each of Article 405 of Regulation (EU) No 575/2013 (the "**Capital Requirements Regulation**" or "**CRR**"), Article 51 of Regulation (EU) No 231/2013, referred to as the Alternative Investment Fund Managers Regulation (the "**AIFM Regulation**" or "**AIFMR**") and Article 254 of Regulation (EU) 2015/35 (the "**Solvency II Regulation**") (which, in each case, does not take into account any relevant national measures) (the "**Retention**"). As at the Closing Date, the Retention will be satisfied by the Retention Holder subscribing for and thereafter holding an interest in the first loss tranche, represented in this case by the retention by the Retention Holder of the Class Z Notes, as required by the text of each of Article 405 of the CRR, Article 51 of the AIFM Regulation and Article 254 of the Solvency II Regulation. The aggregate Principal Amount Outstanding of the Class Z Notes as at the Closing Date is equal to at least 5 per cent. of the nominal value of the securitised exposures. The Retention Holder will undertake to retain the material net economic interest and will give further undertakings with respect to the Retention (as to which, see the section entitled "*EU Risk Retention Requirements*"). Any change in the manner in which the interest is held will be notified to the Noteholders.

See the section entitled "*EU Risk Retention Requirements*" for further details.

The Seller does not intend to retain at least 5 per cent. of the credit risk of the securitised assets for purposes of compliance with the final rules promulgated under Section 15G of the Securities Exchange Act of 1934, as amended (the "**U.S. Risk Retention Rules**"), but rather intends to rely on an exemption provided for in Section 20 of the U.S. Risk Retention Rules regarding non-U.S. transactions. See the section entitled "*Risk Factors – U.S. Risk Retention Requirements*".

#### **Volcker Rule**

The Issuer is of the view that it is not now, and immediately after giving effect to the offering and sale of the Notes and the application of the proceeds thereof on the Closing Date will not be, a "covered fund" for the purposes of regulations adopted under Section 13 of the Bank Holding

Company Act of 1956, as amended (commonly known as the "**Volcker Rule**"). In reaching this conclusion, although other statutory or regulatory exemptions under the Investment Company Act of 1940, as amended (the "**Investment Company Act**") and under the Volcker Rule and its related regulations may be available, the issuing entity has relied on the determinations that it may rely on an exemption from registration under the Investment Company Act under Section 3(c)(5) of the Investment Company Act and, accordingly, may rely on the exemption from the definition of a "covered fund" under the Volcker Rule made available to certain issuers that do not rely solely on Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act for their exemption from registration under the Investment Company Act. However, the general effects of the Volcker Rule remain uncertain. Any prospective investor in the Notes, including a U.S. or foreign bank or a subsidiary or other affiliate thereof, should consult its own legal advisers regarding such matters and other effects of the Volcker Rule.

**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.**



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The Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes, the Class F Notes, the Class X Notes and the Class Z Notes will each be represented on issue by a global note certificate in registered form (a "**Global Note**"). The Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes, the Class F Notes, the Class X Notes and the Class Z Notes may be issued in definitive registered form under certain circumstances.

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 OR BY ANY RELEVANT PARTY 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 CENTRAL BANK OF IRELAND, NO ACTION HAS BEEN OR WILL BE TAKEN BY THE ISSUER OR BY ANY RELEVANT PARTY 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, THE ARRANGER AND THE LEAD MANAGER 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, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**") EXCEPT PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS ("**U.S. PERSONS**"). FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON REALES OR TRANSFERS, SEE "*TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS*".

EXCEPT WITH THE PRIOR WRITTEN CONSENT OF OPTIMUM CREDIT LIMITED IN THE FORM OF A U.S. RISK RETENTION WAIVER AND WHERE SUCH SALE FALLS WITHIN THE EXEMPTION PROVIDED BY RULE 20 OF THE FINAL RULES PROMULGATED UNDER SECTION 15G OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (THE "**U.S. RISK RETENTION RULES**"), THE NOTES OFFERED AND SOLD BY THE ISSUER MAY NOT BE PURCHASED BY, OR FOR THE ACCOUNT OR BENEFIT OF, ANY "**U.S. PERSON**" AS DEFINED IN THE U.S. RISK RETENTION RULES ("**RISK RETENTION U.S. PERSONS**"). PROSPECTIVE INVESTORS SHOULD NOTE THAT THE DEFINITION OF "U.S. PERSON" IN THE U.S. RISK

RETENTION RULES IS SUBSTANTIALLY SIMILAR TO, BUT NOT IDENTICAL TO, THE DEFINITION OF "U.S. PERSON" IN REGULATION S. EACH PURCHASER OF NOTES, INCLUDING BENEFICIAL INTERESTS THEREIN, WILL BE DEEMED TO HAVE MADE CERTAIN REPRESENTATIONS AND AGREEMENTS, INCLUDING THAT IT (1) IS NOT A RISK RETENTION U.S. PERSON (UNLESS IT HAS OBTAINED THE PRIOR WRITTEN CONSENT OF OPTIMUM CREDIT LIMITED), (2) IS ACQUIRING SUCH NOTE OR A BENEFICIAL INTEREST THEREIN FOR ITS OWN ACCOUNT AND NOT WITH A VIEW TO DISTRIBUTE SUCH NOTE, AND (3) IS NOT ACQUIRING SUCH NOTE OR A BENEFICIAL INTEREST THEREIN AS PART OF A SCHEME TO EVADE THE REQUIREMENTS OF THE U.S. RISK RETENTION RULES.

THIS PROSPECTUS IS BEING SENT AT YOUR REQUEST AND BY ACCESSING THE PROSPECTUS, YOU SHALL BE DEEMED TO HAVE CONFIRMED AND REPRESENTED TO US THAT (I) YOU HAVE UNDERSTOOD AND AGREE TO THE TERMS SET OUT HEREIN, (II) YOU CONSENT TO DELIVERY OF THE PROSPECTUS BY ELECTRONIC TRANSMISSION, AND (III) YOU ARE NOT A U.S. PERSON (AS DEFINED ABOVE) 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 OR THE DISTRICT OF COLUMBIA.

THE LEAD MANAGER, THE SELLER, THE RETENTION HOLDER 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 DESCRIBED IN THIS PROSPECTUS AND (IN RESPECT OF THE LEAD MANAGER, THE SELLER AND THE RETENTION HOLDER) AS SET OUT IN THE SUBSCRIPTION AGREEMENT 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 NOR ANY RELEVANT PARTY 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.

EXCEPT AS SPECIFICALLY EXCLUDED THEREIN, THE SELLER ACCEPTS RESPONSIBILITY FOR THE INFORMATION SET OUT IN THE SECTIONS HEADED "*THE MORTGAGE PORTFOLIO AND THE MORTGAGE LOANS*" AND "*CHARACTERISTICS OF THE PROVISIONAL MORTGAGE PORTFOLIO*". TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE SELLER (HAVING TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE), THE INFORMATION CONTAINED IN THE SECTIONS REFERRED TO IN THIS PARAGRAPH IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. NO REPRESENTATION, WARRANTY OR UNDERTAKING, EXPRESS OR IMPLIED, IS MADE AND NO RESPONSIBILITY OR LIABILITY IS ACCEPTED BY THE SELLER AS TO THE ACCURACY OR COMPLETENESS OF ANY INFORMATION CONTAINED IN THIS PROSPECTUS (OTHER THAN IN THE SECTIONS REFERRED TO ABOVE AND NOT SPECIFICALLY EXCLUDED THEREIN) OR ANY OTHER INFORMATION SUPPLIED IN CONNECTION WITH THE NOTES OR THEIR DISTRIBUTION.

THE SELLER, THE RETENTION HOLDER AND THE SERVICER ACCEPT RESPONSIBILITY FOR THE INFORMATION SET OUT IN THE SECTIONS HEADED "*THE SELLER, RETENTION HOLDER*"

AND SERVICER", "EU RISK RETENTION REQUIREMENTS" AND "THE SERVICING OF THE MORTGAGE PORTFOLIO". TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE SELLER, THE RETENTION HOLDER AND THE SERVICER (HAVING TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE), THE INFORMATION CONTAINED IN THE SECTIONS REFERRED TO IN THIS PARAGRAPH IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. NO REPRESENTATION, WARRANTY OR UNDERTAKING, EXPRESS OR IMPLIED, IS MADE AND NO RESPONSIBILITY OR LIABILITY IS ACCEPTED BY THE SELLER, THE RETENTION HOLDER AND THE SERVICER AS TO THE ACCURACY OR COMPLETENESS OF ANY INFORMATION CONTAINED IN THIS PROSPECTUS (OTHER THAN IN THE SECTION REFERRED TO ABOVE) OR ANY OTHER INFORMATION SUPPLIED IN CONNECTION WITH THE NOTES OR THEIR DISTRIBUTION.

THE BACK-UP SERVICER ACCEPTS RESPONSIBILITY FOR THE INFORMATION SET OUT IN THE SECTION HEADED "THE BACK-UP SERVICER". TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE BACK-UP SERVICER (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 THE BACK-UP SERVICER AS TO THE ACCURACY OR COMPLETENESS OF ANY INFORMATION CONTAINED IN THIS PROSPECTUS (OTHER THAN IN THE SECTION REFERRED TO ABOVE) OR ANY OTHER INFORMATION SUPPLIED IN CONNECTION WITH THE NOTES OR THEIR DISTRIBUTION.

THE CASH MANAGER AND THE ISSUER ACCOUNT BANK ACCEPT RESPONSIBILITY FOR THE INFORMATION SET OUT IN THE SECTION HEADED "THE CASH MANAGER AND ISSUER ACCOUNT BANK". TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE CASH MANAGER AND ISSUER ACCOUNT BANK (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 THE CASH MANAGER OR ISSUER ACCOUNT BANK AS TO THE ACCURACY OR COMPLETENESS OF ANY INFORMATION CONTAINED IN THIS PROSPECTUS (OTHER THAN IN THE SECTION REFERRED TO ABOVE) OR ANY OTHER INFORMATION SUPPLIED IN CONNECTION WITH THE NOTES OR THEIR DISTRIBUTION.

THE TRUSTEE ACCEPTS RESPONSIBILITY FOR THE INFORMATION SET OUT IN THE SECTION HEADED "THE TRUSTEE". TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE TRUSTEE (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 THE TRUSTEE AS TO THE ACCURACY OR COMPLETENESS OF ANY INFORMATION CONTAINED IN THIS PROSPECTUS (OTHER THAN IN THE SECTION REFERRED TO ABOVE) OR ANY OTHER INFORMATION SUPPLIED IN CONNECTION WITH THE NOTES OR THEIR DISTRIBUTION.

THE CORPORATE SERVICES PROVIDER ACCEPTS RESPONSIBILITY FOR THE INFORMATION SET OUT IN THE SECTION HEADED "THE CORPORATE SERVICES PROVIDER AND THE BACK-UP SERVICER FACILITATOR". TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE CORPORATE SERVICES PROVIDER (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 THE CORPORATE SERVICES PROVIDER AS TO THE ACCURACY OR COMPLETENESS OF ANY INFORMATION CONTAINED IN THIS PROSPECTUS (OTHER THAN IN THE SECTION REFERRED TO ABOVE) 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 RETENTION HOLDER, THE SERVICER, THE BACK-UP SERVICER, THE SELLER, THE TRUSTEE, THE ARRANGER, THE LEAD MANAGER OR ANY OF THEIR RESPECTIVE AFFILIATES OR ADVISERS. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE OR ALLOTMENT MADE IN CONNECTION WITH THE OFFERING OF THE NOTES SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION OR CONSTITUTE A REPRESENTATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER, THE RETENTION HOLDER, THE SERVICER OR THE SELLER 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 TRUSTEE, THE RETENTION HOLDER, THE SERVICER, THE BACK-UP SERVICER, THE SELLER, THE LEAD MANAGER OR THE ARRANGER AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. NONE OF THE ARRANGER, THE LEAD MANAGER, THE RETENTION HOLDER, THE SERVICER, THE BACK-UP SERVICER, THE SELLER OR THE TRUSTEE HAVE SEPARATELY VERIFIED THE INFORMATION CONTAINED HEREIN. ACCORDINGLY, NONE OF THE ARRANGER, THE LEAD MANAGER, THE RETENTION HOLDER, THE SERVICER, THE SELLER OR THE TRUSTEE MAKES ANY REPRESENTATION, EXPRESS OR IMPLIED, OR (OTHER THAN AS SET OUT ABOVE) ACCEPTS ANY RESPONSIBILITY, WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF ANY OF THE INFORMATION IN THIS PROSPECTUS. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THIS OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE CONTENTS OF THIS PROSPECTUS SHOULD NOT BE CONSTRUED AS PROVIDING LEGAL, BUSINESS, ACCOUNTING OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN LEGAL, BUSINESS, ACCOUNTING AND TAX ADVISERS PRIOR TO MAKING A DECISION TO INVEST IN THE NOTES.

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF, OR AN INVITATION BY OR ON BEHALF OF, THE ISSUER, THE RETENTION HOLDER, THE SERVICER, THE BACK-UP SERVICER, THE SELLER, THE TRUSTEE, THE LEAD MANAGER, 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.

EACH OF THE ARRANGER AND THE LEAD MANAGER HAS NO RESPONSIBILITY TO OR LIABILITY FOR AND DOES NOT OWE ANY DUTY TO ANY PARTY OR OTHER PERSON IN RESPECT OF THE PREPARATION AND DUE EXECUTION OF THE TRANSACTION DOCUMENTS OR THE ENFORCEABILITY OF ANY OF THE OBLIGATIONS SET OUT IN THE TRANSACTION DOCUMENTS (OTHER THAN ITS OWN INDIVIDUAL OBLIGATIONS UNDER THE SUBSCRIPTION AGREEMENT).

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 OTHER 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.

In this Prospectus all references to the "FCA" are to the United Kingdom Financial Conduct Authority and all references to the "PRA" are to the United Kingdom Prudential Regulation Authority, which together replaced the Financial Services Authority (the "FSA") pursuant to the provisions of the UK Financial Services Act 2012.

In this Prospectus, words denoting the singular number only shall include the plural number and *vice versa* and words denoting one gender shall include the other genders, as the context may require. A defined term in the plural which refers to a number of different items or matters may be used in the singular or plural to refer to any (or any set) of those items or matters.

### **Forward-Looking Statements and Statistical Information**

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 Mortgage 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. This Prospectus also contains certain tables and other statistical analyses (the "**Statistical Information**") which have been prepared in reliance on information provided by the Issuer. Numerous assumptions have been used in preparing the Statistical Information, which may or may not be reflected in the material. As such, no assurance can be given as to the Statistical Information's accuracy, appropriateness or completeness in any particular context, or as to whether the Statistical Information and/or the assumptions upon which they are based reflect present market conditions or future market performance. The Statistical Information should not be construed as either projections or predictions or as legal, tax, financial or accounting advice. The average life of or the potential yields on any security cannot be predicted, because the actual rate of repayment on the underlying assets, as well as a number of other relevant factors, cannot be determined. No assurance can be given that the assumptions on which the possible average lives of or yields on the securities are made will prove to be realistic. None of the Relevant Parties has attempted to verify any forward-looking statements or Statistical Information, 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 or Statistical Information. None of the Issuer nor any of the Relevant Parties assumes any obligation to update these forward-looking statements or Statistical Information or to update the reasons for which actual results could differ materially from those anticipated in the forward-looking statements or Statistical Information, as applicable.

## **PROHIBITION OF SALES TO EEA RETAIL INVESTORS**

### **MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET**

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Article 4(1) of Directive 2014/65/EU (as amended "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

### **PRIIPS REGULATION**

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPS Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

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## **RISK FACTORS**

*The following is a summary of certain matters relating to the issue of the Notes about which prospective investors should be aware. It is not intended to be exhaustive as to all the matters about which prospective investors should be aware.*

*All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*In evaluating whether to purchase the Notes, prospective investors should not only consider the risk factors set out in this summary, but should also ensure that they carefully review this Prospectus in full and seek professional advice as each investor deems necessary.*

### **Risks Related to the Notes**

#### ***Liabilities under the Notes are obligations of Issuer only***

The Notes represent obligations of the Issuer, and do not constitute obligations or responsibilities of, or guarantees by, any other person. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by any other Relevant Party or by any person other than the Issuer.

#### ***Limited source of funds***

The ability of the Issuer to meet its obligations to pay (a) amounts under the Notes and (b) its operating and administrative expenses will be dependent solely on the extent of monies received or recovered by or on behalf of the Issuer. Such monies consist solely of, (i) monies received or recovered on the Mortgage Loans (whether by way of monthly payments, enforcement, disposal of the Mortgage Loans or otherwise), (ii) amounts of interest received from the Issuer Account Bank under the Issuer Account Bank Agreement, (iii) amounts constituting the General Reserve Fund, the Liquidity Reserve Fund and (in respect of the first Interest Payment Date only) amounts constituting the Pre-Funding Revenue Reserve, (iv) in respect of the first Interest Payment Date only, amounts standing to the credit of the Pre-Funding Principal Reserve Ledger at the close of business on the Further Sale Period End Date; and (v) receipts under the Swap Agreement. Other than the foregoing, the Issuer will not have any other funds available to it to make payments under the Notes and/or any other payment obligation ranking in priority to, or *pari passu* with, the Notes under the applicable Priorities 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 Priorities of Payments. The recourse of the Noteholders to the Charged Assets following service of an Enforcement Notice is described below (see further: "*Risks Related to the Notes – Limited recourse*" and "*Risks Related to the Mortgage Loans – Limitation of Seller's Liability*" below).

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

The Notes will be limited recourse obligations of the Issuer. If, and to the extent that, after the Charged Assets have been realised and the proceeds thereof have been applied in accordance with the applicable Priorities of Payments, the amounts recovered on realisation of the Charged Assets are insufficient to pay or discharge amounts due from the Issuer to the Noteholders in full for any reason, any amounts which have not been paid will cease to be due and payable by the Issuer.

#### ***No additional sources of funds after Optional Redemption Date***

As of the Optional Redemption Date, the margin applicable to the Rated Notes will be increased. In addition, on each Interest Payment Date from and including the Optional Redemption Date, to the extent that the amount of Available Revenue Receipts exceeds the aggregate of the payments required to be met under items (a) to (s) (inclusive) of the Pre-Enforcement Revenue Priority of Payments, such excess is available to repay principal amounts outstanding on the Rated Notes until the Principal Amount Outstanding on the Rated Notes has been reduced to zero (see further "*Credit Support – Liquidity and Credit Support for the Notes provided by Available Revenue Receipts*"). There will, however, be no additional receipts or other sources of funds available to the Issuer on or after the Optional Redemption Date, nor is it expected that any of the sources of income available to the Issuer prior to the Optional Redemption Date will be increased.



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

If, on any Interest Payment Date, after having paid or provided for items of higher priority in accordance with the relevant Priorities of Payments (including by means of Liquidity Reserve Fund Drawings or, as the case may be, Principal Addition Amounts) 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 Notes (other than the Class A Notes or (should they be the Most Senior Class of Notes) the other Classes of Rated Notes), then such amounts of interest shall not be due and payable on that Interest Payment Date and the Issuer will be entitled under Condition 18 (*Subordination by Deferral*) to defer payment of that amount (to the extent of the insufficiency) in respect of the Notes (other than the Class A Notes or (should they be the Most Senior Class of Notes) the other Classes of Rated Notes) until the next Interest Payment Date. Such deferral shall not constitute an Event of Default or Potential Event of Default until the Final Maturity Date and such amounts would only become due and payable on the Final Maturity Date.

For so long as the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes or the Class F Notes are not the Most Senior Class of Notes, in the event that amounts constituting Deferred Interest (including Additional Interest) are not paid in full on such Classes of Notes, such failure will not constitute an Event of Default (or Potential Event of Default). Where the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes or the Class F Notes are the Most Senior Class of Notes, such failure will constitute an Event of Default (or Potential Event of Default). In the event that amounts constituting Deferred Interest (including Additional Interest) are not paid in full on the Class X Notes and the Class Z Notes, such failure will not constitute an Event of Default (or Potential Event of Default) until the Final Maturity Date (subject to the grace periods thereunder) or such earlier date on which the Notes are redeemed in full in accordance with Condition 8.3 (*Optional Redemption in Whole*) or Condition 8.4 (*Optional Redemption for Taxation Reasons*). As such, the Trustee will not be able to accelerate the relevant Notes until after the Final Maturity Date (in accordance with the grace periods set out in the Conditions) or such earlier date on which such Notes are redeemed in accordance with the Conditions as set out above, and prior to such date will not be able to take any action to enforce the Security or effect a sale or disposal of the Issuer's beneficial interest in the Mortgage Loans and Related Security in respect of a failure by the Issuer to pay such amounts until the Final Maturity Date (in accordance with the grace periods set out in the Conditions) or such earlier date.

For the avoidance of doubt, failure to pay interest or amounts due in respect of the Class A Notes or (should they be the Most Senior Class of Notes) the other classes of Rated Notes shall constitute an Event of Default under the Notes which may result in the Trustee enforcing the provisions of the Notes, or the Trust Deed (as applicable), or enforcing the Security.

### ***Credit risk***

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

### ***Liquidity risk***

The Issuer is subject to the risk of insufficiency of funds on any Interest Payment Date as a result of payments being made late by Borrowers (where, for example, such funds relate to a preceding Collection Period but are received after the Servicer has calculated the collections relating to such Collection Period). This risk may adversely affect the Issuer's ability to make payments on the Notes, although it is mitigated to some extent by the conditional provision of liquidity from alternative sources as described in the section entitled "*Credit Structure*". However, no assurance can be made as to the effectiveness or sufficiency of such liquidity support features, or that such liquidity support features will protect the Noteholders from all risk of loss.

***Subordination of the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes, the Class F Notes, the Class X Notes and the Class Z Notes***

Pursuant to the Priorities of Payments, certain junior classes of Notes are subordinated in right of payment of principal and interest to more senior classes of Notes.

The Class A Notes will rank *pro rata* and *pari passu* without preference or priority among themselves at all times as to payments of interest and principal, as provided in the Conditions and the Transaction Documents.

The Class B Notes will rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to the Class A Notes, as provided in the Conditions and the Transaction Documents.

The Class C Notes will rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to the Class A Notes and the Class B Notes, as provided in the Conditions and the Transaction Documents.

The Class D Notes will rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to the Class A Notes, the Class B Notes and the Class C Notes, as provided in the Conditions and the Transaction Documents.

The Class E Notes will rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes, as provided in the Conditions and the Transaction Documents.

The Class F Notes will rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, as provided in the Conditions and the Transaction Documents.

The Class X Notes will rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to all payments of: (a) (at all times) interest due in respect of the Class A Notes, the Class B Notes, the Class C Notes, Class D Notes, the Class E Notes and the Class F Notes; and (b) (from and including the Optional Redemption Date or following the service of an Enforcement Notice) principal due in respect of the Class A Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes and Class F Notes, as provided in the Conditions and the Transaction Documents.

The Class Z Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to all payments due in respect of the Rated Notes and the Class X Notes, as provided in the Conditions and the Transaction Documents.

In addition to the above, payments on the Notes are subordinate to payments of certain fees, costs and expenses payable to the other Secured Creditors (including, amongst others, the Trustee, the Issuer Account Bank, the Servicer, the Seller, the Back-Up Servicer, the Corporate Services Provider, the Cash Manager, the Paying Agents, the Registrar and the Agent Bank) and certain third parties. For further information on the likely costs payable to such Secured Creditors, please see "*Transaction Overview – Fees*" below.

To the extent that the Issuer does not have sufficient funds to satisfy its obligations to all its creditors, the holders of the lower ranking Notes will be the first to see their claims against the Issuer unfulfilled. However, there is no assurance that these subordination provisions will protect the holders of the more senior classes of Notes (including the Most Senior Class of Notes) from all or any risk of loss.

The priority of payment of the Notes is further set out in "*Cashflows – Application of Available Revenue Receipts prior to the service of an Enforcement Notice on the Issuer*", "*Cashflows – Application of Available Redemption Receipts prior to the service of an Enforcement Notice on the Issuer*" and "*Cashflows – Distributions following the service of an Enforcement Notice on the Issuer*".

### ***Yield and Prepayment Considerations***

The yield to maturity of the Notes of each Class will depend on, among other things, the extent and timing of payments of principal and interest (including full and partial prepayments, proceeds of disposal of Mortgage Loans, proceeds of enforcement of Mortgage Loans, or repurchase by the Seller of any Mortgage Loans (or payments of an indemnity amount in lieu of the Seller repurchasing in the case of a breach of a Mortgage Loan Warranty that is not a Core Mortgage Loan Warranty) and the price paid by the Noteholders for the Notes. Such yield may be adversely affected by a higher or lower than anticipated rate of prepayment on the Mortgage Loans.

The rate of prepayment of the Mortgage Loans cannot be predicted and is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing, local and regional economic conditions and homeowner mobility. Subject to the terms and conditions of the Mortgage Loans, a Borrower may "overpay" or prepay principal at any time. In addition, should the Seller agree with a Borrower that the amount of their Mortgage Loan may be increased, a new mortgage loan will be granted to the Borrower and the proceeds of such mortgage loan shall be used to redeem in full the existing Mortgage Loan. A Mortgage Loan may also be redeemed in part to accommodate a Permitted Porting. No assurance can be given as to the level of prepayments that the Mortgage Portfolio will experience. Accelerated prepayments will generally lead to a reduction in the weighted average life of the Notes.

Generally, when market interest rates increase in relation to the rate of interest currently paid by a borrower, borrowers are less likely to prepay their mortgage loans, while conversely, when market interest rates decrease in relation to the rate of interest currently paid by a borrower, borrowers (in particular those paying by reference to a fixed interest rate, where there are no or minimal associated early repayment charges) are generally more likely to prepay their mortgage loans. Borrowers may prepay mortgage loans when they refinance their loans or sell their properties (either voluntarily or as a result of enforcement action). If the Seller is required to repurchase a Mortgage Loan and its Related Security or (if applicable) make an indemnity payment in lieu of such repurchase because, for example, one of the Mortgage Loans does not comply with the Mortgage Loan Warranties, then the payment received by the Issuer will have the same effect as a prepayment of such Mortgage Loan. For more information, see the section entitled "*The Mortgage Portfolio and the Mortgage Loans*".

Furthermore, if the conditions for the purchase of Additional Mortgage Loans by the Issuer are not met, or, as the case may be, there are no Additional Mortgage Loans available for the Seller to sell to the Issuer during the Further Sale Period or there are fewer Additional Mortgage Loans sold to the Issuer during the Further Sale Period than there are funds available for this purpose in the Pre-Funding Principal Reserve Ledger, then the Issuer will not be able to purchase such Additional Mortgage Loans, or, as the case may be, fully utilise the amounts constituting the Pre-Funding Principal Reserve and the amounts standing to the credit of the Pre-Funding Principal Reserve Ledger at the end of the Further Sale Period End Date will be applied *pro rata* in redemption of the Rated Notes on the first Interest Payment Date by reference to their respective Principal Amount Outstanding on the Closing Date which may lead to a reduction in the weighted average life of the Notes and the yield on the Notes.

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

The Issuer is subject to the risk of the contractual interest rates on the Mortgage Loans (including the Fixed Rate Mortgage Loans, the Optimum Base Rate Loans, the Combination Mortgage Loans or, as the case may be, the Discount Mortgage Loans) being lower than that required by the Issuer in order to meet its commitments under the Notes and its other obligations.

This risk is intended to be mitigated in respect of the Fixed Rate Mortgage Loans and the Combination Mortgage Loans that have an initial fixed rate period (but only for the period during which they bear interest at the fixed rate) (the "**Relevant Mortgage Loans**") by the Issuer entering into a fixed-floating interest rate swap under the Swap Agreement. However, the following features of the Swap Agreement should be taken into consideration when assessing the effectiveness of the hedging arrangements in eliminating the potential effects of the interest rate mismatches associated with the Mortgage Portfolio.

Under the terms of the Swap Agreement, not all of the Relevant Mortgage Loans will be covered by the hedging arrangements. For example, those Relevant Mortgage Loans which are or have been more than 90 days in arrears or which have been repurchased by the Seller, will be excluded from the pool of Relevant

Mortgage Loans hedged by the Swap Agreement. Where an amount is payable by the Issuer to the Swap Counterparty following a partial termination of the Interest Rate Swap as a result of the repurchase of Reference Loan (as further described in the section "*Credit Structure - The Swap Agreement – Overview of the Swap Agreement*"), the Seller will be required to pay to the Issuer the True-Up Amount in order to fund the payment of such termination payment. Such termination payment will rank in priority to payments in respect of the Notes. If the Seller fails to pay the True-Up Amount to the Issuer, the Issuer will still be obliged to pay the termination amount to the Swap Counterparty and as a result, may not have sufficient amounts to make payments of interest due in respect of the Notes in full.

Also, as mentioned above, the Relevant Mortgage Loans will only be hedged for the period during which they bear interest at the fixed rate and, in any event, for a period no longer than five (5) years since the date of the purchase of the Additional Mortgage Portfolio by the Issuer. Additionally, the hedging arrangements will not take into account certain changes in respect of the Relevant Mortgage Loans (as further described in the section "*Credit Structure - The Swap Agreement – Overview of the Swap Agreement*").

In relation to the Additional Mortgage Loans which may be sold to the Issuer on the Further Sale Date, the Issuer can request that those Additional Mortgage Loans, which are Relevant Mortgage Loans and are to be added to the pool of Mortgage Loans, be hedged under the Swap Agreement. The addition will be subject to the procedure outlined in the Swap Agreement and, in particular, to the Issuer and the Swap Counterparty agreeing on the swap rate at which such additional Relevant Mortgage Loans will be hedged. Failure to agree on such rate may have an impact on the ability of the Seller to complete the sale of the Additional Mortgage Portfolio.

It should also be noted that calculations of amounts payable under the Swap Agreement will be made by reference to the balance of Relevant Mortgage Loans determined on particular dates in accordance with the Swap Agreement, rather than by reference to actual receipts by the Issuer from the Relevant Mortgage Loans. See section "*Credit Structure - The Swap Agreement – Overview of the Swap Agreement*" for more detail.

Any of the features and factors outlined above may result in under-hedging or over-hedging and/or other mismatches of cashflows received by the Issuer in respect of the Relevant Mortgage Loans and the amounts payable by the Issuer under the Notes and may ultimately have an adverse effect on the Issuer's ability to make payments under the Notes.

Prospective investors should also note that the Swap Agreement does not hedge the risk of mismatches arising in connection with the floating rate payable in respect of the Mortgage Loans which are not the Relevant Mortgage Loans (including those Mortgage Loans which are beyond their initial fixed interest period or whose fixed interest period extends beyond five (5) years). Furthermore, any mismatch between the rate of the interest payable in respect of the Mortgage Loans and the rate of interest payable in respect of the Notes that is caused by the Optimum Base Rate and the Three-Month LIBOR being determined on different dates (10<sup>th</sup> day of each month or the next business day if the 10<sup>th</sup> is not a business day and the Interest Determination Date, respectively), will not be hedged by the Swap Agreement. Any of these factors may result in mismatches of the cashflows received by the Issuer in respect of the Mortgage Portfolio and the cashflows required to be paid by the Issuer to the Secured Creditors, including the Noteholders.

The effectiveness of the hedging arrangements under the Swap Agreement will also depend on the ability of the Swap Counterparty to perform its obligations thereunder.

A failure by the Swap Counterparty to make payment when due of amounts due under the Swap Agreement will constitute a default thereunder (after giving effect to any applicable grace period).

To the extent that the Swap Counterparty defaults on its payment obligations under the Swap Agreement, the Issuer will be exposed to the possible variance between the rates of interest payable in respect of the Relevant Mortgage Loans that are hedged pursuant to the Swap Agreement and GBP LIBOR. Unless, in such circumstances, one or more comparable replacement interest rate swaps are entered into by the Issuer, the Issuer may have insufficient funds to make payments due on the Notes.

To address the risk of payment default by the Swap Counterparty, it will be required under the Hedge Agreement to post collateral in certain circumstances. Such collateral which may only be utilised solely for the purpose of supporting the Swap Counterparty's payment obligations under the Swap Agreement and will not be available for distributions in accordance with the Priorities of Payment. Following the

termination of the Swap Agreement, any such collateral posted by the Swap Counterparty (or the liquidation proceeds thereof) which is not returned to the Swap Counterparty as part of the termination payment (or alternately employed as premium for any replacement Swap Agreement) shall constitute Available Revenue Receipts. Depending on the circumstances prevailing at the time of termination (and, if applicable, the terms of any replacement Swap Agreement), any such termination payment which is due to the Swap Counterparty could be substantial and may adversely affect the funds available to pay amounts due to the Noteholders. See also "*Swap Termination Payments*" below.

### ***Swap Termination Payments***

The Swap Agreement will provide that, upon the occurrence of certain events, the Interest Rate Swap may be terminated by the Issuer or the Swap Counterparty (as applicable depending on the event) and a termination payment by either the Issuer or the Swap Counterparty may be payable. The amount of such payment will depend on, among other things, the terms of the Swap Agreement, the cost of entering into a replacement transaction at the time and any amounts which were due prior to such termination but have not yet been paid. Any termination payment payable by the Issuer (other than any Swap Excluded Payable Amounts and any Swap Subordinated Amounts) will rank in priority to payments in respect of the Notes. If any termination amount is payable by the Issuer, payment of such termination amounts may affect the Issuer's ability to pay interest and principal on the Notes.

Any additional amounts required to be paid by the Issuer following termination of the Swap Agreement (including any extra costs incurred in entering into replacement interest rate swaps) will also rank in priority to payments in respect of the Notes. This may affect the Issuer's ability to pay interest on the Notes and, following service of an Enforcement Notice on the Issuer (which has not been revoked), interest and principal on the Notes.

No assurance can be given as to either: (i) the ability of the Issuer to enter into one or more replacement transactions; or (ii) if one or more replacement transactions are entered into, the credit rating or creditworthiness of the interest rate swap counterparty in respect of the replacement transactions. Failure by the Issuer to enter into a replacement swap transaction, on comparable commercial terms or at all, may have an adverse effect on the ability of the Issuer to make payments in respect of the Notes.

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

In the event of the insolvency of the Swap Counterparty, the Issuer will be treated as a general creditor of the Swap Counterparty. Consequently, the Issuer will be subject to the credit risk of the Swap Counterparty. To mitigate this risk, under the terms of the Swap Agreement, in the event that the relevant ratings of the Swap Counterparty fail to meet the relevant required ratings, the Swap Counterparty will, in accordance with the terms of the Swap Agreement, be required to elect to take certain remedial measures within the applicable time frame stipulated in the Swap Agreement (at its own cost), which may include providing Swap Collateral for its obligations under the Swap Agreement, arranging for its obligations under the Swap Agreement to be transferred to an entity which does have the relevant required ratings, or procuring another entity with the required ratings to become co-obligor or guarantor, as applicable, in respect of its obligations under the Swap Agreement or taking such other action (which may include inaction) as would result in the Rating Agencies maintaining the then current rating of the Notes. However, no assurance can be given that, at the time that such actions are required to be taken, the Swap Counterparty will be able to provide collateral or that another entity with the required ratings will be available to become a replacement Swap Counterparty, co-obligor or guarantor or that the Swap Counterparty will be able to take the requisite other action.

Accordingly, if any of the Notes remain outstanding in circumstances where the Swap Counterparty is insolvent or otherwise fails to make any payment to the Issuer required under the Swap Agreement, the Issuer will be subject to the potential variation between the rates of interest payable in respect of the Fixed Rate Mortgage Loans and/or in respect of the Combination Mortgage Loans that have an initial fixed rate in the Mortgage Portfolio (as described above and further in the section "*The Swap Agreement*") and GBP LIBOR. Unless one or more comparable replacement swaps are entered into, the Issuer may have insufficient funds to make payments due on the Notes after that date.

In addition, under BRRD, if resolution action is taken in respect of the Swap Counterparty, any termination amount payable by the Swap Counterparty under the Swap Agreement (after the application of any collateral previously provided by the Swap Counterparty) may be reduced by the application of the bail-in

tool described below (see "*Risk Factors – Banking Act 2009 and the European Union Bank Recovery and Resolution Directive*").

### ***Risks Associated with Rising Mortgage Rates***

Some of the Mortgage Loans comprising the Mortgage Portfolio have interest rates which are subject to change over the course of the life of such Mortgage Loans. The Optimum Base Rate (in respect of the Optimum Base Rate Loans and Fixed Rate Mortgage Loans which are no longer in their fixed rate product period) is set by reference to the London inter-bank offered rate for one month borrowing periods in Sterling ("**One Month LIBOR**") (see "*The Mortgage Portfolio and the Mortgage Loans – Interest Rate Setting for Mortgage Loans*"). An increase in such reference rates or in relation to the rate of any prior ranking mortgage loan of the Borrower could result in higher monthly repayments, which, in turn, could reduce the Borrowers' capacity to service their Mortgage Loans. The Issuer could therefore be subject to a higher risk of default in payment by Borrowers over the course of the transaction which may affect the ability of the Issuer to make payments on the Notes.

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

The ratings assigned to the Rated Notes by Moody's address, *inter alia*:

- the likelihood of full and timely payments to the holders of the Rated Notes (other than the Class E Notes and the Class F Notes) of interest on each Interest Payment Date;
- the likelihood of ultimate payment to the holders of the Class E Notes and the Class F Notes of interest on or prior to the Final Maturity Date; and
- the likelihood of ultimate payment to the holders of the Rated Notes of principal in relation to the Rated Notes on or prior to the Final Maturity Date.

The ratings assigned to the Rated Notes by DBRS address, *inter alia*:

- the likelihood of full and timely payments to the holders of the Rated Notes of interest on each Interest Payment Date; and
- the likelihood of ultimate payment to the holders of the Rated Notes of principal in relation to the Rated Notes on or prior to the Final Maturity Date.

The Class X Notes and the Class Z Notes will not be rated by the Rating Agencies.

The expected ratings of the Rated Notes to be assigned on the Closing Date are set out under the section entitled "*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 agency if, in its judgement, circumstances (including a reduction in the perceived creditworthiness of third parties, including a reduction in the credit rating of the Issuer Account Bank or the Collection Account Bank) in the future so warrant. See also "*Servicing of the Mortgage Loans and Reliance on Third Parties*" below.

At any time, any Rating Agency may revise its relevant rating methodology, with the result that any rating assigned to the Rated Notes may be withdrawn, lowered or qualified.

Rating agencies other than the Rating Agencies could seek to rate the Rated Notes and if such unsolicited ratings are lower than the comparable ratings assigned to the Rated Notes by the Rating Agencies, those unsolicited ratings could have an adverse effect on the market value of the Rated Notes. For the avoidance of doubt and unless the context otherwise requires, any reference to "**ratings**" or "**rating**" in this Prospectus is to the ratings assigned by the Rating Agencies only.

As highlighted above, the ratings assigned to the Rated Notes by each Rating Agency are based on, among other things, the short-term and/or long-term unsecured, unguaranteed and unsubordinated debt ratings of the Issuer Account Bank and the Collection Account Bank. In the event one or more of these transaction parties were downgraded below the requisite ratings trigger, such transaction parties would be subject to a replacement obligation in accordance with the terms of the relevant Transaction Documents. There can, however, be no assurance that a replacement of such counterparty which has at least the minimum ratings required to maintain the then current ratings of the Rated Notes will be found. If a replacement counterparty

with at least the requisite ratings cannot be found, this could have an adverse impact on the ratings of the Rated Notes and, as a consequence, the resale price of the Rated Notes in the market.

***Rating Agency confirmation in relation to the Rated Notes in respect of certain actions***

The terms of certain Transaction Documents provide that certain actions to be taken by the Issuer and/or the other parties to the Transaction Documents are contingent on such actions not having an adverse effect on the ratings assigned to the Rated Notes. In such circumstances, the Issuer may be required to seek confirmation from the Rating Agencies that certain actions proposed to be taken by the Issuer and the Trustee will not have an adverse effect on the then current ratings of the Rated Notes (a "**Rating Agency Confirmation**").

A Rating Agency Confirmation that any action or inaction proposed to be taken by the Issuer or the Trustee will not have an adverse effect on the then current ratings of the Rated Notes does not, for example, confirm that such action (i) is permitted by the terms of the Transaction Documents or (ii) is in the best interests of, or not prejudicial to, the Noteholders of the Rated Notes. While Noteholders are entitled to have regard to the fact that the Rating Agencies have confirmed that the then current ratings of the Rated Notes would not be adversely affected, the above does not impose or extend any actual or contingent liability on the Rating Agencies to the Secured Creditors (including the Noteholders of the Rated Notes), the Issuer, the Trustee or any other person or create any legal relationship between the Rating Agencies and the Secured Creditors (including the Noteholders of the Rated Notes), the Issuer, the Trustee or any other person whether by way of contract or otherwise. In addition the Trustee may, but is not required to, have regard to any Rating Agency Confirmation.

Any such Rating Agency Confirmation may or may not be given at the sole discretion of each Rating Agency. Certain Rating Agencies have indicated that they will no longer provide Rating Agency Confirmations as a matter of policy. To the extent that a Rating Agency Confirmation cannot be obtained, whether or not a proposed action will ultimately take place will be determined in accordance with the provisions of the relevant Transaction Documents and specifically the relevant modification and waiver provisions. It should be noted that, depending on the nature of the request, the timing of delivery of the request and of any information needed to be provided as part of any such request, it may be the case that a Rating Agency cannot provide a Rating Agency Confirmation in the time available or at all, and the Rating Agency will not be responsible for the consequences thereof. A Rating Agency Confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time and in the context of cumulative changes to the transaction of which the securities form part since the Closing Date. A Rating Agency Confirmation represents only a restatement of the opinions given as at the Closing Date and cannot be construed as advice for the benefit of any parties to the transaction.

Where the Transaction Documents allow the Issuer or the Trustee to seek a Rating Agency Confirmation and a written request for such Rating Agency Confirmation or response is delivered to each Rating Agency by or on behalf of the Issuer and (i) (A) one Rating Agency (such Rating Agency, a "**Non-Responsive Rating Agency**") indicates that it does not consider such Rating Agency Confirmation or response necessary in the circumstances or that it does not, as a matter of practice or policy, provide such Rating Agency Confirmation or response or (B) within 30 days of delivery of such request, no Rating Agency Confirmation or response is received and/or such request elicits no statement by such Rating Agency that such Rating Agency Confirmation or response could not be given; and (ii) one Rating Agency gives such Rating Agency Confirmation or response based on the same facts, then such condition to receive a Rating Agency Confirmation or response from each Rating Agency shall be modified so that there shall be no requirement for the Rating Agency Confirmation or response from the Non-Responsive Rating Agency if the Issuer provides to the Trustee a certificate signed by two directors certifying and confirming that each of the events in sub-paragraphs (i) (A) or (B) and (ii) has occurred, the Issuer having sent a written request to each Rating Agency. Where a Rating Agency Confirmation is a condition to any action or step under any Transaction Document and it is deemed to be modified as a result of a Non-Responsive Rating Agency not having responded to the relevant request from the Issuer within 30 days, there remains a risk that such Non-Responsive Rating Agency may subsequently downgrade, qualify or withdraw the then current ratings of the Rated Notes as a result of the action or step. Such a downgrade, qualification or withdrawal to the then current ratings of the Rated Notes may have an adverse effect on the value of the Rated Notes.

### ***The Trustee is not obliged to act in certain circumstances***

Upon the occurrence of an Event of Default, the Trustee in its absolute discretion may, and if so directed in writing by the holders of at least 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of Notes or if so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes shall (subject, in each case, to being indemnified and/or prefunded and/or secured to its satisfaction), deliver an Enforcement Notice to the Issuer that all Classes of the Notes are immediately due and repayable at their respective Principal Amount Outstanding, together with accrued interest as provided in a trust deed between the Issuer and the Trustee (the "**Trust Deed**").

The 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 the Notes or the Trust Deed (including the Conditions) or the Deed of Charge or the other Transaction Documents to which it is a party or in respect of which it holds security. In respect of and at any time after the service of an Enforcement Notice, the Trustee may, at its discretion and without notice, take such steps, actions or proceedings as it may think fit to enforce the Security. However, the Trustee shall not be bound to take any such proceedings, actions or steps (including, but not limited to, the giving of an Enforcement Notice in accordance with Condition 11 (*Events of Default*)) unless it shall have been directed to do so in writing by the holders of at least 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of Notes or if so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes and, in all cases, it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

See further "*Terms and Conditions of the Notes – Condition 12 (Enforcement)*" below.

In addition, the Trustee benefits from indemnities given to it by the Issuer pursuant to the Transaction Documents, which rank in priority to the payments of interest and principal on the Notes.

In relation to the undertakings to be given by the Retention Holder in, *inter alia*, the Mortgage Sale Agreement in accordance with the CRR, the AIFM Regulation and the Solvency II Regulation regarding the material net economic interest to be retained by the Retention Holder in the securitisation and (in respect of the CRR only) certain requirements as to providing investor information in connection therewith, the Trustee will not be under any obligation to monitor the compliance by the Retention Holder with such undertakings and will not be under any obligation to take any action in relation to non-compliance with such undertakings unless and until the Trustee has received express written notice of the same from any party to any Transaction Document (a "**Transaction Party**"), in which event the only obligation of the Trustee shall be to notify the Issuer (who shall notify the Noteholders and the other Secured Creditors of the same) and, subject to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction, to take such further action as it is directed to take in connection with such non-compliance by an Extraordinary Resolution of the holders of the Most Senior Class of Notes or by a direction in writing from the holders of at least 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of Notes.

### ***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 decisions of 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 requisite majority for such vote).

The Conditions also provide that the Trustee may, without any consent or sanction of the Noteholders or the other Secured Creditors, but subject to receipt of the written consent from any of the Secured Creditors party to the Transaction Documents being modified, concur with the Issuer and any other party thereto in making (a) any modification (other than a Basic Terms Modification) to, or granting a waiver or authorisation of, any actual or proposed breach (including an Event of Default or Potential Event of Default) of, the Conditions, or any of the Transaction Documents which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or (b) any modification of the Conditions or any of the Transaction Documents which, in the opinion of the Trustee, is of a formal, minor or technical nature or to correct a manifest error.



The Conditions also specify that certain categories of amendments (including changes to majorities required to pass resolutions or quorum requirements) would be classified as Basic Terms Modifications. Investors should note that a Basic Terms Modification is required to be sanctioned by an Extraordinary Resolution of the holders of the relevant affected Class or Classes of Notes which are affected by such Basic Terms Modification.

Further, the Trustee shall be obliged, in certain circumstances, to agree to amendments (other than a Basic Terms Modification) to the Conditions and/or the Transaction Documents for the purpose of enabling the Issuer or any of the other Transaction Parties to comply with (i) any change in the criteria of one or more Rating Agencies; (ii) any changes in the requirements of Article 405 of the CRR, Article 17 of AIFMD, Article 51(1) of AIFMR or Article 254(2) of Solvency II Regulation; (iii) FATCA; (iv) the CRA Regulation; or (v) Articles 9, 10 and 11 of EMIR or any other obligation which applies to it under EMIR or for the purposes of enabling the Notes to be (or remain) listed on Euronext Dublin (each, a "**Proposed Amendment**"), without the consent of Noteholders pursuant to and in accordance with the detailed provisions of Condition 13.6.

In relation to any such Proposed Amendment, other than a modification for the purposes of enabling the Issuer and/or the Swap Counterparty to comply with any obligation which applies to it under Articles 9, 10 and 11 of EMIR (pursuant to and in accordance with the detailed provisions of Condition 13.6(b)(i)), the Issuer is required to give at least 30 calendar days' notice to the Noteholders of each Class of the proposed modification in accordance with Condition 17 (*Notice to Noteholders*) and by publication on Bloomberg on the "Company News" screen relating to the Issuer. However, Noteholders should be aware that, in relation to each Proposed Amendment, unless Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of any Class of Notes then outstanding have contacted the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held) within such notification period notifying the Issuer that such Noteholders do not consent to the modification, the modification will be passed without Noteholder consent.

If Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of any Class of Notes then outstanding have notified the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held) within the notification period referred to above that they do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Noteholders of the Most Senior Class of Notes is passed in favour of such modification in accordance with Condition 13 (*Meetings of Noteholders, Modification, Waiver and Substitution*).

The Trustee shall also be obliged, without any consent or sanction of the Noteholders or (subject to the receipt of consent from any of the Secured Creditors party to the Transaction Documents being modified) any of the other Secured Creditors, to concur with the Issuer in making any modification to the Conditions and/or Transaction Documents that the Issuer considers necessary for the purpose of changing the LIBOR base rate in respect of the Notes to an alternative base rate (an "**Alternate Base Rate**") and making such other amendments to these Conditions or any other Transaction Documents as are necessary or advisable in the reasonable judgment of the Issuer to facilitate the changes envisaged (including changing the base rate referred to in any interest rate hedging agreement, for the purpose of aligning any such hedging agreement with the proposed rate modification), provided that, in each case, a number of conditions have been satisfied as specified in Condition 14 (*Base Rate Modification*).

In the case of such amendment, the Issuer (or the Servicer on its behalf) shall certify to the Trustee in writing that such modification is required solely for such purpose provided that (a) at least 30 calendar days' prior written notice of any such proposed modification has been given to the Trustee; (b) such certificate in relation to such modification shall be provided to the Trustee both at the time the Trustee is notified of the proposed modification and on the date that such modification takes effect; and (c) the consent of each Secured Creditor (other than any Noteholder) which is party to the Transaction Document has been obtained.

In relation to any such amendment, the Issuer is required to give at least 30 calendar days' notice to the Noteholders of each Class of the proposed modification in accordance with Condition 17 (*Notice to Noteholders*) and by publication on Bloomberg on the "Company News" screen relating to the Notes. However, Noteholders should be aware that, in relation to each such amendment, if Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes have not contacted the Principal Paying Agent or the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held)

within such notification period notifying the Issuer that such Noteholders do not consent to the modification, the modification will be passed without Noteholder consent.

If in respect of such amendment Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes have notified the Principal Paying Agent or the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held) within the notification period referred to above that they do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Noteholders of the Most Senior Class of Notes then outstanding is passed in favour of such modification in accordance with Condition 13 (*Meetings of Noteholders, Modification, Waiver and Substitution*).

The Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Trustee would have the effect of (i) exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights or protection, of the Trustee in the Transaction Documents and/or the Conditions.

There is no guarantee that any changes made to the Transaction Documents or the Conditions pursuant to the obligations imposed on the Trustee, as described above, would not be prejudicial to the Noteholders.

## **Limited Liquidity**

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

No assurance can be provided that a secondary market for the Notes will exist at any time on or after the Closing Date.

None of the 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 their resale and transfer as set forth under "*Subscription and Sale*" and "*Transfer Restrictions and Investor Representations*". To the extent that a secondary market develops for the Notes, it may not continue for the life of the Notes or it may not provide the Noteholders with liquidity of investment with the result that a Noteholder may not be able to find a buyer to buy its notes readily or at prices that will enable such Noteholder to realise a desired yield. Any investor in the Notes must be prepared to hold their Notes until the Final Maturity Date.

The secondary market for mortgage-backed securities similar to the Notes has at times experienced limited liquidity resulting from reduced investor demand for such securities. Limited liquidity in the secondary market may have an adverse effect on the market value of mortgage-backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the requirements of limited categories of investors.

Whilst central bank schemes such as, amongst others, the Bank of England's Sterling Monetary Framework, the Funding for Lending Scheme or the European Central Bank's liquidity schemes provide an important source of liquidity in respect of eligible securities, further restrictions in respect of the relevant eligibility criteria for eligible collateral which applies and will apply in the future are likely to adversely impact secondary market liquidity for mortgage-backed securities in general, regardless of whether the Notes are eligible securities.

### ***Denominations***

The Notes are issued in the denomination of £100,000 per Note. However, for so long as the Notes are represented by Global Notes, and Euroclear and Clearstream, Luxembourg so permit, the Notes shall be tradable in minimum nominal amounts of £100,000 and integral multiples of £1,000 thereafter. If Definitive Notes are required to be issued in respect of the Notes represented by Global Notes, they will only be printed and issued in denominations of £100,000 and any amount in excess thereof in integral multiples of £1,000. Accordingly, if Definitive Notes are required to be issued in respect of the Global Notes, a Noteholder holding an interest in a Global Note of less than the minimum authorised denomination at the relevant time may not receive a Definitive Note in respect of such holding and may need to purchase a principal amount of the relevant Class of Notes such that their holding amounts to the minimum authorised denomination. If Definitive Notes are issued in respect of the Global Notes, Noteholders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum authorised denomination may be illiquid and difficult to trade.

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

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

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

Payments of principal and interest on, and other amounts due in respect of, the Global Notes will be made by the Principal Paying Agent to the clearing systems. 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 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 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.

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

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

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

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

The Trust Deed contains provisions requiring the Trustee to have regard to the interests of all Classes of Noteholders equally as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise).

If, in the Trustee's opinion, however, there is or may be a conflict between the interests of the holders of one or more Classes of Notes, on the one hand, and the interests of the holders of one or more Classes of Notes, on the other hand, then the Trustee is required to have regard, in relation to such conflict only and without prejudice to Condition 13.3 (*Limitations on Noteholders*) (except as expressly provided otherwise), only to the interests of the holders of the affected Class or Classes of Notes ranking in priority to the other affected Classes of Notes. As a result, holders of Notes subordinated to other affected Classes of Notes may not have their interests taken into account by the Trustee when the Trustee exercises discretion.

In addition, prospective investors should note that the Trust Deed provides that no Extraordinary Resolution of the holders of a Class of Notes, other than the holders of the Most Senior Class of Notes, shall take effect for any purpose while the Most Senior Class of Notes remains outstanding, unless such Extraordinary Resolution shall have been sanctioned by an Extraordinary Resolution of the holders of Most Senior Class of Notes or the Trustee is of the opinion it would not be materially prejudicial to the interests of the holders of the Most Senior Class of Notes.

The Trust Deed further provides that no Extraordinary Resolution of the holders of a Class or Classes of Notes which would have the effect of sanctioning a Basic Terms Modification in respect of any Class of Notes shall take effect unless it has been sanctioned by an Extraordinary Resolution of the holders of each Class of Notes then outstanding which are affected by such Basic Terms Modification.

Prospective investors should note that the Seller, the Retention Holder and/or affiliates or related entities of the Seller and/or the Retention Holder may purchase some or all of any of the Notes (in addition to the Class Z Notes to be acquired by the Retention Holder on the Closing Date), and in doing so, will not be prevented from being entitled to attend meetings of the Noteholders or vote at Noteholder meetings or by way of written resolution (as applicable). The interests of the Seller, the Retention Holder and/or affiliates or related entities of the Seller and/or the Retention Holder may conflict generally with that of the other Noteholders, and the Seller, the Retention Holder and/or affiliates or related entities of the Seller and/or the Retention Holder are not required to vote in any particular manner.

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

So long as any of the Notes are outstanding, the Trustee shall not have regard to the interests of the other Secured Creditors.

### ***Eurosystem eligibility***

The Notes are intended to be held in a manner which will allow Eurosystem eligibility. This means that the Notes are intended, upon issue, to be deposited with a Common Safekeeper for Euroclear and Clearstream, Luxembourg and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem ("**Eurosystem eligible collateral**") either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria. The Issuer gives no representation, warranty, confirmation or guarantee to any investor in the Notes that the Notes will, either upon issue or at any time prior to redemption in full, satisfy all or any of the requirements for Eurosystem eligibility and be recognised as Eurosystem eligible collateral. Any potential investor in the Notes should make their own conclusions and seek their own advice with respect to whether or not the Notes constitute Eurosystem eligible collateral.

### ***Bank of England eligibility***

Certain investors in the Class A Notes may consider the use of the Class A Notes as eligible securities for the purposes of the Bank of England's Discount Window Facility ("**DWF**"), Funding for Lending Scheme ("**FLS**") or Term Funding Scheme ("**TFS**"). Recognition of the Class A Notes as eligible securities for the purposes of the DWF, FLS or TFS will depend upon satisfaction of the eligibility criteria as specified by

the Bank of England. If the Class A Notes do not satisfy the criteria specified by the Bank of England, they will not be eligible as DWF, FLS or TFS collateral.

In this regard, it should be noted by investors that the use of portfolios of second charge loans (as opposed to securities backed by such loans, as is the case in respect of the Notes) as eligible collateral in respect of the facilities and schemes described above is, at present, expressly restricted by the Bank of England. The Bank of England further indicated that the market of directly comparable transactions involving securities exclusively backed by second charge mortgage loans is virtually non-existent and that such securities do not qualify for Bank of England's eligibility criteria for the abovementioned liquidity schemes.

While this may change in the future, as of the Issue Date, the Class A Notes will not qualify as eligible securities and no assurance can be given that the Class A Notes will, in the future, become eligible securities for the purposes of the DWF, FLS or TFS.

None of the Issuer, the Arranger, the Lead Manager or the Seller gives any representation, warranty, confirmation or guarantee to any investor in the Class A Notes that the Class A Notes will, either upon issue, or at any times during their life, satisfy all or any requirements for the DWF, FLS or TFS eligibility and be recognised as eligible DWF, FLS or TFS collateral. Any potential investor in the Class A Notes should make its own determinations and seek its own advice with respect to whether or not the Class A Notes constitute eligible DWF, FLS or TFS collateral.

## **Risks Related to the Mortgage Loans**

### ***Limitation of Seller's Liability***

None of the Arranger, the Lead Manager, the Issuer nor the Trustee has undertaken or will undertake any investigations, searches or other actions in respect of the Mortgage Loans and their Related Security and will rely instead on, *inter alia*, the warranties given by the Seller in relation to the Mortgage Loans to the Issuer in the Mortgage Sale Agreement (the "**Mortgage Loan Warranties**"). Mortgage Loans which have undergone such a limited investigation may be subject to matters which would have been revealed by a full investigation of title and which may have been remedied or, if incapable of remedy, may have resulted in the Related Security not being accepted as security for a Mortgage Loan had such matters been revealed. The sole remedy provided for in the Mortgage Sale Agreement (subject to the relevant cure period as set out in the Mortgage Sale Agreement and save as described below) of the Issuer in respect of a breach of a Mortgage Loan Warranty in relation to a Mortgage Loan shall be the requirement of the Seller to repurchase or procure the repurchase of any Mortgage Loan which is the subject of any such breach (or, in the case of the breach of any Mortgage Loan Warranties (that are not Core Mortgage Loan Warranties) indemnify the Issuer in lieu of such repurchase), provided that this shall not limit any other remedies available to the Issuer if the Seller fails to make an indemnity payment or repurchase (or, as the case may be, substitute) a Mortgage Loan when obliged to do so.

There can be no assurance that the Seller will honour or have the financial resources to honour such obligations under the Mortgage Sale Agreement. Such obligations are not guaranteed by nor will they be the responsibility of any person other than the Seller and neither the Issuer nor the Trustee will have recourse to any other person in the event that the Seller, for whatever reason, fails to meet such obligations.

In relation to the Seller's obligation to repurchase or indemnify, in summary, Core Mortgage Loan Warranties will be breached in respect of a Mortgage Loan on discovery of defective title to the relevant Mortgage, non-compliance with the Eligibility Criteria and applicable Lending Policy, the Mortgage Loan not being a binding obligation of the Borrower, the Mortgage Loan not being freely assignable, the Mortgage Loan not being a valid and subsisting legal mortgage or standard security, the Seller having failed to take full security for the Mortgage Loan or a valid set off or other claim was in existence on the Closing Date or the Seller is obligated to make a further advance. In the case of the breach of Mortgage Loan Warranties that are not Core Mortgage Loan Warranties, the Seller may choose to indemnify and keep indemnified the Issuer against all Liabilities relating to the breach of such Mortgage Loan Warranty, provided that the amount payable by the Seller pursuant to such indemnity shall not exceed the amount that would have been payable by the Seller if it had repurchased that Mortgage Loan and its Related Security, as of the applicable repurchase date, on the basis that such Mortgage Loan Warranty was a Core Mortgage Loan Warranty.

As the amount of any such Liabilities is based upon the amount of, inter alia, actual costs, damages or loss suffered by the Issuer which results directly from the particulars of the resulting breach of the relevant Mortgage Loan Warranty on the relevant Mortgage Loan, the amount of such Liabilities may not be known at the time at which the breach of the Mortgage Loan Warranty is discovered and further additional time may be required before any such actual loss (if any) can be determined. In addition, depending upon the scenario at the time which leads the Issuer to suffer a loss on the applicable Mortgage Loan it may be difficult to accurately assess and determine the level and amount of Liabilities which the breach of the relevant Mortgage Loan Warranty actually contributed to the loss that the Issuer has suffered or may suffer on such Mortgage Loan.

Pursuant to the Mortgage Sale Agreement, where the Seller elects to indemnify the Issuer, the quantum of the amount of Liability shall be ascertained promptly by the Seller and the Issuer following the date that the Seller is required to repurchase the relevant Mortgage Loan pursuant to the Mortgage Sale Agreement. If the Seller cannot reach any agreement with the Issuer as to the quantum of the amount of Liability within 15 Business Days of the date that a mortgage loan repurchase notice is delivered to the Seller, the Seller shall, on the following Business Day, appoint an auditor of internationally recognised standing (at the cost of the Seller) to determine the amount of such question in a final binding decision or repurchase the relevant Mortgage Loan at the Repurchase Price (as if such Mortgage Loan Warranty was a Core Mortgage Loan Warranty). If the Seller opts to have an auditor determine such amount, if such auditor is unable to determine the quantum of the amount of Liability within 30 Business Days of the date that a mortgage loan repurchase notice is delivered to the Seller, then the Seller shall repurchase the relevant Mortgage Loan for consideration (including where such consideration is offered in the form of a Substitute Mortgage Loan) or pay an indemnity amount, in each case equal to the Repurchase Price as if such Mortgage Loan Warranty was a Core Mortgage Loan Warranty. Such Repurchase Price shall be paid by the Seller to the Issuer promptly following the expiry of such 30 Business Day period.

Whilst the above process reduces the time period for which actual loss can be determined before the indemnity payment is deemed to be the Repurchase Price (and thus reduces the period of time where no indemnification payment is payable to the Issuer), the certainty or accuracy of any determination of the amount of Liability by the Seller or, as the case may be, the third party auditor (should either party be able to make such a determination prior to the expiry of the 30 Business Day period described above) cannot be guaranteed. An indemnity payment shall be determined and paid only once by the Seller and any determination of loss shall not be re-evaluated at any time following payment of the indemnity amount. Accordingly, if any indemnity payment made by the Seller in respect of any breach of a Mortgage Loan Warranty (that is not a Core Mortgage Loan Warranty) does not reflect the appropriate quantum of loss suffered by the Issuer, this may impact the ability of the Issuer to meet its payment obligations under the Notes.

In the case of any Mortgage Loan that is subject to a breach of Mortgage Loan Warranty (that is not a Core Mortgage Loan Warranty) where the Seller opts to indemnify the Issuer, there may be costs associated with the continued administration of the relevant Mortgage Loan in the Mortgage Portfolio that will be borne by the Issuer. However, such Mortgage Loan shall not be taken into account in determining the fee payable to the Servicer. Any material difference in costs experienced by the Issuer as a result of such Mortgage Loans remaining in the Mortgage Portfolio (as opposed to being repurchased or substituted) may impact the ability of the Issuer to meet its payment obligations under the Notes.

### **Provisional Mortgage Portfolio and Selection Process**

The information in the section entitled "*Characteristics of the Provisional Mortgage Portfolio*" was extracted from the administrative systems relating to the Mortgage Portfolio as at the Portfolio Reference Date. The Mortgage Portfolio was selected as at the Portfolio Reference Date and comprised 5,491 Mortgage Loans with an aggregate Current Balance of £242,485,918. The Provisional Mortgage Portfolio does not include any of the Mortgage Loans which would comprise the Additional Mortgage Portfolio.

The characteristics of the Mortgage Portfolio to be sold to the Issuer on the Closing Date will vary from those of the Provisional Mortgage Portfolio as a result of, *inter alia*, (a) the inclusion of Mortgage Loans in the Mortgage Portfolio that did not meet the Mortgage Loan Warranties as at the Portfolio Reference Date but the Seller has determined that that such Mortgage Loans will meet the Mortgage Loan Warranties on the Closing Date and (b) the exclusion of: (i) Mortgage Loans which may redeem prior to the Closing Date (in accordance with their terms); (ii) Mortgage Loans in respect of which the relevant Borrower is deceased or against which enforcement procedures are being completed; and (iii) Mortgage Loans which

at any time prior to the Cut-Off Date are found not to comply with the warranties to be given in respect of the Mortgage Loans on the Closing Date as set out in the Mortgage Sale Agreement. Aside from the above adjustments, the Seller does not intend to use any other methods to determine the Mortgage Loans that will comprise the Mortgage Portfolio on the Closing Date.

See section "*The Mortgage Portfolio and the Mortgage Loans*" for more detail.

### ***Enforcement***

In relation to enforcement generally, even assuming that the Properties provide adequate security for the Mortgage Loans, delays could be encountered in connection with enforcement of the Mortgages and recovery under the Mortgage Loans with corresponding delays in the receipt of related proceeds by the Issuer.

In order to realise its security in respect of a Property, the relevant mortgagee will need to obtain possession.

### ***England and Wales***

In England and Wales, there are two means of obtaining possession for this purpose: first, by taking physical possession (seldom done in practice) and secondly, by applying for, obtaining and enforcing a court order.

The Court has a very wide discretion and may adopt a sympathetic attitude towards a Borrower at risk of eviction. If a possession order in favour of the relevant mortgagee is granted, it may be suspended to allow the Borrower more time to pay. The situation may be particularly relevant where the Borrower under such Mortgage Loan is or becomes a vulnerable Borrower, or where the situation otherwise merits sensitive handling.

In addition, certain regulatory measures, court orders or industry practice may restrict authorised firms (such as the Seller or the Servicer) from repossessing a property unless all other reasonable attempts to resolve the position have failed and, in complying with such restriction, a firm is required to consider whether, given such Borrower's circumstances, it is appropriate or required to take certain actions instead of a repossession, including (amongst other things) the extension of the term of the mortgage, product type changes and deferral of interest payments.

While each such forbearance option need not be explored at every stage of interaction with such Borrower, it is clear that these rules impose mandatory obligations on firms without regard to any relevant contractual obligations or restrictions which the relevant loan may be subject to as a result, *inter alia*, of such loan being contained within a securitisation transaction. As a result, the rules may operate in certain circumstances to require the Seller or the Servicer to take certain forbearance-related actions which would not otherwise comply with the Transaction Documents (and, in particular, the servicing arrangements contemplated by such Transaction Documents) in respect of one or more Mortgage Loans. No assurance can be made that any such actions will not impact on the Issuer's ability to make payments in full when due on the Notes and the Servicer shall not be liable for taking such actions.

Once possession of the Property has been obtained, the relevant mortgagee has a duty to the Borrower to take reasonable care to obtain a proper price for the Property. Any failure to do so will put the relevant mortgagee at risk of an action for breach of such duty by the Borrower, although it is for the Borrower to prove breach of such duty. There is also a risk that a Borrower may also take court action to force the relevant mortgagee to sell the Property within a reasonable time.

If a mortgagee takes physical possession it will, as mortgagee in possession, have an obligation to account to the Borrower for the income obtained from the Property, be liable for any damage to the Property, have a limited liability to repair the Property and, in certain circumstances, may be obliged to make improvements or may incur certain financial liabilities in respect of the Property. Actions for possession are regulated by statute and may incur certain financial liabilities in respect of the Property. The Courts have certain powers to adjourn possession proceedings, to stay any possession order or postpone the date for delivery of possession. The Court will exercise such powers in favour of a Borrower, broadly, where it appears to the court that such Borrower is likely to be able, within a reasonable period, to pay any sums due under the Mortgage Loan or to remedy any default consisting of a breach of any other obligation arising under or by virtue of the Mortgage Loan.

See also the risk factor below entitled "*Second or subsequent ranking Mortgages*".

## *Scotland*

The courts in Scotland had, until December 2001, considerably less discretion than those in England and Wales to modify or postpone the mortgagee's rights of enforcement but as a result of legislative changes in Scotland the position is now broadly equivalent in each jurisdiction (and references in this Prospectus to a "mortgagee" or "mortgagees" are to be read as "heritable creditor" or "heritable creditors" (being the Scottish equivalent of mortgagees) in relation to Scottish Mortgages).

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

### ***Declining Property Values***

The value of the Related Security in respect of the Mortgage Loans may be affected by, among other things, a decline in residential property values in the United Kingdom, generally or in a specific region thereof. If the residential property market in the United Kingdom generally or in a specific region thereof should experience an overall decline in property values (as has in some cases happened since the date of origination of the Mortgage Loans), 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 Mortgage Loan or the Closing Date. In certain cases, the value of the property is expected to be lower at the Closing Date than at the date of origination (see the section titled "*Characteristics of the Provisional Mortgage Portfolio*" for a breakdown of the Original Loan to Value Ratio and Current Loan to Value Ratio in the Provisional Mortgage Portfolio). Downturns in the performance of the United Kingdom economy generally may have a negative effect on the housing market. A fall in property prices resulting from a deterioration in the housing market could result in losses being incurred by the Issuer where the net recovery proceeds are insufficient to redeem any outstanding loan secured on such property. If the value of the Related Security backing the Mortgage Loans is reduced this may ultimately result in losses to Noteholders if the Related Security is required to be enforced and the resulting proceeds are insufficient to make payments on all Notes.

Borrowers may have insufficient equity in their homes to refinance their Mortgage Loans with lenders other than the Seller and may (as a result of the circumstances described below in "*Delinquencies or Default by Borrowers in paying amounts due on their Mortgage Loans*" or otherwise) have insufficient resources to pay amounts in respect of their Mortgage Loans as and when they fall due. This could lead to higher rates of delinquency, write-offs, enforcement and loss severities upon enforcement, which in turn may adversely affect payments on the Notes.

The UK housing market has largely recovered in recent years with prices now above pre-crisis highs in most English regions. There is a risk that house price growth will continue to accelerate faster than earnings, stretching affordability and leaving households more vulnerable to shocks, such as increases in interest rates that could ultimately lead to higher retail loan losses. There is potential for activity and prices to decline should the labour market situation deteriorate, or if strains in the financial system re-emerge and impair the flow of credit to the wider economy.

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

Mortgage Loans in the Mortgage 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 Mortgage Loans in such a region may be expected to exacerbate the risks relating to the Mortgage Loans described in this section. Certain geographic regions within the United Kingdom rely on different types of industries. Any downturn in a local economy or particular industry may adversely affect regional employment levels and consequently the repayment ability of the Borrowers in that region or in the region that relies most heavily on that industry. The Issuer can predict neither when or where such regional economic declines may occur



nor to what extent or for how long such conditions may continue. Any natural disasters in a particular region may reduce the value of affected Properties. This may result in a loss being incurred upon the sale of such Properties. These circumstances could affect receipts on the Mortgage Loans and ultimately result in losses on the Notes. For an overview of the geographical distribution of the Mortgage Loans in the Mortgage Portfolio, see "*Characteristics of the Provisional Mortgage Portfolio*".

### ***Additional Mortgage Loans***

The Seller will make the Mortgage Loan Warranties in relation to the Additional Mortgage Loans on the Further Sale Date and it is a condition precedent to the sale of the Additional Mortgage Portfolio that the Additional Mortgage Loan Conditions are satisfied. However, there can be no certainty that the Additional Mortgage Loans acquired by the Issuer will have similar characteristics as set out in the tables in the section entitled "*Characteristics of the Mortgage Portfolio*" below in relation to the Mortgages constituting the Provisional Mortgage Portfolio. See the section titled "*Assignment of the Mortgage Loans and Related Security*" for conditions applicable to the acquisition of Additional Mortgage Loans by the Issuer.

### ***Near-Prime Mortgage Loans***

The Mortgage Portfolio will include Mortgage Loans to Borrowers who are considered by banks and building societies to be "near-prime" borrowers (such borrowers, "**Near-Prime Borrowers**") in accordance with underwriting standards which permit lending at lower LTVs to borrowers with lower credit scores or poorer credit history compared with those typically applicable to prime consumer lending products. Mortgage Loans made to Near-Prime Borrowers may experience higher rates of delinquency, bankruptcy, enforcement, write offs and losses than may be experienced in relation to those mortgage loans made to prime borrowers and therefore may carry a higher degree of risk.

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

As of the Portfolio Reference Date, approximately 0.52 per cent. of the Provisional Mortgage Portfolio by aggregate Current Balance of the Mortgage Loans are loans that are the equivalent of one or more monthly instalments in arrears. Additionally, some Borrowers may have breached other payment or non-payment obligations under the Mortgage Loans during the period since they were originated. Defaults may occur for a variety of reasons. The ability of the Borrowers to pay amounts owed under the Mortgage Loans may be 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, political developments and government policies. Other factors in Borrowers' individual, personal or financial circumstances may affect their ability to repay their Mortgage Loan. Unemployment, loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by and bankruptcies (and analogous arrangements) of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay their Mortgage Loans. Certain Borrowers may be, or may become, unemployed throughout the life of the Mortgage Loan taken out by them, which could affect their ability to make payments and repayments under such Mortgage Loan. Additionally, Borrowers who are self-employed may have an income stream which is more susceptible to change (including the reduction or loss of future earnings due to illness, loss of business, tax laws or general economic conditions) than Borrowers who are in full time employment. Each such Borrower may resultantly be more likely to fall into payment difficulties. In addition, the ability of a Borrower to sell a property given as security for a Mortgage Loan at a price sufficient to repay the amounts outstanding under that Mortgage 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.

Mortgage Loans in arrears and subject to historical breaches by borrowers are generally likely to experience higher rates of delinquency, write-offs, enforcements and bankruptcy than mortgage loans without such arrears or breaches which may impact the ability of the Issuer to make payments on the Notes.

### ***Second or subsequent ranking Mortgages***

#### ***Enforcement by a prior ranking mortgagee or security holder***

The Mortgage Loans purchased by the Issuer are secured by second (or in certain circumstances, subsequent) ranking Mortgages. Any proceeds of enforcement of a second or subsequent ranking mortgage

over the relevant Property will (in all cases) be applied first in satisfying any prior ranking existing mortgages or standard securities. Only once prior ranking mortgages or standard securities have been paid in full will the proceeds be applied in discharging the second or subsequent ranking Mortgage. Any shortfall in the enforcement proceeds in respect of any Property will therefore be borne by the holder of the second or subsequent Mortgage before any prior ranking existing mortgages or standard securities with a second or subsequent charge holder, such as the Issuer, having an unsecured claim against the Borrower for the relevant excess. This may result in the Issuer having less available for the repayment of the Notes than expected.

In addition, where a prior ranking mortgagee or security holder enforces its security over a Property in accordance with the terms of its mortgage or standard security, whilst an automatic default will occur under the second or subsequent ranking Mortgage, the prior mortgagee or security holder will be entitled to recover the costs of the enforcement from the proceeds realised as well as applying enforcement proceeds in satisfying its prior ranking mortgage or standard security. This may also reduce funds available to the Issuer to meet its obligations under the Notes and, where both the prior ranking mortgagee or security holder and the Issuer are entitled to take enforcement proceedings, the Issuer will have no control over the enforcement proceedings if the prior ranking mortgagee or security holder takes action with a view to enforcing its security.

Prior to origination of each Mortgage Loan, the Seller put certain procedures in place to ascertain the principal amount (including the maximum amount of any further advance thereunder) of any Prior Mortgage in order to minimise the risk of suffering a loss in the event of a forced sale following a default. In addition, the Lending Policy of the Seller specifies a maximum Original Loan to Value Ratio in respect of any Mortgage Loan of 85 per cent., with further restrictions applying to loans above £200,000 and loans to Near-Prime Borrowers (although these limits may be exceeded by a suitably mandated underwriter, in accordance with the Seller's exceptions policy). However, the following should be noted:

- (a) the Seller as a subsequent mortgagee has no actual control over the amount owing under a Prior Mortgage and will not necessarily know of a default or the extent to which arrears have accrued until informed by the Prior Mortgagee. Accruals of interest and any disposal and other costs incurred by any Prior Mortgagee on enforcement were not taken into account when any Mortgage Loan was made;
- (b) the Seller as a subsequent mortgagee will not have any control over the timing of a forced sale following a default if the Prior Mortgagee is the party enforcing its security by forcing such sale. Save in limited circumstances, a Prior Mortgagee owes no duty to a Borrower or a subsequent mortgagee to delay a sale in the event of a depressed market or otherwise to take account of market conditions generally; and
- (c) a Prior Mortgagee owes a duty to obtain a fair market price and, in order to discharge such duty, would normally be expected to conduct the sale in a certain way (for example, by auction or to advertise at given times in a widely read newspaper). A fair market price means a fair market price at the time a Prior Mortgagee decides to sell. In limited circumstances it may also take account of the fact that potential buyers may be aware that the sale is a forced sale. A fair market sale is therefore not likely to be the best possible price, nor will it necessarily be as high as the latest market valuation or the valuation relied on by the Seller in originally deciding whether to advance the relevant Mortgage Loan.

If a loss is suffered in respect of any Mortgage Loan following any enforcement action by a prior ranking mortgagee or security holder this may result in the Issuer having less available for the repayment of the Notes than expected.

#### *Enforcement by the Servicer*

The same considerations in respect of priority apply where the Servicer (on behalf of the Issuer) takes action to enforce a Mortgage Loan following default by a Borrower. Further, it will generally only be possible for the subsequent mortgagee itself to realise the value of the security if no prior mortgagee takes steps to enforce its security. Where the Servicer (on behalf of the Issuer) is disposing of a Property, any prior

mortgagee would need to release its prior mortgage or prior mortgages on completion of any disposal of the relevant Property. However, the following should be noted:

- (a) where the date of redemption of a prior mortgage in England and Wales has been postponed (such that the relevant Property may remain subject to the relevant prior mortgage beyond the date on which: (i) the prior mortgage documentation provides that the prior mortgage may be redeemed; and/or (ii) the prior mortgagee has received an amount, in respect of the relevant Property, sufficient to redeem the prior mortgage in full), the prior mortgagee would not be obliged to release its prior mortgage, even where the proceeds of disposal are sufficient to redeem the prior mortgage in full;
- (b) in relation to Properties situated in England and Wales, where there is an adult third party in occupation of the Property other than the Borrower, the Servicer (on behalf of the Issuer) will be unable to sell the Property free of any interest which that adult third party may have unless the Seller has entered into a deed of consent with the adult third party and to the effect that the adult third party's rights are made subject to the Seller's rights under the Mortgage Loan. Whilst the typical practice in respect of first charge lenders is to obtain a deed of consent in relation to such adult third parties, the Seller does not enter into deeds of consent with such adult third parties on the basis that (i) repossession rates have been historically low for second charge lending (as compared with the wider mortgage market), (ii) it is in practice unusual for an occupier to claim a beneficial right over a property when it is sold or repossessed as all members of a family unit will usually prefer to move to a new home together, and (iii) repossession actions that do take place are typically commenced by a prior mortgagee (who is expected, in practice, to hold a deed of consent with the adult third party);
- (c) where there is more than one Borrower in relation to a Mortgage Loan and one such Borrower is a non-benefitting party to such Mortgage Loan, such Borrower may apply to a to set aside the Mortgage Loan if: (i) it was entered into as a result of undue influence; and (ii) at the time the Mortgage Loan was entered into, the Seller did not ensure such non-benefitting party received independent legal advice. Compared with the first charge market, undue influence may arise more frequently in relation to the Mortgage Loans as, for example, a Mortgage Loan may have been used to restructure other debts incurred by only one Borrower, or for significant expenditure on assets that may not be shared between the Borrowers. As a matter of practice, the Seller ensures that such non-benefitting Borrowers receive independent legal advice at the time of origination; however, identifying the need for independent legal advice is often a matter of underwriting judgement and there is a risk that the Servicer (on behalf of the Issuer) may be unable to enforce a Mortgage Loan if the Seller did not identify that one of the Borrowers did not benefit from the Mortgage Loan at the time it was entered into;
- (d) in relation to leasehold Properties, certain leases may provide that the lease is forfeit on the insolvency of the relevant Borrower. In such instances, the Servicer would likely find it difficult to sell the Property at a price sufficient to repay amounts outstanding under the relevant Mortgage Loan. The Seller does not make enquiries as to whether any Borrower's lease contains such provisions based on the expectation that it is likely that a prior mortgagee will have made such enquiries and declined to extend a prior mortgage if such forfeiture provisions had been present in the Borrower's lease. However, the Seller has no recourse to any prior mortgagee if such prior mortgagee has itself neglected to make such enquiries; and
- (e) the Servicer (on behalf of the Issuer) as the subsequent mortgagee will not generally be able to exercise its remedies (save for its contractual remedies) while a prior mortgagee is exercising the same remedies.

If the Servicer (on behalf of the Issuer) is unable to take enforcement action in respect of any Mortgage Loan, this may result in the Issuer having less available for the repayment of the Notes than expected.

#### *Further advances by the Prior Mortgagee*

A second or subsequent mortgagee may also be exposed to other risks arising as a result of the rights of a prior mortgagee. Where a prior mortgage contains an obligation on the part of the prior mortgagee to make further advances, for example, in the case of flexible mortgages, subject in the case of registered land in England or Wales to an appropriate note being made on the register (no such procedure being required in

Scotland), further advances made pursuant to such an obligation will have priority whenever they are made. The nature and the extent of the obligation to make further advances is ascertainable only on inspection of the relevant mortgage documents. The Seller does not commission a review of these documents. However, the obligation of a prior mortgagee to make further advances under a prior mortgage will typically be identified either in the Seller's initial credit searches, in the Borrower's mortgage references, or (if the obligation to make further advances is noted on the register) as part of the Solicitor's report on title. The Original Loan to Value Ratio in respect of each Mortgage Loan and the Lending Policy of the Seller take into account the maximum drawable amount (such drawable amount being inclusive of any known further advances which the prior mortgagee is obliged to make under such prior mortgage) by a Borrower under any prior mortgage.

A Borrower may request from the relevant prior mortgagee a discretionary further advance in excess of any such pre-agreed drawable amounts. Discretionary further advances made by a prior mortgagee before it receives notice (actual, constructive or imputed in the case of any land in Scotland or actual notice from the subsequent chargee in the case of registered land in England and Wales) of the later mortgage will have priority over advances made under any later mortgage. If a second or subsequent mortgagee gives notice to a prior mortgagee on completion of its mortgage, this will prevent the "tacking" of both discretionary further advances and obligatory further advances (where a prior mortgagee's obligation to make further advances has not been noted on the register) under prior mortgages of registered land in England and Wales or the priority of any such discretionary further advance in Scotland. The relevant prior mortgagee is not affected by the later mortgage unless it makes an advance after the date when notice ought to have been received in due course of post.

The Seller notifies some prior mortgagees of its second (or subsequent) mortgage as a matter of course, but not all. Because the Seller only provides notice of second or subsequent charge to some prior mortgagees, the Issuer is therefore exposed to the risk of discretionary further advances, or obligatory further advances of which the Seller was unaware, made by prior mortgagees (who have not been notified) ranking ahead of the relevant Mortgage Loan. The risk of discretionary further advances, or obligatory further advances of which the Seller was unaware, ranking ahead of any Mortgage Loans, in the absence of a notification being given to the prior mortgagee, is mitigated by the fact that it is market practice for prior mortgagees to check the Land Registry or Registers of Scotland before making any discretionary further advance to borrowers and, where a second or subsequent charge is indicated as being in existence, request that the second (or subsequent) mortgagee enter into a deed of priority or ranking agreement in Scotland (and references in this Prospectus to a "deed of priority" are to be read as a "ranking agreement" in relation to a Scottish Mortgage (prior to any discretionary further advance being granted) to give the prior mortgagee certainty that its discretionary further advance will have priority over the second (or subsequent) mortgage. This is because prior mortgagees will in practice be unable to definitively determine whether they have received a notice of charge from the Seller in the manner described above. The Seller may or may not agree to execute a deed of priority depending on the financial position of the Borrower at such time. If the Servicer (where the Servicer is OCL) (on behalf of the Seller and the Issuer) were to determine that it will grant an approval for a discretionary further advance to be made in respect of any Prior Mortgage and/or determine that it will execute any deed of priority subordinating a Mortgage Loan to any discretionary further advance, the Seller will be required to repurchase the Mortgage Loan and its Related Security pursuant to the terms of the Mortgage Sale Agreement and before approving a discretionary further advance in respect of a Prior Mortgage and/or before executing any deed of priority subordinating a Mortgage Loan to any discretionary further advance.

Notwithstanding the mitigants described above, if any discretionary further advance, or obligatory further advances of which the Seller was unaware, is made by a Prior Mortgagee in the absence of a notification being given to the Prior Mortgagee, the relevant Mortgage Loan will be subordinated to such discretionary or obligatory further advance irrespective of whether the Seller's consent has been obtained. If a discretionary further advance, or obligatory further advances of which the Seller was unaware, is made by a Prior Mortgagee in circumstances where the Seller has not entered into a deed of priority with the relevant Prior Mortgagee (and no notification has been provided to that Prior Mortgagee) this may change the Loan-to-Value Ratio of the relevant Mortgage Loan and increase the risk of loss on any enforcement of the relevant Mortgage Loan. This in turn may result in a reduction of the funds available to the Issuer for the repayment of the Notes.

In respect of any of the repurchase obligations described above, please see the risk factor above entitled "*Limitation of Seller's Liability*". In the case of the appointment of the Back-Up Servicer or any replacement servicer, the Back-Up Servicer (or any replacement servicer) will not consent to: (i) a Prior Mortgagee

making, sending an offer of or accepting an application for a further advance to a Borrower in excess of any pre-agreed drawable amounts; (ii) a Mortgage Loan Modification; or (iii) a Prior Mortgage Loan Transfer that is not a Permitted Loan Transfer.

*Prior Mortgages relating to Right To Buy Loans*

Properties sold under "right to buy schemes" governed by the Housing Act 1985 and the Housing Act 1996 (each as amended and updated from time to time) (in the case of English Mortgages) and the Housing (Scotland) Act 1987 (as amended by the Housing (Scotland) Act 2001 and as amended and updated from time to time) (in the case of Scottish Mortgages) (the "**Right To Buy Legislation**") are sold by the local authority or other social landlord at a discount to market value calculated in accordance with the Right To Buy Legislation. A purchaser must repay a proportion of the discount received or the resale price (the "**Resale Share**") if he or she sells the property within three years (or, in the cases where the right to buy was exercised in relation to properties in England and Wales after 18 January 2005, 5 years) (the "**RTB Disposal Period**").

Under the Right To Buy Legislation the local authority or other social landlord as vendor obtains a statutory charge (or, in the case of a property in Scotland, a standard security) over the property in respect of the contingent liability of the purchaser under the scheme to repay the Resale Share.

In Scotland, under the provisions of the Housing (Scotland) Act 1987 (the "**1987 Act**"), a standard security granted in respect of the Resale Share ranks immediately after (1) a standard security granted as security for a loan for the purchase of the property or sums advanced for the purpose of improvements to that property and (2) a standard security over the property granted as security for any other loan where the local authority or other social landlord has consented. The 1987 Act does not contain specific provisions obliging the local authority or social landlord to agree to the postponement of the discount security granted in respect of the Resale Share, but the point is specifically addressed and ranking established by the legislation which as noted specifically ranks any standard security granted in respect of the Resale Share behind security which is given in respect of a loan for the purchase or improvement of the property. In respect of loans given for any other purpose(s), it is necessary to approach the local authority or social landlord for consent to the security ranking prior to the discount security granted in respect of the Resale Share, although it should be noted that the 1987 Act does not oblige the local authority/social landlord to grant such consent.

In England the statutory charge ranks senior to other charges including that of a mortgage lender unless (i) the mortgage lender has extended the mortgage loan to the purchaser for the purpose of enabling him to exercise the right to buy or for "approved purposes" under the scheme (including refinancing loans made for the purpose of enabling the exercise of the right to buy and repair works to the property) and is an approved lending institution for the purposes of the Housing Act 1985 and the Housing Act 1996 or (ii) the relevant local authority or other social landlord issues a deed of postponement postponing its statutory charge to that of the mortgage lender. In the case of loans made for approved purposes, the statutory charge is only postponed if the relevant local authority or other social landlord agrees to the postponement but the relevant legislation obliges the relevant local authority or other social landlord to agree to the postponement. However, in practice the lender will need to provide evidence to the relevant local authority or other social landlord as to whether the mortgage loan was made for approved purposes.

As such, in the case of any Prior Mortgage that relates to a mortgage loan entered into by the relevant Borrower as a means to purchase, refinance or improve a residential property from a local authority or other social landlord under the Right To Buy Legislation (a "**Right To Buy Loan**"), any statutory charge (or, in the case of a property in Scotland, a standard security) of the local authority or other social landlord over the property, in respect of the contingent liability of the purchaser under the scheme to repay the Resale Share, may rank in priority to the Prior Mortgage and consequently the Mortgage which is the subject of the Mortgage Loan in the Mortgage Portfolio.

As the Seller does not advance funds for the purposes of property purchase, it is expected by the Issuer that most Borrowers with Prior Mortgages relating to Right To Buy Loans will have already experienced amortisation of the relevant Resale Share. In addition, once the time taken to repossess a property is also taken into account, it is expected that the Resale Share will have amortised still further by the time the relevant Property is finally disposed of. However, notwithstanding the above, in the case of any Prior Mortgages relating to Right To Buy Loans where the Resale Share has not fully amortised, any shortfall in the enforcement proceeds in respect of any Property will be borne by the Issuer in priority to both the Prior

Mortgagee and, in respect of the remaining Resale Share, any local authority or other social landlord. This may result in the Issuer having less amounts available for the repayment of the Notes than expected.

### ***Non-Owner Occupied Properties***

As of the Portfolio Reference Date, there are no Mortgage Loans in the Provisional Mortgage Portfolio which relate to non-owner occupied Properties in respect of which the Seller has agreed that the Property can be sub-let or is in the process of determining whether the Property can be sub-let (the "**Non-Owner Occupied Loans**"). The terms of the Mortgage Sale Agreement will permit the Seller to accept applications for Borrowers' sub-letting the related Properties in respect of the Mortgage Loans of up to one (1) per cent. of the aggregate Current Balance of all Mortgage Loans (see "*Summary of the Key Transaction Documents – Mortgage Sale Agreement – Representations and Warranties*" for more detail). Some of these may include changes that result in a Mortgage Loan becoming a Non-Owner Occupied Loan.

The process of enforcement of Non-Owner Occupied Loans may involve additional difficulties compared to those which may arise upon enforcement of other Mortgage Loans in the Mortgage Portfolio. For example, the Servicer may not be able to obtain, or may have additional difficulties in obtaining, vacant possession of the Property for reasons including that the relevant tenancy may not be an assured shorthold tenancy. In such cases, the Servicer will only be able to sell the Property (if it is otherwise permitted to do so, for which please also see the risk factor entitled "*Second or subsequent ranking Mortgages – Enforcement by the Servicer*" which describes specific enforcement issues in respect of second charge loans) 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 Property.

Enforcement procedures in relation to such Mortgages (excluding any Scottish Mortgages) include appointing a receiver of rent, in which case such a receiver must collect any rents payable in respect of the Property and apply them accordingly in payment of any interest and arrears accruing under the Mortgage Loan. Under Scots law, a receiver cannot be appointed under a standard security (the Scottish equivalent to a legal mortgage) and the only enforcement which may be carried out under a standard security is a full enforcement of the security (i.e. it cannot be enforced selectively by, for instance, attaching to rental income). Accordingly, in Scotland, any attempt to secure the rental flows will depend upon the enforcement of the standard security. In such an enforcement scenario, amounts received following the sale of the relevant Property or in rent may not be sufficient to cover all amounts due in respect of the Mortgage Loan.

Any of the above may lead to the reduction of amounts available to the Issuer and, ultimately, affect its ability to make payments under the Notes.

### ***Financial Services Compensation Scheme and "Help to Buy" Scheme not applicable***

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 protected claim under the UK Financial Services Compensation Scheme and accordingly, the Notes will not confer any entitlement to compensation under that scheme.

In March 2013, the UK Government announced the "Help to Buy" Scheme involving two separate proposals to assist home buyers. The first involves a shared equity loan made available by the UK Government to borrowers for the purchase of new homes. The shared equity loans became available from 1 April 2013. The second involves a guarantee provided by the UK Government for loans made to borrowers allowing up to a 95 per cent. loan-to-value ratio. The guarantee loans became available from 1 October 2013. A similar shared equity loan scheme is available in Scotland and administered by the Scottish Government. The Mortgage Loans in the Mortgage Portfolio do not benefit from any guarantee provided under the "Help to Buy" Scheme and no Mortgage Loan will have the benefit of any governmental guarantee or support or under the equivalent scheme in Scotland.

### ***Realisation of Charged Assets and Liquidity Risk***

The ability of the Issuer to redeem all the Notes in full and to pay amounts to the Noteholders including after the occurrence of an Event of Default, may depend upon whether the Mortgage Loans can be realised to obtain an amount sufficient to redeem the Notes. There is not at present an active and liquid secondary market in the United Kingdom for loans with characteristics similar to the Mortgage Loans. It may not,

therefore, be possible for the Issuer or, as the case may be, the Trustee or a Receiver to sell the Mortgage Loans on appropriate terms should such a course of action be required.

### ***Servicing of the Mortgage Loans and Reliance on Third Parties***

#### *The Servicer*

The Servicer will be appointed by the Issuer to administer the Mortgage Loans. In case the appointment of the Servicer as servicer is terminated in accordance with the provisions of the Servicing Agreement, the Back-Up Servicer is required to perform the Services in respect of the Mortgage Loans on the terms set out in the Servicing Agreement.

If the appointment of the Servicer is terminated in accordance with the provisions of the Servicing Agreement and the performance of the Services is assumed by the Back-Up Servicer in accordance with the terms of the Back-Up Servicing Agreement, the collection of payments on the Mortgage Loans and the provision of the Services could be disrupted during the transitional period in which the performance of the Services is transferred to the Back-Up Servicer. Any failure or delay in collection of payments on the relevant Mortgage Loans resulting from a disruption in the servicing of the Mortgage Loans could ultimately adversely affect payments of interest and principal on the Notes. A failure or delay in the performance of the services, in particular reporting obligations, could adversely affect the payments of interest and principal on the Notes.

The Servicer has the ability under the Servicing Agreement, in certain circumstances, to sub-contract its obligations. OCL's management is currently considering delegating the primary and special servicing functions of the Servicer following the completion of the sale of the Optimum Group (in respect of which see the section entitled "*The Seller, Retention Holder and Servicer*") to Pepper (UK) Limited's ("**Pepper**") servicing operations centre based in Uxbridge. The Servicing Agreement permits such delegation without the consent of the Issuer or the Trustee. Notwithstanding any such sub-contracting to any party or delegation of the performance of any of its obligations under the Servicing Agreement, the Servicer will remain responsible for the performance of such obligations under the Servicing Agreement.

OCL as Servicer expects to manage and minimise the risks of any potential disruption to servicing arising from this delegation in conjunction with Pepper. However, there can be no assurance that there will be no discontinuity or other interruption to the servicing, collection and reporting processes which may ultimately adversely affect payments of interest and principal on the Notes.

The Servicer has no obligation itself to advance payments that Borrowers fail to make in a timely fashion.

#### *The Back-Up Servicer*

If the appointment of the Back-Up Servicer is terminated or if the Back-Up Servicer is unable to perform the Services following a Servicer Termination Event, there can be no assurance that a replacement back-up servicer with sufficient experience of administering mortgages of residential properties would be found who would be willing and able to service the Mortgage Loans. In addition, as described below, any such substitute back-up servicer will be required to be authorised under the Financial Services and Markets Act 2000 in order to service Mortgage Loans that constitute Regulated Mortgage Contracts. The ability of any entity acting as a substitute back-up 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 back-up servicer may adversely affect payments on the Mortgage Loans and hence the Issuer's ability to make payments when due on the Notes.

The failure of the Back-Up Servicer to assume performance of the Services following the termination of the appointment of the Servicer as servicer in accordance with the Servicing Agreement could result in a failure or delay in collection of payments on the relevant Mortgage Loans and ultimately could adversely affect payments of interest and principal on the Notes. Similarly, if the Back-Up Servicer assumes performance of the Services as replacement Servicer, there can be no assurance that, if required, a replacement back-up servicer could be found. Such risks are mitigated by the provisions of the Servicing Agreement pursuant to which the Back-Up Servicer Facilitator shall: (a) use best efforts to identify, on behalf of the Issuer, (following a Servicer Termination Event) a suitable Replacement Servicer in circumstances where the Back-Up Servicer cannot be appointed; and (b) upon the occurrence of certain

events (such as the resignation of, or termination of the appointment of, the Back-Up Servicer), assist the Issuer in appointing a replacement Back-Up Servicer.

Neither the Back-Up Servicer nor the Back-Up Servicer Facilitator has any obligation itself to advance payments that Borrowers fail to make in a timely fashion.

#### *Reliance on Third Parties*

The Issuer is 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 Cash Manager under the Cash Management Agreement, the Issuer Account Bank under the Issuer Account Bank Agreement, the Principal Paying Agent, the Agent Bank and the Registrar under the Agency Agreement, the Swap Counterparty under the Swap Agreement and the Corporate Services Provider under the Corporate Services Agreement have all agreed to provide services with respect to the Notes. If any of the above parties (i) were to fail to perform their obligations under the respective agreements to which they are a party; or (ii) were to resign from their appointment; or (iii) if their appointment under the agreements to which they are a party were to be terminated in accordance with the terms of the Transaction Documents (in each case, without being replaced by a suitable replacement party that is able to perform such services, has at least the minimum required ratings and holds the required licences); or (iv) in the event of the insolvency of the Issuer Account Bank or the Collection Account Bank, the collections on the Mortgage Portfolio or the payments to the Noteholders may be disrupted or otherwise adversely affected, which, in turn, may negatively impact the value of the Notes and the ultimate return on the Notes. However, to an extent such risks are mitigated by provisions in the relevant agreements which stipulate that no resignation or termination of the relevant service provider will be effective unless a replacement service provider of certain required standing, with certain required qualifications, having at least the required ratings or holding the required licences (as applicable) is appointed in accordance with the terms of the relevant agreements.

#### *Insurance*

In line with the common practice for second charge lenders in the UK, the Seller does not check any insurance arrangements of the Borrowers on origination of the Mortgage Loans. In addition, the Seller does not have any insurance policies in its own name in respect of the Mortgage Portfolio. As a result, neither the Servicer nor the Issuer will have any recourse to any insurance provider in respect of the Mortgage Loans.

#### *Title of the Issuer*

Legal title to all of the Mortgage Loans and (subject in some cases to registration or recording at Her Majesty's Land Registry in England and Wales (the "**Land Registry**") or the Registers of Scotland) their related Mortgages are currently vested in the Seller.

Legal title to the Mortgage Loans and their related Mortgages will only be transferred to the Issuer in the limited circumstances described in the section entitled "*Assignment of the Mortgage Loans and Related Security*". Prior to the Issuer obtaining legal title to the Mortgage Loans, Mortgages and other Related Security, a *bona fide* purchaser from the Seller of any of such Mortgage Loans, Mortgages and other Related Security for value without notice of any of the interests of the Issuer or the Trustee might obtain a good title free of any such interest. However, the risk of third party claims obtaining priority to the interests of the Issuer or the Trustee in this way is likely to be limited to circumstances arising from a breach by the Seller of its contractual obligations or fraud, gross negligence or mistake on the part of the Seller or the Issuer or their respective personnel or agents.

Further, the rights of the Issuer and the Trustee may be or become subject to the direct rights of the Borrowers against the Seller. Such rights may include the rights of set-off which arise in relation to transactions made between certain Borrowers and the Seller and the right of the relevant Borrowers to redeem their Mortgage Loans by repaying the relevant Mortgage Loan directly to the Seller. These rights may result in the Issuer receiving less monies than anticipated from the Mortgage Loans. In respect of Scottish Mortgage Loans, references in this Prospectus to 'set-off' are to be read as references to analogous rights in Scotland.

Until the Issuer obtains legal title to the Mortgage Loans, their related Mortgages and the Related Security, the sale of the English Mortgage Loans and their related Mortgages and Related Security will take effect in



equity only. The sale of Scottish Mortgage Loans and their related Mortgages and Related Security will take effect as a contractual sale only on the Closing Date. The transfer of such Scottish Mortgage Loans and their related Mortgages from the Seller to the Issuer will be given effect by the Scottish Declaration of Trust (as described in the section entitled "*Assignment of the Mortgage Loans and Related Security*") by which the beneficial interest in such Scottish Mortgage Loans and their related Mortgages and Related Security will be granted in favour of the Issuer. The holding of a beneficial interest under a Scottish trust has (broadly) equivalent legal consequences in Scotland to the holding of an equitable interest in England and Wales, as described in the paragraph above (namely, the Issuer's interest in the property held on trust may become subject to the interests of *bona fide* third party purchasers who have perfected title to the relevant property). Similarly, prior to notice of the trust being given to a Borrower, there is a risk that the Borrower may exercise certain rights of set-off against the Seller.

In all cases, this means that in order for legal title to be transferred to the Issuer, transfers, conveyances, assignments and assignations would have to be registered or recorded at the Land Registry or the Registers of Scotland, as the case may be, and notice would have to be given to Borrowers of the transfer.

Further, unless (i) notice of the assignment was given to the Borrowers in respect of the English Mortgage Loans and their Related Security, and (ii) an assignation of the Scottish Mortgage Loans and their Related Security is effected by the Seller to the Issuer and notice thereof is then given to the Borrowers in respect of the Scottish Mortgage Loans and their Related Security, equitable or independent set-off rights may accrue in favour of any Borrower against his or her obligation to make payments to the Seller under the relevant Mortgage Loan. These rights may result in the Issuer receiving reduced payments on the Mortgage Loans. The transfer of the benefit of any Mortgage Loans to the Issuer will continue to be subject to any prior rights any applicable Borrower may become entitled to after the transfer. Where notice of the assignment or assignation is given to any Borrower, some rights of set-off may not arise after the date notice is given. For the purposes of this Prospectus, references herein to "set-off" shall be construed to include analogous rights in Scotland. For further information on the effects of set-off in relation to the Mortgage Portfolio, see "*Set-off may adversely affect the value of the Mortgage Portfolio or any part thereof*" below.

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

As described above, the sale by the Seller to the Issuer of the English Mortgage Loans and their Related Security will be given effect by an assignment, and the sale of the Scottish Mortgage Loans and their Related Security will be given effect under the Scottish Declaration of Trust. As a result, legal title to the Mortgage Loans and their Related Security sold by the Seller to the Issuer will remain with the Seller until the occurrence of a Perfection Event. Therefore, the rights of the Issuer may be subject to certain set-off rights which the relevant Borrower has against the Seller.

The Borrowers may be entitled to exercise certain independent or equitable set-off rights against the Issuer. Subject to the paragraphs below in relation to the crystallisation of Borrowers' rights of set-off following receipt of notice of assignment, independent set-off will arise in connection with transactions that are unconnected with the relevant Borrower's Mortgage Loan. Generally, an independent right of set-off could include, but is not limited to, claims by a Borrower for unpaid wages or pension liabilities (though the Seller will represent and warrant that the Borrowers are not employees of the Seller). An independent right of set-off could also arise where the Seller of the Mortgage Loans is a credit institution and the relevant borrower holds an unconnected savings or deposit account with such Seller. However, the Seller is not a deposit-taking institution and is not authorised to hold client money as at the date of this Prospectus.

Equitable set-off rights may arise in connection with a transaction connected with a Mortgage Loan. An equitable right of set-off could arise where the Seller is in breach of contract under the relevant Mortgage Loan.

Once notice has been given to the Borrowers of the assignment or assignation of the Mortgage Loans and their Related Security to the Issuer, independent set-off rights which a Borrower has against the Seller will crystallise, 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*" (being those set-off claims arising out of a transaction connected with the Mortgage Loan) will not be affected by that notice and will continue to exist.

The relevant Borrower may set-off any claim for damages arising from the Seller's breach of contract against the Seller and the Issuer's (as equitable assignee of or holder of the beneficial interest in or

beneficiary in respect of the Mortgage Loans and their Related Security) claim for payment of principal and/or interest under the relevant Mortgage Loan as and when it becomes due. These set-off claims will constitute transaction set-off, as described above.

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

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

The exercise of set-off rights by Borrowers may adversely affect the timing of receipt and ultimate amount received by the Issuer in respect of the relevant Mortgage Loans, and accordingly the realisable value of the Mortgage Portfolio and/or the ability of the Issuer to make payments under the Notes.

## **Regulatory Considerations**

### ***Risks relating to the discontinuation of LIBOR***

The interest rate to be borne by the Notes will be determined by reference to the LIBOR. LIBOR rates are the subject of ongoing national and international reform by, amongst others, the ICE Benchmark Administration Limited, the Bank of England and the FCA. Following the implementation of any reforms, the manner of administration and determination of LIBOR may change, with the result that LIBOR may perform differently from how it performed in the past, it could be eliminated entirely, and/or there could be other consequences which cannot be predicted.

Additionally, the sustainability of LIBOR has been questioned by the FCA as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, the chief executive of the FCA announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcement**"). The FCA Announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. These reforms and other pressures may cause one or more interest rate benchmarks to disappear entirely, to perform differently than in the past (as a result of a change in methodology or otherwise), create disincentives for market participants to continue to administer or participate in certain benchmarks or have other consequences which cannot be predicted.

In particular, potential investors should be aware that:

- (i) any of these reforms or pressures described above or any other changes to a relevant interest rate benchmark (including LIBOR) could affect the level of the published rate, including to cause it to be lower and/or more volatile than it would otherwise be;
- (ii) if LIBOR is discontinued or otherwise unavailable and an amendment as described in paragraph (iii) below has not been made, then the rate of interest on the Notes will be determined for a period by the fall-back provisions provided for under Condition 6.3 (*Rate of Interest*), although such provisions, being dependent in part upon the provision by Reference Banks of offered quotations for the LIBOR rate, may not operate as intended (depending on market circumstances and the availability of rates information at the relevant time) and may result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR was available; and
- (iii) while an amendment may be made under Condition 14 (*Base Rate Modification*) to change the LIBOR rate on the Notes to an alternative base rate under certain circumstances broadly related to LIBOR disruption or discontinuation and subject to certain conditions including no objection to the proposal being received by at least 10 per cent. of Noteholders of the aggregate Principal

Amount Outstanding of the Most Senior Class of Notes then outstanding (in this regard please also refer to the risk factor above entitled "*Meetings of Noteholders, Modifications and Waiver*"), there can be no assurance that any such amendment will be made or, if made, that it will (i) fully or effectively mitigate interest rate risks or result in an equivalent methodology for determining the interest rates on the Notes or (ii) be made prior to any date on which any of the risks described in this risk factor may become relevant.

Investors should note the various circumstances under which a Base Rate Modification may be made which are specified in sub-paragraphs (i) to (ix) of Condition 14.1(a) (*Base Rate Modification*). As noted above these events broadly relate to LIBOR's disruption or discontinuation, but also include, *inter alia*, any public statements by the LIBOR administrator or its supervisor to that effect, and a Base Rate Modification may also be made if the Issuer or the Servicer on behalf of the Issuer, reasonably expects any of these events to occur within six months of the proposed effective date of such Base Rate Modification. Investors should also note the various options permitted as an Alternative Base Rate as set out in sub-paragraphs (b)(i) to (iii) of Condition 14.1 (*Base Rate Modification*), which include, *inter alia*, a base rate with an equivalent term utilised in a material number of publicly-listed new issues of asset backed floating rate notes denominated in sterling in the six months prior to the proposed effective date of such Base Rate Modification.

The potential elimination of LIBOR or any other benchmark, changes in the manner of administration of any benchmark, establishment of alternative reference rates and any other LIBOR reforms could require adjustments to be made to the terms and conditions, or result in other consequences, in respect of any Notes linked to such benchmark. Prospective investors should be aware that these consequences could have a material adverse effect on the marketability of the Notes or on the value of and return on the Notes.

If LIBOR or any other relevant interest rate benchmark is discontinued, and whether or not an amendment is made under Condition 14 (*Base Rate Modification*) to change the base rate with respect to the Notes as described in the section entitled "*Meetings of Noteholders, Modification and Waiver*", there can be no assurance that either (i) any modifications the Issuer agrees to make to the Swap Agreement to change the base rate pursuant to Clause 17 of the Trust Deed; or (ii) if the Issuer fails to make such modifications under (i), the applicable fall-back provisions under the Swap Agreement, would operate to allow the transactions under the Swap Agreement to effectively mitigate interest rate risk in respect of the Notes.

In addition, it should be noted that broadly divergent interest rate calculation methodologies may develop and apply as between the Mortgage Loans, the Notes and/or the Swap Agreement due to applicable fall-back provisions or other matters and the effects of this are uncertain but could include a reduction (or an insufficient increase) in the amounts available to the Issuer to meet its payment obligations in respect of the Notes.

Further, any uncertainty with respect to LIBOR may have an impact upon the rate of interest payable on the Optimum Base Rate Mortgage Loans. Such uncertainty may adversely affect the interest payable on some of the underlying Mortgage Loans.

### ***General regulatory considerations***

No assurance can be given that any relevant regulatory authority will not in the future take action or that future adverse regulatory developments will not arise with regard to the mortgage market in the United Kingdom, either generally or specifically in relation to the Seller or the Servicer. Any such action or developments may have a material adverse effect on the Mortgage Loans, the Seller, the Issuer or the Servicer and their respective businesses and operations. In particular, the cost of compliance with any such regulation, action or requirement may adversely affect the ability of the Issuer to meet its financial obligations under the Transaction Documents and the Notes.

### ***Certain regulatory considerations***

#### ***Regulation of Mortgage Business***

The Financial Services and Markets Act 2000 ("**FSMA**") regulates financial services in the United Kingdom. The FSMA states that no person may carry on a regulated activity in the United Kingdom, or purport to do so, unless he is an authorised person or an exempt person. Subject to certain exclusions, entering into, arranging or advising in respect of or administering Regulated Mortgage Contracts (or

agreeing to do any of these things) are regulated activities under the FSMA requiring either authorisation from the Financial Conduct Authority or a legal exemption.

Regulation of residential mortgage business under the FSMA came into force on 31 October 2004 (the "**Mortgage Regulation Date**").

On 1 April 2013, following amendments made to the FSMA by the Financial Services Act 2012, many functions of the Financial Services Authority (the "**FSA**") were transferred to the FCA and the Prudential Regulation Authority (the "**PRA**"). Under the new structure, the FCA has taken over, amongst other things, the FSA's responsibility for the authorisation and supervision of persons carrying on specified regulated mortgage-related activities under the FSMA.

The PRA is responsible for the prudential supervision of deposit takers, insurers and a small number of significant investment firms. Depending on the scope of a firm's authorisation and permissions, firms involved in the residential mortgage market may be regulated by both authorities (in which case they will be known as dual-regulated firms) or by the FCA only. Firms authorised by the FSA prior to 1 April 2013 had their authorisations transferred to the relevant authorities and did not need to apply for new authorisations.

The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (as amended) (the "**Regulated Activities Order**") provides that after the Mortgage Regulation Date the following four activities will be regulated activities under the FSMA:

- (a) entering into as lender;
- (b) in certain circumstances administering;
- (c) arranging; and
- (d) advising on a regulated mortgage contract.

Agreeing to carry on any of these activities will also be a regulated activity.

A contract is a "**Regulated Mortgage Contract**" for the purposes of the Regulated Activities Order if it is originated after the Mortgage Regulation Date, or originated prior to the Mortgage Regulation Date but varied after the Mortgage Regulation Date such as that a new contract is entered into, and at the time it is entered into, (i) the contract is one under which the lender provides credit to an individual or to trustees (the "**borrower**"), (ii) the contract provides for the repayment obligation of the borrower to be secured by a mortgage on land in the EEA (as amended by the Mortgage Credit Directive with effect from 21 March 2016) and (iii) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

For the purpose of the above categorisation, under the Regulated Activities Order, a "related person" is defined as meaning the borrower's spouse, civil partner, parent, brother, sister, child, grandparent or grandchild or a person (whether or not of the opposite sex) whose relationship with the borrower has the characteristics of the relationship between husband and wife.

The Regulated Activities Order sets out certain exclusions to these provisions. Among other things, these exclusions state that a person who is not an authorised person does not carry on the regulated activity of administering a Regulated Mortgage Contract where he (i) arranges for another person, being an authorised person with permission to carry on an activity of that kind, to administer the contract or (ii) administers the contract himself during a period of not more than one month beginning with the day on which any such arrangement comes to an end.

If requirements as to the 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.

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 a rule made under the FSMA, including those in The FCA's Mortgages and Home Finance: Conduct of Business sourcebook (as amended, "MCOB"). The borrower may set-off the amount of the claim against the lender for contravention of MCOB against the amount owing by the borrower under the loan or any other loan that the borrower has taken with the lender (or exercise analogous rights in Scotland). Any such set-off may adversely affect the Issuer's ability to make payments on the Notes.

The MCOB, which sets out rules under the FSMA for regulated mortgage activities, was published on 31 October 2004. These rules cover, *inter alia*, certain pre-origination matters such as financial promotion and pre-application illustrations, pre-contract and start-of-contract and post-contract disclosure, contract changes, charges and arrears and repossessions.

In June 2010, the FSA made changes to MCOB which effectively converted previous guidance on the policies and procedures to be applied by authorised firms with respect to forbearance in the context of Regulated Mortgage Contracts into formal mandatory rules. Under the new rules, a firm is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed and, in complying with such restriction, a firm is required to consider whether, given the relevant borrower's circumstances, it is appropriate to take certain actions. Such actions refer to (amongst other things) the extension of the term of the mortgage, product type changes and deferral of interest payments. As a result, MCOB may operate in certain circumstances to require the Servicer to take certain forbearance-related actions which do not comply with the Transaction Documents (and, in particular, the asset servicing arrangements contemplated by such Transaction Documents) in respect of one or more Mortgage Loans. No assurance can be made that any such actions will not impact adversely on the Issuer's ability to make payments on the Notes and the Servicer will not be liable for taking such actions, although the impact of this will depend on the number of Mortgage Loans which involve a Borrower who experiences payment difficulties.

As a general rule, it is intended that Regulated Mortgage Contracts are not within the scope of the Consumer Credit Act 1974, as amended (the "CCA").

As a result of the definition of Regulated Mortgage Contract expanding to include second charge mortgages, from 21 March 2016 the Mortgage Credit Directive applies equally to first and second charge mortgages and the regulation of second charge mortgages moved from the FCA's consumer credit regime to the FCA's mortgage regime (see "*Second Charge Mortgage Regime*" below).

The Mortgage Portfolio to be sold to the Issuer on the Closing Date and the Additional Mortgage Portfolio to be sold to the Issuer on the Further Sale Date will not contain Mortgage Loans that will be regulated by the FCA's consumer credit regime. Where a credit agreement is regulated by the CCA or treated as such, any failure to comply with the detailed requirements of the CCA and associated regulations may render the contract unenforceable (in some cases without a court order).

The Seller, the Servicer and the Back-Up Servicer are each authorised and hold the permissions necessary to enter into and to administer Regulated Mortgage Contracts. Subject to certain exemptions, brokers are required to be authorised to arrange and, where applicable, to advise in respect of Regulated Mortgage Contracts.

In addition, the Issuer is not required to be authorised by the FCA under Part 4A of the FSMA in order to hold beneficial title to the Mortgage Loans. As at the Closing Date the Issuer will only hold beneficial title to the Mortgage Loans.

The Issuer does not carry on the regulated activity of administering Regulated Mortgage Contracts by appointing the Servicer (which has the required authorisation and permission under the FSMA) to administer them pursuant to a servicing agreement. If the Servicing Agreement terminates, however, the Issuer will have a period of one month in which to arrange for the Mortgage Loans to be administered by a replacement servicer having the required FSMA's authorisation and permission.

However, in the event that a Mortgage Loan is varied, such that a new contract is entered into and that contract constitutes a Regulated Mortgage Contract, then the arrangement of, advice on, administration of and entering into of such variation would need to be carried out by an appropriately authorised entity. In addition, on and after the Mortgage Regulation Date, no variation has been or will be made to the Mortgage

Loans where it would result in the Issuer arranging or advising in respect of, administering or entering into a Regulated Mortgage Contract or agreeing to carry on any of these activities, if the Issuer would be required to be authorised under the FSMA to do so.

The Seller will give certain warranties to the Issuer in the Mortgage Sale Agreement that, among other things, each Mortgage Loan and its Related Security is enforceable (subject to certain exceptions). If a Mortgage Loan or its Related Security does not comply with these warranties, and if the default (if capable of remedy) cannot be or is not cured within the time periods specified in the Mortgage Sale Agreement, then the Seller will, upon receipt of notice from the Issuer, and subject to the expiry of applicable cure periods, be liable to repurchase the relevant Mortgage Loans and their Related Security from the Issuer or alternatively indemnify (if applicable) the Issuer in accordance with the Mortgage Sale Agreement.

#### *Expansion of MCOB*

In October 2009, the FSA launched a wide-ranging mortgage market review ("**MMR**") and in October 2012, it published a policy statement setting out amendments to the FSA Handbook in relation to the results of the MMR. Those amendments came into force in April 2014.

The FCA started to track firms' progress towards implementation of the MMR from the second quarter of 2013, and mortgages entered into on or after 26 April 2014 must comply with these new rules. The rules apply to a Mortgage Loan where (i) it is entered into on or after 26 April 2014; or (ii) where it is varied so as to increase the principal amount outstanding under the relevant Mortgage Loan (for example, by way of further advance) on or after 26 April 2014, and in each case provided MCOB applies to the Mortgage Loan generally as a Regulated Mortgage Contract. To the extent that further advances are made which constitute new Mortgage Loans, or a Mortgage Loan is varied and in so doing a new Mortgage Loan is created under the new terms and such Mortgage Loan is a Regulated Mortgage Contract, then these new rules would apply.

The MMR changes impacted on both Regulated Mortgage Contract lenders and intermediaries. For lenders, the principal changes focused upon responsible lending and include:

- more thorough verification of borrowers' income (no self-certification of income, mandatory third party evidence of income required);
- assessments of affordability of interest-only loans on a capital and interest basis unless there is a clearly understood and believable alternative source of capital repayment;
- application of interest rate stress-tests – lenders must consider likely interest rate movements over a minimum period of 5 years from the start of the mortgage term;
- when making underwriting assessments lenders must take account of future changes to income and expenditure that a lender knows of or should have been aware of from information gathered in the application process; and
- lenders may base their assessment of customers' income on actual expected retirement age rather than state pension age. Lenders will be expected to assess income into retirement to judge whether the affordability tests can be met.

In March 2016, the implementation of the Mortgage Credit Directive (the "**MCD**") moved second charge mortgage regulation from the FCA's consumer credit regime into the mortgage regime. Following the implementation of the MCD, the FCA conducted a review to determine how lenders have adapted to the responsible lending requirements contained in Chapter 11 and Chapter 11A of the MCOB and, where relevant, how lenders are complying with the Senior Management and Arrangements, Systems and Controls (the "**SYSC**") module of the FCA handbook.

The FCA reviewed a number of lenders' process for lending, policy documents and individual lending files. The review also extended to the lenders' systems and controls that could affect their ability to lend responsibly.

On 1 March 2018, the FCA published a 'Dear CEO' letter concerning second charge mortgages and responsible lending.

The letter requires lenders, who enter into second charge mortgage contracts, to review their mortgage lending processes to ensure that they are lending responsibly.

The FCA identified significant concerns and found a number of poor practices that led it to conclude that second charge lenders might not always be lending responsibly, leading to potential customer harm. The following highlights cover the main documented areas of concern:

(a) *Overall affordability assessment*

The review found that all lenders in the FCA's sample had attempted to adapt their pre-existing practices by adding an affordability calculation to ensure compliance with MCOB. However, there were examples of practices where some lenders were not basing lending decisions on income and expenditure assessments. The FCA's view is that it is not sufficient to base lending solely on equity, debt to income ratios or income multiples.

The review also found that income and expenditure calculations, sometimes, produced disposable income figures that did not seem plausible when considering an applicant's credit profile.

(b) *Income assessment*

The FCA generally noticed good practices with relation to income assessments for customers in employment. However, with regards to income assessments of self-employed customers, it noted that income assessments were handled poorly. In some cases, the FCA was unable to identify where an underwriter had obtained figures used for net income. It also found evidence that lenders were not always taking account of tax and national insurance deductions. Furthermore, accountant certificates were accepted even where the figures were not plausible, and lenders had not challenged these certificates in such instances.

(c) *Expenditure assessment*

Most lenders use some form of statistical modelling to calculate basic essential expenditure and basic living costs. Lenders must be able to show that the data they have used are likely to produce a realistic representation of the customer's monthly expenditure. The FCA found that lenders are not always using realistic assumptions, a practice that was highlighted when customers were consolidating credit card account and overdrafts which were consistently near to or at their limit.

Further, several lenders used the Office for National Statistics data. However, it was not always clear when the figures used had been last updated or reviewed.

There was also a lack of controls in place to identify where the use of modelling statistics had produced a figure that was not plausible or appropriate to the customer's profile which needed to be considered individually. This was most obvious in the figures used for housekeeping (food and washing), essential travel costs, as well as a number of areas of the basic quality of living costs.

(d) *Oversight arrangements*

Some lenders' quality and assurance and oversight arrangements were noted to not be fully capable of identifying unaffordable loans and associated risks. The review also highlighted a number of issues which lenders were unaware of and which they should have identified with more robust oversight. Some of the oversight arrangements that were identified were overly operationally focused; for example, establishing whether documents had been sent out or received, without monitoring the effectiveness of the lenders' affordability assessment.

(e) *Financial crimes*

SYSC 3.2.6 requires lenders to take reasonable care to establish and maintain effective systems and controls to counter them being used as a vehicle for financial crimes. The FCA's review found that some second charge lenders are ready to accept supporting documents at face value, without carrying out further due diligence or authenticity checks. This could lead to such lenders being implicated in financial crimes.

The FCA also identified instances in which lenders were vulnerable to fraud by accepting evidence of income that could easily be manipulated by the customer. If the FCA identifies that a lender's systems and controls have failed to such an extent that it is unable to protect itself from becoming a party to financial crimes, the FCA will consider taking action against the lender and its senior management.

As a result of the publication of the Dear CEO letter, the Seller has conducted a review to assess whether its procedures, systems and controls are suitable to ensure that it is lending responsibly.

On 16 May 2016, the FCA published a report (TR16/4: Embedding the Mortgage Market Review: Responsible Lending Review) which summarised the key findings of the FCA's market-wide thematic review of how firms were applying the responsible lending rules introduced in April 2014 as a result of the MMR. The report contained the following messages to lenders:

1. lenders need to develop their affordability assessment processes and ensure that each aspect of their affordability assessment is adequate and appropriate to the circumstances of the borrowers;
2. lenders need to verify the borrowers' income accurately;
3. when relying on modelled expenditure, the lenders need to assure themselves that the figures are based on realistic assumptions;
4. when considering the effect of expected future interest rate changes, the lenders must have regard to both market expectations and any prevailing Financial Policy Committee's recommendation. They also need to be able to clearly justify the basis used with reference to both;
5. the record keeping for lending decisions needs to improve; and
6. lenders need to ensure they can demonstrate how they assess affordability in each individual case.

There are also significant changes to mortgage distribution and advice requirements in sales, arrears management and requirements on contract variations, such as when additional borrowing is requested.

To the extent that the MMR (through MCOB) does apply to any of the Mortgage Loans, failure to comply with these rules may entitle a Borrower to claim damages for loss suffered or set-off the amount of the claim against the amount owing under the Mortgage Loan. Any such claim or set-off may adversely affect the Issuer's ability to make payments under the Notes.

#### *Financial promotions regime*

The regime under the FSMA regulating financial promotions covers the content and manner of the promotion of agreements relating to qualifying credit and by whom such promotions can be issued or approved. In this respect, the FSMA financial promotions 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 carries on the regulated activity of entering into a Regulated Mortgage Contract. Failure to comply with the financial promotion regime (as regards who can issue or approve promotions) is a criminal offence and renders the Regulated Mortgage Contract or other secured credit agreement in question unenforceable against the borrower except with the approval of a court.

#### *Second Charge Mortgage Regime*

The Mortgage Loans consist of second charge (and in, some cases, subsequent charge) loans. None of the Mortgage Loans were entered into before 21 March 2016 (and therefore there are no Mortgage Loans in the Provisional Mortgage Portfolio that are subject to the CCA). The Mortgage Loans will be subject to FSMA regulated mortgages regime (see "*Regulation of Mortgage Business*" above).

It is worth noting that before the UK transposed the Mortgage Credit Directive on 21 March 2016 through the MCD Order, second charge mortgages were regulated under the FCA's consumer credit regime. As the Mortgage Credit Directive applies equally to first and second charge mortgages, the regulation of second charge mortgages has now been brought under the FCA's mortgage regime. The FCA has applied most elements of the existing mortgage regime to second charge mortgages, therefore most MCOB provisions



will apply to second charge mortgages unless the FCA specifically disapplies a provision.

The FCA's rules and guidance for second charge mortgages relate to matters including but not limited to disclosure, advising and selling standards, responsible lending, contract variations, fees, payments shortfalls and repossessions and general conduct of business standards.

*Disclosure:* the FCA applied existing MCOB requirements around service disclosure to second charge mortgages. Firms are required to make an initial disclosure covering two key messages about scope of services and remuneration. In addition the FCA requires a third key message to highlight the range of alternative borrowing choices that may be available. These key messages must be clear and prominent and made orally where there is spoken contact with the consumer. Firms must provide consumers (early in the sales process) with a "European standard information sheet" which is a prescribed and standardised product disclosure document and was not previously required in the second charge mortgage market. A firm must provide consumers with an adequate explanation of the product disclosures they have made, the essential features of the product, any ancillary products and the impact on the consumer, including the consequences of a default. Lenders must also provide a copy of their tariff of charges so consumers know in advance the standard fees that might apply to their mortgage. The FCA applied the same offer stage disclosure requirements for second charge mortgages as for first charge mortgages. Firms are required to confirm key details at the start of a mortgage contract, send an annual statement to customers, where there are joint borrowers, firms must address communications under MCOB to all parties jointly and second charge firms must make greater use of contract variations. In addition, the existing MCOB rules relating to the notification of arrears apply.

*Advising and selling standards:* before 21 March 2016, there was no concept of regulated advice in the second charge market as all mortgages were sold on a non-advised basis. The FCA applied the same approach to advising and selling standards to second charge mortgages as it does to first charge mortgages.

*Responsible lending:* the FCA implemented the Mortgage Credit Directive creditworthiness assessment through its MCOB affordability rules for first charge mortgages and adopted the same approach for second charge mortgages. The MCOB affordability rules require lenders to take account of future interest rate rises when assessing affordability. The FCA applied this approach to second charge mortgages and in addition, second charge lenders are required to stress test affordability for higher ranking secured loans. For second charge debt consolidation mortgages, lenders are required to either take reasonable steps to ensure the consolidated debts are repaid, or include them in the affordability assessment as if they were not repaid.

*Fees:* automatically rolling-up fees and charges into loans is prohibited. A fee or charge can only be rolled-up where a customer has made a positive choice to do so. MCOB rules on early repayment charges and excessive charges apply to second charge mortgages. MCOB rules on payment difficulties apply to second charge mortgages which replace the previous consumer credit requirements in Chapter 7 of CONC.

The FCA has applied provisions relating to payment shortfalls and repossessions and general conduct of business standards in their entirety to second charge mortgages.

#### ***Powers to Make Temporary Product Interventions***

The FCA has the power to render unenforceable contracts which are made in contravention of its product intervention rules. The FCA has the power to make product intervention rules under section 137D of the FSMA, prohibiting authorised persons from taking a number of actions, including entering into specified contracts with any person or with a specified person. The FCA is normally obliged to consult the public and prepare a cost-benefit analysis before making any rules, but there is an exemption to this requirement which allows the FCA to make temporary product intervention rules ("**TPIRs**") without consultation, if it considers that the delay involved in complying with the requirement to consult would be prejudicial to the interests of the consumer (see section 138L of FSMA). The FCA can also make TPIRs without consultation if it considers that it is necessary or expedient to do so in order to: (i) advance the consumer protection objective, (ii) advance the competition objective or (iii) protect market integrity (see section 138M of FSMA). The TPIRs are intended to offer protection to consumers in the short term whilst either the FCA or the industry develop more permanent solutions and, in any event, are limited to a maximum duration of 12 months.

In relation to agreements entered into in breach of a product intervention rule (including a TPIR), the FCA's rules may provide for (i) the relevant agreement or obligation to be unenforceable; (ii) the recovery of any

money or other property paid or transferred under the agreement; or (iii) the payment of compensation for any loss sustained under the relevant agreement or obligation.

### ***Consumer Rights Act 2015***

The Consumer Rights Act 2015 ("**CRA**") came into force on 1 October 2015. The CRA significantly reforms and consolidates consumer law in the UK. The CRA involves the creation of a single regime out of the Unfair Contract Terms Act 1977 (which essentially deals with attempts to limit liability for breach of contract) and the UTCCR and has revoked the UTCCR. The amendments introduced by the CRA primarily concern the scope of the unfair contract terms protections, rather than their substance, as well as codifying certain case law developments concerning unfair contract terms. One significant amendment introduced under the CRA is an express requirement on the court to consider the fairness of the terms in a consumer contract, where it has sufficient legal and factual information to do so, even where this is not an issue between the parties in that particular case.

Under Part 2 of the CRA an unfair term of a consumer contract (a contract between a trader and a consumer) is not binding on a consumer (an individual acting for purposes that are wholly or mainly outside that individual's trade, business, craft or profession). Additionally, an unfair notice is not binding on a consumer, although a consumer may rely on the term or notice if the consumer chooses to do so. A term will be unfair where, contrary to the requirement of good faith, it causes significant imbalance in the parties' rights and obligations under the contract to the detriment of the consumer. In determining whether a term is fair, it is necessary to: (i) take into account the nature of the subject matter of the contract; (ii) refer to all the circumstances existing when the term was agreed; and (iii) refer to all of the other terms of the contract or any other contract on which it depends.

Schedule 2 contains an indicative and non-exhaustive "grey list" of terms of consumer contracts that may be regarded as unfair. Notably, paragraph 11 lists "a term which has the object or effect of enabling the trader to alter the terms of the contract unilaterally without a valid reason which is specified in the contract". However paragraph 22 provides that this does not include a term by which a supplier of financial services reserves the right to alter the rate of interest payable or due to the consumer, or the amount of other charges for financial services, without notice where there is a valid reason provided that the supplier is required to inform the consumer of the alteration at the earliest opportunity and the consumer is free to dissolve the contract immediately.

A term in a consumer contract may not be assessed for fairness to the extent that (i) it specifies the main subject matter of the contract; and/or (ii) the assessment is of the appropriateness of the price payable under the contract by comparison with the goods, digital content or services supplied under it; unless it appears on the "grey list" referenced above. A trader must ensure that a written term of a consumer contract, or a consumer notice in writing, is transparent i.e. that it is expressed in plain and intelligible language and is legible.

Where a term of a consumer contract is "unfair" it will not bind the consumer. However, the remainder of the contract, will, so far as practicable, continue to have effect in every other respect. Where a term in a consumer contract is capable of multiple different meanings, the meaning most favourable to the consumer will prevail. It is the duty of the court to consider the fairness of any given term. This can be done even where neither of the parties to proceedings have explicitly raised the issue of fairness.

The CMA has published guidance on its understanding of the provisions in the CRA relating to unfair contract terms and notices (CMA37: Unfair contract terms guidance - guidance on the unfair terms provisions in the Consumer Rights Act 2015). The Unfair Contract Terms Regulatory Guide ("**UNFCOG**") in the FCA Handbook explains the FCA's policy on how it uses its formal powers under the CRA. Previous versions of the guidance explain the FCA's policy in relation to the UTCCR.

Although the new regime does not differ significantly from the regime under the UTCCR, this is a rapidly developing area of law. No assurance can be given that any changes in legislation, guidance or case law on unfair terms will not have a material adverse effect on the Seller, the Servicer, the Issuer and their respective businesses and operations. There can be no assurance that any such changes (including changes in regulators' responsibilities) will not affect the Mortgage Loans that were entered into after 1 October 2015.

### *Financial Ombudsman Service*

Under the FSMA, the Financial Ombudsman Service (the "**Ombudsman**") is required to make decisions on (among other things), complaints relating to activities and transactions under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all circumstances of the case taking into account (among other things), law and guidance.

Complaints brought before the Ombudsman for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Ombudsman.

The Seller may not be aware that a complaint has been made to the Ombudsman until it is notified of such complaint. Further, the Mortgage Loans may from time to time be the subject of a complaint where the basis of such complaint does not pertain to the validity or enforceability of such Mortgage Loan and does not affect the ability of the Legal Title Holder to collect payments due in respect of such Mortgage Loan. However, as the Ombudsman is required to make decisions on the basis of, among other things, the principles of fairness, and may order a monetary award to a complaining borrower, it is not possible to predict how any future decision of the Ombudsman would affect the ability of the Issuer to make payments to Noteholders.

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

The Unfair Commercial Practices Directive (Directive 2005/29/EC) (as amended, "**UCP**"), which took effect on 11 May 2005, seeks to regulate unfair commercial practices across the EU by establishing rules for the protection of consumers. The UCP applies on a full harmonisation basis. This means member states of the European Union may not impose more stringent provisions in the fields to which full harmonisation applies. By way of exception, the UCP permits member states of the European Union to impose more stringent provisions in the fields of financial services and immovable property, such as mortgage loans. The UCP provided for a transitional period until 12 June 2013 for applying full harmonisation in the fields to which it applies.

The UCP applies to all consumer contracts and contains a wide prohibition on "unfair commercial practices" with examples of practices which would violate this principle by virtue of being "misleading" or "aggressive" including the dissemination of false information at any stage of the relationship or conduct involving harassment, coercion or undue influence.

In the UK the UCP was implemented through the Consumer Protection from Unfair Trading Regulations 2008 (as amended, the "**CPUTR**"), which came into force on 26 May 2008. Under the CPUTR, whilst engaging in an "unfair" commercial practice does not render a contract void or unenforceable, to do so is an offence punishable by a fine and/or imprisonment. Consequently, there is a risk that breach of the CPUTR would initiate intervention by a regulator and may lead to criminal sanctions.

The Law Commission and the Scottish Law Commission reviewed the current private law in this area and found it to be fragmented and unclear. On 28 March 2012 the Law Commission and the Scottish Law Commission published a joint report entitled "Consumer Redress for Misleading and Aggressive Practices", which sets out recommendations for reform.

On 14 March 2013, the European Commission published the results of its review on the application of the UCP. The European Commission does not propose amending the UCP but has indicated that intensified national enforcement and reinforced cooperation in cross-border enforcement are needed. Going forward the European Commission will consider how it can play a more active role in enforcement and will continue to perform in-depth reviews of how the UCP works in practice.

In 2014, the Consumer Protection (Amendment Regulations), amended the CPUTR by introducing new provisions giving consumers a right of redress against traders from committing certain prohibited practices.

On 14 March 2013 the European Commission published the results of its review on the application of the application of the UCP. The European Commission does not propose amending the UCP but has indicated that intensified national enforcement and reinforced cooperation in cross-border enforcement are needed. Going forward the European Union will consider how it can play a more active role in enforcement and will continue to perform in-depth reviews of how the UCP works in practice.

In 2014, the Consumer Protection (Amendment Regulations), amended the CPUTR by introducing new provisions giving consumers a right of redress against traders from committing certain prohibited practices.

There remains a risk that the CPUTR could adversely affect the ability of the Issuer to make payments on the Notes.

### ***Repossessions policy***

The Pre-Action Protocol for Possession Claims based on Mortgage or Home Purchase Plan Arrears in Respect of Residential Property ("**Protocol**") came into force on 19 November 2008 and was last amended on 6 April 2015.

The Protocol applies to arrears on (*inter alia*) first charge residential mortgages regulated by the FCA under FSMA, second charge mortgages over residential property and other secured loans regulated under the CCA on residential property and unregulated residential mortgages.

In response to this, a number of mortgage lenders confirmed that they will delay the initiation of repossession action for at least three (or, in the case of some lenders, six) months after a borrower, who is an owner-occupier, is in arrears. The application of such a moratorium is subject to the wishes of the relevant borrower and may not apply in cases of fraud. The Protocol is addressed to residential mortgage lenders and may have adverse effects in markets experiencing above average levels of possession claims. In addition, the Mortgage Repossession (Protection of Tenants etc) Act 2010 (the "**Repossession Act 2010**") came into force in England and Wales in October 2010. The act introduced powers for courts hearing a mortgage repossession case where the property is occupied by unauthorised tenants, including powers to delay a repossession order and suspend a warrant of eviction on application by an unauthorised tenant. In addition, under the Protocol the lender must consider whether to postpone the start of a possession claim where the borrower has made a genuine complaint to the Financial Ombudsman Service about the potential possession claim.

Certain rules in Chapter 13 of MCOB which came into force on 25 June 2010 prevent, in relation to Regulated Mortgage Contracts: (a) repossessing the property unless all other reasonable attempts to resolve the position have failed, which include considering whether it is appropriate to offer an extension of term or a product switch; and (b) automatically capitalising a payment shortfall. Formerly, these were the subject of non-binding guidance only.

Part I of the Home Owner and Debtor Protection (Scotland) Act 2010 came into force on 30 September 2010 and imposes additional requirements on heritable creditors (the Scottish equivalent of a mortgagee) in relation to the enforcement of standard securities over residential property in Scotland. Under Part I of the Act, the heritable creditor, which may be the Seller or, in the event of it taking legal title to the Scottish Mortgage Loans and their Related Security, the Issuer, has to obtain a court order to exercise its power of sale (in addition to initiating the enforcement process by the service of a two-month "calling up" notice), unless the borrower and any other occupiers have surrendered the property voluntarily. In applying for the court order, the heritable creditor also has to demonstrate that it has taken various preliminary steps to attempt to resolve the borrower's position, and must comply with further procedural requirements.

The Protocol, MCOB requirements for mortgage possession cases and the Repossession Act 2010 may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the Mortgage Loans may result in lower recoveries and a lower repayment rate on the Notes.

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

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

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

### *Consultation Paper on the Power of Sale and Residential Property*

On 29 December 2009, the Ministry of Justice of the United Kingdom published a consultation paper (entitled 'Mortgages: power of sale and residential property' (CP55/09)) which contains proposals to amend the law to prevent mortgagees from selling residential properties in England and Wales without a court order or the consent of the borrower. It is not known if, and to what extent, these proposals will be enacted in the future as a matter of law. If the proposals are enacted, the ability of the mortgagee to exercise its power of sale in relation to the English Mortgage Loans may be restricted and this may affect the Issuer's ability to make payments on the Notes. This consultation closed in March 2010 but, to date, no further announcements or legislative proposals have been made.

### *Home Owner and Debtor Protection (Scotland) Act 2010*

The Home Owner and Debtor Protection (Scotland) Act 2010 (the "**2010 Act**") contains provisions imposing additional requirements on heritable creditors (the Scottish equivalent to mortgagees) in relation to the enforcement of standard securities over residential property (or any property with a residential element) in Scotland. The 2010 Act amends the provisions of the Conveyancing and Feudal Reform (Scotland) Act 1970 which permitted a heritable creditor to proceed to sell the secured property where the notice period specified in a calling up notice or notice of default in respect of the relevant standard security had expired without challenge (or where a challenge had been made). In terms of the 2010 Act the heritable creditor is now required to obtain a court order to exercise its power of sale, unless the borrower and certain other occupiers have surrendered the property voluntarily. In addition, the 2010 Act requires the heritable creditor in applying for a court order to demonstrate that it has taken various preliminary steps to seek to resolve the borrower's position, as well as imposing further procedural requirements. This may restrict the ability of the Seller as heritable creditor in respect of the Scottish Mortgages to exercise its power of sale and this could affect the Issuer's ability to make payments on the Notes.

### *Land Registration Reform in Scotland*

The Land Registration etc. (Scotland) Act 2012 (the "**2012 Act**") received royal assent on 8 December 2014. One of the policy aims of the 2012 Act is to encourage the transfer of property titles recorded in the historic General Register of Sasines to the more recently established Land Register of Scotland with the aim of eventually closing the General Register of Sasines.

Previously, title to a residential property that was recorded in the General Register of Sasines would usually only require to be moved to the Land Register of Scotland (a process known as 'first registration') when that property was sold or if the owner decided voluntarily to commence first registration. However, the 2012 Act provides additional circumstances which will trigger first registration of properties recorded in the General Register of Sasines, including the recording of a standard security (which will extend to any standard security granted by the Issuer in favour of the Trustee over Scottish Mortgages in the Mortgage Portfolio recorded in the General Register of Sasines pursuant to the terms of the Deed of Charge following a Perfection Event (a "**Scottish Sasine Sub-Security**")).

The relevant provisions of the 2012 Act relating to the recording of standard securities came into force on 1 April 2016 (the "**Commencement Date**"). As of this date, the General Register of Sasines is now closed to the recording of securities. Despite the provisions of the 2012 Act mentioned above, for the time being, other deeds such as assignations of standard securities (including any assignation granted by the Seller in favour of the Issuer in respect of Scottish Mortgages in the Mortgage Portfolio recorded in the General Register of Sasines pursuant to the terms of the Servicing Agreement following a Perfection Event (a "**Scottish Sasine Transfer**")), will continue to be accepted in the General Register of Sasines indefinitely; although the Registers of Scotland have reserved the right to consult further on this issue in the future.

If a Perfection Event occurs following the Commencement Date then an application to record a Scottish Sasine Sub-Security in relation to Scottish Mortgages in the Mortgage Portfolio (following the transfer of legal title to such Scottish Mortgages by way of a Scottish Sasine Transfer) would trigger a first registration in the Land Register of Scotland of the underlying Scottish Properties secured by the relevant Scottish Mortgages.

The impact of these changes to the Scottish land registration system is unlikely to be of material detriment to the Issuer, the Trustee or to the Noteholders for the following reasons: (i) the Registers of Scotland report on the consultation process indicated that whilst these changes are likely to prolong completion of the

registration process, where possible they will take a pragmatic view and not burden parties (such as the Issuer, Trustee or the Borrower who owns the underlying Scottish Property) with unreasonable or arbitrary costs and in particular the fee for a voluntary first registration of land over which a new standard security is to be granted is currently zero, which would keep the statutory cost of registering a Scottish Sasine Sub-Security in line with current statutory costs; and (ii) whilst the prolonged registration process is likely to be of practical inconvenience to the Transaction Parties and may give rise to costs that result in a reduction in the amounts that the Issuer has to make payments to Noteholders under the Notes, the validity and effectiveness of any Scottish Sasine Sub-Security would be unaffected by the change to the registration system (and the relevant Scottish Mortgages would in any event continue to be covered by the floating charge granted by the Issuer under the Deed of Charge). However, it is not unlikely that, were a Perfection Event to occur after the Commencement Date, the parties involved may still encounter increased legal and other third party costs relating to the first registration process and additional administrative burden.

As noted above, no indication has been given as to when or if the above provisions may be extended to other types of dealing with a standard security, such as assignments. However, if the General Register of Sasines becomes closed to assignments of standard securities under the same provisions at any time subsequent to the Closing Date then this would also have an impact on the registration of Scottish Sasine Transfers executed following a Perfection Event in a manner similar to Scottish Sasine Sub-Securities, with the probability of higher legal costs and a longer period required to complete registration than would currently be the case.

As noted above, such events will only occur following a Perfection Event and, given that the proportion of residential properties in Scotland which remain recorded in the General Register of Sasines continues to decline (Registers of Scotland estimate that in April 2016 around 60 per cent. of property titles in Scotland were registered in the Land Register of Scotland), it is likely that, in relation to the current Mortgage Portfolio where approximately 5 per cent. of the Provisional Mortgage Portfolio by aggregate Current Balance of the Mortgage Loans are Scottish Mortgage Loans, only a minority of the Scottish Mortgages will be recorded in the General Register of Sasines.

***Regulatory initiatives may have an adverse impact on the regulatory treatment of the Notes***

In Europe, the U.S. and elsewhere there is significant 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 position for certain investors in securitisation exposures and/or on the incentives for certain investors to hold asset-backed securities, and may thereby affect the liquidity of such securities. Investors in the Notes are responsible for analysing their own regulatory position and none of the Issuer, the Lead Manager, the Arranger or the Seller makes any representation to any prospective investor or purchaser of the Notes regarding the regulatory treatment of their investment in the Notes on the Closing Date or at any time in the future.

The Basel Committee on Banking Supervision (the "**BCBS**") approved significant changes to the Basel II regulatory capital and liquidity framework in 2011 (such changes being commonly referred to as "**Basel III**"). In particular, Basel III provides for a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards (with heightened requirements for global systemically important banks) and to establish a leverage ratio "backstop" for financial institutions and certain minimum liquidity standards (referred to as the Liquidity Coverage Ratio "**LCR**" and the Net Stable Funding Ratio "**NSFR**").

The Basel III reform package has been implemented in the European Economic Area (the "**EEA**") through the CRR (which entered into force on 28 June 2013) and an associated directive (the recast Capital Requirements Directive (the "**CRD**") (which was required to be transposed by Member States by 31 December 2013) (together, "**CRD IV**"). The regulation establishes a single set of harmonised prudential rules which apply directly to all credit institutions and investment firms in the EEA, with the directive containing less prescriptive provisions which are required to be transposed into national law.

Full implementation began from 1 January 2014, with particular elements being phased in over a period of time (the requirements will be largely effective by 2019 and some minor transitional provisions provide for phase-in until 2024).

In November 2016, the Commission adopted a legislative proposal for CRR II, which contained, *inter alia*, measures introducing the net stable funding requirements, as provided for in Article 510(3) of the CRR. On 3 January 2017, the Basel Committee issued a press release stating that a meeting by the Group of Central Banks and Heads of Supervision on finalising Basel III reforms had been postponed in order to finalise proposals on the reforms.

As CRD IV allows certain national discretions, the final rules and the timetable for their implementation in each jurisdiction may be subject to some level of national variation.

The Basel Committee has also published revisions to the securitisation framework, including changes to the approaches to calculating risk weights and a new risk weight floor of 10 per cent. for senior tranches and 15 per cent. for non-senior tranches.

The changes under CRD IV and Basel III as described above 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 relevant framework and, as a result, may affect the liquidity and/or value of the Notes.

In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Notes and as to the consequences to and effect on them of any changes to the Basel framework (including the 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.

In addition, investors should be aware of the EU risk retention and due diligence requirements which currently apply in respect of various types of EU regulated investors including credit institutions, authorised alternative investment fund managers, investment firms, insurance undertakings and reinsurance undertakings. Amongst other things, such requirements restrict a relevant investor from investing in asset-backed securities unless (i) that investor is able to demonstrate that it has undertaken certain due diligence in respect of various matters including its note position, the underlying assets and (in the case of certain types of investors) the relevant sponsor or originator and (ii) the originator, sponsor or original lender in respect of the relevant securitisation has explicitly disclosed to the investor that it will retain, on an on-going basis, a net economic interest of not less than 5 per cent. in respect of certain specified credit risk tranches or asset exposures. Failure to comply with one or more of the requirements may result in various penalties including, in the case of those investors subject to regulatory capital requirements, the imposition of a penal capital charge on the notes acquired by the relevant investor.

The risk retention and due diligence requirements described above apply in respect of the Notes. With respect to the commitment of the Retention Holder to retain a material net economic interest in the securitisation and with respect to the information to be made available by the Issuer or another relevant party (or, after the Closing Date, by the Servicer or the Cash Manager on the Issuer's behalf), please see the statements set out in the section of this Prospectus headed "*EU Risk Retention Requirements*". Relevant investors are required to independently assess and determine the sufficiency of the information described above for the purposes of complying with any relevant requirements and none of the Issuer, the Servicer, the Retention Holder, the Seller, the Arrangers nor the Lead Manager or any other party makes any representation that the information described above is sufficient in all circumstances for such purposes.

It should be noted that the European authorities have adopted and finalised a new regulation related to securitisation (being Regulation (EU) 2017/2402) (the "**Securitisation Regulation**") which will apply in general from 1 January 2019. Amongst other things, the Securitisation Regulation include provisions intended to implement the revised securitisation framework developed by BCBS (with adjustments) and provisions intended to harmonise and replace the risk retention and due diligence requirements (including the corresponding guidance provided through technical standards) applicable to certain EU regulated investors. These clauses will also extend certain obligations to new categories of institutional investor, including UCITS funds and institutions for occupational retirement provisions. There are material differences between the coming new requirements and the current requirements including with respect to the certain matters to be verified under the due diligence requirements, as well as with respect to the application approach under the retention requirements and the originator entities eligible to retain the required interest. Further differences may arise under the corresponding guidance, which will apply under the new risk retention requirements and is to be made through new technical standards. However, securitisations, the securities in respect of which are issued prior to the application date of 1 January 2019, that do not involve the issuance of securities (or otherwise involve the creation of a new securitisation

position) from that date should remain subject to the current requirements and should not be subject to the new risk retention and due diligence requirements in general.

Prospective investors should therefore make themselves aware of the changes and requirements described above (and any corresponding implementing rules of their regulator), where applicable to them, in addition to any other applicable regulatory requirements with respect to their investment in the Notes. The matters described above 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.

#### ***Raising of financing by the Seller against Notes held by it for risk retention purposes***

On or after the Closing Date, the Seller may obtain funding on a full recourse basis to finance the acquisition of some or all of the Class Z Notes required to be retained by it as originator in compliance with the CRR, Regulation (EU) No 231/2013 (the "**AIFMR**") and Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (the "**Solvency II Delegated Act**"). Such financing may be provided by the Lead Manager or certain of their affiliates and may require the grant of a security interest over such financed Class Z Notes and result in the financing counterparty having enforcement rights and remedies in case of an event of default which may include the right to appropriate or sell such Notes. In carrying out any such sale, the financing counterparty would not be required to have regard for the CRR, AIFMR and the Solvency II Delegated Act and any such sale may therefore cause the Seller to be out of compliance with the CRR, AIFMR and the Solvency II Delegated Act. In such an event, Notes held by other investors could be subject to an increased regulatory capital charge levied by a relevant regulator with jurisdiction over any such investor, and the price and liquidity of the Notes held by an investor in the secondary market could be negatively impacted.

#### ***CRA Regulation***

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).

Credit ratings included or referred to in this Prospectus have been or, as applicable, may be issued by Moody's and DBRS, each of which, as at the date of this Prospectus, is a credit rating agency established in the European Community and registered under the CRA Regulation.

#### ***EMIR and MiFID II***

The European Market Infrastructure Regulation (EU) No 648/2012 of the European Parliament and Council on OTC derivatives, central counterparties and trade repositories ("**EMIR**") came into force on 16 August 2012. EMIR and the requirements under it impose certain obligations on parties to "over the counter" ("**OTC**") derivative contracts including a mandatory clearing obligation (the "**Clearing Obligation**"), margin posting (the "**Collateral Obligation**") and other risk-mitigation techniques (the "**Risk Mitigation Requirements**") for OTC derivatives contracts not cleared by a central counterparty, and reporting and record-keeping requirements.

Under EMIR, (i) financial counterparties ("**FCs**") and (ii) non-financial counterparties whose positions, together with the positions of all other non-financial counterparties in its "group" (as defined in EMIR), in OTC derivatives (excluding hedging positions) exceed a specified clearing threshold ("**NFC+s**", and together with FCs, the "**In-scope Counterparties**") must clear via an authorised or recognised central counterparty ("**CCP**") OTC derivatives contracts that are entered into on or after the effective date for the Clearing Obligation for that counterparty pair and class of derivatives (the "**Clearing Start Date**"). Unless an exemption applies, FCs and NFC+s must clear any such OTC derivative contracts entered into between each other and with certain third country equivalent entities (i.e. those that would have been subject to the Clearing Obligation if they were established in the EU). The process for implementing the Clearing



Obligation is under way and a timeframe for compliance has been established for the first class of transactions (which include interest rate derivative contracts in USD, EUR, GBP and JPY), with the Clearing Start Date for such contracts with NFC+s being 21 December 2018. Timeframes for mandatory clearing of certain other classes of OTC derivatives transactions have also been established.

On the basis that the Issuer currently has the counterparty status of NFC-, neither the Clearing Obligation nor the Collateral Obligation should apply to it. If the Issuer's counterparty status as an NFC- changes to NFC+ or FC then certain OTC derivatives contracts that are entered into by the Issuer may become subject to the Clearing Obligation or the Collateral Obligation.

Notwithstanding the qualifications on application described above, the position of the Interest Rate Swap under each of the Clearing Obligation and Collateral Obligation is not entirely clear and may be affected by further measures still to be made, regulatory guidance and/or by any inability to rely on an exemption for any reason.

In this regard, it should be noted that the Securitisation Regulation will apply from 1 January 2019 to securitisations issued after that date (as well as to securitisations that create new securitisation positions after that date, subject to some transitional provisions). The Securitisation Regulation includes, amongst other things, amendments to EMIR to exempt from the Clearing Obligation certain OTC derivative contracts entered into by a securitisation special purpose entity ("SSPE") in connection with certain securitisations. It also provides for the development of technical standards further specifying when this exemption will apply and technical standards to calibrate the levels of collateral required under the Collateral Obligation for non-centrally cleared OTC derivatives entered into by a SSPE, taking into account the structure of securitisation arrangements.

It should be noted that on 4 May 2017 the European Commission published a legislative proposal providing for certain amendments to EMIR (the "**Proposal**"). Negotiations on the Proposal are ongoing between the European Commission, Council and Parliament. If the Proposal were adopted in its original form, certain securitisation special purpose vehicles such as the Issuer would be classified as financial counterparties ("FCs") and consequently become subject to additional obligations under EMIR (including mandatory margining for uncleared OTC derivatives contracts). However, the European Council and EU Parliament have both taken the position that securitisation special purpose vehicles would not be classified as FCs. Nevertheless, the final position on this issue will be confirmed only once the final text of the Proposal is agreed. The compliance position under any adopted amended framework of swap transactions entered into prior to application is uncertain.

No assurances can be given that any such changes made to EMIR would not cause the status of the Issuer to change to NFC+ and lead to some potentially adverse consequences for the Issuer.

If the classification of the Issuer changes and the Interest Rate Swap (or any replacement) is regarded to be in-scope of the relevant EMIR obligations, then the Interest Rate Swap (or any replacement to the Interest Rate Swap) may become subject to the Clearing Obligation or (more likely) to the Collateral Obligation. Prospective investors should note that there is some uncertainty with respect to the ability of the Issuer to comply with these obligations if applicable, which may (i) lead to regulatory sanctions, (ii) adversely affect the ability of the Issuer to continue to be party to the Interest Rate Swap (or any replacement to the Interest Rate Swap) (possibly resulting in a restructuring or termination of the Interest Rate Swap or its replacement) and/or (iii) significantly increase the cost of such arrangements, thereby negatively affecting the ability of the Issuer to hedge certain risks. As a result, the amounts available to the Issuer to meet its obligations may be reduced, which may in turn result in investors receiving less interest or principal than expected.

The Issuer will be required to continually comply with EMIR while it is party to any interest rate swaps, including any additional provisions or technical standards which may come into force after the Closing Date, and this may necessitate amendments to the Transaction Documents. Subject to receipt by the Trustee of a certificate from the (i) Issuer signed by two directors or (ii) the Servicer on behalf of the Issuer certifying to the Trustee that the amendments requested by the Issuer are to be made solely for the purpose of enabling the Issuer to satisfy its requirements under EMIR, the Trustee, with the written consent of the Secured Creditors which are a party to the Transaction Documents which are being modified, shall, without the consent or sanction of the Noteholders or any of the other Secured Creditors, agree to any modification to the Transaction Documents and/or the Conditions that are requested in writing by the Issuer (acting in its own discretion or at the direction of any transaction party) in order to enable the Issuer to comply with any requirements which apply to it under EMIR. The Conditions of the Notes require this to be done

irrespective of whether such modifications are materially prejudicial to the interests of the Noteholders of any class of Notes (in each case save to the extent the Trustee considers that the proposed modification would constitute a Basic Terms Modification). The Trustee shall not be obliged to agree to any modification if it would have the effect of exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or increasing the obligations or duties, or decreasing the protections of the Trustee in the Transaction Documents and/or the Conditions of the Notes.

The EU regulatory framework and legal regime relating to derivatives is determined not only by EMIR but also by the Markets in Financial Instruments Directive (Directive 2004/39/EC) ("**MiFID**"). MiFID is being replaced by a new Directive and Regulation containing a package of reforms to the existing MiFID, collectively referred to as "MiFID II". MiFID II has been in force as of 3 January 2018. MiFID II will require certain transactions between FCs and/or NFC+s in sufficiently liquid derivatives to be executed on a trading venue which meets the requirements of the MiFID II regime. On 9 January 2018, ESMA has published a register listing all the derivatives that are subject to the trading obligation under MiFID. According to this register, the Interest Rate Swap forms part of a class of derivatives that will be subject to the MiFID II trading obligation. On the basis that the Issuer is currently an NFC- it would not be subject to such trading obligation but the Issuer could therefore become subject to the trading obligation if its status as an NFC- changes in the future.

### ***Other Changes to Mortgage Regulation***

There can be no assurance that this section comprehensively describes all proposed changes to the relevant regulatory regime or that there will be no further changes to regulations that may have an effect on the mortgage market in the United Kingdom generally or specifically in relation to the Seller. Further, there can be no assurance that regulators' interpretation of existing rules and regulations will remain unchanged or whether any such regulators may apply such interpretations in respect of actions or conduct already undertaken. 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 and/or the Servicer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments on the Notes.

Given the high level of scrutiny regarding financial institutions' treatment of customers and business conduct from regulatory bodies, the media and politicians, there is a risk that certain aspects of the current or historic business of the Seller, including, amongst other things, mortgages, may be determined by the FCA and other regulatory bodies or the courts as, in their opinion, not being conducted in accordance with applicable laws or regulations, or fair and reasonable treatment.

In particular, there is currently a significant regulatory focus on the sale practices and reward structures that financial institutions have used when selling financial products. There is a risk that there may be other regulatory investigations and action against the Seller in relation to conduct and other issues that the Seller is not presently aware of, which may include investigations and actions against the Seller resulting from alleged mis-selling of financial products or the ongoing servicing of those financial products. The nature of any future disputes and legal, regulatory or other investigations or proceedings into such matters cannot be predicted in advance.

### ***U.S. Risk Retention Requirements***

Section 941 of the Dodd-Frank Act amended the Exchange Act to generally require the "securitizer" of a "securitization transaction" to retain at least 5 per cent. of the "credit risk" of "securitized assets", as such terms are defined for the purposes of that statute, and generally prohibit a securitizer from directly or indirectly eliminating or reducing its credit exposure by hedging or otherwise transferring the credit risk that the securitizer is required to retain. The U.S. Risk Retention Rules came into effect on 24 December 2016 with respect to all classes of asset-backed securitizations. The U.S. Risk Retention Rules provide that the securitizer of an asset backed securitization is its sponsor. The U.S. Risk Retention Rules also provide for certain exemptions from the risk retention obligation that they generally impose.

The Seller does not intend to retain at least 5 per cent. of the credit risk of the securitized assets for purposes of compliance with the U.S. Risk Retention Rules, but rather intends to rely on an exemption provided for in Rule 20 of the U.S. Risk Retention Rules regarding non-U.S. transactions. Such non-U.S. transactions must meet certain requirements, including that (1) the transaction is not required to be and is not registered under the Securities Act; (2) no more than 10 per cent. of the dollar value (or equivalent amount in the currency in which the "ABS interests" (as defined in Rule 2 of the U.S. Risk Retention Rules) are issued)

of all classes of ABS interests issued in the securitization transaction are sold or transferred to, or for the account or benefit of, U.S. persons (as defined in the U.S. Risk Retention Rules, "**Risk Retention U.S. Persons**"); (3) neither the sponsor nor the issuer of the securitization transaction is organised under U.S. law or is a branch located in the United States of a non-U.S. entity; and (4) no more than 25 per cent. of the underlying collateral was acquired from a majority-owned affiliate or branch of the sponsor or issuer organised or located in the United States.

Prior to any Notes which are offered and sold by the Issuer being purchased by, or for the account or benefit of, any Risk Retention U.S. Person, the purchaser of such Notes must first disclose to the Lead Manager that it is a Risk Retention U.S. Person and obtain the written consent of the Seller. Prospective investors should note that the definition of U.S. person in the U.S. Risk Retention Rules is substantially similar to, but not identical to, the definition of U.S. person under Regulation S, and that persons who are not "**U.S. persons**" under Regulation S may be U.S. persons under the U.S. Risk Retention Rules. The definition of U.S. person in the U.S. Risk Retention Rules is excerpted below. Particular attention should be paid to clauses (b) and (h), which are different than comparable provisions from Regulation S.

Under the U.S. Risk Retention Rules, and subject to limited exceptions, "**U.S. person**" means any of the following:

- (a) any natural person resident in the United States;
- (b) any partnership, corporation, limited liability company, or other organisation or entity organised or incorporated under the laws of any State or of the United States;
- (c) any estate of which any executor or administrator is a U.S. person (as defined under any other clause of this definition);
- (d) any trust of which any trustee is a U.S. person (as defined under any other clause of this definition);
- (e) any agency or branch of a foreign entity located in the United States;
- (f) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. person (as defined under any other clause of this definition);
- (g) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated, or (if an individual) resident in the United States; and
- (h) any partnership, corporation, limited liability company, or other organisation or entity if:
  - (i) organised or incorporated under the laws of any foreign jurisdiction; and
  - (ii) formed by a U.S. person (as defined under any other clause of this definition) principally for the purpose of investing in securities not registered under the Securities Act

Each holder of a Note or a beneficial interest therein acquired on the Closing Date, by its acquisition of a Note or a beneficial interest in a Note, will be deemed, and, in certain circumstances, will be required to represent to the Issuer, the Seller and the Lead Manager that it (1) is not a Risk Retention U.S. Person (unless it has received the prior written consent of the Seller), (2) is acquiring such Note or a beneficial interest therein for its own account and not with a view to distribute such Note and (3) is not acquiring such Note or a beneficial interest therein as part of a scheme to evade the requirements of the U.S. Risk Retention Rules.

There can be no assurance that the requirement to request the Seller to give its prior written consent in the form of a U.S. Risk Retention Waiver to any Notes which are offered and sold by the Issuer being purchased by, or for the account or benefit of, any Risk Retention U.S. Person will be complied with or will be made by such Risk Retention U.S. Persons.

There can be no assurance that the exemption provided for in Rule 20 of the U.S. Risk Retention Rules regarding non-U.S. transactions will be available. No assurance can be given as to whether failure of the transaction to comply with the U.S. Risk Retention Rules (regardless of the reason for such failure to comply) may give rise to regulatory action which may adversely affect the Notes or their market value.

Furthermore, the impact of the U.S. Risk Retention Rules on the securitization market generally is uncertain, and a failure by a transaction to comply with the U.S. Risk Retention Rules could therefore negatively affect the market value and secondary market liquidity of the Notes.

None of the Issuer, the Seller, the Trustee, the Lead Manager or any of their respective affiliates makes any representation to any prospective investor or purchaser of the Notes as to whether the transactions described in this Prospectus comply as a matter of fact with the U.S. Risk Retention Rules on the Closing Date or at any time in the future. Investors should consult their own advisers as to the U.S. Risk Retention Rules. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

#### ***Effects of the Volcker Rule on the Issuer***

The Issuer is relying on an exclusion or exemption under the Investment Company Act other than the exclusions contained in Section 3(c)(1) and Section 3(c)(7). The Issuer is structured so as not to constitute a "covered fund" for purposes of the regulations adopted to implement Section 619 of the Dodd-Frank Act (such statutory provision together with such implementing regulations, the "**Volcker Rule**"). The Volcker Rule generally prohibits "banking entities" (which is broadly defined to include U.S. banks and bank holding companies and many non-U.S. banking entities, together with their respective subsidiaries and other affiliates) from (i) engaging in proprietary trading, (ii) acquiring or retaining an ownership interest in or sponsoring a "covered fund" and (iii) entering into certain relationships with such funds. The Volcker Rule became effective on 1 April 2014, but was subject to a conformance period for certain funds which concluded on 21 July 2015. Under the Volcker Rule, unless otherwise jointly determined by specified federal regulators, a "covered fund" does not include an issuer that may rely on an exclusion or exemption from the definition of "investment company" under the Investment Company Act other than the exclusions contained in Section 3(c)(1) and Section 3(c)(7) of the Investment Company Act. The general effects of the Volcker Rule remain uncertain. Any prospective investor in the Notes, including a U.S. or foreign bank or a subsidiary or other affiliate thereof, should consult its own legal advisers regarding such matters and other effects of the Volcker Rule.

#### **Tax Considerations**

##### ***UK Special Regime for the Taxation of Securitisation Companies***

The Taxation of Securitisation Companies Regulations (the "**Regulations**") were made under section 84 of the Finance Act 2005 on 11 December 2006 to deal with the corporation tax position of securitisation companies such as the Issuer with effect for their periods of account beginning on or after 1 January 2007. If the Regulations apply to a company, then, broadly, it will be subject to corporation tax on the cash profit retained by it for each accounting period in accordance with the transaction documents. Based on advice received, the Issuer considers that it will be taxed under the special taxation regime for which provision is made by the Regulations. Investors should note, however, that the Regulations are in short form and it is expected that advisors will rely significantly upon the published guidance of HM Revenue & Customs when advising on the scope and operation of the Regulations including whether any particular company falls within the regime provided for in the Regulations. Investors should note that if the Issuer did not fall to be taxed under the regime then its profits or losses for tax purposes might be different from its cash position and there might be a risk of the Issuer incurring unfunded tax liabilities. In addition, interest paid on the Notes could well be disallowed for United Kingdom corporation tax purposes which could cause a significant divergence between the cash profits and the taxable profits of the Issuer. Any unforeseen taxable profits in the Issuer could have an adverse effect on its ability to make payments to Noteholders.

##### ***The proposed financial transactions tax ("FTT")***

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where

at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

#### ***Withholding Tax under the Notes***

In the event that withholding taxes are imposed in respect of payments due in respect of the Notes, neither the Issuer nor any Paying Agent nor any other person is obliged to gross up or otherwise compensate Noteholders for the lesser amounts received as a result of the imposition of such withholding taxes.

#### **Legal Considerations**

##### ***Banking Act 2009 and the European Union Bank Recovery and Resolution Directive***

The UK Banking Act 2009 (the "**Banking Act**") includes provision for a special resolution regime pursuant to which specified UK authorities have power to apply certain tools (by way of instrument or order) to deal with the failure (or likely failure) of a UK bank or building society. The Banking Act has been amended a number of times, most recently on 1 January 2015, to ensure that it is compliant with the EU's Bank Recovery and Resolution Directive (2014/59/EU) (the "**BRRD**"). The BRRD was published in the Official Journal of the EU on 12 June 2014 and largely came into force on 2 July 2014. Amongst other things, the BRRD provides for the introduction of a package of minimum early intervention and resolution-related tools and powers for relevant authorities (including a bail-in tool) and for special rules for cross-border groups.

Provision has been made for certain tools to be used in respect of a wider range of UK entities, including banks, investment firms and certain banking group companies (which may include the Issuer Account Bank, the Cash Manager, the Principal Paying Agent, the Agent Bank, the Registrar and the Swap Counterparty).

The tools currently available under the Banking Act 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 special insolvency procedures which may be commenced by the UK authorities. It is possible that these extended tools 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, 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. Further, UK authorities have a wide discretion in exercising their powers under the special resolution regime, including modifying or setting aside any Act of Parliament by order of HM Treasury to facilitate its Banking Act objectives.

Although no instrument or order has been made under the provisions of the Banking Act in respect of a relevant transaction entity, as described above, such instrument or order or the new bail-in power may if used (amongst other things) affect the ability of certain entities involved in the transaction to satisfy their obligations under the Relevant Transaction Documents and/or result in modifications to such documents, which may in turn affect the Issuer's ability to meet its obligations in respect of the Notes.

Although such tools could not be directly applied to the Issuer and so, for example, the Notes would not directly become subject to a bail in under the Banking Act (or other legislation implementing the BRRD), there is the risk nonetheless that such tools may be applied to other entities in a manner that indirectly affects the ability of the Issuer to meet its obligations in respect of 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 Rated 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 Mortgage 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. In addition, it should be noted that regulatory requirements (including any applicable retention, due diligence or disclosure obligations) may be recast or amended and there can be no assurance that any such changes will not adversely affect the compliance position of a transaction described in this Prospectus or of any party under any applicable law or regulation.

### ***Liquidation Expenses***

Prior to the House of Lords' decision in the case of *Re Leyland Daf* in 2004, the general position was that, in a liquidation of a company, the liquidation expenses ranked ahead of unsecured debts and floating chargees' claims. *Re Leyland Daf* reversed this position so that liquidation expenses could no longer be recouped out of assets subject to a floating charge.

On 6 April 2008, Section 176ZA of the Insolvency Act 1986 came into force which effectively reversed by statute the House of Lords' decision in the case of *Re Leyland Daf* in 2004. Accordingly, it is now the case that, in general the costs and expenses of a liquidation (including certain tax charges) will be payable out of floating charge assets in priority to the claims of the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to provisions set out in the Insolvency Rules 1986.

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

### ***Insolvency Act 2000***

The Insolvency Act 2000 (the "**IA 2000**") has amended the Insolvency Act 1986 with effect from 1 January 2003 so as to allow certain "small companies", as part of the company voluntary arrangement procedure, to seek court protection from their creditors by way of a moratorium for a period of up to 28 days, with the option for creditors to extend this protection for up to a further two months (although the Secretary of State for Trade and Industry may, by order, extend or reduce the duration of either period).

The IA 2000 defines a "small company" by reference to whether the company meets certain tests contained in section 247(3) of the Companies Act 1985, relating to a company's balance sheet total, turnover and average number of employees in a particular period. The position as to whether or not a company is a "small company" may change from financial period to financial period, depending on its financial position and average number of employees during that particular period. The Secretary of State for Trade and Industry may, by regulations, also modify the qualifications for eligibility of a company for a moratorium and may also modify the present definition of a "small company". Accordingly, the Issuer may, at any given time, come within the ambit of the "small companies" provisions, such that the Issuer may (subject to the exemptions referred to below) be eligible to seek a moratorium, in advance of a company voluntary arrangement.

During the period for which a moratorium is in force in relation to a company, *inter alia*, no winding up may be commenced or administrator appointed to that company, no administrative receiver of that company may be appointed, no security created by that company over its property may be enforced (except with the leave of the court) and no other proceedings or legal process may be commenced or continued in relation to that company (except with the leave of the court). In addition, if the holder of security (the "**chargee**") created by that company consents or if the court gives leave, the company may dispose of the secured property as if it were not subject to the security. Where the property in question is subject to a floating charge, the chargee will have the same priority in respect of any property of the company directly or indirectly representing the property disposed of as he would have had in respect of the property subject to the floating charge. Where the security in question is other than a floating charge, it shall be a condition of the chargee's consent or the leave of the court that the net proceeds of the disposal shall be applied towards discharging the sums secured by the security. Further, during the period for which a moratorium is in force

in respect of a company it may not make any payments with respect to debts or liabilities existing prior to the date of filing for a moratorium unless (i) there are reasonable grounds for believing the payment will benefit the company, and (ii) the payment is approved by a committee of creditors of the company if established or, if not, by the nominee of the proposed company voluntary arrangement.

Certain companies which qualify as small companies for the purposes of these provisions may be, nonetheless, excluded from being so eligible for a moratorium under the provisions of the Insolvency Act 1986 (Amendment No. 3) Regulations 2002, which were made on 25 July 2002 and came into force on 1 January 2003. Companies excluded from eligibility for a moratorium include those which are party to a capital market arrangement, under which a debt of at least £10,000,000 is incurred and which involves the issue of a capital market investment. The definitions of "capital market arrangement" and "capital market investment" are broad and are such that, in general terms, any company which is a party to an arrangement which involves at least £10,000,000 of debt, the granting of security to a trustee, and the issue of a rated, listed or traded debt instrument, is excluded from being eligible for a moratorium. The Secretary of State may modify the criteria by reference to which a company otherwise eligible for a moratorium is excluded from being so eligible.

Accordingly, the provisions described above will serve to limit the Trustee's ability to enforce the Security to the extent that: firstly, if the Issuer falls within the criteria for eligibility for a moratorium at the time a moratorium is sought; secondly, if the directors of the Issuer seek a moratorium in advance of a company voluntary arrangement; and, thirdly, if the Issuer is considered not to fall within the capital market exception (as expressed or modified at the relevant time) or any other applicable exception at the relevant time; in those circumstances, the enforcement of any security by the Trustee will be for a period prohibited by the imposition of the moratorium. In addition, the other effects resulting from the imposition of a moratorium described above may impact the transaction in a manner detrimental to the Noteholders.

#### ***Fixed Charges over Accounts May Take Effect under English Law as Floating Charges***

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the Issuer may take effect under English law as floating charges only if, for example, it is determined that the Transaction Documents do not permit the Trustee to exert sufficient control over the Charged Property. If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Trustee in respect of the floating charge assets.

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

#### ***Certain conflicts of interest involving or relating to the Arrangers, the Lead Manager and their affiliates***

NatWest Markets Plc and its affiliates (the "**NWM Parties**") will play various roles in relation to the offering of the Rated Notes and the Class X Notes, as described below.

The NWM Parties may assist clients and counterparties in transactions related to the Rated Notes and the Class X Notes (including assisting clients in future purchases and sales of the Rated Notes and the Class X Notes and hedging transactions) and such NWM Parties would expect to earn fees and other revenues from these transactions.

The NWM Parties are part of global investment banking and securities and investment management firms that provides a wide range of financial services to a substantial and diversified client base that includes, without limitation, corporations, financial institutions, governments and high net worth individuals. As such, they actively make markets in and trade financial instruments for their own account and for the

accounts of customers in the ordinary course of their business. The NWM Parties and/or their clients may have positions in or may have arranged financing in respect of the Notes or the Mortgage Loans in the Mortgage Portfolio and may have provided or may be providing investment banking services and other services to the Seller or the other transaction parties.

The NWM Parties may act as lead manager, arranger, placement agent and/or initial purchaser or investment manager in other transactions involving issues of residential mortgage backed securities or other investment funds with assets similar to those of the Issuer, which may have an adverse effect on the price or value of the Notes. The NWM Parties may not disclose specific trading positions or their hedging strategies, including whether they are in long or short positions in any Notes or obligations referred to in this Prospectus except where required in accordance with applicable law.

In the ordinary course of business, the NWM Parties and employees or customers of the NWM Parties may actively trade in and/or otherwise hold long or short positions in the Notes or enter into transactions similar to or referencing the Notes for their own accounts and for the accounts of their customers. If any of the NWM Parties become an owner of any of the Notes, through market-making activity or otherwise, any actions that it takes in its capacity as owner, including voting, providing consents or otherwise will not necessarily be aligned with the interests of other owners of the Notes. To the extent any of the NWM Parties make a market in the Notes (which it is under no obligation to do), it would expect to receive income from the spreads between its bid and offer prices for the Notes. In connection with any such activity, it will have no obligation to take, refrain from taking or cease taking any action with respect to these transactions and activities based on the potential effect on an investor in the Notes. The price at which any of the NWM Parties may be willing to purchase Notes, if it makes a market, will depend on market conditions and other relevant factors and may be significantly lower than the issue price for the Notes and significantly lower than the price at which it may be willing to sell the Notes.

Prospective investors should note that certain NWM Parties have provided financing indirectly to the Seller through a warehousing issuer. As such, the proceeds of the issuance of the Notes will be used on or about the Closing Date to refinance such financing by the Seller using a portion of the Initial Purchase Price in respect of the Mortgage Loans and Related Security in the Mortgage Portfolio to purchase the relevant Mortgage Loans from the warehousing issuer before on-selling such part of the Mortgage Portfolio to the Issuer. The warehousing issuer will ultimately use such funds to repay certain NWM Parties. Other than where required in accordance with applicable law, the NWM Parties have no obligation to act in any particular manner as a result of their prior, indirect involvement with the Mortgage Portfolio and any information in relation thereto. With respect to the refinancing, each of the NWM Parties will act in its own commercial interest.

### **EU Referendum**

On 23 June 2016 the United Kingdom voted to leave the European Union in a referendum (the "**Brexit Vote**"), and on 29 March 2017 the United Kingdom gave formal notice (the "**Article 50 Notice**") under Article 50 of the Treaty on European Union ("**Article 50**") of its intention to leave the European Union.

The timing of the UK's exit from the EU remains subject to some uncertainty, but it is unlikely to be before March 2019. Article 50 provides that the EU treaties will cease to apply to the UK two years after the Article 50 Notice unless a withdrawal agreement enters into force earlier or the two year period is extended by unanimous agreement of the UK and the European Council.

The terms of the UK's exit from the EU are also unclear and will be determined by the negotiations taking place following the Article 50 Notice. It is possible that the UK will leave the EU with no withdrawal agreement in place if no agreement can be reached and approved by all relevant parties within the allotted time. If the UK leaves the EU with no withdrawal agreement, it is likely that a high degree of political, legal, economic and other uncertainty will result.

In addition to the economic and market uncertainty this brings (see "*Market uncertainty*" below), there are a number of potential risks for the transaction that Noteholders should consider:

#### ***Political uncertainty***

The UK is experiencing a period of acute political uncertainty connected to the negotiations with the EU. Such uncertainty could lead to a high degree of economic and market disruption and legal uncertainty. It is



not possible to ascertain how long this period will last and the impact it will have on the UK in general and the market, including market value and liquidity, for asset-backed securities similar to the Notes in particular. The Issuer cannot predict when or if political stability will return, or the market conditions relating to asset-backed securities similar to the Notes at that time.

### ***Legal uncertainty***

A significant proportion of English law currently derives from or is designed to operate in concert with European Union law. This is especially true of English law relating to financial markets, financial services, prudential and conduct regulation of financial institutions, bank recovery and resolution, payment services and systems, settlement finality, market infrastructure, and mortgage credit regulation. The European Union (Withdrawal) Bill introduced into the UK Parliament on 13 July 2017 (the "**Withdrawal Bill**") aims to incorporate the EU law *acquis* into UK law the moment before the UK ceases to be a member of the EU, with the intention of limiting immediate legal change. The Withdrawal Bill, if enacted in the form in which it was introduced, would grant the UK Government wide powers to make secondary legislation in order to, among other things, implement any withdrawal agreement and to adapt those laws that would otherwise not function sensibly once the UK has left the EU, the whole with minimal parliamentary scrutiny. The secondary legislation made under those powers would be able to do anything that could be done by an act of Parliament. Over time, however – and depending on the timing and terms of the UK's exit from the EU – significant changes to English law (or, as applicable, Scots law or Northern Irish law) in areas relevant to the Transaction and the parties to the Transaction are likely. The Issuer cannot predict what any such changes will be and how they may affect payments of principal and interest to the Noteholders.

### ***Regulatory uncertainty***

There is significant uncertainty about how financial institutions from the remaining EU Member States (the "**EU 27**") with assets or operations (including branches) in the UK will be regulated and *vice versa*. At present, EU single market regulation allows regulated financial institutions (including credit institutions, investment firms, alternative investment fund managers, insurance and reinsurance undertakings) to benefit from a passporting system for regulatory authorisations required to conduct their businesses, as well as facilitating mutual rights of access to important elements of market infrastructure such as payment and settlement systems. EU law is also the framework for mutual recognition of bank recovery and resolution regimes.

Once the UK ceases to be a Member State of the EU, the current passporting arrangements will cease to be effective, as will the current mutual rights of access to market infrastructure and current arrangements for mutual recognition of bank recovery and resolution regimes. The ability of regulated financial institutions to continue to do business between the UK and the EU 27 after the UK ceases to be a Member State of the EU would therefore be subject to separate arrangements between the UK and the EU 27. Although the UK Government has said that it "will be aiming for the freest possible trade in financial services between the UK and EU Member States" in a white paper setting out its Brexit negotiation objectives, there can be no assurance that there will be any such arrangements concluded and, if they are concluded, when and on what terms. Such uncertainty could adversely impact the ability of third parties who are regulated financial institutions to provide services to the Issuer and the transaction.

### ***Market uncertainty***

Since the Brexit Vote, there has been volatility and disruption of the capital, currency and credit markets, including the market for asset-backed securities. There may be further volatility and disruption depending on the conduct and progress of the formal withdrawal negotiations initiated by the Article 50 Notice.

Potential investors should be aware that these prevailing market conditions affecting asset-backed securities could lead to reductions in the market value and/or a severe lack of liquidity in the secondary market for instruments similar to the Notes. Such falls in market value and/or lack of liquidity may result in investors suffering losses on the Notes in secondary resales even if there is no decline in the performance of the securitised portfolio.

The Issuer cannot predict when these circumstances will change and whether, if and when such circumstances do change, there would be an increase in the market value and/or there will be a more liquid market for the Notes and instruments similar to the Notes at that time.

### ***Counterparty risk***

Counterparties on the transaction may be unable to perform their obligations due to changes in regulation, including the loss of existing regulatory rights to do cross-border business. Additionally, they may be adversely affected by rating actions or volatile and illiquid markets (including currency markets and bank funding markets) arising from the Brexit Vote, the Article 50 Notice and the conduct and progress of the formal withdrawal negotiations. As a result, there is an increased risk of such counterparties becoming unable to fulfil their obligations which could have an adverse impact on Noteholders. See "*Servicing of the Mortgage Loans and Reliance on Third Parties*" above.

### ***Adverse economic conditions affecting obligors***

The uncertainty and market disruption following the Brexit Vote and the delivery of the Article 50 Notice may cause investment decisions to be delayed, reduce job security and damage consumer confidence. The resulting adverse economic conditions may affect obligors' willingness or ability to meet their obligations, resulting in increased defaults in the securitised portfolio and may ultimately affect the ability of the Issuer to pay interest and repay principal to Noteholders.

### ***Rating actions***

The Brexit Vote has resulted in downgrades of the UK sovereign rating and the Bank of England by Standard & Poor's and by Fitch Ratings Limited ("**Fitch**"). Standard & Poor's, Fitch and Moody's have all placed a negative outlook on the UK sovereign rating and that of the Bank of England, suggesting a strong possibility of further negative rating action.

The rating of the sovereign affects the ratings of entities operating in its territory, and in particular the ratings of financial institutions. Further downgrades may cause downgrades to counterparties on the transaction meaning that they cease to have the relevant required ratings to fulfil their roles and need to be replaced. If rating action is widespread, it may become difficult or impossible to replace counterparties on the transaction with others who have the required ratings on similar terms or at all.

Moreover, a more pessimistic economic outlook for the UK in general could lead to increased concerns around the future performance of the securitised portfolio and accordingly the ability of the Issuer to pay interest and repay principal to Noteholders and the ratings assigned to the Notes on the Closing Date could be adversely affected.

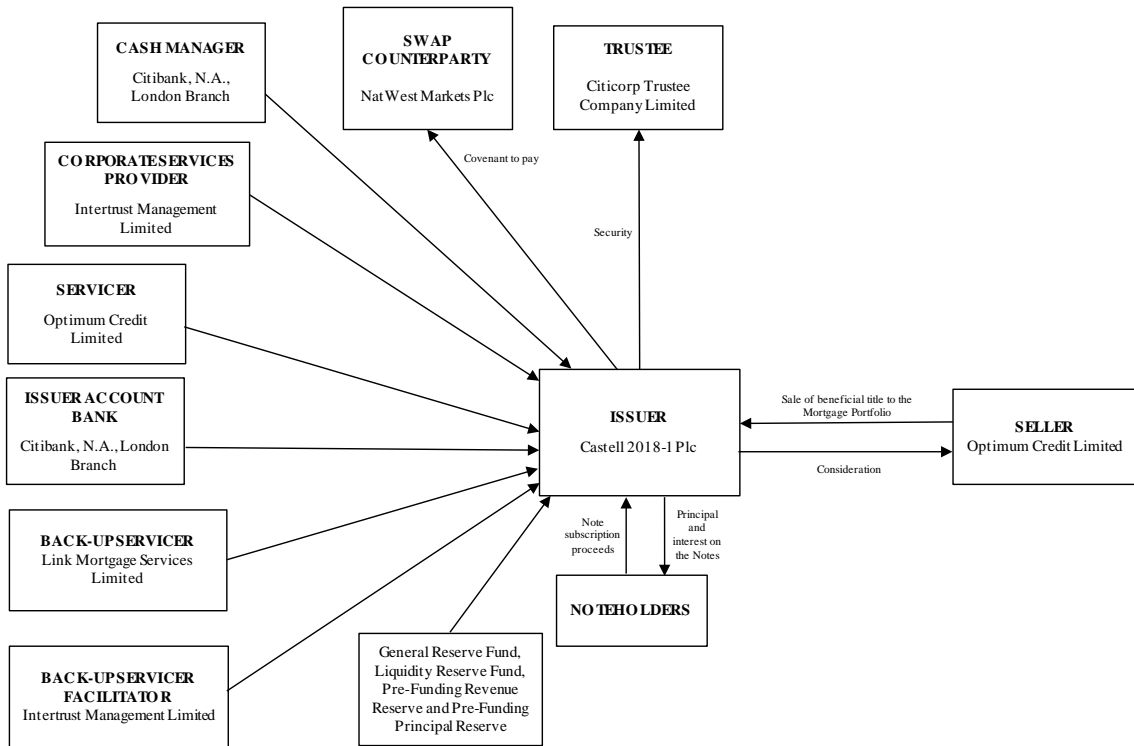
In addition, the ratings attributed to the Notes by Rating Agencies will be capped by reference to the ratings of the sovereign in which the Issuer operates. As such, a significant decline in the ratings of the UK could cause the ratings assigned to the Notes to be adversely affected.

While the extent and impact of these issues is unknown, Noteholders should be aware that they could have an adverse impact on Noteholders and the payment of interest and repayment of principal on the Notes.

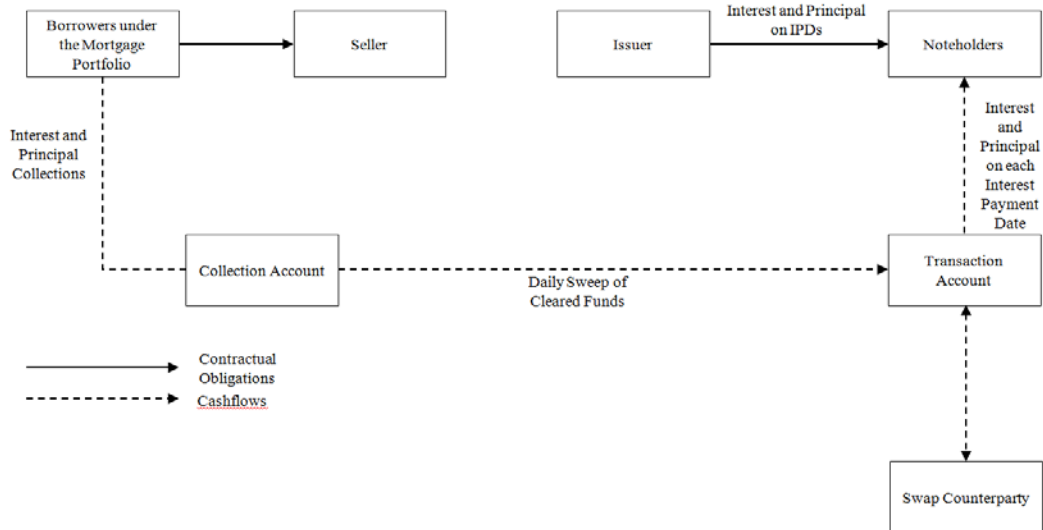
The Issuer believes that the risks described above are the principal risks for the Noteholders inherent in the transaction, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons. The Issuer does not represent that the above stated risk factors are exhaustive. The Issuer believes that the structural elements described elsewhere in this Prospectus go to mitigate a number of these risks for the Noteholders, nevertheless the Issuer cannot give any assurance that those will be sufficient to ensure timely or ultimate payment of interest, principal or any other amounts on or in connection with the Notes to Noteholders.

## STRUCTURE DIAGRAMS

### DIAGRAMMATIC OVERVIEW OF THE TRANSACTION



### DIAGRAMMATIC OVERVIEW OF ONGOING CASH FLOWS



## OWNERSHIP STRUCTURE DIAGRAM OF THE ISSUER

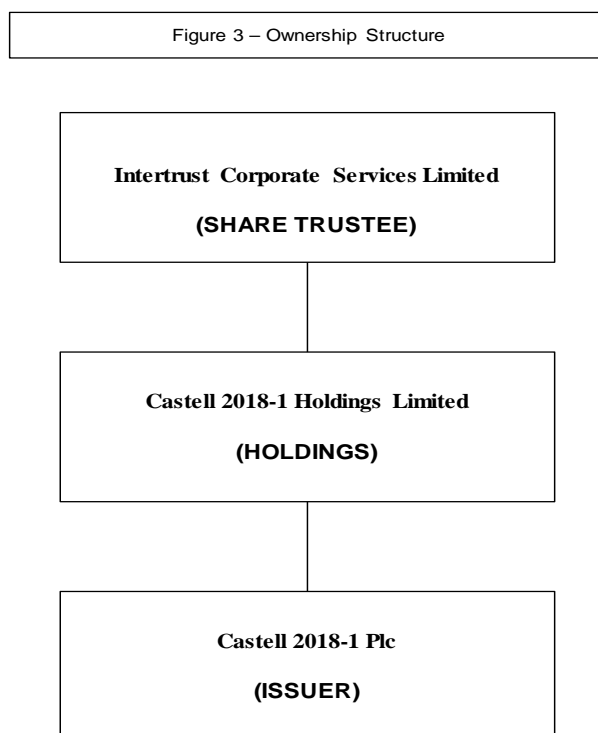


Figure 3 illustrates the ownership structure of the special purpose companies that are parties to the Transaction Documents, as follows:

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

## TRANSACTION OVERVIEW – PARTIES

*The information set out below is an overview of the Transaction Parties. 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 Rated Notes and the Class X 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.

Details of the Transaction Parties and certain other entities involved in the transaction have (for ease of reference) been set out in this Section of this Prospectus.

### Transaction Parties:

<u>Party</u>	<u>Name</u>	<u>Address</u>	<u>Document under which appointed/Further Information</u>
"Issuer"	Castell 2018-1 PLC	35 Great St. Helen's, London, EC3A 6AP	See the section entitled " <i>The Issuer</i> " for further information.
"Holdings"	Castell 2018-1 Holdings Limited	35 Great St. Helen's, London, EC3A 6AP	See the section entitled " <i>Holdings</i> " for further information.
"Seller" and "Retention Holder"	Optimum Credit Limited	Haywood House South, Dumfries Place, Cardiff, CF10 3GA	See the sections entitled " <i>Summary of the Key Transaction Documents - Mortgage Sale Agreement</i> " and " <i>The Seller, Retention Holder and Servicer</i> " for further information.
"Servicer"	Optimum Credit Limited	Haywood House South, Dumfries Place, Cardiff, CF10 3GA	The Servicing Agreement. See the section entitled " <i>Summary of the Key Transaction Documents – Servicing Agreement</i> " and " <i>The Seller, Retention Holder and Servicer</i> " for further information.
"Back-Up Servicer"	Link Mortgage Services Limited	6 <sup>th</sup> Floor, 65 Gresham Street, London, EC2V 7NQ	The Back-Up Servicing Agreement. See the sections entitled " <i>Summary of the Key Transaction Documents – Back-Up Servicing Agreement</i> " and " <i>The Back-Up Servicer</i> " for further information.

<b>Party</b>	<b>Name</b>	<b>Address</b>	<b>Document under which appointed/Further Information</b>
<b>"Back-Up Servicer Facilitator"</b>	Intertrust Management Limited	35 Great St. Helen's, London, EC3A 6AP	The Servicing Agreement. See the sections entitled " <i>Summary of the Key Transaction Documents – Servicing Agreement</i> " and " <i>The Corporate Services Provider and the Back-Up Servicer Facilitator</i> " for more information.
<b>"Cash Manager"</b>	Citibank, N.A., London Branch	Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB	The Cash Management Agreement. See the sections entitled " <i>Summary of the Key Transaction Documents – Cash Management Agreement</i> " and " <i>The Cash Manager and Issuer Account Bank</i> " for further information.
<b>"Issuer Account Bank"</b>	Citibank, N.A., London Branch	Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB	The Issuer Account Bank Agreement. See the sections entitled " <i>Summary of the Key Transaction Documents – Issuer Account Bank Agreement</i> " and " <i>The Cash Manager and Issuer Account Bank</i> " for further information.
<b>"Collection Account Bank"</b>	National Westminster Bank PLC	135 Bishopsgate, London, EC2M 3UR	The Collection Account Declaration of Trust. See the section entitled " <i>Summary of the Key Transaction Documents – Collection Account Declaration of Trust</i> " for further information.
<b>"Swap Counterparty"</b>	NatWest Markets Plc	250 Bishopsgate, London, EC2M 4AA	Swap Agreement. See the sections entitled " <i>Credit Structure – The Swap Agreement</i> " and " <i>The Swap Counterparty</i> " for further information.
<b>"Trustee"</b>	Citicorp Trustee Company Limited	Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB	The Trust Deed and the Deed of Charge. See the sections entitled " <i>Terms and Conditions of the Notes</i> " and " <i>The Trustee</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	The Agency Agreement. See the section entitled " <i>Terms and Conditions of the Notes</i> " for further information.

<b>Party</b>	<b>Name</b>	<b>Address</b>	<b>Document under which appointed/Further Information</b>
"Registrar"	Citibank, N.A., London Branch	Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB	The Agency Agreement. See the section entitled " <i>Terms and Conditions of the Notes</i> " for further information.
"Corporate Services Provider"	Intertrust Management Limited	35 Great St. Helen's, London, EC3A 6AP	The Corporate Services Agreement. See the section entitled " <i>The Corporate Services Provider and the Back-Up Services Facilitator</i> " for further information.
"Share Trustee"	Intertrust Corporate Services Limited	35 Great St. Helen's, London EC3A 6AP	The Share Trust Deed by the Share Trustee. See the section entitled " <i>Holdings</i> " for further information.

**Other entities involved on the Transaction which are not Transaction Parties:**

"Arranger" and "Lead Manager"	NatWest Markets Plc	250 Bishopsgate, London EC2M 4AA	The Subscription Agreement. See the section entitled " <i>Subscription and Sale</i> " for further information.
"Competent Authority"	Central Bank of Ireland	New Wapping Street North Wall Quay Dublin 1, Ireland	N/A
"Euronext Dublin"	Irish Stock Exchange PLC trading as Euronext Dublin	28 Anglesea Street, Dublin 2, Ireland	N/A
"Clearing Systems"	Euroclear Bank S.A. / N.V.	1, Boulevard du Roi Albert II B - 1210 Brussels Belgium	N/A
	Clearstream Banking, <i>Société anonyme</i>	42 Avenue JF Kennedy L-1855 Luxembourg	N/A
"Rating Agencies"	Moody's Investors Service Limited	1 Canada Square, Canary Wharf, London E14 5FA	N/A
	DBRS Ratings Limited	20 Fenchurch Street, 31 <sup>st</sup> Floor, London EC3M 3BY	N/A

## TRANSACTION OVERVIEW – MORTGAGE PORTFOLIO AND SERVICING

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

### **Sale of the Mortgage Portfolio:**

The Mortgage Portfolio will consist of the Mortgage Loans and their Related Security sold by the Seller to the Issuer on the Closing Date and any Additional Mortgage Loans sold to the Issuer during the Further Sale Period, subject to certain conditions being satisfied (see the section below entitled "Assignment of the Mortgage Loans and Related Security"), in each case, pursuant to the Mortgage Sale Agreement.

The English Mortgage Loans and their Related Security are governed by English law and the Scottish Mortgage Loans and their Related Security are governed by Scots law.

The Mortgage Loans have been originated by the Seller and the beneficial title to the Mortgage Loans and their Related Security has (prior to the sale thereof to the Issuer on the Closing Date pursuant to the terms of the Mortgage Sale Agreement) been purchased on or before the Closing Date by the Seller pursuant to the unwind of certain warehouse arrangements.

The terms "sale", "sell" and "sold" when used in this Prospectus in connection with the Mortgage Loans and their Related Security shall be construed to mean each equitable assignment and the beneficial interest created under and pursuant to the Scottish Declaration of Trust, as applicable. The terms "repurchase" and "repurchased" when used in this Prospectus in connection with a Mortgage Loan and its Related Security shall be construed to include (A) the repurchase of the beneficial interest of the Issuer in respect of such Mortgage Loan and its Related Security (to the extent that it is an English Mortgage Loan) and (B) the repurchase of the beneficial interest in respect of such Mortgage Loan and its Related Security (to the extent that it is a Scottish Mortgage Loan) under the Scottish Declaration of Trust and the determination of the trust created by the Scottish Declaration of Trust in relation to such Mortgage Loan, in each case pursuant to the terms of the Mortgage Sale Agreement.

Prior to the occurrence of a Perfection Event as set out below, notice of the sale of the Mortgage Loans and their Related Security comprising the Mortgage Portfolio will not be given to the Borrowers and the Issuer will not apply to the Land Registry or the Registers of Scotland (as applicable) to register or record its equitable or beneficial interest in the English Mortgages or take any steps to complete or perfect its title to the Scottish Mortgages. Prior to the occurrence of a Perfection Event, the legal title to each Mortgage Loan and its Related Security in the Mortgage Portfolio will be held by the Seller on bare trust for the Issuer (including in respect of the Scottish Mortgage Loans and related Scottish Mortgages). Following a Perfection Event and notice of the transfer of the Mortgage Loans and their Related Security to the Issuer being sent to the relevant Borrowers, legal title to the Mortgage Loans and their Related Security will (subject to appropriate registration or recording at the Land Registry or the Registers of Scotland (as applicable)) pass to the Issuer.



**Features of the Mortgage Loans:**

Except as otherwise indicated, the following is a summary of certain features of the Mortgage Loans comprising the Provisional Mortgage Portfolio, determined by reference to the features of each loan in the Provisional Mortgage Portfolio as at the Portfolio Reference Date. Investors are further referred to consider further details of the Provisional Mortgage Portfolio in the sections of this Prospectus entitled "*The Mortgage Portfolio and the Mortgage Loans*".

The Mortgage Loans comprise second (or in certain circumstances, subsequent) ranking loans to Borrowers, which are secured by a legal mortgage or charge or, in respect of the Properties located in Scotland, a standard security (the "**Mortgages**"). The Mortgages are second charges (or, in some cases, subsequent charges) and rank behind prior mortgages, charges or, in respect of the Properties located in Scotland, standard securities, granted by the Borrower in respect of the same Property. Accordingly, the Seller's rights to enforce the Mortgages and its right to repayment following enforcement may be limited by such prior mortgages, charges or standard securities. See the section "*The Mortgage Portfolio and the Mortgage Loans*" and "*Risk Factors*" for further detail.

The Mortgage Portfolio will not include Mortgage Loans which include capitalisations of Arrears of Interest or charges relating to such Mortgage Loans, or which have otherwise been altered to improve the affordability of the relevant Mortgage Loan for a Borrower who was experiencing payment or repayment difficulties or who had otherwise requested such amendments.

Type of mortgage	Second lien		
Number of loans in the Provisional Mortgage Portfolio	6,998		
Total Current Balance (£)	309,854,878		
		_____	_____
		_____	_____
Average Current Balance .....	£44,278		
Weighted Average Current Loan to Value Ratio .....	64.15%		
Weighted Average Interest Rate	6.26%		
Seasoning (Months) .....	8		
Remaining Term (Years).....	16		

See the section titled "*The Mortgage Portfolio and the Mortgage Loans – Lending Policy*" for a description of how the Current Loan to Value Ratio has been calculated.

**Consideration for the Mortgage Portfolio on the Closing Date:**

The consideration from the Issuer to the Seller in respect of the sale of the Mortgage Loans and their Related Security constituting the Mortgage Portfolio on the Closing Date shall be: (a) the Initial Purchase Price on the Closing Date and (b) an obligation of the Issuer to pay, at a later date, the Deferred Consideration in respect of the sale of the Mortgage Portfolio.

**Acquisition of Additional Mortgage Loans:**

The Seller may on any Business Day during the Further Sale Period make one further sale to the Issuer of Additional Mortgage Loans pursuant to the Mortgage Sale Agreement. The Issuer will fund the purchase of such Additional Mortgage Loans out of the funds standing to the credit of the Pre-Funding Principal Reserve Ledger.

The purchase by the Issuer of the Additional Mortgage Loans during the Further Sale Period will be subject to, in addition to compliance with

Mortgage Loan Warranties, certain conditions including (amongst other things) the Additional Mortgage Loan Conditions. Please see the section entitled "*Assignment of the Mortgage Loans and Related Security – Acquisition of Additional Mortgage Loans*" for further detail.

**Representations and Warranties:**

The Seller will make certain Mortgage Loan Warranties to the Issuer on (a) the Closing Date in relation to the Mortgage Loans and their Related Security sold to the Issuer on the Closing Date; (b) the Further Sale Date in relation to the Mortgage Loans and their Related Security sold to the Issuer on the Further Sale Date; and (c) on each Substitution Date in respect of a Substitute Mortgage Loan substituted on such Substitution Date which, amongst other things cover the following:

- (a) such Mortgage Loan and its Related Security complies with the Eligibility Criteria;
- (b) such Mortgage Loan is secured by (a) (in the case of Property situated in England and Wales) an English legal mortgage; and (b) (in the case of Property situated in Scotland) a Scottish standard security, in each case subject only to completion of any registration requirements at the Land Registry or the equivalent registration formalities in the jurisdiction of Scotland and provided that any application to effect such registration has been duly submitted to and received by the Land Registry or such other appropriate registrar and there is nothing to prevent such registration being progressed;
- (c) such Related Security includes either: (i) a second ranking legal mortgage or legal charge (if located in England or Wales) or standard security (if located in Scotland) (or, where such legal mortgage or legal charge or standard security is subordinated to more than one prior ranking legal mortgage(s) or legal charge(s) or standard security(ies) or statutory charges, all prior ranking legal mortgage(s) or legal charge(s) or standard security(ies) or statutory charges are made in favour of: (A) the person in favour of which the first ranking legal mortgage or legal charge or standard security is made; and/or (B) in the case of any Right To Buy Loans, any local authority or other social landlord where the Seller or the Prior Mortgagee has not obtained a deed of postponement from the local authority or other social landlord (and unless the relevant statutory charge in favour of the local authority or other social landlord has expired)); or (ii) in the case of any Mortgage Loan where all prior ranking legal mortgage(s) or legal charge(s) or standard security(ies) or statutory charges have been redeemed in full on or prior to the date on which such Mortgage Loan is sold to the Issuer, a first ranking legal mortgage or legal charge (if located in England or Wales) or standard security (if located in Scotland);
- (d) such Mortgage Loan is not payable in a currency other than Sterling; and
- (e) the Property which is subject to such Related Security is located in either England, Wales or Scotland.

See the sections "*Summary of the Key Transaction Documents – Mortgage Sale Agreement*" and "*Assignment of the Mortgage Loans and Related Security – Mortgage Loan Warranties and Breach of Mortgage Loan Warranties*" for further details.

**Repurchase of the Mortgage Loans and Related Security or Indemnity:**

The Seller is liable for the repurchase of a Mortgage Loan and its Related Security upon a breach of a Mortgage Loan Warranty (which the Seller fails to remedy within the agreed grace period), or, in the case of the non-existence of a Mortgage Loan, the indemnification of the Issuer and the Trustee. The Seller shall have no liability for a breach of a Mortgage Loan Warranty other than the obligation to repurchase or procure the repurchase or to indemnify the Issuer (as applicable) in accordance with the terms of the Mortgage Sale Agreement.

In the case of the breach of Mortgage Loan Warranties (that are not Core Mortgage Loan Warranties) the Seller may choose to indemnify and keep indemnified the Issuer against all Liabilities relating to the breach of such Mortgage Loan Warranty, provided that the amount payable by the Seller pursuant to such indemnity shall not exceed the amount that would have been payable by the Seller if it had repurchased that Mortgage Loan and its Related Security as of the applicable repurchase date.

The Seller will additionally be required to repurchase Mortgage Loans and their Related Security where the Seller has determined that it will consent to: (i) a Prior Mortgagee making, sending an offer of or accepting an application for a further advance to a Borrower in excess of any pre-agreed drawable amounts; (ii) a Mortgage Loan Modification; or (iii) a Prior Mortgage Loan Transfer that is not a Permitted Loan Transfer, and in all cases such repurchase of the relevant Mortgage Loan shall occur prior to such consent being given.

**Consideration for repurchase and indemnity:**

The price payable by the Seller upon the repurchase of any Mortgage Loan and its Related Security (or the amount of any indemnification in the case of the non-existence of a Mortgage Loan) will be the Repurchase Price. In the case of a breach of a Mortgage Loan Warranty (that is not a Core Mortgage Loan Warranty) where the Seller chooses to indemnify the Issuer in lieu of repurchasing the relevant Mortgage Loan, the indemnity payment shall be in an amount equal to the Liabilities incurred by the Issuer, provided that, if the quantum of Liabilities has not been determined within 30 Business Days from the date that a mortgage loan repurchase notice is delivered to the Seller, then the Seller shall repurchase the relevant Mortgage Loan for consideration (including in the form of a Substitute Mortgage Loan) or pay an indemnity amount, in each case equal to the Repurchase Price as if such Mortgage Loan Warranty was a Core Mortgage Loan Warranty. See the risk factor entitled "*Risks Related to the Mortgage Loans – Limitation of Seller's Liability*".

Such consideration (for repurchase or indemnity) may be satisfied by a cash payment by the Seller and/or by the transfer of Substitute Mortgage Loans to the Issuer.

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

**Substitution Criteria:**

On the repurchase of a Mortgage Loan as described above, the Seller may transfer Substitute Mortgage Loans to the Issuer as consideration for such repurchase. This is subject to the satisfaction of certain Substitution Conditions, which include the following:

- (a) no Event of Default is continuing;

- (b) no Insolvency Event in respect of the Seller has occurred; and
- (c) in respect of each Substitute Mortgage Loan provided as consideration for the repurchase of a Mortgage Loan which was in breach of any representation or warranty, such Substitute Mortgage Loan is of substantially similar characteristics and credit quality to the Mortgage Loan it replaces (as reasonably determined by the Servicer (where the Servicer is the Seller)), taking into account the (i) Current Loan to Value Ratio, (ii) Original Loan to Value Ratio, (iii) tenor, (iv) Product Type, and (v) Mortgage Rate of such Substitute Mortgage Loan.

See the section entitled "*Summary of the Key Transaction Documents – Mortgage Sale Agreement – Substitute Mortgage Loans*" for further information.

**Perfection Events and transfer of legal title to the Issuer:**

Within 20 Business Days of receipt of written notice from the Issuer or the Trustee of the occurrence of any Perfection Event, the Seller will be required to execute transfers or assignments of legal title to the Mortgage Loans and their Related Security to the Issuer (or a nominee of the Issuer). The Seller shall be obliged to give notice of assignment of the Mortgage Loans to the Borrowers following the occurrence of a Perfection Event by serving relevant notices thereof on the Borrowers.

See "*Assignment of the Mortgage Loans and Related Security*" below.

**Servicing of the Mortgage Portfolio:**

The Servicer agrees to service the Mortgage Loans to be sold to the Issuer, and their Related Security, on behalf of the Issuer and, where applicable, the Seller. Following the service of an Enforcement Notice, the Servicer shall act at the direction of the Trustee. The appointment of the Servicer may be terminated by the Issuer and, following service of an Enforcement Notice, the Trustee (subject to the terms of the Servicing Agreement) if any Servicer Termination Event occurs and is continuing (see "*Summary of the Key Transaction Documents – Servicing Agreement – Termination of the Appointment of the Servicer*").

The terms of the Servicing Agreement will permit delegation of the servicing function to Pepper (UK) Limited without consent of the Issuer or the Trustee (see – *The Seller, Retention Holder and Servicer – Sale to Pepper Money (PMB) Limited*) for more information.

The Back-Up Servicer will be appointed by the Issuer and the Seller on the Closing Date pursuant to the Back-Up Servicing Agreement and, upon termination of the appointment of the Servicer, the Back-Up Servicer will, following the agreed invocation period administer the Mortgage Loans on behalf of the Issuer pursuant to the terms of the Servicing Agreement.

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

*Please refer to the 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 A Notes	Class B Notes	Class C Notes	Class D Notes	Class E Notes	Class F Notes	Class X Notes	Class Z Notes
<b>Principal Amount:</b>	£244,872,000	£22,572,000	£20,862,000	£14,364,000	£10,602,000	£11,628,000	£15,000,000	£17,100,000
<b>Credit enhancement features*:</b>	Subordination of the Notes (other than the Class A Notes and the Class X Notes); Revenue Receipts remaining after payment of interest on Class A Notes and all other amounts ranking in priority thereto; the availability of the General Reserve Fund and, following service of an Enforcement Notice, all remaining amounts credited to the General Reserve Fund and the Liquidity Reserve Fund.	Subordination of the Notes (other than the Class A Notes, the Class B Notes and the Class X Notes); Revenue Receipts remaining after payment of interest due in respect of the Class B Notes and amounts required to maintain the Liquidity Reserve Fund Required Amount and all other amounts ranking in priority thereto; the availability of the General Reserve Fund and, following service of an Enforcement Notice and after the repayment in full of the Class A Notes, all remaining amounts credited to the General Reserve Fund and the Liquidity Reserve Fund.	Subordination of the Notes (other than the Class A Notes, the Class B Notes, the Class C Notes and the Class X Notes); Revenue Receipts remaining after payment of interest due in respect of the Class C Notes and all other amounts ranking in priority thereto; the availability of the General Reserve Fund; following the Senior Notes Redemption Date, all remaining amounts credited to the Liquidity Reserve Fund applied as Available Redemption Receipts; and following service of an Enforcement Notice and after the repayment in full of the Class A Notes and the Class B Notes, all remaining amounts credited to the General Reserve Fund and the Liquidity Reserve Fund.	Subordination of the Notes (other than the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, and the Class X Notes); Revenue Receipts remaining after payment of interest due in respect of the Class D Notes and all other amounts ranking in priority thereto; the availability of the General Reserve Fund; following the Senior Notes Redemption Date and repayment in full of the Class C Notes, remaining amounts credited to the Liquidity Reserve Fund applied as Available Redemption Receipts; and following service of an Enforcement Notice and after the repayment in full of the Class A Notes, Class B Notes and Class C Notes, all remaining amounts credited to the General Reserve Fund and the Liquidity Reserve Fund.	Subordination of the Notes (other than the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Class X Notes); Revenue Receipts remaining after payment of interest due in respect of the Class E Notes and all other amounts ranking in priority thereto; the availability of the General Reserve Fund; following the Senior Notes Redemption Date and repayment in full of the Class D Notes, remaining amounts credited to the Liquidity Reserve Fund applied as Available Redemption Receipts; and following service of an Enforcement Notice and after the repayment in full of the Class A Notes, Class B Notes, Class C Notes and Class D Notes, all remaining amounts credited to the General Reserve Fund and the Liquidity Reserve Fund.	Subordination of the Class Z Notes; Revenue Receipts remaining after payment of interest due in respect of the Class F Notes and all other amounts ranking in priority thereto; the availability of the General Reserve Fund; following the Senior Notes Redemption Date and repayment in full of the Class E Notes, remaining amounts credited to the Liquidity Reserve Fund applied as Available Redemption Receipts; and following service of an Enforcement Notice and after the repayment in full of the Class A Notes, Class B Notes, Class C Notes, Class D Notes and Class E Notes, all remaining amounts credited to the General Reserve Fund and the Liquidity Reserve Fund.	The cumulative excess (if any) of Available Revenue Receipts after providing for items (a) to (w) of the Pre-Enforcement Revenue Priority of Payments over the original principal amount of the Class X Notes; and following service of an Enforcement Notice and after the repayment in full of the Class A Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes and Class F Notes, all remaining amounts credited to the General Reserve Fund and the Liquidity Reserve Fund.	Revenue Receipts remaining after payment of interest due in respect of the Class Z Notes; following the Senior Notes Redemption Date, the Liquidity Reserve Fund applied as Available Redemption Receipts; and, following the service of an Enforcement Notice and after the repayment in full of the Rated Notes and the Class X Notes, all remaining amounts standing to the credit of the General Reserve Fund and Liquidity Reserve Fund.

	Class A Notes	Class B Notes	Class C Notes	Class D Notes	Class E Notes	Class F Notes	Class X Notes	Class Z Notes
<b>Liquidity support features</b>	Subordination in payment of interest of the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes, the Class F Notes, the Class X Notes, the Class Z Notes, and other subordinated items paid through revenue, the Liquidity Reserve Fund to provide for any Revenue Deficits, Available Redemption Receipts applied as Principal Addition Amounts (subject to the PDL Condition) to provide for any Revenue Deficits, the availability of amounts credited to the General Reserve Fund and (in respect of the first Interest Payment Date only), the availability of amounts credited to the Pre-Funding Revenue Reserve	Subordination in payment of interest of the Class C Notes, the Class D Notes, the Class E Notes, the Class F Notes, the Class X Notes, the Class Z Notes, and other subordinated items paid through revenue, the Liquidity Reserve Fund to provide for any Revenue Deficits, Available Redemption Receipts applied as Principal Addition Amounts (subject to the PDL Condition) to provide for any Revenue Deficits, the availability of amounts credited to the General Reserve Fund and (in respect of the first Interest Payment Date only), the availability of amounts credited to the Pre-Funding Revenue Reserve	Subordination in payment of the Class D Notes, the Class E Notes, the Class F Notes, the Class X Notes, the Class Z Notes, and other subordinated items paid through revenue, the availability of amounts credited to the General Reserve Fund and (in respect of the first Interest Payment Date only), the availability of amounts credited to the Pre-Funding Revenue Reserve	Subordination in payment of the Class E Notes, the Class F Notes, the Class X Notes, the Class Z Notes and other subordinated items paid through revenue, the availability of amounts credited to the General Reserve Fund and (in respect of the first Interest Payment Date only), the availability of amounts credited to the Pre-Funding Revenue Reserve	Subordination in payment of the Class F Notes, the Class X Notes, the Class Z Notes and other subordinated items paid through revenue, the availability of amounts credited to the General Reserve Fund and (in respect of the first Interest Payment Date only), the availability of amounts credited to the Pre-Funding Revenue Reserve	Subordination in payment of the Class X Notes, the Class Z Notes and other subordinated items paid through revenue, the availability of amounts credited to the General Reserve Fund and (in respect of the first Interest Payment Date only), the availability of amounts credited to the Pre-Funding Revenue Reserve	Subordinated items paid through revenue	N/A
<b>Issue Price:</b>	100%	100%	100%	100%	100%	100%	100%	100%

	<u>Class A Notes</u>	<u>Class B Notes</u>	<u>Class C Notes</u>	<u>Class D Notes</u>	<u>Class E Notes</u>	<u>Class F Notes</u>	<u>Class X Notes</u>	<u>Class Z Notes</u>
<b>Reference Rate: **</b>	Three Month LIBOR***	Three Month LIBOR ***	Three Month LIBOR***	Three Month LIBOR***	Three Month LIBOR***	Three Month LIBOR***	Three Month LIBOR***	Three Month LIBOR***
<b>Margin:</b>	1.14% per annum	1.65% per annum	1.90% per annum	2.40% per annum	3.50% per annum	4.40% per annum	4.75% per annum	5.50% per annum
<b>Step-Up Margin (from the Optional Redemption Date):</b>	Margin + 1.14% per annum	Margin + 1.00% per annum	Margin + 1.00% per annum	Margin + 1.00% per annum	Margin + 1.25% per annum	Margin + 1.25% per annum	N/A	N/A

\* On and after the Optional Redemption Date, any excess Available Revenue Receipts are used to make payments of principal on the Rated Notes prior to the payment of interest on the Class X Notes.

\*\* Except in respect of the first Interest Period, where the reference rate will be the linear interpolation of LIBOR for one and three months deposits in Sterling.

\*\*\* "Three Month LIBOR" means LIBOR for three month sterling deposits.

	<b>Class A Notes</b>	<b>Class B Notes</b>	<b>Class C Notes</b>	<b>Class D Notes</b>	<b>Class E Notes</b>	<b>Class F Notes</b>	<b>Class X Notes</b>	<b>Class Z Notes</b>
<b>Interest Accrual Method:</b>	Actual/365 (Fixed)	Actual/365 (Fixed)	Actual/365 (Fixed)	Actual/365 (Fixed)	Actual/365 (Fixed)	Actual/365 (Fixed)	Actual/365 (Fixed)	Actual/365 (Fixed)
<b>Interest Payment Dates:</b>	25 <sup>th</sup> day of January, April, July and October in each year	25 <sup>th</sup> day of January, April, July and October in each year	25 <sup>th</sup> day of January, April, July and October in each year	25 <sup>th</sup> day of January, April, July and October in each year	25 <sup>th</sup> day of January, April, July and October in each year	25 <sup>th</sup> day of January, April, July and October in each year	25 <sup>th</sup> day of January, April, July and October in each year	25 <sup>th</sup> day of January, April, July and October in each year
<b>First Interest Payment Date:</b>	25 January 2019	25 January 2019	25 January 2019	25 January 2019	25 January 2019	25 January 2019	25 January 2019	25 January 2019
<b>Final Maturity Date:</b>	The Interest Payment Date falling on 25 January 2046	The Interest Payment Date falling on 25 January 2046	The Interest Payment Date falling on 25 January 2046	The Interest Payment Date falling on 25 January 2046	The Interest Payment Date falling on 25 January 2046	The Interest Payment Date falling on 25 January 2046	The Interest Payment Date falling on 25 January 2046	The Interest Payment Date falling on 25 January 2046
<b>Optional Redemption Date:</b>	The Interest Payment Date falling in January 2022	The Interest Payment Date falling in January 2022	The Interest Payment Date falling in January 2022	The Interest Payment Date falling in January 2022	The Interest Payment Date falling in January 2022	The Interest Payment Date falling in January 2022	The Interest Payment Date falling in January 2022	The Interest Payment Date falling in January 2022
<b>Application for Exchange Listing:</b>	Euronext Dublin	Euronext Dublin	Euronext Dublin	Euronext Dublin	Euronext Dublin	Euronext Dublin	Euronext Dublin	Euronext Dublin
<b>ISIN:</b>	XS1849533234	XS1849535528	XS1849535791	XS1849535874	XS1849535957	XS1849536419	XS1849535361	XS1849535445
<b>Common Code:</b>	184953323	184953552	184953579	184953587	184953595	184953641	184953536	184953544
<b>Ratings (Moody's/DBRS):</b>	Aaa (sf) / AAA (sf)	Aa1 (sf) / AA (low) (sf)	Aa3 (sf) / A (low) (sf)	Baa1 (sf) / BBB (high) (sf)	Ba2 (sf) / BB (high) (sf)	Caa2 (sf) / B (low) (sf)	Not rated	Not rated
<b>Minimum Denomination:</b>	£100,000	£100,000	£100,000	£100,000	£100,000	£100,000	£100,000	£100,000
<b>Governing law of the Notes:</b>	English	English	English	English	English	English	English	English

As of the date of this Prospectus, each of the Rating Agencies is a credit rating agency established in the EU and is registered under the CRA Regulation.



## TRANSACTION OVERVIEW – OVERVIEW OF THE CHARACTERISTICS OF THE NOTES

**Ranking and Form of the Notes:** On the Closing Date, the Issuer will issue the following classes of Notes under the Trust Deed:

- Class A Mortgage Backed Floating Rate Notes due January 2046 (the "**Class A Notes**");
- Class B Mortgage Backed Floating Rate Notes due January 2046 (the "**Class B Notes**");
- Class C Mortgage Backed Floating Rate Notes due January 2046 (the "**Class C Notes**");
- Class D Mortgage Backed Floating Rate Notes due January 2046 (the "**Class D Notes**");
- Class E Mortgage Backed Floating Rate Notes due January 2046 (the "**Class E Notes**");
- Class F Mortgage Backed Floating Rate Notes due January 2046 (the "**Class F Notes**");
- Class X Floating Rate Notes due January 2046 (the "**Class X Notes**"); and
- Class Z Mortgage Backed Floating Rate Notes due January 2046 (the "**Class Z Notes**"),

and together, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes are the "**Rated Notes**". The Rated Notes together with the Class X Notes and the Class Z Notes are the "**Notes**" and the holders thereof, the "**Noteholders**".

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

**Sequential Order:** Save in respect of amounts standing to the credit of the Pre-Funding Principal Reserve Ledger at the end of the Further Sale Period End Date:

- the Class A Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times. The Class A Notes will rank senior to all other classes of Notes in respect of payments of interest and principal, provided that at any time (prior to the Optional Redemption Date), as principal on the Class X Notes is repaid through the Pre-Enforcement Revenue Priority of Payments, the Class X Notes may be redeemed prior to the redemption of the Class A Notes;
- the Class B Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times but subordinate to the Class A Notes, provided that at any time (prior to the Optional Redemption Date), as principal on the Class X Notes is repaid through the Pre-Enforcement Revenue Priority of Payments, the Class X Notes may be redeemed prior to the redemption of the Class B Notes;

- the Class C Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to the Class A Notes and the Class B Notes, provided that at any time (prior to the Optional Redemption Date), as principal on the Class X Notes is repaid through the Pre-Enforcement Revenue Priority of Payments, the Class X Notes may be redeemed prior to the redemption of the Class C Notes;
- the Class D Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to the Class A Notes, the Class B Notes and the Class C Notes, provided that at any time (prior to the Optional Redemption Date), as principal on the Class X Notes is repaid through the Pre-Enforcement Revenue Priority of Payments, the Class X Notes may be redeemed prior to the redemption of the Class D Notes;
- the Class E Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes, provided that at any time (prior to the Optional Redemption Date), as principal on the Class X Notes is repaid through the Pre-Enforcement Revenue Priority of Payments, the Class X Notes may be redeemed prior to the redemption of the Class E Notes; and
- the Class F Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to the Class A Notes, the Class B Notes, the Class C Notes, Class D Notes and the Class E Notes, provided that at any time (prior to the Optional Redemption Date), as principal on the Class X Notes is repaid through the Pre-Enforcement Revenue Priority of Payments, the Class X Notes may be redeemed prior to the redemption of the Class F Notes.

The Class X Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to all payments of: (a) (at all times) interest due in respect of the Class A Notes, the Class B Notes, the Class C Notes, Class D Notes, the Class E Notes and the Class F Notes; and (b) (from and including the Optional Redemption Date or following the service of an Enforcement Notice) principal due in respect of the Class A Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes and Class F Notes.

The Class Z Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to all payments due in respect of the Rated Notes and the Class X Notes.

All amounts standing to the credit of the Pre-Funding Principal Reserve Ledger on the Further Sale Period End Date (taking into account any debits made on that ledger on such date) will be applied *pro rata* in redemption of the Rated Notes on the first Interest Payment Date by reference to their respective Principal Amount Outstanding on the Closing Date.

Certain amounts due by the Issuer to its other Secured Creditors (and, prior to the service of an Enforcement Notice only, certain unsecured creditors) will rank in priority to all Classes of the Notes.

**Security:**

Pursuant to a deed of charge made between, among others, the Issuer and the Trustee (the "**Deed of Charge**"), the Notes will all share the same Security. Certain other liabilities, being the amounts owing to the other Secured Creditors, will also be secured by the Security.

Pursuant to the Deed of Charge on the Closing Date (or, in the case of (c) below, pursuant to a supplemental charge on the Closing Date), the Notes will be secured by, among other things, the following security (the "**Security**"):

- (a) an assignment by way of security of (and, to the extent not effectively assigned to the Trustee, a charge by way of first fixed charge over) the Issuer's rights, title, interest and benefit in, to and under the Transaction Documents (other than the Trust Deed, the Deed of Charge, any Scottish Supplemental Charge and any Scottish Declaration of Trust) and any sums derived therefrom;
- (b) an assignment by way of security of (and, to the extent not effectively assigned to the Trustee, a charge by way of first fixed charge over) the Issuer's interest in the English Mortgage Loans and their Related Security and other related rights comprised in the Mortgage Portfolio (other than in respect of Scottish Mortgage Loans) and any sums derived therefrom;
- (c) an assignment in security of the Issuer's interest in the Scottish Mortgage Loans and their Related Security (comprising the Issuer's beneficial interest under the trust declared by the Seller over such Scottish Mortgage Loans and their Related Security for the benefit of the Issuer pursuant to any Scottish Declaration of Trust) and other related rights comprised in the Mortgage Portfolio (other than in respect of the English Mortgage Loans) (the "**Scottish Supplemental Charge**");
- (d) a charge by way of first fixed charge over the Issuer's interest in its bank accounts (including the Issuer Accounts) maintained with the Issuer Account Bank and any other bank or custodian and any sums or securities standing to the credit thereof;
- (e) an assignment by way of first fixed security (and, to the extent not effectively assigned to the Trustee, a charge by way of first fixed charge over) the benefit of the Issuer's rights, title, interest and benefit in the Issuer Share of the Collection Account Trust Property; and
- (f) a floating charge over all assets of the Issuer not otherwise subject to the charges referred to above or otherwise effectively assigned by way of security (other than item (c) above), including over all of the Issuer's property, assets, rights and revenues as are situated in Scotland or governed by Scots law (whether or not such assets are the subject of the charges or Security referred to above).

In addition, if there is a delivery of a Scottish Transfer pursuant to the Mortgage Sale Agreement, the Issuer will deliver to the Trustee a standard security over the standard security which is the subject of the Scottish Transfer (a "**Scottish Sub-Security**"). See "*Summary of the Key Transaction Documents – Deed of Charge*" below.

**Interest Provisions:**

Please refer to the "*Full Capital Structure of the Notes*" table above and as fully set out in Condition 6 (*Interest*).

**Deferral:** Interest due and payable on the Most Senior Class of Notes (other than where the Most Senior Class of Notes is the Class X Notes or the Class Z Notes) may not be deferred. Interest due and payable on the Class X Notes and the Class Z Notes and on any other Class which are not the Most Senior Class of Notes may be deferred in accordance with Condition 18 (*Subordination by Deferral*) on any Interest Payment Date, other than the Final Maturity Date or any earlier Interest Payment Date on which the Notes are to be redeemed in full. For the avoidance of doubt, such deferral shall not result in the occurrence of an Event of Default or Potential Event of Default. No Event of Default will occur if there is a non-payment of interest on the Class X Notes and the Class Z Notes.

**Gross-up:** None of the Issuer, any Paying Agent or any other person will be obliged to pay additional amounts to Noteholders if there is any withholding or deduction required by law in respect of the Notes on account of taxes.

**Redemption:** The Notes may be redeemed in the following circumstances:

- mandatory redemption in whole on the Final Maturity Date, as fully set out in Condition 8.1 (*Redemption at Maturity*);
- optional redemption in whole on any Interest Payment Date when the Principal Amount Outstanding of the Notes is less than 10 per cent. of the Principal Amount Outstanding of the Notes on the Closing Date, as fully set out in Condition 8.3 (*Optional Redemption in whole*);
- optional redemption in whole on any Interest Payment Date from and including the Optional Redemption Date, as fully set out in Condition 8.3 (*Optional Redemption in whole*); and
- optional redemption in whole on any Interest Payment Date following a change in tax law or otherwise by reason of a change in law (where the negative effects of such change cannot otherwise be mitigated by substitution of the Issuer or an appointment of alternative Paying Agent, as fully set out in Condition 8.4 (*Optional Redemption for Taxation Reasons*)).

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

The Notes are required to be redeemed in part in the following circumstances:

- mandatory redemption in part on any Interest Payment Date, commencing on the first Interest Payment Date, but prior to the service of an Enforcement Notice, subject to availability of Available Redemption Receipts:
  - (a) *first*, on a *pari passu* and *pro rata* basis to repay the Class A Notes until they are repaid in full;
  - (b) *second*, on a *pari passu* and *pro rata* basis to repay the Class B Notes until they are repaid in full;
  - (c) *third*, on a *pari passu* and *pro rata* basis to repay the Class C Notes until they are repaid in full;
  - (d) *fourth*, on a *pari passu* and *pro rata* basis to repay the Class D Notes until they are repaid in full;

- (e) *fifth*, on a *pari passu* and *pro rata* basis to repay the Class E Notes until they are repaid in full;
  - (f) *sixth*, on a *pari passu* and *pro-rata* basis to repay the Class F Notes until they are repaid in full; and
  - (g) *seventh*, on a *pari passu* and *pro rata* basis to repay the Class Z Notes until they are repaid in full; and
- mandatory redemption in part of the Class X Notes on any Interest Payment Date prior to the service of an Enforcement Notice in an amount, up to the Principal Amount Outstanding of the Class X Notes, equal to the Available Revenue Receipts available for such purpose in accordance with the Pre-Enforcement Revenue Priority of Payments.

The amount standing to the credit of the Pre-Funding Principal Reserve Ledger as at the Further Sale Period End Date (taking into account any debits made on that ledger on such date) shall be applied *pro rata* in redemption of the Rated Notes on the first Interest Payment Date by reference to their respective Principal Amount Outstanding on the Closing Date.

**Expected Average Lives of the Notes:**

The actual average lives of the Notes cannot be stated, as the actual rate of repayment and prepayment of the Mortgage 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.

**Events of Default:**

As fully set out in Condition 11 (*Events of Default*), which includes, among other events (where relevant, subject to the applicable grace period):

- default being made for (A) a period of 15 calendar days in the payment of any principal due on the Notes; or (B) a period of 7 calendar days in the payment of any interest due in respect of (I) whilst any of the Class A Notes are outstanding, the Class A Notes; or (II) (should they be the Most Senior Class of Notes) any other Class of Rated Notes, as and when the same ought to be paid in accordance with the Conditions;
- breach of any other contractual obligations by the Issuer under the Transaction Documents or the Conditions which, in the opinion of the Trustee, is materially prejudicial to the interests of the Most Senior Class of Notes if such breach is incapable of remedy or, if it is capable of remedy, has not been remedied within the applicable grace period;
- any representation or warranty made by the Issuer is incorrect when given which, in the opinion of the Trustee, is materially prejudicial to the interests of the Most Senior Class of Notes, provided that the matters giving rise to such misrepresentation are incapable of remedy or, if capable of remedy, have not been remedied within the applicable grace period;
- the Issuer ceasing or threatening to cease to carry on the whole or, in the opinion of the Trustee, a substantial part of its business;
- the occurrence of certain insolvency related events in relation to the Issuer or its assets and undertaking; and

- the Issuer initiating or consenting to insolvency proceedings relating to itself, or taking steps with a view to obtaining a moratorium in respect of any of its indebtedness.

Following the occurrence of an Event of Default, the Trustee may (or if so directed in writing by the holders of at least 25 per cent. in aggregate of the Principal Amount Outstanding of the Most Senior Class of Notes, or by an Extraordinary Resolution of the holders of the Most Senior Class of Notes shall, and provided that in all cases the Trustee is indemnified and/or prefunded and/or secured to its satisfaction) serve an Enforcement Notice on the Issuer that all Classes of Notes are immediately due and payable. Following service of an Enforcement Notice to the Issuer, the Trustee may enforce the Security.

**Limited Recourse and Non-Petition:**

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 12.4 (*Limited Recourse*). In accordance with Condition 12.3 (*Limitations on Enforcement*), no Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable period of time and such failure is continuing.

**Governing Law:**

English law (provided that any terms of the Transaction Documents which are particular to Scots law will be governed by and construed in accordance with Scots law and the Scottish Declaration of Trust and Scottish Supplemental Charge will be governed by Scots law).

**TRANSACTION OVERVIEW – RIGHTS OF NOTEHOLDERS AND RELATIONSHIP WITH OTHER SECURED CREDITORS**

*Please refer to the 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:** Noteholders holding not less than 10 per cent. of the Principal Amount Outstanding of the Notes then outstanding are entitled to convene a Noteholders' meeting.

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 Trustee, without the consent of the Issuer and, if applicable, certain other transaction parties, unless the Issuer has an obligation to take such actions under the relevant Transaction Documents.

**Following an Event of Default:** Following the occurrence of an Event of Default, Noteholders may, if they hold at least 25 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes, or if an Extraordinary Resolution of the holders of the Most Senior Class of Notes is passed, direct the Trustee to give an Enforcement Notice to the Issuer with the effect that all classes of the Notes become immediately due and repayable at their respective Principal Amounts Outstanding together with accrued (but unpaid) interest. The Trustee shall not be bound to take any such action unless first indemnified and/or prefunded and/or secured to its satisfaction.

**Noteholders Meeting provisions:**

	<u>Initial meeting</u>	<u>Adjourned meeting</u>
<b>Notice period:</b>	At least 21 clear days	At least 10 clear days
<b>Quorum:</b>	Subject to the more detailed provisions of the Trust Deed, one or more persons present and representing in aggregate not less than 25 per cent. of the Principal Amount Outstanding of the relevant Class or Classes of Notes then outstanding, for transaction of business including the passing of an Ordinary Resolution. The quorum for passing an Extraordinary Resolution (other than a Basic Terms Modification) shall be one or more persons present and representing in aggregate not less than 50 per cent. of the aggregate Principal Amount Outstanding of the relevant Class or Classes of Notes then outstanding. The quorum for passing a Basic Terms Modification shall be one or more persons present and holding or	Subject to the more detailed provisions of the Trust Deed, one or more persons present and representing in aggregate not less than 10 per cent. of the Principal Amount Outstanding of the relevant Class or Classes of Notes then outstanding, for transaction of business including the passing of an Ordinary Resolution. The quorum for passing an Extraordinary Resolution (other than a Basic Terms Modification) shall be one or more persons present and representing in aggregate not less than 25 per cent. of the aggregate Principal Amount Outstanding of the relevant Class or Classes of Notes then outstanding. The quorum for passing a Basic Terms Modification shall be one or more persons present and holding or representing in aggregate

representing in aggregate not less than 50 per cent. of not less than 75 per cent. of the aggregate Principal Amount Outstanding of each relevant Class of Notes then outstanding.

**Required majority for Ordinary Resolution:** A clear majority of persons eligible to attend and vote at such meeting and voting at that meeting upon a show of hands or, if a poll is duly demanded, a clear majority of the votes cast on such poll (an "**Ordinary Resolution**").

**Required majority for Extraordinary Resolution:** A majority consisting of not less than 75 per cent. of persons eligible to attend and vote at such meeting and voting at such meeting upon a show of hands or, if a poll is duly demanded, a majority consisting of not less than 75 per cent. of the votes cast on such poll (an "**Extraordinary Resolution**").

**Required majority for a written resolution:** Not less than 75 per cent. in aggregate Principal Amount Outstanding of the relevant Class of Notes then outstanding. A written resolution has the same effect as an Extraordinary Resolution.

**Matters requiring Extraordinary Resolution:**

The following matters require an Extraordinary Resolution of the Noteholders, as set out in the Trust Deed:

- to sanction or to approve a Basic Terms Modification;
- to sanction any compromise or arrangement proposed to be made between, among others, the Issuer or any other party to any Transaction Document;
- to sanction any abrogation, modification, compromise or arrangement in respect of the rights of, among others, the Trustee or any other party to any Transaction Document against any other or others of them or against any of their property whether such rights arise under the Trust Deed, any other Transaction Document or otherwise;
- to approve the substitution of any person for the Issuer as principal debtor under the Notes other than in accordance with Condition 8.4 (*Optional Redemption for Taxation Reasons*) or Condition 13.22 (*Issuer Substitution Condition*) or Clause 16 (*Substitution*) of the Trust Deed;
- to assent to any modification of the Trust Deed or any other Transaction Document which is proposed by the Issuer or any other party to any Transaction Document or any Noteholder, other than those modifications which are sanctioned by the Trustee without the consent or sanction of the Noteholders in accordance with the terms of the Trust Deed;
- to direct the Trustee to serve an Enforcement Notice;
- to remove the Trustee;
- to approve the appointment of a new Trustee;



- to authorise the Trustee and/or any Appointee to execute all documents and do all things necessary to give effect to any Extraordinary Resolution;
- to discharge or exonerate the Trustee and/or any Appointee from any liability in respect of any act or omission for which it may become responsible under the Trust Deed or the Notes;
- to make directions to the Trustee in connection with a breach of the Risk Retention Undertaking by the Retention Holder;
- to appoint any persons as a committee to represent the interests of the Noteholders and to confer upon such committee any powers which the Noteholders could themselves exercise by Extraordinary Resolution;
- other than pursuant to Clause 16 (*Substitution*) of the Trust Deed or Condition 13.22 (*Issuer Substitution Condition*) to sanction any scheme or proposal for the exchange, sale, conversion or cancellation of the Notes for or partly or wholly in consideration of shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company or partly or wholly in consideration of cash; or
- to give any other authorisation or sanction which under the Trust Deed or any other Transaction Document is required to be given by Extraordinary Resolution.

See Condition 13 (*Meetings of Noteholders, Modification, Waiver and Substitution*) in the section entitled "*Terms and Conditions of the Notes*" for more detail.

**Right of modification subject to negative consent of Noteholders:**

Pursuant to and in accordance with the detailed provisions of Condition 13.6, the Trustee shall be obliged in certain circumstances, without any consent or sanction of the Noteholders or the other Secured Creditors but subject to the receipt of the prior written consent of any of the Secured Creditors party to the Transaction Document being modified, to concur with the Issuer in making any modification (other than a Basic Terms Modification) to the Conditions and/or any Transaction Document that the Issuer considers necessary for the purpose of complying with: (a) any change in the criteria of one or more Rating Agencies; (b) any changes in the requirements of Article 405 of the CRR, Article 17 of AIFMD, Article 51(1) of AIFMR or Article 254(2) of Solvency II Regulation; (c) FATCA; (d) the CRA Regulation; (e) Articles 9, 10 and 11 of EMIR or any other applicable obligation under EMIR or for the purposes of enabling the Notes to be (or remain) listed on Euronext Dublin; or (f) a Base Rate Modification.

Other than a modification for the purposes of enabling the Issuer and/or the Swap Counterparty to comply with any obligations which apply to it under Articles 9, 10 and 11 of EMIR (pursuant to and in accordance with the detailed provisions of Condition 13.6(b)(i)), the Issuer must provide at least 30 days' notice to Noteholders of each Class of the proposed modification in accordance with Condition 17 (*Notice to Noteholders*) and by publication on Bloomberg on the "Company News" screen relating to the Issuer. If within such notice period Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of any Class of Notes then outstanding have notified the Issuer in writing that such Noteholders do not consent to the modification then such modification will not be made unless passed by an Extraordinary Resolution of the Noteholders of the Most Senior

Class of Notes in accordance with Condition 13 (*Meetings of Noteholders, Modification, Waiver and Substitution*).

**Right of modification without consent of Noteholders:**

The Trustee may at any time and from time to time, with the written consent of the Secured Creditors which are a party to the relevant Transaction Document (such consent to be conclusively demonstrated by such Secured Creditor entering into any deed or document purporting to modify such Transaction Document) but without the consent or sanction of the Noteholders, or any other Secured Creditors agree with the Issuer and any other parties in making or sanctioning any modification: (a) (except in the case of a Basic Terms Modification) to the Conditions, the Trust Deed or any other Transaction Document, which in the opinion of the Trustee, will not be materially prejudicial to the interests of the Noteholders; or (b) to the Conditions, the Trust Deed or any other Transaction Document if in the opinion of the Trustee, such modification is of a formal, minor or technical nature or is made to correct a manifest error.

The Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Trustee, would have the effect of (i) exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights or protection, of the Trustee in the Transaction Documents and/or these Conditions.

**Relationship between Classes of Noteholders:**

Subject to the provisions governing a Basic Terms Modification and the following paragraphs, a resolution of the Most Senior Class of Notes at any given time shall be binding on all other Classes of Notes which are subordinate to such Most Senior Class of Notes at any given time, irrespective of the effect upon them. No Extraordinary Resolution of any other Class of Noteholders shall take effect for any purpose while the Most Senior Class of Notes remains outstanding unless it shall have been sanctioned by an Extraordinary Resolution of the holders of such Most Senior Class of Notes (or the Trustee is of the opinion that it would not be materially prejudicial to the interests of the holders of the Most Senior Class of Notes).

A Basic Terms Modification requires an Extraordinary Resolution of the holders of each affected Class or Classes of Notes.

Subject to the provisions governing a Basic Terms Modification and the foregoing paragraphs, a resolution which, in the opinion of the Trustee, affects the interests of the holders of Notes of one Class only shall be deemed to have been duly passed if passed at a separate meeting (or by a separate resolution in writing or by a separate resolution passed by way of consents received through the relevant Clearing System(s)) of the holders of that Class of Notes so affected.

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

So long as any of the Notes are outstanding, the Trustee shall not have regard to the interests of the Secured Creditors other than the Noteholders.

So long as the Notes are outstanding, the Trustee will have regard to the interests of holders of each Class of Notes equally (except where expressly provided otherwise in the Conditions) but where there is or may be in the opinion of the Trustee a conflict of interests between one or more Classes of Notes the Trustee is required to have regard (except as expressly provided otherwise in the Conditions and without prejudice to Condition 13.3 and in relation to such conflict only) to the interests of the holders of the affected Class or Classes of Notes ranking in priority to the other affected Classes of Notes.

**Seller, Retention Holder or related entity as Noteholder:**

Prospective investors should note that the Seller, the Retention Holder and/or affiliates or related entities of the Seller and/or the Retention Holder may purchase some or all of any of the Classes of the Notes, and in doing so, will not be prevented from being entitled to attend meetings of the Noteholders or vote at Noteholder meetings or by way of written resolution (as applicable).

Prospective investors should be aware that the interests of the Seller, the Retention Holder and/or affiliates or related entities of the Seller and/or the Retention Holder may conflict generally with that of the other Noteholders, and the Seller, the Retention Holder and/or affiliates or related entities of the Seller and/or the Retention Holder are not required to vote in any particular manner.

**Provision of information to the Noteholders:**

The Cash Manager on behalf of the Issuer will, following delivery of the Monthly Servicer Report on the Monthly Servicer Report Date, publish a monthly investor report (other than in any calendar month where the Quarterly Investor Report (as defined below) is required to be delivered) by no later than the second Business Day following the Monthly Servicer Report Date (the "**Monthly Investor Report**") and a quarterly investor report by no later than 11.00 a.m. on the second Business Day prior to each Interest Payment Date (the "**Quarterly Investor Report**") detailing, among other things, certain aggregated loan file data in relation to the Mortgage Portfolio. In addition loan level information will be provided by the Servicer to the Cash Manager on a monthly basis (the "**Monthly Data Tape**" and together with the Monthly Investor Report and the Quarterly Investor Report, the "**Investor Reports**").

Such Investor Reports will be published on the website of the Cash Manager at <http://www.sf.citidirect.com>. The Investor Reports will also be made available to the Issuer, the Servicer, the Trustee, the Seller, the Rating Agencies and Bloomberg. In addition, it is intended that Investor Reports and information on the Mortgage Loans in the Mortgage Portfolio will be published on the website at [www.euroabs.com](http://www.euroabs.com) provided that neither the Issuer nor any other Relevant Party assumes any liability for any failure to publish any such information thereon. In addition, loan level information will be provided in the Monthly Data Tape by the Servicer to the Cash Manager (with a copy to the Issuer, the Trustee and the Rating Agencies), who (subject to receipt thereof) shall publish such Monthly Data Tape at <http://www.sf.citidirect.com>. Other than as outlined above, the Issuer does not intend to provide post-issuance transaction information regarding the Notes or the Mortgage Loans.

**Communication with Noteholders:**

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

- (a) Subject to paragraph (d) below, any notice to Noteholders shall be validly given if published in the *Financial Times*, or, if such newspaper shall cease to be published or, if timely publication therein is not practicable, in such other English newspaper or newspapers having a general circulation in the United Kingdom as the Trustee shall approve in advance, provided that if, at any time, (i) the Issuer procures that the information concerned in such notice shall appear on a page of the Bloomberg screen or any other medium for electronic display of data as may be previously approved in writing by the Trustee and notified to Noteholders (in each case a "**Relevant Screen**"), or (ii) paragraph (c) below applies, publication in the newspaper set out above or any such other newspaper or newspapers shall not be required with respect to such notice.
- (b) In respect of Notes, as applicable, in definitive form, notices to Noteholders shall be validly given: (i) if published in the *Financial Times*, or, if such newspaper shall cease to be published or if timely publication therein is not practicable, in such other English

newspaper or newspapers (as the Trustee shall approve in writing in advance) having a general circulation in the United Kingdom; or (ii) so long as the relevant Notes are listed on the official list of Euronext Dublin, if published in accordance with the relevant guidelines of Euronext Dublin, by a notification in writing to its Company Announcements Office, and any notice so published shall be deemed to have been given on the date of publication.

- (c) While the Notes are represented by Global Notes, notices to Noteholders will be valid if published as described above or if submitted to Euroclear and/or Clearstream, Luxembourg for communication by them to Noteholders. Any notice delivered to Euroclear and/or Clearstream, Luxembourg, as aforesaid shall be deemed to have been given on the day of such delivery.
- (d) In relation to the Notes and the Noteholders, so long as the relevant Notes are admitted to trading on, and listed on the official list of, Euronext Dublin, all notices to the Noteholders will be valid if published in a manner which complies with the rules and regulations of Euronext Dublin, (which includes delivering a copy of such notice to Euronext Dublin) and any such notice will be deemed to have been given on the date sent to Euronext Dublin.

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

## TRANSACTION OVERVIEW – CREDIT STRUCTURE AND CASHFLOW

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

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

Prior to an Enforcement Notice being served on the Issuer, the Cash Manager on behalf of the Issuer will apply Available Revenue Receipts and Available Redemption Receipts on each Interest Payment Date in accordance with the Pre-Enforcement Revenue Priority of Payments and the Pre-Enforcement Redemption Priority of Payments respectively, as set out below.

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

- (a) Revenue Receipts and/or, if in a Determination Period, Calculated Revenue Receipts (in each case, excluding any Reconciliation Amounts to be applied as Available Redemption Receipts on that Interest Payment Date) received by the Issuer corresponding to the immediately preceding Collection Period *less* any Permitted Withdrawals;
- (b) interest payable to the Issuer on the Transaction Account and received in the immediately preceding Collection Period;
- (c) the amount (if any) standing to the credit of the General Reserve Fund as at the last day of the immediately preceding Collection Period;
- (d) on each Interest Payment Date following a Determination Period, any Reconciliation Amounts deemed to be Available Revenue Receipts in accordance with the Cash Management Agreement;
- (e) amounts determined to be credited to the Transaction Account on the immediately preceding Interest Payment Date in accordance with item (v) of the Pre-Enforcement Revenue Priority of Payments;
- (f) amounts determined to be applied as Available Revenue Receipts on the immediately succeeding Interest Payment Date in accordance with item (j) of the Pre-Enforcement Redemption Priority of Payments;
- (g) other net income of the Issuer corresponding to the immediately preceding Collection Period, excluding any Redemption Receipts;
- (h) any amounts received by the Issuer under the Swap Agreement or any replacement Swap Agreement on an Interest Payment Date that have not been paid out by the Issuer (excluding Swap Excluded Receivable Amounts (unless, in the case of limb (v) thereof, they are no longer required to fund the entry into a new fixed/floating swap), any amounts credited to the Swap Collateral Account and any Swap Collateral Accounts surplus);
- (i) in respect of the first Interest Payment Date only, amounts standing to the credit of the Pre-Funding Revenue Reserve Ledger on the Collection Period End Date prior to such Interest Payment Date;
- (j) any True-Up Amount; and

- (k) on the Final Rated Notes Redemption Date, the General Reserve Fund Ledger Residual Amount,

*less:*

- (l) any Third Party Amounts and Excess Recoveries Amounts paid from the Transaction Account to the persons entitled thereto and relating to the immediately preceding Collection Period.

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

- (a) all Redemption Receipts and/or, if in a Determination Period, any Calculated Redemption Receipts (in each case, excluding an amount equal to any Reconciliation Amounts to be applied as Available Revenue Receipts on that Interest Payment Date) received by the Issuer corresponding to the immediately preceding Collection Period;
- (b) any amounts of Available Revenue Receipts retained pursuant to items (g), (j), (l), (n), (p), (r) and (u) of the Pre-Enforcement Revenue Priority of Payments and deemed to be Available Redemption Receipts, (together, "**PDL Cure Amounts**");
- (c) following the Liquidity Reserve Initial Funding Date but prior to the Senior Notes Redemption Date, the Liquidity Reserve Fund Excess Amount on such Interest Payment Date;
- (d) on the Senior Notes Redemption Date only, all amounts standing to the credit of the Liquidity Reserve Fund (after first, having applied any Liquidity Reserve Fund Drawings to meet any Revenue Deficit on the Senior Notes Redemption Date);
- (e) on each Interest Payment Date following a Determination Period, any Reconciliation Amounts deemed to be Available Redemption Receipts in accordance with the Cash Management Agreement; and
- (f) from and including the Optional Redemption Date, any Available Revenue Receipts applied as Available Redemption Receipts in accordance with item (t) of the Pre-Enforcement Revenue Priority of Payments,

*less:*

- (g) amounts under a Direct Debit which were transferred to the Transaction Account but thereafter are repaid to the bank making the payment if such bank is unable to recoup or recall such amount itself from its customer's account or is required to refund an amount previously debited to the extent that such amount is of a principal nature.

**Summary of Priorities of Payments:**

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

<u>Pre-Enforcement Revenue Priority of Payments:</u>	<u>Pre-Enforcement Redemption Priority of Payments:</u>	<u>Post-Enforcement Priority of Payments:</u>
(a) <i>Pro rata</i> and <i>pari passu</i> to amounts due to the Trustee	(a) On or prior to the Liquidity Reserve Initial Funding	(a) <i>Pro rata</i> and <i>pari passu</i> to amounts due and payable in

- and any Appointee thereof including charges, liabilities, fees, costs and expenses and any VAT thereon
- (b) *Pro rata and pari passu* to amounts due to the Agent Bank, the Registrar, the Paying Agents, the Cash Manager, the Servicer, the Back-Up Servicer, the Back-Up Servicer Facilitator, the Corporate Services Provider, the Issuer Account Bank and (insofar as any such amounts are attributable to the Issuer's Share of the Collection Account Trust Property) the Collection Account Bank, in each case including all fees, costs, liabilities and expenses and any VAT thereon
- (c) *Pro rata and pari passu* to pay Third Party Expenses and Transfer Costs (if any)
- (d) Issuer Profit Amount
- (e) Amounts due to the Swap Counterparty in respect of the Swap Agreement (other than any Swap Subordinated Amounts which are due and payable under item (z) below or
- Date, to credit to the Liquidity Reserve Fund, the amount by which the cumulative amount of Available Redemption Receipts previously transferred to the Liquidity Reserve Fund is less than the Liquidity Reserve Fund Required Amount (as at the end of day before the relevant Interest Payment Date)
- (b) Subject to the PDL Condition, Principal Addition Amounts to be applied towards the reduction of any Revenue Deficit
- (c) *Pro rata and pari passu* to the principal amounts outstanding on the Class A Notes until the Principal Amount Outstanding on the Class A Notes has been reduced to zero
- (d) *Pro rata and pari passu* to the principal amounts outstanding on the Class B Notes until the Principal Amount Outstanding on the Class B Notes has been reduced to zero
- (e) *Pro rata and pari passu* to the principal amounts outstanding on the Class C Notes until the Principal Amount
- respect of the Trustee, Receiver and any Appointee thereof including charges, liabilities, fees, costs and expenses and any VAT thereon
- (b) *Pro rata and pari passu* to amounts due and payable in respect of the fees, costs, liabilities and expenses of the Agent Bank, the Registrar, the Paying Agents, the Cash Manager, the Servicer, the Back-Up Servicer, the Back-Up Servicer Facilitator, the Corporate Services Provider, the Issuer Account Bank and (insofar as any such amounts are attributable to the Issuer's Share of the Collection Account Trust Property) the Collection Account Bank, in each case including all fees, costs, liabilities and expenses and any VAT thereon
- (c) To pay Transfer Costs (if any)
- (d) To pay amounts payable to the Swap Counterparty (other than any Swap Subordinated Amounts which are due and payable under item (u) below or any Swap Excluded Payable

- any Swap Excluded Payable Amounts which shall be discharged in accordance with the applicable Swap Agreement and the Transaction Documents)
- (f) *Pro rata and pari passu* to the interest due on the Class A Notes
- (g) Amounts to be credited to the Class A Principal Deficiency Sub-Ledger
- (h) *Pro rata and pari passu* to the interest due on the Class B Notes
- (i) Following the Liquidity Reserve Initial Funding Date but prior to the Senior Notes Redemption Date, to credit the Liquidity Reserve Fund Ledger up to the Liquidity Reserve Fund Required Amount
- (j) Amounts to be credited to the Class B Principal Deficiency Sub-Ledger
- (k) *Pro rata and pari passu* to the interest due on the Class C Notes
- (l) Amounts to be credited to the Class C Principal Deficiency Sub-Ledger
- (m) *Pro rata and pari passu* to the
- Outstanding on the Class C Notes has been reduced to zero
- (f) *Pro rata and pari passu* to the principal amounts outstanding on the Class D Notes until the Principal Amount Outstanding on the Class D Notes has been reduced to zero
- (g) *Pro rata and pari passu* to the principal amounts outstanding on the Class E Notes until the Principal Amount Outstanding on the Class E Notes has been reduced to zero
- (h) *Pro rata and pari passu* to the principal amounts outstanding on the Class F Notes until the Principal Amount Outstanding of the Class F Notes has been reduced to zero
- (i) *Pro rata and pari passu* to the principal amounts outstanding on the Class Z Notes until the Principal Amount Outstanding of the Class Z Notes has been reduced to zero
- (j) Any excess amounts to be applied as Available Revenue Receipts
- Amounts which shall be discharged in accordance with the applicable Swap Agreement and the Transaction Documents)
- (e) *Pro rata and pari passu* to the amounts of interest due and payable on the Class A Notes
- (f) *Pro rata and pari passu* to the amounts of principal due and payable on the Class A Notes
- (g) *Pro rata and pari passu* to the amounts of interest due and payable on the Class B Notes
- (h) *Pro rata and pari passu* to the principal amounts due and payable on the Class B Notes
- (i) *Pro rata and pari passu* to the amounts of interest due and payable on the Class C Notes
- (j) *Pro rata and pari passu* to the principal amounts due and payable on the Class C Notes
- (k) *Pro rata and pari passu* to the amounts of interest due and payable on the Class D Notes
- (l) *Pro rata and pari passu* to the principal amounts due and payable



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| <p>interest due on the Class D Notes</p> <p>(n) Amounts to be credited to the Class D Principal Deficiency Sub-Ledger</p> <p>(o) <i>Pro rata</i> and <i>pari passu</i> to the interest due on the Class E Notes</p> <p>(p) Amounts to be credited to the Class E Principal Deficiency Sub-Ledger</p> <p>(q) <i>Pro rata</i> and <i>pari passu</i>, to the interest due on the Class F Notes</p> <p>(r) Amounts to be credited to the Class F Principal Deficiency Sub-Ledger</p> <p>(s) Prior to and excluding the Final Rated Notes Redemption Date, to credit the General Reserve Fund Ledger up to the General Reserve Fund Required Amount</p> <p>(t) From and including the Optional Redemption Date, all remaining Available Revenue Receipts to be applied as Available Redemption Receipts until the Rated Notes have been redeemed in full</p> <p>(u) Amounts to be credited to the Class Z Principal</p> | <p>on the Class D Notes</p> <p>(m) <i>Pro rata</i> and <i>pari passu</i> to the amounts of interest due and payable on the Class E Notes</p> <p>(n) <i>Pro rata</i> and <i>pari passu</i> to the amounts of principal due and payable on the Class E Notes</p> <p>(o) <i>Pro rata</i> and <i>pari passu</i> to the interest amounts due and payable on the Class F Notes</p> <p>(p) <i>Pro rata</i> and <i>pari passu</i> to the principal amounts due and payable on the Class F Notes</p> <p>(q) <i>Pro rata</i> and <i>pari passu</i> to the amounts of interest due and payable on the Class X Notes</p> <p>(r) <i>Pro rata</i> and <i>pari passu</i>, to the principal amounts due and payable on the Class X Notes</p> <p>(s) <i>Pro rata</i> and <i>pari passu</i>, to the amounts of interest due and payable on the Class Z Notes</p> <p>(t) <i>Pro rata</i> and <i>pari passu</i>, to the principal amounts due and payable on the Class Z Notes</p> <p>(u) To pay to the Swap Counterparty any Swap</p> |
|--|--|

Deficiency Sub-Ledger	Subordinated Amounts (other than Swap Excluded Payable Amounts)
(v) On any Interest Payment Date falling within a Determination Period, all remaining amounts to be retained in the Transaction Account to be applied on the next Interest Payment Date as Available Revenue Receipts	(v) Any Third Party Expenses (if any) and any amounts in excess of amounts already credited to the Issuer Profit Ledger prior to such Interest Payment Date which are required to discharge any liability of the Issuer for corporation tax of the Issuer
(w) <i>Pro rata</i> and <i>pari passu</i> , interest due and payable on the Class X Notes	(w) Issuer Profit Amount
(x) <i>Pro rata</i> and <i>pari passu</i> to the principal amounts due on the Class X Notes until the Principal Amount Outstanding on the Class X Notes has been reduced to zero	(x) To pay any Deferred Consideration due and payable to the Seller
(y) <i>Pro rata</i> and <i>pari passu</i> , interest due and payable on the Class Z Notes	
(z) In or towards payment according to the amount thereof and in accordance with the terms of the Swap Agreement to the Swap Counterparty of any Swap Subordinated Amounts (other than Swap Excluded Payable Amounts)	
(aa) To pay Deferred Consideration due	

and payable to the Seller

**General Credit Structure:**

The credit structure of the transaction includes the following elements:

- the availability of the General Reserve Fund, funded on the Closing Date by a portion of the proceeds of the Class X Notes. Amounts standing to the credit of the General Reserve Fund will be applied 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 Fund Required Amount on each Interest Payment Date from Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments. See section "*Credit Structure – General Reserve Fund and General Reserve Fund Ledger*".
- the availability of the Liquidity Reserve Fund, funded on or prior to the Liquidity Reserve Initial Funding Date from Available Redemption Receipts and, on each Interest Payment Date thereafter but prior to the Senior Notes Redemption Date, from Available Revenue Receipts until the amount standing to the credit of the Liquidity Reserve Fund is equal to the Liquidity Reserve Fund Required Amount. Amounts standing to the credit of the Liquidity Reserve Fund will be applied to meet any Revenue Deficits on each Interest Payment Date. Additionally, any Liquidity Reserve Fund Excess Amount and, on the Senior Notes Redemption Date after having applied any Liquidity Reserve Drawings to meet any Revenue Deficit, the entire amount standing to the credit of the Liquidity Reserve Fund, will be available as Available Redemption Receipts. See section "*Credit Structure – Liquidity Reserve Fund and Liquidity Reserve Fund Ledger*".
- the availability of the Pre-Funding Revenue Reserve, funded on the Closing Date in amount of £233,390.29 (the "**Pre-Funding Revenue Reserve Required Amount**"). Amounts standing to the credit of the Pre-Funding Revenue Reserve Ledger will be available as Available Revenue Receipts on the first Interest Payment Date. See section "*Credit Structure – Pre-Funding Revenue Reserve and Pre-Funding Revenue Reserve Ledger*".
- the availability of the Pre-Funding Principal Reserve funded on the Closing Date is an amount of £30,648,481.87 (the "**Pre-Funding Principal Reserve Required Amount**") to fund the purchase of the Additional Mortgage Portfolio during the Further Sale Period. All amounts standing to the credit of the Pre-Funding Principal Reserve Ledger on the Further Sale Period End Date (taking into account any debits made on that ledger on such date) will be applied *pro rata* in redemption of the Rated Notes on the first Interest Payment Date by reference to their respective Principal Amount Outstanding on the Closing Date. See "*Credit Structure – Pre-Funding Principal Reserve and Pre-Funding Principal Reserve Ledger*".
- a Principal Deficiency Ledger will be established to record as a debit (i) any Defaulted Amounts on the Mortgage Portfolio and (ii) Principal Addition Amounts.

- the Principal Deficiency Ledger will comprise the following sub-ledgers: the Class A Principal Deficiency Sub-Ledger (relating to the Class A Notes), the Class B Principal Deficiency Sub-Ledger (relating to the Class B Notes), the Class C Principal Deficiency Sub-Ledger (relating to the Class C Notes), the Class D Principal Deficiency Sub-Ledger (relating to the Class D Notes), the Class E Principal Deficiency Sub-Ledger (relating to the Class E Notes), the Class F Principal Deficiency Sub-Ledger (relating to the Class F Notes) and the Class Z Principal Deficiency Sub-Ledger (relating to the Class Z Notes).
- any Defaulted Amounts on the Mortgage Portfolio and any Principal Addition Amounts will be recorded as a debit (in relation to Defaulted Amounts, on the Calculation Date that the Cash Manager is informed of such Defaulted Amounts by the Servicer): (a) first, to the Class Z Principal Deficiency Sub-Ledger (up to a maximum amount equal to the Principal Amount Outstanding of the Class Z Notes); (b) second, to the Class F Principal Deficiency Sub-Ledger (up to a maximum amount equal to the Principal Amount Outstanding of the Class F Notes), (c) third, to the Class E Principal Deficiency Sub-Ledger (up to a maximum amount equal to the Principal Amount Outstanding of the Class E Notes), (d) fourth, to the Class D Principal Deficiency Sub-Ledger up to a maximum amount equal to the Principal Amount Outstanding of the Class D Notes; (e) fifth, to the Class C Principal Deficiency Sub-Ledger up to a maximum amount equal to the Principal Amount Outstanding of the Class C Notes; (f) sixth, to the Class B Principal Deficiency Sub-Ledger up to a maximum amount equal to the Principal Amount Outstanding of the Class B Notes; and (g) seventh, to the Class A Principal Deficiency Sub-Ledger up to a maximum amount equal to the Principal Amount Outstanding of the Class A Notes. The Cash Manager will record as a credit PDL Cure Amounts expressed to be credited to the relevant Principal Deficiency Sub-Ledger in accordance with the Pre-Enforcement Revenue Priority of Payments. See the section "*Credit Structure – Principal Deficiency Ledger*" below.
- pursuant to item (b) of the Pre-Enforcement Redemption Priority of Payments, to the extent that after application of the Available Revenue Receipts and (on or prior to the Senior Notes Redemption Date) the use of any Liquidity Reserve Fund Drawings to meet any Revenue Deficits, in each case in accordance with the Pre-Enforcement Revenue Priority of Payments, any Revenue Deficits persist, the Issuer shall apply Principal Addition Amounts (subject to the PDL Condition) to cover such remaining Revenue Deficits in accordance with item (b) of the Pre-Enforcement Redemption Priority of Payments. Any Available Redemption Receipts applied as Principal Addition Amounts will be recorded as a debit to the Principal Deficiency Ledger. See the section "*Credit Structure – Use of Redemption Receipts to pay Revenue Deficits*" below.
- following the Optional Redemption Date, all Available Revenue Receipts after provision for or payment of items (a) to (s) of the Pre-Enforcement Revenue Priority of Payments will be applied in or towards the redemption of the Rated Notes.

**Bank Accounts:** On the Closing Date the Issuer will enter into the Issuer Account Bank Agreement with the Issuer Account Bank in respect of the opening and maintenance of a transaction account (the "**Transaction Account**") and a swap collateral account (the "**Swap Collateral Account**"). The Issuer may from time to time open additional or replacement accounts (pursuant to the Issuer Account Bank Agreement and the Transaction Documents), together with the Transaction Account and the Swap Collateral Account, the "**Issuer Accounts**").

Collections of revenue and principal in respect of the Mortgage Loans in the Mortgage Portfolio are received by the Seller in the Collection Account. Interest payments and principal repayments are collected throughout the month.

All monies standing to the credit of the Collection Account are (subject to certain conditions including payment of certain Third Party Amounts and Excess Recoveries Amounts) transferred from the Collection Account to the Transaction Account by the Servicer at the end of each Business Day.

**Cash Management:** On each Interest Payment Date, the Cash Manager will transfer monies from the Issuer Accounts to the relevant Transaction Parties or other parties in accordance with the applicable Priority of Payments. In addition, the Cash Manager may transfer monies from the Issuer Accounts in relation to Third Party Amounts, Excess Recoveries Amounts and certain other amounts on dates other than an Interest Payment Date.

## TRANSACTION OVERVIEW – TRIGGERS TABLES

### Rating Triggers Table

<u>Transaction Party</u>	<u>Required Ratings/Triggers</u>	<u>Possible effects of Trigger being breached include the following:</u>
<b>Issuer Account Bank:</b>	Ratings of at least: (i) a short-term deposit rating of at least "P1" by Moody's and a long-term deposit rating of at least "A2" by Moody's; and (ii) the higher of (A) one rating notch below the Issuer Account Bank's long-term critical obligations rating (" <b>COR</b> "), being at least A by DBRS, and (B) the rating of the Issuer Account Bank's long-term, senior, unsecured, unsubordinated and unguaranteed debt obligations being at least A by DBRS provided that the Issuer Account Bank is not rated by DBRS, at least a DBRS Equivalent Rating or such other credit rating as would not adversely affect the then current rating of the Rated Notes (each, the " <b>Account Bank Minimum Rating</b> " and together, the " <b>Account Bank Minimum Ratings</b> ").	<p>If the Issuer Account Bank fails to maintain any of the Account Bank Minimum Ratings, then the Issuer shall use all reasonable endeavours to, within 30 calendar days of such downgrade:</p> <ul style="list-style-type: none"> <li>(a) close the Issuer Accounts and use commercially reasonable efforts to procure that the funds standing to the credit of the existing Issuer Accounts are transferred and placed with a financial institution (i) having all of the Account Bank Minimum Ratings and (ii) which is a bank as defined in section 991 of the Income Tax Act 2007 and payments of interest are made in the ordinary course of its business within the meaning of section 878 of the Income Tax Act 2007 and to procure that the amounts standing to the credit of the Issuer Accounts are transferred forthwith to the replacement Issuer Accounts;</li> <li>(b) obtain a guarantee in support of the obligations of the Issuer Account Bank under the Issuer Account Bank Agreement from an entity which has all of the Account Bank Minimum Ratings; or</li> <li>(c) take any other reasonable action as the Rating Agencies confirm in writing will not result in a downgrade of the Rated Notes,</li> </ul> <p>in each case as further prescribed in the Issuer Account Bank Agreement.</p>
<b>Collection Account Bank:</b>	Ratings of at least: (i) a long-term deposit rating of at least "Baa3" by Moody's; and (ii) a long-term unsecured, unguaranteed and	If the Collection Account Bank fails to maintain any of the Collection Account Bank Minimum Ratings, the Issuer (or the Servicer on its

<u>Transaction Party</u>	<u>Required Ratings/Triggers</u>	<u>Possible effects of Trigger being breached include the following:</u>
	<p>unsubordinated debt rating of at least "BBB" by DBRS (either by way of a public rating or, in its absence, by way of a private rating supplied by DBRS), provided that if the Collection Account Bank is not rated by DBRS, a DBRS Equivalent Rating at least equal to "BBB" by DBRS, or, failing which, in each case such other ratings that are consistent with the then current rating methodology of the Rating Agencies as being the minimum ratings that are required to support the then current ratings of the Rated Notes (each, the "<b>Collection Account Bank Minimum Rating</b>" and together, the "<b>Collection Account Bank Minimum Ratings</b>").</p>	<p>behalf) shall use its reasonable endeavours to effect (or to procure) within 30 days of such downgrade:</p> <p>(a) the opening of a replacement collection account in the name of the Seller with a financial institution: (i) that maintains ratings at least equal to the Collection Account Bank Minimum Ratings, (ii) that is a bank as defined in section 991 of the Income Tax Act 2007 and payments of interest are made in the ordinary course of its business within the meaning of section 878 of the Income Tax Act 2007 and (iii) that is an institution authorised to carry on banking business including accepting deposits under the FSMA;</p> <p>(b) the obtaining of a guarantee in support of the obligations of the Collection Account Bank from an entity which has all of the Collection Account Bank Minimum Ratings; or</p> <p>(c) take any other reasonable action as the Rating Agencies confirm in writing will not result in a downgrade of the Rated Notes,</p> <p>in each case in accordance with the Servicing Agreement, and, if necessary to ensure payments by Borrowers are made to the replacement account, notify Borrowers that all payments made by a Borrower under a payment arrangement other than under the Direct Debiting Scheme are to be made to such replacement account following the date on which the replacement account is opened.</p>
<b>Swap Counterparty</b>	<b>Moody's rating requirements</b>	
	Counterparty risk assessment of "A3(cr)" or above or, if the Swap Counterparty has no counterparty	Subject to the terms of the Swap Agreement, the consequence of breach is that the Swap Counterparty

<u>Transaction Party</u>	<u>Required Ratings/Triggers</u>	<u>Possible effects of Trigger being breached include the following:</u>
	<p>risk assessment from Moody's, its long-term, unsecured and unsubordinated debt obligations are rated "Baa1" or above by Moody's.</p> <p><b>DBRS first rating requirements</b></p> <p>Long term critical obligations rating by DBRS is at least A or, if no such rating is published by DBRS, the counterparty risk assessment by Moody's is at least A2(cr).</p> <p><b>DBRS second rating requirements</b></p> <p>Long-term critical obligations rating by DBRS is at least BBB or, if no such rating is published by DBRS, the counterparty risk assessment by Moody's is at least Baa2(cr).</p>	<p>will be obliged to post collateral or take such action as Moody's confirm will maintain or restore the rating of the Rated Notes by Moody's.</p> <p>Subject to the terms of the Swap Agreement, the consequence of breach is that the Swap Counterparty will be obliged to (a) post collateral and may (b) (i) procure a transfer to an eligible replacement of its obligations under the Swap Agreement or (ii) procure a guarantee from an eligible guarantor in respect of its obligations under the Swap Agreement or (iii) take such other action as required to maintain or restore the rating of the Rated Notes by DBRS.</p> <p>Subject to the terms of the Swap Agreement, the consequence of breach is that the Swap Counterparty will be obliged to (a) post or continue to post collateral and to (b) use commercially reasonable efforts to take one of the following actions: (i) to procure a transfer to an eligible replacement of its obligations under the Swap Agreement or (ii) procure a guarantee from an eligible guarantor in respect of its obligations under the Swap Agreement or (iii) take such other action as required to maintain or restore the rating of the Rated Notes by DBRS.</p>

#### **Non-Rating Triggers Table**

<b>Perfection Events:</b>	<p>Prior to the completion of the transfer of legal title of the Mortgage Loans to the Issuer, the Issuer will be subject to certain risks as set out in the risk factor entitled "<i>Title of the Issuer</i>" and "<i>Set-off may adversely affect the value of the Mortgage Portfolio or any part thereof</i>" in the section entitled "<i>Risk Factors</i>".</p> <p>The Seller shall be obliged to give notice of assignment of the Mortgage Loans to the Borrowers following the occurrence of:</p> <ul style="list-style-type: none"> <li>(a) the delivery of an Enforcement Notice by the Trustee;</li> <li>(b) the termination or resignation of the appointment of the Servicer as servicer of the Mortgage Portfolio under the Servicing Agreement and the failure of any Replacement Servicer to assume the duties of the Servicer in such capacity;</li> </ul>
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- (c) the Seller being required to perfect legal title to the Mortgage Loans:
  - (i) by an order of a court of competent jurisdiction; or (ii) by a regulatory authority which has jurisdiction over the Seller; or (iii) by any organisation of which the Seller is a member or whose members comprise, but are not necessarily limited to, mortgage lenders and with the instructions of which it is customary for the Seller to comply;
- (d) it becoming necessary as a result of a change in law occurring after the Closing Date to perfect the transfer by way of assignment or, in the case of Scottish Mortgage Loans, assignation of the legal title to such Mortgage Loans;
- (e) it becoming unlawful in any applicable jurisdiction for the Seller to hold legal title in respect of any Mortgage Loan in the Mortgage Portfolio;
- (f) the Trustee notifying the Issuer in writing that the security under the Deed of Charge or any material part of that security is, in the opinion of the Trustee, in jeopardy;
- (g) the Seller calling for perfection by delivering notice in writing to that effect to the Issuer (with a copy to the Trustee) or
- (h) the occurrence of an Insolvency Event relating to the Seller.

**Servicer Termination Events:**

The Issuer may (at any time prior to the delivery of an Enforcement Notice, with the prior written consent of the Trustee) and the Trustee may (following the delivery of an Enforcement Notice, at once or at any time thereafter while a default continues), by notice in writing to the Servicer (with a copy to the Trustee or the Issuer (as applicable)), terminate the Servicer's appointment under the Servicing Agreement if any of the following events (each a "**Servicer Termination Event**") occurs and is continuing:

- (a) default is made by the Servicer 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 five Business Days after the earlier of the Servicer becoming aware of such default and receipt by the Servicer of written notice from the Issuer or (following the delivery of an Enforcement Notice) the Trustee requiring the same to be remedied;
- (b) default is made by the Servicer in the performance or observance of any of its other covenants and obligations under the Servicing Agreement, which default, in the opinion of the Trustee (both prior to and following the delivery of an Enforcement Notice), is materially prejudicial to the interests of the Noteholders and which, in the case of a default or breach that is, in the opinion of the Trustee, capable of remedy, continues unremedied for a period of 15 Business Days after the earlier of the Servicer becoming aware of such default and of receipt by the Servicer of written notice from the Issuer or the Seller (prior to the service of an Enforcement Notice) or the Trustee (following the delivery of an Enforcement Notice) requiring the same to be remedied;
- (c) the Servicer ceasing to be an authorised person under the FSMA or the revocation of an applicable licence, registration or regulatory permission held by it which is required to perform the Services;

- (d) an order is made or an effective resolution passed for the winding up of the Servicer (unless the order is made for the purpose of a reorganisation the terms of which have been approved by the Issuer or, following the service of an Enforcement Notice, the Trustee and where the Servicer demonstrates to the satisfaction of the Issuer that it is solvent); or
- (e) the occurrence of an Insolvency Event in respect of the Servicer (other than any frivolous or vexatious corporate action or any other corporate action, legal proceedings or other procedure or step referred to in paragraph (f) of the definition of "Insolvency Event" which is disputed in good faith with a reasonable prospect of success by the Servicer and dismissed or otherwise discharged within 30 days of being commenced).

Any such termination of the Servicer following a Servicer Termination Event is subject to the appointment of a replacement servicer.

The Servicer may also terminate its appointment under the Servicing Agreement by giving not less than 12 months' written notice to the Issuer (with a copy to the Trustee) of its intention to resign and provided that a replacement servicer (which may be the Back-Up Servicer) (the "**Replacement Servicer**") has been appointed, on substantially the same terms to those in the Servicing Agreement unless otherwise agreed by an Extraordinary resolution of each Class of Noteholders, as more fully set out in the section entitled "*Summary of the Key Transaction Documents – Servicing Agreement*" below.

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

## TRANSACTION OVERVIEW – FEES

The following table sets out the ongoing fees to be paid by the Issuer to the Transaction Parties.

<u>Type of Fee</u>	<u>Amount of Fee</u>	<u>Priority in Cashflow</u>	<u>Frequency</u>
Servicing fees:	The servicing fees (the " <b>Servicing Fees</b> ") payable by the Issuer on each Interest Payment Date, subject to there being sufficient Available Revenue Receipts and/or (without double counting) amounts standing to the credit of the Liquidity Reserve Fund and/or Principal Addition Amounts available for such purpose, payable in each case in accordance with the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement Priority of Payments (as applicable), being calculated on a quarterly basis by reference to the average of (i) the aggregate Current Balance of the Mortgage Loans as at the last day of the immediately preceding Collection Period (as calculated in the relevant Monthly Servicer Report) (except in respect of the first Collection Period, where the relevant value will be the aggregate Current Balance of the Mortgage Loans as at the Cut-Off Date), and (ii) the aggregate Current Balance of the Mortgage Loans as at the last day of the relevant Collection Period (as calculated in the relevant Monthly Servicer Report), at a rate of 0.4 per cent. per annum and payable in arrear on each Interest Payment Date in respect of the immediately preceding Collection Period. Such fees shall be calculated on the basis of the actual number of days elapsed in such Collection Period and a year of 365 days. For the purposes of determining the Servicing Fees, the Current Balance of the Mortgage Loans shall exclude any Mortgage Loans in respect of which there has been a warranty breach and the Seller has opted to indemnify the Issuer in lieu of repurchasing (or substituting) such Mortgage Loan.	Ahead of all outstanding Notes.	Payable quarterly in arrear on each Interest Payment Date.

<u>Type of Fee</u>	<u>Amount of Fee</u>	<u>Priority in Cashflow</u>	<u>Frequency</u>
	The Servicing Fees shall be inclusive of any VAT.		
Back-Up Servicing fees:	An upfront back-up servicing fee payable on the Closing Date equal to £34,000 and an ongoing back-up servicing fee of £30,000 per annum (in each case, exclusive of VAT).	Ahead of all outstanding Notes.	Payable quarterly in arrear on each Interest Payment Date.
Other fees and expenses of the Issuer (including tax and audit costs):	Estimated at approximately £76,000 per annum (exclusive of VAT, where so provided in the relevant Transaction Document or otherwise payable by the Issuer), subject to adjustment and/or indexation from time to time depending upon the underlying contract.	Ahead of all outstanding Notes.	Payable quarterly in arrear on each Interest Payment Date.
Expenses related to the admission to trading of the Notes:	€10,500	Ahead of all outstanding Notes.	On or about the Closing Date.

As at the date of this Prospectus, the standard rate of UK VAT is 20 per cent.

## EU RISK RETENTION REQUIREMENTS

On the Closing Date, the Retention Holder, as an originator for the purposes of the CRR, the AIFM Regulation and the Solvency II Regulation, will retain a material net economic interest of not less than 5 per cent. in the securitisation in accordance with the text of each of Article 405 of the Capital Requirements Regulation, Article 51 of the AIFM Regulation and Article 254 of the Solvency II Regulation (which, in each case, does not take into account any relevant national measures). As at the Closing Date, such interest will be satisfied by the Retention Holder subscribing for and thereafter holding an interest in the first loss tranche, represented in this case by the retention by the Retention Holder of the Class Z Notes, as required by the text of each of Article 405 of the CRR, Article 51 of the AIFM Regulation and Article 254 of the Solvency II Regulation. The aggregate Principal Amount Outstanding of the Class Z Notes as at the Closing Date is equal to at least 5 per cent. of the nominal value of the securitised exposures.

As to the information made available to prospective investors by the Issuer, reference is made to the information set out herein and forming part of this Prospectus and to any other information provided separately (which information shall not form part of this Prospectus) and, after the Closing Date, to the Investor Reports provided to the Noteholders pursuant to the Cash Management Agreement and published on the website of the Cash Manager at <http://www.sf.citidirect.com>.

The Retention Holder will undertake to the Issuer and the Trustee in the Mortgage Sale Agreement, to:

- (a) retain on an on-going basis a material net economic interest of not less than 5 per cent. of the nominal value of the securitised exposures by holding the first loss tranche in the securitisation in accordance with each of paragraph (d) of Article 405(1) of the CRR, paragraph (d) of Article 51(1) of the AIFM Regulation and paragraph (d) of Article 254(2) of the Solvency II Regulation (the "**Minimum Required Interest**"), represented by the Retention Holder holding the Class Z Notes on the Closing Date;
- (b) not to change the manner or form in which it retains the Minimum Required Interest, except as permitted under each of the CRR, the AIFM Regulation and the Solvency II Regulation;
- (c) not to transfer, sell or hedge any of the Class Z Notes and not to take any action which would reduce its exposure to the economic risk of the Class Z Notes in such a way that it ceases to hold the Minimum Required Interest except as permitted under each of the CRR, the AIFM Regulation and the Solvency II Regulation;
- (d) promptly notify the Issuer or the Trustee if for any reason it (i) ceases to hold the retention in accordance with the requirements of the Mortgage Sale Agreement or (ii) fails to comply with the covenants set out in the Mortgage Sale Agreement in respect of the retention; and
- (e) comply with the applicable disclosure obligations described in Article 409 of the CRR by confirming its risk retention as contemplated by Article 405 of the CRR, Article 51 of the AIFM Regulation and Article 254 of the Solvency II Regulation and through the provision of, *inter alios*, the information in this Prospectus and disclosure in the Investor Reports (as prepared by the Cash Manager), provided that the Retention Holder will not be in breach of the requirements of this paragraph (e) if due to events, actions or circumstances beyond its control it is not able to comply with the undertakings contained herein,

(such undertaking, the "**Risk Retention Undertaking**").

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 each of Part Five of the CRR (including Article 405), Section Five of Chapter III of the AIFM Regulation (including Article 51), Chapter VIII of Title I of the Solvency II Regulation (including Article 254) and any relevant national measures which may be relevant and none of the Issuer, the Retention Holder, the Seller, the Cash Manager, the Servicer, the Trustee, the Arranger or the Lead Manager (i) makes any representation that the information described above or in this Prospectus is sufficient in all circumstances for such purposes, (ii) assumes/accepts any liability to any prospective investor or any other person for any insufficiency of such information or any failure of the transactions contemplated herein to comply with or otherwise satisfy the requirements of Part Five of the CRR (including Article 405), Section Five of Chapter III of the AIFM Regulation (including Article 51) and Chapter VIII of the Solvency II Regulation or any other applicable

legal, regulatory or other requirements, or (iii) shall have any obligation (other than the obligations in respect of Part Five of the CRR (including Article 405), Section Five of Chapter III of the AIFM Regulation (including Article 51) and Chapter VIII of the Solvency II Regulation undertaken by the Retention Holder in the Mortgage Sale Agreement) to enable compliance with the requirements of Part Five of the CRR (including Article 405), Section Five of Chapter III of the AIFM Regulation (including Article 51) and Chapter VIII of Title I of the Solvency II Regulation or any other applicable legal, regulatory or other requirements.

For further information please refer to the Risk Factor entitled "*Regulatory initiatives may have an adverse impact on the regulatory treatment of the Notes*".

## WEIGHTED AVERAGE LIVES OF THE NOTES

"**Weighted average life**", in relation to an issue of Notes, refers to the average amount of time that will elapse from the date of issuance of a Note to the date of principal redemption in full thereof. The weighted average lives of the Notes will be influenced by, among other things, the actual rate of redemption of the Mortgage Loans, the quantum of Defaulted Amounts and the amount of Available Revenue Receipts available to be applied in accordance with the Pre-Enforcement Revenue Priority of Payments.

The actual weighted average lives of the Notes cannot be stated as the actual rate of repayment and prepayment of the Mortgage Loans and a number of other relevant factors are unknown. However, estimates of the possible weighted average lives of the Notes can be made based upon certain assumptions.

The figures contained in the following tables were prepared based on, *inter alia*, the characteristics of the loans included in the Provisional Mortgage Portfolio as at the Portfolio Reference Date, the provisions of the Conditions, and the Transaction Documents, and certain additional assumptions (the "**Modelling Assumptions**"), including:

- (a) that the Mortgage Portfolio as at the Cut-Off Date is the same as the Provisional Mortgage Portfolio as at the Portfolio Reference Date;
- (b) that the amortisation schedule of the Mortgage Portfolio is assumed to start from the Cut-Off Date and mirrors that calculated for each Mortgage Loan in the Provisional Mortgage Portfolio as at the Portfolio Reference Date by reference to the period commencing on the Portfolio Reference Date (and assuming, *inter alia*, the relevant assumptions documented below, including in particular but not limited to paragraphs (d) and (p) together with the interest rate applicable to such Mortgage Loan as of the Portfolio Reference Date and its remaining term (calculated using the Portfolio Reference Date and the maturity of each Mortgage Loan));
- (c) the Cut-Off Date is 23 October 2018;
- (d) subject to paragraph (p) below, that the amortisation of any Mortgage Loan is calculated as an annuity loan;
- (e) that the CPR is applied monthly to the aggregate Current Balance of the Mortgage Loans as at the beginning of each monthly period;
- (f) that the Closing Date is 1 November 2018;
- (g) that no Mortgage Loan is in arrears or subject to enforcement actions and each Mortgage Loan continues to perform until its redemption in full;
- (h) other than in the case of the table entitled "*Assuming exercise of call option on Optional Redemption Date*", that no Mortgage Loan is sold by the Issuer, either as a result of a repurchase by the Seller pursuant to the terms of the Mortgage Sale Agreement or otherwise;
- (i) in the case of the table entitled "*Assuming exercise of call option on Optional Redemption Date*", the Notes are redeemed at their Principal Amounts Outstanding on the Optional Redemption Date;
- (j) in the case of the table entitled "*Assuming no exercise of call option or after Optional Redemption Date*", the Notes are redeemed at their Principal Amounts Outstanding on the Interest Payment Date following the Calculation Date on which the aggregate of the Principal Amount Outstanding of all the outstanding Notes is less than 10 per cent. of the Principal Amount Outstanding of all of the Notes as at the Closing Date as a result of the Issuer option to redeem the Notes under Condition 8.3(a) (*Optional Redemption in whole*);
- (k) that three month LIBOR is equal to 0.80 per cent.;
- (l) that the Optimum Base Rate is equal to 0.75 per cent.;
- (m) that no Enforcement Notice has been served on the Issuer and no Event of Default has occurred;
- (n) that no interest is earned on the Issuer Accounts;

- (o) subject to paragraph (p) below, that fees in respect of the Mortgage Portfolio are equal to the sum of:
  - (i) variable fees equal to 0.4 per cent. per annum, calculated on a quarterly basis by reference to the average of (i) the aggregate Current Balance of the Mortgage Loans as at the last day of the immediately preceding Collection Period (except in respect of the first Collection period where the relevant value will be the aggregate Current Balance of the Mortgage Loans as at the Cut-Off Date), and (ii) the aggregate Current Balance of the Mortgage Loans as at the last day of the relevant Collection Period (in each case excluding any Mortgage Loans in respect of which there has been a warranty breach and the Seller has opted to indemnify the Issuer in lieu of repurchasing (or substituting) such Mortgage Loan); and
  - (ii) fixed fees of £120,000 per annum (inclusive of VAT) (distributed equally through time);
- (p) that all collections in respect of the Provisional Mortgage Portfolio from the Portfolio Reference Date onwards will be available in the Transaction Account for application on each relevant Interest Payment Date thereafter;
- (q) subject to paragraph (r) below where applicable, that all amounts payable, including but not limited to interest on the Notes, are calculated based on the actual number of days in the period and a year of 365 days provided that in the case of (i), (ii) and (iii) below such amounts are calculated based on a month of 30 days and a year of 360 days:
  - (i) amortisation of the Mortgage Loans calculated pursuant to paragraph (b) above;
  - (ii) accrual of interest on the Mortgage Loans; and
  - (iii) accrual of fixed fees referred to in paragraph (o)(ii) above;
- (r) that each Interest Payment Date falls on 25 January, April, July and October;
- (s) that, as of the Closing Date, the Principal Amount Outstanding of (i) the Class A Notes represents exactly 71.60%, (ii) the Class B Notes represents exactly 6.60%, (iii) the Class C Notes represents exactly 6.10%, (iv) the Class D Notes represents exactly 4.20%, (v) the Class E Notes represents exactly 3.10%, (vi) the Class F Notes represents 3.40% (vii) the Class Z Notes represents exactly 5.00%, and (viii) the Class X Notes represents 4.39%, in each case, of the aggregate estimated Current Balance of the Mortgage Portfolio as of the Portfolio Reference Date calculated in the manner outlined in paragraph (b) hereto;
- (t) that the Rates of Interest payable on the Notes include certain assumptions regarding the relevant margin referable thereto;
- (u) that all Combination Mortgage Loans are interest-only Mortgage Loans;
- (v) that the fixed rate under the Swap Agreement will be 1.51 per cent.; and
- (w) that the Pre-Funding Principal Reserve is equal to £0 and that the Pre-Funding Revenue Reserve is equal to £0.

The actual characteristics and performance of the Mortgage Loans are likely to differ, perhaps materially, from the assumptions outlined herein (including the Modelling Assumptions), and the Modelling Assumptions outlined in this section do not profess to be an exhaustive list of assumptions employed.

The following tables are hypothetical in nature and are provided only to give a general sense of how the principal cash flows available to the Issuer might behave under various prepayment scenarios. It should be noted that the Issuer does not expect that the Mortgage Loans will prepay at a constant rate until maturity, or that there will be no Defaulted Amounts or delinquencies on the Mortgage Loans. Any difference between the Modelling Assumptions and, *inter alia*, the actual prepayment or loss experience on the Mortgage Loans will affect the redemption profile of the Notes and may cause the weighted average lives of the Notes to differ (which difference could be material) from the figures in the tables for each indicated CPR.



"CPR" refers to an assumed annualised constant prepayment rate ("R") in respect of the loans and is periodised in relation to a given Collection Period as follows:

$$1 - ((1 - R)^{(1/12)})$$

**(Assuming exercise of Call Option on Optional Redemption Date)**

CPR	WAL (in years) of:						
	Class A Notes	Class B Notes	Class C Notes	Class D Notes	Class E Notes	Class F Notes	Class X Notes
0% .....	2.91	3.24	3.24	3.24	3.24	3.24	0.87
5% .....	2.61	3.24	3.24	3.24	3.24	3.24	0.89
10% .....	2.33	3.24	3.24	3.24	3.24	3.24	0.92
15% .....	2.06	3.24	3.24	3.24	3.24	3.24	0.95
20% .....	1.81	3.24	3.24	3.24	3.24	3.24	1.00
25% .....	1.57	3.24	3.24	3.24	3.24	3.24	1.05
30% .....	1.34	3.24	3.24	3.24	3.24	3.24	1.09

**CPR (Assuming no exercise of Call Option on or after Optional Redemption Date)**

CPR	WAL (in years) of:						
	Class A Notes	Class B Notes	Class C Notes	Class D Notes	Class E Notes	Class F Notes	Class X Notes
0% .....	5.54	10.82	11.88	12.80	13.46	13.74	0.87
5% .....	3.93	8.47	9.50	10.50	11.26	11.49	0.89
10% .....	2.96	6.79	7.75	8.67	9.39	9.49	0.92
15% .....	2.32	5.54	6.41	7.29	8.02	8.24	0.95
20% .....	1.89	4.63	5.41	6.23	6.89	6.99	1.00
25% .....	1.58	3.94	4.63	5.37	6.02	6.24	1.05
30% .....	1.34	3.39	3.99	4.67	5.27	5.48	1.09

For further information in relation to the risks involved in the use of the average lives estimated above, see "Risk Factors – Yield and Prepayment Considerations" above.

## **USE OF PROCEEDS**

The Issuer will use the proceeds of the issuance of the Notes on the Closing Date to:

- (a) pay the Initial Purchase Price payable by the Issuer for the Mortgage Portfolio which will have been acquired from the Seller on the Closing Date;
- (b) establish the General Reserve Fund through the retention of the General Reserve Fund Required Amount;
- (c) establish the Pre-Funding Principal Reserve through the retention of the Pre-Funding Principal Reserve Required Amount;
- (d) (in respect of the net proceeds of the issuance of the Class X Notes only) establish the Pre-Funding Revenue Reserve through the retention of the Pre-Funding Revenue Reserve Required Amount;  
and
- (e) retain certain amounts to pay certain fees and expenses of the Issuer incurred in connection with the issue of the Notes on the Closing Date.

## RATINGS

The Rated Notes, on issue, (with respect to payments of interest and principal) are expected to be assigned the following ratings by Moody's and DBRS. The Class X Notes and the Class Z Notes will not be rated. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency if, in its judgement, circumstances so warrant.

Class of Notes	Moody's	DBRS
Class A Notes	Aaa (sf)	AAA (sf)
Class B Notes	Aa1 (sf)	AA (low) (sf)
Class C Notes	Aa3 (sf)	A (low) (sf)
Class D Notes	Baa1 (sf)	BBB (high) (sf)
Class E Notes	Ba2 (sf)	BB (high) (sf)
Class F Notes	Caa2 (sf)	B (low) (sf)
Class X Notes	Not rated	Not rated
Class Z Notes	Not rated	Not rated

The ratings assigned to the Rated Notes by Moody's address, *inter alia*:

- the likelihood of full and timely payments to the holders of the Rated Notes (other than the Class E Notes and the Class F Notes) of interest on each Interest Payment Date;
- the likelihood of ultimate payment to the holders of the Class E Notes and the Class F Notes of interest on or prior to the Final Maturity Date; and
- the likelihood of ultimate payment to the holders of the Rated Notes of principal in relation to the Rated Notes on or prior to the Final Maturity Date.

The ratings assigned to the Rated Notes by DBRS address, *inter alia*:

- the likelihood of full and timely payments to the holders of the Rated Notes of interest on each Interest Payment Date; and
- the likelihood of ultimate payment to the holders of the Rated Notes of principal in relation to the Rated Notes on or prior to the Final Maturity Date.

As of the date of this Prospectus, each of the Rating Agencies is a credit rating agency established in the EU and is registered under the CRA Regulation.

## THE ISSUER

### Introduction

The Issuer was incorporated under the laws of England and Wales on 20 April 2018 (registered number 11321580) as a public limited company under the Companies Act 2006. The registered office of the Issuer is 35 Great St. Helen's, London EC3A 6AP. The telephone number of the Issuer's registered office is +44 (0) 20 7398 6300. The issued share capital of the Issuer is 50,000 ordinary shares of £1 each of which one share is fully paid and 49,999 shares are quarter-paid, and all shares are held by Holdings (see the section titled "*Holdings*" below).

The Issuer has no subsidiaries and does not control, directly or indirectly, any other company. The Seller and the Retention Holder do not own directly or indirectly any of the share capital of Holdings or the Issuer.

The Issuer was established as a special purpose vehicle solely for the purpose of issuing asset backed notes. The Issuer is permitted, pursuant to the terms of its articles of association, *inter alia*, to issue the Notes. The Issuer will covenant to observe certain restrictions on its activities which are set out in Condition 5(b) (*Restrictions on activities*).

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

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

The Issuer has not engaged, since its incorporation, in any material activities nor commenced operations other than those incidental to its registration as a public limited company under the Companies Act 2006 (as amended) and to the proposed issues of the Notes and the authorisation and implementation of the other Transaction Documents referred to in this Prospectus to which it is or will be a party and other matters which are incidental or ancillary to the foregoing. The Issuer, as necessary, has made a notification under the Data Protection Act 1998. As at the date of this Prospectus, statutory accounts have not yet been prepared or delivered to the Registrar of Companies on behalf of the Issuer. The accounting reference date of the Issuer is 31 December and the first statutory accounts of the Issuer will be drawn up to 31 December 2018.

There is no intention to accumulate surpluses in the Issuer (other than amounts standing to the credit of the Issuer Profit Ledger, the General Reserve Fund Ledger and the Liquidity Reserve Fund Ledger).

### Directors

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

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
Intertrust Directors 1 Limited	35 Great St. Helen's, London EC3A 6AP	Corporate Director
Intertrust Directors 2 Limited	35 Great St. Helen's, London EC3A 6AP	Corporate Director
Helena Whitaker	35 Great St. Helen's, London EC3A 6AP	Director

The directors of Intertrust Directors 1 Limited and Intertrust Directors 2 Limited and their principal activities are as follows:

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities</b>
Susan Abrahams	35 Great St. Helen's, London EC3A 6AP	Director
Helena Whitaker	35 Great St. Helen's, London EC3A 6AP	Director
Michelle O'Flaherty	35 Great St. Helen's, London EC3A 6AP	Director
Clive Short	35 Great St. Helen's, London EC3A 6AP	Director
Andrea Williams	35 Great St. Helen's, London EC3A 6AP	Director

The company secretary of the Issuer is Intertrust Corporate Services 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 under the laws of England and Wales on 20 April 2018 (registered number 11321572) as a private limited company under the Companies Act 2006 (as amended). The registered office of Holdings is 35 Great St. Helen's, London EC3A 6AP. The issued share capital of Holdings comprises one ordinary share of £1.00. Intertrust Corporate Services Limited (the "**Share Trustee**") holds the entire beneficial interest in the issued share capital under a discretionary trust for discretionary purposes. Holdings holds the beneficial interest in the issued share capital of the Issuer.

Neither the Seller, the Retention Holder nor any company connected with the Seller or the Retention Holder can direct the Share Trustee and none of such companies has any control, direct or indirect, over Holdings or the Issuer. Holdings does not have any control, direct or indirect, of any company other than the Issuer.

Pursuant to the terms of its articles of association, Holdings is permitted, *inter alia*, to hold shares in the Issuer.

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

### Directors

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

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
Intertrust Directors 1 Limited	35 Great St. Helen's, London EC3A 6AP	Corporate Director
Intertrust Directors 2 Limited	35 Great St. Helen's, London EC3A 6AP	Corporate Director
Helena Whitaker	35 Great St. Helen's, London EC3A 6AP	Director

The directors of Intertrust Directors 1 Limited and Intertrust Directors 2 Limited and their respective occupations are:

<u>Name</u>	<u>Business Address</u>	<u>Principal Activities</u>
Susan Abrahams	35 Great St. Helen's, London EC3A 6AP	Director
Helena Whitaker	35 Great St. Helen's, London EC3A 6AP	Director
Michelle O'Flaherty	35 Great St. Helen's, London EC3A 6AP	Director
Clive Short	35 Great St. Helen's, London EC3A 6AP	Director
Andrea Williams	35 Great St. Helen's, London EC3A 6AP	Director

The company secretary of Holdings is Intertrust Corporate Services 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 2018.

Holdings has no employees.

## THE SELLER, RETENTION HOLDER AND SERVICER

Optimum Credit Limited ("OCL", the "Seller", the "Retention Holder" and the "Servicer") is a private limited company incorporated and registered in England and Wales under company number 08698121 whose registered office is at Haywood House South, Dumfries Place, Cardiff CF10 36A.

### *Background*

OCL is the UK's largest originator of second charge mortgage loans with a market share of 26 per cent. in July 2018. It also offers specialist servicing of second charge mortgage portfolios, and operates out of its offices in Cardiff with a total of approximately 100 staff.

The business was founded in November 2013 and began lending in June 2014. Important milestones since then are shown in the table below.

<b>Date</b>	<b>Milestone</b>
November 2013	Business founded
June 2014	Prime residential second charge lending commenced
March 2015	Fixed rate products launched
February 2016	Senior debt facility rated A2 by Moody's
March 2016	Transition to FCA regulation under the MCOB rulebook
May 2016	Near-prime products launched
July 2016	Discounted products launched
March 2017	Direct to consumer loans launched
July 2017	Inaugural £268 million Castell 2017-1 securitisation transaction
February 2018	Combination Mortgage Loans launched
August 2018	Loan portfolio stands at £469 million

Lending has grown rapidly since the business was launched, and the following table shows total loan origination in each quarter of operation.

<b>Quarter</b>	<b>Lending £'000</b>
2014 Q2	19
2014 Q3	2,212
2014 Q4	11,984
2015 Q1	9,456
2015 Q2	20,195
2015 Q3	27,002
2015 Q4	28,363
2016 Q1	28,867
2016 Q2	28,226
2016 Q3	48,970
2016 Q4	47,559
2017 Q1	50,108
2017 Q2	60,240
2017 Q3	52,003
2017 Q4	61,350
2018 Q1	62,611



<u>Quarter</u>	<u>Lending £'000</u>
2018 Q2	70,441

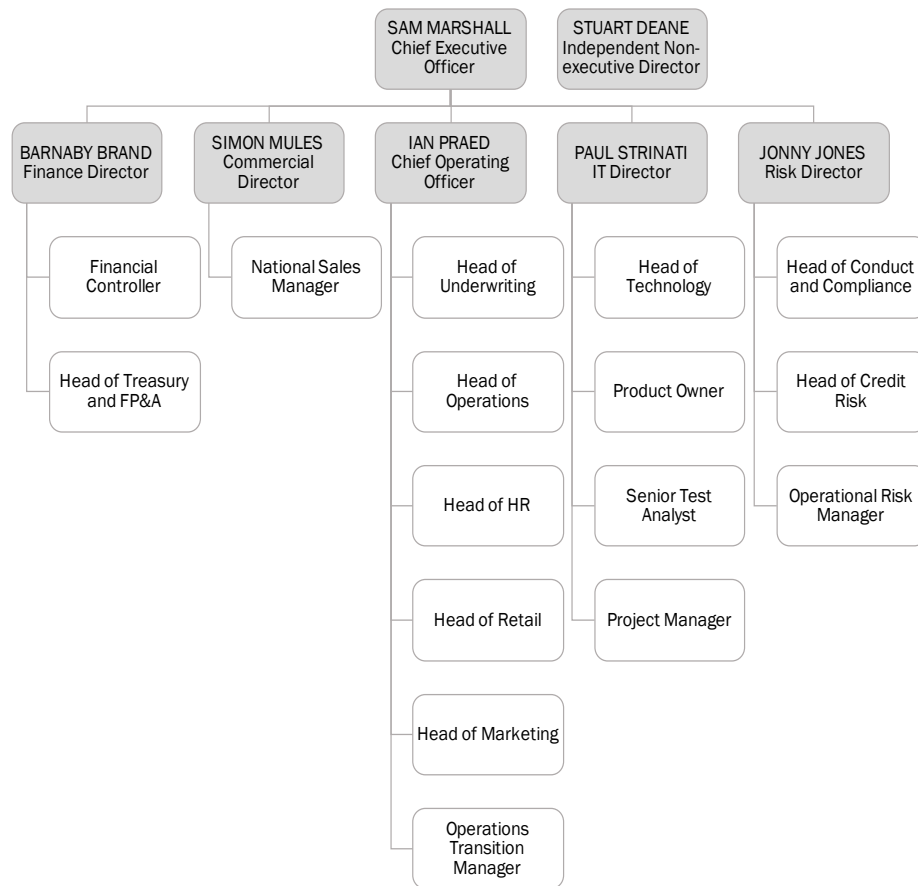
#### *Management Team*

OCL was founded and is led by the former founder and former senior managers of Nemo Personal Finance ("**Nemo**"). Nemo, a subsidiary of the Principality Building Society, commenced origination in February 2005 and its portfolio peaked at around £600m in 2008. Unlike most other lenders in the sector, Nemo continued to originate loans throughout the downturn and contributed strongly to the profitability of its parent group.

The management team of OCL has a combined experience of more than 90 years of second charge lending products:

- Sam Marshall is the Chief Executive Officer and joint founder of OCL. He has a total of 40 years of lending experience and was a founding director of both Nemo and FirstPlus.
- Jonny Jones is the Risk Director and has previously held various positions in senior finance and other audit roles at other financial institutions, including as head of risk at Nemo.
- Barnaby Brand is the Finance Director and has extensive finance experience in audit and financial services. Mr Brand was the Finance Director at General Electric Company prior to joining OCL.
- The Chief Operating Officer is Ian Praed who has over 30 years' operations manager experience, including as Operations Director at Nemo.
- Paul Strinati is the IT Director and was previously the head of IT and Change Management at Nemo. Immediately prior to joining OCL Mr Strinati was Interim IT Director at Principality Building Society, and he also worked at JP Morgan for around 10 years.
- Simon Mules is the Commercial Director and was previously the head of sales at Nemo for 8 years. Before Nemo, Mr Mules worked at Principality Building Society for over 20 years.

The management structure of OCL as at 31 August 2018 is as follows:



OCL is organised according to the three lines of defence corporate model and, within the first line, underwriting is segregated from the Commercial Director. The business has no internal audit function but instead outsources internal audit work under the direction of the Audit Committee.

In addition to its Board, OCL operates an Executive Committee, Audit Committee and Risk Committee. The Audit Committee and Risk Committee are chaired by an independent non-executive director, Stuart Deane. Mr Deane has more than 25 years' experience in financial services and is currently a non-executive director of Experian UK. He also has recent experience as an executive director of Sainsbury's Bank.

#### *Underwriting and risk assessment*

Uniquely in its market, OCL operates a risk-based pricing model that provides a bespoke price for each individual borrower. At the point of origination, all relevant risk factors are considered including credit score, borrower status, property valuation (in relation to which OCL uses a risk based approach to valuation and only requires drive-by valuations or surveyor valuations in certain cases) and first mortgage balance. Having assessed expected losses, unexpected losses, operational costs and funding costs, an individual offer is made to the borrower with a view to maximising the value of the enquiry. This approach to pricing benefits both borrowers, who are each charged a fair price according to their status, and brokers, who gain certainty of price early in the offer process.

#### *Information Regarding the Policies and Procedures of the Seller*

The Seller has internal policies and procedures in relation to the granting of mortgage loans, administration of credit-risk bearing portfolios and risk mitigation, which include: (a) criteria for the granting of mortgage loans and the process for approving, amending, renewing and re-financing mortgage loans (see "*The Mortgage Portfolio and the Mortgage Loans – Characteristics of the Mortgage Loans*", "*The Mortgage Portfolio and the Mortgage Loans – Lending Policy*" and "*Servicing of the Mortgage Portfolio*"); (b) systems in place to administer and monitor the mortgage loans and exposures (the Mortgage Loans will be serviced in line with the usual servicing procedures of the Seller – see "*Servicing of the Mortgage Portfolio*"); (c) adequate diversification of the Seller's mortgage loan books, given the Seller's target market and overall credit strategy (see "*Characteristics of the Provisional Mortgage Portfolio*"); and (d) written

policies and procedures in relation to risk mitigation techniques (see "*Servicing of the Mortgage Portfolio – Arrears and Default Procedures*" and "*The Mortgage Portfolio and the Mortgage Loans – Lending Policy*").

#### *Distribution*

OCL originates second charge mortgage loans via two channels: loan brokers and direct-to-consumer.

Historically all mortgage loans were originated through specialist finance brokers. All brokers are now individually regulated by the Financial Conduct Authority under its MCOB rulebook (either directly or as part of a suitably authorised network). 72 brokers have introduced mortgage loans to OCL, with approximately 65 per cent. of origination being sourced from the largest ten brokers. There is no discernible performance difference in like-for-like loans sourced from different brokers.

Mortgage Loans originated via loan brokers are processed as follows.

- (a) OCL's brokers submit an initial mortgage application to OCL on behalf of a potential borrower.
- (b) OCL then conducts searches on the potential borrower, assesses the potential borrower's property value using a Hometrack AVM, and returns a decision in principle to the broker with a personalised risk-based price.
- (c) The broker then gathers all necessary supporting evidence including, in about 40 per cent. of cases, a property valuation, and submits the completed mortgage application pack to OCL on behalf of the potential borrower.
- (d) The application pack is first checked by OCL's broker liaison team, and then by an independent underwriting team.
- (e) All potential borrowers are individually contacted by OCL with a security call to safeguard against error or fraud.
- (f) Subject to successful completion of all of the above checks, a binding offer is made to the potential borrower by OCL.
- (g) On receipt of a signed mortgage deed, OCL disburses funds to the borrower or, for debt consolidation, directly to the borrower's creditors.

OCL's proposition in the broker market is based around the quality and speed of service. It closely monitors competitor pricing, but rarely chooses to offer the lowest price in the market.

The portfolio contains a small number of direct to consumer loans as OCL re-launched its direct to consumer sales under MCOB in March 2017. Origination volumes are low as sales are purely reactive with no active marketing.

OCL applies the same lending policy to both direct and broker originated Borrowers. For more information on OCL's Lending Policy see the section titled "*The Mortgage Portfolio and the Mortgage Loans*".

#### *Systems*

OCL uses systems developed by its in-house IT team for all aspects of loan origination and servicing.

#### *Authorisation*

OCL is authorised and regulated by the Financial Conduct Authority under registration number 710410 and is registered under the Data Protection Act 1998. In April 2014 OCL was given an Interim Permission by the Financial Conduct Authority and became subject to regulation under the CONC Sourcebook. In March 2016 OCL transitioned to Financial Conduct Authority regulation under the MCOB Rulebook and the full Financial Conduct Authority authorisation was granted in June 2016.

#### *Financing*

Currently, the main financing sources to the Seller's group are:

- a £290 million senior debt facility (rated A2 by Moody's) provided by, inter alia, the Arranger, the Lead Manager and Natixis and a £30 million mezzanine debt facility;
- a £30 million senior debt facility provided by The Royal Bank of Scotland plc; and
- a securitisation transaction, Castell 2017-1 which raised £268 million in July 2017.

OCL and its group companies may use proceeds from the sale of the Mortgage Portfolio to the Issuer to redeem the senior and mezzanine debt facilities (see "*Risk Factors – Certain conflicts of interest involving or relating to the Arrangers, the Lead Manager and their affiliates*").

#### *Current Ownership*

OCL is currently indirectly owned by funds managed and/or advised by Patron Capital Advisers LLP ("**Patron**").

#### *Current Organisational Structure*

OCL is a wholly owned subsidiary of Optimum Holding S.A. (a *société anonyme* registered in Luxembourg). Optimum Holding S.A. is the sole shareholder of the Seller and Optimum Midco S.à r.l which in turn is the sole shareholder of Optimum Two S.à r.l., a special purpose vehicle registered in Luxembourg for the purposes of acting as a warehouse borrower in relation to the origination and purchase of mortgage loans by OCL.

#### *Sale to Pepper Money (PMB) Limited*

On 5 October 2018, Immorefin S.à r.l. (which is the holding company of Optimum Holding S.A. and indirectly controlled by Patron) and Pepper Money (PMB) Limited ("**Pepper Money**") (among others) entered into a sale and purchase agreement pursuant to which the entire issued share capital of Optimum Holding S.A. will be sold to Pepper Money conditional only on the FCA approving (or being treated as having approved) the change of control of OCL under section 189 of the Financial Services and Markets Act 2000.

Pepper Money is part of the Pepper group, a worldwide mortgage origination and servicing business. OCL is expected to continue its current strategy in relation to second charge mortgage origination business, drawing on existing funding methods including public capital markets issuance with such future issuances continuing under the Pepper name. Following the completion of the sale, it is intended that the primary and special servicing functions of OCL as Servicer will be delegated to Pepper's central servicing centre in Uxbridge. The Servicing Agreement permits such delegation without the consent of the Issuer or the Trustee. OCL as Servicer will remain responsible for the performance of such obligations under the Servicing Agreement, and the business expects to continue to adhere to the procedures described in the section entitled "*Servicing of the Mortgage Portfolio*".

#### *Retention Holder*

OCL, in its capacity as the Retention Holder, has given certain undertakings in relation to the holding of the Minimum Required Interest, which are set out in the section headed "*EU Risk Retention Requirements*".

## **THE CASH MANAGER AND ISSUER ACCOUNT BANK**

Citibank, N.A. is a company incorporated with limited liability in the United States of America under the laws of the City and State of New York on 14 June 1812 and reorganised as a national banking association formed under the laws of the United States of America on 17 July 1865 with Charter number 1461 and having its principal business office at 388 Greenwich Street, New York, NY 10013, USA and having in Great Britain a principal branch office situated at Canada Square, Canary Wharf, London E14 5LB with a foreign company number FC001835 and branch number BR001018.

The London Branch of Citibank, N.A. is authorised and regulated by the Office of the Comptroller of the Currency (USA) and authorised by the PRA. It is subject to regulation by the FCA and limited regulation by the PRA.

## **THE TRUSTEE**

Citicorp Trustee Company Limited was incorporated on 24 December 1928 under the laws of England and Wales and has its registered office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, with company number 235914.

Citicorp Trustee Company Limited is an indirect wholly-owned subsidiary of Citigroup Inc., a diversified global financial services holding company incorporated in Delaware.

Citicorp Trustee Company Limited is regulated by the FCA.

## THE SWAP COUNTERPARTY

NatWest Markets Plc (the '**Bank**') is a wholly-owned subsidiary of The Royal Bank of Scotland Group plc (the '**holding company**'), a banking and financial services group. The Bank provides corporate and institutional customers with financing and risk management solutions, with a focus on rates, currencies and financing products.

The 'NWM Group' comprises the Bank and its subsidiary and associated undertakings. The 'RBS Group' comprises the holding company and its subsidiary and associated undertakings, including the NWM Group.

The UK Government has passed legislation which requires banks to separate their retail and investment banking activities by 1 January 2019. To comply with this legislation, the RBS Group has undertaken a reorganisation of its group legal entity structure and business model. Following the reorganisation, the RBS Group has been split into ring-fenced and non ring-fenced entities. The NWM Group will sit outside the ring fence. During 2018, activities which must only be provided by a ring-fenced entity have been moved out of the NWM Group together with certain activities that may be provided within a ring-fenced or non ring-fenced entity, but which the RBS Group believes are best provided from inside the ring-fence. Certain activities are also being moved from ring-fenced entities into the NWM Group, which, amongst other things, is expected to result in NatWest Markets N.V., the RBS Group's banking entity in the Netherlands, becoming a subsidiary of the Bank.

As part of the reorganisation of the RBS Group, the NWM Group effected a capital reduction exercise on 1 July 2018 which reduced the share capital and cancelled the share premium account and capital redemption reserve of the Bank. As at 30 June 2018, the NWM Group had total assets (excluding assets disclosed as disposal groups comprising substantially of all those assets disposed of in the capital reduction exercise) of £269.6 billion and owners' equity of £11.4 billion, and the Bank had a total capital ratio of 32.8% and a CET1 capital ratio of 20.7%. Full financial information relating to the NWM Group can be found in its latest financial results release (<https://investors.rbs.com/~media/Files/R/RBS-IR/results-center/03-aug-2018/natwest-markets-h1-2018-results-announcement.pdf>).

The long-term, unsecured and unsubordinated debt obligations of the Bank are rated BBB+ by Standard & Poor's and Fitch and Baa2 by Moody's.

As at the date of this Prospectus, the Bank has securities admitted to trading on the regulated market of the London Stock Exchange.

## **THE BACK-UP SERVICER**

Link Mortgage Services Limited is a private limited company incorporated in England and Wales on 3 August 1967 and registered under company number 00912411. The registered office of Link Mortgage Services Limited is at 6th Floor, 65 Gresham Street, London, EC2V 7NQ.

Link Mortgage Services Limited is one of the mortgage administration industry's longest established organisations and is rated RPS2- by Fitch Ratings Limited and ranked "Above Average" by S&P, in each case for primary servicing and RSS 2- and "Above Average", in each case for special servicing of residential mortgage loans.

Link Mortgage Services Limited currently services in excess of 42,000 borrowers, 48,000 accounts totalling £5 billion of mortgage assets. It has the experience of being the only appointed standby mortgage servicer in the UK to have been called upon to undertake mortgage administration in place of a primary mortgage servicer.

Link Mortgage Services Limited has ISO 9001-2008 certification, is an Associate Member of UK Finance and Building Society Association and is authorised and regulated by the Financial Conduct Authority under registration number 306235. It holds all relevant permissions under FSMA and is registered under the Data Protection Act 1998.



**THE CORPORATE SERVICES PROVIDER AND THE BACK-UP SERVICER FACILITATOR**

Intertrust Management Limited (registered number 03853947), 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.

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

## THE SECOND CHARGE MORTGAGE MARKET IN THE UNITED KINGDOM

The second charge mortgage market in the United Kingdom has undergone major changes since the financial crisis. In 2007 the market was driven by high LTV lending and sub-prime products, and changes to regulation and practice have since seen significant improvements in the quality of new lending.

### *Market activity*

In 2007, Finance and Leasing Association (FLA) second charge mortgage providers wrote new business of £5.1 billion. At that time the product was extensively promoted through a wide range of mass media channels and, in an effort to build market share, many lenders extended their underwriting criteria to include a broad range of customers including those with adverse credit and limited property equity.

Due to the financial crisis, most major lenders withdrew from the sector between 2008 and 2010. Monthly origination fell to a low of £18m in December 2010 and, during this period of retraction, the few remaining lenders made significant changes to lending criteria and market practice to improve the quality of new origination.

Growth returned in the second half of 2011 and, over the following years, a number of new lenders, including some former players from before the crisis, joined the market. The market grew steadily until early 2016 when significant regulatory changes were introduced which brought second charge mortgage regulation onto the same footing as first charge mortgages under the Financial Conduct Authority, a move welcomed by the sector. Growth has continued under the new regulatory environment and FLA second charge mortgage providers wrote new business in 2017 of £1,023 million, 17 per cent. higher than in 2016 and more than three times higher than the £286 million seen in 2011. However, total outstandings are now less than half of their 2007 peak due to the continued amortisation of legacy portfolios.

The transfer to the FCA's MCOB rulebook allowed a level of product innovation that had not been possible under the former CCA regime. First mortgage style products are becoming more widespread, with many lenders now offering fixed or discount rate products. These products typically carry early redemption charges, a feature that was not generally permitted under the CCA.

### *About the product*

From the perspective of the borrower, second charge mortgage products are commonly used for two primary purposes:

1. debt consolidation; and
2. equity release for the purpose of home improvements, the purchase of a second property or other large expenditure.

In most cases the loan is used for mixed purposes. By value, more than 80 per cent. of OCL's lending includes some element of debt consolidation, and more than 60 per cent. of lending includes some element of equity release.

Depending on the size of the loan advance, second charge mortgages compete either with unsecured loan products or with first mortgage further advances. Borrowers may choose a second charge mortgage over an unsecured loan if they wish to borrow over a longer term or if the interest rate is relatively attractive. Compared with a first mortgage further advance, a second charge mortgage may be attractive if the borrower does not wish to disturb their existing first mortgage or their existing lender does not offer further advances. Additionally, a second charge mortgage may present a cheaper solution if the term sought is short or if the size of the second charge is small in relation to the first mortgage.

### *Loan size*

Recent years have seen a steady increase in the size of an average new second charge mortgage from an average of approximately £24,000 in 2011 to approximately £46,000 in the first eight months of 2018. As lenders increased the quality of their underwriting and risk criteria following the financial crisis, it became possible to increase the maximum loan size and, at low LTVs, many lenders now offer a maximum advance of £1,000,000 with larger loans being considered by exception. This compares with a maximum of £100,000 or less in 2008.

As a result of these changes, second charge mortgages are increasingly being used by affluent borrowers seeking to release equity in their property for the purposes of home improvements, the purchase of a second property or other significant items of expenditure.

#### *Changes to lending criteria*

Typical current lending criteria contrast sharply with market practice before the financial crisis. The following table shows ways in which OCL's current lending criteria differ from the typical criteria employed by the larger lenders active in 2007.

Criterion	2007 market practice	OCL current prime criteria
Maximum LTV	125-150%	85%
Valuation	Roll-up valuations widespread	No roll-up valuations
Income verification	Self-certification widespread	Always verified
Affordability	Often limited only by debt to income ratio	MCOB-compliant income and expenditure assessment
Future interest rate changes	Ignored in affordability assessment	Included in affordability assessment
Credit scoring	Not used by most lenders	Strict scorecard cut-offs apply
Adverse credit	Widely accepted	Strict rules apply
PPI	Widespread, often misold and usually ignored for the purposes of assessing affordability	Not offered
Commission	10-15% of funds advanced with overrides and differential commission common, leading to conflicts of interest and sometimes misselling	2% of funds advanced
Regulation	OFT/CCA regime	FCA mortgage regulatory regime (MCOB) applies

*Source: Optimum Credit Limited*

Further details of OCL's origination criteria are described in the section titled "*The Mortgage Portfolio and the Mortgage Loans – Lending Policy*".

#### *Recent regulatory activity*

In 2017, the FCA conducted a review of processes, systems and controls in the second charge sector with a focus on matters that could affect the ability of firms to lend responsibly. Following the review, a 'Dear CEO' letter was issued to the chief executives of all second charge lenders on 1 March 2018.

The letter stated that the review had identified significant concerns and found a number of poor practices that led to the conclusion that second charge lenders might not always be lending responsibly, resulting in potential customer harm. As a result, all firms were required to conduct an internal review in relation to matters such as the assessment of income and expenditure, record-keeping, oversight arrangements and financial crime.

In accordance with the Dear CEO letter, OCL has conducted a detailed internal review to confirm that its processes, systems and controls are in accordance with the MCOB Rules.

The Responsible Lending Compliance Review was completed in April 2018 and compared the Seller's underwriting practices with relevant rules and guidance published by the FCA. The review confirmed that the Seller had internal processes, systems and controls in place to enable it to lend responsibly. The Seller

has undertaken a full review of its affordability model and expects to implement a number of changes during the fourth quarter of 2018 to streamline the model and associated record keeping.

## THE MORTGAGE PORTFOLIO AND THE MORTGAGE LOANS

### Introduction

The following is a description of some characteristics of the Mortgage Loans and includes details of Mortgage Loan types, the underwriting process, lending criteria and selected statistical information.

The Seller has identified a portfolio of mortgage loans (the "**Provisional Mortgage Portfolio**") from which the Seller will assign Mortgage Loans to the Issuer.

The portfolio of mortgage loans which the Seller will transfer the beneficial title to on the Closing Date will be mortgage loans selected from the Provisional Mortgage Portfolio and from other mortgages not included in the Provisional Mortgage Portfolio that: (a) have been originated during the period between the Portfolio Reference Date and the Cut-Off Date or (b) were originated prior to the Portfolio Reference Date but were not included in the Provisional Mortgage Portfolio as they did not meet the Mortgage Loan Warranties at such time but the Seller has subsequently determined that such mortgage loans will meet the Mortgage Loan Warranties on the Closing Date. The Mortgage Portfolio sold on the Closing Date may therefore differ from the Provisional Mortgage Portfolio. The Mortgage Portfolio sold on the Closing Date may also differ from the Provisional Mortgage Portfolio due to any redemptions of mortgage loans occurring, the death of the related Borrower, or enforcement procedures being completed and the removal from the Mortgage Portfolio at the Cut-Off Date of Mortgage Loans that the Seller determines will not meet the Mortgage Loan Warranties on the Closing Date, in each case during the period between the Portfolio Reference Date and the Cut-Off Date. As at the Portfolio Reference Date, the Provisional Mortgage Portfolio had the characteristics shown below. See "*Characteristics of the Provisional Mortgage Portfolio*".

The Provisional Mortgage Portfolio comprises certain second (or in certain circumstances, subsequent) ranking Mortgage Loans and their Related Security, repurchased on or about the Closing Date by the Seller (as to beneficial title) from warehousing special purpose vehicles pursuant to repurchase agreements.

As of the Closing Date (and following the repurchase of Mortgage Loans and their Related Security as described above), the Seller will hold the legal and beneficial title to such Mortgage Loans and their Related Security. The Seller will transfer the beneficial title of the Mortgage Portfolio to the Issuer pursuant to and subject to the terms of the Mortgage Sale Agreement on the Closing Date. Following the Closing Date, the Seller will continue to hold the legal title to such loans.

The sale by the Seller to the Issuer of each Scottish Mortgage Loan and its Related Security in the Mortgage Portfolio (including pursuant to a substitution, as described below) will be given effect by a declaration of trust by the Seller in favour of the Issuer granted on the Closing Date, Further Sale Date or Substitution Date (the "**Scottish Declaration of Trust**"), following the prior release of such Scottish Mortgage Loans and their Related Security from any existing Scottish trust, which releases are given effect under the terms of separate Scots law governed release agreements (the "**Scottish Releases**").

### Characteristics of the Mortgage Loans

#### *Interest Rate Setting for Mortgage Loans*

The applicable rate of interest accruing under each Mortgage Loan is referred to as the "**Mortgage Rate**". The Provisional Mortgage Portfolio consists of:

- (i) Mortgage Loans in relation to which the Borrower pays interest at a margin over the Optimum Base Rate (the "**Optimum Base Rate Loans**");
- (ii) Mortgage Loans in relation to which the Borrower is obliged to pay a rate of interest fixed by reference to a pre-determined rate or series of rates for a fixed period of 2 to 5 years, pursuant to which the rate of interest payable by the Borrower in accordance with the Mortgage Conditions relating thereto is, for a fixed period or periods, not capable of being reset monthly (the "**Fixed Rate Mortgage Loans**") and, following which, the interest rate will be calculated in the same manner as for an Optimum Base Rate Loan;
- (iii) Mortgage Loans which allow the Borrower for a set period of 1 or 2 years to pay interest at a reduced margin over the Optimum Base Rate (the "**Discount Mortgage Loans**"), following which the interest rate will be calculated in the same manner as for an Optimum Base Rate Loan; and

- (iv) Mortgage Loans in relation to which there is an initial fixed or variable rate interest-only period of between two to five years, followed by a fully amortising period (consisting of interest and principal repayments) of at least ten years (the "**Combination Mortgage Loans**"), which, during the interest-only period, charge interest at an increased margin over the Optimum Base Rate or with a premium over an equivalent Fixed Rate Mortgage Loan.

The floating rate and applicable margin over the Optimum Base Rate are specified to the Borrower in the Mortgage Loan offer and are included in the Mortgage Loan Agreement.

One month LIBOR is determined on the 10th day of each month (or the next business day if the 10th is not a business day) and where this indicates that the Optimum Base Rate should be adjusted then this reset will be applied to the account on the 1st day of the following month.

#### *Repayment Terms*

Repayment terms under each type of Mortgage Loan are fully amortising in monthly instalments over an original term of between 3 and 25 years, except for the Combination Mortgage Loans which are fully amortising in monthly instalments after an initial period during which only interest is payable. Payment holidays are not permitted.

The Mortgage Loans have payment dates throughout the month, and borrowers may elect to change their payment date without penalty. In such cases, an adjustment is made to the next monthly instalment to reflect the interest charge between the old and the new payment date.

#### *Overpayments*

Borrowers may at any time and without penalty make a payment of a greater amount than the amount due on their monthly repayment. If they make a payment in advance of their monthly repayment date at any time, the overpayment will be applied to their account firstly in settlement of any arrears and then default charges and then shall: (a) if it is lower than the amount required for one monthly repayment, be treated as a payment of or towards their next monthly repayment; or (b) if it is higher than the amount required for one monthly repayment (at the option of the Borrower), either be reimbursed or applied to the outstanding balance of the Borrower's account resulting in a reduction of the term of the agreement or an adjustment of the subsequent monthly payments.

#### *Mortgage Early Repayment Charges*

Repayment charges apply to:

- Fixed Rate Mortgage Loans during the fixed interest period;
- Discount Mortgage Loans during the discount period; and
- Combination Mortgage Loans during a fixed rate period (if any).

Repayment charges are calculated as a percentage of the loan balance on the date of settlement. Charges vary according to the age of the loan, the original length of the fixed rate or discount period, the size of any interest rate discount offered, and the date when the loan was originally priced.

The following table shows the maximum level of early repayment charge that may be applied in each year following the original loan completion date. In each case, lower early repayment charges may apply to some individual loans.

Loan type	Maximum early repayment charge as % of loan balance				
	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed Rate Mortgage Loans and Combination Mortgage Loans with a fixed rate of interest:					
2 year fix	2.0	1.5	-	-	-
3 year fix	3.0	2.5	1.0	-	-
4 year fix	4.0	3.5	2.0	1.5	-
5 year fix	5.0	4.5	3.0	2.5	1.0
Discount Mortgage Loans					
1 year discount	2.0	-	-	-	-
2 year discount	1.0	1.0	-	-	-

### *Customer Support Policy*

For further details, please see the section "*Servicing of the Mortgage Portfolio*" below.

### *Governing Law*

The governing law of the Mortgage Loans will be either English law or Scots law.

### *Second ranking mortgages*

The Seller operates a number of procedures in order to mitigate any risks arising from the specific features of second or subsequent charge mortgage loans. Please see the risk factor entitled "*Second or subsequent ranking Mortgages*" above.

### **Lending Policy**

The following lending policy (the "**Lending Policy**") is a summary consolidating the lending criteria which have been applied in relation to the Mortgage Loans comprising the Mortgage Portfolio. Capitalised terms used in this section are used in respect of the Lending Policy only, unless the context otherwise requires.

#### **Maximum Amount of Mortgage Loan**

(a) **Size of Mortgage Loan**

The minimum amount of a Prime Mortgage Loan for any Borrower was £7,500 (excluding fees) and the maximum amount £1,000,000 (including all fees). Near-Prime Mortgage Loans may be sized between £5,000 (excluding fees) and £500,000 (including fees).

(b) **Outstanding Debt**

OCL's policy with regard to debt consolidation is that the funds used for debt consolidation are paid directly to the creditor(s) or issued as a cheque payable to the creditor(s) and sent to the borrowers.

Any credit remaining outstanding on completion of the proposed Mortgage Loan will be factored into OCL's affordability calculator. Where the outstanding credit is a loan with a defined monthly repayment, OCL will use the monthly payment as confirmed by Equifax/declared by the borrower. Where the credit is a credit card or store card revolving credit with no fixed monthly payment OCL will use 3 per cent. of the outstanding balance. OCL will not consider any loan with less than six months left to run within the affordability calculation.

(c) **Loan Term**

The maximum loan term is 25 years and the minimum term is 3 years.

(d) **Affordability**

OCL takes account of both the customer's ability to repay and their intention to repay before offering them a mortgage loan. To assess this, OCL uses a combination of residual income and loan-to-income ratio:

(i) *Residual Income*

In accordance with MCOB 11.6, residual income is calculated at a household level by taking an applicant's verified gross monthly income and deducting: taxation including national insurance and student loan contributions; unconsolidated financial commitments including the first mortgage and the loan provided by OCL; other committed expenditure such as child maintenance; basic essential expenditure; basic quality of living costs; and an allowance for an increase in interest rates on the loan provided by OCL and any prior ranking mortgage, unless these are at a fixed rate for five years or more.

Residual income is required to be greater than zero.

(ii) *Loan to Income (LTI)*

LTI is calculated by OCL by adding the outstanding balance of the Prior Mortgage (up to the maximum drawable amount) and the proposed OCL loan amount (including any lender and broker fees) and dividing their sum by the gross annual income of the applicant. Any LTI higher than 6.0 is subject to additional scrutiny prior to completion.

In relation to Fixed Rate Mortgage Loans, Discount Rate Mortgage Loans and Combination Mortgage Loans, OCL calculates affordability for such Mortgage Loans by taking into account the reversion rate and repayment after reset. The stressed rate used for underwriting includes:

- the relevant floating rate after reset, assuming Optimum Base Rate at the time of underwriting; plus
- the applicable margin for each Mortgage Loan; plus
- the increase in monthly repayment resulting from a 2.00 per cent. stress to interest rates.

The stress of 2.00 per cent. is reviewed quarterly, having regard to market expectations of future interest rate changes and to regulatory guidance. Where applicable, it is applied both to the Mortgage Loan granted by OCL and to the first charge mortgage loan ranking in priority to the Mortgage Loan granted by OCL. In accordance with FCA rules, any mortgage loan with a remaining fixed rate period of 5 or more years, including any prior charge mortgages, need not be subject to a stress.

(e) **Pricing**

Loan pricing is determined by way of a two stage process:

(i) Credit Risk Assessment – determining risk grade by assessing the following components:

- (A) probability of default based on credit score, loan to value ratio (the "LTV") and other loan characteristics;
- (B) loss given default based on stressed and unstressed property valuation, first mortgage and Mortgage Loan; and
- (C) cost of funds.

In assessing the credit risk, OCL's risk model will also take into account the applicant's employment status and the loan size.



- (ii) deployment of a range of pricing strategies based on the credit risk profile and the price elasticity of demand.

(f) **Underwriting**

The approval in principle process for a Mortgage Loan is automated, based on credit score, bureau information, Automated Valuation Model ("AVM") and application data.

Underwriting takes place before offer. All Mortgage Loans are underwritten by experienced underwriters who are independent of the sales function and receive no variable compensation derived from sales volumes or conversion levels. All underwriters report ultimately to the Chief Operating Officer of OCL.

The Underwriting function conducts a review of all documentary evidence associated with a loan. This includes, inter alia, evidence of income, the property valuation report and the Land Registry priority search conducted by OCL's solicitors.

(g) **Refinancing Redemptions**

While there is no obligation on OCL to make further advances or product switches in respect of a loan, OCL may, at its discretion, offer to increase the amount advanced to existing borrowers of the Mortgage Loans or agree to a product switch. These are effected by creating a new mortgage loan for the new increased amount owed by the relevant borrower under the existing second charge mortgage, the proceeds of which will in part be used to redeem in full the existing Mortgage Loan (a "**Refinancing Redemption**"). Such Mortgage Loans ("**Refinanced Mortgage Loans**") will be subject to the repurchase obligation under the Mortgage Sale Agreement. See "*Assignment of the Mortgage Loans and Related Security*" and "*Summary of the Key Transaction Documents – Mortgage Sale Agreement – Refinanced Mortgage Loans*" for more detail.

**Credit History**

(a) **General Credit History/Risk Navigator Credit Score**

OCL uses the Risk Navigator 4 MGILF04 score, Equifax's recommended product for mortgages and secured lending. Equifax is a provider of credit bureau data via automated system link and standalone web solution.

MGILF04 is based on a development sample of 3.8 million accounts and has the ability to calculate a joint application score for two applicants. It also includes data from financial associates and references both the supplied and linked addresses of the applicant(s).

The minimum credit score for Prime Mortgage Loans based on Equifax MGILF04 is 300 or 400 for loans over £200,000 and 425 for loans over £500,000, although, in accordance with the exceptions policy, these limits may be overridden by a suitably mandated underwriter. For Near-Prime Mortgage Loans, the Equifax MGILF04 score must be greater than or equal to zero. For all Mortgage Loans, additional credit score restrictions may apply where a loan carries additional risk characteristics.

(b) **Mortgage History**

A mortgage payment history of at least six months will be required in each case, subject to the nature of the first mortgage. This must be no older than 60 days at completion of the relevant Mortgage Loan.

A suitably mandated underwriter has the discretion to accept a shorter mortgage payment history should they consider that the missing months would not provide any additional information that might be of concern and that the application represents an otherwise reasonable risk.

If an applicant does not have the requisite residential mortgage payment history, a suitably mandated underwriter can accept a buy-to-let mortgage track record in lieu of a residential mortgage track record.

(c) **Delinquencies/Adverse Credit**

In accordance with normal practice in the second charge mortgage sector, OCL makes a calculation of the number of "units" of adverse credit that are attributable to a loan application. The number of units for Prime Mortgage Loans must be less than two, although a suitably mandated underwriter has the discretion to accept up to two units of adverse credit should they consider that the additional unit does not impact the overall viability of the proposition and that the proposed transaction will place the applicant(s) in a better position financially.

The number of units for Near-Prime Mortgage Loans must be less than nine.

Typically, a CCJ or default will constitute a unit unless it is below certain limits set by reference to the monetary value, age, status and type of CCJ/default. Additionally, arrears on a mortgage or loan may be treated as one or more units according to the loan type and the recency and severity of the arrears.

Approximately 10.9 per cent. of the Provisional Mortgage Portfolio by value has one or more units.

(d) **Major Derogatory Credit**

(i) *Bankruptcy*

An application for finance will not be considered unless an applicant has been discharged for a period of at least: (i) with respect to Prime Mortgage Loans five years; and (ii) with respect to Near-Prime Mortgage Loans, two years, as at the date of the application.

(ii) *IVAs/Administration Orders*

An application for finance cannot be considered from applicants who are currently operating under an IVA.

However, applicants who have satisfied an IVA (provided an IVA is satisfied over twenty four months ago with respect to Prime Mortgage Loans) may be considered by an appropriately mandated underwriter, and will undergo enhanced underwriting with due consideration given to any improvement in the applicants' financial circumstances indicating that the period of financial instability is behind them.

Administration Orders are to be treated in the same way as IVAs. A Trust Deed in Scotland can operate in the same way as an IVA, but can progress to full bankruptcy.

(iii) *Repossession or Voluntary Surrender*

An application for finance cannot be considered from applicants who have had a property that has been subject to either a repossession or voluntary surrender within six years of the date of application.

**Property and Security**

(a) **Acceptable Property**

OCL will consider lending on most property types with the exception of: freehold flats and maisonettes in England and Wales; leasehold flats and maisonettes in Scotland; shared ownership or similar schemes; commercial properties; properties deemed defective under the Housing Defects Act 1984 and Housing Act 1985; properties with agricultural restrictions; and houses in multiple occupation.

A suitably mandated underwriter has the authority to agree to proceed with an application to secure funds over a property that falls into the above list on an exceptional basis provided a good business rationale can be articulated for doing so.

Similarly, OCL may decide to proceed with an application where the subject property does not fall into the list of generally acceptable property types but valuer's comments are such that the property is considered to be suitable security by the underwriter.

(b) **LTV**

The maximum Original Loan to Value Ratio in respect of any Mortgage Loan is set out in the following table.

<u>Loan size (£)</u>	<u>LTV limit</u>	
	<u>Prime</u>	<u>Near-Prime</u>
5,000 – 7,499	n/a	75
7,500 – 150,000	85	75
150,001 – 200,000	85	70
200,001 – 500,000	75	70
500,001 – 1,000,000	65	n/a

In accordance with the exceptions policy, these limits may be exceeded by a suitably mandated underwriter.

(c) **Values and Valuations**

The minimum Property value is £100,000 for Prime Mortgage Loans and £75,000 for Near-Prime Mortgage Loans although lower value properties may be used as security in accordance with the exceptions policy. The OCL system will advise the introducer at point of sale whether a valuation is required and, if so, whether a drive-by or full internal valuation is required.

*Automated Valuations*

All Mortgage Loans are initially assessed using the Hometrack AVM. Reliance on the AVM is risk based and determined by the:

- (a) AVM confidence level;
- (b) Borrower's estimated valuation;
- (c) Original Loan to Value Ratio;
- (d) credit score; and
- (e) Property valuation.

*Surveyor Valuations*

Where an AVM is unacceptable, a surveyor valuation is required. A drive by valuation may be sufficient depending on the overall risk profile.

Management of the valuer panel is currently outsourced to Pure Panel Management, Metropolis and Gateway.

The table below summarises when OCL uses each valuation method for Prime Mortgage Loans:

Value (£)	AVM confidence level	OLTV 0-50%	OLTV 51-75%	OLTV 76-80%	OLTV <sup>1</sup> 81-85%	
					RNS < 425	RNS = 425+
0 to 350,000	<4.00	Drive-by	Drive-by	Drive-by	Drive-by	Drive-by
	4 – 4.99	AVM	Drive-by	Drive-by	Drive-by	Drive-by
	5 – 5.99	AVM	AVM	Drive-by	Drive-by	Drive-by
	>=6.00	AVM	AVM	AVM	Drive-by	AVM
>350,000 to 750,000	<4.00	Drive-by	Drive-by	Drive-by		Full
	4 – 4.99	AVM	Drive-by	Drive-by		Full
	5 – 5.99	AVM	AVM	Drive-by		Full
	>=6.00	AVM	AVM	AVM		Full
>750,000	N/A	Drive-by	Drive-by	Drive-by		Full

For Near-Prime Mortgage Loans, an AVM is acceptable only where the confidence level is greater than or equal to five, the LTV is less than or equal to 60 per cent. and the property value is less than or equal to £750,000. In all other cases, a drive-by valuation is required.

In all cases where the valuation policy permits the use of an AVM, a drive-by or full valuation may be used as an alternative. Similarly, where the policy permits the use of a drive-by valuation, a full valuation may be used instead. Where more than one type of valuation is permitted under the valuation policy, a full valuation will be used first, then a drive-by and finally an AVM.

(d) **Security**

Security is taken by way of second or subsequent charge only.

(e) **Registration and Holding**

All the necessary paperwork required to effect the security is compiled by OCL. The security is registered and effected on behalf of OCL by English and, where applicable, Scottish law firms and is held to the order of OCL.

(f) **Address History**

All applicants must supply a full three years address history in the UK. All addresses must be searched and verified.

(g) **Property Ownership**

100 per cent. of the property must be in the applicant's ownership.

**The Individual**

(a) **Employment History**

Employed applicants must outline a two year employment history in the UK and will be expected to have been employed for a minimum of one month in their current job and to have had a minimum of twenty four months continuous employment at the time of application. Self-employed applicants must have been trading for a minimum of three years in the UK (or the business must have been trading for a minimum of three years).

If any applicant is employed within a family owned business, OCL requires a letter from the company accountant confirming the annual salary and the percentage of shares held.

<sup>1</sup> RNS is the Equifax Risk Navigator Score MGILF04.

(b) **Self-employment**

An application will be assessed as self-employed for the purposes of risk assessment, pricing and reporting if any income used in support of the loan's affordability assessment is derived from self-employment.

Income from unincorporated businesses – sole traders and partnerships – will be regarded as income from self-employment if the applicant's share of the business is 35 per cent. or more.

For corporate entities, if 35 per cent. or more of an applicant's employer is owned by the applicant they will be treated as self-employed in terms of the assessment of the application.

However, income from certain professional business will not be treated as income from self-employment, regardless of whether the business is incorporated. A full list of acceptable professions is maintained by the Head of Underwriting and includes fields such as medicine, dentistry and the law.

(c) **Income**

Income must be sufficient to satisfy the affordability requirements in paragraph (d) of the section headed "*Maximum amount of Mortgage Loan*" above. Self-certified income is not accepted.

Subject to detailed underwriting rules, commissions, bonuses, overtime and income from second employment may be included in the assessment of income provided that it is demonstrably sustainable. Both private pension income and state pension income are acceptable, and lump sum pension payments are also acceptable if they cover the loan balance at the point of retirement

(d) **Applicants Age**

Applicants must be at least 21 years old (or 25 if they are self-employed) and generally have a maximum age of 65 years on the date of application (OCL will however consider any case where the applicant is over 65 on its merits).

Generally, the maximum age of the applicant at the maturity of the loan is 70. Applications where the applicant will be over 70 and the credit assessment relies on their income will be considered and priced on an individual basis. Applications where the applicants are 75 or over at the end of the loan term may be approved by an appropriately mandated underwriter.

(e) **Joint Applications**

Where a property is held in joint names the application must be submitted in the names of the joint owners of the property. Where a property is held in the sole name of a married applicant OCL requires the application to be submitted in the joint names of the applicant and spouse.

Where property is held in the sole name of an applicant who is co-habiting OCL will accept the application in their sole name.

(f) **Non EEA Nationals**

Applicants must have permanent rights to reside in the UK.

**Exceptions Policy**

Aside from areas of the Lending Policy where suitably experienced underwriters are noted above to have discretion, authority to approve certain exceptions to the Lending Policy may be exercised by certain individuals and directors prior to the approval of the relevant application.

Under certain circumstances, an exception may be regarded by the policy as being a reportable exception. Amongst other things, a loan will be recorded as having a reportable exception if it fails to meet the normal criteria for Original Loan to Value Ratio, credit score, loan size, annual charging rate or applicant age. Only one reportable exception can be agreed per application, and approximately 1.50 per cent. by value of the Provisional Mortgage Portfolio has a reportable exception.

Loans approved in accordance with the Exceptions Policy are considered to comply with the Lending Policy.

***Fees and Commissions***

Introducers are remunerated through a commission of up to approximately 2 per cent. payable by the Seller to the broker, and a broker fee currently averaging approximately 6 per cent. of the advance, payable by the Borrower. Broker fees can either be paid up front or added to the principal balance of the Mortgage Loan, at the Borrower's discretion.

A lender fee is also charged to the Borrower, and can either be paid up front or added to the principal balance of the Mortgage Loan, at the Borrower's discretion. The value of the lender fee is determined by the size of the loan and the loan product chosen.

## CHARACTERISTICS OF THE PROVISIONAL MORTGAGE PORTFOLIO

The statistical and other information contained in this section has been compiled by reference to the Provisional Mortgage Portfolio of £309,854,878 as of the Portfolio Reference Date and is described further in the section entitled "*The Mortgage Portfolio and the Mortgage Loans – Introduction*" above.

The information contained in this section will not be updated to reflect any change in the size of the Mortgage Portfolio from that of the Provisional Mortgage Portfolio.

Except as otherwise indicated, these tables have been prepared using the Current Balance as at the Portfolio Reference Date. Columns may not add up to the total due to rounding.

As at the Portfolio Reference Date, the Provisional Mortgage Portfolio had the following characteristics:

### Summary Statistics

Total Current Balance (£).....	309,854,878
Total Original Balance (£).....	319,620,497
Number of Loans.....	6,998
Largest Current Balance (£).....	937,990
Smallest Current Balance (£).....	451
Average Current Balance (£).....	44,278
Weighted Average Interest Rate.....	6.3%
Weighted Average OLV (including first lien).....	64.6%
Weighted Average CLTV (including first lien at origination).....	64.2%
Weighted Average Remaining Term (Years).....	16
Weighted Average Seasoning (Months).....	8
Second Charge Mortgages.....	100.0%
Owner Occupied.....	100.0%
Self-Certified Income.....	0.0%
Bankruptcies / IVAs.....	0.2%
CCJs>0.....	3.8%
Weighted Average Property Valuation (£).....	476,696
Weighted Average Borrower Age.....	46
Weighted Average Total Borrower Income.....	70,785
Weighted Average Borrower Credit Score.....	442
Combination Mortgage Loan.....	1.0%
Near Prime (% of Current Balance).....	10.0%

Current Balance (£).....	Current Loan Balance Amount (£)	Current Loan Balance (%)	Number of Loans	Number of Loans (%)
<= 20,000.....	18,569,340	6.0%	1,286	18.4%
20,001 <= Current Balance <= 40,000.....	82,878,352	26.7%	2,828	40.4%
40,001 <= Current Balance <= 60,000.....	71,567,047	23.1%	1,466	20.9%
60,001 <= Current Balance <= 80,000.....	46,689,213	15.1%	677	9.7%
80,001 <= Current Balance <= 100,000.....	28,141,419	9.1%	316	4.5%
100,001 <= Current Balance <= 120,000.....	18,790,510	6.1%	176	2.5%
120,001 <= Current Balance <= 140,000.....	12,224,491	3.9%	95	1.4%
140,001 <= Current Balance <= 160,000.....	8,613,749	2.8%	58	0.8%
>= 160,001.....	22,380,757	7.2%	96	1.4%
<b>Total: .....</b>	<b>309,854,878</b>	<b>100.0%</b>	<b>6,998</b>	<b>100.0%</b>
Min Current Balance.....	451			
Max Current Balance.....	937,990			
Avg Current Balance.....	44,278			

	Current Loan Balance Amount (£)	Current Loan Balance (%)	Number of Loans	Number of Loans (%)
<b>Original Balance (£)</b> .....				
<= 20,000 .....	15,863,015	5.1%	1,139	16.3%
20,001 <= Original Balance <= 40,000 .....	81,875,776	26.4%	2,876	41.1%
40,001 <= Original Balance <= 60,000 .....	71,176,551	23.0%	1,494	21.3%
60,001 <= Original Balance <= 80,000 .....	45,834,062	14.8%	683	9.8%
80,001 <= Original Balance <= 100,000 .....	28,900,662	9.3%	337	4.8%
100,001 <= Original Balance <= 120,000 .....	21,958,593	7.1%	210	3.0%
120,001 <= Original Balance <= 140,000 .....	11,273,967	3.6%	90	1.3%
140,001 <= Original Balance <= 160,000 .....	10,054,839	3.2%	69	1.0%
>= 160,001 .....	22,917,413	7.4%	100	1.4%
<b>Total:</b> .....	<b>309,854,878</b>	<b>100.0%</b>	<b>6,998</b>	<b>100.0%</b>
Min Original Balance .....	6,070			
Max Original Balance .....	937,990			
Avg Original Balance .....	45,673			

	Current Loan Balance Amount (£)	Current Loan Balance (%)	Number of Loans	Number of Loans (%)
<b>Current Interest Rate</b> .....				
<= 4.50% .....	30,861,879	10.0%	526	7.5%
4.51% <= Interest Rate <= 5.00% .....	48,500,790	15.7%	862	12.3%
5.01% <= Interest Rate <= 5.50% .....	42,830,924	13.8%	868	12.4%
5.51% <= Interest Rate <= 6.00% .....	29,959,292	9.7%	586	8.4%
6.01% <= Interest Rate <= 6.50% .....	35,441,028	11.4%	853	12.2%
6.51% <= Interest Rate <= 7.00% .....	35,935,752	11.6%	863	12.3%
7.01% <= Interest Rate <= 7.50% .....	25,478,806	8.2%	705	10.1%
7.51% <= Interest Rate <= 8.00% .....	20,314,305	6.6%	604	8.6%
8.01% <= Interest Rate <= 8.50% .....	14,349,577	4.6%	373	5.3%
8.51% <= Interest Rate <= 9.00% .....	8,451,483	2.7%	243	3.5%
9.01% <= Interest Rate <= 9.50% .....	6,405,430	2.1%	190	2.7%
9.51% <= Interest Rate <= 10.00% .....	4,300,621	1.4%	132	1.9%
>= 10.01% .....	7,024,990	2.3%	193	2.8%
<b>Total:</b> .....	<b>309,854,878</b>	<b>100.0%</b>	<b>6,998</b>	<b>100.0%</b>
Min Interest Rate .....	3.3%			
Max Interest Rate .....	16.5%			
Weighted Average Interest Rate .....	6.3%			

	Current Loan Balance Amount (£)	Current Loan Balance (%)	Number of Loans	Number of Loans (%)
<b>Interest Rate Type</b> .....				
Discount .....	25,456,453	8.2%	464	6.6%
Fixed .....	203,275,272	65.6%	4,949	70.7%
Floating .....	81,123,152	26.2%	1,585	22.6%
<b>Total:</b> .....	<b>309,854,878</b>	<b>100.0%</b>	<b>6,998</b>	<b>100.0%</b>



<b>OLTV (including first lien)</b>	<b>Current Loan Balance Amount (£)</b>	<b>Current Loan Balance (%)</b>	<b>Number of Loans</b>	<b>Number of Loans (%)</b>
<= 35.00% .....	15,454,336	5.0%	439	6.3%
35.01% <= OLTV <= 40.00% .....	9,959,158	3.2%	253	3.6%
40.01% <= OLTV <= 45.00% .....	13,198,849	4.3%	328	4.7%
45.01% <= OLTV <= 50.00% .....	18,015,088	5.8%	416	5.9%
50.01% <= OLTV <= 55.00% .....	25,854,535	8.3%	562	8.0%
55.01% <= OLTV <= 60.00% .....	29,602,008	9.6%	634	9.1%
60.01% <= OLTV <= 65.00% .....	27,882,961	9.0%	563	8.0%
65.01% <= OLTV <= 70.00% .....	32,101,203	10.4%	689	9.8%
70.01% <= OLTV <= 75.00% .....	44,816,696	14.5%	1,041	14.9%
75.01% <= OLTV <= 80.00% .....	37,082,308	12.0%	784	11.2%
80.01% <= OLTV <= 85.00% .....	55,887,737	18.0%	1,289	18.4%
<b>Total: .....</b>	<b>309,854,878</b>	<b>100.0%</b>	<b>6,998</b>	<b>100.0%</b>
Min OLTV .....	6.5%			
Max OLTV .....	85.0%			
Weighted Average OLTV .....	64.6%			

<b>CLTV (including first lien at origination)</b>	<b>Current Loan Balance Amount (£)</b>	<b>Current Loan Balance (%)</b>	<b>Number of Loans</b>	<b>Number of Loans (%)</b>
<= 35.00% .....	16,154,473	5.2%	463	6.6%
35.01% <= CLTV <= 40.00% .....	10,339,870	3.3%	256	3.7%
40.01% <= CLTV <= 45.00% .....	13,359,837	4.3%	343	4.9%
45.01% <= CLTV <= 50.00% .....	19,088,413	6.2%	437	6.2%
50.01% <= CLTV <= 55.00% .....	26,175,705	8.4%	569	8.1%
55.01% <= CLTV <= 60.00% .....	28,449,064	9.2%	608	8.7%
60.01% <= CLTV <= 65.00% .....	28,956,233	9.3%	593	8.5%
65.01% <= CLTV <= 70.00% .....	33,205,146	10.7%	722	10.3%
70.01% <= CLTV <= 75.00% .....	43,936,787	14.2%	998	14.3%
75.01% <= CLTV <= 80.00% .....	37,256,041	12.0%	791	11.3%
80.01% <= CLTV <= 85.00% .....	52,933,310	17.1%	1,218	17.4%
<b>Total: .....</b>	<b>309,854,878</b>	<b>100.0%</b>	<b>6,998</b>	<b>100.0%</b>
Min CLTV .....	6.0%			
Max CLTV .....	85.0%			
Weighted Average CLTV .....	64.2%			

<b>First Lien Mortgage LTV at Origination of Second Charge Mortgage</b>	<b>Current Loan Balance Amount (£)</b>	<b>Current Loan Balance (%)</b>	<b>Number of Loans</b>	<b>Number of Loans (%)</b>
<= 25.00% .....	30,622,062	9.9%	647	9.2%
25.01% <= First Mortgage LTV <= 30.00% .....	17,493,875	5.6%	343	4.9%
30.01% <= First Mortgage LTV <= 35.00% .....	22,697,143	7.3%	455	6.5%
35.01% <= First Mortgage LTV <= 40.00% .....	31,240,601	10.1%	634	9.1%
40.01% <= First Mortgage LTV <= 45.00% .....	33,838,084	10.9%	649	9.3%
45.01% <= First Mortgage LTV <= 50.00% .....	37,373,580	12.1%	783	11.2%
50.01% <= First Mortgage LTV <= 55.00% .....	35,603,847	11.5%	792	11.3%
55.01% <= First Mortgage LTV <= 60.00% .....	34,909,021	11.3%	812	11.6%
60.01% <= First Mortgage LTV <= 65.00% .....	28,774,020	9.3%	772	11.0%
65.01% <= First Mortgage LTV <= 70.00% .....	21,979,601	7.1%	608	8.7%
>= 70.01% .....	15,323,044	4.9%	503	7.2%
<b>Total: .....</b>	<b>309,854,878</b>	<b>100.0%</b>	<b>6,998</b>	<b>100.0%</b>
Min 1st Lien LTV .....	0.8%			
Max 1st Lien LTV .....	81.5%			
Weighted Average 1st Lien LTV .....	46.5%			

Seasoning (Months)	Current Loan Balance Amount (£)	Current Loan Balance (%)	Number of Loans	Number of Loans (%)
<= 6.....	143,512,124	46.3%	3,077	44.0%
7 to 12 .....	105,303,104	34.0%	2,338	33.4%
13 to 18 .....	56,282,580	18.2%	1,370	19.6%
19 to 24 .....	3,936,032	1.3%	166	2.4%
25 to 30 .....	821,038	0.3%	47	0.7%
<b>Total:</b> .....	<b>309,854,878</b>	<b>100.0%</b>	<b>6,998</b>	<b>100.0%</b>
Min Seasoning (Months).....	0.0			
Max Seasoning (Months).....	28.0			
Weighted Average Seasoning (Months).....	7.6			

Remaining Term (Years)	Current Loan Balance Amount (£)	Current Loan Balance (%)	Number of Loans	Number of Loans (%)
<= 5 .....	8,521,736	2.8%	482	6.9%
6 to 10 .....	63,097,760	20.4%	1,927	27.5%
11 to 15 .....	77,533,320	25.0%	1,737	24.8%
16 to 20 .....	71,481,761	23.1%	1,303	18.6%
21 to 25 .....	89,220,302	28.8%	1,549	22.1%
<b>Total:</b> .....	<b>309,854,878</b>	<b>100.0%</b>	<b>6,998</b>	<b>100.0%</b>
Min Remaining Term (Years).....	0.9			
Max Remaining Term (Years).....	25.00			
Weighted Average Remaining Term (Years).....	16.1			

Fixed Rate Loans Reset Dates	Current Loan Balance Amount (£)	Current Loan Balance (%)	Number of Loans	Number of Loans (%)
N/A.....	4,659,651	2.3%	284	5.7%
2018.....	428,789	0.2%	14	0.3%
2019.....	19,701,622	9.7%	479	9.7%
2020.....	39,357,378	19.4%	849	17.2%
2021.....	12,416,088	6.1%	300	6.1%
2022.....	47,797,843	23.5%	1,209	24.4%
2023.....	78,913,902	38.8%	1,814	36.7%
<b>Total:</b> .....	<b>203,275,272</b>	<b>100.0%</b>	<b>4,949</b>	<b>100.0%</b>

Geographical Concentration	Current Loan Balance Amount (£)	Current Loan Balance (%)	Number of Loans	Number of Loans (%)	OLTIV (%)	CLTV (%)
East Midlands, England	17,823,987	5.8%	532	7.6%	67.8%	67.2%
East of England	50,260,713	16.2%	1,000	14.3%	63.1%	62.7%
London, England	59,248,756	19.1%	914	13.1%	58.9%	58.5%
North East, England	5,521,296	1.8%	184	2.6%	72.6%	71.9%
North West, England	19,200,171	6.2%	599	8.6%	69.5%	68.9%
Scotland	16,983,458	5.5%	524	7.5%	68.8%	68.2%
South East, England	70,882,681	22.9%	1,330	19.0%	63.4%	63.0%
South West, England	24,850,137	8.0%	590	8.4%	66.5%	66.1%
Wales	10,736,034	3.5%	308	4.4%	68.6%	68.0%
West Midlands, England	19,826,233	6.4%	556	7.9%	68.2%	67.5%
Yorkshire and the Humber, England	14,521,412	4.7%	461	6.6%	69.7%	69.0%
<b>Total:</b>	<b>309,854,878</b>	<b>100.0%</b>	<b>6,998</b>	<b>100.0%</b>	<b>64.6%</b>	<b>64.2%</b>

<b>Current Months in Arrears</b>	<b>Current Loan Balance Amount (£)</b>	<b>Current Loan Balance (%)</b>	<b>Number of Loans</b>	<b>Number of Loans (%)</b>
0 .....	307,378,220	99.2%	6,940	99.2%
1 .....	1,733,147	0.6%	41	0.6%
2 .....	385,245	0.1%	10	0.1%
3 .....	358,266	0.1%	7	0.1%
<b>Total: .....</b>	<b>309,854,878</b>	<b>100.0%</b>	<b>6,998</b>	<b>100.0%</b>
Min Months in Arrears .....	0			
Max Months in Arrears .....	3			

<b>All CCJs on Record at Application</b>	<b>Current Loan Balance Amount (£)</b>	<b>Current Loan Balance (%)</b>	<b>Number of Loans</b>	<b>Number of Loans (%)</b>
0 .....	298,103,955	96.2%	6,584	94.1%
1 .....	7,823,538	2.5%	281	4.0%
2 .....	2,519,449	0.8%	86	1.2%
>= 3 .....	1,407,937	0.5%	47	0.7%
<b>Total: .....</b>	<b>309,854,878</b>	<b>100.0%</b>	<b>6,998</b>	<b>100.0%</b>
Min CCJs on Record at Application .....	0			
Max CCJs on Record at Application .....	7			

<b>Product Category</b>	<b>Current Loan Balance Amount (£)</b>	<b>Current Loan Balance (%)</b>	<b>Number of Loans</b>	<b>Number of Loans (%)</b>
Near Prime .....	30,954,917	10.0%	1,090	15.6%
Prime .....	278,899,961	90.0%	5,908	84.4%
<b>Total: .....</b>	<b>309,854,878</b>	<b>100.0%</b>	<b>6,998</b>	<b>100.0%</b>

<b>Bankruptcies or IVAs (or both)</b>	<b>Current Loan Balance Amount (£)</b>	<b>Current Loan Balance (%)</b>	<b>Number of Loans</b>	<b>Number of Loans (%)</b>
N .....	309,107,962	99.8%	6,980	99.7%
Y .....	746,916	0.2%	18	0.3%
<b>Total: .....</b>	<b>309,854,878</b>	<b>100.0%</b>	<b>6,998</b>	<b>100.0%</b>

<b>Employment Type</b>	<b>Current Loan Balance Amount (£)</b>	<b>Current Loan Balance (%)</b>	<b>Number of Loans</b>	<b>Number of Loans (%)</b>
Employed .....	245,335,157	79.2%	5,930	84.7%
Pensioner .....	169,530	0.1%	4	0.1%
Self employed .....	64,350,192	20.8%	1,064	15.2%
<b>Total: .....</b>	<b>309,854,878</b>	<b>100.0%</b>	<b>6,998</b>	<b>100.0%</b>



	<b>Current Loan Balance Amount (£)</b>	<b>Current Loan Balance (%)</b>	<b>Number of Loans</b>	<b>Number of Loans (%)</b>
<b>Self Certified Income</b>				
No .....	309,854,878	100.00%	6,998	100.0%
<b>Total:</b> .....	<b>309,854,878</b>	<b>100.00%</b>	<b>6,998</b>	<b>100.0%</b>

	<b>Current Loan Balance Amount (£)</b>	<b>Current Loan Balance (%)</b>	<b>Number of Loans</b>	<b>Number of Loans (%)</b>
<b>Occupancy Type</b>				
Owner Occupied .....	309,854,878	100.0%	6,998	100.0%
<b>Total:</b> .....	<b>309,854,878</b>	<b>100.0%</b>	<b>6,998</b>	<b>100.0%</b>

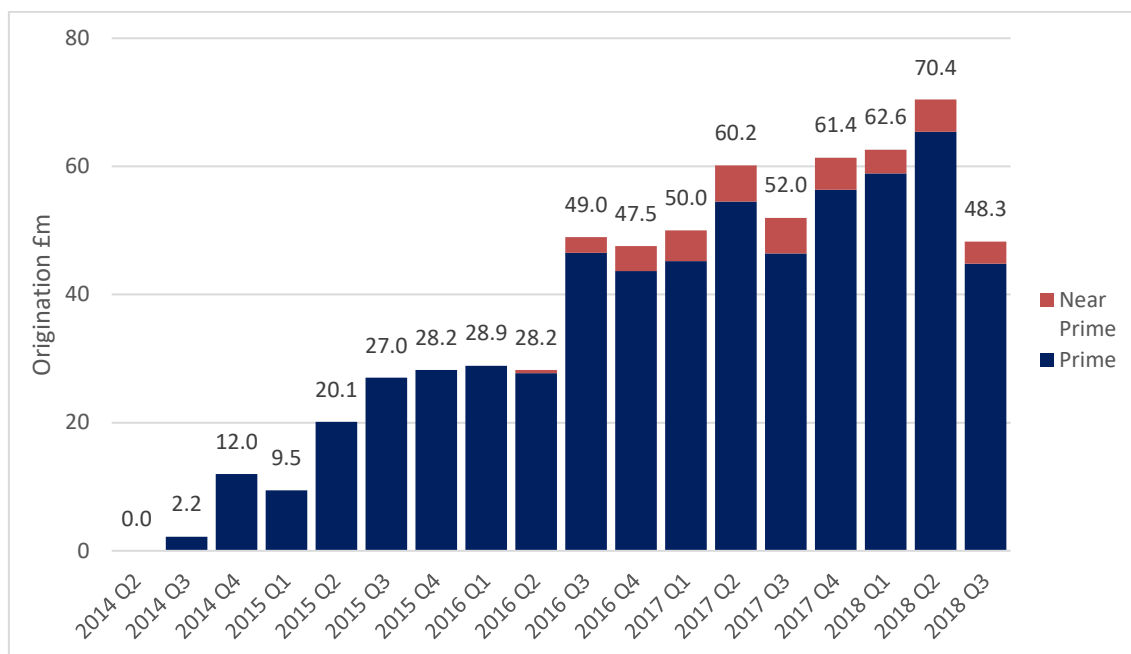
	<b>Current Loan Balance Amount (£)</b>	<b>Current Loan Balance (%)</b>	<b>Number of Loans</b>	<b>Number of Loans (%)</b>
<b>Property Valuation Type</b>				
AVM .....	165,770,213	53.5%	4,065	58.09%
Drive-by .....	50,318,611	16.2%	1,147	16.39%
Full, internal and external inspection .....	93,766,054	30.3%	1,786	25.52%
<b>Total:</b> .....	<b>309,854,878</b>	<b>100.0%</b>	<b>6,998</b>	<b>100.0%</b>

	<b>Current Loan Balance Amount (£)</b>	<b>Current Loan Balance (%)</b>	<b>Number of Loans</b>	<b>Number of Loans (%)</b>
<b>Cash Advance Ratio (%)</b>				
<= 0.00% .....	25,966,842	8.4%	590	8.43%
0.01% <= Cash Advance Ratio <= 10.00% .....	101,660,816	32.8%	2,209	31.57%
10.01% <= Cash Advance Ratio <= 20.00% .....	38,045,365	12.3%	930	13.29%
20.01% <= Cash Advance Ratio <= 30.00% .....	25,953,347	8.4%	649	9.27%
30.01% <= Cash Advance Ratio <= 40.00% .....	18,929,265	6.1%	451	6.44%
40.01% <= Cash Advance Ratio <= 50.00% .....	16,363,601	5.3%	374	5.34%
50.01% <= Cash Advance Ratio <= 60.00% .....	12,413,758	4.0%	303	4.33%
60.01% <= Cash Advance Ratio <= 70.00% .....	10,169,211	3.3%	252	3.60%
70.01% <= Cash Advance Ratio <= 80.00% .....	8,188,120	2.6%	183	2.62%
80.01% <= Cash Advance Ratio <= 90.00% .....	14,799,739	4.8%	526	7.52%
90.01% <= Cash Advance Ratio <= 100.00% .....	37,364,814	12.1%	531	7.59%
<b>Total:</b> .....	<b>309,854,878</b>	<b>100.0%</b>	<b>6,998</b>	<b>100.0%</b>
Min Cash Advance Ratio .....	0.0%			
Max Cash Advance Ratio .....	100.0%			
Weighted Average Cash Advance Ratio .....	31.4%			

## OCL Lending History

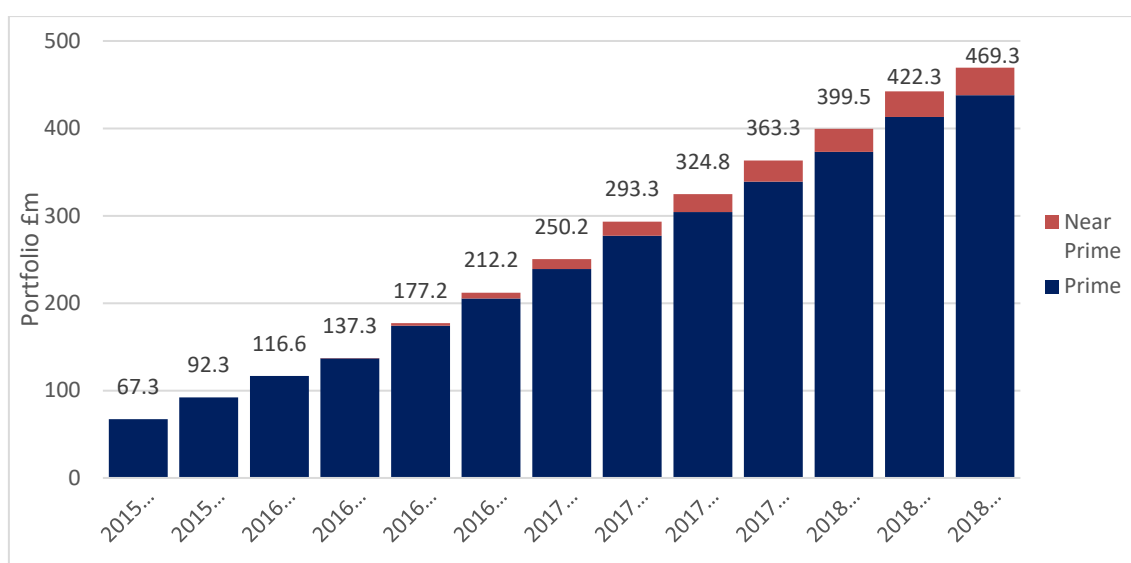
The following table shows OCL's quarterly origination of mortgage loans (split by prime and near prime) including lender and broker fees. It includes the gross value of further advances, including any amounts used to redeem an existing OCL loan. Cancellations made before the first monthly instalment falls due are excluded from reported origination.

The origination figure for the third quarter of 2018 represents the two months of July and August 2018 only.



## Portfolio overview

The portfolio amount outstanding shown for the third quarter of 2018 is as at 31 August 2018. All other figures are for the final working day of the quarter.



## Prepayments

The prepayment data shown in the tables and chart below includes all full prepayments of principal that resulted in a mortgage loan being redeemed ahead of the contractual maturity date. This includes loans that were redeemed for the purposes of making a further advance or other securities transactions. Partial prepayments of capital are not reported. The reported monetary value of prepayments includes all cash receipts applied to the loan including, where applicable, any early redemption charges and other loan closure fees. Cancellations made before the first monthly instalment falls due are not recorded as a prepayment.

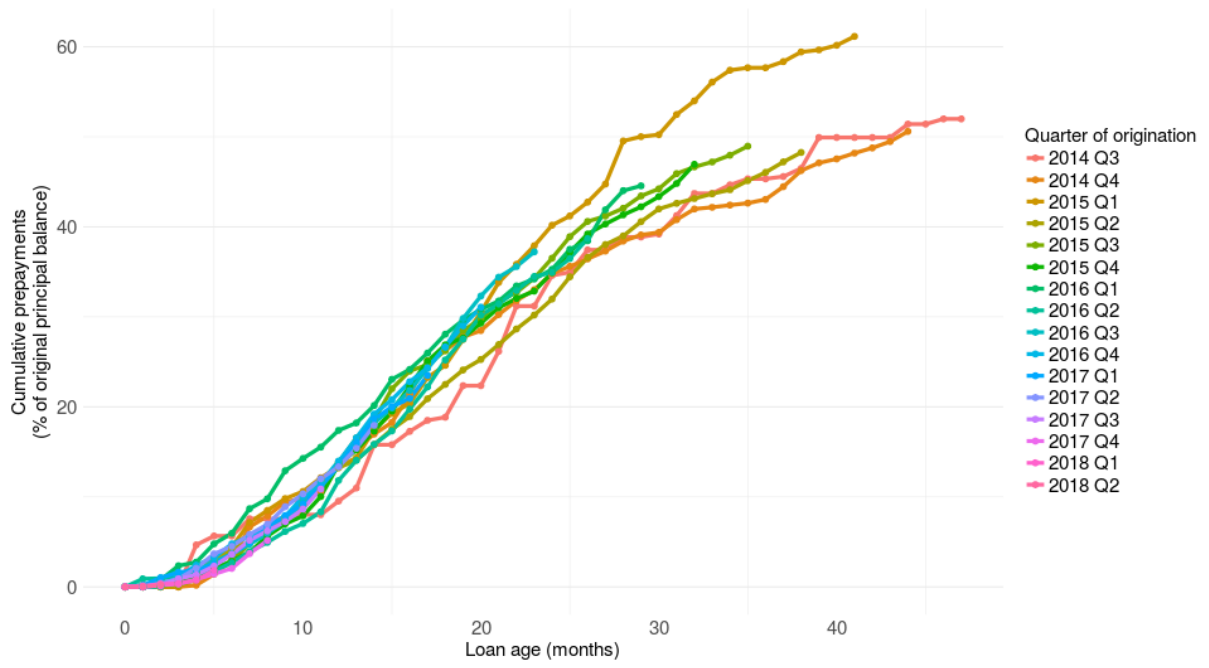
Month	Portfolio size	Prepayments	Monthly prepayment rate	Annualised monthly prepayment rate	12m rolling average prepayment rate
Jul-15	50,716,029	625,455			
Aug-15	58,498,061	277,391	0.55%	6.37%	
Sep-15	67,266,493	481,068	0.82%	9.43%	
Oct-15	75,660,571	747,078	1.11%	12.54%	
Nov-15	83,249,368	731,796	0.97%	11.01%	
Dec-15	92,311,789	666,246	0.80%	9.19%	
Jan-16	99,603,765	556,863	0.60%	7.00%	
Feb-16	107,639,151	1,163,216	1.17%	13.15%	
Mar-16	116,589,276	1,445,067	1.34%	14.97%	
Apr-16	120,030,979	2,365,086	2.03%	21.80%	
May-16	127,007,338	2,032,955	1.69%	18.53%	
Jun-16	137,314,978	1,579,557	1.24%	13.94%	
Jul-16	148,951,851	1,756,627	1.28%	14.32%	13.97%
Aug-16	163,136,961	2,548,650	1.71%	18.71%	14.96%
Sep-16	177,155,848	2,754,500	1.69%	18.48%	15.73%
Oct-16	188,574,023	3,276,094	1.85%	20.07%	16.58%
Nov-16	200,404,293	3,880,159	2.06%	22.08%	17.73%
Dec-16	212,123,686	2,424,665	1.21%	13.59%	17.73%
Jan-17	221,093,350	3,202,477	1.51%	16.69%	18.30%
Feb-17	234,322,099	2,494,558	1.13%	12.73%	17.96%
Mar-17	250,244,397	3,364,947	1.44%	15.93%	17.93%
Apr-17	261,018,293	4,935,314	1.97%	21.26%	18.24%
May-17	276,908,241	4,432,040	1.70%	18.58%	18.34%
Jun-17	293,342,955	4,231,390	1.53%	16.87%	18.48%
Jul-17	306,914,997	4,292,010	1.46%	16.21%	18.54%
Aug-17	316,343,542	5,800,198	1.89%	20.46%	18.90%
Sep-17	324,844,795	5,673,424	1.79%	19.52%	19.12%
Oct-17	337,230,189	6,099,454	1.88%	20.34%	19.30%
Nov-17	351,427,819	5,676,273	1.68%	18.43%	19.08%
Dec-17	363,336,212	6,030,943	1.72%	18.76%	19.50%
Jan-18	374,317,482	7,482,860	2.06%	22.10%	20.11%
Feb-18	386,462,556	6,719,920	1.80%	19.54%	20.64%
Mar-18	399,624,033	6,869,390	1.78%	19.36%	20.91%
Apr-18	412,425,395	6,588,790	1.65%	18.09%	20.63%
May-18	426,083,321	7,655,422	1.86%	20.14%	20.80%
Jun-18	442,369,051	8,147,054	1.91%	20.68%	21.15%
Jul-18	456,962,449	8,311,713	1.88%	20.36%	21.51%
Aug-18	469,384,785	8,765,757	1.92%	20.74%	21.58%

### Cumulative prepayments as % of original principal balance

Loan age	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3
1	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.9	0.0	0.0	0.2	0.0	0.1
2	0.0	0.0	0.0	0.0	0.2	0.1	0.8	1.0	1.0	0.1	1.0	0.4	0.1
3	0.0	0.0	0.0	0.9	0.2	0.5	2.4	1.1	1.6	1.1	1.6	0.9	0.9
4	4.7	0.2	1.6	1.6	0.8	0.9	2.7	1.5	1.8	2.4	1.8	2.1	1.3
5	5.7	1.4	3.1	2.7	1.7	2.1	4.8	1.7	2.8	3.3	2.5	3.7	2.3
6	5.7	3.2	4.4	4.3	2.8	2.9	6.0	2.7	3.7	4.8	3.6	4.5	3.6
7	7.6	6.9	7.2	4.9	4.9	3.9	8.7	3.9	4.7	5.6	5.0	5.8	5.2
8	7.6	8.1	8.5	6.0	6.2	5.7	9.8	5.0	5.9	6.8	6.6	7.0	6.2
9	7.6	9.7	9.8	7.4	7.8	7.0	12.9	6.2	7.4	7.8	7.9	8.9	7.3
10	8.0	10.00	10.6	9.0	9.2	7.9	14.3	7.1	9.5	10.0	9.2	10.3	8.6
11	8.0	10.8	12.1	11.8	11.0	10.0	15.5	8.3	11.6	11.3	11.1	12.0	10.9
12	9.5	14.1	13.4	13.2	13.8	13.6	17.4	11.8	14.0	13.9	13.4	13.3	
13	11.0	15.6	14.3	14.1	16.5	15.2	18.2	14.1	15.8	16.6	16.0	15.4	
14	15.8	17.2	17.5	15.8	18.6	17.3	20.2	15.8	18.2	19.2	18.7	17.9	
15	15.8	18.5	19.3	17.5	22.0	19.5	23.1	17.3	19.9	20.8	20.0		
16	17.3	21.6	20.4	18.9	24.0	22.3	24.2	19.8	21.8	22.8	20.9		
17	18.5	25.3	23.3	20.9	24.7	25.1	26.0	22.2	24.3	24.3	23.5		
18	18.9	26.5	24.6	22.5	26.3	26.9	28.1	25.2	26.6	26.7			
19	22.4	28.0	27.5	24.1	28.5	27.7	29.6	27.5	29.8	29.0			
20	22.4	28.7	30.5	25.3	29.8	29.3	30.8	30.2	32.3	31.1			
21	26.2	30.5	33.8	26.9	31.7	31.0	31.8	31.4	34.4				
22	31.2	32.0	35.8	28.7	32.7	32.0	33.4	32.9	35.6				
23	31.2	33.2	37.9	30.2	34.3	32.9	34.2	34.5	37.2				
24	34.6	35.0	40.2	32.0	36.5	34.9	35.3	34.9					
25	35.0	35.8	41.2	34.4	38.9	37.2	37.5	36.5					
26	37.4	36.6	42.7	36.6	40.6	39.2	38.5	38.7					
27	37.4	37.5	44.7	38.0	41.2	40.3	41.9						
28	38.9	38.6	49.5	39.0	42.1	41.3	44.0						
29	38.9	39.3	50.0	40.6	43.4	42.2	44.6						
30	39.2	39.6	50.2	42.0	44.2	43.4							
31	41.2	41.0	52.5	42.6	45.9	44.8							
32	43.7	42.2	54.0	43.1	46.7	46.9							
33	43.7	42.4	56.1	43.7	47.2								
34	44.7	42.6	57.4	44.1	48.0								
35	45.3	42.8	57.7	45.1	49.0								
36	45.3	43.2	57.7	46.1									
37	45.6	44.7	58.4	47.2									
38	46.5	46.4	59.4	48.3									
39	49.9	47.3	59.7										
40	49.9	47.7	60.2										
41	49.9	48.4	61.1										
42	49.9	49.0											
43	49.9	49.7											
44	51.4	50.8											
45	51.4												
46	52.0												
47	52.0												



Loan age	2017 Q4	2018 Q1	2018 Q2	Weighted average
1	0.0	0.1	0.0	0.1
2	0.2	0.3	0.2	0.4
3	0.3	0.4		0.9
4	0.9	0.7		1.5
5	1.4	1.8		2.5
6	2.1			3.7
7	3.7			5.2
8	5.2			6.4
9				8.1
10				9.6
11				11.4
12				13.8
13				15.8
14				18.1
15				20.0
16				21.8
17				24.0
18				26.1
19				28.3
20				30.2
21				31.7
22				33.1
23				34.5
24				35.2
25				37.2
26				38.9
27				40.5
28				42.0
29				43.0
30				43.4
31				44.9
32				46.1
33				46.5
34				47.1
35				47.9
36				47.8
37				48.8
38				50.1
39				52.5
40				52.9
41				53.6
42				49.1
43				49.7
44				50.9
45				51.4
46				52.0
47				52.0



## Number of loans in arrears

### Prime

	Current	MIA 1	MIA 2	MIA 3	MIA 4	MIA 5	MIA 6+
Jul 2015	1,339	1					
Aug 2015	1,527	4					
Sep 2015	1,728	4					
Oct 2015	1,934	7					
Nov 2015	2,123	7					
Dec 2015	2,310	6	2				
Jan 2016	2,490	8		2			
Feb 2016	2,667	12	2		1		
Mar 2016	2,867	10	2	1		1	
Apr 2016	2,963	8	3	1	1		1
May 2016	3,398	8	3	2		1	1
Jun 2016	3,335	9	6	1	1	1	
Jul 2016	3,572	10	5			1	1
Aug 2016	3,871	13	2	1			2
Sep 2016	4,166	7	7				
Oct 2016	4,377	12	4	4			
Nov 2016	4,674	13	1	4	2		
Dec 2016	4,918	15	6	3	2	1	1
Jan 2017	5,141	17	3	3	3	1	1
Feb 2017	5,407	20	4	3	2	1	1
Mar 2017	5,711	16	8	2	1	2	3
Apr 2017	5,902	24	4	5	2	2	5
May 2017	6,190	23	12	2	4	1	6
Jun 2017	6,494	17	13	8	1	3	6
Jul 2017	6,753	23	13	5	6	1	7
Aug 2017	6,940	29	11	8	4	5	7
Sep 2017	7,128	22	15	6	4	3	9
Oct 2017	7,363	35	15	9	3	2	8
Nov 2017	7,654	27	17	10	7		7
Dec 2017	7,882	34	13	13	6	4	6
Jan 2018	8,096	37	17	9	5	5	8
Feb 2018	8,292	36	22	9	9	4	12
Mar 2018	8,568	29	22	17	8	6	13
Apr 2018	8,815	46	12	14	14	4	14
May 2018	9,061	46	14	12	13	9	17
Jun 2018	9,381	39	23	11	12	6	20
Jul 2018	9,667	41	20	14	13	5	23
Aug 2018	9,909	51	17	18	11	10	24

## Near Prime

	Current	MIA 1	MIA 2	MIA 3	MIA 4	MIA 5	MIA 6+
May 2016	5						
Jun 2016	18						
Jul 2016	38						
Aug 2016	80						
Sep 2016	115						
Oct 2016	169	1					
Nov 2016	213	2					
Dec 2016	242	4					
Jan 2017	270	3	1				
Feb 2017	308	2		1			
Mar 2017	389	2			1		
Apr 2017	443	7	1			1	
May 2017	510	4	3	1			1
Jun 2017	550	6	1	1	1		1
Jul 2017	602	4	4	1	1	1	1
Aug 2017	650	9	1	1		1	2
Sep 2017	695	6	1	2			3
Oct 2017	738	11	2				3
Nov 2017	792	6	5				3
Dec 2017	814	16		3			3
Jan 2018	832	16	2	2	1		3
Feb 2018	859	19	6	3			2
Mar 2018	880	20	6	4	2		1
Apr 2018	911	18	8	4	3	1	1
May 2018	958	12	9	4	2	3	2
Jun 2018	986	23	4	8	2		5
Jul 2018	1,031	18	7	2	5	1	5
Aug 2018	1,063	18	5	2	3	2	5

## Balance of arrears accounts as % of total portfolio

### Prime

	Current	MIA 1	MIA 2	MIA 3	MIA 4	MIA 5	MIA 6+	Portfolio at end of period (£m)
Jul 2015	99.96	0.04						50,716,029
Aug 2015	99.81	0.19						58,498,061
Sep 2015	99.82	0.18						67,266,493
Oct 2015	99.77	0.23						75,660,571
Nov 2015	99.80	0.20						83,249,368
Dec 2015	99.66	0.29	0.05					92,311,789
Jan 2016	99.66	0.30		0.04				99,603,765
Feb 2016	99.65	0.28	0.04		0.03			107,639,151
Mar 2016	99.56	0.35	0.05	0.02		0.02		116,589,276
Apr 2016	99.64	0.20	0.09	0.03	0.02		0.02	120,030,979
May 2016	99.70	0.13	0.10	0.04		0.02	0.02	126,904,698
Jun 2016	99.64	0.19	0.12	0.02	0.01	0.02		136,837,782
Jul 2016	99.65	0.18	0.15			0.01	0.01	148,062,478
Aug 2016	99.62	0.28	0.05	0.02			0.02	161,120,426
Sep 2016	99.72	0.17	0.11					174,249,239
Oct 2016	99.58	0.25	0.10	0.07				183,890,341
Nov 2016	99.55	0.35	0.02	0.06	0.02			194,562,051
Dec 2016	99.45	0.35	0.10	0.05	0.02	0.02	0.01	205,425,389
Jan 2017	99.48	0.38	0.03	0.05	0.05	0.01	0.01	213,690,937
Feb 2017	99.44	0.43	0.06	0.03	0.04	0.00	0.00	225,739,250
Mar 2017	99.47	0.26	0.18	0.02	0.01	0.04	0.02	239,188,149
Apr 2017	99.23	0.52	0.07	0.09	0.01	0.03	0.05	248,170,885
May 2017	99.24	0.35	0.24	0.02	0.08	0.00	0.07	262,181,041
Jun 2017	99.26	0.31	0.21	0.12	0.01	0.05	0.05	277,328,648
Jul 2017	99.22	0.29	0.25	0.09	0.07	0.00	0.08	289,093,551
Aug 2017	99.13	0.41	0.17	0.10	0.07	0.05	0.08	297,036,269
Sep 2017	99.25	0.28	0.21	0.05	0.07	0.04	0.10	304,197,352
Oct 2017	98.96	0.54	0.24	0.09	0.04	0.03	0.09	314,886,880
Nov 2017	99.15	0.32	0.24	0.14	0.07		0.08	327,869,992
Dec 2017	98.94	0.56	0.19	0.14	0.07	0.05	0.05	339,104,226
Jan 2018	98.88	0.44	0.40	0.10	0.03	0.07	0.07	349,517,334
Feb 2018	98.83	0.34	0.35	0.24	0.09	0.04	0.12	360,485,584
Mar 2018	98.90	0.24	0.25	0.21	0.22	0.07	0.10	373,201,010
Apr 2018	98.80	0.49	0.25	0.13	0.16	0.03	0.13	385,367,711
May 2018	98.85	0.43	0.13	0.22	0.14	0.09	0.14	398,184,561
Jun 2018	98.89	0.3	0.26	0.22	0.11	0.04	0.17	413,207,188
Jul 2018	98.88	0.35	0.18	0.15	0.23	0.04	0.17	426,455,221
Aug 2018	98.68	0.49	0.2	0.18	0.1	0.18	0.18	437,917,078

## Near Prime

	Current	MIA 1	MIA 2	MIA 3	MIA 4	MIA 5	MIA 6+	Portfolio at end of period (£m)
May 2016	100.00							102,640
Jun 2016	100.00							477,196
Jul 2016	100.00							889,373
Aug 2016	100.00							2,016,534
Sep 2016	100.00							2,906,608
Oct 2016	99.50	0.50						4,683,681
Nov 2016	99.28	0.72						5,842,241
Dec 2016	98.65	1.35						6,698,297
Jan 2017	98.87	0.82	0.32					7,402,414
Feb 2017	99.48	0.25		0.27				8,582,849
Mar 2017	99.20	0.58			0.21			11,056,248
Apr 2017	98.54	0.87	0.41			0.19		12,847,409
May 2017	98.22	1.03	0.23	0.36			0.16	14,727,200
Jun 2017	98.43	0.96	0.09	0.04	0.33		0.15	16,014,307
Jul 2017	98.64	0.57	0.24	0.08	0.04	0.30	0.14	17,821,447
Aug 2017	98.57	0.88	0.04	0.08		0.03	0.40	19,307,273
Sep 2017	98.80	0.63	0.05	0.11			0.41	20,647,443
Oct 2017	98.43	1.10	0.10				0.37	22,343,309
Nov 2017	98.55	0.63	0.46				0.36	23,557,827
Dec 2017	97.01	2.47		0.16			0.35	24,231,986
Jan 2018	97.43	1.77	0.30	0.13	0.03		0.34	24,800,148
Feb 2018	94.97	3.65	0.78	0.36			0.24	25,976,972
Mar 2018	96.52	1.59	1.02	0.56	0.29		0.02	26,423,023
Apr 2018	95.00	2.80	0.82	0.65	0.67	0.03	0.02	27,057,684
May 2018	96.14	1.44	0.57	0.64	0.50	0.66	0.05	27,898,760
Jun 2018	95.10	2.23	0.59	1.14	0.25		0.69	29,161,863
Jul 2018	95.41	2.10	0.60	0.45	0.66	0.11	0.66	30,507,228
Aug 2018	95.75	1.87	0.45	0.38	0.72	0.20	0.64	31,467,707

## ASSIGNMENT OF THE MORTGAGE LOANS AND RELATED SECURITY

Pursuant to the sale and assignment under the Mortgage Sale Agreement to be entered into between the Seller, the Trustee, the Issuer and the Servicer on the Closing Date, the Seller will sell and assign to the Issuer its beneficial interest in a portfolio of Mortgage Loans and their Related Security on the Closing Date and may sell and assign during the Further Sale Period thereafter a portfolio of Additional Mortgage Loans and their Related Security on the Further Sale Date and all moneys derived therefrom from the Closing Date or the Further Sale Date (as applicable) (collectively, together with the Substitute Mortgage Loans, referred to herein as the "**Mortgage Portfolio**"), as well as the benefit of all collections received in respect of the Mortgage Loans sold on the Closing Date during the period from the Cut-Off Date until the Closing Date and in respect of all Mortgage Loans sold on the Further Sale Date during the period from the Additional Mortgage Loan Sale Cut-Off Date to the Further Sale Date.

The Seller will initially retain legal title to the Mortgage Portfolio and will undertake to transfer legal title when required under the terms of the Mortgage Sale Agreement, as described under "*Perfection Trigger Events*" below, and will provide certain further assurances to the Issuer and the Trustee.

The Issuer will have the right to all monies derived from each Mortgage Loan and its Related Security including, interest from (and including) the Cut-Off Date or the Additional Mortgage Loans Cut-Off Date (as applicable). In addition to providing for the sale and assignment of the Mortgage Portfolio, the Mortgage Sale Agreement also sets out or provides for the following:

- (a) the representations and warranties to be given by the Seller, including in relation to the Mortgage Loans and the Related Security, and the repurchase (or the indemnity payment) in respect of Mortgage Loans and Related Security in case of a breach of a warranty relating thereto which has not been remedied within applicable grace periods;
- (b) the undertaking of the Retention Holder (in its capacity as originator for the purposes of the CRR, the AIFM Regulation and the Solvency II Regulation) to retain, on an ongoing basis, a material net economic interest of not less than 5 per cent. in the securitisation in accordance with Article 405 of CRR, Article 51 of the AIFM Regulation and Article 254 of Solvency II Regulation, which retention will be achieved by the Retention Holder holding a sufficient amount of the Class Z Notes so that the aggregate Principal Amount Outstanding of the Class Z Notes held as at the Closing Date is equal to at least 5 per cent. of the nominal value of the securitised exposures;
- (c) the repurchase by the Seller of Mortgage Loans together with their Related Security upon the occurrence of certain events including where the Servicer (on behalf of the Seller and the Issuer): wishes to consent to (i) a Prior Mortgagee making, sending an offer of or accepting an application for a further advance to a Borrower in excess of any pre-agreed drawable amounts; (ii) a Mortgage Loan Modification; or (iii) a Prior Mortgage Loan Transfer that is not a Permitted Loan Transfer, and in all cases such repurchase of the relevant Mortgage Loan shall occur prior to such consent being given; and
- (d) the circumstances for the transfer of legal title to the Mortgage Loans and their Related Security to the Issuer.

### Consideration

The Seller will contract to sell and assign to the Issuer with full title guarantee, or in the case of Scottish Mortgage Loans comprised in the Mortgage Portfolio, with absolute warrandice, the Mortgage Portfolio and Related Security. In respect of Mortgage Loans which have the benefit of a second (or in certain circumstances, subsequent) ranking legal mortgage over a freehold or long leasehold residential property located in England and Wales ("**English Mortgage Loans**"), the assignment will be an assignment which takes effect in equity only. In respect of Mortgage Loans which have the benefit of security over real estate located in Scotland ("**Scottish Mortgage Loans**") and their associated Mortgages (the "**Scottish Mortgages**") and together with the other security for the Scottish Mortgage Loans, the "**Scottish Related Security**"), the Mortgage Sale Agreement provides for the transfer and assignment of the beneficial interest in such Mortgage Loans and their Related Security to be effected by a declaration of trust (the "**Scottish Declaration of Trust**") by the Seller in favour of the Issuer (and in relation to Scottish Mortgage Loans, references in this Prospectus to the "equitable assignment" of Mortgage Loans are to be read as references to the transfer of the beneficial interest therein by the making of such declaration of trust and the terms

"assign" and "assigned" shall in that context be construed accordingly and references in this Prospectus to "**beneficial title**" are to be read as references to the beneficial interest of a beneficiary under a declaration of trust). In each case, the transfer of legal title to the Mortgage Loans and their Related Security may not occur or, if it does occur, will not occur until a later date, as described further in the section entitled "*Transfer of legal title to the Issuer*" below.

The consideration due to the Seller in respect of the Mortgage Loans and their Related Security constituting the Mortgage Portfolio sold on the Closing Date will be the aggregate of:

- (a) the initial consideration in an amount of £317,773,127.84 (the "**Initial Purchase Price**"); and
- (b) an obligation of the Issuer to pay, at a later date, the Deferred Consideration.

The consideration due to the Seller, in respect of any Additional Mortgage Loans sold on the Further Sale Date, will be equal to (a) an amount equal to the Additional Mortgage Loans Purchase Price (such amount will be paid on the Further Sale Date from amounts standing to the credit of the Pre-Funding Principal Reserve Ledger) and (b) an obligation of the Issuer to pay, at a later date, the Deferred Consideration.

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

### **Mortgage Loan Warranties and Breach of Mortgage Loan Warranties**

The Mortgage Sale Agreement contains the Mortgage Loan Warranties given by the Seller in relation to the Mortgage Loans which are beneficially and legally owned by it. No searches, enquiries or independent investigations have been or will be made by the Issuer, who is relying upon the Mortgage Loan Warranties.

The remedies for a breach of a Mortgage Loan Warranty under the Mortgage Sale Agreement are described in the section titled "*Summary of Key Transaction Documents – Mortgage Sale Agreement – Representations and Warranties*" below.

1. Each Mortgage Loan and its Related Security complies in all respects with the Eligibility Criteria.
2. Each Mortgage Loan and its Related Security is beneficially owned by the Seller and the absolute unencumbered legal title is held by the Seller or (where the Property which is subject to such Related Security is located in Scotland) the heritable creditor is the Seller.
3. Each Mortgage Loan and its Related Security shall be sold and/or assigned by the Seller to the Issuer free and clear of all encumbrances, claims and equities and the Seller is not in breach of any covenant implied by reason of its selling each Mortgage Loan.
4. Each Mortgage Loan is secured by:
  - (i) (in the case of Property situated in England and Wales) an English legal mortgage; and
  - (ii) (in the case of Property situated in Scotland) a Scottish standard security,

in each case subject only to completion of any registration requirements at the Land Registry or the equivalent registration formalities in the jurisdiction of Scotland and provided that any application to effect such registration has been duly submitted to and received by the Land Registry or such other appropriate registrar and there is nothing to prevent such registration being progressed and (i) (in the case of Property situated in England and Wales) completed and clear (save for any existing prior ranking mortgage or pending prior ranking mortgage applications to which in each case the Seller has given its prior written consent) priority searches in favour of the Seller have been obtained and the applications have been submitted to the Land Registry within such subsisting priority period (and for the avoidance of doubt a legal aid charge, a council discount charge and/or a local authority or social landlord charge shall not be considered a charge for the purposes of this provision) and (ii) (in the case of Property situated in Scotland) the Seller has obtained a legal report or relevant property search brought down to a date as near as practicable to the date of registration of the Scottish standard security and such report or search disclosed (where relevant) an advance notice and nothing prejudicial to the grant of the Scottish standard security.



5. Prior to the making of each advance in respect of each Mortgage Loan, the Lending Policy and all preconditions to the making of such Mortgage Loan were satisfied in all material respects.
6. The Lending Policy was, at the time each Mortgage Loan was originated, consistent with the criteria that would be used by a Prudent Mortgage Lender.
7. The particulars of each Mortgage Loan (as set out in the annexure to the Mortgage Sale Agreement) are complete, true and accurate in all material respects.
8. The Standard Documentation used in respect of each Mortgage Loan is governed by and subject to the laws of England and Wales or Scotland.
9. At origination, each relevant Borrower is resident in England and Wales or Scotland.
10. Each Mortgage Loan was originated in accordance with all applicable laws and regulations in force at the time of origination.
11. Each Mortgage 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, remove, modify or otherwise vary the express provisions of any of the same in any material respect.
12. Each Mortgage Loan Agreement is in the form of the relevant pro forma contained in the Standard Documentation which was applicable at the time the Mortgage Loan was executed.
13. None of the provisions of the Mortgage Loans have been waived, altered or modified in any way by the Seller which in any way adversely affects the enforceability or collectability of such Mortgage Loan.
14. Interest on each Mortgage Loan is charged in accordance with the Standard Documentation.
15. The Current Balance on each Mortgage Loan constitutes a legal, valid, binding and enforceable debt due to the Seller from the relevant Borrower and the terms of each Mortgage 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 affecting the enforcement of creditors' rights generally and except for the court's discretion in relation to equitable remedies.
16. The liabilities expressed to be secured by the Related Security in relation to each Mortgage Loan include all principal, interest, costs, liability and expenses from time to time due from the Borrower under the relevant Mortgage Loan Agreement.
17. 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 Mortgage Loans and their Related Security 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 any Borrower before, on or after any equitable or beneficial transfer or before any legal transfer of the Mortgage Loans and their Related Security and such transfer or disposal will not give rise to any claim by any Borrower against the Issuer, the Trustee or any of their successors in title or assigns.
18. At origination, each Property is a residential owner-occupied property in England, Wales or Scotland.
19. Each advance comprised in a Mortgage Loan was made on the terms of a Mortgage Loan Agreement.
20. None of the Borrowers in relation to any Mortgage Loan is a director or employee of any member of the Optimum Group.
21. The consent of a Prior Mortgagee is not required in order to sell or transfer a Property.

22. None of the Mortgage Conditions in relation to any Mortgage Loan and none of the terms of the Related Security are unfair terms within the meaning of the Unfair Terms in Consumer Contract Regulations 1994 or the Unfair Terms in Consumer Contracts Regulations 1999 in any material respect.
23. Since the creation of each Mortgage Loan, full and proper accounts, books and records showing all transactions, payments, receipts, proceedings and notices relating to Arrears or arrangements relating to that Mortgage Loan have been kept and all such accounts, books and records are up to date and in the possession of the Servicer or held to its order by the Seller or, if applicable, the solicitors who acted for the Seller or the Land Registry or its equivalent in Scotland.
24. Prior to making the advance under each Mortgage Loan:
  - (a) to the extent required by the Lending Policy, a Valuation (or Valuations, as the case may be in accordance with the Lending Policy) of the relevant Property was undertaken on the Issuer's behalf in accordance with the Eligibility Criteria and Lending Policy; and
  - (b) the terms of appointment of such valuer required such valuer to have adequate professional indemnity insurance except where a Hometrack AVM was relied upon as the sole method of determining value.
25. Prior to making a Mortgage Loan to a Borrower, the Seller:
  - (a) caused its Solicitors or approved conveyancers to carry out in relation to the relevant Property all investigations, searches and other actions and enquiries which a Prudent Mortgage Lender or its solicitors normally make when lending to an individual on the security of residential property in England and Wales in the case of English Mortgage Loans and in Scotland in relation to Scottish Mortgage Loans; and
  - (b) received a Certificate of Title from approved solicitors or approved conveyancers relating to such Property and the results thereof were such as would be acceptable to a Prudent Mortgage Lender, having regard to the Lending Policy, in order to proceed with the Mortgage Loan.
26. Subject to the rights of any prior-ranking mortgagee of any relevant Property in respect of which the Seller has given its prior consent, or is permitted by the Lending Policy, the deeds constituting the Related Security and the correspondence file (such as it exists) and any microfiche or electronically stored data relating to each of the Mortgage Loans are held by or to the order of the Seller or have been lodged by, or on behalf of, the Seller at the relevant Land Registry or the equivalent in Scotland.
27. The Seller has not received written notice of any valid litigation, claim, dispute or complaint (in each case, subsisting, threatened or pending) calling into question, upon a legally valid basis and evidence, in any material way its title to any Mortgage Loan or Related Security or its ability to fully, effectively and promptly enforce the same.
28. The Seller has not made any valid claim against any Borrower in respect of a Mortgage Loan to set-off against any liabilities in respect of a Mortgage Loan and no Borrower is entitled to set-off any such claim against any loan or other sums due from the Seller to any Borrower.
29. No Mortgage Loan has been entered into as a consequence of any conduct constituting fraud of the Seller and, to the best of the Seller's knowledge, at the time the Mortgage Loan was entered into no fraud, misrepresentation or concealment has been perpetrated by the relevant Borrower, any valuer or any solicitor acting for the Seller in relation to any Mortgage Loan.
30. No Mortgage Loan is payable in a currency other than Sterling.
31. At least one Monthly Payment has been made in respect of each Mortgage Loan.
32. The Seller is not under any obligation to provide further advances under the terms of any Mortgage Loan.

33. So far as the Seller is aware, other than with respect to a Monthly Payment, no Borrower is or has, since the date of the execution of the relevant Mortgage Loan, been in material breach of any obligation owed in respect of the relevant Mortgage Loan or its Related Security and accordingly no steps have been taken by the Seller to enforce any Related Security.
34. 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, Mortgage Loan, Related Security or relevant policy and the Seller is not aware to the best of its knowledge and belief of any previous, current or ongoing complaint by a Borrower concerning any Mortgage Loan (including as to the administration of such Mortgage Loan and/or, without limitation, concerning any notifications required to be served on such Borrower since the origination of such Mortgage Loan) which would lead the Seller being potentially required to undertake a Redress Exercise with respect to any Mortgage Loan in the Mortgage Portfolio.
35. The Mortgage Loans (i) constitute financial assets for purposes of UK generally accepted accounting practice and (ii) are not shares.
36. The Borrowers under the Mortgage Loans are individuals.
37. No Mortgage Loan or Related Security consists of stock or marketable securities (in either case for the purposes of Section 125 of the Finance Act 2003), chargeable securities (for the purposes of Section 99 of the Finance Act 1986), a chargeable interest (for the purposes of Section 48 of the Finance Act 2003) or a "chargeable interest" (as such term is defined for the purposes of section 4 of the Land Transaction Tax and Anti-avoidance of Devolved Taxes (Wales) Act 2017).
38. No Mortgage Loan is a CCA Regulated Mortgage Loan.

Mortgage Loan Warranties 1 to 6 (inclusive), 15 to 18 (inclusive), 27 to 30 (inclusive), 32 and 35 to 37 (inclusive) are "**Core Mortgage Loan Warranties**". In the case of a Mortgage Loan or its Related Security that does not comply on the Closing Date with any Mortgage Loan Warranty (that is not a Core Mortgage Loan Warranty) and such breach is not remedied within the applicable grace period (which starts from the date when such breach was notified to the Issuer and Servicer in writing), the Seller may choose instead to indemnify and keep indemnified the Issuer against all Liabilities relating to the breach of such Mortgage Loan Warranty. See the section titled "*Summary of Key Transaction Documents – Mortgage Sale Agreement – Representations and Warranties*" below, and the risk factor titled "*Risks Related to the Mortgage Loans – Limitation of Seller's Liability*".

### **Eligibility Criteria**

Each Mortgage Loan must, as at the date it is sold to the Issuer meet all of the following criteria (the "**Eligibility Criteria**"):

1. the Mortgage Loan is secured by Related Security against a Property that is both owned and occupied by the relevant Borrower on origination;
2. the Related Security securing the Mortgage Loan does not secure any other debt owed by the relevant Borrower to the Seller;
3. the maximum Original Loan to Value Ratio (at origination) of a Prime Mortgage Loan of 85 per cent. and the Near-Prime Mortgage Loan of 75 per cent.;
4. the terms of the Mortgage Loan which is not a Combination Mortgage Loan must require the relevant Borrower to pay interest and repay principal and the terms of the Combination Mortgage Loan must require the relevant Borrower to pay interest for a period not exceeding 60 months following which interest must be paid and principal must be repaid;
5. the Mortgage Loan is not made to a Self-Certified Borrower;
6. maximum original loan term of 25 years;

7. maximum Original Balance of £1,000,000 for Prime Mortgage Loans and £500,000 for Near Prime Mortgage Loans;
8. the Seller has on origination, unless Hometrack Data Systems Limited do not return a Hometrack AVM, obtained a Hometrack AVM and:
  - (a) for Prime Mortgage Loans:
    - (i) a full physical internal valuation carried out by a surveyor accredited by the Royal Institution of Chartered Surveyors in circumstances where:
      - (A) the value attributed to the Property pursuant to the Hometrack AVM is greater than £350,000; and
      - (B) the Original Loan to Value Ratio based on the Hometrack AVM is greater than 80 per cent.; or
    - (ii) a drive by or full physical internal valuation carried out by a surveyor accredited by the Royal Institution of Chartered Surveyors in circumstances where:
      - (A) the Hometrack AVM has a confidence level of less than 4;
      - (B) the Hometrack AVM is greater than £750,000 (unless, the relevant Mortgage Loan would meet all the Eligibility Criteria (other than as set out in this paragraph 8(b)(ii)) if the Hometrack AVM was equal to or less than £750,000;
      - (C) the Original Loan to Value Ratio of the Property based on the Hometrack AVM is greater than 50 per cent. and the confidence level is less than 5;
      - (D) the Original Loan to Value Ratio of the Property based on the Hometrack AVM is greater than 75 per cent. and the confidence level is less than 6; or
      - (E) the Original Loan to Value Ratio of the Property based on the Hometrack AVM is greater than 80 per cent. (and the Risk Navigator Credit Score MGILF04 obtained from Equifax Limited of the Borrower is less than 425),
  - (b) for Near-Prime Mortgage Loans a drive by or full physical internal valuation carried out by a surveyor accredited by the Royal Institution of Chartered Surveyors in circumstances where the confidence level is less than five, the LTV is greater than 60 per cent. or the property value is greater than £750,000, in each case, except in accordance with the exceptions policy as set out in the Lending Policy;
9. the Mortgage Loan must not be a Rescheduled Mortgage Loan;
10. the value reported under the Valuation undertaken at the time of origination in respect of the Property which is subject to the Related Security is not less than £75,000 (in respect of the Near Prime Mortgage Loans) or £100,000 (in respect of the Prime Mortgage Loans);
11. the Property which is subject to the Related Security is located in either England, Scotland or Wales only;
12. the Risk Navigator Credit Score MGILF04 obtained on origination from Equifax Limited of the Borrower in respect of a Mortgage Loan (other than a Near Prime Mortgage Loan) is not less than 300 and in respect of a Near Prime Mortgage Loan is not less than zero.
13. the Mortgage Loan is no more than three Months in Arrears;
14. the Related Security includes either:

- (a) a second ranking legal mortgage or legal charge (if located in England or Wales) or standard security (if located in Scotland) (or, where such legal mortgage or legal charge or standard security is subordinated to more than one prior ranking legal mortgage(s) or legal charge(s) or standard security(ies) or statutory charges, all prior ranking legal mortgage(s) or legal charge(s) or standard security(ies) or statutory charges are made in favour of: (i) the person in favour of which the first ranking legal mortgage or legal charge or standard security is made); and/or (ii) in the case of any Right To Buy Loans, any local authority or other social landlord, where the Prior Mortgagee has not obtained a deed of postponement from the local authority or other social landlord (and unless the relevant statutory charge in favour of the local authority or other social landlord has expired)); or
- (b) in the case of any Mortgage Loan where all prior ranking legal mortgage(s) or legal charge(s) or standard security(ies) or statutory charges have redeemed in full on or prior to the Closing Date (or in respect of Additional Mortgage Loans, on or prior to the Further Sale Date), a first ranking legal mortgage or legal charge (if located in England or Wales) or standard security (if located in Scotland).

### **Acquisition of Additional Mortgage Loans following the Closing Date**

The Seller may on any Business Day during the Further Sale Period make one further sale of Mortgage Loans to the Issuer to the extent that the relevant conditions to purchase in the Mortgage Sale Agreement are satisfied (such Mortgages being "**Additional Mortgage Loans**" and constituting the "**Additional Mortgage Portfolio**"). The Seller will nominate a date, the "**Additional Mortgage Loans Cut-Off Date**" in respect of such further sale which will be on or before the Further Sale Date.

Any purchase of Additional Mortgage Loans by the Issuer on the Further Sale Date will be subject to (amongst other things) the following additional conditions (the "**Additional Mortgage Loan Conditions**"):

- (a) the receipt by the Issuer of a confirmation from each Rating Agency that the purchase of the Additional Mortgage Loans would not result in a qualification, downgrade or withdrawal of the then current ratings of each Class of Notes rated by such Rating Agency;
- (b) the provision, by each of the Issuer and the Seller, of solvency certificates dated the date of such purchase, signed by an authorised officer of the relevant company;
- (c) an agreed upon procedures review by a third party of a sample of the Mortgage Loan Files was completed in respect of the Additional Mortgage Loans prior to their purchase by the Issuer;
- (d) the Additional Mortgage Loans that are Fixed Rate Mortgage Loans or Combination Mortgage Loans that have an initial fixed rate will be included in the Interest Rate Swap as Reference Loans (as defined in the Interest Rate Swap) starting from the Calculation Period immediately following the Additional Loan Purchase Date (as defined in the Interest Rate Swap); and
- (e) the following pre-funding portfolio tests having been met:
  - (i) following the addition of the Additional Mortgage Loans to the Mortgage Portfolio on the Further Sale Date, the weighted average Original Loan to Value Ratio of all Mortgage Loans in the Mortgage Portfolio will not exceed 65.50 per cent.;
  - (ii) following the addition of the Additional Mortgage Loans to the Mortgage Portfolio on the Further Sale Date, the weighted average Current Loan to Value Ratio of all Mortgage Loans in the Mortgage Portfolio will not exceed 65.0 per cent.;
  - (iii) following the addition of the Additional Mortgage Loans to the Additional Mortgage Portfolio on the Further Sale Date, the weighted average Prior Mortgage Original Loan to Value Ratio of all Mortgage Loans in the Mortgage Portfolio will not exceed 48.0 per cent.;
  - (iv) following the addition of the Additional Mortgage Loans to the Mortgage Portfolio on the Further Sale Date, the weighted average interest rate applicable to the Mortgage Portfolio is more than or equal to 6.15 per cent.;

- (v) following the addition of the Additional Mortgage Loans which are Near Prime Mortgage Loans to the Mortgage Portfolio on the Further Sale Date, aggregate Current Balance of the Near Prime Mortgage Loans is less than or equal to 10.25 per cent. of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio on the Further Sale Date;
- (vi) following the addition of the Additional Mortgage Loans which are Combination Mortgage Loans to the Mortgage Portfolio on the Further Sale Date, the aggregate Current Balance of the Combination Mortgage Loans in the Mortgage Portfolio is less than or equal to 1.5 per cent. of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio on the Further Sale Date;
- (vii) following the addition of the Additional Mortgage Loans to the Mortgage Portfolio on the Further Sale Date, the aggregate outstanding Current Balance of the Mortgage Loans whose related Properties are in London and the South East is less than or equal to 43.5 per cent. of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio on the Further Sale Date;
- (viii) following the addition of the Additional Mortgage Loans to the Mortgage Portfolio on the Further Sale Date, the weighted average Equifax Score of all the Mortgage Loans in the Mortgage Portfolio is greater than 435;
- (ix) following the addition of the Additional Mortgage Loans to the Mortgage Portfolio on the Further Sale Date, the aggregate Current Balance of the Mortgage Loans which have had a prior CCJ is less than or equal to 3.9 per cent. of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio on the Further Sale Date.

Upon the occurrence of any of the following events (each a "**Further Sale Period Termination Event**") the Seller's right to sell further Additional Mortgage Loans to the Issuer shall terminate:

- (a) an Event of Default;
- (b) an Insolvency Event in respect of the Seller;
- (c) an unremedied breach by the Seller of any of its obligations under the Relevant Transaction Documents; and
- (d) any Servicer Termination Event.

#### **Transfer of legal title to the Issuer**

In relation to Mortgage Loans and their associated Mortgages and other Related Security over (i) registered land in England and Wales, or (ii) any land in Scotland, the beneficial title in respect of which will be transferred to the Issuer on the Closing Date (and in respect of any Additional Mortgage Loan on the Further Sale Date), until such time as transfers of such Mortgages have been completed and registered or recorded at the Land Registry or the Registers of Scotland (as applicable), the sale to the Issuer will take effect either, in the case of the English Mortgages, in equity only and will transfer beneficial title only or, in the case of the Scottish Mortgages, the Issuer will hold the beneficial interests therein under the Scottish Declaration of Trust. In the case of Mortgage Loans and their associated Mortgages and other Related Security over unregistered land in England and Wales, in order for legal title to pass to the Issuer, conveyances of the relevant mortgages would have to be completed in favour of the Issuer. As a result, the legal title to the Mortgage Loans and their Related Security will remain with the Seller until such time as certain additional steps have been taken, including (i) in relation to English Mortgage Loans and their Related Security the giving of notices of the assignment to the Borrowers; or (ii) in relation to Scottish Mortgage Loans and their Related Security the execution and registration or recording (as applicable) of assignments (the "**Scottish Transfers**") by the Seller in favour of the Issuer together with notification of the assignment to the Borrowers.

Under the Mortgage Sale Agreement, none of the Seller nor the Issuer will require the execution and completion of such transfers, assignments and conveyances in favour of the Issuer or the registration or recording of such transfers or service of notice on Borrowers in order to effect the transfer of legal title to the Mortgage Loans and their Related Security (including, where appropriate, their registration or

recording), except in the limited circumstances described in "*Summary of the Key Transaction Documents – Mortgage Sale Agreement – Title to the Mortgages, Registration and Notifications*" below.

## SERVICING OF THE MORTGAGE PORTFOLIO

### Mortgage Loan Servicing

Under the Servicing Agreement, Optimum Credit Limited ("OCL") will be appointed as the Servicer of the Mortgage Loans together with their Related Security.

This section describes the Servicer's administration procedures based on the current Optimum Credit Limited customer support policy. The Servicer will administer the Mortgage Loans and their Related Security in the Mortgage Portfolio in accordance with its policies applicable from time to time, but subject to the terms of the Servicing Agreement. For a description of the Servicer's obligations under the Servicing Agreement, see "*Summary of Key Transaction Documents – The Servicing Agreement*".

### Servicing and Collections Procedures

Servicing and Collections procedures include:

- (a) dealing with all types of transactions;
- (b) posting and refunding fees;
- (c) setting up direct debits, processing payments and dealing with payment date changes;
- (d) processing lump sum payments;
- (e) issuing redemption statements, applying early redemption charges and processing redemptions;
- (f) managing of Mortgage Loans in arrears;
- (g) processing notices of death, forfeitures of leases, deed amendments, compensation and enforcement notices;
- (h) processing all customer correspondence and contact in respect of other aspects of the Mortgage Loans including changes to customer details;
- (i) notifying borrowers of changes to interest rates applicable to their mortgage; and
- (j) processing Permitted Loan Transfers and further advances by a Prior Mortgagee (that are within the pre-agreed drawable amounts).

### *Payment of Interest and Principal*

Pursuant to the terms and conditions of the Mortgage Loans, Borrowers must pay the monthly amount required under the terms and conditions of the Mortgage Loans on or before each monthly instalment due date, within the month such amount is due. Interest accrues in accordance with the terms and conditions of each Loan and is payable in arrear.

Payments are monthly in arrear and payments of all Mortgage Loans are payable in the month that they are due.

### Arrears and Default Procedures

The arrears team of OCL (the "**Arrears Team**") will manage an account relating to a Mortgage Loan where there is a payment shortfall of £0.01 or more.

When the full contractual payment is not made on the due date, details of the missed payment are recorded and the relevant Borrower's account is reviewed by the Arrears Team, who will consider the following.

- (a) Does the Arrears Team have up to date contact details for the relevant Borrower (i.e. telephone numbers)?
- (b) Review the relevant Borrower's account for warning flags (i.e. vulnerable customer, deceased).



- (c) Has the relevant Borrower contacted OCL to advise that they will not be able to make their mortgage payment on the date that it is due?
- (d) Has the relevant Borrower previously experienced any payment difficulties?
- (e) Is the direct debit mandate live or is the relevant Borrower paying by an alternative payment method?
- (f) Does the relevant Borrower have an on-going complaint or dispute?

Following an initial review of the account information, if a course of action has already been agreed with the relevant Borrower, the agreed solution will be implemented. If no course of action has been agreed, the Arrears Team will attempt to contact the customer by Paythru/SMS text message and/or telephone. The Arrears Team will not put pressure on the relevant Borrower through excessive contact attempts (SMS text message, telephone calls or correspondence or by contacting the customer at an unreasonable hour. Reasonable hours will usually fall between 8am and 9pm Monday to Saturday).

All telephony contact attempts will be recorded, including the name of the colleague that completed the call and the actual date and time. Additionally the Arrears Team will update the customer's account to ensure an adequate record is maintained for all communication and activity that is completed including the date, the activity that has been completed and a detailed record of any dialogue had with the customer.

In the event that the Arrears team are unsuccessful in their initial telephony contact, the non-contact strategy will apply and the customers will receive a sequence of arrears letters, Paythru and/or SMS text messages and telephone calls as detailed in the accompanying process map.

When reviewing the relevant Borrower's account before attempting contact, the Arrears Team will also have regard to the relevant Borrower's circumstances and any knowledge they have of the relevant Borrower's work patterns or religious faith which might make it unreasonable to contact the relevant Borrower during these times.

The Arrears Team will not use documents that resemble a court summons or other official documents or are intended to lead the customer to believe that they come from or have the authority of a court. Additionally the Arrears Team will not use documents that contain unfair, unclear or misleading information that is intended to coerce the customer into paying.

Once initial contact has been attempted the Arrears team will determine future contact attempts based on their account evaluation. In the early stages of arrears contact attempts will be at varying times of the day (taking into consideration any preferred contact methods the customer may have previously requested). Once contact has been established with the customer the Arrears team will ensure they capture and record preferred contact requirements for future use and the account will exit the non-contact strategy.

The commencement of legal action will be an absolute last resort and will only be considered when all other forbearance options have been exhausted. The Arrears Team will ensure accounts are worked proactively and will not allow accounts to drift unresolved without a foreseeable solution in sight. Ongoing affordability of the mortgage for the remaining term will also be considered when deciding the most appropriate course of action for the relevant borrower.

### **Sale to Pepper Money**

Following the completion of the sale of the Optimum Group, OCL management is currently considering delegating the primary and special servicing functions of OCL as Servicer to Pepper's servicing operations centre based in Uxbridge. Notwithstanding any such relocation, the Servicer will remain responsible for the performance of such obligations under the Servicing Agreement and the business expects to continue to adhere to the procedures described above.

## SUMMARY OF THE KEY TRANSACTION DOCUMENTS

### **Mortgage Sale Agreement**

#### ***Mortgage Portfolio***

Under the mortgage sale agreement to be entered into on or around the Closing Date between, among others, the Seller, the Issuer and the Trustee (the "**Mortgage Sale Agreement**"), the Seller shall on the Closing Date and may in respect of any Additional Mortgage Loans on the Further Sale Date:

- (a) sell, assign or otherwise transfer to the Issuer a portfolio of English Mortgage Loans and their Related Security; and
- (b) declare that it holds on trust under the Scottish Declaration of Trust for the benefit of the Issuer a portfolio of Scottish Mortgage Loans and their Related Security sold, assigned or transferred by the Seller to the Issuer.

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

The completion of the transfer, or, in the case of the Scottish Mortgage Loans and their Related Security, assignation, of the Mortgage Loans and their Related Security (and, where appropriate, their registration or recording) to the Issuer is deferred and legal title to the Mortgage Loans and their Related Security shall remain with the Seller until the occurrence of a Perfection Event. Notice of the sale of the Mortgage Loans and their Related Security to the Issuer will not be given to any Borrower until the occurrence of a Perfection Event.

On the occurrence of a Perfection Event: (i) prior to the service of an Enforcement Notice, the Issuer; or (ii) following the service of an Enforcement Notice, the Trustee may by notice in writing (a "**Perfection Notice**") to the Seller (with a copy to the Trustee or to the Issuer, as the case may be) require the Seller to complete the assignment (or, in respect of Scottish Mortgage Loans, the assignation) to the Issuer of legal title to the Mortgage Loans and their Related Security comprised in the Mortgage Portfolio within twenty (20) Business Days of the delivery of the Perfection Notice.

The following events constitute events upon which (i) prior to the service of an Enforcement Notice, the Issuer; or (ii) following the service of an Enforcement Notice, the Trustee shall perfect legal title to the Mortgage Loans and their Related Security (each a "**Perfection Event**"):

- (a) the delivery of an Enforcement Notice by the Trustee; or
- (b) the termination or resignation of the appointment of the Servicer as servicer of the Mortgage Portfolio under the Servicing Agreement and the failure of any Replacement Servicer to assume the duties of the Servicer in such capacity; or
- (c) the Seller being required to perfect legal title to the Mortgage Loans:
  - (i) by an order of a court of competent jurisdiction;
  - (ii) by a regulatory authority which has jurisdiction over the Seller; or
  - (iii) by any organisation of which the Seller is a member or whose members comprise, but are not necessarily limited to, mortgage lenders and with the instructions of which it is customary for the Seller to comply; or
- (d) it becoming necessary as a result of a change in law occurring after the Closing Date to perfect the transfer by way of assignment or, in the case of Scottish Mortgage Loans, assignation of the legal title to such Mortgage Loans; or
- (e) it becoming unlawful in any applicable jurisdiction for the Seller to hold legal title in respect of any Mortgage Loan in the Mortgage Portfolio; or
- (f) the Trustee notifying the Issuer in writing that the security under the Deed of Charge or any material part of that security is, in the opinion of the Trustee, in jeopardy; or

- (g) the Seller calling for perfection by delivering notice in writing to that effect to the Issuer (with a copy to the Trustee); or
- (h) the occurrence of an Insolvency Event relating to the Seller.

Following a Perfection Event, notice of the legal assignments and assignments will be given to the Borrowers and the Issuer will take steps to register and record such legal assignments and assignments at the Land Registry or Registers of Scotland (as applicable).

Save for Title Deeds held at the relevant Land Registry or Registers of Scotland (as the case may be), all the Title Deeds and the mortgage files and computer tapes relating to each of the Mortgage Loans and their Related Security are held by the Servicer (on behalf of the Seller) or its solicitors or agents and the Title Deeds are held in dematerialised form or are returned to the Borrower's solicitors, and in relation to the Title Deeds held at the Registers of Scotland in respect of Properties title to which is recorded in the General Register of Sasines, such Title Deeds are held on the basis that they (other than the dematerialised copies of the Title Deeds) shall be returned to the Servicer or its solicitors or agents.

Neither the 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.

### ***Representations and Warranties***

On the Closing Date, the Mortgage Loan Warranties will be given by the Seller in respect of the Mortgage Loans and their Related Security sold by the Seller to the Issuer on that day (save for any Mortgage Loan Warranties expressed to be made by reference to a different day, such as the Cut-Off Date), in the case of Substitute Mortgage Loans as at the Substitution Date and in the case of any Additional Mortgage Loan as at the Further Sale Date.

Subject to the option of the Seller to indemnify the Issuer in respect of Liabilities incurred (as described below), the Seller will agree in the Mortgage Sale Agreement to repurchase any Mortgage Loan (or in the case of the non-existence of a Mortgage Loan indemnify the Issuer in relation to a Mortgage Loan) together with its Related Security if (i) a Mortgage Loan or its Related Security does not comply on the Closing Date with the Mortgage Loan Warranties given by the Seller under the Mortgage Sale Agreement, and (ii) such breach is not remedied within the applicable grace period (which starts from the date when such breach was notified to the Issuer and Servicer in writing). In this circumstance the Issuer (before the service of an Enforcement Notice) or the Trustee (following the service of an Enforcement Notice) or the Servicer on their behalf shall serve upon the Seller (with a copy to the Trustee) a mortgage loan repurchase notice. The delivery of such notice shall oblige the Seller to repurchase the relevant Mortgage Loan or Mortgage Loans from the Issuer (or indemnify the Issuer in the case of non-existence of a Mortgage Loan).

Save as otherwise discussed under the "*Refinanced Mortgage Loans*" below, the price payable by the Seller upon the repurchase of any Mortgage Loan and its Related Security will be the Repurchase Price. Consideration for such Repurchase Price shall be provided by payment in cash and/or the substitution of equivalent Mortgage Loan(s) (such that the aggregate of the outstanding principal balance of the Substitute Mortgage Loan(s) equals at least the Repurchase Price).

In the case of a Mortgage Loan or its Related Security that does not comply on the Closing Date with any Mortgage Loan Warranty (that is not a Core Mortgage Loan Warranty) and such breach is not remedied within the applicable grace period (which starts from the date when such breach was notified to the Issuer and Servicer in writing), the Seller may choose instead to indemnify and keep indemnified the Issuer against all Liabilities relating to the breach of such Mortgage Loan Warranty. If the Seller chooses to indemnify and keep indemnified the Issuer against all Liabilities relating to the breach of such Mortgage Loan Warranty, the amount payable by the Seller pursuant to such indemnity shall not exceed the amount that would have been payable by the Seller if it had repurchased that Mortgage Loan and its Related Security in the case of a breach of a Core Mortgage Loan Warranty (see the risk factor titled "*Risks Related to the Mortgage Loans – Limitation of Seller's Liability*").

Where the Seller elects to indemnify the Issuer, the quantum of the amount of Liability shall be ascertained promptly following the date when the relevant mortgage loan repurchase notice is delivered to the Seller, provided that if the Seller cannot reach any agreement with the Issuer as to the quantum of the amount of

Liability within 15 Business Days of the date that a mortgage loan repurchase notice is delivered to the Seller, the Seller shall, on the following Business Day, appoint an auditor of internationally recognised standing to determine the amount of such question in a final binding decision or repurchase the relevant Mortgage Loan.

If such auditor is unable to determine the quantum of the amount of Liability within 30 Business Days of the date that a mortgage loan repurchase notice is delivered to the Seller, the indemnity payment payable by the Seller shall be the Repurchase Price that would have been determined had the breach of Mortgage Loan Warranty related to a Core Mortgage Loan Warranty. In such cases, the Seller may also opt to repurchase the relevant Mortgage Loan at such Repurchase Price (including where such consideration is offered in the form of a Substitute Mortgage Loan). Such Repurchase Price shall be paid by the Seller to the Issuer promptly following the expiry of such 30 Business Day period, provided that if a Substitute Mortgage Loan is offered as consideration (as further described below) the Substitution Date shall be the Business Day immediately following the expiry of such 30 Business Day period.

Performance of such repurchase (including by way of substitution) or indemnification will be in full satisfaction of the liabilities of the Seller in respect of the relevant breach. The Seller will have no liability for breach of any Mortgage Loan Warranty other than the obligation to repurchase or indemnify as set out above.

In the Servicing Agreement, the Servicer (for as long as it is the same entity as the Seller) has agreed to notify the Issuer and the Trustee of any breach of a Mortgage Loan Warranty promptly upon becoming aware of such breach with reasonable certainty (acting as a Prudent Mortgage Lender).

The Seller will additionally be required to repurchase Mortgage Loans and their Related Security where the Seller has determined that it will consent to: (i) a Prior Mortgagee making, sending an offer of or accepting an application for a further advance to a Borrower in excess of any pre-agreed drawable amounts; (ii) a Mortgage Loan Modification; or (iii) a Prior Mortgage Loan Transfer that is not a Permitted Loan Transfer, and in all cases such repurchase of the relevant Mortgage Loan shall occur prior to such consent being given.

The obligation of the Seller to repurchase the Mortgage Loans which are subject to a Mortgage Loan Modification will not apply to the Mortgage Loans (i) which are subject to a Mortgage Loan Modification under limb (c) of that definition and whose aggregate Current Balance does not exceed one (1) per cent. of the aggregate Current Balance of all Mortgage Loans; and (ii) which are subject to a Mortgage Loan Modification under limb (g) of that definition and whose aggregate Current Balance does not exceed one (1) per cent. of the aggregate Current Balance of all Mortgage Loans. The Seller will undertake not to market to the Borrowers any products which would result in a Mortgage Loan Modification under limb (c) or (g) of the definition of the "Mortgage Loan Modification".

On or following the Optional Redemption Date, the Seller may offer to purchase (and the Issuer must accept such purchase offer), all of the Mortgage Loans in the Mortgage Portfolio on such date for an amount sufficient to repay the Principal Amount Outstanding of each class of Notes together with accrued interest up to but excluding the date of redemption, and all items ranking senior to the last item in the relevant Priority of Payments.

### ***Substitute Mortgage Loans***

The Seller may offer the Issuer (and the Issuer shall accept) a Substitute Mortgage Loan as consideration for the repurchase of a Mortgage Loan which was in breach of any representation or warranty. Any Substitute Mortgage Loan will be assigned to the Issuer unless notice that any of the Substitution Conditions are not satisfied (a "**Notice of Non-Satisfaction of Substitution Conditions**") has been given by the Seller to the Issuer and such notice has not been revoked by the Seller no later than 12 noon on the Business Day prior to the date that the substitution is made (the "**Substitution Date**").

A Notice of Non-Satisfaction of Substitution Conditions may be given by the Seller to the Issuer if the Seller has identified beyond a reasonable doubt that any of the following conditions (the "**Substitution Conditions**") are not satisfied:

- (i) no Event of Default has occurred and is continuing;
- (j) no Insolvency Event in respect of the Seller has occurred; and

- (k) in respect of each Substitute Mortgage Loan provided as consideration for the repurchase of a Mortgage Loan which was in breach of any representation or warranty, such Substitute Mortgage Loan is of substantially similar characteristics and credit quality to the Mortgage Loan it replaces (as reasonably determined by the Servicer (where the Servicer is the Seller)), taking into account the (i) Current Loan to Value Ratio, (ii) Original Loan to Value Ratio, (iii) tenor, (iv) Product Type, and (v) Mortgage Rate of such Substitute Mortgage Loan.

If no Notice of Non-Satisfaction of Substitution Conditions has been given by the Seller to the Issuer, or has been so given and subsequently revoked by the Seller no later than 12 noon on the Business Day prior to the relevant Substitution Date, and the Substitute Mortgage Loan is assigned to the Issuer (or is held in trust for the Issuer under a new Scottish Declaration of Trust), the Seller must, in relation to the relevant Mortgage Loan, give the representations and warranties in respect of Substitute Mortgage Loans set out in the Mortgage Sale Agreement as at the relevant Substitution Date.

The Seller has agreed in the Mortgage Sale Agreement that, if it is subsequently determined that:

- (l) any representation or warranty made by it in respect of any of its Substitute Mortgage Loans was materially untrue as at the Substitution Date; or
- (m) any Substitution Condition was in fact not satisfied on the Substitution Date for a Substitute Mortgage Loan:
  - (i) despite no Notice of Non-Satisfaction of Substitution Conditions being given by the Seller to the Issuer; or
  - (ii) where a Notice of Non-Satisfaction of Substitution Conditions was given but was revoked by the Seller by 12 noon on the Business Day prior to the relevant Substitution Date,

and, if either of the occurrences specified in (a) or (b) above is not capable of remedy or, if capable of remedy, has not been remedied within 30 days of receipt by the Seller of notice from the Issuer, the Seller will, upon receipt of a mortgage loan repurchase notice from the Issuer, repurchase the entire Substitute Mortgage Loan and its Related Security from the Issuer on the date specified in the relevant mortgage loan repurchase notice, provided that if the Seller opts to substitute Mortgage Loan(s) as consideration for such repurchase then such repurchase will take place on the relevant Substitution Date. Consideration for such repurchase will be provided by payment in cash and/or the substitution of Substitute Mortgage Loan(s) such that the aggregate of (i) the Current Balance and Accrued Interest of the Substitute Mortgage Loan(s) as at the close of business on the Business Day immediately preceding the Substitution Date (as applicable) and (ii) the cash payment amount (if any), is at least equal to what the Repurchase Price of the Mortgage Loan(s) or Substitute Mortgage Loan(s) specified in the relevant mortgage loan repurchase notice would have been had the Seller not delivered a substitute mortgage loan notice.

### ***Refinanced Mortgage Loans***

The Seller will be obliged to repurchase all Mortgage Loans which are subject to a Refinancing Redemption (such Mortgage Loans, the "**Refinanced Mortgage Loans**").

Amounts owing under the Swap Agreement in respect of repurchased Mortgage Loans are described in the section below entitled "*The Swap Agreement*".

### ***True-Up Amount***

Where the Issuer owes an amount to the Swap Counterparty under the Swap Agreement in connection with the repurchase of the Reference Loans (as defined in the Swap Agreement and as described in section "*Credit Structure – The Swap Agreement – Overview of the Swap Agreement*" below), the Seller shall pay the Issuer an amount equal to the amount owed (a "**True-Up Amount**") by way of additional consideration for the repurchase of such Reference Loans no later than the Calculation Date immediately preceding the relevant Interest Payment Date on which the amount payable by the Issuer to the Swap Counterparty under the Swap Agreement is due. See also "*Credit Structure – The Swap Agreement – Overview of the Swap Agreement*" for more detail.

### *Governing Law*

The Mortgage Sale Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by English law (other than those terms of the Mortgage Sale Agreement specific to the law of Scotland relating to the Scottish Mortgage Loans and their Related Security, which are construed in accordance with Scots law).

### **Servicing Agreement**

#### *Introduction*

The Issuer, the Trustee, the Seller, the Back-Up Servicer, the Back-Up Servicer Facilitator and the Servicer will enter into, on or around the Closing Date, an agreement pursuant to which the Servicer agrees to service the Mortgage Loans and their Related Security (the "**Servicing Agreement**"). The services to be provided by the Servicer are set out in the Servicing Agreement, and may include any services incidental thereto as may be agreed to in writing by the Issuer, the Seller, the Trustee and the Servicer (the "**Services**").

On or about the Closing Date, the Servicer will be appointed by the Issuer and the Seller (including in its capacity as a trustee of the trust declared and created by the Scottish Declaration of Trust (the "**Scottish Trust**")) to be its agent to service the Mortgage Loans and their Related Security. The Servicer must comply with any proper directions and instructions that the Issuer or, following the service of an Enforcement Notice, the Trustee may from time to time give to it in accordance with the provisions of the Servicing Agreement.

The Servicer will service the Mortgage Loans and their Related Security in accordance with the terms of the Servicing Agreement (including the procedures of the Servicer set out therein) and its actions in doing so are binding on the Issuer and (where applicable) the Seller.

#### *Appointment*

The Servicer will be appointed to:

- (a) service, manage and administer the Mortgage Loans and the Related Security in accordance with the applicable provisions of the FSMA and provide the services set out in the Servicing Agreement and any other services which are necessary, convenient or incidental to the management and administration of the Mortgage Loans and their Related Security and which have been agreed in writing between the Issuer, the Seller, the Trustee and the Servicer;
- (b) exercise the Issuer's rights, powers and discretions under and in relation to the Mortgage Loans and their Related Security;
- (c) perform the other management and administration functions and services imposed on the Servicer by the Servicing Agreement; and
- (d) perform any other functions imposed on the Servicer, in such capacity, by any other Transaction Documents to which it is a party.

#### *Undertakings by the Servicer*

The Servicer has undertaken, among other things, to:

- (a) administer and manage the Mortgage 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 on the books of the Seller;
- (b) ensure all Mortgage Loans and other Related Security are designated in the computer and other relevant records of the Servicer as having been sold by the Seller to the Issuer;
- (c) devote such amount of time and attention to, and exercise such level of skill, care and diligence in the performance of, the Services as would a Prudent Mortgage Lender;
- (d) comply with any proper directions, orders and instructions which the Issuer or the Trustee may from time to time give to it in accordance with the provisions of the Servicing Agreement;

- (e) keep in force all licences, approvals, authorisations, consents, permissions and registrations required by the Servicer in connection with the performance of the Services, including under the FSMA, and to prepare and submit on a timely basis all necessary applications and requests for any further licences, approvals, authorisations, consents, permissions and registrations required by the Servicer in connection with the performance of the Services;
- (f) maintain in working order the information technology systems used by the Servicer in providing the Services, and to maintain and keep in effect all licences (including software licences), agreements, contracts and consents necessary for the use, upkeep and functioning of such information technology systems;
- (g) upon written request of the Issuer provide, 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;
- (h) at all times, in relation to all matters relating to the Mortgage Loans in the Mortgage Portfolio and the Related Security, act in compliance with and observe all applicable laws and regulatory requirements in force, issued or in place from time to time (including, but not limited to, FSMA, the CCA, the Data Protection Laws, the FCA's rules and guidance in the Consumer Credit Sourcebook of the FCA Handbook, the MCOB Rules and the FCA's Treating Customers Fairly Outcomes) and the terms of the relevant Mortgage Conditions;
- (i) perform the Services in such a way as not to prejudice the continuation of any approvals, authorisations, consents or licences required by the Issuer in connection with the Issuer's business;
- (j) 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;
- (k) not without the prior written consent of the Trustee amend or terminate any of the Transaction Documents to which it is a party.

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

Each of the Issuer and the Seller will grant the Servicer full right, liberty and authority from time to time, in accordance with the relevant Mortgage Conditions, to determine and set the Optimum Base Rate and any other discretionary rates or margins applicable in relation to the Mortgage Loans provided that the Servicer shall not be under an obligation to set such discretionary rates or margins if to do so would result in a breach of the applicable Mortgage Conditions or would be contrary to applicable laws (including, without limitation, applicable guidelines of the Office of Fair Trading and applicable statements of good practice of the FCA) or could not be undertaken in accordance with the standards of a Prudent Mortgage Lender.

#### ***Operation of Collection Account***

The Servicer will undertake to operate the Collection Account which is opened in the name of the Seller with the Collection Account Bank in accordance with the terms of the Collection Account Declaration of Trust. For more information, see the section below entitled "*Collection Account Declaration of Trust*".

#### ***Replacement of Collection Account Bank***

If the Collection Account Bank fails to maintain any of the Collection Account Bank Minimum Ratings, the Issuer (or the Servicer on its behalf) shall use its reasonable endeavours, in accordance with the Servicing Agreement to effect (or to procure):

- (a) the opening of a replacement collection account in the name of the Seller with a financial institution:
  - (i) that maintains ratings at least equal to the Collection Account Bank Minimum Ratings;
  - (ii) that is a bank for the purposes of section 991 of the Income Tax Act 2007 and payments of interest are made in the ordinary course of its business within the meaning of section 878 of the Income Tax Act 2007; and

- (iii) that is an institution authorised to carry on banking business including accepting deposits under the FSMA; or
- (b) the obtaining of a guarantee in support of the obligations of the Collection Account Bank from an entity which has all of the Collection Account Bank Minimum Ratings,

in each case, within 30 days of the date on which the Collection Account Bank ceases to have the Collection Account Bank Minimum Ratings.

***Termination of the appointment of the Servicer***

The Issuer (with the consent of the Trustee) or the Trustee may at once or at any time thereafter while such default continues, by notice in writing to the Servicer (with a copy to the Trustee or the Issuer (as applicable)), terminate the Servicer's appointment under the Servicing Agreement if any of the following events (each a "**Servicer Termination Event**") occurs and is continuing:

- (a) default is made by the Servicer 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 five (5) Business Days after the earlier of the Servicer becoming aware of such default and receipt by the Servicer of written notice from the Issuer or (following the delivery of an Enforcement Notice) the Trustee requiring the same to be remedied;
- (b) default is made by the Servicer in the performance or observance of any of its other covenants and obligations under the Servicing Agreement, which default, in the opinion of the Trustee (both prior to and following the delivery of an Enforcement Notice), is materially prejudicial to the interests of the Noteholders and which, in the case of a default or breach that is in the opinion of the Trustee capable of remedy, continues unremedied for a period of 15 Business Days after the earlier of the Servicer becoming aware of such default and of receipt by the Servicer of written notice from the Issuer or the Seller (prior to the service of an Enforcement Notice) or the Trustee (following the delivery of an Enforcement Notice) requiring the same to be remedied;
- (c) the Servicer ceasing to be an authorised person under the FSMA or the revocation of an applicable licence, registration or regulatory permission held by it which is required to perform the Services;
- (d) an order is made or an effective resolution passed for the winding up of the Servicer (unless the order is made for the purpose of a reorganisation the terms of which have been approved by the Issuer or, following the service of an Enforcement Notice, the Trustee and where the Servicer demonstrates to the satisfaction of the Issuer that it is solvent); or
- (e) the occurrence of an Insolvency Event in respect of the Servicer (other than any frivolous or vexatious corporate action or any other corporate action, legal proceedings or other procedure or step referred to in paragraph (f) of the definition of "Insolvency Event" which is disputed in good faith with a reasonable prospect of success by the Servicer and dismissed or otherwise discharged within 30 days of being commenced).

Any such termination of the Servicer following a Servicer Termination Event is subject to the appointment of a replacement servicer.

Upon and following the termination of appointment of the Servicer as servicer under the Servicing Agreement, the Back-Up Servicer shall be appointed as Servicer or, if the Back-Up Servicer is not appointed at such time, then the Issuer will be required, with the assistance of the Back-Up Servicer Facilitator, to use its reasonable endeavours to appoint a successor Servicer which has suitable experience and credentials to act as a successor Servicer and satisfies the conditions set out in the Servicing Agreement.

***The Back-Up Servicer Facilitator***

The Issuer has appointed the Back-Up Servicer Facilitator under the Servicing Agreement, pursuant to which the Back-Up Servicer Facilitator shall: (a) use best efforts to identify, on behalf of the Issuer, (following a Servicer Termination Event) a suitable Replacement Servicer in circumstances where the Back-Up Servicer cannot be appointed; and (b) upon the occurrence of certain events (such as the



resignation of, or termination of the appointment of, the Back-Up Servicer), assist the Issuer in appointing a replacement Back-Up Servicer.

### ***Voluntary Resignation***

Subject to the fulfilment of a number of conditions (including the appointment of a replacement servicer (who may be the Back-Up Servicer)), the Servicer may voluntarily resign by giving not less than 12 months' notice to the Issuer and the Trustee. The replacement servicer (the "**Replacement Servicer**") is required to have experience of servicing mortgages in England and Wales and Scotland and to enter into a servicing agreement with the Issuer and the Trustee substantially on the same terms as the relevant provisions of the Servicing Agreement (the "**Replacement Servicing Agreement**").

### ***Delivery of documents and records***

If the appointment of the Servicer is terminated or the Servicer resigns, the Servicer must deliver to the Issuer (or as the Issuer shall direct), *inter alia*, the Title Deeds and Mortgage Loan Files relating to the Mortgage Loans and their Related Security in its possession.

### ***Customer Support Policy***

The Servicer shall, in relation to any default by any Borrower under or in connection with a Mortgage Loan or its Related Security, comply with:

- (a) the Customer Support Policy;
- (b) any Requirement of Law that could reasonably be expected to be complied with by a Prudent Mortgage Lender; and
- (c) all reasonable requirements of the Issuer (prior to the service of an Enforcement Notice) or the Trustee (following the service of an Enforcement Notice) in relation to such enforcement within the Customer Support Policy or, to the extent that the Customer Support Policy is not applicable having regard to the nature of the default in question, shall take such action as it shall see fit in accordance with the Servicing Standard in respect of such default.

The Servicer shall procure that if, upon completion of the steps required by the Customer Support Policy, an amount in excess of all sums due by the relevant Borrower (including any costs incurred in connection with the Customer Support Policy) is recovered or received by the Servicer, the balance, after discharge of all sums due by the Borrower, is paid to the person or persons entitled thereto.

### ***Sub-Contracting by the Servicer***

The Servicer is permitted in specified circumstances and subject to certain conditions with the prior written consent of the Issuer and the Trustee, to sub-contract or delegate its obligations under the Servicing Agreement. If the Servicer sub-contracts or delegates its obligations under the Servicing Agreement, it shall nevertheless remain primarily liable for the performance of such obligations.

Following the completion of the sale of the Optimum Group (in respect of which see the section entitled "*The Seller, Retention Holder and Servicer*"), OCL's management is currently considering delegating the primary and special servicing functions of OCL as Servicer to Pepper's servicing operations centre based in Uxbridge. The Servicing Agreement permits such delegation without the consent of the Issuer or the Trustee. The terms of the Servicing Agreement will permit delegation of the servicing function to Pepper (UK) Limited without consent of the Issuer or the Trustee. See – *The Seller, Retention Holder and Servicer – Sale to Pepper Money (PMB) Limited*) for more information.

### ***Information and Reporting by Servicer***

Pursuant to the Servicing Agreement, the Servicer is responsible for keeping and maintaining records, on a Mortgage Loan by Mortgage Loan basis, for the purposes of identifying at any time any amount due by a Borrower, any amount received from or on behalf of a Borrower and the Current Balance for the time being and from time to time outstanding on a Borrower's account.

The Servicer shall prepare and deliver to, *inter alios*, the Cash Manager a monthly servicer report detailing the principal and total balances of the Mortgage Loans, and related reconciliations and other information which is required by the Cash Manager for such relevant period (the "**Monthly Servicer Report**") by no later than the Monthly Servicer Report Date for the purposes of the Cash Manager preparing the Investor Reports. As part of the Monthly Servicer Report, the Servicer shall prepare and deliver to the Cash Manager a report of loan level information in the bank of England format prevalent on the Closing Date or as otherwise agreed by the Servicer on a monthly basis (the "**Monthly Data Tape**").

#### ***Fees and Expenses of the Servicer***

The Servicer is entitled to charge a quarterly fee (payable on each Interest Payment Date) for its mortgage settlement and related administration services under the Servicing Agreement, calculated on a quarterly basis by reference to the average of (i) the aggregate Current Balance of the Mortgage Loans as at the last day of the immediately preceding Collection Period (as calculated in the relevant Monthly Servicer Report) (except in respect of the first Collection Period, where the relevant value will be the aggregate Current Balance of the Mortgage Loans as at the Cut-Off Date), and (ii) the aggregate Current Balance of the Mortgage Loans as at the last day of the relevant Collection Period (as calculated in the relevant Monthly Servicer Report), at a rate of 0.4 per cent. per annum and payable in arrear on each Interest Payment Date in respect of the immediately preceding Collection Period. Such fees shall be calculated on the basis of the actual number of days elapsed in such Collection Period and a year of 365 days. For the purposes of determining the Servicing Fees, the Current Balance of the Mortgage Loans shall exclude any Mortgage Loans in respect of which there has been a warranty breach and the Seller has opted to indemnify the Issuer in lieu of repurchasing (or substituting) such Mortgage Loan.

The fee is inclusive of any VAT and payable on each Interest Payment Date in accordance with the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement Priority of Payments (as applicable).

The Servicer shall be reimbursed for all reasonable and properly incurred costs and expenses incurred by it in connection with the administration of the Mortgage Loans.

#### ***Limit to Servicer's Liability***

The Servicer shall have no liability for the obligations of any Borrower, the Issuer or the Trustee under any of the Transaction Documents or otherwise and nothing herein shall constitute a guarantee, or similar obligation, by the Servicer in respect of any Borrower, the Issuer or the Trustee of any of those obligations.

#### ***Governing Law***

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

#### **Back-Up Servicing Agreement**

##### ***Back-Up Servicer***

On or about the Closing Date, the Issuer will appoint the Back-Up Servicer to perform back-up servicer services pursuant to the Back-Up Servicing Agreement entered into between the Issuer, the Servicer, the Seller, the Trustee and the Back-Up Servicer dated on or about the Closing Date (the "**Back-Up Servicing Agreement**").

The Back-Up Servicer will, on such basis as it deems reasonably necessary to perform its obligations, but in any event not less than once per calendar year, undertake on-site operational reviews relating to the performance of its obligations as Back-Up Servicer under the Back-Up Servicing Agreement.

Upon the termination of the appointment of the Servicer under the Servicing Agreement, the Back-Up Servicer will, upon sixty (60) days of receiving notice of the same, become the Servicer under the terms of the Servicing Agreement.

##### ***Governing law***

The Back-Up Servicing Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

### **Collection Account Declaration of Trust**

The "**Collection Account**" is a collection account in the name of the Seller held with the Collection Account Bank with account number 48677159 and sort code 60-00-01 into which the Servicer directs payment of principal collections and revenue collections in respect of the Mortgage Portfolio. Amounts credited to the Collection Account from (and including) the Closing Date that relate to the Mortgage Loans will be identified on a daily basis (each such aggregate daily amount, a "**Daily Loan Amount**") and the Seller will transfer an amount equal to the Daily Loan Amount from the Collection Account into the Transaction Account by the next Business Day after that Daily Loan Amount is identified as received in the Collection Account.

The Seller will enter into the Collection Account Declaration of Trust pursuant to which the Seller agrees to declare a trust over and hold on trust all amounts standing to the credit of the Collection Account (the "**Collection Account Trust Property**") on trust for *inter alios* the Issuer, certain other beneficiaries that have the benefit of portfolios of mortgage loans where the Seller is the legal title holder from time to time (such as a special purpose vehicle used for warehousing purposes) and itself absolutely (the "**Collection Account Declaration of Trust**"). The Seller shall hold upon trust the Collection Account Trust Property in the following proportions:

- (i) the Issuer share of the Collection Account Declaration of Trust shall be an amount equal to amounts from time to time standing to the credit of the Collection Account to the extent that such amounts represent payments into the Collection Account derived from or resulting from the Mortgage Loans comprised in the Mortgage Portfolio (but excluding any interest arising in respect of amounts standing to the credit of the Collection Account) (the "**Issuer Share**");
- (ii) from time to time, further beneficiaries may accede to the terms of the Collection Account Declaration of Trust where they have an interest in a portfolio of loans where the Seller is the legal title holder (each a "**Collection Account Beneficiary**"). Each Collection Account Beneficiary's share of the Collection Account Declaration of Trust shall be an amount equal to amounts from time to time standing to the credit of the Collection Account to the extent that such amounts represent payments into the Collection Account derived from or resulting from the loans in which such Collection Account Beneficiary has an interest (but excluding any interest arising in respect of amounts standing to the credit of the Collection Account) (the "**Collection Account Beneficiary Share**"); and
- (iii) the Seller share of the Collection Account Declaration of Trust shall be an amount equal to all Amounts from time to time standing to the credit of the Collection Account to the extent such amounts represent amounts other than the Issuer Share or a Collection Account Beneficiary Share (the "**Seller Share**").

The Seller has agreed that the Issuer Share will be distributed to the Issuer in accordance with the terms of the Collection Account Declaration of Trust and acknowledges and agrees that the Seller Share and Collection Account Beneficiary Shares shall be distributed to the other beneficiaries of the Collection Account Declaration of Trust. The Seller will further acknowledge that it has no right at any time to pay, set-off or transfer any of the Issuer Share in or towards satisfaction of the liabilities of the Seller.

### **Deed of Charge**

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

### **Security**

Under the terms of the Deed of Charge, the Issuer will provide the 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 effectively assigned to the Trustee, a charge by way of first fixed charge over) the Issuer's rights, title, interest and benefit in, to and under the Transaction Documents (other than the Trust Deed, the Deed of Charge, any Scottish Supplemental Charge and any Scottish Declaration of Trust) and any sums derived therefrom;

- (b) an assignment by way of security of (and, to the extent not effectively assigned to the Trustee, a charge by way of first fixed charge over) the Issuer's interest in the English Mortgage Loans and their Related Security and other related rights comprised in the Mortgage Portfolio (other than in respect of Scottish Mortgage Loans) and any sums derived therefrom;
- (c) an assignation in security of the Issuer's interest in the Scottish Mortgage Loans and their Related Security (comprising the Issuer's beneficial interest under the trust declared by the Seller over such Scottish Mortgage Loans and their Related Security for the benefit of the Issuer pursuant to any Scottish Declaration of Trust) and other related rights comprised in the Mortgage Portfolio (other than in respect of the English Mortgage Loans)), which assignation is contained in the Scottish Supplemental Charge;
- (d) a charge by way of first fixed charge over the Issuer's interest in its bank accounts (including the Issuer Accounts) maintained with the Issuer Account Bank and any other bank or custodian and any sums or securities standing to the credit thereof;
- (e) an assignment by way of first fixed security (and, to the extent not effectively assigned to the Trustee, a charge by way of first fixed charge over) (but subject to the right of reassignment) the benefit of the Issuer's rights, title, interest and benefit in the Issuer's Share of the Collection Account Trust Property; and
- (f) a floating charge over all assets of the Issuer not otherwise subject to the charges referred to above or otherwise effectively assigned by way of security (other than item (c) above), including over all of the Issuer's property, assets, rights and revenues as are situated in Scotland or governed by Scots law (whether or not such assets are the subject of the charges or Security referred to above).

In addition, if there is a delivery of a Scottish Transfer pursuant to the Mortgage Sale Agreement, the Issuer will deliver to the Trustee a Scottish Sub-Security.

### ***Enforcement***

The Security shall only become enforceable on the service of an Enforcement Notice pursuant to Condition 11 (*Events of Default*). The Deed of Charge will set out the procedures by which the Trustee may take steps to enforce the Security.

### ***Governing Law***

The Deed of Charge and any non-contractual obligations arising out of or in connection with it will be governed by English law (save that aspects relating to Scottish Mortgage Loans and their Related Security will be construed in accordance with Scots law, and the Scottish Declaration of Trust and Scottish Supplemental Charge will be governed by Scots law).

### ***Trust Deed***

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

The 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 Trustee for its services under the Trust Deed at the rate and times agreed between the Issuer and the Trustee (plus VAT thereon) together with payment of any liabilities incurred by the Trustee in relation to the Trustee's performance of its obligations under or in connection with the Trust Deed and the other Transaction Documents.

### ***Retirement of Trustee***

The Trustee may retire after giving not less than 60 calendar days' notice in writing to the Issuer. Further, the Most Senior Class of Notes may, by an Extraordinary Resolution, remove the Trustee.

The retirement or removal of the Trustee shall not become effective unless there remains at least one Trustee under the Trust Deed, and the Issuer will covenant in the Trust Deed to use all reasonable endeavours to procure the appointment of a new Trustee after the resignation or removal of the existing Trustee. If the Issuer has failed to appoint a replacement Trustee prior to the expiry of the notice period given by the Trustee, the outgoing Trustee will be entitled to nominate a successor which shall be approved by an Extraordinary Resolution of the Most Senior Class of Notes. The Rating Agencies shall be notified of such appointment.

### ***Governing Law***

The Trust Deed and any non-contractual obligations arising out of or in connection with it will be governed by English law.

### **Agency Agreement**

Pursuant to an agency agreement (the "**Agency Agreement**") dated on or prior to the Closing Date and made between the Issuer and the Trustee, the Principal Paying Agent, the Registrar and the Agent Bank, provision is made for, *inter alia*, the payment of principal and interest in respect of the Notes.

### ***Governing Law***

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

### **Cash Management Agreement**

On the Closing Date, the Cash Manager, the Seller, the Servicer, the Issuer and the Trustee will enter into a cash management agreement (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 or, upon the Trustee notifying the Cash Manager that an Enforcement Notice has been served on the Issuer, the Trustee. The Cash Manager's principal function will be to: (i) calculate the amount of Available Revenue Receipts and Available Redemption Receipts available for application on the immediately following Interest Payment Date, together with (prior to the Senior Notes Redemption Date and without double counting) any amounts standing to the credit of the Liquidity Reserve Fund or, if so required, Principal Addition Amounts to be applied in relation to a Revenue Deficit on such Interest Payment Date; and (ii) effect payments to and from the Issuer Accounts. In addition, the Cash Manager will, among other things, perform the following:

- (a) on each Calculation Date, determine whether there would be a Revenue Deficit following the application of Available Revenue Receipts on the immediately following Interest Payment Date;
- (b) on each Calculation Date, determine the Liquidity Reserve Fund Required Amount (if applicable) and the General Reserve Fund Required Amount;
- (c) on each Calculation Date, determine whether the immediately following Interest Payment Date shall be the Senior Notes Redemption Date or the Final Rated Notes Redemption Date;
- (d) on each Calculation Date (prior to service of an Enforcement Notice) calculate the amount of Available Revenue Receipts, Available Redemption Receipts and, subject to the PDL Condition, any Principal Addition Amounts to be applied on the immediately following Interest Payment Date in accordance with the Pre-Enforcement Revenue Priority of Payments or the Pre-Enforcement Redemption Priority of Payments (as applicable);
- (e) on each Calculation Date (prior to the service of an Enforcement Notice) calculate the amount of any Liquidity Reserve Fund Drawings to be applied on the immediately following Interest Payment Date;
- (f) on each Interest Payment Date prior to the delivery of an Enforcement Notice, apply, or cause to be applied, Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority

of Payments, Available Redemption Receipts in accordance with the Pre-Enforcement Redemption Priority of Payments and, on or prior to the Senior Notes Redemption Date only, any Liquidity Reserve Fund Drawings and Principal Addition Amounts to be applied in meeting any Revenue Deficit against the relevant items in the Pre-Enforcement Revenue Priority of Payments in the order that they appear in the Pre-Enforcement Revenue Priority of Payments;

- (g) record credits and debits on the Ledgers, as and when required; and
- (h) if required (i) during a Determination Period, calculate the Interest Determination Ratio; and (ii) following any Determination Period, upon receipt by the Cash Manager of the Monthly Servicer Reports in respect of such Determination Period, reconcile the calculations to the actual collections set out in the Monthly Servicer Reports by allocating the Reconciliation Amounts in accordance with the Cash Management Agreement.

In addition, the Cash Manager will also:

- (a) maintain the following ledgers (the "**Ledgers**") on behalf of the Issuer:
  - (i) the "**Redemption Receipts Ledger**", which will record all Redemption Receipts received by the Issuer and the distribution of the Redemption Receipts in accordance with the provisions of the Cash Management Agreement;
  - (ii) the "**Revenue Receipts Ledger**", which will record all Revenue Receipts, amounts retained in the Transaction Account in accordance with item (v) of the Pre-Enforcement Revenue Priority of Payments and the distribution of the Revenue Receipts recorded on the Revenue Receipts Ledger in accordance with the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement Priority of Payments (as applicable) or by way of Third Party Amounts, Excess Recoveries Amounts or Permitted Withdrawals to the extent paid from the Transaction Account to the persons entitled thereto;
  - (iii) the "**General Reserve Fund Ledger**" which will record amounts credited to the general reserve fund (the "**General Reserve Fund**") from a portion of the net proceeds of issuance of the Class X Notes and all withdrawals from, and credits to, this ledger on each Interest Payment Date (see "*Credit Structure – General Reserve Fund and General Reserve Fund Ledger*" below);
  - (iv) the "**Pre-Funding Principal Reserve Ledger**", which will record amounts credited to the pre-funding principal reserve (the "**Pre-Funding Principal Reserve**") from the net proceeds of the issuance of the Notes (excluding the Class X Notes) in an amount equal to the Pre-Funding Principal Reserve Required Amount and withdrawals on the Further Sale Date and/or on the first Interest Payment Date (see "*Credit Structure – Pre-Funding Principal Reserve and Pre-Funding Principal Reserve Ledger*" below);
  - (v) the "**Pre-Funding Revenue Reserve Ledger**", which will record amounts credited to the pre-funding revenue reserve (the "**Pre-Funding Revenue Reserve**") from the net proceeds of the issuance of the Class X Notes in an amount equal to the Pre-Funding Revenue Reserve Required Amount and the withdrawal on or about the first Interest Payment Date (see "*Credit Structure – Pre-Funding Revenue Reserve and Pre-Funding Revenue Reserve Ledger*" below);
  - (vi) the "**Liquidity Reserve Fund Ledger**", which will record amounts credited to, and debited from, the Liquidity Reserve Fund. The Liquidity Reserve Fund will be funded from Available Redemption Receipts which shall be transferred to the Liquidity Reserve Fund Ledger on each Interest Payment Date until the Liquidity Reserve Initial Funding Date and thereafter Available Revenue Receipts may be used to credit the Liquidity Reserve Fund Ledger up to the Liquidity Reserve Fund Required Amount (which may be required if any Liquidity Reserve Fund Drawings have been debited from the Liquidity Reserve Fund Ledger);

On the Senior Notes Redemption Date, amounts credited to the Liquidity Reserve Fund will be applied as Available Redemption Receipts in accordance with the Pre-Enforcement Redemption Priority of Payments to redeem the Notes on such Interest Payment Date;

- (vii) the "**Principal Deficiency Ledger**", which will comprise the following sub-ledgers:
  - (A) the principal deficiency sub-ledger relating to the Class A Notes (the "**Class A Principal Deficiency Sub-Ledger**");
  - (B) the principal deficiency sub-ledger relating to the Class B Notes (the "**Class B Principal Deficiency Sub-Ledger**");
  - (C) the principal deficiency sub-ledger relating to the Class C Notes (the "**Class C Principal Deficiency Sub-Ledger**");
  - (D) the principal deficiency sub-ledger relating to the Class D Notes (the "**Class D Principal Deficiency Sub-Ledger**");
  - (E) the principal deficiency sub-ledger relating to the Class E Notes, the (the "**Class E Principal Deficiency Sub-Ledger**");
  - (F) the principal deficiency sub-ledger relating to the Class F Notes (the "**Class F Principal Deficiency Sub-Ledger**"); and
  - (G) the principal deficiency sub-ledger relating to the Class Z Notes (the "**Class Z Principal Deficiency Sub-Ledger**"),

each a "**Principal Deficiency Sub-Ledger**", which will record on the appropriate sub-ledger as a debit entry deficiencies arising from (i) Defaulted Amounts on the Mortgage Portfolio (on the date the Cash Manager is informed of such Defaulted Amounts by the Servicer) and (ii) Principal Addition Amounts (on the Calculation Date on which such Principal Addition Amounts are determined by the Cash Manager), and record as a credit entry all PDL Cure Amounts (if any) on each Interest Payment Date which are deemed to be Available Redemption Receipts (see "*Credit Structure – Principal Deficiency Ledger*" below);

- (viii) the "**Issuer Profit Ledger**", which shall record (A) as a credit any amounts retained by the Issuer as profit in accordance with the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement Priority of Payments (as applicable) and (B) as a debit any amount used to discharge any tax liability of the Issuer or pay dividends to Holdings (up to the credit balance standing of the Issuer Profit Ledger).
- (b) provide the Issuer, the Seller, the Servicer, the Trustee, the Rating Agencies, and Bloomberg with the Monthly Investor Report by no later than 11.00 a.m. on the second Business Day following the delivery of the Monthly Servicer Report to the Cash Manager on the Monthly Servicer Report Date (provided that the Cash Manager shall not be required to deliver a Monthly Investor Report in respect of any calendar month in which a Quarterly Investor Report is required to be delivered) and, in respect of any calendar month in which a Quarterly Investor Report is required to be delivered, a Quarterly Investor Report by no later than 11.00 a.m. on the second Business Day prior to each Interest Payment Date;
- (c) procure that each Monthly Data Tape is published at <http://www.sf.citidirect.com>, in each case by no later than 11.00 a.m. on the second Business Day following the Monthly Servicer Report Date.

#### ***Post-Enforcement Payments Priorities***

The Cash Management Agreement sets out the order of priority for the application of cash following the service of an Enforcement Notice by or on behalf of the Trustee (or a receiver of the Issuer appointed by the Trustee pursuant to the Deed of Charge). This order of priority is described in the section entitled "*Cashflows – Distributions following the service of an Enforcement Notice on the Issuer*".

#### ***Investor Reports***

The Cash Manager on behalf of the Issuer will publish the Monthly Investor Report and Quarterly Investor Report detailing, *inter alia*, certain aggregated mortgage loan data in relation to the Mortgage Portfolio. Such Investor Reports will be published on the website of the Cash Manager at <http://www.sf.citidirect.com>

and made available through Bloomberg provided that neither the Issuer nor any other relevant Transaction Party assumes any liability for any failure to publish any Investor Report thereon. In addition, loan level information will be provided in the Monthly Data Tape by the Servicer to the Cash Manager (with a copy to the Issuer, the Trustee and the Rating Agencies), who (subject to receipt thereof) shall publish such Monthly Data Tape at <http://www.sf.citidirect.com>. Other than as outlined above, the Issuer does not intend to provide post-issuance transaction information regarding the Notes or the Mortgage Loans.

#### ***Cash Manager and Directions from the Trustee***

The Cash Manager will act upon the direction of the Trustee (given in accordance with the terms and provisions of the Deed of Charge) upon the Trustee notifying the Cash Manager that an Enforcement Notice has been served on the Issuer.

#### ***Remuneration of Cash Manager***

The Cash Manager will be paid a cash management fee for its cash management services under the Cash Management Agreement. Such fees will be determined under a separate fee letter between the Issuer and the Cash Manager. Any sum (or other consideration) payable (or provided) by the Issuer to the Cash Manager in respect of that fee shall be deemed to be exclusive of VAT, if any, chargeable on any supply for which the cash management fee is the consideration (in whole or in part) for VAT purposes. The cash management fee is payable quarterly in arrear on each Interest Payment Date in the manner contemplated by and in accordance with the provisions of the Pre-Enforcement Revenue Priority of Payments or, as the case may be, the Post-Enforcement Priority of Payments.

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

##### ***Cash Manager Termination Events***

If any of the following events ("**Cash Manager Termination Events**") shall occur:

- (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 three (3) 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 an Enforcement Notice) the Trustee, as the case may be, requiring the same to be remedied;
- (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 or any of the Cash Manager warranties in the Cash Management Agreement proves to be untrue, incomplete, or inaccurate, or any certification or statement made by the Cash Manager in any certificate or other document delivered pursuant to the Cash Management Agreement proves to be untrue, incomplete or inaccurate, and, if it is capable of being remedied, 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 an Enforcement Notice) the Trustee, as the case may be, requiring the same to be remedied;
- (c) an Insolvency Event occurs in relation to the Cash Manager; or
- (d) it is or will become unlawful for the Cash Manager to perform or comply with its obligations under the Cash Management Agreement or under any other Transaction Document,

then prior to the delivery of an Enforcement Notice, the Issuer (with the prior written consent of the Trustee), or following the delivery of an Enforcement Notice, the Trustee, may deliver a termination notice to the Cash Manager (with a copy to the Issuer or the Trustee (as applicable)) (the "**Cash Manager Termination Notice**") immediately or at any time after the occurrence of such a Cash Manager Termination Event, the effect of which shall be to terminate the Cash Manager's appointment under the Cash Management Agreement from the later of (i) the date referred to in such notice (the "**Cash Manager Termination Date**") and (ii) the appointment of a replacement cash manager on substantially the same terms as the Cash Management Agreement.



Upon termination of the appointment of the Cash Manager, the Issuer shall use all reasonable endeavours to appoint a replacement cash manager that satisfies the conditions set out below and the Trustee shall consent to such appointment if the conditions below are satisfied.

*Termination of appointment of Cash Manager by Issuer or Trustee*

If:

- (i) the Issuer, with the written consent of the Trustee, has given not less than 60 days prior written notice of its intention to terminate the Cash Management Agreement to the Cash Manager; or
- (ii) the Trustee has given not less than 60 days prior written notice of its intention to terminate the Cash Management Agreement to the Cash Manager and the Issuer,

then the Cash Management Agreement shall terminate with effect from the Cash Manager Termination Date referred to in such notice or (if later) the date that a replacement cash manager that satisfies the conditions set out below has been appointed in accordance with the Cash Management Agreement.

*Replacement Cash Manager*

Any replacement cash manager:

- (a) must have the requisite cash management experience to perform the functions to be given to it under the Cash Management Agreement and be approved by the Issuer and the Trustee;
- (b) must agree to enter into a cash management agreement with the Issuer substantially on the terms of the Cash Management Agreement, and which provides for the replacement cash manager to be remunerated at such a rate as is agreed by the Issuer but which does not exceed the rate then commonly charged by providers of services of the kind described in the Cash Management Agreement and required by the Cash Management Agreement to be provided by the Cash Manager and is otherwise on substantially the same terms as those of the Cash Management Agreement;
- (c) must be resident for tax purposes solely in the United Kingdom; and
- (d) (if any Rated Notes remain outstanding) must be a party that the Rating Agencies have previously confirmed by a Rating Agency Confirmation (addressed to the Issuer and the Trustee) that such Rating Agencies consider appropriate and that the appointment of which will not cause the then current ratings of the Rated Notes to be adversely affected.

For the avoidance of doubt, upon termination of the appointment of the Cash Manager, if the Issuer is unable to find a suitable third party willing to act as a replacement cash manager, this shall not constitute a breach of the provisions of the Cash Management Agreement.

To the extent the Issuer does not appoint a replacement Cash Manager in accordance with the terms of the Cash Management Agreement prior to the termination date specified in the notice delivered by the Cash Manager in accordance the Cash Management Agreement, the Cash Manager may appoint a replacement Cash Manager, provided that such appointment satisfies the provisions of the Cash Management Agreement.

*Resignation of the Cash Manager*

The Cash Manager may resign on giving not less than 60 days' written notice (or such shorter time as may be agreed between the Cash Manager, the Issuer, the Servicer and the Trustee) of its intention to terminate the Cash Management Agreement to the Issuer, the Servicer, and (following service of an Enforcement Notice) the Trustee without providing any reason therefor and without being responsible for any liability incurred by reason thereof, and the Cash Management Agreement shall terminate with effect from the Cash Manager Termination Date referred to in such notice or (if later) the date that a suitable substitute cash manager has been appointed in accordance with the provisions of the Cash Management Agreement and the Trustee shall consent to such appointment if the conditions above are satisfied (see "*Termination of Appointment and Replacement of Cash Manager – Substitute Cash Manager*" above).

### ***Governing Law***

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

### **The Issuer Account Bank Agreement**

Pursuant to the terms of a bank account agreement entered into on or about the Closing Date between the Issuer, the Issuer Account Bank, the Cash Manager and the Trustee (the "**Issuer Account Bank Agreement**"), the Issuer will maintain with the Issuer Account Bank the Issuer Accounts, which will be operated in accordance with the Cash Management Agreement and the Deed of Charge. The Issuer Account Bank is required to have at least the Account Bank Minimum Ratings.

### ***Governing Law***

The Issuer Account Bank Agreement and any non-contractual obligations arising out of or in connection with it will be governed by English law.

### **The Corporate Services Agreement**

On or prior to the Closing Date, the Issuer, the Seller, the Corporate Services Provider, the Share Trustee, Holdings and the Trustee will enter into a corporate services agreement (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), providing the directors with information in connection with the Issuer and Holdings, and the arrangement for the convening of shareholders' and directors' meetings.

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 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 (with prior written consent of the Trustee) and, following delivery of an Enforcement Notice, the Trustee can terminate the appointment of the Corporate Services Provider on 30 days' written notice to the Corporate Services Provider (with a copy of such notice to the Trustee or Issuer, as applicable) subject to the appointment of a suitable replacement.

In addition, the appointment of the Corporate Services Provider may be terminated immediately upon notice in writing given by the Trustee (with a copy of such notice to the Issuer and the Servicer) or the Issuer (with a copy of such notice to the Trustee and the Servicer), 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.

### ***Governing Law***

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

### **Swap Agreement**

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

## CREDIT STRUCTURE

The Notes are obligations of the Issuer only. The Notes are not obligations of, or the responsibility of, or guaranteed by, any person other than the Issuer. In particular, the Notes are not obligations of, or the responsibility of, or guaranteed by, any of the Relevant Parties. 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 Relevant Parties or by any other person other than the Issuer.

References in this Prospectus to (i) the crediting or debiting of any Ledger (other than the Principal Deficiency Ledger) refers to the cash movement of amounts into or from the Transaction Account as recorded on such Ledger; and (ii) amounts standing to the credit of any relevant Ledger means that amounts can be identified as being of the particular nature to be recorded on such Ledger.

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

### 1. **Liquidity and 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 Mortgage Loans will, assuming that all of the Mortgage Loans are fully performing, be sufficient that Available Revenue Receipts will be sufficient to pay the amounts payable under items (a) to (z) (inclusive) of the Pre-Enforcement Revenue Priority of Payments. The actual amount of any Deferred Consideration payable to the Seller at item (aa) of the Pre-Enforcement 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 Mortgage Loans in the Mortgage Portfolio relative to the interest rates on the Notes (as to which, see "*Risk Factors – Limited Liquidity*" above) and the performance of the Mortgage Portfolio.

Available Revenue Receipts will be applied, to the extent available, on each Interest Payment Date in accordance with the Pre-Enforcement Revenue Priority of Payments, towards reducing any Principal Deficiency Ledger debit entries which may arise from (i) Defaulted Amounts on the Mortgage Portfolio, or (ii) the application of Available Redemption Receipts as Principal Addition Amounts to cover, subject to the PDL Condition, any Revenue Deficits in accordance with item (b) of the Pre-Enforcement Redemption Priority of Payments.

In certain circumstances and subject to certain conditions, the General Reserve Fund and Liquidity Reserve Fund will be available for credit enhancement and liquidity support to the Notes (as to which see further "*Credit Structure – General Reserve Fund and General Reserve Fund Ledger*" and "*Credit Structure – Liquidity Reserve Fund and Liquidity Reserve Fund Ledger*").

On each Interest Payment Date, to the extent that the amount of Available Revenue Receipts exceeds the aggregate of the payments required to be met under items (a) to (w) (inclusive) of the Pre-Enforcement Revenue Priority of Payments, such excess is available to repay principal amounts outstanding on the Class X Notes until the Principal Amount Outstanding on the Class X Notes has been reduced to zero.

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

On the Closing Date, the Issuer will establish a fund called the General Reserve Fund to provide credit enhancement for the Rated Notes and the Class X Notes, which will be credited with the General Reserve Fund Required Amount on the Closing Date. The General Reserve Fund will be funded from a portion of the proceeds of the Class X Notes on the Closing Date. The General Reserve Fund will be deposited in the Transaction Account (with a corresponding credit being made to the General Reserve Fund Ledger).

The Cash Manager will maintain the General Reserve Fund 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 Fund Required Amount from Available Revenue Receipts in accordance with the provisions of the Pre-Enforcement Revenue Priority of Payments on each Interest Payment Date.

The "**General Reserve Fund Required Amount**" will be an amount equal to 2.25 per cent. of the aggregate Principal Amount Outstanding of the Notes (excluding the Class X Notes) as at the Closing Date and thereafter an amount equal to the lesser of: (a) an amount equal to 2.25 per cent. of the aggregate Principal Amount Outstanding of the Notes (excluding the Class X Notes) as at the Closing Date and (b) an amount equal to 4.00 per cent. of the aggregate Principal Amount Outstanding of the Notes (excluding the Class X Notes) as at the immediately preceding Interest Payment Date, in each case subject to a minimum amount equal to 1.00 per cent. of the aggregate Principal Amount Outstanding of the Notes (excluding the Class X Notes) as at the Closing Date.

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 and Liquidity Reserve Fund*" below.

3. **Liquidity Reserve Fund and Liquidity Reserve Fund Ledger**

On the Closing Date, the Issuer will establish a fund called the Liquidity Reserve Fund to provide liquidity for senior expenses, and interest on the Class A Notes and the Class B Notes (the "**Liquidity Reserve Fund**"), which will be credited with the Liquidity Reserve Fund Required Amount. The Liquidity Reserve Fund will be funded from Available Redemption Receipts on each Interest Payment Date, which shall be credited to the Liquidity Reserve Fund Ledger until such time as the cumulative amount so transferred equals the Liquidity Reserve Fund Required Amount as at the end of the day after the relevant Interest Payment Date (such date being the "**Liquidity Reserve Initial Funding Date**").

The "**Liquidity Reserve Fund Required Amount**" shall be an amount equal to:

- (a) on the Closing Date, zero;
- (b) on and after the Senior Notes Redemption Date, zero;
- (c) on any day after an Enforcement Notice has been served on the Issuer, zero; and
- (d) at any other time, 1.50 per cent. multiplied by the then Principal Amount Outstanding of the Class A Notes and the Class B Notes (before giving effect to any Note Principal Payments on the Class A Notes and the Class B Notes on the relevant date).

Prior to the service of an Enforcement Notice on the Issuer and prior to the Senior Notes Redemption Date, if, following the application of Available Revenue Receipts, the Cash Manager determines there will be a deficit in Available Revenue Receipts to pay amounts due (or that would be due but for any deferral provision relating thereto pursuant to Condition 18 (*Subordination by Deferral*)) in respect of any of the items (a) to (f) and (h) of the Pre-Enforcement Revenue Priority of Payments (in respect of any item, a "**Revenue Deficit**" and the aggregate of such Revenue Deficits being "**Revenue Deficits**"), an amount equal to the lower of (a) the amount required to cover such Revenue Deficit or Revenue Deficits and (b) the amount standing to the credit of the Liquidity Reserve Fund Ledger on such Interest Payment Date (such amounts being "**Liquidity Reserve Fund Drawings**") shall be debited from the Liquidity Reserve Fund Ledger immediately following the application of Available Revenue Receipts and will be applied to meet such Revenue Deficit or Revenue Deficits, provided that if there is more than one Revenue Deficit such amounts shall be applied in the order of priority as such items appear in the Pre-Enforcement Revenue Priority of Payments.

Any Liquidity Reserve Fund Drawings applied to meet Revenue Deficit(s) on any Interest Payment Date shall be repaid through the application of Available Revenue Receipts pursuant to limb (i) of the Pre-Enforcement Revenue Priority of Payments up to the Liquidity Reserve Fund Required Amount.

If, on any Interest Payment Date following the Liquidity Reserve Initial Funding Date but prior to the Senior Notes Redemption Date, the Cash Manager determines that the Liquidity Reserve Fund will exceed the Liquidity Reserve Fund Required Amount, then the Cash Manager shall debit an amount equal to such excess from the Liquidity Reserve Fund Ledger and such an amount will be applied as and form part of Available Redemption Receipts (such an amount being the "**Liquidity Reserve Fund Excess Amount**").

For more information about the application of the amounts standing to the credit of the Liquidity Reserve Fund, see the section "*Cashflows – Applications of Monies Released from the General Reserve Fund and the Liquidity Reserve Fund*".

4. **Pre-Funding Principal Reserve and Pre-Funding Principal Reserve Ledger**

On the Closing Date, the Issuer will establish the Pre-Funding Principal Reserve to fund the purchase of Additional Mortgage Loans during the Further Sale Period. To that effect, an amount equal to the Pre-Funding Principal Reserve Required Amount will be recorded as a credit on the Pre-Funding Principal Reserve Ledger.

On the Further Sale Date, amounts required to pay the purchase price in respect of the Additional Mortgage Loans acquired by the Issuer from the Seller on the Further Sale Date shall be recorded as a debit on the Pre-Funding Principal Reserve Ledger.

All amounts standing to the credit of the Pre-Funding Principal Reserve Ledger as at the end of the Further Sale Period End Date (taking into account any debits made on that ledger on such date) will be applied *pro rata* in redemption of the Rated Notes on the first Interest Payment Date by reference to their respective Principal Amount Outstanding on the Closing Date.

5. **Pre-Funding Revenue Reserve and Pre-Funding Revenue Reserve Ledger**

On the Closing Date, the Issuer will establish the Pre-Funding Revenue Reserve. To that effect, an amount equal to the Pre-Funding Revenue Reserve Required Amount will be recorded as a credit on the Pre-Funding Revenue Reserve Ledger.

On the Calculation Date falling immediately prior to the first Interest Payment Date, all amounts standing to the credit of the Pre-Funding Revenue Reserve Ledger shall form part of the Available Revenue Receipts to be applied on the first Interest Payment Date.

6. **Use of Redemption Receipts to pay Revenue Deficits**

On any Calculation Date, if the Cash Manager determines that following application of Available Revenue Receipts and any amounts standing to the Liquidity Reserve Fund to provide for any Revenue Deficits on the immediately following Interest Payment Date in the manner outlined above, the amount so applied would be insufficient to provide for such Revenue Deficits in full then the Cash Manager shall in accordance with and pursuant to the Pre-Enforcement Redemption Priority of Payments, and subject to the PDL Condition, retain an amount of Available Redemption Receipts and apply the same in or toward satisfaction of such continuing Revenue Deficit provided that the PDL Condition must continue to be met after such application ("**Principal Addition Amounts**").

"**PDL Condition**" means for each Interest Payment Date (i) in respect of the use of Available Redemption Receipts to make payments of interest on the Class A Notes, the debit balance of the Class A Principal Deficiency Sub-Ledger not exceeding 10 per cent. of the Principal Amount Outstanding of the Class A Notes (prior to any payments of principal on the Class A Notes on such Interest Payment Date) and (ii) in respect of the use of Available Redemption Receipts to make payments of interest on the Class B Notes, the debit balance of the Class B Principal Deficiency Sub-Ledger not exceeding 10 per cent. of the Principal Amount Outstanding of the Class B Notes (prior to any payments of principal on the Class B Notes on such Interest Payment Date).

7. **Principal Deficiency Ledger**

The Principal Deficiency Ledger will be established on the Closing Date to record any Defaulted Amounts affecting the Mortgage Loans in the Mortgage Portfolio and/or any Principal Addition Amounts. At or about the same time, the Cash Manager shall establish seven Principal Deficiency Sub-Ledgers, being the Class A Principal Deficiency Sub-Ledger, Class B Principal Deficiency Sub-Ledger, Class C Principal Deficiency Sub-Ledger, Class D Principal Deficiency Sub-Ledger, the Class E Principal Deficiency Sub-Ledger, the Class F Principal Deficiency Sub-Ledger and Class Z Principal Deficiency Sub-Ledger.

Any Defaulted Amounts on the Mortgage Portfolio and/or any Principal Addition Amounts will be recorded as a debit on the Principal Deficiency Ledger (on the date that the Cash Manager is informed of such Defaulted Amounts by the Servicer or on the Calculation Date that such Principal Addition Amounts are determined by the Cash Manager (as applicable)) and shall be allocated to the relevant Principal Deficiency Sub-Ledger in the following order of priority:

- (a) *first*, to the Class Z Principal Deficiency Sub-Ledger up to a maximum amount equal to the Principal Amount Outstanding of the Class Z Notes;
- (b) *second*, to the Class F Principal Deficiency Sub-Ledger up to a maximum amount equal to the Principal Amount Outstanding of the Class F Notes;
- (c) *third*, to the Class E Principal Deficiency Sub-Ledger up to a maximum amount equal to the Principal Amount Outstanding of the Class E Notes;
- (d) *fourth*, to the Class D Principal Deficiency Sub-Ledger up to a maximum amount equal to the Principal Amount Outstanding of the Class D Notes;
- (e) *fifth*, to the Class C Principal Deficiency Sub-Ledger up to a maximum amount equal to the Principal Amount Outstanding of the Class C Notes;
- (f) *sixth*, to the Class B Principal Deficiency Sub-Ledger up to a maximum amount equal to the Principal Amount Outstanding of the Class B Notes; and
- (g) *seventh*, to the Class A Principal Deficiency Sub-Ledger up to a maximum amount equal to the Principal Amount Outstanding of the Class A Notes.

The Cash Manager will record as a credit, PDL Cure Amounts expressed to be credited to the relevant Principal Deficiency Sub-Ledger in accordance with the Pre-Enforcement Revenue Priority of Payments.

8. **Available Revenue Receipts and Available Redemption Receipts**

Prior to the service of an Enforcement Notice on the Issuer, Available Revenue Receipts and Available Redemption Receipts shall be applied on each Interest Payment Date in accordance with the Pre-Enforcement Revenue Priority of Payments and the Pre-Enforcement Redemption Priority of Payments, respectively. It is not intended that any surplus will be accumulated in the Issuer other than amounts which the Issuer expects to generate in each accounting period as its profit in respect of the business of the Issuer and, prior to the Final Rated Notes Redemption Date, amounts standing to the credit of the General Reserve Fund, and prior to the Senior Notes Redemption Date, amounts standing to the credit of the Liquidity Reserve Fund.

If, on any Interest Payment Date, the Available Revenue Receipts, Liquidity Reserve Fund Drawings (to the extent applicable) and Principal Addition Amounts (subject to the PDL Condition) are insufficient to pay the interest that would otherwise be payable absent the deferral provisions in respect of the Notes (other than in respect of the Class A Notes (or, should they be the Most Senior Class of Notes, the other Classes of Rated Notes)), then the Issuer will be entitled under Condition 18 (*Subordination by Deferral*) to defer payment of that amount (to the extent of the insufficiency) until the following Interest Payment Date. Any such deferral in accordance with the deferral provisions contained in the Conditions will not constitute an Event of Default or Potential Event of Default until the Final Maturity Date. However, failure to pay interest on the Class A Notes (or, should they be the Most Senior Class of Notes, the other Classes of Rated Notes) within any applicable grace period in accordance with the Conditions shall constitute an Event of Default under the Notes which may result in the Trustee enforcing the Security. For the avoidance of doubt, failure to pay interest on the Class X Notes and the Class Z Notes until the Final Maturity Date shall not constitute an Event of Default.

9. **Application of Available Revenue Receipts to redeem the Rated Notes following the Optional Redemption Date**

On each Interest Payment Date falling on or after the Optional Redemption Date, all Available Revenue Receipts after provision for or payment of items (a) to (s) of the Pre-Enforcement

Revenue Priority of Payments will not be applied to payment of items (u) to (aa) of the Pre-Enforcement Revenue Priority of Payments but shall instead be applied as Available Redemption Receipts to fund the redemption of the Rated Notes in sequential order until each class of Rated Notes have been redeemed in full (as provided in item (t) of the Pre-Enforcement Revenue Priority of Payments).

10. **The Swap Agreement**

The Fixed Rate Mortgage Loans and Combination Mortgage Loans that have an initial fixed rate in the Mortgage Portfolio pay a fixed rate of interest for a period of time. However, the interest rate payable by the Issuer with respect to the Notes is an amount calculated by reference to Three Month LIBOR.

To attempt to provide a hedge against the possible variance between:

- (a) the fixed rates of interest payable on the Fixed Rate Mortgage Loans or Combination Mortgage Loans that have an initial fixed rate in the Mortgage Portfolio; and
- (b) a rate of interest calculated by reference to Three Month LIBOR payable on the Rated Notes,

the Issuer will enter into the interest rate swap with the Swap Counterparty on or around the Closing Date (the "**Interest Rate Swap**").

The Interest Rate Swap will be governed by a 1992 ISDA Master Agreement (*Multicurrency – Cross Border*) dated on or about the Closing Date (together with the schedule, the confirmations relating to the Interest Rate Swap, the Credit Support Annex and any amendment agreements thereto) between the Issuer and the Swap Counterparty, or any replacement agreement between the Issuer and the Swap Counterparty as a consequence of a failure to take appropriate remedial action following a Swap Counterparty Required Ratings Downgrade (the "**Swap Agreement**").

*Swap Agreement*

Under the Interest Rate Swap, on each Fixed Rate Payer Payment Date and Floating Rate Payer Payment Date falling prior to and including the Termination Date (as defined in the Swap Agreement) of the Interest Rate Swap:

- (a) the Issuer will pay to the Swap Counterparty (i) an amount equal to the product of the applicable Calculation Amount, the Fixed Rate and the number of days in respect of the applicable Calculation Period divided by 365 and (ii) any amounts payable by the Issuer in respect of Reference Loans subject to a Subtraction Date, if applicable (as described below in "*Overview of the Swap Agreement*"); and
- (b) the Swap Counterparty will pay to the Issuer an amount equal to (i) the product of the applicable Calculation Amount, the GBP-LIBOR-BBA rate (as defined in the Swap Agreement) for a period of three months (or, in respect of the first Interest Payment Date, the linear interpolation of the relevant GBP-LIBOR-BBA rates) and the number of days in respect of the applicable Calculation Period divided by 365 and (ii) any amounts payable by the Swap Counterparty in respect of Reference Loans subject to a Subtraction Date, if applicable (as described below in "*Overview of the Swap Agreement*");

The payments referred to in (a) and (b) above will be subject to the customary netting provisions under the Swap Agreement such that only the difference between (a) and (b) will be payable by the Swap Counterparty or the Issuer (as applicable). If a payment is to be made by the Swap Counterparty, that payment will be included in the Available Revenue Receipts and will be applied on or about 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 payable in accordance with the relevant Priority of Payments.

For the purposes of the above:

**"Calculation Amount"** means, in respect of:

- (i) the initial Calculation Period, the applicable Notional Amount, being the aggregate of the Reference Amounts of the Reference Loans in the Mortgage Portfolio as at the Effective Date (which shall be the Closing Date); and
- (ii) each subsequent Calculation Period, the applicable Notional Amount, being the aggregate of the Reference Amounts of the Reference Loans in the Mortgage Portfolio as at the final calendar day of the calendar month which falls immediately prior to the relevant Calculation Period.

**"Calculation Period"** means in the case of:

- (i) the initial Calculation Period, the period from (and including) the Effective Date (which shall be the Closing Date) to (but excluding) the initial Fixed Rate Payer Payment Date; and
- (ii) each subsequent Calculation Period, the period from (and including) the Fixed Rate Payer Payment Date for the previous Calculation Period to (but excluding) the next following Fixed Rate Payer Payment Date,

**"Fixed Rate"** means the weighted average of the Reference Loan Swap Rates applicable to the Reference Loans in the Loan Portfolio weighted by the Reference Amounts of the respective Reference Loans to be determined on the final calendar day of the calendar month which falls immediately prior to the relevant Calculation Period or, in the case of the initial Calculation Period, the Effective Date.

**"Fixed Rate Payer Payment Date"** means each of 25 January, 25 April, 25 July and 25 October of each year, with the initial Fixed Rate Payer Payment Date being 25 January 2019 and the final Fixed Rate Payer Payment Date being the Termination Date, in each case subject to adjustment in accordance with the Business Day Convention.

**"Floating Rate Payer Payment Date"** means each Fixed Rate Payer Payment Date.

**"Loan Portfolio"** means the Reference Loans in the Mortgage Portfolio from time to time.

**"Reference Amount"** means with respect to a Reference Loan, the principal amount outstanding of that Reference Loan from time to time as determined without taking into account any Reference Loan Change in respect of any such Reference Loan, so that the principal amount outstanding of any Reference Loan which is subject to a Reference Loan Change shall be determined as if such Reference Loan Change had not occurred. The principal amount outstanding of any Reference Loan under the Swap Agreement, irrespective of whether such Reference Loan is or has been subject to Reference Loan Changes, shall continue to take into account, and be reduced by, any principal repayments and full or partial prepayments and/or redemptions made (or which were scheduled or projected to be made prior to such Reference Loan Change having occurred) in respect of that Reference Loan.

**"Reference Loans"** means any Fixed Rate Mortgage Loan or Combination Mortgage Loan that has an initial fixed rate or part thereof that has been assigned a Reference Loan Swap Rate (in accordance with the Reference Loan Swap Rate provisions of the Swap Agreement), save for any such loan or loan part that:

- (i) is or has been more than 90 days in arrears; or
- (ii) has been subtracted from the Loan Portfolio in accordance with the terms of the Swap Agreement.

On the expiry of a Reference Fixed Rate Period in respect of a Reference Loan, the relevant Fixed Rate Mortgage Loan or Combination Mortgage Loan that has an initial fixed rate or part thereof shall cease to be a Reference Loan.



**"Reference Fixed Rate Period"** means with respect to a Reference Loan, the shorter of:

- (i) the fixed rate tenor of such loan or loan part at the time it is assigned the Reference Loan Swap Rate; and
- (ii) five years from the Additional Loan Purchase Date.

The Effective Date (as defined in the Swap Agreement) of the Interest Rate Swap is the Closing Date. The termination date of the Interest Rate Swap is the earlier of: (a) the Final Maturity Date in respect of the Notes and (b) the first payment date following the date on which the Notional Amount (as defined in the Swap Agreement) is zero, other than due to an Additional Termination Event (as defined in the Swap Agreement) in respect of the Transaction (as defined in the Swap Agreement). All payment dates under the Interest Rate Swap are subject to the "following" Business Day convention.

#### *Overview of the Swap Agreement*

Pursuant to the terms of the Swap Agreement, the Issuer is required to provide to the Swap Counterparty a Reference Data Tape (as defined in the Swap Agreement) identifying each Fixed Rate Mortgage Loan and Combination Mortgage Loan that has an initial fixed rate which are Reference Loans under the Swap Agreement and a set of characteristics of each such Fixed Rate Mortgage Loan and Combination Mortgage Loan that has an initial fixed rate. The Swap Counterparty may identify whether a change has occurred in relation to any data field by comparing the Reference Data Tape of a calendar month to the preceding calendar month's Reference Data Tape. The Swap Counterparty may give notice to the Issuer of any such change and for the purposes of calculating the Notional Amount under the Swap Agreement the principal amount outstanding of such Reference Loan shall be calculated as if no such Reference Loan Change had occurred.

Irrespective of whether any such Reference Loan Change has occurred in respect of a Reference Loan, the Notional Amount under the Swap Agreement shall continue to take into account, and be reduced by, any principal repayments and full or partial prepayments and/or redemptions made (or which were scheduled or projected to be made prior to such Reference Loan Change having occurred) in respect of that Reference Loan.

The Notional Amount under the Swap Agreement may be increased by the Issuer designating loans or loan parts (being Fixed Rate Mortgage Loans and/or Combination Mortgage Loans that have an initial fixed rate) which are added to the Mortgage Portfolio pursuant to the sale and purchase of Additional Mortgage Loans in accordance with the terms of the Mortgage Sale Agreement as Reference Loans on an Additional Loan Purchase Date (as defined in the Swap Agreement), provided that: (i) the Reference Loan Swap Rate (as defined in the Swap Agreement) has been assigned to such loans in accordance with the Interest Rate Swap and (ii) at least five Business Days' notice of the Additional Loan Purchase Date is given to the Swap Counterparty. The Notional Amount shall be increased in respect of any such Additional Mortgage Loan in respect of the Calculation Period following the Additional Loan Purchase Date.

Where a Fixed Rate Mortgage Loan or Combination Mortgage Loan that has an initial fixed rate is repurchased from the Mortgage Portfolio, the Reference Amount of the relevant Reference Loan under the Interest Rate Swap shall only be subtracted from the Loan Portfolio (as defined in the Swap Agreement) from the date on which the relevant Reference Data Tape that reflects the subtraction of the relevant Reference Loan is provided to the Swap Counterparty. The Notional Amount under the Swap Agreement will not necessarily adjust on the date such Reference Data Tape is provided, which instead will continue to be determined as set out under the definition of "*Calculation Amount*" in the section "*Swap Agreement*" above.

If the Swap Counterparty and the Issuer do not agree on a Reference Loan Swap Rate to be assigned to a Fixed Rate Mortgage Loan or Combination Mortgage Loan that has an initial fixed rate, then such Fixed Rate Mortgage Loan or Combination Mortgage Loan will not be included in the Notional Amount of the Swap Agreement. The Reference Loan Swap Rate for the relevant Fixed Rate Mortgage Loans or Combination Mortgage Loans that have an initial fixed rate to be sold on the Closing Date will be agreed by the Issuer and the Swap Counterparty on or prior to the Closing Date. The Swap Agreement provides that the Reference Loan Swap Rate for Additional Mortgage

Loans needs to be agreed between the Issuer and the Swap Counterparty. The Reference Loan Swap Rate for Additional Mortgage Loans may be assigned in accordance with such provisions.

Fixed Rate Mortgage Loans and Combination Mortgage Loans that have an initial fixed rate for which the Swap Counterparty and the Issuer have agreed a Reference Loan Swap Rate will only be included in the Notional Amount under the Swap Agreement for the period that the relevant loan is fixed rate (or, if earlier, until five years from the Additional Loan Purchase Date).

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

To the extent required to be provided as set out above (or if voluntarily elected), Swap Collateral will be provided on a daily basis under a Credit Support Annex and may take the form of cash denominated in sterling (as set out in the Swap Agreement). The Swap Counterparty will be responsible for determining (in accordance with stipulated parameters) the amount of Swap Collateral which is required to be transferred. Any Swap Collateral provided will be transferred by the Swap Counterparty to the Swap Collateral Account. The Swap Counterparty may from time to time be required to transfer additional Swap Collateral, or may be entitled to require a transfer of equivalent Swap Collateral to it (provided that the Issuer will not be required to transfer equivalent Swap Collateral of a value which is greater than the Swap Collateral transferred to it). In certain circumstances of termination of the Swap Agreement, the value of Swap Collateral then held in the Swap Collateral Account will be taken into account in determining the respective obligations of the parties to the Swap Agreement as described below. Swap Collateral will not form part of Available Revenue Receipts.

A partial termination of the Interest Rate Swap will occur where a Reference Loan ceases to be a Reference Loan and is subtracted from the Loan Portfolio due to it to being repurchased in accordance with the Mortgage Sale Agreement. The Issuer is required to inform the Swap Counterparty of any such repurchase as soon as reasonably practicable or on such date on which the Issuer provides the Reference Data Tape to the Swap Counterparty in which the relevant Reference Loan is recorded as having been subtracted from the Loan Portfolio.

With effect from the date on which the relevant Reference Data Tape is provided to the Swap Counterparty, (A) the Loan Portfolio shall be reduced by an amount equal to the Reference Amount of the relevant Reference Loan and (B) the portion of the Notional Amount of the Interest Rate Swap as corresponds to the Reference Amount of such Reference Loan shall be terminated.

The amount payable on such partial termination shall be determined on the basis of Loss (as defined in the Swap Agreement), provided that the Loss shall be the difference between (i) the Loss that would be applicable to the Interest Rate Swap if it had been terminated in full on the Subtraction Date (as defined in the Swap Agreement) and the Reference Loan had not been subject to a Subtraction Date; and (ii) the Loss that would be applicable to the relevant Interest Rate Swap if it had terminated in full on the relevant Subtraction Date and the Reference Loan had been subject to a Subtraction Date (except that where a Reference Loan being subject to a Subtraction Date is, or has been, more than 90 days in arrears, no amount shall be payable in respect of that Reference Loan). The amount payable by the Issuer or by the Swap Counterparty, as the case may be, in respect of such partial termination shall be due on the relevant Fixed Rate Payer Payment Date determined in accordance with the Swap Agreement and shall be subject to the customary netting provisions described under the section "*Swap Agreement*". The Swap Counterparty will notify the

Issuer (with a copy to the Seller) of amounts owed pursuant to a partial termination following the subtraction of a Reference Loan within five Business Days following the provision of the Reference Data Tape to the Swap Counterparty in which the relevant Reference Loan is recorded as having been subtracted from the Loan Portfolio.

The Swap Agreement may be terminated in certain circumstances, including, but not limited to, the following, each as more specifically defined in the Swap Agreement (an "**Early Termination Event**"):

- (a) if there is a failure by a party to pay amounts due under the 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 Swap Agreement by the Swap Counterparty 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) there is a change in tax law, which has the effect that a party to the Swap Agreement will, or there is a substantial risk that it will, be required to make any withholding in respect of any payments to the other party;
- (f) if the Swap Counterparty is downgraded and fails to comply with the requirements of the Moody's or DBRS downgrade provisions contained in the Swap Agreement (as described above);
- (g) service by the Trustee of an Enforcement Notice on the Issuer pursuant to Condition 11 (*Events of Default*) of the Notes;
- (h) if any Transaction Document or the Conditions is amended or modified without the prior written consent of the Swap Counterparty, where such amendment would cause:
  - (i) in the reasonable opinion of the Swap Counterparty acting in good faith, (x) the Swap Counterparty to pay more or receive less under the Swap Agreement or (y) a decrease (from the Swap Counterparty's perspective) in the value of the Swap Agreement calculated by reference to what the Swap Counterparty's Loss in respect of the Transactions would be immediately before and immediately after such amendment on the basis that the Issuer would be the sole Affected Party (as defined in the Swap Agreement) or (x) a change to the timing of any payments or deliveries under the Swap Agreement; or
  - (ii) any of the Issuer's obligations to the Swap Counterparty under the Swap Agreement to be further contractually subordinated, relative to the level of subordination of such obligations that subsisted immediately prior to such amendment to the Issuer's obligations to any other secured creditors; or
  - (iii) if the Issuer were to replace itself under the Swap Agreement, the Swap Counterparty would have to pay more or receive less in the reasonable opinion of the Swap Counterparty acting in good faith, in connection with such replacement, calculated by reference to what the Swap Counterparty's Loss would be immediately before and immediately after such amendment, on the basis that the Issuer would be the sole Affected Party, had such modification or amendment not been made; or
  - (iv) any modification to the Swap Counterparty's rights in relation to any security (howsoever described, and including as a result of changing the nature or the scope of, or releasing such security) granted by the Issuer in favour of the Trustee on behalf of the Secured Creditors pursuant to the Security Documents; or
  - (v) it would result in an amendment or waiver of the undertakings of the Issuer as set out in the Trust Deed and the Incorporated Terms Memorandum or Condition 5

(Covenants) of the Notes related to a refinancing of the Notes or the sale, transfer or disposal of the assets of the Issuer in circumstances not expressly permitted or provided for in the Transaction Documents as at the Closing Date; or

- (vi) in the reasonable opinion of the Swap Counterparty an amendment of Clause 15 (*Modification*) of the Trust Deed;
- (i) if an irrevocable notice is given by or on behalf of the Issuer that redemption of all of the Notes will occur pursuant to Condition 8.3 (*Optional Redemption in whole*), or Condition 8.4 (*Optional Redemption for Taxation Reasons*) or any other provision (other than in accordance with Condition 8.1 (*Redemption at Maturity*) or with the prior written consent of the Swap Counterparty); and
- (j) if the whole of the Mortgage Portfolio is sold by means otherwise than as contemplated by the Transaction Documents as at the date of the Swap Agreement.

Upon an early termination of the Interest Rate Swap, depending on the type of event that caused such Early Termination Date (as defined in the Swap Agreement) and circumstances prevailing at the time of termination, the Issuer or the Swap Counterparty may be liable to make a termination payment to the other. This termination payment will be calculated and made in sterling. Except for partial terminations upon a Reference Loan being subtracted from the Loan Portfolio as described above, the amount of any termination payment will be based on the market value of the terminated swap 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 separately include any unpaid amounts that became due and payable prior to the date of termination, taking account of any Swap Collateral transferred by the Swap Counterparty to the Issuer. If an early termination date is designated at a time when the Swap Counterparty is (A) the Affected Party in respect of an Additional Termination Event or a Tax Event Upon Merger or (B) the Defaulting Party in respect of any Event of Default (each term as defined in the Swap Agreement), then the Issuer will determine the amount payable in respect of the terminated transactions by assessing the value of Firm Offers (as defined in the Swap Agreement) for a replacement transaction that is, in all material respects, no less beneficial for Issuer than those of the Swap Agreement (or in certain circumstances where there are no Firm Offers, the Issuer's loss). If there are multiple Firm Offers, the Issuer may select the lowest.

Any termination of the Swap Agreement (whether in full or in part) may give rise to a termination payment due either to or from the Issuer. Any such payment, if due from the Issuer to the relevant Swap Counterparty, will rank in order of priority as described in the section entitled "*Cashflows*".

Where the Issuer enters into a further Swap Agreement to replace all or part of any Swap Agreement which terminates early, the Issuer shall upon receipt apply the amount of premium, if any, received in consideration for entry into that replacement Swap Agreement the ("**Swap Replacement Premium**") in or towards payment of any termination payment then payable by the Issuer to the Swap Counterparty in respect of that Swap Agreement which has terminated early and the remainder of that amount, if any, shall be credited to the Revenue Receipts Ledger.

Any amount attributable to the return of collateral to the Swap Counterparty and any Swap Replacement Premium applied by the Issuer in making any swap termination payment due from the Issuer to the Swap Counterparty will be paid directly to the Swap Counterparty and not in accordance with the Priorities of Payments. Any swap termination payment applied by the Issuer in the purchase of one or more replacement hedging transactions shall be applied directly to such purchase and shall not be paid in accordance with the Priorities of Payments.

If the Issuer receives any tax credit, allowance, set-off or repayment from the tax authorities of any jurisdiction relating to a deduction or withholding that gave rise to the payment by a Swap Counterparty of an additional amount to ensure that the Issuer receives the full amount it would otherwise have received from the relevant Swap Counterparty, then an amount equal to the net cash received by the Issuer in respect of such tax credit, allowance, set-off or repayment being a

**"Tax Credit"** shall be paid directly to the Swap Counterparty and not in accordance with the Priorities of Payments.

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

The Swap Counterparty may, subject to certain conditions specified in the Swap Agreement including (without limitation) the satisfaction of certain requirements of the Rating Agencies, transfer its obligations under the Swap Agreement to another entity with the Swap Counterparty Required Ratings.

The Issuer is not obliged, under the 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 Swap.

The Swap Counterparty 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 Swap (other than in respect of any FATCA withholdings). However, if the Swap Counterparty is required, or there is a substantial likelihood that it will be required, to gross up a payment under the Interest Rate Swap or receive a payment from which an amount is deducted or withheld due to a change in the law, the Swap Counterparty may terminate the Interest Rate Swap.

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

## CASHFLOWS

Pursuant to and in accordance with the terms of the Cash Management Agreement, on each Calculation Date prior to the service of an Enforcement Notice upon the Issuer, the Cash Manager shall calculate the amount of Available Revenue Receipts and Available Redemption Receipts available for application on the immediately following Interest Payment Date, together with: (i) (on or prior to the Senior Notes Redemption Date and without double counting) any amounts standing to the credit of the Liquidity Reserve Fund and to be applied in relation to a Revenue Deficit on such Interest Payment Date; and (ii) any Principal Addition Amounts to be applied in relation to a Revenue Deficit on such Interest Payment Date following application of Available Revenue Receipts and the Liquidity Reserve Fund.

On each Calculation Date, the Cash Manager shall perform the following determinations in the following order:

- (a) *first*, (prior to service of an Enforcement Notice) calculate amounts to constitute Available Revenue Receipts which shall be applied pursuant to the provisions of the Pre-Enforcement Revenue Priority of Payments;
- (b) *secondly*, determine the Liquidity Reserve Fund Required Amount, any Liquidity Reserve Fund Excess Amount to be released on the next Interest Payment Date and any amount standing to the credit of the Liquidity Reserve Fund to be applied in relation to a Revenue Deficit;
- (c) *thirdly*, prior to the Final Rated Notes Redemption Date, determine the General Reserve Fund Required Amount; and
- (d) *fourthly*, (prior to service of an Enforcement Notice) calculate the amount of Available Redemption Receipts to be applied on the immediately following Interest Payment Date in accordance with the Pre-Enforcement Redemption Priority of Payments and, subject to the PDL Condition, any Principal Addition Amounts to be applied on the immediately following Interest Payment Date in accordance with the Pre-Enforcement Redemption Priority of Payments.

### **Application of Monies released from the General Reserve Fund and the Liquidity Reserve Fund**

Prior to service of an Enforcement Notice on the Issuer, monies standing to the credit of the General Reserve Fund 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-Enforcement Revenue Priority of Payments. Following service of an Enforcement Notice on the Issuer, monies standing to the credit of the General Reserve Fund Ledger will be applied in accordance with the Post-Enforcement Priority of Payments.

On the Final Rated Notes Redemption Date, an amount equal to the amount of the General Reserve Fund on such Interest Payment Date (the "**General Reserve Fund Ledger Residual Amount**") will be applied as Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments.

On each Interest Payment Date falling on or prior to the Senior Notes Redemption Date, amounts standing to the credit of the Liquidity Reserve Fund shall be applied directly as Liquidity Reserve Fund Drawings toward any Revenue Deficit determined by the Cash Manager on the immediately preceding Calculation Date.

On each Interest Payment Date following the Liquidity Reserve Initial Funding Date but prior to the Senior Notes Redemption Date, if any surplus is released from the Liquidity Reserve Fund as Liquidity Reserve Fund Excess Amounts, then such Liquidity Reserve Fund Excess Amounts will be applied as and form part of Available Redemption Receipts on such Interest Payment Date.

On the Senior Notes Redemption Date all amounts standing to the credit of the Liquidity Reserve Fund will be applied (after first, having applied any Liquidity Reserve Fund Drawings to meet any Revenue Deficit and Available Revenue Receipts pursuant to the provisions of the Pre-Enforcement Revenue Priority of Payments) as Available Redemption Receipts in accordance with the Pre-Enforcement Redemption Priority of Payments.

Following service of an Enforcement Notice, all amounts standing to the credit of the Liquidity Reserve Fund will be applied in accordance with the Post-Enforcement Priority of Payments.

### **Application of Monies released from the Pre-Funding Principal Reserve and the Pre-Funding Revenue Reserve**

Amounts standing to the credit of the Pre-Funding Principal Reserve Ledger may be used during the Further Sale Period for payment of the purchase price for the Additional Mortgage Loans purchased by the Issuer from the Seller. Any amounts not used for such purpose, will be applied *pro rata* in redemption of the Rated Notes on the first Interest Payment Date by reference to their respective Principal Amount Outstanding on the Closing Date.

Amounts standing to the credit of the Pre-Funding Revenue Reserve Ledger will form part of the Available Revenue Receipts and will be applied as such on the first Interest Payment Date.

### **Application of Available Revenue Receipts prior to the service of an Enforcement Notice on the Issuer**

The Cash Manager, on behalf of the Issuer, is required pursuant to the terms of the Cash Management Agreement to apply or provide for the application of Available Revenue Receipts on each Interest Payment Date prior to the service of an Enforcement Notice by the Trustee on the Issuer, and 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-Enforcement Revenue Priority of Payments**" and, together with the Pre-Enforcement Redemption Priority of Payments and the Post-Enforcement Priority of Payments, the "**Priorities of Payments**" and each a "**Priority of Payments**"):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* of any fees, costs, charges, liabilities, expenses and all other amounts then due to the Trustee and any Appointee under the provisions of the Trust Deed and the other Transaction Documents together with any amounts in respect of VAT comprised therein as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof (in each case without double counting) of:
  - (i) any remuneration then due and payable to the Agent Bank, the Registrar and the Paying Agents and any fees, costs, charges, liabilities and expenses then due to them under the provisions of the Agency Agreement, together with any amounts in respect of VAT comprised therein as provided therein;
  - (ii) any amounts then due and payable to the Cash Manager and any fees, costs, charges, liabilities and expenses then due under the provisions of the Cash Management Agreement, together with any amounts in respect of VAT comprised therein as provided therein;
  - (iii) any amounts then due and payable to the Servicer and any fees, costs, charges, liabilities and expenses then due to the Servicer under the provisions of the Servicing Agreement, together with any amounts in respect of VAT comprised therein as provided therein;
  - (iv) any amounts then due and payable to the Back-Up Servicer and any fees, costs, charges, liabilities and expenses then due under the provisions of the Back-Up Servicing Agreement, together with any amounts in respect of VAT comprised therein as provided therein;
  - (v) any amounts then due and payable to the Back-Up Servicer Facilitator and any fees, costs, charges, liabilities and expenses then due the Back-Up Servicer Facilitator under the provisions of the Servicing Agreement, together with any amounts in respect of VAT comprised therein as provided therein;
  - (vi) any amounts then due and payable to the Corporate Services Provider and any fees, costs, charges, liabilities and expenses then due under the provisions of the Corporate Services Agreement, together with any amounts in respect of VAT comprised therein as provided therein;
  - (vii) any amounts then due and payable to the Issuer Account Bank and any fees, costs, charges, liabilities and expenses then due under the provisions of the Issuer Account Bank Agreement, together with any amounts in respect of VAT comprised therein as provided therein; and

- (viii) (without double counting) any amounts then due and payable to the Collection Account Bank insofar as any such amounts are attributable to the Issuer's Share of the Collection Account Trust Property, together with any amounts in respect of VAT comprised therein as provided therein;
- (c) *third*, to pay, *pro rata* and *pari passu* according to the respective amounts thereof (in each case without double counting) of:
  - (i) any Third Party Expenses (if any) and any amounts in excess of amounts already credited to the Issuer Profit Ledger prior to such Interest Payment Date and required to pay or discharge any liability of the Issuer for corporation tax; and
  - (ii) any Transfer Costs which the Servicer has failed to pay pursuant to the Servicing Agreement;
- (d) *fourth*, to pay the Issuer an amount equal to the Issuer Profit Amount;
- (e) *fifth*, in, or towards payment of any amounts to the Swap Counterparty in respect of the Swap Agreement (other than any Swap Subordinated Amounts which are due and payable under item (z) below or any Swap Excluded Payable Amounts which shall be discharged in accordance with the applicable Swap Agreement and the Transaction Documents)
- (f) *sixth*, to provide for amounts due on the relevant Interest Payment Date, to pay, *pro rata* and *pari passu*, interest due and payable on the Class A Notes;
- (g) *seventh*, for so long as the Class A Notes are outstanding to credit the Class A Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon (such amounts to be applied in repayment of principal as Available Redemption Receipts);
- (h) *eighth*, to provide for amounts due on the relevant Interest Payment Date, to pay, *pro rata* and *pari passu*, interest due and payable on the Class B Notes;
- (i) *ninth*, following the Liquidity Reserve Initial Funding Date but prior to the Senior Notes Redemption Date, to credit the Liquidity Reserve Fund Ledger up to the Liquidity Reserve Fund Required Amount;
- (j) *tenth*, for so long as the Class B Notes are outstanding to credit the Class B Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon (such amounts to be applied in repayment of principal as Available Redemption Receipts);
- (k) *eleventh*, to provide for amounts due on the relevant Interest Payment Date, to pay, *pro rata* and *pari passu*, interest due and payable on the Class C Notes;
- (l) *twelfth*, for so long as the Class C Notes are outstanding to credit the Class C Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon (such amounts to be applied in repayment of principal as Available Redemption Receipts);
- (m) *thirteenth*, to provide for amounts due on the relevant Interest Payment Date, to pay, *pro rata* and *pari passu*, interest due and payable on the Class D Notes;
- (n) *fourteenth*, for so long as the Class D Notes are outstanding to credit the Class D Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon (such amounts to be applied in repayment of principal as Available Redemption Receipts);
- (o) *fifteenth*, to provide for amounts due on the relevant Interest Payment Date, to pay, *pro rata* and *pari passu*, interest due and payable on the Class E Notes;
- (p) *sixteenth*, for so long as the Class E Notes are outstanding to credit the Class E Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon (such amounts to be applied in repayment of principal as Available Redemption Receipts);



- (q) *seventeenth*, to provide for amounts due on the relevant Interest Payment Date, to pay, *pro rata* and *pari passu*, interest due and payable on the Class F Notes;
- (r) *eighteenth*, for so long as the Class F Notes are outstanding to credit the Class F Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon (such amounts to be applied in repayment of principal as Available Redemption Receipts);
- (s) *nineteenth*, prior to and excluding the Final Rated Notes Redemption Date, to credit the General Reserve Fund Ledger up to the General Reserve Fund Required Amount;
- (t) *twentieth*, from and including the Optional Redemption Date, all remaining Available Revenue Receipts to be applied as Available Redemption Receipts until the Rated Notes have been redeemed in full;
- (u) *twenty-first*, for so long as the Class Z Notes are outstanding to credit the Class Z Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon (such amounts to be applied in repayment of principal as Available Redemption Receipts)
- (v) *twenty-second*, on any Interest Payment Date falling within a Determination Period, all remaining amounts to be retained in the Transaction Account to be applied on the next Interest Payment Date as Available Revenue Receipts;
- (w) *twenty-third*, to provide for amounts due on the relevant Interest Payment Date, to pay *pro rata* and *pari passu*, interest due and payable on the Class X Notes;
- (x) *twenty-fourth*, in or towards repayment, *pro rata* and *pari passu*, of principal amounts outstanding on the Class X Notes until the Principal Amount Outstanding on the Class X Notes has been reduced to zero;
- (y) *twenty-fifth*, to provide for amounts due on the relevant Interest Payment Date, to pay *pro rata* and *pari passu*, interest due and payable on the Class Z Notes;
- (z) *twenty-sixth*, in or towards payment according to the amount thereof and in accordance with the terms of the Swap Agreement to the Swap Counterparty of any Swap Subordinated Amounts (other than Swap Excluded Payable Amounts); and
- (aa) *twenty-seventh*, to pay Deferred Consideration due and payable under the Mortgage Sale Agreement to the Seller.

**Application of Available Redemption Receipts prior to the service of an Enforcement Notice on the Issuer**

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

- (a) *first*, on or prior to the Liquidity Reserve Initial Funding Date, to credit the Liquidity Reserve Fund, the amount by which the cumulative amount of Available Redemption Receipts previously transferred to the Liquidity Reserve Fund is less than the Liquidity Reserve Fund Required Amount (as at the end of day before the relevant Interest Payment Date);
- (b) *second*, subject to the PDL Condition, any Principal Addition Amounts to be applied towards the reduction of any Revenue Deficit;
- (c) *third*, in or towards repayment, *pro rata* and *pari passu*, of principal amounts outstanding on the Class A Notes until the Principal Amount Outstanding on the Class A Notes has been reduced to zero;

- (d) *fourth*, in or towards repayment, *pro rata* and *pari passu*, of principal amounts outstanding on the Class B Notes until the Principal Amount Outstanding on the Class B Notes has been reduced to zero;
- (e) *fifth*, in or towards repayment, *pro rata* and *pari passu*, of principal amounts outstanding on the Class C Notes until the Principal Amount Outstanding on the Class C Notes has been reduced to zero;
- (f) *sixth*, in or towards repayment, *pro rata* and *pari passu*, of principal amounts outstanding on the Class D Notes until the Principal Amount Outstanding on the Class D Notes has been reduced to zero;
- (g) *seventh*, in or towards repayment, *pro rata* and *pari passu*, of principal amounts outstanding on the Class E Notes until the Principal Amount Outstanding on the Class E Notes has been reduced to zero;
- (h) *eighth*, in or towards repayment, *pro rata* and *pari passu*, of principal amounts outstanding on the Class F Notes until the Principal Amount Outstanding of the Class F Notes has been reduced to zero;
- (i) *ninth*, in or towards repayment, *pro rata* and *pari passu*, of principal amounts outstanding on the Class Z Notes until the Principal Amount Outstanding of the Class Z Notes has been reduced to zero; and
- (j) *tenth*, any excess amounts to be applied as Available Revenue Receipts.

**Distributions following the service of an Enforcement Notice on the Issuer**

On any day after an Enforcement Notice has been served on the Issuer, the Trustee (or the Cash Manager on its behalf) or any Receiver appointed by the Trustee in connection with the enforcement of the Security will apply all amounts standing to the credit of the Charged Accounts (including the General Reserve Fund and Liquidity Reserve Fund) and all Trust Proceeds in the following order of priority (in each case: (A) only if and to the extent that payments or provisions of a higher priority have been made in full; and (B) excluding Swap Excluded Receivable Amounts, any amounts credited to the Swap Collateral Accounts and any Swap Collateral Accounts surplus to the extent, in each case, utilised to discharge Swap Excluded Payable Amounts in accordance with the applicable Swap Agreement and excluding amounts standing to the credit of the Issuer Profit Ledger) (the "**Post-Enforcement Priority of Payments**"):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* of any fees, costs, charges, liabilities, expenses and all other amounts then due and payable to the Trustee, Receiver and any Appointee under the provisions of the Trust Deed, the Deed of Charge and the other Transaction Documents, together with any amounts in respect of VAT comprised therein as provided therein;
- (b) *second*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Agent Bank, the Registrar and the Paying Agents and any costs, charges, liabilities and expenses then due and payable to them under the provisions of the Agency Agreement, together with any amounts in respect of VAT comprised therein as provided therein;
  - (ii) any amounts then due and payable to the Cash Manager and any fees, costs, charges, liabilities and expenses then due under the provisions of the Cash Management Agreement, together with any amounts in respect of VAT comprised therein as provided therein;
  - (iii) any amounts then due and payable to the Servicer and any fees, costs, charges, liabilities and expenses then due to the Servicer under the provisions of the Servicing Agreement, together with any amounts in respect of VAT comprised therein as provided therein;
  - (iv) any amounts then due and payable to the Back-Up Servicer and any fees, costs, charges, liabilities and expenses then due and payable to the Back-Up Servicer under the provisions

- of the Back-Up Servicing Agreement together with any amounts in respect of VAT comprised therein as provided therein;
- (v) any amounts then due and payable to the Back-Up Servicer Facilitator and any fees, costs, charges, liabilities and expenses then due the Back-Up Servicer Facilitator under the provisions of the Servicing Agreement, together with any amounts in respect of VAT comprised therein as provided therein;
  - (vi) any amounts then due and payable to the Corporate Services Provider and any fees, costs, charges, liabilities and expenses then due and payable to the Corporate Services Provider under the provisions of the Corporate Services Agreement together with any amounts in respect of VAT comprised therein as provided therein;
  - (vii) any amounts then due and payable to the Issuer Account Bank and any fees, costs, charges, liabilities and expenses then due and payable to the Issuer Account Bank under the provisions of the Issuer Account Bank Agreement, together with any amounts in respect of VAT comprised therein as provided therein; and
  - (viii) (without double counting) any amounts then due and payable to the Collection Account Bank insofar as any such amounts are attributable to the Issuer's Share of the Collection Account Trust Property, together with any amounts in respect of VAT comprised therein as provided therein;
- (c) *third*, in or towards satisfaction of any Transfer Costs which the Servicer has failed to pay pursuant to the Servicing Agreement;
  - (d) *fourth*, to pay amounts payable to the Swap Counterparty (other than any Swap Subordinated Amounts which are due and payable under item (u) below or any Swap Excluded Payable Amounts which shall be discharged in accordance with the applicable Swap Agreement and the Transaction Documents);
  - (e) *fifth*, to pay, *pro rata* and *pari passu*, interest due and payable on the Class A Notes;
  - (f) *sixth*, to pay, *pro rata* and *pari passu*, according to the respective outstanding amount thereof, principal due and payable on the Class A Notes until the Principal Amount Outstanding on the Class A Notes has been reduced to zero;
  - (g) *seventh*, to pay, *pro rata* and *pari passu*, interest due and payable on the Class B Notes;
  - (h) *eighth*, to pay, *pro rata* and *pari passu*, principal due and payable on the Class B Notes until the Principal Amount Outstanding on the Class B Notes has been reduced to zero;
  - (i) *ninth*, to pay, *pro rata* and *pari passu*, interest due and payable on the Class C Notes;
  - (j) *tenth*, to pay, *pro rata* and *pari passu*, principal due and payable on the Class C Notes until the Principal Amount Outstanding on the Class C Notes has been reduced to zero;
  - (k) *eleventh*, to pay, *pro rata* and *pari passu*, interest due and payable on the Class D Notes;
  - (l) *twelfth*, to pay, *pro rata* and *pari passu*, principal due and payable on the Class D Notes until the Principal Amount Outstanding on the Class D Notes has been reduced to zero;
  - (m) *thirteenth*, to pay, *pro rata* and *pari passu*, interest due and payable on the Class E Notes;
  - (n) *fourteenth*, in or towards repayment, *pro rata* and *pari passu*, of principal due and payable on the Class E Notes until the Principal Amount Outstanding on the Class E Notes has been reduced to zero;
  - (o) *fifteenth*, to pay, *pro rata* and *pari passu*, interest due and payable on the Class F Notes;
  - (p) *sixteenth*, in or towards repayment, *pro rata* and *pari passu*, of principal due and payable on the Class F Notes until the Principal Amount Outstanding on the Class F Notes has been reduced to zero;

- (q) *seventeenth*, to pay, *pro rata* and *pari passu*, interest due and payable on the Class X Notes;
- (r) *eighteenth*, in or towards repayment, *pro rata* and *pari passu*, of principal due and payable on the Class X Notes until the Principal Amount Outstanding on the Class X Notes has been reduced to zero;
- (s) *nineteenth*, to pay, *pro rata* and *pari passu*, interest due and payable on the Class Z Notes;
- (t) *twentieth*, in or towards repayment, *pro rata* and *pari passu*, of principal due and payable on the Class Z Notes until the Principal Amount Outstanding on the Class Z Notes has been reduced to zero;
- (u) *twenty-first*, to pay to the Swap Counterparty any Swap Subordinated Amounts (other than Swap Excluded Payable Amounts);
- (v) *twenty-second*, without double-counting, to pay any Third Party Expenses (if any) and any amounts in excess of amounts already credited to the Issuer Profit Ledger prior to such Interest Payment Date which are required to discharge any liability of the Issuer for corporation tax;
- (w) *twenty-third*, to pay the Issuer Profit Amount; and
- (x) *twenty-fourth*, to pay any Deferred Consideration due and payable under the Mortgage Sale Agreement to the Seller.

## DESCRIPTION OF THE GLOBAL NOTES

### General

Each Class of Notes as at the Closing Date will each be represented by a Global Note. All capitalised terms not defined in this paragraph shall be as defined in the Conditions of the Notes. The Notes are intended to be held under the New Safekeeping Structure.

The Global Notes will be deposited on or about the Closing Date with a common safekeeper for both Euroclear and Clearstream, Luxembourg (the "**Common Safekeeper**") and will be registered in the name of a nominee of the Common Safekeeper.

The Issuer will procure that the Registrar maintains a register in which the Registrar will record the Common Safekeeper as the owner of the Global Notes.

Upon confirmation by the Common Safekeeper that it, or a nominee thereof, has custody of the Global Notes, Euroclear or Clearstream, Luxembourg, as the case may be, will record in book-entry form interests representing beneficial interests in the Global Note attributable thereto ("**Book-Entry Interests**").

Book-Entry Interests in respect of each Global Note will be recorded in denominations of £100,000 and, for so long as the rules of Euroclear or Clearstream, Luxembourg so permit, higher integral multiples of £1,000 (an "**Authorised Denomination**"). Ownership of Book-Entry Interests is limited to persons that have accounts with Euroclear or Clearstream, Luxembourg ("**Participants**") or persons that hold interests in the Book-Entry Interests through Participants or through other Indirect Participants ("**Indirect Participants**"), including, as applicable, banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with Euroclear or Clearstream, Luxembourg, either directly or indirectly. Book-Entry Interests will not be held in definitive form. Instead, Euroclear and Clearstream, Luxembourg, as applicable, will credit the Participants' accounts with the respective Book-Entry Interests beneficially owned by such Participants on each of their respective book-entry registration and transfer systems. The accounts initially credited will be designated by the Lead Manager Ownership of Book-Entry Interests will be shown on, and transfers of Book-Entry Interests or the interests therein will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg (with respect to the interests of their Participants) and on the records of Participants or Indirect Participants (with respect to the interests of Indirect Participants). The laws of some jurisdictions or other applicable rules may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may therefore impair the ability to own, transfer or pledge Book-Entry Interests.

So long as a nominee for the Common Safekeeper is the registered holder of the Global Note underlying the Book-Entry Interests, the nominee for the Common Safekeeper will be considered the sole Noteholder of the Global Note for all purposes under the Trust Deed and the Agency Agreement. Except as set out under "*Issuance of Definitive Notes*", below, Participants or Indirect Participants will not be entitled to have Notes registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive registered form and will not be considered the holders thereof under the Trust Deed. Accordingly, each person holding a Book-Entry Interest must rely on the rules and procedures of Euroclear or Clearstream, Luxembourg, as the case may be, and Indirect Participants must rely on the procedures of the Participants or Indirect Participants through which such person owns its interest in the relevant Book-Entry Interests, to exercise any rights and obligations of a holder of Notes under the Trust Deed. See "*Action in respect of the Global Notes and the Book-Entry Interests*", below.

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

In the case of a Global Note, unless and until Book-Entry Interests are exchanged for Definitive Notes, the Global Note held by the Common Safekeeper or a nominee thereof may not be transferred except as a whole by the Common Safekeeper or nominee thereof to a successor of the Common Safekeeper or nominee thereof.

Purchasers of Book-Entry Interests in a Global Note will hold Book-Entry Interests in the Global Note relating thereto. Investors may hold their Book-Entry Interests in respect of a Global Note directly through Euroclear or Clearstream, Luxembourg (in accordance with the provisions set out under "*Transfers and Transfer Restrictions*", below), if they are account holders in such systems, or indirectly through organisations which are account holders in such systems. Euroclear and Clearstream, Luxembourg will hold Book-Entry Interests in the Global Note on behalf of their account holders through securities accounts in the respective account holders' names on Euroclear's and Clearstream, Luxembourg's respective book-entry registration and transfer systems.

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

### **Payments on the Global Notes**

Payment of principal and interest on, and any other amount due in respect of, the Global Notes will be made in Sterling by or to the order of Citibank, N.A., London Branch (the "**Principal Paying Agent**"), on behalf of the Issuer to the order of the Common Safekeeper or its nominee as the registered holder thereof with respect to the Global Notes. Each holder of Book-Entry Interests must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of any amounts paid by or on behalf of the Issuer to the order of the Common Safekeeper or their nominees in respect of those Book-Entry Interests. All such payments will be distributed without deduction or withholding for or on account of any taxes, duties, assessments or other governmental charges of whatever nature except as may be required by law. If any such deduction or withholding is required to be made, then neither the Issuer, the Paying Agents nor any other person will be obliged to pay additional amounts in respect thereof.

In accordance with the rules and procedures for the time being of Euroclear or, as the case may be, Clearstream, Luxembourg, after receipt of any payment from the Principal Paying Agent to the order of the Common Safekeeper, the respective systems will promptly credit their Participants' accounts with payments in amounts proportionate to their respective ownership of Book-Entry Interests as shown in the records of Euroclear or Clearstream, Luxembourg. On each record date (the "**Record Date**") Euroclear and Clearstream, Luxembourg will determine the identity of the Noteholders for the purposes of making payments to the Noteholders. The Record Date in respect of the Notes (i) where the Notes are in global registered form, shall be at the close of the Business Day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) prior to the relevant Interest Payment Date and (ii) where the Notes are in definitive registered form, shall be the date falling 15 days prior to the relevant Interest Payment Date. The Issuer expects that payments by Participants to owners of interests in Book-Entry Interests held through such Participants or Indirect Participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants or Indirect Participants. None of the Issuer, any agent of the Issuer, the Arranger, the Lead Manager, the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of a Participant's ownership of Book-Entry Interests or for maintaining, supervising or reviewing any records relating to a Participant's ownership of Book-Entry Interests.

### **Information Regarding Euroclear and Clearstream, Luxembourg**

The Issuer understands that:

- 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 Trustee requests any action of owners of Book-Entry Interests or if an owner of a Book-Entry Interest desires to give instructions or take any action that a holder is entitled to give or take under the Trust Deed or the Deed of Charge, Euroclear or Clearstream, Luxembourg as the case may be, would authorise the Participants owning the relevant Book-Entry Interests to give instructions or take such action, and such Participants would authorise Indirect Participants to give or take such action or would otherwise act upon the instructions of such Indirect Participants.

### **Redemption**

In the event that a Global Note (or portion thereof) is redeemed, the Principal Paying Agent will deliver all amounts received by it in respect of the redemption of such Global Note to the order of the Common Safekeeper and, upon final payment, will surrender such Global Note (or portion thereof) to or to the order of the Principal Paying Agent for cancellation. Appropriate entries will be made in the Register. The redemption price payable in connection with the redemption of Book-Entry Interests will be equal to the amount received by the Principal Paying Agent in connection with the redemption of the Global Note (or portion thereof) relating thereto. For any redemptions of the Global Note in part, selection of the relevant Book-Entry Interest relating thereto to be redeemed will be made by Euroclear or Clearstream, Luxembourg, as the case may be, on a *pro rata* basis (or on such basis as Euroclear or Clearstream, Luxembourg, as the case may be, deems fair and appropriate). Upon any redemption in part, the Principal Paying Agent will mark down the schedule to such Global Note by the principal amount so redeemed.

### **Cancellation**

Cancellation of any Note represented by a Global Note and required by the Conditions to be cancelled following its redemption will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant schedule thereto and the corresponding entry on the Register.

### **Transfers and Transfer Restrictions**

All transfers of Book-Entry Interests will be recorded in accordance with the book-entry systems maintained by Euroclear or Clearstream, Luxembourg, as applicable, pursuant to customary procedures established by each respective system and its Participants. See "*General*" above.

Beneficial interests in the Global Notes may be held only through Euroclear and Clearstream, Luxembourg. Neither the Global Notes nor any beneficial interest therein may be transferred except in compliance with the transfer restrictions set forth in the legend appearing in the Global Notes.

## **Issuance of Definitive Notes**

Holders of Book-Entry Interests in the Global Note will be entitled to receive Notes in definitive registered form (such as exchanged Global Notes in definitive registered form, "**Definitive Notes**") in exchange for their respective holdings of Book-Entry Interests if (a) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business or to cease to make book-entry systems available for settlement of beneficial interests in such Global Notes and do in fact do either of those things and no alternative clearing system satisfactory to the Trustee is available or (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration by a revenue authority or a court or in the administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required were the Notes in definitive registered form. Any Definitive Notes issued in exchange for Book-Entry Interests in the Global Note will be registered by the Registrar in such name or names as the Issuer shall instruct the Principal Paying Agent based on the instructions of Euroclear or Clearstream, Luxembourg, as the case may be. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, Luxembourg from their Participants with respect to ownership of the relevant Book-Entry Interests. Holders of Definitive Notes issued in exchange for Book-Entry Interests in the Global Note will not be entitled to exchange such Definitive Notes for Book-Entry Interests in such Global Note. Any Notes issued in definitive form will be issued in registered form only and will be subject to the provisions set out under "*Transfers and Transfer Restrictions*" above and provided that no transfer shall be registered for a period of 15 days immediately preceding any due date for payment in respect of the Note or, as the case may be, the due date for redemption. Definitive Notes will be issued in a denomination that is an integral multiple of the minimum Authorised Denomination. See "*Risk Factors – Denominations*" above.

## **Action in respect of the Global Notes and the Book-Entry Interests**

Not later than 10 days after receipt by the Issuer of any notices in respect of a Global Note or any notice of solicitation of consents or requests for a waiver or other action by the holder of such Global Note, the Issuer will deliver to Euroclear and Clearstream, Luxembourg a notice containing (a) such information as is contained in such notice, (b) a statement that at the close of business on a specified record date Euroclear and Clearstream, Luxembourg will be entitled to instruct the Issuer as to the consent, waiver or other action, if any, pertaining to the Book-Entry Interests or the Global Note and (c) a statement as to the manner in which such instructions may be given. Upon the written request of Euroclear or Clearstream, Luxembourg, as applicable, the Issuer shall endeavour insofar as practicable to take such action regarding the requested consent, waiver or other action in respect of the Book-Entry Interests or the Global Note in accordance with any instructions set out in such request. Euroclear or Clearstream, Luxembourg are expected to follow the procedures described under "*General*" above with respect to soliciting instructions from their respective Participants. The Registrar will not exercise any discretion in the granting of consents or waivers or the taking of any other action in respect of the Book-Entry Interests or the Global Notes.

## **Notices**

Whilst the Notes are represented by Global Notes notices required to be given to Noteholders may be sent to Euroclear and Clearstream, Luxembourg for communication by Euroclear and Clearstream, Luxembourg to the Noteholders. Alternatively, such notices regarding the Notes may instead be published in the *Financial Times* or, if such newspaper shall cease to be published or if timely publication therein is not practicable, in such other English newspaper or newspapers as the Trustee shall approve in advance having a general circulation in the United Kingdom; provided that if, at any time, the Issuer procures that the information contained in such notice shall appear on a page of the Bloomberg screen or any other medium for electronic display of data as may be previously approved in writing by the Trustee and notified to Noteholders, publication in such newspaper shall not be required with respect to such information. The Trustee may, in accordance with Condition 17.2 (*Trustee's Discretion to Select Alternative Method*) sanction other methods of giving notice to all or some of the Noteholders if such method is reasonable having regard to, among other things, the market practice then prevailing and the requirements of the relevant stock exchange. See also Condition 17 (*Notice to Noteholders*) of the Notes.



## TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions 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 £244,872,000 Class A floating rate notes due January 2046 (the "**Class A Notes**"), the £22,572,000 Class B floating rate notes due January 2046 (the "**Class B Notes**"), the £20,862,000 Class C floating rate notes due January 2046 (the "**Class C Notes**"), the £14,364,000 Class D floating rate notes due January 2046 (the "**Class D Notes**"), the £10,602,000 Class E floating rate notes due January 2046 (the "**Class E Notes**") and the £11,628,000 Class F floating rate notes due January 2046 ("**Class F Notes**", together with the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, the "**Rated Notes**"), the £15,000,000 Class X floating rate notes due January 2046 (the "**Class X Notes**") and the £17,100,000 Class Z floating rate notes due January 2046 (the "**Class Z Notes**", and together with the Class X Notes and the Rated Notes, the "**Notes**"), in each case of Castell 2018-1 PLC (the "**Issuer**") are constituted by a trust deed (the "**Trust Deed**") dated 1 November 2018 (the "**Closing Date**") and made between the Issuer and Citicorp Trustee Company Limited as trustee for the Noteholders (in such capacity, the "**Trustee**"). Any reference in these terms and conditions (the "**Conditions**") to a "**Class**" of Notes or of Noteholders shall be a reference to the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes, Class F Notes, the Class X Notes, or the Class Z Notes as the case may be, or to the respective holders thereof. Any reference in these Conditions to the Noteholders means the registered holders for the time being of the Notes, or if preceded by a particular Class designation of Notes, the registered holders for the time being of such Class of Notes. The security for the Notes is constituted by a deed of charge and assignment (the "**Deed of Charge**") dated on the Closing Date and made between, *inter alia*, the Issuer and the Trustee.

Pursuant to an agency agreement (the "**Agency Agreement**") dated on or around the Closing Date and made between the Issuer, the 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 Agent**"), Citibank, N.A., London Branch as registrar (in such capacity, the "**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 an incorporated terms memorandum (the "**Incorporated Terms Memorandum**") entered into by, among others, the Issuer and the Trustee on the Closing Date and the other Transaction Documents.

Physical copies of the Trust Deed, the Deed of Charge, the Agency Agreement, the Incorporated Terms Memorandum and the other Transaction Documents are available for inspection during normal business hours at the specified office for the time being of the Principal Paying Agent. 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.

### 2. INTERPRETATION

#### 2.1 Definitions

Capitalised terms not otherwise defined in these Conditions shall bear the meanings given to them in the Incorporated Terms Memorandum available as described above.

#### 2.2 Interpretation

These Conditions shall be construed in accordance with the principles of construction set out in the Incorporated Terms Memorandum.

### 3. **FORM, DENOMINATION AND TITLE**

#### 3.1 **Form and Denomination**

Each Class of Notes will initially be represented by a global note certificate in registered form (a "**Global Note**").

For so long as any of the Notes are represented by a Global Note, transfers and exchanges of beneficial interests in such Global Note and entitlement to payments thereunder will be effected subject to and in accordance with the rules and procedures from time to time of Euroclear Bank SA/NV ("**Euroclear**") or Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"), as appropriate. Each Global Note will be deposited with a common safekeeper for both Euroclear and Clearstream, Luxembourg (the "**Common Safekeeper**") and registered in the name of a nominee of the Common Safekeeper.

For so long as the Notes are represented by a Global Note, and for so long as Euroclear and Clearstream, Luxembourg so permit, the 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 Global Note will be exchanged for the relevant Note in definitive registered form (such exchanged Global Notes in definitive registered form, the "**Definitive Notes**") only if either of the following applies:

- (a) both Euroclear and Clearstream, Luxembourg:
  - (i) are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise); or
  - (ii) announce an intention permanently to cease business or to cease to make book-entry systems available for settlement of beneficial interests in such Global Notes and do in fact do either of those things,and in either case no alternative clearing system satisfactory to the 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 Notes which would not be required were the relevant Notes in definitive registered form.

If Definitive Notes are issued in respect of Notes originally represented by a Global Note, the beneficial interests represented by such Global Note shall be exchanged by the Issuer for the relevant Notes in registered definitive form. The aggregate principal amount of the Definitive Notes shall be equal to the Principal Amount Outstanding of the Notes at the date on which notice of exchange is given of the Global Note, subject to and in accordance with the detailed provisions of these Conditions, the Agency Agreement, the Trust Deed and the relevant Global Note.

Definitive Notes (which, if issued, will be in the denomination set out below) will be serially numbered and will be issued in registered form only.

The minimum denomination of the Notes in global and (if issued and printed) definitive form will be £100,000.

References to "*Notes*" in these Conditions shall include the Global Notes and the Definitive Notes.

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

- (a) in relation to a Note, the original principal amount of that Note on the Closing Date less the aggregate amount of all principal payments in respect of such Note which have been made since the Closing Date; and

- (b) in relation to a Class, the aggregate of the amount in paragraph (a) above in respect of all Notes outstanding in such Class; and
- (c) in relation to the Notes outstanding at any time, the aggregate of the amount in paragraph (a) above in respect of all Notes outstanding, regardless of Class.

### 3.2 **Title**

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

Title to a Definitive Note shall only pass by and upon registration of the transfer in the Register.

Definitive Notes may be transferred upon the surrender of the relevant Definitive Note, with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar. Such transfers shall be subject to the minimum denominations specified in Condition 3.1 (*Form and Denomination*) above. All transfers of Definitive Notes are subject to any restrictions on transfer set out on the Definitive Notes and the detailed regulations concerning transfers in the Agency Agreement.

Each new Definitive Note to be issued upon transfer of such Definitive Note will, within five (5) Business Days of receipt and surrender of such Definitive Note (duly completed and executed) for transfer, be available for delivery at the specified office of the Registrar or be mailed at the risk of the transferee entitled to such Definitive Note to such address as may be specified in the relevant form of transfer.

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

## 4. **STATUS AND RELATIONSHIP BETWEEN THE NOTES AND SECURITY**

### 4.1 **Status and relationship between the Notes**

- (a) The Notes constitute direct, secured and (subject to the limited recourse provision in Condition 12 (*Enforcement*) and, in the case of all Notes other than the Class A Notes, Condition 18 (*Subordination by Deferral*)) unconditional obligations of the Issuer.
- (b) Save as provided in Condition 4.1(e) below:
  - (i) the Class A Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times as provided in these Conditions and the Transaction Documents;
  - (ii) the Class B Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to the Class A Notes, as provided in these Conditions and the Transaction Documents. The interests of the persons who for the time being are registered in the Register as holders of Class B Notes (the "**Class B Noteholders**") will be subordinated to the interests of the persons who for the time being are registered in the Register as holders of Class A Notes (the "**Class A Noteholders**") (so long as any Class A Notes remain outstanding);
  - (iii) the Class C Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to the Class A Notes and the Class B Notes, as provided in these Conditions and the Transaction Documents. The interests of the persons who for the time being are registered in the Register as holders of the Class C Notes (the

- "**Class C Noteholders**") will be subordinated to the interests of each of the Class A Noteholders and the Class B Noteholders (so long as any Class A Notes and/or any Class B Notes remain outstanding, as applicable);
- (iv) the Class D Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to the Class A Notes, the Class B Notes and the Class C Notes, as provided in these Conditions and the Transaction Documents. The interests of the persons who for the time being are registered in the Register as holders of the Class D Notes (the "**Class D Noteholders**") will be subordinated to the interests of each of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders (so long as any Class A Notes and/or any Class B Notes and/or any Class C Notes remain outstanding, as applicable);
  - (v) the Class E Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes, as provided in these Conditions and the Transaction Documents. The interests of the persons who for the time being are registered in the Register as holders of the Class E Notes (the "**Class E Noteholders**") will be subordinated to the interests of each of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders and the Class D Noteholders (so long as any Class A Notes and/or any Class B Notes and/or any Class C Notes and/or any Class D Notes remain outstanding, as applicable); and
  - (vi) the Class F Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, as provided in these Conditions and the Transaction Documents. The interests of the persons who for the time being are registered in the Register as holders of the Class F Notes (the "**Class F Noteholders**") will be subordinated to the interests of each of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders and the Class E Noteholders (so long as any Class A Notes and/or any Class B Notes and/or any Class C Notes and/or any Class D Notes remain outstanding and/or any Class E Notes remain outstanding, as applicable).
- (c) The Class X Notes constitute direct, secured and (subject to the limited recourse provision in Condition 12 (*Enforcement*) and Condition 18 (*Subordination by Deferral*)) unconditional obligations of the Issuer. The Class X Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to all payments of (i) (at all times) interest due in respect of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes and (ii) (from and including the Optional Redemption Date or service of an Enforcement Notice) principal due in respect of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes, in all cases, as provided in these Conditions and the Transaction Documents. The interests of the persons who for the time being are registered in the Register as holders of the Class X Notes (the "**Class X Noteholders**") will be subordinated to the interests of each of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E Noteholders and the Class F Noteholders (so long as any Class A Notes and/or any Class B Notes and/or any Class C Notes and/or any Class D Notes and/or any Class E Notes and/or any Class F Notes remain outstanding, as applicable).
- (d) The Class Z Notes constitute direct, secured and (subject as provided in the limited recourse provisions in Condition 12 (*Enforcement*)) unconditional obligations of the Issuer. The Class Z Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest and principal at all times, but subordinate to all payments due in respect of the Rated Notes and the Class X Notes, as provided in these Conditions and the Transaction Documents. Accordingly, the interests of the persons who

for the time being are registered in the Register as holders of Class Z Notes (the "**Class Z Noteholders**") will be subordinated to the interests of the holders of the Rated Notes and the Class X Notes (so long as any Rated Notes or any Class X Notes remain outstanding).

- (e) All amounts standing to the credit of the Pre-Funding Principal Reserve Ledger on the Further Sale Period End Date (taking into account any debits made on that ledger on such date) shall be applied *pro rata* in redemption of the Rated Notes on the first Interest Payment Date by reference to their respective Principal Amount Outstanding on the Closing Date.

#### 4.2 Security

- (a) The security constituted by or pursuant to the Deed of Charge is granted to the 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 and the other Transaction Documents.
- (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 the other Transaction Documents.

#### 5. COVENANTS

Save with the prior written consent of the Trustee or unless otherwise permitted under these Conditions or 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 undertakings;
- (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 undertakings (as defined in the Companies Act 2006) or any employees (but shall procure that, at all times, it shall retain at least one independent director) or premises;
- (c) **Disposal of assets:** assign, transfer, sell, lend, lease, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire all or any of its assets or undertakings or any interest, estate, right, title or benefit therein or attempt or purport to do any of the foregoing;
- (d) **Equitable and Beneficial Interest:** permit any person, other than itself and the 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 applicable Priority 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 whatsoever or give any guarantee or indemnity in respect of any indebtedness or of any other obligation of any person;
- (g) **Merger:** consolidate or merge with any other person or convey or transfer substantially all of its properties or assets 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, modified, terminated, postponed, waived 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 Issuer Accounts and the Issuer's interest in the Collection Account, unless such account or interest therein is charged to the Trustee on terms acceptable to the Trustee;
- (j) **Purchase Notes:** purchase or otherwise acquire any Notes;
- (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) **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; or
- (m) **U.S. 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.

## 6. INTEREST

### 6.1 Accrual of interest

#### *Interest Accrual*

Each Note bears interest on its Principal Amount Outstanding from (and including) the Closing Date. Each Note (and, in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest from and including the due date for redemption unless, upon due presentation in accordance with Condition 7 (*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.

### 6.2 Interest Payment Dates

Interest will be payable in arrear on each Interest Payment Date for all Classes of Notes.

"**Interest Payment Date**" means the 25<sup>th</sup> day of January, April, July and October or, if such day is not a Business Day, the immediately following Business Day with the first Interest Payment Date falling in January 2019.

Interest shall accrue from (and including) an Interest Payment Date (except in the case of the first Interest Period, which shall commence on (and include) the Closing Date) to (but excluding) the next following Interest Payment Date (each such period, an "**Interest Period**").

### 6.3 Rate of Interest

#### *Rate of Interest*

- (a) The rate of interest payable from time to time in respect of each Class of Notes (each a "**Rate of Interest**" and together the "**Rates of Interest**") will be, subject to paragraph 6.3(b) below, in respect of the Notes and any Interest Period, determined on the basis of the following provisions:

- (i) the Agent Bank will determine the Relevant Screen Rate as at or about 11.00 a.m. (London time) on the Interest Determination Date (as defined below) in question.

If the Relevant Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks for three monthly Sterling deposits (or, in respect of the first Interest Period for the Notes, the linear interpolation of LIBOR for one and three monthly deposits in Sterling) in the London interbank market as at or about 11.00 a.m. (London time) on the relevant Interest Determination Date. The Rates of Interest for the relevant Interest Period shall be the aggregate of:

- I. in respect of the Notes:
  - (i) from (and including) the Closing Date to (but excluding) the Optional Redemption Date, the Relevant Margin; and
  - (ii) from (and including) the Optional Redemption Date, the Relevant Step-Up Margin; and
- II. the Relevant Screen Rate (or, if the Relevant Screen Rate is unavailable, the arithmetic mean of such offered quotations for three months or in respect of the first Interest Period the linear interpolation of one and three monthly Sterling deposits expressed as a percentage rate (rounded upwards, if necessary, to five decimal places)); and

if, on any Interest Determination Date, the Relevant Screen Rate is unavailable and only two or three of the Reference Banks provide offered quotations, the Rates of Interest for the relevant Interest Period shall be determined in accordance with the provisions of sub-paragraph (A) above on the basis that the rate specified in sub-paragraph (A)II above shall be determined on the basis of the offered quotations of those Reference Banks providing such quotations and such rate shall be aggregated with the Relevant Margin or, as the case may be, the Relevant Step-Up Margin as specified in sub-paragraph (A)I above. If, on any such Interest Determination Date, only one or none of the Reference Banks provides the Agent Bank with such an offered quotation, the Agent Bank shall forthwith consult with the Issuer for the purposes of agreeing two banks (or, where one only of the Reference Banks provided such a quotation, one additional bank) to provide such a quotation or quotations to the Agent Bank and the Rates of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis that the rate specified in sub-paragraph (A)II above shall be determined 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 or banks as so agreed and the relevant Reference Bank) and such rate shall be aggregated with the Relevant Margin or, as the case may be, the Relevant Step-Up Margin as specified in sub-paragraph (A)I above. 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 sub-paragraph (A) shall have applied but taking into account, in the case of the Notes, the application from (and including) the Closing Date to (but excluding) the Optional Redemption Date, of the Relevant Margin, and from (and including) the Optional Redemption Date, of the Relevant Step-Up Margin;

- (b) In the event that the Rate of Interest is less than zero per cent., the Rate of Interest shall be deemed to be zero per cent.
- (c) There will be no maximum Rate of Interest on the Notes.

### ***Definitions***

- (a) In these Conditions (except where otherwise defined), the expression:

- (i) "**Business Day**" means a day (other than a Saturday or Sunday or a public holiday) on which banks are open for business in London;
- (ii) "**Interest Determination Date**" means the first day of the Interest Period for which the rate will apply;
- (iii) "**LIBOR**" means the London Inter-Bank Offered Rate for Sterling deposits;
- (iv) "**Reference Banks**" means the principal London office of each of the five major banks engaged in the London interbank market selected by the Agent Bank (in consultation with the Issuer), provided that, once a Reference Bank has been selected by the Agent Bank (in consultation with the Issuer), that Reference Bank shall not be changed unless and until it ceases to be capable of acting as such or declines to act as such;
- (v) "**Relevant Margin**" means:
  - (A) in respect of the Class A Notes, 1.14 per cent. per annum;
  - (B) in respect of the Class B Notes, 1.65 per cent. per annum;
  - (C) in respect of the Class C Notes, 1.90 per cent. per annum;
  - (D) in respect of the Class D Notes, 2.40 per cent. per annum;
  - (E) in respect of the Class E Notes, 3.50 per cent. per annum;
  - (F) in respect of the Class F Notes, 4.40 per cent. per annum;
  - (G) in respect of the Class X Notes, 4.75 per cent. per annum; and
  - (H) in respect of the Class Z Notes, 5.50 per cent. per annum.
- (vi) "**Relevant Screen Rate**" means, the London inter-bank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) three monthly deposits in Sterling on Reuters page 3750 (or, with respect to the first Interest Period, the rate which represents the linear interpolation of LIBOR for one and three monthly Sterling deposits on Reuters on page 3750), provided that the rates shown on such screen apply to the relevant Interest Determination Date; or
  - (A) such other page as may replace Reuters page 3750 on that service for the purpose of displaying such information; or
  - (B) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Trustee) as may replace such service;
- (vii) "**Relevant Step-Up Margin**" means:
  - (A) in respect of the Class A Notes, the Relevant Margin + 1.14 per cent. per annum;
  - (B) in respect of the Class B Notes, the Relevant Margin + 1.00 per cent. per annum;
  - (C) in respect of the Class C Notes, the Relevant Margin + 1.00 per cent. per annum;
  - (D) in respect of the Class D Notes, the Relevant Margin + 1.00 per cent. per annum;



- (E) in respect of the Class E Notes, the Relevant Margin + 1.25 per cent. per annum; and
  - (F) in respect of the Class F Notes, the Relevant Margin + 1.25 per cent. per annum.
- (viii) "**Secured Creditors**" means the Trustee in its own capacity, any Receiver or any Appointee appointed or employed by the Trustee, each in its own capacity, the Registrar, the Paying Agents, the Corporate Services Provider, the Agent Bank, the Servicer (and any Replacement Servicer), the Back-Up Servicer, the Back-Up Servicer Facilitator, the Cash Manager (and any Replacement Cash Manager), the Swap Counterparty, the Issuer Account Bank, the Seller, the Noteholders and any party named as such in a Transaction Document; and
  - (ix) "**Transaction Documents**" means the Mortgage Sale Agreement, Scottish Declaration of Trust, Servicing Agreement, Back-Up Servicing Agreement, Cash Management Agreement (and any replacement cash management agreement), Deed of Charge (and the documents to be entered into pursuant thereto), Scottish Supplemental Charge, Trust Deed, Agency Agreement, Issuer Account Bank Agreement, Incorporated Terms Memorandum, Swap Agreement, Issuer Security Power of Attorney, Seller Security Power of Attorney, Corporate Services Agreement and Collection Account Declaration of Trust.

#### 6.4 **Determination of Rates of Interest and Interest Amounts**

##### *Rates of Interest*

The Agent Bank shall, as soon as practicable after 11.00 a.m. (London time) on the Interest Determination Date falling in such Interest Period, but in no event later than the third Business Day thereafter, determine the Sterling amount (the "**Interest Amounts**") payable in respect of interest on the Principal Amount Outstanding of each Class of the Notes for the relevant Interest Period.

The Interest Amounts shall, in respect of a Class of Notes, be determined by applying the relevant Rate of Interest to the Principal Amount Outstanding of such Class of Notes and multiplying the sum by the actual number of days in the Interest Period concerned divided by 365 and rounding the figure downwards to the nearest penny.

#### 6.5 **Publication of Rates of Interest and Interest Amounts**

The Agent Bank shall cause the Rate of Interest and the Interest Amounts for each Class of Notes in respect of each Interest Period and each Interest Payment Date to be notified to the Issuer, the Cash Manager, the Trustee, the 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 17 (*Notice to Noteholders*) as soon as possible after their determination and in no event later than three Business Days prior to the immediately succeeding Interest Payment Date. The Interest Amounts and Interest Payment Date may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period.

#### 6.6 **Notifications 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 6 (*Interest*), whether by the Reference Banks (or any of them), the Agent Bank or the Trustee, will (in the absence of wilful default, gross negligence, fraud or manifest error) be binding on the Issuer, the Cash Manager, the Trustee, the Agent Bank, the 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 Agent Bank or, if applicable, the Trustee in connection with the exercise or non-exercise by any of them of their powers, duties and discretions under this Condition 6 (*Interest*).

## 6.7 **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. The Issuer may, subject to the prior written approval of the Trustee, terminate the appointment of the Agent Bank and shall, 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 Rate of Interest or the Interest Amounts in respect of any Class of Notes for any Interest Period, subject to the prior written approval of the Trustee, appoint another major bank engaged in the relevant interbank market to act in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed pursuant to the terms of the Agency Agreement.

## 7. **PAYMENTS**

### 7.1 **Payment of Interest and Principal**

Subject to paragraph 2 of Condition 3.1 (*Form and Denomination*), payments of any amount in respect of a Note, including principal and interest, shall be made by credit or transfer to an account in sterling maintained by the payee.

### 7.2 **Laws and Regulations**

Payments of any amount in respect of a Note including principal and interest in respect of the Notes are subject, in all cases, to (i) any fiscal or other laws and regulations applicable thereto 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 to 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof or any law implementing an intergovernmental approach thereto. Noteholders will not be charged commissions or expenses on payments.

### 7.3 **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 6.1 (*Accrual of interest*) and Condition 6.3 (*Rate of Interest*) will be paid in accordance with this Condition 7.

### 7.4 **Change of Paying Agents**

The Issuer reserves the right, subject to the prior written approval of the Trustee and to the terms of the Agency Agreement, at any time to vary or terminate the appointment of the Principal Paying Agent or the Registrar and to appoint additional or other agents provided that there will at all times be a person appointed to perform the obligations of the Principal Paying Agent with a specified office in London, and a person appointed to perform the obligations of the Registrar with a specified office in Ireland or in London.

Except where otherwise provided in the Trust Deed or the Agency Agreement, the Issuer will cause notice to be provided as soon as possible and, in any event, no later than one Business Day prior to the Record Date of any change in or addition to the Paying Agents or the Registrar or their specified offices to be given to the Noteholders in accordance with Condition 17 (*Notice to Noteholders*) and will notify the Rating Agencies of such change or addition.

### 7.5 **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 and shall not be entitled to further interest or other payment in respect of such delay. In this Condition 7.5, 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.

7.6 **Partial Payment**

If a Paying Agent makes a partial payment in respect of any Note, the Registrar will, in respect of the relevant Note, annotate the Register indicating the amount and date of such payment.

7.7 **Payment of Interest**

If interest is not paid in respect of a Note of any Class on the date when due and payable (other than because the due date is not a Presentation Date (as defined in Condition 7.5 (*No Payment on non-Business Day*))), then such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to such Note until such interest and interest thereon are available for payment and notice thereof has been duly given in accordance with Condition 17 (*Notice to Noteholders*).

8. **REDEMPTION**

8.1 **Redemption at Maturity**

Unless previously redeemed in full or purchased and cancelled as provided below, the Issuer will redeem the Notes at their respective Principal Amount Outstanding together with any accrued interest up to but excluding the date of redemption on the Interest Payment Date falling in January 2046 (the "**Final Maturity Date**").

8.2 **Mandatory Redemption prior to the service of an Enforcement Notice**

- (a) Subject to any redemption previously effected pursuant to Clause 8.2(b) below, and prior to the service of an Enforcement Notice, each Class of Notes (other than the Class X Notes) shall be redeemed on each Interest Payment Date in an amount equal to the Available Redemption Receipts available for such purpose in accordance with the Pre-Enforcement Redemption Priority of Payments which shall be applied in the following order of priority:
  - (i) to repay the Class A Notes until they are each repaid in full; and thereafter
  - (ii) to repay the Class B Notes until they are each repaid in full; and thereafter
  - (iii) to repay the Class C Notes until they are each repaid in full; and thereafter
  - (iv) to repay the Class D Notes until they are each repaid in full; and thereafter
  - (v) to repay the Class E Notes until they are each repaid in full; and thereafter
  - (vi) to repay the Class F Notes until they are each repaid in full; and thereafter
  - (vii) to repay the Class Z Notes until they are each repaid in full.
- (b) Prior to the service of an Enforcement Notice, the Class X Notes shall be redeemed on each Interest Payment Date in an amount equal to the Available Revenue Receipts available for such purpose in accordance with the Pre-Enforcement Revenue Priority of Payments.
- (c) The Principal Amount Outstanding of each Note shall be redeemed on each Interest Payment Date in accordance with the relevant Priority of Payments. The principal amount to be redeemed in respect of a Note (the "**Note Principal Payment**") on any Interest Payment Date prior to the service of an Enforcement Notice shall be the Available Redemption Receipts and/or Available Revenue Receipts (as applicable) available for the redemption of the relevant Class of Notes on such Interest Payment Date in accordance with the relevant Priority of Payments, as calculated on the Calculation Date immediately preceding such Interest Payment Date, multiplied by the relevant Note Factor and rounded down to the nearest penny. With respect to each Note on (or as soon as practicable after) each Calculation Date, the Issuer shall determine (or cause the Cash Manager to determine)
  - (i) the amount of any Note Principal Payment due on the Interest Payment Date next following such Calculation Date, (ii) the Principal Amount Outstanding of each such Note

and (iii) the fraction expressed as a decimal to the sixth decimal point (the "**Note Factor**"), of which the numerator is the Principal Amount Outstanding of that Note (as referred to in (ii) above) and the denominator, is the Principal Amount Outstanding of the relevant Class of Notes. Each determination by or on behalf of the Issuer of any Note Principal Payment, the Principal Amount Outstanding of a Note and the Note Factor shall in each case (in the absence of wilful default or manifest error) be final and binding on all persons.

- (d) The Issuer will cause each determination of a Note Principal Payment, Principal Amount Outstanding and Note Factor to be notified not less than two Business Days prior to the relevant Interest Payment Date to the Trustee, the Paying Agents, the Agent Bank and (for so long as the Notes are listed on the Official List of Euronext Dublin and admitted to trading on its Main Securities Market) Euronext Dublin, and will immediately cause notice of each such determination to be given in accordance with Condition 17 (*Notice to Noteholders*) not later than two Business Days prior to the relevant Interest Payment Date. If no Note Principal Payment is due to be made on the Notes on any Interest Payment Date a notice to this effect will be given to the holders of the Notes.

### 8.3 **Optional Redemption in whole**

The Issuer may redeem all (but not some only) of the Notes in each class at their Principal Amount Outstanding together with accrued interest up to but excluding the date of redemption on any Interest Payment Date:

- (a) when, on the related Calculation Date, the aggregate of the Principal Amount Outstanding of all of the outstanding Notes is less than 10 per cent. of the Principal Amount Outstanding of all of the Notes as at the Closing Date; or
- (b) from and including the Optional Redemption Date;

subject to the following:

- (a) no Enforcement Notice has been delivered by the Trustee;
- (b) the Issuer has given not more than 60 nor less than 30 days' notice to the Trustee and the Noteholders in accordance with Condition 17 (*Notices to Noteholders*) of its intention to redeem all (but not some only) of the Notes in each Class; and
- (c) immediately prior to giving any such notice, the Issuer shall have provided to the Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds on the relevant Interest Payment Date, not subject to the interest of any other person, required to redeem the Notes pursuant to this Condition and meet its payment obligations of a higher priority under the Pre-Enforcement Revenue Priority of Payments and the Pre-Enforcement Redemption Priority of Payments.

### 8.4 **Optional Redemption for Taxation Reasons**

The Issuer may redeem all (but not some only) of the Notes of each Class at their Principal Amount Outstanding together with accrued interest up to but excluding the date of redemption on any Interest Payment Date:

- (a) after the date on which 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 Notes (other than because the relevant holder has some connection with the United Kingdom other than the holding of such 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 the Issuer; or
- (b) after the date on which by reason of a change in law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, it

has become or will become unlawful for the Issuer to make, fund or allow to remain outstanding all or any of the Notes,

provided that the Issuer satisfies the Trustee that one or more of the events described above is continuing and that the appointment of a Paying Agent in another jurisdiction and substitution of a company incorporated and tax resident in another jurisdiction as principal debtor under the Notes would not avoid the effect of the relevant event, or that having used its reasonable endeavours, the Issuer is unable to arrange such substitution or appointment, provided further that if the Issuer has arranged for such substitution the Trustee is satisfied that such substitution will not be materially prejudicial to the interests of the holders of the Notes 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 Trustee may rely, without further investigation or enquiry, on any confirmation from the Rating Agencies that the then current ratings of the Rated Notes would not be adversely affected by such substitution) and subject to the following:

- (c) no Enforcement Notice has been delivered by the Trustee;
- (d) the Issuer has given not more than 60 nor less than 30 days' notice to the Trustee and the Noteholders in accordance with Condition 17 (*Notices to Noteholders*) of its intention to redeem all (but not some only) of the Notes in each Class;
- (e) prior to giving any such notice, the Issuer has provided to the Trustee:
  - (i) a legal opinion (in form and substance satisfactory to the Trustee) from a firm of lawyers in the applicable jurisdiction (approved in writing by the Trustee), opining on the relevant change in law or tax law (or the application or official interpretation thereof) to the effect that in the case of Condition 8.4(a) above, the Issuer or the Paying Agents has or will become obliged to deduct or withhold amounts as a result of such change or in the case of Condition 8.4(b) above that it has or will become unlawful for the Issuer to make, fund or allow to remain outstanding all or any of the Notes;
  - (ii) a certificate signed by two directors of the Issuer to the effect that one or more of the circumstances in Condition 8.4(a) or Condition 8.4(b) above exists and confirming that the appointment of a Paying Agent in another jurisdiction or a substitution of the Issuer would not avoid the effect of the event, or that, having used its reasonable endeavours, the Issuer is unable to arrange such appointment or substitution; and
  - (iii) a certificate signed by two directors of the Issuer to the effect that it will have the funds on the relevant Interest Payment Date, not subject to the interest of any other person, required to redeem the Notes pursuant to this Condition and to meet its payment obligations of a higher priority under the Pre-Enforcement Revenue Priority of Payments and the Pre-Enforcement Redemption Priority of Payments.

The Trustee shall be entitled to accept and rely on such certificates and opinion as sufficient evidence of the satisfaction of the circumstances set out above, in which event they shall be conclusive and binding on all Noteholders and Secured Creditors.

## 8.5 **Principal Amount Outstanding**

The "**Principal Amount Outstanding**" of each Class of Notes on any date shall be, in each case, their original principal amount, in respect of the Class A Notes of £244,872,000, in respect of the Class B Notes of £22,572,000, in respect of the Class C Notes of £20,862,000, in respect of the Class D Notes of £14,364,000, in respect of the Class E Notes of £10,602,000, in respect of the Class F Notes of £11,628,000, in respect of the Class X Notes of £15,000,000, in respect of the Class Z Notes of £17,100,000 in each case less the aggregate amount of all principal payments in respect of such Class of Notes which have been made since the Closing Date.

8.6 **Notice of Redemption**

Any such notice as is referred to in Condition 8.3 (*Optional Redemption in Whole*) or Condition 8.4 (*Optional Redemption for Taxation 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.

8.7 **Cancellation on redemption in full**

All Notes redeemed in full will be cancelled upon redemption. Notes cancelled upon redemption in full may not be resold or re-issued.

9. **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, all present and future taxes, levies, imposts, duties, fees, deductions, withholdings or charges of any nature whatsoever and wheresoever imposed, including income tax, corporation tax, value added tax or other tax in respect of added value and any franchise, transfer, sales, gross receipts, use, business, occupation, excise, personal property, real property or other tax imposed by any national, local or supranational taxing or fiscal authority or agency together with any penalties, fines or interest thereon ("**Taxes**"), unless the withholding or deduction of the Taxes is required by applicable law. In that event, subject to Condition 8.4 (*Optional Redemption for Taxation Reasons*), the Issuer or, as the case may be, the Paying Agent 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 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. For the avoidance of doubt, the reference to "law" in this Condition 9 includes FATCA (as defined in Condition 13.6(e)).

10. **PRESCRIPTION**

Claims in respect of principal and interest on the Notes will be prescribed after ten years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the relevant payment.

In this Condition 10, 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 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 17 (*Notice to Noteholders*).

11. **EVENTS OF DEFAULT**

11.1 **Notes**

The Trustee at its absolute discretion may, and if so directed in writing by the holders of at least 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of Notes or if so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes shall, (subject to being indemnified and/or prefunded and/or secured to its satisfaction as more particularly described in the Trust Deed) give a notice (an "**Enforcement Notice**") to the Issuer that all Classes of the Notes are immediately due and repayable at their respective Principal Amount Outstanding, together with accrued (but unpaid) interest as provided in the Trust Deed (with a copy of such Enforcement Notice being sent simultaneously to the Seller, the Servicer, the Back-Up Servicer, the Issuer Account Bank, the Collection Account Bank and the Cash Manager), if any of the following events (each, an "**Event of Default**") occur:

- (a) default being made for (A) a period of 15 calendar days in the payment of any principal due on the Notes; or (B) a period of 7 calendar days in the payment of any interest due in respect of (I) whilst any of the Class A Notes are outstanding, the Class A Notes; or (II) (should they be the Most Senior Class of Notes) any other Class of Rated Notes, as and when the same ought to be paid in accordance with these Conditions; 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 which, in the opinion of the Trustee, is materially prejudicial to the interests of the Most Senior Class of Notes and the failure continues for a period of 30 calendar days following the service by the Trustee on the Issuer of notice requiring the same to be remedied (except that in any case where the Trustee considers the failure to be incapable of remedy, then no such continuation or notice will be required); or
- (c) if any representation or warranty made by the Issuer under any Transaction Document is incorrect when made which, in the opinion of the Trustee, is materially prejudicial to the interests of the Most Senior Class of Notes and the matters giving rise to such misrepresentation are not remedied within a period of 15 calendar days following the service by the Trustee on the Issuer of notice requiring the same to be remedied (except that in any case where the Trustee considers the matters giving rise to such misrepresentation to be incapable of remedy, then no such continuation or notice will be required); or
- (d) 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 Trustee or by Extraordinary Resolution of each Class of the Noteholders; or
- (e) if (i) the Issuer ceases or threatens to cease to carry on the whole or, in the opinion of the Trustee, a substantial part of its business, save for the purposes of reorganisation on terms approved in writing by the Trustee or by Extraordinary Resolution of each Class of the Noteholders, or (ii) 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 (iii) the Issuer 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
- (f) if proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with the court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or, as the case may be, in relation to the whole or any part of the undertaking or assets of the Issuer, and in any such case (other than the appointment of an administrator or an administrative receiver appointed following presentation of a petition for an administration order), unless initiated by the Issuer, is not discharged within 30 days; or
- (g) if the Issuer (or its directors or shareholders) initiates or consents to insolvency 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).

**"Potential Event of Default"** means any event which may become (with the passage of time, the giving of notice, the making of any determination or any combination thereof) an Event of Default.

## 11.2 General

Upon the service of an Enforcement Notice by the Trustee in accordance with Condition 11.1 (*Notes*), all the Notes then outstanding shall thereby immediately become due and repayable at their respective Principal Amount Outstanding, together with accrued interest thereon as provided in the Trust Deed.

## 12. ENFORCEMENT

### 12.1 General

The Trustee may, at any time, at its discretion and without notice and in such manner as it thinks fit, take such proceedings, actions and/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 the Notes, or the Trust Deed (including these Conditions) or the Deed of Charge or any of the other Transaction Documents to which it is a party and, at any time after the service of an Enforcement Notice, the Trustee may, at its discretion and without notice, take such actions, steps and/or proceedings as it may think fit to enforce the Security, but the Trustee shall not be bound to take any such proceedings, action or steps unless:

- (a) it shall have been so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes or directed in writing by the holders of at least 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of Notes; and
- (b) in all cases, it shall have been indemnified and/or prefunded and/or secured to its satisfaction.

### 12.2 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 Trustee will not be entitled to dispose of any of the Charged Assets or any part thereof unless either (a) the Cash Manager certifies to the Trustee (upon which certification the Trustee can rely without liability) 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 holders of the Notes (and all persons ranking in priority to the holders of the Notes), or (b) the 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 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 Noteholders (and all persons ranking in priority to the Noteholders as set out in the Post-Enforcement Priority of Payments). The fees and expenses of the aforementioned financial adviser or other professional adviser selected by the Trustee shall be paid by the Issuer. The Trustee shall be entitled to rely upon any financial or other professional advice referred to in this Condition 12.2 without further enquiry and shall incur no liability to any person for so doing.

### 12.3 Limitations on Enforcement

No Noteholder shall be entitled to proceed directly against the Issuer or any other party to any of the Transaction Documents to enforce the performance of any of the Conditions or any of the provisions of the Transaction Documents and/or to take any other proceedings (including lodging an appeal in any proceedings) in respect of or concerning the Issuer unless the Trustee having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing, provided that no Noteholder shall be entitled to take any steps or proceedings to procure the winding up, administration or liquidation of the Issuer.

### 12.4 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 and pursuant to the Deed of Charge (the "**Charged Assets**"). If:

- (a) there are no Charged Assets remaining which are capable of being realised or otherwise converted into cash;



- (b) all amounts available from the Charged Assets have been applied to meet or provide for the relevant obligations specified in, and in accordance with, the provisions of the Deed of Charge and these Conditions; 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,

then the Noteholders shall have no further claim against the Issuer in respect of any amounts owing to them which remain due or to be paid in respect of the Notes (including, for the avoidance of doubt, payments of principal, premium (if any) or interest in respect of the Notes) and the Issuer shall be deemed to be discharged from making any further payments in respect of the Notes and any further payment rights shall be extinguished.

### 13. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

13.1 The Trust Deed contains provisions for convening meetings of the Noteholders of each Class and, in certain cases, more than one Class to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of these Conditions or the provisions of any of the Transaction Documents.

13.2 For the purposes of these Conditions, "**Most Senior Class of Notes**" means the Class A Notes for so long as there are any Class A Notes outstanding; thereafter the Class B Notes for so long as there are any Class B Notes outstanding; thereafter the Class C Notes for so long as there are any Class C Notes outstanding; thereafter the Class D Notes for so long as there are any Class D Notes outstanding; thereafter the Class E Notes for so long as there are any Class E Notes outstanding; thereafter the Class F Notes for so long as there are any Class F Notes outstanding; thereafter the Class X Notes for so long as there are any Class X Notes outstanding; and thereafter the Class Z Notes for so long as there are any Class Z Notes outstanding.

#### 13.3 Limitations on other Noteholders

- (a) Subject as provided in Conditions 13.3(b) and 13.3(c):
  - (i) a resolution passed at any meeting of the holders of the Most Senior Class of Notes shall be binding on such Noteholders and all other Classes of Noteholders irrespective of the effect upon them;
  - (ii) subject to Condition 13.3(a)(iii), a resolution passed at any meeting of a relevant Class of Noteholders shall be binding on such Noteholders and all other Classes of Noteholders ranking junior to such Class of Noteholders in the Post-Enforcement Priority of Payments in each case irrespective of the effect it has upon them; and
  - (iii) no resolution of any Class of Noteholders shall take effect for any purpose unless it shall have been sanctioned by an Extraordinary Resolution of the holders of the Most Senior Class of Notes (or the Trustee is of the opinion that it would not be materially prejudicial to the interests of the holders of the Most Senior Class of Notes).
- (b) Subject as provided in Condition 13.3(c), a resolution which, in the opinion of the Trustee, affects the interests of the holders of Notes of only one Class only shall be deemed to have been duly passed if passed at a separate meeting (or by a separate resolution in writing or by a separate resolution passed by way of consents received through the relevant Clearing System(s)) of the holders of that Class of Notes so affected.
- (c) No Extraordinary Resolution of the holders of a Class or Classes of Notes which would have the effect of sanctioning a Basic Terms Modification in respect of any Class of Notes shall take effect unless it has been sanctioned by an Extraordinary Resolution of the holders of each Class of Notes then outstanding which is affected by such Basic Terms Modification.

#### 13.4 Quorum

- (a) Subject as provided below, the quorum at any meeting of Noteholders of any Class or Classes for passing an Ordinary Resolution will be one or more persons holding or representing not less than 25 per cent. of the aggregate Principal Amount Outstanding of such Class or Classes of Notes then outstanding.
- (b) Subject as provided below, the quorum at any meeting of Noteholders of any Class or Classes 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 Class or Classes of Notes then outstanding.
- (c) Subject to the more detailed provisions set out in the Trust Deed, the quorum at any meeting of any holders of any Class or Classes of Notes for passing an Extraordinary Resolution to (i) sanction a modification of the date of maturity of 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, (including, in relation to any Class of Notes, if any such modification is proposed for any Class of Notes ranking senior to such Class in the Priorities of Payments), (iv) alter the currency in which payments under the Notes are to be made, (v) alter the quorum required at any meeting or majority required to pass an Extraordinary Resolution, (vi) sanction any scheme or proposal for the sale, conversion or cancellation of the Notes, (vii) change the definition of a Basic Terms Modification, or (viii) alter any of the provisions contained in this exception (each a "**Basic Terms Modification**", provided that a Base Rate Modification effected pursuant to, and in accordance with, Condition 14 (*Base Rate Modification*) will not constitute a Basic Terms Modification) shall be one or more persons holding or representing in the aggregate not less than 75 per cent. of the aggregate Principal Amount Outstanding of such Class of Notes then outstanding. Any Extraordinary Resolution in respect of a Basic Terms Modification shall only be effective if duly passed at separate meetings (or by separate resolutions in writing or by separate resolutions passed by way of consents received through the relevant Clearing System(s)) of each affected Class of Noteholders.
- (d) The quorum at any adjourned meeting shall be:
  - (i) for an Ordinary Resolution, one or more persons present and holding or representing not less than 10 per cent. of the Principal Amount Outstanding of the Notes of such Class or Classes then outstanding;
  - (ii) (other than in relation to a Basic Terms Modification) for an Extraordinary Resolution shall be one or more persons present and holding or representing not less than 25 per cent. of the Principal Amount Outstanding of the Notes of such Class or Classes then outstanding; and
  - (iii) (in respect of a Basic Terms Modification) one or more persons present and holding or representing in the aggregate not less than 50 per cent. of the aggregate Principal Amount Outstanding of the Notes then outstanding of each relevant Class.

13.5 The Trustee may at any time and from time to time, with the written consent of the Secured Creditors which are a party to the relevant Transaction Document (such consent to be conclusively demonstrated by such Secured Creditor entering into any deed or document purporting to modify such Transaction Document) but without the consent or sanction of the Noteholders, or any other Secured Creditors agree with the Issuer and any other parties in making or sanctioning any modification:

- (a) (except in the case of a Basic Terms Modification) to these Conditions, the Trust Deed or any other Transaction Document, which in the opinion of the Trustee, will not be materially prejudicial to the interests of the Noteholders; or
- (b) to these Conditions the Trust Deed or any other Transaction Document if in the opinion of the Trustee, such modification is of a formal, minor or technical nature or is made to correct a manifest error.

13.6 Notwithstanding the provisions of Condition 13.5 but subject to Condition 13.7, the Trustee shall be obliged, without any consent or sanction of the Noteholders or the other Secured Creditors, but subject to the receipt of the prior written consent of any of the Secured Creditors party to the Transaction Document being modified (such consent to be conclusively demonstrated by such Secured Creditor entering into any deed or document purporting to modify such Transaction Document), to concur with the Issuer in making any modification (other than in respect of a Basic Terms Modification) to these Conditions and/or any Transaction Document that the Issuer considers necessary:

- (a) for the purpose of complying with, or implementing or reflecting, any change in the criteria of one or more of the Rating Agencies which may be applicable from time to time, provided that the Issuer (or the Servicer on its behalf) certifies in writing to the Trustee that such modification is necessary to comply with such criteria or, as the case may be, is solely to implement and reflect such criteria;
- (b) in order to enable the Issuer and/or the Swap Counterparty to comply with:
  - (i) any obligation which applies to it under Articles 9, 10 and 11 of Regulation (EU) 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories dated 4 July 2012 (including, without limitation, any associated regulatory technical standards and advice, guidance or recommendations from relevant supervisory regulators) ("**EMIR**"); or
  - (ii) any other obligation which applies to it under EMIR,

provided that the Issuer (or the Servicer on its behalf) or the Swap Counterparty, as appropriate, certifies to the Trustee in writing that such modification is required solely for the purpose of enabling it to satisfy such obligation and has been drafted solely to such effect;

- (c) for the purpose of complying with any changes in the requirements of Article 405 of Regulation (EU) No. 575/2013 (the "**CRR**"), Article 17 of the Alternative Investment Fund Managers Directive ("**AIFMD**"), Article 51(1) of the AIFM Regulation and Article 254(2) of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (the "**Solvency II Regulation**") after the Closing Date, including as a result of any changes to the regulatory technical standards in relation to the CRR, AIFMD, Regulation (EU) No 231/2013, referred to as the Alternative Investment Fund Managers Regulation ("**AIFMR**") or Solvency II Regulation or any other risk retention legislation or regulations or official guidance in relation thereto, provided that the Issuer (or the Servicer on its behalf) provides a written certificate to the Trustee certifying that such modification is required solely for such purpose and has been drafted solely to such effect;
- (d) for the purpose of enabling the Notes to be (or to remain) listed on Euronext Dublin, provided that the Issuer (or the Servicer on its behalf) certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect;
- (e) for the purpose of enabling the Issuer or any other person that is party to a Transaction Document (a "**Transaction Party**") to comply with Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (the "**Code**"), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of

the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code ("FATCA") (or any voluntary agreement entered into with a taxing authority in relation thereto), provided that the Issuer (or the Servicer on its behalf) or the relevant Transaction Party, as applicable, provides a written certificate to the Trustee certifying that such modification is required solely for such purpose and has been drafted solely to such effect; or

- (f) for the purpose of complying with any changes in the requirements of the CRA Regulation after the Closing Date (including any implementing regulations, regulatory technical standards and guidance respectively related thereto and/or in the case of the CRA Regulation, adopted in replacement thereof) provided that the Issuer (or the Servicer on its behalf) provides a written certificate to the Trustee certifying that such modification is required solely for such purpose and has been drafted solely to such effect,

(the certificate to be provided by the Issuer or the relevant Transaction Party, as the case may be, pursuant to Conditions 13.6(a) to 13.6(f) above being a "**Modification Certificate**"). The Trustee is only obliged to concur with the Issuer in making any modification referred to in Conditions 13.6(a) to 13.6(f) to these Conditions and/or any Transaction Document if:

- (A) at least 30 days' prior notice of any such proposed modification have been given to the Trustee;
- (B) the Modification Certificate in relation to such modification is provided to the Trustee both at the time the Trustee is notified of the proposed modification and on the date that such modification takes effect;
- (C) the consent of each Secured Creditor which is party to the relevant Transaction Document has been obtained (such consent to be conclusively demonstrated by such Secured Creditor entering into any deed or document purporting to modify such Transaction Document);
- (D) the Trustee is satisfied that it has been or will be reimbursed for all costs, fees and expenses (including properly incurred legal fees) incurred by it in connection with such modification;

and provided further that, other than in the case of a modification pursuant to Condition 13.6(b)(i):

- (E) the Issuer (or the Servicer on its behalf) either:
  - I. has obtained from each of the Rating Agencies a Rating Agency Confirmation; or
  - II. has certified in the Modification Certificate that it has informed the Rating Agencies of the proposed modification and neither of the Rating Agencies has indicated that such modification would result in a downgrade, qualification or withdrawal of the then current ratings assigned to any Class of the Notes by such Rating Agency; and
- (F) the Issuer has certified (upon which certification the Trustee shall rely absolutely and without further enquiry or liability) in writing to the Trustee (which certification may be in the Modification Certificate) that in relation to such modification (I) the Issuer has provided at least 30 days' notice to the Noteholders of each Class of the proposed modification in accordance with Condition 17 (*Notice to Noteholders*) and by publication on Bloomberg on the "Company News" screen relating to the Issuer, in each case specifying the date and time by which Noteholders must respond, and has made available at such time the modification documents for inspection at the registered office of the Principal Paying Agent for the time being during normal business hours, and (II) Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of any Class of Notes then outstanding have not contacted the Issuer

in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held) within such notification period notifying the Issuer that such Noteholders do not consent to the modification.

If Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of any Class of Notes then outstanding have notified the Issuer in accordance with the notice provided above and the then current practice of any applicable clearing system through which such Notes may be held within the notification period referred to above that they do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Noteholders of the Most Senior Class of Notes is passed in favour of such modification in accordance with Condition 13 (*Meetings of Noteholders, Modification, Waiver and Substitution*).

Objections made in writing other than through the applicable clearing system must be accompanied by evidence to the Issuer's satisfaction (having regard to prevailing market practices) of the relevant Noteholder's holding of the Notes.

- 13.7 When implementing any modification pursuant to Condition 13.6:
- (a) (save to the extent the Trustee considers that the proposed modification would constitute a Basic Terms Modification) the Trustee shall not consider the interests of the Noteholders, any other Secured Creditor or any other person and shall act and rely solely and without further investigation on any certificate or evidence provided to it by the Issuer or the relevant Transaction Party, as the case may be, pursuant to Condition 13.6 and shall not be liable to the Noteholders, any other Secured Creditor or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person; and
  - (b) the Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Trustee, would have the effect of (i) exposing the Trustee, to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights or protection, of the Trustee in the Transaction Documents and/or these Conditions.
- 13.8 The Trustee may without the consent or sanction of the Noteholders, or the other Secured Creditors and without prejudice to its rights in respect of any further or other breach, from time to time and at any time, but only if and in so far as in the sole opinion of the Trustee (acting in accordance with the Trust Deed) the interests of the Noteholders will not be materially prejudiced thereby, authorise or waive any proposed or actual breach of any of the covenants (including any Event of Default or Potential Event of Default) or provisions contained in or arising pursuant to the Conditions, or any of the Transaction Documents by any party thereto, provided that the Trustee shall not exercise any powers conferred on it by this Condition 13.8 in contravention of any express direction given by Extraordinary Resolution of the holders of the Most Senior Class of Notes or by a direction under Condition 11 (*Events of Default*) but so that no such direction or request shall affect any waiver, authorisation or determination previously given or made.
- 13.9 Any such modification, waiver, authorisation or determination by the Trustee, in accordance with these Conditions or the Transaction Documents shall be binding on the Noteholders and the other Secured Creditors and, unless the Trustee agrees otherwise (other than in respect of a modification pursuant to Condition 13.6, in relation to which notification as provided in this Condition 13.9 shall at all times be given), any such modification, waiver, authorisation or determination shall be notified by the Issuer to the Noteholders in accordance with Condition 17 (*Notice to Noteholders*) and to the other Secured Creditors and provided that there are Rated Notes outstanding to each Rating Agency, as soon as practicable thereafter.
- 13.10 In connection with any such substitution of principal debtor referred to in Condition 8.4 (*Optional Redemption for Taxation Reasons*), or Condition 13.22 (*Issuer Substitution Condition*) the 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 Trustee, be materially prejudicial to the interests of all the Noteholders or (if there are no Notes outstanding) the other Secured Creditors.

- 13.11 In determining whether a proposed action will not be materially prejudicial to the Noteholders or any Class of Rated Notes, the Trustee may, among other things, have regard to whether the Rating Agencies have confirmed in writing to the Issuer or any other party to the Transaction Documents that any proposed action will not result in the withdrawal or reduction of, or entail any other adverse action with respect to, the then current ratings of the Rated Notes.
- 13.12 Where, in connection with the exercise or performance by it of any right, power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Transaction Documents (including in relation to any modification, waiver, authorisation, determination, substitution or change of laws as referred to above), the Trustee is required to have regard to the interests of the Noteholders of any Class or Classes, it shall (A) have regard to the general interests of the Noteholders of such Class or Classes but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise or performance for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof, and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders and (B) subject to the more detailed provisions of the Trust Deed and the Deed of Charge, as applicable, have regard to the interests of holders of each Class of Notes equally (except where expressly provided otherwise) but where there is or may be in the opinion of the Trustee a conflict of interests between one or more Classes of Notes in any such case it shall have regard (except as expressly provided otherwise and without prejudice to Condition 13.3 (*Limitations on other Noteholders*)) and in relation to such conflict only) to the interests of the holders of the affected Class or Classes of Notes ranking in priority to the other affected Classes of Notes.
- 13.13 As long as any Notes are outstanding the Trustee shall not have regard to the interests of the other Secured Creditors.
- 13.14 Other than in respect of any matter requiring an Extraordinary Resolution, Noteholders are required to vote by way of an Ordinary Resolution.
- 13.15 "**Ordinary Resolution**" means, in respect of the holders of any of the Classes of Notes a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Trust Deed and these Conditions by not less than a clear majority of the Eligible Persons voting thereat on a show of hands or, if a poll is duly demanded, by a clear majority of the votes cast on such poll.
- 13.16 "**Extraordinary Resolution**" means, in respect of the holders of any of the Classes of Notes:
- (a) a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Trust Deed and these Conditions by a majority consisting of not less than 75 per cent. of Eligible Persons voting at such meeting upon a show of hands or, if a poll is duly demanded, by a majority consisting of not less than 75 per cent. of the votes cast on such poll;
  - (b) a resolution in writing signed by or on behalf of the Noteholders of not less than 75 per cent. in aggregate Principal Amount Outstanding of the relevant Class of 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 the relevant Class; or
  - (c) consent given by way of electronic consents through the relevant Clearing System(s) (in a form satisfactory to the Trustee) by or on behalf of the Noteholders holding not less than 75 per cent. in aggregate Principal Amount Outstanding of the relevant Class of Notes then outstanding.

- 13.17 **"Eligible Person"** means any one of the following persons who shall be entitled to attend and vote at a meeting:
- (a) a bearer of any Voting Certificate;
  - (b) a Proxy specified in any Block Voting Instruction; and
  - (c) the bearer of a Definitive Note who produces such Definitive Note at a meeting.
- 13.18 **"Voting Certificate"** means an English language certificate issued by a Paying Agent in which it is stated:
- (a) that on the date thereof the Notes (not being the Notes (as applicable) in respect of which a Block Voting Instruction has been issued and is outstanding in respect of the meeting specified in such Voting Certificate) represented by such certificate are blocked in an account with a clearing system and that no such Notes will cease to be so blocked until the first to occur of:
    - (i) the conclusion of the meeting specified in such Voting Certificate; and
    - (ii) the surrender of the Voting Certificate to the Paying Agent who issued the same not later than 48 hours before the time fixed for the relevant meeting; and
  - (b) that the bearer thereof is entitled to attend and vote at such meeting in respect of the Notes represented by such Voting Certificate.
- 13.19 **"Block Voting Instruction"** means an English language document issued by a Paying Agent in which:
- (a) it is certified that on the date thereof the Notes (not being Notes in respect of which a Voting Certificate has been issued and is outstanding in respect of the meeting specified in such Block Voting Instruction) represented by such document are blocked in an account with a clearing system and that no such Notes will cease to be so blocked until the first to occur of:
    - (i) the conclusion of the meeting specified in such Block Voting Instruction; and
    - (ii) the Notes ceasing with the agreement of the Paying Agent to be so blocked and the giving of notice by the Paying Agent to the Issuer of the necessary amendment to the Block Voting Instruction;
  - (b) it is certified that each holder of such Notes has instructed such Paying Agent that the vote(s) attributable to the Notes so blocked should be cast in a particular way in relation to the resolution(s) to be put to such meeting and that all such instructions are, during the period commencing 48 hours prior to the time for which such meeting is convened and ending at the conclusion or adjournment thereof, neither revocable nor capable of amendment;
  - (c) the aggregate Principal Amount Outstanding of the Notes so blocked is listed distinguishing with regard to each such resolution between those in respect of which instructions have been given that the votes attributable thereto should be cast in favour of the resolution and those in respect of which instructions have been so given that the votes attributable thereto should be cast against the resolution; and
  - (d) one or more persons named in such Block Voting Instruction (each hereinafter called a "**proxy**") is or are authorised and instructed by such Paying Agent to cast the votes attributable to the Notes so listed in accordance with the instructions referred to in (c) above as set out in such Block Voting Instruction, provided that no such person shall be named as a proxy whose appointment has been revoked and in relation to whom the relevant Paying Agent has been notified in writing of such revocation by the time which is 48 hours before the time fixed for such meeting.

- 13.20 For the purposes of this Condition 13 (*Meetings of Noteholders, Modification, Waiver and Substitution*):

"**24 hours**" means a period of 24 hours including all or part of a day (disregarding for this purpose the day upon which such Meeting is to be held) upon which banks are open for business in both the place where the relevant Meeting is to be held and in each of the places where the Paying Agents have their specified offices and such period shall be extended by one period or, to the extent necessary, more periods of 24 hours until there is included as aforesaid all or part of a day upon which banks are open for business as aforesaid; and

"**48 hours**" means two consecutive periods of 24 hours.

- 13.21 Details of any Extraordinary Resolution and any Ordinary Resolution passed in accordance with the provisions of the Trust Deed shall be notified to each of the Rating Agencies by the Issuer.

13.22 **Issuer Substitution Condition**

The Trustee may agree, subject to such amendment of these Conditions and of any of the Transaction Documents, 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, 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 or substantially 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 5 (*Covenants*) or that would otherwise be appropriate for a single purpose vehicle incorporated for such purposes as the Issuer in its jurisdiction of incorporation (the "**Issuer Substitution Condition**").

14. **BASE RATE MODIFICATION**

- 14.1 Notwithstanding the provisions of Condition 13 (*Meetings of Noteholders, Modification, Waiver and Substitution*), the Trustee shall be obliged, without any consent or sanction of the Noteholders or any of the other Secured Creditors, to concur with the Issuer in making any modification to these Conditions or any other Transaction Document to which it is a party or in relation to which it holds security or entering into any new, supplemental or additional documents that the Issuer or the Servicer on behalf of the Issuer, considers necessary or advisable for the purpose of changing the benchmark rate from LIBOR in respect of all Classes of Notes (the "**Applicable Base Rate**") to an alternative benchmark rate (any such rate, an "**Alternative Base Rate**") and making such other amendments to these Conditions or any other Transaction Document as are necessary or advisable in the reasonable judgment of the Issuer or the Servicer on behalf of the Issuer, to facilitate the changes envisaged pursuant to this Condition 14 (*Base Rate Modification*) (for the avoidance of doubt, this may include changing the benchmark rate referred to in any interest rate hedging agreement, for the purpose of aligning any such hedging agreement with the proposed Base Rate Modification pursuant to paragraph (1)(iv) below, or modifications to when the Rate of Interest applicable to any Class of Notes is calculated and/or notified to Noteholders or other such consequential modifications) (a "**Base Rate Modification**"), **provided that** the Issuer or the Servicer on behalf of the Issuer, certifies to the Trustee in writing that:

- (a) the Base Rate Modification is being undertaken due to any one or more of the following:
- (i) a material disruption to the Applicable Base Rate, a material change in the methodology of calculating the Applicable Base Rate or the Applicable Base Rate ceasing to exist or be published, or the administrator of the Applicable Base Rate having used a fallback methodology for calculating the Applicable Base Rate for a period of at least 30 calendar days; or
  - (ii) the insolvency or cessation of business of the administrator of the Applicable Base Rate (in circumstances where no successor administrator has been appointed); or
  - (iii) a public statement by the administrator of the Applicable Base Rate that it will cease publishing the Applicable Base Rate permanently or indefinitely (in



circumstances where no successor administrator has been appointed that will continue publication of the Applicable Base Rate) with effect from a date no later than 6 months after the proposed effective date of such Base Rate Modification; or

- (iv) a public statement by the supervisor of the administrator of the Applicable Base Rate that the Applicable Base Rate has been or will be permanently or indefinitely discontinued or there will be a material change in the methodology of calculating the Applicable Base Rate with effect from a date no later than 6 months after the proposed effective date of such Base Rate Modification; or
  - (v) a public statement by the supervisor of the administrator of the Applicable Base Rate that means the Applicable Base Rate will be prohibited from being used or that its use is subject to restrictions or adverse consequences with effect from a date no later than 6 months after the proposed effective date of such Base Rate Modification; or
  - (vi) a change in the generally accepted market practice in the publicly listed asset backed floating rate notes market to refer to a Base Rate endorsed in a public statement by the Bank of England, the Financial Conduct Authority or the Prudential Regulation Authority or any relevant committee or other body established, sponsored or approved by any of the foregoing, including the Working Group on Sterling Risk-Free Reference Rates, despite the continued existence of the Applicable Base Rate; or
  - (vii) it having become unlawful and/or impossible and/or impracticable for any Paying Agent, Calculation Agent, the Issuer or the Cash Manager to calculate any payments due to be made to any Noteholder using the Applicable Base Rate; or
  - (viii) it being the reasonable expectation of the Issuer, or the Servicer on behalf of the Issuer, that any of the events specified in sub-paragraphs (i),(ii) or (vii) above will occur or exist within six months of the proposed effective date of such Base Rate Modification; or
  - (ix) a Base Rate Modification is being proposed pursuant to Condition 14.4 ; and
- (b) the Alternative Base Rate is any one or more of the following:
- (i) a benchmark rate with an equivalent term to the Applicable Base Rate as published, endorsed, approved or recognised as a replacement to the Applicable Base Rate by the Bank of England, the Financial Conduct Authority or the Prudential Regulation Authority or any relevant committee or other body established, sponsored or approved by any of the foregoing, including the Working Group on Sterling Risk-Free Reference Rates (which, for the avoidance of doubt, may be an alternative Base Rate together with a specified adjustment factor which may increase or decrease the relevant alternative Base Rate); or
  - (ii) a benchmark rate with an equivalent term utilised in a material number of publicly-listed new issues of asset backed floating rate notes denominated in sterling in the six months prior to the proposed effective date of such Base Rate Modification; or
  - (iii) such other benchmark rate as the Issuer or the Servicer on behalf of the Issuer, reasonably determines, provided that this option may only be used if the Issuer or the Servicer on behalf of the Issuer, certifies to the Trustee that, in the reasonable opinion of the Issuer or the Servicer on behalf of the Issuer, neither Condition 14.1(b)(i) nor Condition 14.1(b)(ii) are applicable and/or practicable in the context of the Transaction, and sets out the rationale in the Base Rate Modification Certificate for choosing the proposed Alternative Base Rate; and
- (c) the same Alternative Base Rate will be applied to all Classes of Notes issued in the same currency; and

- (d) the details of and the rationale for any Note Rate Maintenance Adjustment proposed in accordance with Condition 14.1(l)(vi) are as set out in the Benchmark Rate Modification Noteholder Notice; and
- (e) the modifications proposed are required solely for the purpose of applying the Alternative Base Rate and making consequential modifications to any Transaction Document which are, as reasonably determined by the Issuer or the Servicer on behalf of the Issuer, necessary or advisable, and the modifications have been drafted solely to such effect; and
- (f) the consent of each Secured Creditor which has a right to consent to such modification pursuant to the provisions of the Transaction Documents has been obtained (evidence of which shall be provided by the Issuer to the Trustee with the Base Rate Modification Certificate) and no other consents are required to be obtained in relation to the Base Rate Modification; and
- (g) the Seller has agreed to pay, or to put the Issuer in funds to pay, all fees, costs and expenses (including legal fees and any initial or ongoing costs associated with the Base Rate Modification) incurred by the Issuer and the Trustee or any other Transaction Party in connection with the Base Rate Modification,

(the certificate to be provided by the Issuer or the Servicer on behalf of the Issuer, being a "**Base Rate Modification Certificate**"), provided that:

- (h) the Base Rate Modification Certificate shall be provided to the Trustee in draft form not less than five Business Days prior to the date on which the Base Rate Modification Certificate is sent to Noteholders; and
- (i) the Base Rate Modification Certificate shall be provided to the Trustee in final form not less than two Business Days prior to the date on which the Base Rate Modification takes effect; and
- (j) a copy of the Base Rate Modification Noteholder Notice provided to Noteholders pursuant to Condition 14.1(l) shall be appended to the Base Rate Modification Certificate,

and provided further that:

- (k) either:
  - (i) the Issuer or the Servicer on behalf of the Issuer, has obtained from each of the Rating Agencies written confirmation (or certifies in the Base Rate Modification Certificate that it has been unable to obtain written confirmation, but has received oral confirmation from an appropriately authorised person at each of the Rating Agencies) that the proposed Base Rate Modification would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of Notes by such Rating Agency or (y) such Rating Agency placing any Notes on rating watch negative (or equivalent) and, if relevant, it has provided a copy of any written confirmation to the Trustee with the Base Rate Modification Certificate; or
  - (ii) the Issuer or the Servicer on behalf of the Issuer, certifies in the Base Rate Modification Certificate that it has given the Rating Agencies at least 10 Business Days prior written notice of the proposed modification and none of the Rating Agencies has indicated that such modification would result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of the Notes by such Rating Agency or (y) such Rating Agency placing any Notes on rating watch negative (or equivalent); and
- (l) the Issuer has provided written notice of the proposed Base Rate Modification to the Noteholders of each Class, at least 40 calendar days' prior to the date on which it is proposed that the Base Rate Modification would take effect, in accordance with Condition 17 (*Notice to Noteholders*) and by publication on Bloomberg on the "Company Filings"

screen relating to the Notes (such notice, the "**Base Rate Modification Noteholder Notice**") confirming the following:

- (i) the period during which Noteholders of the Most Senior Class of Notes on the date specified to be the Base Rate Modification Record Date, which shall be five Business Days from the date of the Base Rate Modification Noteholder Notice (the "**Base Rate Modification Record Date**"), may object to the proposed Base Rate Modification (which notice period shall commence at least 40 calendar days prior to the date on which it is proposed that the Base Rate Modification would take effect and continue for a period not less than 30 calendar days) and the method by which they may object; and
- (ii) the sub-paragraph(s) of Condition 14.1(a) under which the Base Rate Modification is being proposed; and
- (iii) which Alternative Base Rate is proposed to be adopted pursuant to Condition 14.1(b), and, where Condition 14.1(b)(iii) is being applied, the rationale for choosing the proposed Alternative Base Rate; and
- (iv) details of any consequential modifications that the Issuer has agreed will be made to any hedging agreement to which it is a party for the purpose of aligning any such hedging agreement with the proposed Base Rate Modification, if the proposed Base Rate Modification takes effect. The Issuer shall use reasonable endeavours to agree modifications to each hedging agreement where commercially appropriate so that the Transaction is hedged following the Base Rate Modification to a similar extent as prior to the Base Rate Modification, and that such modifications shall take effect no later than 30 calendar days from the date on which the Base Rate Modification takes effect. If (i) no modifications are proposed to be made to hedging agreements; and/or (ii) modifications will be made to hedging agreements but will not result in the Transaction being similarly hedged; and/or (iii) modifications to any hedging agreement would take effect later than 30 calendar days from the date on which the Base Rate Modification takes effect, the Issuer shall set out in the Base Rate Modification Noteholder Notice the rationale for this; and
- (v) details of any consequential modifications that the Issuer has agreed for margin maintenance purposes (for example, modifications to any Optimum Base Rate covenant or similar such covenant in relation to the interest rate(s) on the underlying portfolio of assets, to the extent that the Optimum Base Rate covenant or similar such covenant is linked to the Applicable Base Rate, or modifications in respect of any margin reserve fund requirement) for the purpose of aligning any such rates with the proposed Base Rate Modification, if the proposed Base Rate Modification takes effect. The Issuer shall use reasonable endeavours to agree such modifications where commercially appropriate to maintain an equivalent level of protection as provided by any Optimum Base Rate covenant or margin reserve fund requirement prior to the proposed Base Rate Modification, and that such modifications shall take effect no later than 30 calendar days from the date on which the Base Rate Modification takes effect. If (i) no such modifications are proposed to be made; and/or (ii) such modifications will be made but will not result in an equivalent level of protection; and/or (iii) such modifications would take effect later than 30 calendar days from the date on which the Base Rate Modification takes effect, the Issuer shall set out in the Base Rate Modification Noteholder Notice the rationale for this; and
- (vi) details of the adjustment which the Issuer proposes to make (if any) to the margin payable on each Class of Notes which are the subject of the Base Rate Modification in order to, so far as reasonably and commercially practicable, preserve what would have been the expected Rate of Interest applicable to each such Class of Notes had no such Base Rate Modification been effected (the "**Note Rate Maintenance Adjustment**"), provided that:

- (A) in the event that the Bank of England, the Financial Conduct Authority or the Prudential Regulation Authority or any relevant committee or other body established, sponsored or approved by any of the foregoing, including the Working Group on Sterling Risk-Free Reference Rates has published, endorsed, approved or recognised a note rate maintenance adjustment mechanism which could be used in the context of a transition from the Applicable Base Rate to the Alternative Base Rate, then the Issuer shall propose that note rate maintenance adjustment mechanism as the Note Rate Maintenance Adjustment, or otherwise the Issuer shall set out in the Base Rate Modification Noteholder Notice the rationale for concluding that this is not a commercial and reasonable approach in relation to the Notes and the proposed Base Rate Modification; or
  - (B) in the event that it has become generally accepted market practice in the securitisation, Eurobond or swaps market to use a particular note rate maintenance adjustment mechanism in the context of a transition from the Applicable Base Rate to the Alternative Base Rate, then the Issuer shall propose that note rate maintenance adjustment mechanism as the Note Rate Maintenance Adjustment, or otherwise the Issuer shall set out in the Base Rate Modification Noteholder Notice the rationale for concluding that this is not a commercial and reasonable approach in relation to the Notes and the proposed Base Rate Modification; or
  - (C) in the event that neither (A) nor (B) above apply, the Issuer shall use reasonable endeavours to propose an alternative Note Rate Maintenance Adjustment as reasonably determined by the Issuer or the Servicer on behalf of the Issuer, and shall set out the rationale for the proposal or otherwise the Issuer shall set out in the Base Rate Modification Noteholder Notice the rationale for concluding that this is not a commercial and reasonable approach in relation to the Notes and the proposed Base Rate Modification; and
  - (D) if any Note Rate Maintenance Adjustment is proposed, the Note Rate Maintenance Adjustment applicable to each Class of Notes other than the Most Senior Class of Notes shall be at least equal to that applicable to the Most Senior Class of Notes. In circumstances where the Issuer proposes a lower Note Rate Maintenance Adjustment on any Class of Notes other than the Most Senior Class than that which is proposed for the Most Senior Class of Notes or another Class of Notes which ranks senior to the Class of Notes to which the lower Note Rate Maintenance Adjustment is proposed to be made, the Base Rate Modification will not be made unless an Extraordinary Resolution is passed in favour of such modification in accordance with Condition 13 (*Meetings of Noteholders, Modification, Waiver and Substitution*) by the Noteholders of each Class of Notes then outstanding to which the lower Note Rate Maintenance Adjustment is proposed to be made; and
  - (E) for the avoidance of doubt, the Note Rate Maintenance Adjustment may effect an increase or a decrease to the margin or may be set at zero; and
- (vii) details of (i) other amendments which the Issuer proposes to make (if any) to these Conditions or any other Transaction Document and (ii) any new, supplemental or additional documents into which the Issuer proposes to enter to facilitate the changes envisaged pursuant to this Condition 14 (*Base Rate Modification*); and
- (m) Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes outstanding on the Base Rate Modification Record Date have not contacted the Trustee in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held) within such notification period notifying the Trustee that such Noteholders do not consent to the Base Rate Modification.

If Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes outstanding on the Base Rate Modification Record Date have notified the Trustee in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held) within the notification period referred to above that they do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution is passed in favour of such modification in accordance with Condition 13 (*Meetings of Noteholders, Modification, Waiver and Substitution*) provided that (A) in circumstances where the Issuer proposes a lower Note Rate Maintenance Adjustment on any Class of Notes other than the Most Senior Class than that which is proposed for the Most Senior Class of Notes or another Class of Notes which ranks senior to the Class of Notes to which the lower Note Rate Maintenance Adjustment is proposed to be made, such Extraordinary Resolution shall be passed by the Noteholders of the Most Senior Class of Notes then outstanding and by the Noteholders of each Class of Notes then outstanding to which the lower Note Rate Maintenance Adjustment is proposed to be made, and (B) in other circumstances, such Extraordinary Resolution shall be passed by Noteholders of the Most Senior Class of Notes then outstanding.

Objections made in writing other than through the applicable clearing system must be accompanied by evidence to the Trustee's satisfaction (having regard to prevailing market practices) of the relevant Noteholder's holding of the Notes on the Base Rate Modification Record Date.

14.2 Other than where specifically provided in this Condition 14 (*Base Rate Modification*) or any Transaction Document:

- (a) when implementing any modification pursuant to this Condition 14 (*Base Rate Modification*), the Trustee shall not consider the interests of the Noteholders, any other Secured Creditor or any other person and shall act and rely solely and without further investigation, on any Base Rate Modification Certificate or evidence provided to it by the Issuer or the Servicer on behalf of the Issuer, or the relevant Transaction Party pursuant to this Condition 14 (*Base Rate Modification*) and shall not be liable to the Noteholders, any other Secured Creditor or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person; and
- (b) the Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Trustee would have the effect of (A) exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (B) increasing the obligations or duties, or decreasing the rights or protection, of the Trustee in the Transaction Documents and/or these Conditions.

14.3 Any Base Rate Modification shall be binding on all Noteholders and shall be notified by the Issuer as soon as reasonably practicable to:

- (a) so long as any of the Notes rated by the Rating Agencies remains outstanding, each Rating Agency;
- (b) the Secured Creditors; and
- (c) the Noteholders in accordance with Condition 17 (*Notice to Noteholders*).

14.4 Following the making of a Base Rate Modification, if it becomes generally accepted market practice in the publicly listed asset backed floating rate notes market to use a Base Rate of interest which is different from the Alternative Base Rate which had already been adopted by the Issuer in respect of the Notes pursuant to a Base Rate Modification, the Issuer is entitled to propose a further Base Rate Modification pursuant to this Condition 14 (*Base Rate Modification*).

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

The Trust Deed and the Deed of Charge contain provisions governing the responsibility (and relief from responsibility) of the Trustee and providing for its indemnification in certain circumstances,

including provisions relieving it from taking action or enforcing the Security, unless indemnified and/or prefunded and/or secured to its satisfaction.

The Trust Deed and the Deed of Charge also contain provisions pursuant to which the Trustee is 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.

16. **REPLACEMENT OF NOTES**

If any Note is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office of the Registrar subject to all applicable laws and stock exchange requirements. Replacement of any mutilated, defaced, lost, stolen or destroyed Note will only be made on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. A mutilated or defaced Note must be surrendered before a new one will be issued.

17. **NOTICE TO NOTEHOLDERS**

17.1 **Publication of Notice**

- (a) Subject to Condition 17.1(d), any notice to Noteholders shall be validly given if published in the *Financial Times* or, if such newspaper shall cease to be published or if timely publication therein is not practicable, in such other English newspaper or newspapers as the Trustee shall approve in advance having a general circulation in the United Kingdom, provided that if, at any time, (i) the Issuer procures that the information concerned in such notice shall appear on a page of the Bloomberg screen or any other medium for electronic display of data as may be previously approved in writing by the Trustee and notified to Noteholders (in each case a "**Relevant Screen**"), or (ii) paragraph (c) below applies, publication in the newspaper set out above or such other newspaper or newspapers shall not be required with respect to such notice. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which (or on the Relevant Screen) publication is required.
- (b) In respect of Definitive Notes, notices to Noteholders shall be validly given: (i) if published in the *Financial Times*, or, if such newspaper shall cease to be published or, if timely publication therein is not practicable, in such other English newspaper or newspapers (as the Trustee shall approve in writing in advance) having a general circulation in the United Kingdom; or (ii) so long as the relevant Notes are listed on the official list of the Euronext Dublin if published in accordance with the relevant guidelines of the Euronext Dublin by a notification in writing to its Company Announcements Office, and any notice so published shall be deemed to have been given on the date of publication.
- (c) While the Notes are represented by Global Notes, notices to Noteholders will be valid if published as described above or, if submitted to Euroclear and/or Clearstream, Luxembourg for communication by them to Noteholders. Any notice delivered to Euroclear and/or Clearstream, Luxembourg, as aforesaid shall be deemed to have been given on the day of such delivery.
- (d) So long as the relevant Notes are admitted to trading on, and listed on the official list of, the Euronext Dublin all notices to the Noteholders will be valid if published in a manner which complies with the rules and regulations of the Euronext Dublin (which includes delivering a copy of such notice to the Euronext Dublin) and any such notice will be deemed to have been given on the date sent to the Euronext Dublin.

17.2 **Trustee's Discretion to Select Alternative Method**

The 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 Trustee shall require.

18. **SUBORDINATION BY DEFERRAL**

18.1 **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 18, include any interest previously deferred under this Condition 18.1 and accrued interest thereon) payable in respect of the Notes (other than the Class A Notes or, should they be the Most Senior Class of Notes, the other Classes of Rated Notes) after having paid or provided for items of higher priority in the Pre-Enforcement 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 Notes (other than the Class A Notes or, should they be the Most Senior Class of Notes, the other Classes of Rated Notes), to the extent only of any insufficiency of funds. The Issuer shall not be entitled to such deferral on an Interest Payment Date which is the Final Maturity Date or any earlier Interest Payment Date on which the Notes are to be redeemed in full. No such deferral shall result in the occurrence of an Event of Default until the Final Maturity Date. For the avoidance of doubt, such deferral of interest in respect of the Class X Notes and the Class Z Notes shall not constitute an Event of Default until the Final Maturity Date.

18.2 **General**

Any amounts of Deferred Interest in respect of a Class of Notes (other than the Class Z Notes) shall accrue interest ("**Additional Interest**") at the same rate and on the same basis as scheduled interest in respect of the corresponding Class of Notes, but shall not be capitalised. Such Deferred Interest and Additional Interest shall, in any event, become payable on the next Interest Payment Date (unless and to the extent that Condition 18.1 (*Interest*) applies) or on such earlier date as the relevant Class of Notes becomes due and repayable in full in accordance with these Conditions.

18.3 **Notification**

As soon as practicable after becoming aware that any part of a payment of interest on a Class of Notes (other than the Class A Notes, or (should they be the Most Senior Class of Notes) the other Classes of Rated Notes) will be deferred, or that a payment previously deferred will be made, in each case in accordance with this Condition 18, the Issuer will give notice thereof to the relevant Class of Noteholders, as appropriate, in accordance with Condition 17 (*Notice to Noteholders*).

Any deferral of interest in accordance with this Condition 18 will not constitute an Event of Default. The provisions of this Condition 18 shall cease to apply on the Final Maturity Date, or any earlier date on which the Notes are to be redeemed in full or, are required to be redeemed in full, at which time all Deferred Interest and Additional Interest thereon shall become due and payable.

19. **NON-RESPONSIVE RATING AGENCY**

- (a) In respect of the exercise of any power, duty, trust, authority or discretion as contemplated hereunder or in relation to the Rated Notes and any of the Transaction Documents, the Trustee shall be entitled but not obliged to take into account and may rely without further enquiry and without liability on any written confirmation or affirmation (in any form acceptable to the Trustee) from the Rating Agencies that the then current ratings of the Rated Notes will not be reduced, qualified, adversely affected or withdrawn thereby (a "**Rating Agency Confirmation**").

- (b) If a Rating Agency Confirmation or other response by a Rating Agency is a condition to any action or step under any Transaction Document and a written request for such Rating Agency Confirmation or response is delivered to each Rating Agency by or on behalf of the Issuer (copied to the Trustee) and:
- (i) (A) one Rating Agency (such Rating Agency, a "**Non-Responsive Rating Agency**") indicates that it does not consider such Rating Agency Confirmation or response necessary in the circumstances or that it does not, as a matter of practice or policy, provide such Rating Agency Confirmation or response or (B) within 30 days of delivery of such request, no Rating Agency Confirmation or response is received and/or such request elicits no statement by such Rating Agency that such Rating Agency Confirmation or response could not be given; and
  - (ii) one Rating Agency gives such Rating Agency Confirmation or response based on the same facts,

then such condition to receive a Rating Agency Confirmation or response from each Rating Agency shall be modified so that there shall be no requirement for the Rating Agency Confirmation or response from the Non-Responsive Rating Agency if the Issuer provides to the Trustee a certificate signed by two directors certifying and confirming that each of the events in paragraphs (b)(i)(A) or (B) and (b)(ii) of this Condition 19 has occurred.

## 20. JURISDICTION AND GOVERNING LAW

### 20.1 Jurisdiction

- (a) Subject to Condition 20.1(b), the Courts of England (the "**Courts**") are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes, and the Transaction Documents (including a dispute relating to non-contractual obligations or a dispute regarding the existence, validity or termination of any of the Notes or the Transaction Documents or the consequences of their nullity) and accordingly any legal action or proceedings arising out of or in connection with the Notes and/or the Transaction Documents may be brought in such Courts.
- (b) This Condition 20.1 (*Jurisdiction*) is for the benefit of the Trustee only. As a result, and notwithstanding Condition 20.1(a) above, this Condition does not prevent the Trustee taking proceedings relating to any dispute in any other courts with jurisdiction. Further, to the extent allowed by law, the Trustee may take concurrent proceedings in any number of jurisdictions.

### 20.2 Governing Law

The Transaction Documents, 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 except that, to the extent that the provisions of the Mortgage Sale Agreement, the Deed of Charge and any security documents supplemental thereto relate to the Scottish Mortgage Loans, such provisions and documents shall be governed by Scots law, and the Scottish Declaration of Trust shall be governed by Scots law.

## 21. 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.



## TAXATION

### **United Kingdom Taxation**

*The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes. It is based on current law and the practice of Her Majesty's Revenue and Customs ("HMRC"), which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of the Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.*

### **United Kingdom Withholding Tax**

The Notes issued by the Issuer which carry a right to interest will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange. Whilst the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

Securities will be "listed on a recognised stock exchange" for this purpose if they are admitted to trading on an exchange designated as a recognised stock exchange by an order made by the Commissioners for HMRC and either they are included in the United Kingdom official list (within the meaning of Part 6 of the Financial Services and Markets Act 2000) or they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange.

The Euronext Dublin is a recognised stock exchange. The Issuer's understanding of current HMRC practice is that securities which are officially listed and admitted to trading on the Main Securities Market of the Euronext Dublin are regarded as "listed on a recognised stock exchange" for these purposes.

In all cases falling outside the exemption described above, interest on the Notes may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available following a direction from HMRC pursuant to the provisions of any applicable double taxation treaty, or to any other exemption which may apply.

### **Other Rules Relating to United Kingdom Withholding Tax**

Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "**interest**" above mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of an issuer pursuant to Notes Condition 13.22 (*Issuer Substitution Condition*) or otherwise and does not consider the tax consequences of any such substitution.

## **Foreign Account Tax Compliance Act**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a **"foreign financial institution"** may be required to withhold on certain payments it makes (**"foreign passthru payments"**) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the jurisdiction of the Issuer) have entered into, or have agreed in substance to, intergovernmental agreements (**"IGAs"**) with the United States to implement FATCA, which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Securities, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Securities, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Securities, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Securities. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Securities, no person will be required to pay additional amounts as a result of the withholding.

## SUBSCRIPTION AND SALE

Natwest Markets Plc (the "**Arranger**" and "**Lead Manager**"), and the Seller have, pursuant to a subscription agreement dated on or about the Closing Date between, among others, the Seller, the Arranger, the Lead Manager and the Issuer (the "**Subscription Agreement**"), agreed with the Issuer (subject to certain conditions) to subscribe and pay for:

- (a) in the case of the Lead Manager:
  - (i) £244,872,000 of the Class A Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A Notes;
  - (ii) £22,572,000 of the Class B Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class B Notes;
  - (iii) £20,862,000 of the Class C Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class C Notes;
  - (iv) £14,364,000 of the Class D Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class D Notes;
  - (v) £10,602,000 of the Class E Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class E Notes;
  - (vi) £11,628,000 of the Class F Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class F Notes; and
  - (vii) £15,000,000 of the Class X Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class X Notes.
- (b) in the case of the Seller:
  - (i) £17,100,000 of the Class Z Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class Z Notes,respectively as at the Closing Date.

The Issuer has agreed to indemnify the Lead Manager against certain liabilities in connection with the issue of the Notes.

***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.***

### **Ireland**

Each of the Lead Manager and the Arranger has represented, warranted and agreed with the Issuer that:

- (a) it will not underwrite the issue of, or place the Notes, otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulation 2007 (Nos. 1 to 3) (as amended) of Ireland, including, without limitation, Regulations 7 and 152 thereof and any codes of conduct used in connection therewith and the provisions of the Investor Compensation Act 1998 (as amended);
- (b) it will not underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Companies Act 2014, the Central Bank Acts 1942 to 2014 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989 (as amended);
- (c) it will not underwrite the issue of, or place, or do anything in Ireland with respect to the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations, 2005 (as amended) and any rules issued under Section 1363 of the Companies Act 2014, by the Central Bank of Ireland; and

- (d) it will not underwrite the issue of, place or otherwise act in Ireland with respect to the Notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations, 2005 (as amended) and any rules issued under Section 1370 of the Companies Act 2014 by the Central Bank of Ireland.

## **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "FIEA") and, accordingly, each Manager undertakes that it will not offer or sell any Notes directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or resale, directly or indirectly, in Japan or to any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and other relevant laws and regulations of Japan. As used in this paragraph, "**resident of Japan**" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

## **United Kingdom**

Each of the Lead Manager and the Arranger 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, an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; 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 Lead Manager and the Arranger has acknowledged that, save for having obtained the approval of the Prospectus as a prospectus in accordance with the Prospectus Directive, having applied for the admission of the Notes to the Official List of the Euronext Dublin and admission of the Notes to trading on its Main Securities Market, no further action has been or will be taken in any jurisdiction by the Lead Manager 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.

## **United States**

Each of the Lead Manager and the Arranger has represented to and agreed with the Issuer and the Seller that:

- (a) The Notes have not been and will not be registered under the Securities Act or the securities laws or "blue sky" laws of any state or any other relevant jurisdiction of the United States and therefore may not be offered, sold, resold or otherwise transferred, directly or indirectly within the United States or to, or for the account or benefit of, U.S. persons (as defined under Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws. Accordingly, the Notes are being offered only outside the United States to persons other than U.S. persons (as defined under Regulation S under the Securities Act).
- (b) The Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes as part of its distribution at any time or otherwise until 40 days after the later of the commencement of the offering of the Notes and the Closing Date (the "**Distribution Compliance Period**") within the United States or to, or for the account or benefit of, U.S. persons (as defined under Regulation S under the Securities Act). Each Manager has further agreed that it will have sent to each affiliate or other person receiving a selling commission, fee or other remunerations that purchases Notes from it 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 of, U.S. persons (as defined under Regulation S under the Securities Act).
- (c) In addition, until the expiration of the Distribution Compliance Period, an offer or sale of the Notes within the United States by each Manager may violate the registration requirements of the

Securities Act. Terms used in this section that are defined in Regulation S under the Securities Act are used herein as defined therein.

- (d) The Class A Notes and the Class B 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. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, and Treasury regulations promulgated thereunder.
- (e) Except with the prior written consent of Optimum Credit Limited in the form of a U.S. Risk Retention Waiver and where such sale falls within the exemption provided by rule 20 of the U.S. Risk Retention Rules, the Notes offered and sold by the Issuer may not be purchased by, or for the account or benefit of, any Risk Retention U.S. Persons. Each purchaser of a Note or a beneficial interest therein acquired in the initial syndication of the Notes, by its acquisition of a Note or a beneficial interest in a Note, will be deemed to represent to the Issuer, each Manager and the Seller that it (1) is not a Risk Retention U.S. Person (unless it has obtained the prior written consent of Optimum Credit Limited), (2) is acquiring such Note or a beneficial interest therein for its own account and not with a view to distribute such Note, and (3) is not acquiring such Note or a beneficial interest therein as part of a scheme to evade the requirements of the U.S. Risk Retention Rules. See "*Risk Factors – U.S. Risk Retention Requirements*".

### **Prohibition of Sales to EEA Retail Investors**

The Lead Manager and the Arranger has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression "retail investor" means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or
  - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID; and
- (b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

### **General**

Other than admission of the Notes to the Official List of the Euronext Dublin and the admission of the Notes to trading on its Main Securities Market, no action has been taken by the Issuer, the Arranger, the Lead Manager 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 Lead Manager and the Seller has undertaken that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in respect of the Notes in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

To the extent that it would not contravene any undertakings made by the Seller in the Mortgage Sale Agreement, the Seller has undertaken that it will obtain any consent, approval or permission which is, to the best of its knowledge and belief, required for the offer, purchase or sale by it of the Class Z Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such offers, purchases or sales and it will, to the best of its knowledge and belief, comply with all such laws and regulations, provided that the Seller shall not be liable for any loss arising from the sale of the Class Z Notes to any person believed in good faith by the Seller, on reasonable grounds and after making reasonable investigations, to be a person to whom the Class Z Notes could legally be sold or to whom any material could lawfully be given in compliance with the above restrictions and requirements.

## TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS

### Offers and Sales

The Notes have not been and will not be registered under the Securities Act or the securities laws or "blue sky" laws of any state or any other relevant jurisdiction of the United States and therefore may not be offered, sold, resold or otherwise transferred, directly or indirectly within the United States or to, or for the account or benefit of, U.S. persons (as defined under Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws.

### *Investor Representations and Restrictions on Resale*

Each purchaser of the Notes (which term for the purposes of this section will be deemed to include any interests in the Notes, including Book-Entry Interests) will be deemed to have represented warranted, undertaken and agreed, as follows, that:

- (a) the purchaser is located outside the United States and is not a U.S. person (as defined under Regulation S) or an affiliate of the Issuer or a person acting on behalf of such an affiliate and is acquiring such Notes for its own account or as a fiduciary or agent for other non-U.S. persons in an offshore transaction (as defined under Regulation S) pursuant to an exemption from registration provided by Regulation S;
- (b) if the purchaser purchased the Notes during the initial syndication of the Notes, it (1) either (i) is not a Risk Retention U.S. Person or (ii) has obtained a U.S. Risk Retention Waiver, (2) is acquiring such Note or a beneficial interest therein for its own account and not with a view to distribute such Notes and (3) is not acquiring such Note or a beneficial interest therein as part of a scheme to evade the requirements of the U.S. Risk Retention Rules (including acquiring such Note through a non-Risk Retention U.S. Person, rather than a Risk Retention U.S. Person, as part of a scheme to evade the 10 per cent. Risk Retention U.S. Person limitation in the exemption provided for in Section 20 of the U.S. Risk Retention Rules);
- (c) 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 or (iii) pursuant to another exemption from the registration requirements of the Securities Act; 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;
- (d) 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), (b) and (c) above, and (iii) such transferee shall be deemed to have agreed to notify its subsequent transferees as to the foregoing;
- (e) if the purchaser is acquiring any Notes as fiduciary or agent for one or more investor accounts, it represents with respect to each such account that (i) it has sole investment discretion, and (ii) it has full power to make, and does make, the acknowledgments, representations, warranties, undertakings and agreements contained herein; and
- (f) the Issuer, the Lead Manager, their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations, warranties, undertakings and agreements and if the acknowledgments, representations, warranties, undertakings and agreements contained herein

cease to be accurate or have not been complied with, it will immediately notify the Issuer and the Lead Manager.

Unless otherwise determined by the Issuer in accordance with applicable law, the Notes bear a legend substantially 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 OR ANY OTHER RELEVANT JURISDICTION AND IS SUBJECT TO UNITED STATES TAX LAW REQUIREMENTS, 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, OR IN A TRANSACTION NOT SUBJECT TO, 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 AND OTHERWISE IN ACCORDANCE WITH UNITED STATES TAX LAW REQUIREMENTS.

THIS NOTE MAY NOT BE ACQUIRED BY AN EMPLOYEE BENEFIT PLAN, OR OTHER RETIREMENT ARRANGEMENT THAT IS SUBJECT TO SECTION 406 OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED OR TO SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**") OR BY ANY ENTITY DEEMED TO HOLD THE PLAN ASSETS OF THE FOREGOING OR BY ANY OTHER PLAN OR RETIREMENT ARRANGEMENT SUBJECT TO SUBSTANTIALLY SIMILAR LAW. EACH INVESTOR IN THE NOTES WILL BE DEEMED TO REPRESENT THAT IT IS IN COMPLIANCE WITH THE FOREGOING AND WILL FURTHER BE DEEMED TO REPRESENT, WARRANT AND COVENANT THAT IT WILL NOT SELL, PLEDGE OR OTHERWISE TRANSFER SUCH SECURITIES IN VIOLATION OF THE FOREGOING."

*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 Notes to the Official List of Euronext Dublin and the admission of the Notes to trading on Euronext Dublin's Main Securities Market will be granted on or around 1 November 2018.
2. None of the Issuer or Holdings is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or Holdings respectively is aware) since 20 April 2018 (being the date of incorporation of each of the Issuer and Holdings) which may have, or have had in the recent past, significant effects upon the financial position or profitability of the Issuer or Holdings (as the case may be).
3. No statutory or non-statutory accounts within the meaning of sections 434 and 435 of the Companies Act 2006 (as amended) in respect of any financial year of the Issuer have been prepared. 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 2018. So long as the Notes are admitted to trading on Euronext Dublin's Main Securities 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 Notes are admitted to the Official List of Euronext Dublin and to trading Euronext Dublin's Main Securities 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 20 April 2018 (being the date of incorporation of each 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 or around 29 October 2018.
8. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following ISINs and Common Codes:

Class of Notes	ISIN	Common Code
Class A Notes	XS1849533234	184953323
Class B Notes	XS1849535528	184953552
Class C Notes	XS1849535791	184953579
Class D Notes	XS1849535874	184953587
Class E Notes	XS1849535957	184953595
Class F Notes	XS1849536419	184953641
Class X Notes	XS1849535361	184953536
Class Z Notes	XS1849535445	184953544

9. From the date of this Prospectus and for so long as the Notes are listed on Euronext Dublin and admitted to trading on its Main Securities Market, physical copies of the following documents (other than in the case of the Trust Deed subject to the redaction of any sensitive personal information) may be inspected at the registered office of the Issuer (and, with the exception of (a) below, at the specified office of the Paying Agents) during usual business hours, on any weekday (public holidays excepted):
  - (a) the memorandum and articles of association of each of the Issuer and Holdings;
  - (b) the Agency Agreement;
  - (c) the Cash Management Agreement;
  - (d) the Deed of Charge;
  - (e) the Collection Account Declaration of Trust;



- (f) the Issuer Account Bank Agreement;
  - (g) the Incorporated Terms Memorandum;
  - (h) the Mortgage Sale Agreement;
  - (i) the Corporate Services Agreement;
  - (j) the Servicing Agreement;
  - (k) the Back-up Servicing Agreement;
  - (l) the Share Trust Deed; and
  - (m) the Trust Deed.
10. The Cash Manager on behalf of the Issuer will publish the Monthly Investor Report and Quarterly Investor Report detailing, *inter alia*, certain aggregated mortgage loan data in relation to the Mortgage Portfolio. Such Investor Reports will be published on the website of the Cash Manager at <http://www.sf.citidirect.com> and made available through Bloomberg provided that neither the Issuer nor any other relevant Transaction Party assumes any liability for any failure to publish any Investor Report thereon. In addition, loan level information will be provided in the Monthly Data Tape by the Servicer to the Cash Manager (with a copy to the Issuer, the Trustee and the Rating Agencies), who (subject to receipt thereof) shall publish such Monthly Data Tape at <http://www.sf.citidirect.com>. Other than as outlined above, the Issuer does not intend to provide post-issuance transaction information regarding the Notes or the Mortgage Loans.
11. The Issuer confirms that the Mortgage Loans and Related Security have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. Investors are advised that this confirmation is based on the information available to the Issuer at the date of this Prospectus and may be affected by the future performance of such assets backing the issue of the Notes. Investors are advised to review carefully any disclosure in the Prospectus together with any amendments or supplements thereto.
12. Walkers Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List of Euronext Dublin or to trading on the Main Securities Market of Euronext Dublin.
13. Any website referred to in this document does not form part of the Prospectus.
14. The total expenses to be paid in relation to admission of the Notes to the official list of Euronext Dublin are estimated to be approximately €10,500.

## DEFINED TERMS

"**Accrued Interest**" means, in relation to a Mortgage Loan, as at any given date, the aggregate amount of interest accrued or charged from and including the immediately preceding monthly payment date for such Mortgage Loan (or, if later, the date of completion of such Mortgage Loan) but not yet paid to, but excluding, that given date.

"**Additional Mortgage Loan Sale Notice**" means a notice in the form set out at Schedule 12 of the Mortgage Sale Agreement.

"**Additional Mortgage Loans**" or "**Additional Mortgage Portfolio**" means the Mortgage Loans sold or purported to be sold by the Seller to the Issuer during the Further Sale Period.

"**Additional Mortgage Loans Cut-Off Date**" means the date nominated by the Seller in respect the Additional Mortgage Loans to be sold to the Issuer on the Further Sale Date as specified in the Additional Mortgage Loans Sale Notice provided that such date is not the Further Sale Date.

"**Additional Mortgage Loans Purchase Price**" means an amount equal to the aggregate of the Current Balance of the Additional Mortgage Loans as at the relevant Additional Mortgage Loans Cut-Off Date;

"**Appointee**" means any attorney, manager, agent, delegate, nominee, custodian, financial adviser or other professional adviser or other person properly appointed or employed by the Trustee under the Trust Deed or the Deed of Charge (as applicable) to discharge any of its functions.

"**Arrears**" means, in relation to a Mortgage Loan, the sum of all amounts of interest and principal (but excluding fees and charges) which are outstanding after the end of the month in which such amounts were due to be paid and "**in Arrears**" shall be construed accordingly.

"**Arrears Management Procedures**" means the exercise by the Servicer on behalf of the Issuer and the Seller of the rights and remedies of the Issuer and the Seller and/or the Trustee (as applicable) against a Borrower or in relation to the security for the Borrower's obligations arising from any default by the Borrower under or in connection with the respective Mortgage Loan or Related Security in accordance with the procedures described in the Servicer's client manual or such other procedures as may be taken by the Servicer acting in accordance with the standards of a Prudent Mortgage Lender in connection with defaults of a similar nature.

"**Arrears of Interest**" means, in relation to a Mortgage Loan, as at any given date, interest which has become and remains due and payable.

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

- (a) all Redemption Receipts and/or, if in a Determination Period, any Calculated Redemption Receipts (in each case, excluding an amount equal to any Reconciliation Amounts to be applied as Available Revenue Receipts on that Interest Payment Date) received by the Issuer corresponding to the immediately preceding Collection Period;
- (b) any amounts of Available Revenue Receipts retained pursuant to items (g), (j), (l), (n), (p), (r) and (u) of the Pre-Enforcement Revenue Priority of Payments and deemed to be Available Redemption Receipts, (together, "**PDL Cure Amounts**");
- (c) following the Liquidity Reserve Initial Funding Date but prior to the Senior Notes Redemption Date, the Liquidity Reserve Fund Excess Amount on such Interest Payment Date;
- (d) on the Senior Notes Redemption Date only, all amounts standing to the credit of the Liquidity Reserve Fund (after first, having applied any Liquidity Reserve Fund Drawings to meet any Revenue Deficit on the Senior Notes Redemption Date);
- (e) on each Interest Payment Date following a Determination Period, any Reconciliation Amounts deemed to be Available Redemption Receipts in accordance with the Cash Management Agreement; and

- (f) from and including the Optional Redemption Date, any Available Revenue Receipts applied as Available Redemption Receipts in accordance with item (t) of the Pre-Enforcement Revenue Priority of Payments,

*less:*

- (g) amounts under a Direct Debit which were transferred to the Transaction Account but thereafter are repaid to the bank making the payment if such bank is unable to recoup or recall such amount itself from its customer's account or is required to refund an amount previously debited to the extent that such amount is of a principal nature.

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

- (a) Revenue Receipts and/or, if in a Determination Period, Calculated Revenue Receipts (in each case, excluding any Reconciliation Amounts to be applied as Available Redemption Receipts on that Interest Payment Date) received by the Issuer corresponding to the immediately preceding Collection Period *less* any Permitted Withdrawals;
- (b) interest payable to the Issuer on the Transaction Account and received in the immediately preceding Collection Period;
- (c) the amount (if any) standing to the credit of the General Reserve Fund as at the last day of the immediately preceding Collection Period;
- (d) on each Interest Payment Date following a Determination Period, any Reconciliation Amounts deemed to be Available Revenue Receipts in accordance with the Cash Management Agreement;
- (e) amounts determined to be credited to the Transaction Account on the immediately preceding Interest Payment Date in accordance with item (v) of the Pre-Enforcement Revenue Priority of Payments;
- (f) amounts determined to be applied as Available Revenue Receipts on the immediately succeeding Interest Payment Date in accordance with item (j) of the Pre-Enforcement Redemption Priority of Payments;
- (g) other net income of the Issuer corresponding to the immediately preceding Collection Period, excluding any Redemption Receipts;
- (h) any amounts received by the Issuer under the Swap Agreement or any replacement Swap Agreement on an Interest Payment Date that have not been paid out by the Issuer (excluding Swap Excluded Receivable Amounts (unless, in the case of limb (v) thereof, they are no longer required to fund the entry into a new fixed/floating swap), any amounts credited to the Swap Collateral Account and any Swap Collateral Account surplus);
- (i) in respect of the first Interest Payment Date only, amounts standing to the credit of the Pre-Funding Revenue Reserve Ledger on the Collection Period End Date prior to such Interest Payment Date;
- (j) any True-Up Amount; and
- (k) on the Final Rated Notes Redemption Date, the General Reserve Fund Ledger Residual Amount,

*less:*

- (l) any Third Party Amounts and Excess Recoveries Amounts paid from the Transaction Account to the persons entitled thereto and relating to the immediately preceding Collection Period.

**"Borrower"** means, in relation to a Mortgage Loan, each person or persons who is or are named and defined as such in the relevant Mortgage Loan, Mortgage or Mortgage Conditions and to whom such Mortgage Loan is advanced together with any person or persons from time to time assuming the obligations of the Borrower to repay such Mortgage Loan or any part of it.

**"Calculation Date"** means the day falling three Business Days prior to each Interest Payment Date.

"**Calculated Redemption Receipts**" means the product of (a) 1 minus the Interest Determination Ratio and (b) all collections received by the Issuer during a Determination Period.

"**Calculated Revenue Receipts**" means the product of (a) the Interest Determination Ratio and (b) all collections received by the Issuer during a Determination Period.

"**CCJ**" means a county court judgement (or its Scottish equivalent).

"**Certificate of Title**" means, in respect of a Property, a solicitor's, licensed or (in Scotland) qualified conveyancer's report or certificate of title obtained by or on behalf of the Seller in respect of such Property substantially in the form of the *pro forma* set out in the applicable Standard Documentation and all documents and enclosures accompanying the certificate of title as required by the solicitor's instructions.

"**Clearing System**" means Euroclear and/or Clearstream, Luxembourg and includes in respect of any Note any clearing system on behalf of which such Note is held or which is the holder (directly or through a nominee) or registered owner of a Note, in either case whether alone or jointly with any other Clearing System(s).

"**Collection Account**" means the collection account in the name of the Seller held with the Collection Account Bank with account number 48677159 and sort code 60-00-01 into which the Servicer directs payment of principal collections and revenue collections in respect of the Mortgage Portfolio.

"**Collection Account Beneficiary**" means any beneficiary that may, from time to time, accede to the terms of the Collection Account Declaration of Trust where they have acquired a portfolio of loans from the Seller.

"**Collection Account Beneficiary Share**" means an amount equal to amounts from time to time standing to the credit of the Collection Account to the extent that such amounts represent payments into the Collection Account derived from or resulting from the loans purchased by such Collection Account Beneficiary (but excluding any interest arising in respect of amounts standing to the credit of the Collection Account).

"**Collection Account Declaration of Trust**" means the declaration of trust by OCL over the Collection Account in favour of the Issuer.

"**Collection Account Trust Property**" means all amounts standing to the credit of the Collection Account held on trust by the Seller pursuant to the Collection Account Declaration of Trust.

"**Collection Period**" means each quarterly period commencing on and including the first calendar day of January, April, July and October and ending on and including the next following Collection Period End Date, with the first Collection Period commencing on (and including) the Cut-Off Date (in respect of the Mortgage Loans sold on the Closing Date) and the Additional Mortgage Loans Cut-Off Date (in respect of the Additional Mortgage Loans).

"**Collection Period End Date**" means the last calendar day of the calendar quarter (being 31 March, 30 June, 30 September and 31 December) immediately preceding each Calculation Date.

"**Combination Mortgage Loan**" means a Mortgage Loan in relation to which there is an initial fixed or variable rate interest-only period of two or five years, followed by a fully amortising period (consisting of interest and principal repayments) of at least ten years (as at the commencement of the amortising period).

"**Credit Support Annex**" means a 1995 ISDA Credit Support Annex (*Bilateral Form – Transfer*) entered into between the Swap Counterparty and the Issuer in connection with the Swap Agreement (or any 1995 ISDA Credit Support Annex (*Bilateral Form – Transfer*) entered into between the Issuer and any replacement Swap Counterparty).

"**Current Balance**" means, in relation to any Mortgage Loan as at any date, the aggregate of:

- (a) the initial amount advanced (inclusive of any broker fees or any upfront fees payable to the Seller which the Borrower has elected to pay on an ongoing basis) under such Mortgage Loan together with any other amounts subsequently advanced thereunder or otherwise capitalised thereon less any such amounts previously repaid;

- (b) any interest charged on any Arrears amounts; and
- (c) Arrears of Interest,

but excluding any other fees charged by the Seller or Accrued Interest and provided that, should a Borrower have exercised a right of set-off or in the case of the non-existence of a Mortgage Loan, the Current Balance shall be deemed to be the balance that would have existed prior to the exercise of such right of set-off, or had such Mortgage Loan existed, as the case may be.

**"Current Indexed Loan to Value Ratio"** or **"Indexed CLTV"** means, on any date, in respect of a Mortgage Loan, the amount (expressed as a percentage) which is obtained by dividing the aggregate of the Current Balance of such Mortgage Loan together with the higher of (1) the principal amount outstanding at the time of such Mortgage Loan's origination of any mortgage loan secured by a prior-ranking legal mortgage or legal charge (if located in England or Wales) or standard security (if located in Scotland) over the relevant Property and (2) the maximum liability under such prior-ranking mortgage loan, by the value attributed to the Property which is the subject of such Mortgage Loan pursuant to the Indexed Valuation on such date in respect of that Mortgage Loan.

**"Current Loan to Value Ratio"** or **"CLTV"** means, on any date, in respect of a Mortgage Loan, the amount (expressed as a percentage) which is obtained by dividing the aggregate of the Current Balance of such Mortgage Loan together with the higher of (1) the principal amount outstanding at the time of such Mortgage Loan's origination of any mortgage loan secured by a prior-ranking legal mortgage or legal charge (if located in England or Wales) or standard security (if located in Scotland) over the relevant Property and (2) the maximum liability under such prior-ranking mortgage loan, by the value attributed to the Property which is the subject of such Mortgage Loan pursuant to the Valuation at origination in respect of that Mortgage Loan.

**"Customer Support Policy"** means the customer support policy of the Servicer as set out in the Mortgage Sale Agreement, as amended or supplemented from time to time in accordance with the standards of a Prudent Mortgage Lender.

**"Cut-Off Date"** means 25 October 2018.

**"Daily Loan Amount"** means aggregate daily amounts credited to the Collection Account from (and including) the Closing Date that relate to the Mortgage Loans identified on a daily basis.

**"Data Protection Laws"** means:

- (a) prior to 25 May 2018, the Data Protection Act 1998;
- (b) on and from 25 May 2018, the GDPR and the Data Protection Act 2018; and
- (c) all other applicable data protection and data privacy laws and regulations.

**"DBRS"** means DBRS Ratings Limited or any successor to its rating business.

**"DBRS Equivalent Rating"** means:

- (a) if a Fitch public rating, a Moody's public rating and an S&P public rating in respect of the senior unsecured debt of a certain entity (each, a **"Public Long Term Rating"**) are all available at such date, the corresponding DBRS rating as shown in the DBRS Equivalent Rating Table of such Public Long Term Rating remaining after disregarding the highest and lowest of such Public Long Term Ratings from such rating agencies (provided that if a Public Long Term Rating is under credit watch negative, or any equivalent, then, for the purpose of determining the DBRS Equivalent Rating, such Public Long Term Rating will be deemed to be one notch below its current notch). For this purpose, if more than one Public Long Term Rating has the same highest or same lowest DBRS rating as shown in the DBRS Equivalent Rating Table, then in each case only one of such Public Long Term Ratings shall be so disregarded in accordance with requirements of the previous sentence and the DBRS Equivalent Rating will be the remaining rating;
- (b) if the DBRS Equivalent Rating cannot be determined under (a) above, but Public Long Term Ratings of a certain entity by any two of Fitch, Moody's and S&P are available at such date, the

corresponding DBRS rating as shown in the DBRS Equivalent Rating Table of the lower of such Public Long Term Rating (provided that if a Public Long Term Rating is under credit watch negative, or any equivalent, then, for the purpose of determining the DBRS Equivalent Rating, such Public Long Term Rating will be deemed to be one notch below its current notch); and

- (c) if the DBRS Equivalent Rating cannot be determined under (a) and (b) above, but a Public Long Term Rating by any one of Fitch, Moody's and S&P is available at such date, then the DBRS rating as shown in the DBRS Equivalent Rating Table will be such Public Long Term Rating (provided that if a Public Long Term Rating is under credit watch negative, or any equivalent, then, for the purpose of determining the DBRS Equivalent Rating, such Public Long Term Rating will be deemed to be one notch below its current notch),

provided that, if at any time the DBRS Equivalent Rating cannot be determined under subparagraphs (a) to (c) above, then the relevant entity will be deemed to have a DBRS rating of "C" at such time.

"DBRS Equivalent Rating Table" means:

DBRS	S&P	Fitch	Moody's
AAA	AAA	AAA	Aaa
AA(high)	AA+	AA+	Aa1
AA	AA	AA	Aa2
AA(low)	AA-	AA-	Aa3
A(high)	A+	A+	A1
A	A	A	A2
A(low)	A-	A-	A3
BBB(high)	BBB+	BBB+	Baa1
BBB	BBB	BBB	Baa2
BBB(low)	BBB-	BBB-	Baa3
BB(high)	BB+	BB+	Ba1
BB	BB	BB	Ba2
BB(low)	BB-	BB-	Ba3
B(high)	B+	B+	B1
B	B	B	B2
B(low)	B-	B-	B3
CCC(high)	CCC+		Caa1
CCC	CCC		Caa2
CCC(low)	CCC-	CCC	Caa3
CC	CC		Ca
C	C		
D	D	D	D

"Defaulted Amounts" means, with reference to a Mortgage Loan which is a Defaulted Mortgage Loan, the Current Balance on the date on which such Mortgage Loan became a Defaulted Mortgage Loan.

"Defaulted Mortgage Loan" means a Mortgage Loan:

- (a) which is equal to or greater than twelve Months in Arrears (calculated as at the end of the immediately preceding calendar month);
- (b) which the Servicer has certified as being defaulted in accordance with the Customer Support Policy; or
- (c) in respect of which enforcement proceedings have been commenced (including, for the avoidance of doubt and without limitation, court process or the appointment of a receiver) or enforcement proceedings have been completed, in each case in accordance with the Arrears Management Procedures.

"Deferred Consideration" means the consideration due and payable to the Seller pursuant to the Mortgage Sale Agreement in respect of the sale of the Mortgage Portfolio, which shall be an amount equal to the amount remaining after making payment of (as applicable):

- (a) the items described in (a) to (z) inclusive of the Pre-Enforcement Revenue Priority of Payments on each Interest Payment Date; and
- (b) the items described in (a) to (w) inclusive of the Post-Enforcement Priority of Payments.

**"Determination Period"** means a period consisting of one or more consecutive calendar months in which the Cash Manager does not receive Monthly Servicer Reports that it is due to receive during such period.

**"Direct Debit"** means a written instruction of a Borrower authorising its bank to honour a request of the Seller to debit a sum of money on specified dates from the account of the Borrower for deposit into an account of the Seller.

**"Direct Debiting Scheme"** means the scheme for the manual or automated debiting of bank accounts by Direct Debit operated in accordance with the detailed rules of certain members of the Association for Payment Clearing Services.

**"English Mortgage"** means a Mortgage secured over a Property situated in England or Wales.

**"EU Insolvency Regulation"** means Regulation (EU) No. 2015/848 of 20 May 2015 on Insolvency Proceedings.

**"Excess Recoveries Amount"** means any amount received by the Issuer which is either: (a) an erroneous transfer of funds not attributable to the Issuer made by the Servicer from the Collection Account to the Transaction Account; or (b) an amount in excess of the aggregate amounts then due from a Borrower in respect of a Mortgage Loan, and which the Servicer has determined relates to an erroneous overpayment.

**"Final Discharge Date"** means the date on which the Trustee notifies the Issuer and the Secured Creditors that it is satisfied that all the Secured Obligations and/or all other monies and other liabilities due or owing by the Issuer have been paid or discharged in full.

**"Final Maturity Date"** means the Interest Payment Date falling in January 2046.

**"Final Rated Notes Redemption Date"** means the date on which the Rated Notes are redeemed in full.

**"Fitch"** means Fitch Ratings Limited or any successor to its rating business.

**"Further Sale Date"** means the Business Day on which the sale and purchase of any Additional Mortgage Loans is completed subject to, and in accordance with, the terms of the Mortgage Sale Agreement.

**"Further Sale Period"** means the period from (but excluding) the Closing Date to (and including) the Further Sale Period End Date.

**"Further Sale Period End Date"** means the earliest to occur of (a) 5 December 2018 (including that date); and (b) the occurrence of a Further Sale Period Termination Event (excluding that date).

**"Further Sale Period Termination Event"** means:

- (a) an Event of Default;
- (a) an Insolvency Event in respect of the Seller;
- (b) an unremedied breach by the Seller of any of its obligations under the Relevant Transaction Documents; and
- (c) any Servicer Termination Event.

**"GDPR"** means the EU General Data Protection Regulation (EU) 2016/679;

**"General Reserve Fund"** means the amount reserved from time to time in the Transaction Account by depositing the General Reserve Fund Required Amount into the Transaction Account and crediting the General Reserve Fund Ledger in accordance with the Cash Management Agreement.

**"General Reserve Fund Ledger"** means the ledger of such name created and maintained by the Cash Manager in the Transaction Account.

**"General Reserve Fund Ledger Residual Amount"** means, on the Final Rated Notes Redemption Date, an amount of the General Reserve Fund on such date.

**"General Reserve Fund Required Amount"** means an amount equal to 2.25 per cent. of the aggregate Principal Amount Outstanding of the Notes (excluding the Class X Notes) as at the Closing Date and thereafter an amount equal to the lesser of: (a) an amount equal to 2.25 per cent. of the aggregate Principal Amount Outstanding of the Notes (excluding the Class X Notes) as at the Closing Date and (b) an amount equal to 4.00 per cent. of the aggregate Principal Amount Outstanding of the Notes (excluding the Class X Notes) as at the immediately preceding Interest Payment Date, in each case subject to a minimum amount equal to 1.00 per cent. of the aggregate Principal Amount Outstanding of the Notes (excluding the Class X Notes) as at the Closing Date.

**"Holding Company"** means, in relation to a person, any other person in respect of which it is a Subsidiary.

**"Hometrack AVM"** means a property valuation from Hometrack Data Systems Limited based on its automated valuation model.

**"Indexed Valuation"** means, on any date, in respect of a Mortgage Loan, the value attributed to the Property which is the subject of such Mortgage Loan pursuant to the most recent Valuation (which may, for the avoidance of doubt, be the Valuation on origination) indexed against the most recent local authority area house price index published by the UK Office for National Statistics.

**"Insolvency Event"** means an event that will occur in respect of an entity in the following circumstances:

- (a) an order is made or an effective resolution passed for the winding-up of the relevant entity (or it makes any composition or arrangement with its creditors); or
- (b) the commencement of negotiations with one or more creditors of such company with a view to rescheduling any indebtedness of such company other than in connection with any refinancing in the ordinary course of business; or
- (c) an encumbrancer takes possession or a Receiver is appointed to the whole or any material part of the undertaking, property and assets of the relevant entity 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 relevant entity is unable or admits its inability to pay its debts as they fall due (after taking into account any grace period or permitted deferral) or suspends making payments of any of its debts; or
- (e) a moratorium is declared in respect of any indebtedness of such company;
- (f) if proceedings are initiated against the relevant entity under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the relevant entity or, as the case may be, in relation to the whole or any part of the undertaking or assets of the relevant entity, and in any such case (other than the appointment of an administrator or an administrative receiver appointed following presentation of a petition for an administration order), unless initiated by the relevant entity, is not discharged within 30 days;
- (g) an arrangement, composition, or compromise (whether by way of voluntary arrangement, scheme of arrangement or otherwise) is made with any creditor of such company, a reorganisation of such company, a conveyance to or assignment for the creditors of such company generally or the making of an application to a court of competent jurisdiction for protection from the creditors of such company generally other than in connection with any refinancing in the ordinary course of business; or
- (h) any analogous procedure or step is taken in any jurisdiction.

**"Interest Determination Ratio"** means, on any Interest Payment Date, (a) the aggregate Revenue Receipts calculated in the most recently preceding Collection Period in respect of which all relevant Monthly



Servicer Reports are available divided by (b) the aggregate of all Revenue Receipts and all Redemption Receipts calculated in such Monthly Servicer Reports.

**"Issuer"** means Castell 2018-1 PLC, a public limited company incorporated under the laws of England and Wales with registered number 11321580 and with its registered office at 35 Great St. Helen's, London, EC3A 6AP.

**"Issuer Profit Amount"** means £5,250 on each of the first four Interest Payment Dates following the Closing Date, and £250 on each Interest Payment Date falling thereafter, which shall be credited to the Issuer Profit Ledger for the Issuer to retain as a profit for entering into the transaction.

**"Issuer Share"** means an amount equal to amounts from time to time standing to the credit of the Collection Account to the extent that such amounts represent payments into the Collection Account derived from or resulting from the Mortgage Loans comprised in the Mortgage Portfolio (but excluding any interest arising in respect of amounts standing to the credit of the Collection Account).

**"Liabilities"** means, in respect of any person, any loss, damage, charge, fee, award, claim, demand, judgment, decree, action, proceedings, fine, penalty, cost, expense or other liability (including properly incurred legal and other professional fees and expenses) any Taxes and penalties incurred by that person.

**"Liquidity Reserve Fund"** means the amount reserved from time to time in the Transaction Account by depositing amounts into the Transaction Account and crediting the Liquidity Reserve Fund Ledger in accordance with the Cash Management Agreement.

**"Liquidity Reserve Initial Funding Date"** means the day after the Interest Payment Date on which the cumulative amount of Available Redemption Receipts previously transferred to the Liquidity Reserve Fund Ledger is equal to the Liquidity Reserve Fund Required Amount.

**"Liquidity Reserve Fund Excess Amounts"** means any amount standing to the credit of the Liquidity Reserve Fund Ledger in excess of the Liquidity Reserve Fund Required Amount on any Interest Payment Date and which will be applied as and form part of Available Redemption Receipts.

**"Liquidity Reserve Fund Ledger"** means the ledger of such name created and maintained by the Cash Manager in the Transaction Account.

**"Liquidity Reserve Fund Required Amount"** means an amount equal to:

- (a) on the Closing Date, zero;
- (b) on and after the Senior Notes Redemption Date, zero;
- (c) on any day after an Enforcement Notice has been served on the Issuer, zero; and
- (d) at any other time, 1.5 per cent. multiplied by the then Principal Amount Outstanding of the Class A Notes and the Class B Notes (before giving effect to any Note Principal Payments on the Class A Notes and the Class B Notes on the relevant date).

**"Loan"** or **"Mortgage Loan"** means a residential mortgage loan (including the aggregate of the outstanding balance of any mortgage loan, any Accrued Interest, Arrears and any fees, costs and other amounts owing to the Seller from the Borrower (including all capitalised sums) which is secured or intended to be secured by the related Mortgage comprised in the Mortgage Portfolio.

**"MCOB Rules"** means the Mortgage and Home Finance: Conduct of Business Sourcebook of the FCA Handbook.

**"MHA/CP Documentation"** means an affidavit, declaration, consent or renunciation granted in terms of the Matrimonial Homes (Family Protection) (Scotland) Act 1981 and/or (as applicable) the Civil Partnership Act 2004 in connection with a Scottish Mortgage or the Scottish Property to which it relates.

**"Monthly Data Tape"** means a report of loan level information in the Bank of England format prevalent on the Closing Date or as otherwise agreed by the Servicer, which the Servicer shall prepare and deliver to the Cash Manager, the Issuer, the Trustee and the Ratings Agencies on a monthly basis.

**"Monthly Payment"** means, in relation to any Mortgage Loan, the amount in the ordinary administration of that Mortgage Loan payable by the relevant Borrower on each Monthly Payment Date pursuant to the Mortgage Conditions.

**"Monthly Payment Date"** means, in relation to any Mortgage Loan, the day in the month when the Monthly Payment falls due.

**"Monthly Servicer Report Date"** means the date falling four Business Days prior to 25<sup>th</sup> calendar day of each calendar month.

**"Months in Arrears"** or **"MIA"** means, at any time in relation to a Mortgage Loan, the ratio of the aggregate amount of Arrears to the current contractual monthly payment for that Mortgage Loan at that time, and accordingly the number of "Months in Arrears" at any time for any Mortgage Loan shall be equal to the aggregate amount of Arrears at that time divided by the then current contractual monthly payment for that Mortgage Loan, rounded down to the greatest preceding integer.

**"Moody's"** means Moody's Investors Service Limited or any successor to its rating business.

**"Mortgage Conditions"** means, in relation to each Mortgage Loan and the Mortgage relating thereto, the terms and conditions subject to which the Mortgage Loan and Mortgage are made including, for the avoidance of doubt, the terms and conditions incorporated into any letter or letters of offer or agreement to make such Mortgage Loan.

**"Mortgage Loan Agreement"** means, in relation to a Mortgage Loan, the loan agreement entered into between a Borrower and the Seller.

**"Mortgage Loan File"** means, in relation to a Mortgage Loan, the customer file (in paper and/or electronic form) maintained by the Issuer or by its agents on its behalf and, where appropriate, MHA/CP Documentation but excluding the Title Deeds.

**"Mortgage Loan Modification"** means in relation to a Mortgage Loan making, sending an offer of or accepting an application for:

- (a) a Borrower disposing of the related Property and purchasing a new property that is not a Permitted Porting;
- (b) a Borrower disposing of part of the related Property;
- (c) a Borrower sub-letting the related Property;
- (d) a Refinancing Redemption;
- (e) a new Mortgage Rate;
- (f) a switch to a different Product Type, or any other product type offered by the Seller;
- (g) where there is more than one Borrower, a transfer of equity in such Mortgage Loan such that there is a reduction in the number of Borrowers in relation to such Mortgage Loan; or
- (h) a variation in the financial terms and conditions applicable to such Mortgage Loan (other than in accordance with the Arrears Management Procedures, or pursuant to any forbearance or other action required by law or a regulator).

**"Mortgage Sale Agreement"** means the mortgage sale agreement to be entered into on or around the Closing Date between, among others, the Seller, the Issuer and the Trustee.

**"Near-Prime Mortgage Loan"** means a Mortgage Loan which (i) satisfies the near-prime loan criteria set out in the Lending Policy or (ii) satisfies the prime loan criteria set out in the Lending Policy but is designated as a Near Prime Mortgage Loan in the relevant data tape.

**"New Safekeeping Structure"** means a structure where a Global Note is registered in the name of a Common Safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other

relevant clearing system and will be deposited on or about the issue date with the Common Safekeeper for Euroclear and/or Clearstream, Luxembourg.

**"Optimum Base Rate"** means the rate or rates of interest set by the Servicer from time to time and applicable to those Mortgage Loans (other than Fixed Rate Mortgage Loans during their fixed interest period or Combination Mortgage Loans during their initial fixed interest-only period), which is capable (at the election of the Servicer) of being reset monthly if one month LIBOR (determined monthly) differs from the Optimum Base Rate by 0.15 per cent. or more (and when reset shall be rounded to the nearest 0.25 per cent.).

**"Optimum Base Rate Loan"** means a Mortgage Loan in relation to which the Borrower pays interest at a margin over the Optimum Base Rate

**"Optimum Group"** means Optimum Holding S.A. and its subsidiaries.

**"Optional Redemption Date"** means 25 January 2022.

**"Original Balance"** means, in respect of a Mortgage Loan, the principal balance (inclusive of any broker fees or any upfront fees payable to the Seller which the Borrower has elected to add to the balance of the Mortgage Loan) of such Mortgage Loan advanced to a Borrower (or the Borrower's creditors) by the Seller at the time of that Mortgage Loan's origination.

**"Original Loan to Value Ratio"** or **"OLTV"** means, in respect of a Mortgage Loan, the amount (expressed as a percentage) which is obtained by dividing the aggregate of the Original Balance of such Mortgage Loan together with the higher of (1) the principal amount outstanding at the time of such Mortgage Loan's origination of any mortgage loan secured by a prior-ranking legal mortgage or legal charge (if located in England or Wales) or standard security (if located in Scotland) over the relevant Property and (2) the maximum liability under such prior-ranking mortgage loan, by the value attributed to the Property which is the subject of such Mortgage Loan pursuant to the Valuation at origination in respect of that Mortgage Loan, rounded to the nearest 0.01 per cent.

**"outstanding"** means, in relation to a Class of Notes, all the Notes of that Class which have been issued except:

- (a) those which have been redeemed in full in accordance with the Conditions;
- (b) those in respect of which the date for redemption in full has occurred and the full amount of redemption moneys (including all interest accrued on such Notes to the date for such redemption and any interest payable under the Conditions after such date) have been duly paid to the Trustee or to the Principal Paying Agent as provided in section C (*Amount of the Notes and Covenant to Repay and Pay Interest on the Notes*) of the Trust Deed (and, where appropriate, notice to that effect has been given to the Noteholders in accordance with Condition 17 (*Notice to Noteholders*)) and remain available for payment against presentation and surrender of Notes;
- (c) those which have become void or in respect of which claims have become prescribed;
- (d) those mutilated or defaced Notes which have been surrendered or cancelled and those Notes which are alleged to have been lost, stolen or destroyed and in all cases in respect of which replacement Notes have been issued pursuant to the Conditions; and
- (e) any Global Note to the extent that it shall have been exchanged for the related Definitive Notes pursuant to the provisions contained therein and the Conditions,

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

- (i) ascertaining the right to attend and vote at any meeting of the Noteholders;
- (ii) the determination of how many Notes are outstanding for the purposes of Condition 11 (*Events of Default*), Condition 12 (*Enforcement*) and Condition 13 (*Meetings of Noteholders, Modification, Waiver and Substitution*) and Schedule 4 (*Provisions for Meetings of Noteholders*) to the Trust Deed;

- (iii) the exercise of any discretion, power or authority which the Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the Noteholders or any Class of them; and
- (iv) the determination by the Trustee of whether any event or potential event is or would be materially prejudicial to the interests of the Noteholders or any Class of them,

those Notes which are beneficially held by, on behalf of or for the benefit of the Issuer, any of its Holding Companies or any Subsidiaries of any of its Holding Companies shall (unless no longer so held) be deemed not to remain outstanding and, for the purposes of this proviso, in the case of the Global Notes, the Trustee shall be entitled to rely on the records of Euroclear and Clearstream, Luxembourg in relation to any determination of the principal amount outstanding of the Global Notes.

**"PDL Cure Amounts"** means any amounts of Available Revenue Receipts retained pursuant to items (g), (j), (l), (n), (p), (r) and (u) of the Pre-Enforcement Revenue Priority of Payments and deemed to be Available Redemption Receipts.

**"Permitted Loan Transfer"** means a Prior Mortgage Loan Transfer where the Current Indexed Loan to Value Ratio in respect of the Mortgage Loan in respect of the relevant Prior Mortgage remains the same or lower following such Permitted Loan Transfer (subject that any increase by no more than 1 per cent. shall be permissible).

**"Permitted Porting"** means, in relation to any Mortgage Loan, the relevant Borrower disposing of the related Property and purchasing a new property where the Current Indexed Loan to Value Ratio is not increased as a result of such new property being purchased. For the avoidance of doubt, in relation to any Permitted Porting, the relevant Mortgage Loan may be partially redeemed (but its Current Balance may not be increased) in order that the Current Indexed Loan to Value Ratio is not increased.

**"Permitted Withdrawal"** means, at any time after the Back-Up Servicer has been appointed as Replacement Servicer, any amount required to be applied during a Collection Period relating to all reasonable out-of-pocket costs, expenses and charges properly incurred by the Servicer (which expression for these purposes shall only include the Back-Up Servicer acting as Servicer under the Servicing Agreement) and required in the performance of the Services.

**"Portfolio Reference Date"** means 7 September 2018.

**"Pre-Funding Principal Reserve"** means the amount equal to the Pre-Funding Principal Reserve Required Amount credited by the Issuer to the Transaction Account and recorded on the Pre-Funding Principal Reserve Ledger on the Issue Date.

**"Pre-Funding Principal Reserve Ledger"** means the ledger of such name created and maintained by the Cash Manager in the Transaction Account.

**"Pre-Funding Principal Reserve Required Amount"** means £30,648,481.87.

**"Pre-Funding Reserves"** means the Pre-Funding Principal Reserve and the Pre-Funding Revenue Reserve.

**"Pre-Funding Revenue Reserve"** means the amount equal to Pre-Funding Principal Reserve Required Amount credited by the Issuer to the Transaction Account and recorded on the Pre-Funding Revenue Reserve Ledger on the Issue Date.

**"Pre-Funding Revenue Reserve Ledger"** means the ledger of such name created and maintained by the Cash Manager in the Transaction Account.

**"Pre-Funding Revenue Reserve Required Amount"** means £233,390.29.

**"Prime Mortgage Loans"** means a Mortgage Loan which is not a Near-Prime Mortgage Loan.

**"Prior Mortgage"** means any mortgages, charges or, in respect of the Properties located in Scotland, standard securities, ranking prior to a Mortgage in respect of the same Property.

**"Prior Mortgage Loan Transfer"** means the redemption of an existing Prior Mortgage advanced by a Prior Mortgagee and its replacement by a new Prior Mortgage with a different lender.

**"Prior Mortgagee"** means a mortgagee of a Prior Mortgage.

**"Product Type"** means: (i) an Optimum Base Rate Loan; (ii) a Combination Mortgage Loan; (iii) a Fixed Rate Mortgage Loan; or (iv) a Discount Mortgage Loan, in each case as the context requires.

**"Property"** means, in relation to a Mortgage Loan and its related Mortgage, the freehold or leasehold property situated in England or Wales or the Scottish Property charged or intended to be charged as security for the repayment of such Mortgage Loan.

**"Prudent Mortgage Lender"** means a reasonably prudent residential mortgage lender lending to borrowers in England, Wales and Scotland who is experienced in second-lien residential mortgage lending.

**"Rated Notes"** means the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes.

**"Receiver"** means any person or persons appointed (and any additional person or persons appointed or substituted) as an administrative receiver, receiver, manager, or receiver and manager of the Charged Assets by the Trustee pursuant to the Deed of Charge.

**"Reconciliation Amount"** means in respect of any Collection Period (a) the actual Redemption Receipts as determined in accordance with the available Monthly Servicer Reports, *less* (b) the Calculated Redemption Receipts in respect of such Collection Period, *plus* (c) any Reconciliation Amount (which for the avoidance of doubt may be a positive or negative number) not applied on any previous Interest Payment Date, provided that if the result of such calculation is a negative number, the Cash Manager shall deem an amount equal to the absolute amount of such negative Reconciliation Amount to constitute Available Revenue Receipts and if the result of such calculation is a positive number, the Cash Manager shall deem an amount equal to such Reconciliation Amount to constitute Available Redemption Receipts.

**"Redemption Receipts"** means (without double-counting) the aggregate of:

- (a) principal repayments under the Mortgage Loans;
- (b) the proceeds of the repurchase of a Mortgage Loan by the Seller from the Issuer or the indemnity payment from the Seller to the Issuer pursuant to the Mortgage Sale Agreement in an amount equal to the Current Balance in respect of such Mortgage Loan (or, where a Borrower has exercised a right of set-off or in the case of the non-existence of a Mortgage Loan, the Current Balance that would have been determined to exist in respect of such Mortgage Loan prior to the exercise of such right of set-off, or had such Mortgage Loan have existed, as the case may be), or in respect of an indemnity payment from the Seller to the Issuer relating to a breach of Mortgage Loan Warranty (other than a Core Mortgage Loan Warranty) in an amount equal to the Liability ascertained, where for the purposes of this provision Current Balance does not include amounts which have been capitalised subsequent to the Cut-Off Date or Additional Mortgage Loans Cut-Off Date (as applicable); and
- (c) recoveries of principal from defaulting Borrowers under defaulting Mortgage Loans (excluding any arrears of principal arising on or prior to the Cut-Off Date or Additional Mortgage Loans Cut-Off Date (as applicable) including upon enforcement and sale of the relevant property acting as security for such Mortgage Loan and following receipt of such associated funds or any amounts recovered from third parties to the extent that such proceeds or receipts constitute principal; provided that any amounts recovered relating to any period after a Mortgage Loan has become a Defaulted Mortgage Loan shall not be deemed to constitute Redemption Receipts and shall rather be applied as Revenue Receipts.

**"Redress Exercise"** means a voluntary exercise undertaken by the Seller and/or an exercise required by the FCA or any other such regulatory authority requiring the Seller to reimburse a Borrower any amount either owed or previously paid by such Borrower under a Mortgage Loan whether with respect to any fees, interest or principal amounts and whether by way of the payment of such amount, payment holiday, payment forgiveness or principal balance reduction, as a result of a failure to service the Borrower's Mortgage Loan in compliance with all applicable laws and regulations and/or any communication with the Borrower being

inaccurate, incomplete or non-compliant with all applicable laws and regulations, including without limitation the CCA, FSMA and relevant secondary legislation (as applicable).

**"Related Security"** means, in relation to a Mortgage Loan, the Mortgage relating thereto and all other collateral security for, and rights in respect of such Mortgage Loan including (but not limited to):

- (a) the benefit of all affidavits, declarations, consents, renunciations, waivers and any MHA/CP Documentation, ranking agreements and any rights against any person or persons in connection with the origination and completion of such Mortgage Loan and Related Security;
- (b) the benefit of (including notations of interest on) any life policies, life policy assignments, assignments, priority letters, pension policies, guarantees, deposited, charged, obtained or held in connection with the relevant Mortgage Loan and Related Security;
- (c) to the extent assignable (without the consent of the relevant counterparty), all causes and rights of action (whether assigned to the Issuer, the Seller or otherwise) against Valuers, Solicitors, any Land Registry or Registers of Scotland (as the case may be) or any other person in connection with any report (including a report on title), Valuation, opinion, certificate, consent or other statement of fact or opinion given in connection with the relevant Mortgage Loan or Related Security; and
- (d) assignments, searches, indemnities and related documentation and any other deed or document providing ancillary security or indemnity for repayment of any sums due from time to time under the relevant Mortgage Loan and any amounts received by the Seller prior to the Cut-Off Date or the Additional Mortgage Loans Cut-Off Date (as applicable) and yet to be allocated toward amounts due under the relevant Mortgage Loan on the Servicer's systems.

**"Relevant Transaction Documents"** means, with reference to any particular Transaction Party, the Transaction Documents to which such Transaction Party is a party together with the Transaction Documents that contain provisions that otherwise bind or confer rights upon such Transaction Party.

**"Repurchase Price"** means the price payable by the Seller upon the repurchase of any Mortgage Loan and its Related Security, which will be: (i) the Current Balance of such Mortgage Loan, plus (ii) Accrued Interest, in each case as at the close of business on the date immediately preceding the date of repurchase plus an amount equal to the Issuer's or the Trustee's (as the case may be) reasonable costs or any other reasonable expenditure in relation to such repurchase (if any).

**"Rescheduled Mortgage Loan"** means a Mortgage Loan which has been rescheduled or altered as a result of being in or falling into Arrears or adverse performance (excluding, for the avoidance of doubt, a Mortgage Loan which is not in Arrears or adverse performance at the time it is restructured or altered).

**"Revenue Deficit"** means, the amount required on an Interest Payment Date to meet any deficit in Available Revenue Receipts available to pay amounts due (or that would be due but for any deferral provision relating thereto pursuant to Condition 18 (*Subordination by Deferral*)) in respect of any of the items (a) to (f) and (h) of the Pre-Enforcement Revenue Priority of Payments, and the aggregate of such Revenue Deficits being **"Revenue Deficits"**.

**"Revenue Receipts"** means (without double-counting) the aggregate of:

- (a) payments of interest and other fees due from time to time under the Mortgage Loans (including payments on arrears of interest arising on or prior to the Cut-Off Date or the Additional Mortgage Loans Cut-Off Date (as applicable)) and other amounts including the proceeds of enforcement of the Mortgage Loans to the extent such proceeds relate to fees and interest received by the Issuer in respect of the Mortgage Loans and their Related Security;
- (b) any early repayment charges and other fees which are received in respect of any Mortgage Loan;
- (c) the proceeds of the repurchase of a Mortgage Loan by the Seller from the Issuer or the indemnity payment from the Seller to the Issuer to the extent such proceeds are attributable to Accrued Interest and other interest amounts in respect of the Mortgage Loans (excluding, for the avoidance of doubt, Arrears of Interest, capitalised interest, capitalised expenses and capitalised arrears);

- (d) any recoveries in respect of any Mortgage Loan which is a Defaulted Mortgage Loan relating to any period after the Mortgage Loan has become a Defaulted Mortgage Loan (or prior thereto any recoveries in respect of any Mortgage Loan to the extent that such receipts constitute interest); and
- (e) any other amounts received in respect of a Mortgage Loan which are not classified as Redemption Receipts.

"**S&P**" means Standard & Poor's Rating Services, a division of Standard & Poor's Credit Market Services Europe Limited, or any successor to its rating business.

"**Scottish Mortgage**" means a Standard Security over a Scottish Property securing a Scottish Mortgage Loan and all principal sums, interest, costs and other amounts secured or intended to be secured by that Standard Security.

"**Scottish Mortgage Loan**" means a Mortgage Loan secured by a Scottish Mortgage.

"**Scottish Property**" means, in relation to a Scottish Mortgage Loan and its related Scottish Mortgage, the heritable or long-leasehold property in Scotland mortgaged or charged as security for repayment of such Scottish Mortgage Loan.

"**Scottish Trust**" means a trust declared and created by the Scottish Declaration of Trust.

"**Secured Obligations**" means the aggregate of all moneys and Liabilities which from time to time are or may become due, owing or payable by the Issuer to each, some or any of the Secured Creditors under the Notes or the Transaction Documents.

"**Self-Certified Borrower**" means a Borrower (or, where applicable, in the case of more than one Borrower the one with the highest annual income used for calculating the ability to repay the Mortgage Loan) who does not provide the Seller with independent verification of their current income as part of their application for a Mortgage Loan.

"**Seller**" means Optimum Credit Limited, a private limited company incorporated under the laws of England and Wales, with its registered office at Haywood House South, Dumfries Place, Cardiff CF10 3GA.

"**Seller Share**" means an amount equal to all amounts from time to time standing to the credit of the Collection Account to the extent such amounts represent amounts other than the Issuer Share or Collection Account Beneficiary Share.

"**Senior Notes Redemption Date**" means the Interest Payment Date on which the Principal Amount Outstanding of the Class A Notes and the Class B Notes is zero (taking into account any Note Principal Payments on the Class A Notes and the Class B Notes on the relevant Interest Payment Date).

"**Services**" means the services to be provided by the Servicer as set out in the Servicing Agreement, and may include any services incidental thereto as may be agreed to in writing by the Issuer, the Seller, the Trustee and the Servicer.

"**Servicing Agreement**" means the agreement pursuant to which the Servicer agrees to service the Mortgage Loans and their Related Security entered into by, among others, the Issuer, the Trustee, the Seller and the Servicer on or around the Closing Date.

"**Servicing Standard**" means the same standard of care and diligence that would reasonably be expected from a Prudent Mortgage Lender.

"**Solicitors**" means a firm of solicitors (or a firm of licensed or qualified conveyancers) selected by the Seller in accordance with the standard practices of the Seller, in the origination of a Mortgage Loan and its Related Security.

"**Standard Documentation**" means the standard documentation of the Seller being the documents which were used by the Seller at the relevant time in connection with its activities as a residential mortgage lender, or any update or replacement therefor as permitted by the terms of the Mortgage Sale Agreement.

**"Standard Security"** means a heritable security created by a standard security over any interest in land in Scotland in terms of the Conveyancing and Feudal Reform (Scotland) Act 1970.

**"Subsidiary"** means a subsidiary within the meaning of section 1159 of the Companies Act 2006.

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

**"Substitution Date"** means the date upon which a Substitute Mortgage Loan is assigned to the Issuer.

**"Subtraction Date"** means, in respect of a Reference Loan, the date on which the relevant Reference Data Tape that reflects the subtraction of such Reference Loan from the Mortgage Portfolio (following the repurchase of such Reference Loan in accordance with the Mortgage Sale Agreement) is provided to the Swap Counterparty.

**"Swap Excluded Payable Amounts"** means any amounts payable by the Issuer to the Swap Counterparty which (i) represent Return Amounts, Interest Amounts or Distributions due under a Credit Support Annex (for the purposes of this definition "Return Amounts", "Interest Amounts" and "Distributions" have the meaning given to them in the Swap Agreement); (ii) are termination payments to the extent such payments can be satisfied from Swap Collateral provided by the Swap Counterparty; or (iii) are termination payments to the extent such payment can be satisfied from premiums received from a replacement Swap Counterparty or (iv) are in respect of any Tax Credit (as defined in the Swap Agreement).

**"Swap Excluded Receivable Amounts"** means (i) any amount of interest actually determined in respect of the principal amount of the portion of the Credit Support Balance (as defined in the Swap Agreement) comprised of cash (net of any deduction or withholding for or on account of any tax), (ii) all principal, interest and other payments and distributions of cash or other property received (net of any deduction or withholding for or on account of any tax) by the Issuer from time to time with respect to any Eligible Credit Support (as defined in the Swap Agreement) comprised in the Credit Support Balance consisting of securities, (iii) any other amounts received by the Issuer pursuant to a Credit Support Annex, (iv) where there has been a tax credit, allowance, set-off or repayment from the tax authorities of any jurisdiction relating to a deduction or withholding that gave rise to the payment by a Swap Counterparty of an additional amount to ensure that the Issuer receives the full amount it would otherwise have received from the relevant Swap Counterparty, then an amount equal to the net cash received by the Issuer in respect of such tax credit, allowance, set-off or repayment (v) any early termination payment received by the Issuer from the Swap Counterparty which is required to be used to fund the entry into a new fixed/floating swap and/or (vi) any premiums received by the Issuer from a replacement Swap Counterparty to the extent required to pay termination payments to the existing Swap Counterparty.

**"Swap Subordinated Amounts"** means any termination payment due to the Swap Counterparty which arises due to either (i) an Event of Default (as defined in the Swap Agreement) where the Swap Counterparty is the Defaulting Party (as defined in the Swap Agreement) or (ii) an Additional Termination Event (as defined in the Swap Agreement) which occurs as a result of the failure of the Swap Counterparty to maintain the requisite ratings, in accordance with the provisions of the Swap Agreement.

**"Third Party Amounts"** means the amounts applied from time to time during the immediately preceding Collection Period in accordance with the Servicing Agreement and Cash Management Agreement in making payment of certain monies which properly belong to third parties (including the Seller) and to the extent that such amounts are not provided for separately in the relevant Priority of Payments, such third party amounts including (but not limited to):

- (a) certain costs and expenses charged by the Servicer in respect of its servicing of the Mortgage Loans in accordance with the Servicing Agreement, other than any Servicing Fee and not otherwise covered by the items below;
- (b) amounts under a Direct Debit which are repaid to the bank making the payment if such bank is unable to recoup or recall such amount itself from its customer's account or is required to refund an amount previously debited to the extent that such amount is of a revenue nature;



- (c) 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;
- (d) any tax payments paid or payable by the Issuer during the immediately preceding Collection Period to the extent not funded from amounts standing to the credit of the Issuer Profit Ledger; and
- (e) without double counting, amounts required to pay any amounts due to the Collection Account Bank (insofar as such amounts are attributable to the Issuer's Share of the Collection Account Trust Property).

**"Third Party Expenses"** means any amounts then 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.

**"Three Month LIBOR"** means LIBOR for three month sterling deposits.

**"Title Deeds"** means, in relation to a Mortgage Loan, the agreement or agreements for such Mortgage Loan, the deed constituting the relevant Mortgage and any documents of title to the relevant Property and to the relevant Related Security.

**"Transaction Account"** means the Sterling account in the name of the Issuer with the Issuer Account Bank and designated as such.

**"Transfer Costs"** means the Issuer's costs and expenses associated with the transfer of servicing to a Replacement Servicer.

**"Trust Documents"** means the Trust Deed and Deed of Charge and (unless the context requires otherwise) includes any deed or other document executed in accordance with the provisions of the Trust Deed or (as applicable) the Deed of Charge and expressed to be supplemental to the Trust Deed or the Deed of Charge (as applicable).

**"Trust Proceeds"** means all recoveries, receipts and benefits received by the Trustee by virtue of the Trust Property save for monies or other assets which it is entitled to retain for its own account or which are earmarked for receipt by a third party other than as part of the Trust Property.

**"Trust Property"** means the covenants and warranties of each of the Issuer, the Seller and the Servicer pursuant to the terms of the Transaction Documents and all proceeds of the Security.

**"Valuation"** means, in relation to any Mortgage Loan:

- (a) the Hometrack AVM; and/or
- (b) the drive by or full physical internal valuation carried out by a surveyor accredited by the Royal Institution of Chartered Surveyors,

in each case, obtained by the Seller at or around the time of the origination of such Mortgage Loan in respect of the Property which is the subject of such Mortgage Loan and provided that, if obtained, the Valuation referred to in paragraph (b) above will prevail over any Hometrack AVM.

**"Valuer"** means an independent valuer (being a fellow or associate of the Royal Institution of Chartered Surveyors).

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