

**ELLAND RMBS 2018 PLC**

*(incorporated in England and Wales with limited liability, registered number 11630009)*

Class of Notes		Initial Principal Amount Outstanding	Issue Price	Reference Rate	Margin	Ratings (Fitch / Moody's)	Optional Call Date	Final Maturity Date
Class Notes	A1	£1,634,000,000	100%	Compounded Daily SONIA	0.90% per annum	AAAsf / Aaa(sf)	The Interest Payment Date falling in December 2025	The Interest Payment Date falling in December 2063
Class Notes	A2	£1,634,000,000	100%	Compounded Daily SONIA	1.00% per annum	AAAsf / Aaa(sf)	The Interest Payment Date falling in December 2025	The Interest Payment Date falling in December 2063
Class Notes	A3	£1,634,000,000	100%	Compounded Daily SONIA	1.15% per annum	AAAsf / Aaa(sf)	The Interest Payment Date falling in December 2025	The Interest Payment Date falling in December 2063
Class Notes	A4	£1,634,000,000	100%	Compounded Daily SONIA	1.20% per annum	AAAsf / Aaa(sf)	The Interest Payment Date falling in December 2025	The Interest Payment Date falling in December 2063
Class Notes	Z	£1,064,000,000	100%	Compounded Daily SONIA	0.50% per annum	Not rated	The Interest Payment Date falling in December 2025	The Interest Payment Date falling in December 2063

The Class A1 Notes, the Class A2 Notes, the Class A3 Notes, the Class A4 Notes and the Class Z Notes are collectively referred to as the "**Notes**" and the holders thereof, the "**Noteholders**". The Class A1 Notes, the Class A2 Notes, the Class A3 Notes, the Class A4 Notes are collectively referred to as the "**Class A Notes**" or the "**Rated Notes**".

*ARRANGER AND LEAD MANAGER*

**LLOYDS BANK CORPORATE MARKETS PLC**

The date of this Prospectus is 13 December 2018

<b>Issue Date</b>	The Issuer expects to issue the Notes in the classes set out above on 14 December 2018 (the " <b>Closing Date</b> ").
<b>Underlying Assets</b>	<p>The Issuer will make payments on the Notes from, <i>inter alia</i>, payments of principal and revenue received from a portfolio comprising mortgage loans and their related security originated by Bank of Scotland plc under its Halifax brand and secured over residential properties located in England and Wales which will be purchased by the Issuer on the Closing Date.</p> <p>See the sections entitled "<i>Transaction Overview – Portfolio and Servicing</i>", "<i>The Mortgage Loans</i>" and "<i>Characteristics of the Provisional Portfolio</i>" for further details.</p>
<b>Credit Enhancement</b>	<ul style="list-style-type: none"> <li>• Subordination of junior ranking Notes</li> <li>• In respect of the Rated Notes only, all amounts standing to the credit of the General Reserve Fund</li> <li>• Excess Available Revenue Receipts</li> </ul> <p>See the sections entitled "<i>Transaction Overview – Credit Structure and Cashflow</i>" and "<i>Credit Structure</i>" for further details.</p>
<b>Liquidity Support</b>	<ul style="list-style-type: none"> <li>• Available Principal Receipts applied as Available Revenue Receipts to fund Senior Expenses Deficit</li> <li>• In respect of the Rated Notes only, all amounts standing to the credit of the General Reserve Fund</li> </ul> <p>See the section entitled "<i>Transaction Overview – Credit Structure and Cashflow</i>" and "<i>Credit Structure</i>" for further details.</p>
<b>Revolving Period</b>	From and including the Closing Date until but excluding the earlier of (i) the Interest Payment Date falling in January 2022 and (ii) the occurrence of a Revolving Period Termination Event (the " <b>Revolving Period End Date</b> "), Available Principal Receipts will be applied to acquire Further Mortgage Loans from the Seller.
<b>Redemption Provisions</b>	Information on any mandatory redemption of the Notes is summarised on page 66 (" <i>Transaction Overview – Summary of the Terms and Conditions of the Notes</i> ") and set out in full in Condition 7 ( <i>Redemption</i> ) of the terms and conditions of the Notes (the " <b>Conditions</b> ").
<b>Credit Rating Agencies</b>	Fitch Ratings Ltd. (" <b>Fitch</b> ") and Moody's Investors Service Limited (" <b>Moody's</b> ") (each a " <b>Rating Agency</b> " and together, the " <b>Rating Agencies</b> "). As of the date of this prospectus (the " <b>Prospectus</b> "), each of the Rating Agencies is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the " <b>CRA Regulation</b> "). As such, each of the Rating Agencies is included in the list of credit rating agencies published by the European Securities and Markets Authority (" <b>ESMA</b> ") on its website (at <a href="http://www.esma.europa.eu/page/List-registered-and-certified-CRAs">http://www.esma.europa.eu/page/List-registered-and-certified-CRAs</a> ) in accordance with the CRA Regulation.
<b>Credit Ratings</b>	<p>Ratings are expected to be assigned to the Rated Notes as set out above on or before the Closing Date.</p> <p>The ratings assigned by Fitch address the likelihood of (a) timely payment of interest due to the Noteholders on each Interest Payment Date and (b) full payment of principal by a date that is not later than the Final Maturity Date. The ratings assigned by Moody's address the expected loss to a Noteholder in proportion to the initial principal amount of the class of Rated Notes held by the Noteholder by the Final Maturity Date.</p>

	<b>A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.</b>
<b>Listing</b>	<p>This document comprises a prospectus (the "<b>Prospectus</b>"), for the purposes of Directive 2003/71/EC (the "<b>Prospectus Directive</b>").</p> <p>This Prospectus has been approved by the Financial Conduct Authority (the "<b>FCA</b>") as competent authority under the Prospectus Directive.</p> <p>An application has been made to the London Stock Exchange for the Notes to be admitted to the official list of the UK Listing Authority (the "<b>Official List</b>") and to trading on the regulated market of the London Stock Exchange (the "<b>Regulated Market</b>"). The Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the "<b>Markets in Financial Instruments Directive</b>").</p>
<b>Obligations</b>	The Notes will be obligations of the Issuer alone and will not be guaranteed by, or be the responsibility of, any other entity. The Notes will not be obligations of the Seller, its affiliates or any other party named in this Prospectus.
<b>Retention Undertaking</b>	<p>Bank of Scotland plc as an originator, 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 Regulation (EU) No 575/2013, referred to as the Capital Requirements Regulation (the "<b>CRR</b>", Article 51 of the Regulation (EU) No 231/2013, referred to as the Alternative Investment Fund Managers Regulation (the "<b>AIFM Regulation</b>") and Article 254 of Regulation (EU) No 2015/35 (the "<b>Solvency II Regulation</b>") (in each case, not taking into account any relevant national measures) (the "<b>Retention</b>"). As at the Closing Date, such Retention will be comprised of an interest in the first loss tranche as required by the text of 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.</p> <p>See the section entitled "<i>Regulatory Disclosures – EU Risk Retention</i>" for further information.</p>

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

## IMPORTANT INFORMATION

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.

Bank of Scotland plc accepts responsibility for the information set out in the sections headed "*Bank of Scotland – The Seller, the Servicer, the Cash Manager, the Swap Provider and the Account Bank*", "*The Mortgage Loans*" and "*Characteristics of the Provisional 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.

Each of the Note Trustee and the Security Trustee accepts responsibility for the information set out in the section headed "*The Note Trustee and the Security Trustee*". To the best of the knowledge and belief of the Note Trustee and the Security 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.

The Corporate Services Provider accepts responsibility for the information set out in the section headed "*The Corporate Services Provider*". 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 Seller, the Cash Manager, the Account Bank, the Note Trustee, the Security Trustee, the Swap Provider, the Arranger, the Lead Manager or the Corporate Services Provider 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.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Seller, the Note Trustee, the Security Trustee, the Arranger or the Lead Manager.

Neither this Prospectus nor any other information supplied in connection with the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Seller, the Note Trustee, the Security Trustee, or the Arranger or the Lead Manager that any recipient of this Prospectus or any other information supplied in connection with the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, the Seller, the Note Trustee, the Security Trustee, the Arranger or the Lead Manager to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained in it concerning the Issuer is correct at any time subsequent to its date.

**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – 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 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 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.

**MiFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ECPs ONLY TARGET MARKET** – Solely for the purposes of the 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 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 Note (a "**distributor**") should take into consideration the manufacturer's 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 manufacturer's target market assessment) and determining appropriate distribution channels.

**RESTRICTIONS OF SALES TO PERSONS IN THE UNITED STATES** – The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or any U.S. State securities laws and may not be offered or sold in the United States or to, or for the account or the benefit of, U.S. persons as defined in Regulation S under the Securities Act unless an exemption from the registration requirements of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction.

**RESTRICTIONS OF SALES TO U.S. PERSONS (AS DEFINED BY THE U.S. RISK RETENTION RULES)** – Except with the prior written consent of the Seller (a "**U.S. Risk Retention Consent**") 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 in the initial distribution of the Notes (including any initial distribution of the Notes to third parties by the Seller) 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 the Notes or a beneficial interest therein acquired in the initial distribution of the Notes (including any initial distribution of the Notes to third parties by the Seller), by its acquisition of the Notes or a beneficial interest therein will be deemed to have made certain representations and agreements, including that it (1) either (i) is not a Risk Retention U.S. Person or (ii) it has obtained a U.S. Risk Retention Consent from 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 (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).

## **IMPORTANT INFORMATION RELATING TO THE USE OF THIS PROSPECTUS AND OFFERS OF NOTES GENERALLY**

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Seller, the Note Trustee, the Security Trustee, the Arranger and the Lead Manager do not represent that this Prospectus may be lawfully distributed, or that any 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, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Seller, the Note Trustee, the Security Trustee the Arranger or the Lead Manager which is intended to permit a public offering of any Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may 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 or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States and the EEA (including the United Kingdom) (see section entitled "*Subscription and Sale*" below).

## CERTAIN DEFINED TERMS AND CONVENTIONS

Capitalised terms which are used but not defined in any particular section of this Prospectus will have the meaning attributed to them in the Glossary to this Prospectus, the "*Terms and Conditions of the Notes*" or any other section of this Prospectus. In addition, the following terms as used in this Prospectus have the meanings defined below:

In this Prospectus, all references to Sterling and £ refer to pounds sterling.

References to a "**billion**" are to a thousand million.

References to "**we**" or "**us**" mean the Issuer and references to "**you**" mean potential investors in the Notes.

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

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.

## SUITABILITY OF INVESTMENT

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

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

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



## **CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS**

Certain matters contained herein are forward looking statements. Such statements appear in a number of places in this Prospectus, including with respect to assumptions on prepayment and certain other characteristics of the 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. None of the Issuer, the Seller, the Note Trustee, the Security Trustee, the Arranger or the Lead Manager has attempted to verify any such statements, nor does it make any representations, express or implied, with respect thereto. Prospective purchasers should therefore not place undue reliance on any of these forward looking statements.

Any forward looking statements contained in this Prospectus speak only as at the date of this Prospectus. Without prejudice to any requirements under applicable laws and regulations, each of the Issuer, the Seller, the Note Trustee, the Security Trustee, the Arranger or the Lead Manager expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward looking statements contained in it to reflect any change in expectations or any change in events, conditions or circumstances on which any such forward looking statement is based.

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## RISK FACTORS

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

### **You cannot rely on any person other than the Issuer to make payments on your Notes**

The Notes will not represent an obligation or be the responsibility of Lloyds Banking Group plc, Bank of Scotland plc or any of their affiliates, the Arranger, the Lead Manager, the Security Trustee, the Note Trustee, the Servicer, the Cash Manager, the Swap Provider, the Subordinated Loan Provider, the Paying Agents, the Registrar, the Agent Bank or any other party to the Transaction Documents other than the Issuer.

### **The Issuer has a limited set of resources available to make payments on your Notes**

The Issuer's ability to make payments of principal and interest on the Notes and to pay its operating and administrative expenses will depend primarily on receipts from the Mortgage Loans in the Mortgage Portfolio, interest earned on the Bank Accounts (other than amounts representing interest earned on any Swap Collateral), amounts standing to the credit of the General Reserve Fund (applied for the benefit of the Class A Notes only in accordance with the terms of the Cash Management Agreement) and the net receipts under a swap agreement relating to the Swap transaction between the Issuer and the Swap Provider (the "**Swap Agreement**").

The Issuer will not have any other significant sources of funds available to meet its obligations under the Notes and/or any other payment obligations ranking in priority to the Notes. If the resources described above cannot provide the Issuer with sufficient funds to enable it to make the required payments on the Notes, you may suffer non-payment of interest and/or loss of principal which would otherwise be due and payable on your Notes.

### **The Issuer is not obliged to make payments on the Notes if it does not have enough money to do so, which could adversely affect payments on your Notes**

The Issuer's ability to pay amounts payable under the Notes will depend upon:

- (a) the Issuer receiving enough funds from receipts from the Mortgage Loans in the Mortgage Portfolio;
- (b) the Issuer receiving the required funds from the Swap Provider; and
- (c) in respect of the Rated Notes only, amounts standing to the credit of the General Reserve Fund (as described in "*Credit structure –General Reserve Fund*" below).

Failure to pay interest on the Class A Notes shall constitute an Event of Default under the Notes, which may result in the Security Trustee enforcing the Security.

### **Enforcement of the Issuer security is the only remedy for a default on the Issuer's obligations, and the proceeds of that enforcement may not be enough to make all the payments due on your Notes**

The only remedy for recovering amounts on the Notes is through the enforcement of the Security. The Security is only enforceable in certain circumstances and such enforcement may be subject to certain conditions, including a requirement that the Security Trustee be indemnified and/or secured and/or prefunded to its satisfaction.

If the Security created pursuant to the terms of the Deed of Charge is enforced, the proceeds of enforcement may be insufficient to pay all principal and interest and/or other amounts due on your Notes. If there are insufficient amounts

available to repay the Notes in full after the Security has been enforced, then any shortfall will be written off and will no longer be due and payable.

#### **Subordination of other Note classes may not protect Noteholders from all risk of loss**

Prior to the service of an Enforcement Notice on the Issuer, payments of principal on the Class A Notes will be made on a sequential basis, such that the payment of principal on the Class A2 Notes, the Class A3 Notes and the Class A4 Notes will be subordinated to payments of principal on the Class A1 Notes; the payment of principal on the Class A3 Notes and the Class A4 Notes will be subordinated to payments of principal on the Class A1 Notes and the Class A2 Notes; and payments of principal on the Class A4 Notes will be subordinated to payments of principal on the Class A1 Notes, the Class A2 Notes and the Class A3 Notes.

After the service of an Enforcement Notice on the Issuer, the Class A1 Notes, the Class A2 Notes, the Class A3 Notes and the Class A4 Notes will rank *pro rata* and *pari passu* without any preference or priority among themselves as to payments of principal.

The Class A1 Notes, the Class A2 Notes, the Class A3 Notes and the Class A4 Notes will rank *pro rata* and *pari passu* without any preference or priority among themselves as to payments of interest.

The Class Z Notes will be subordinated in right of payment of interest and principal to the Class A Notes in all circumstances.

However, there is no assurance that these subordination rules will protect the Class A1 Noteholders from all risks of loss, the Class A2 Noteholders from all risks of loss, the Class A3 Noteholders from all risks of loss, the Class A4 Noteholders from all risks of loss or the Class Z Noteholders from all risks of loss. If the losses borne by the Class Z Notes are in an amount equal to the aggregate Principal Amount Outstanding of the Class Z Notes, then losses on the Mortgage Loans will thereafter be borne by the Class A4 Notes. Similarly, if the losses borne by the Class Z Notes and the Class A4 Notes are in an amount equal to the aggregate Principal Amount Outstanding of the Class Z Notes and the Class A4 Notes, then losses on the Mortgage Loans will thereafter be borne by the Class A3 Notes. Similarly, if the losses borne by the Class Z Notes, the Class A4 Notes and the Class A3 Notes are in an amount equal to the aggregate Principal Amount Outstanding of the Class Z Notes, the Class A4 Notes and the Class A3 Notes, then losses on the Mortgage Loans will thereafter be borne by the Class A2 Notes. Finally, if the losses borne by the Class Z Notes, the Class A4 Notes, the Class A3 Notes and the Class A2 Notes are in an amount equal to the aggregate Principal Amount Outstanding of the Class Z Notes, the Class A4 Notes, the Class A3 Notes and the Class A2 Notes, then losses on the Mortgage Loans will thereafter be borne by the Class A1 Notes.

#### **The Note Trustee or, as the case may be, the Security Trustee may agree modifications to the Transaction Documents, which may adversely affect your interests**

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

The Conditions also provide that the Note Trustee or the Security Trustee may agree, without the consent of the Noteholders, to (i) except in the case of a Basic Terms Modification, any modification, or to any waiver or authorisation of any breach or proposed breach of, the Conditions or any of the Transaction Documents which, in the opinion of the Note Trustee or the Security Trustee (as applicable), is not materially prejudicial to the interests of the Noteholders or (ii) any modification which, in the opinion of the Note Trustee or the Security Trustee (as applicable), is to correct a manifest error or is of a formal, minor or technical nature.

The Note Trustee will be entitled to assume that any such exercise of its rights, powers, duties and discretions will not be materially prejudicial to the interests the Noteholders if it has received a Rating Agency Confirmation.

In addition, as further described in Condition 12 (Meetings of Noteholders, modification and waiver) below, each of the Note Trustee and the Security Trustee will be obliged to consent to any modifications to any Transaction Document that are requested by the Issuer (or the Cash Manager on its behalf), provided that the Issuer (or the Cash Manager on its behalf) certifies to the Note Trustee and the Security Trustee in writing that such modifications do not constitute a Basic Terms Modification and are to be made solely for the purpose of enabling the Issuer to undertake the following matters:

- (a) comply with any requirements which apply to the Issuer under Regulation (EU) 648/2012;
- (b) the opening of a Swap Collateral Account or other bank account of the Issuer;
- (c) the sale of new types of Mortgage Loans to the Issuer; or
- (d) any change to the Swap Agreement where such change is made solely to implement revised swap counterparty criteria used by any of the Rating Agencies, and where failing to implement such revised swap counterparty criteria may or may be expected to have an adverse impact on the ratings of the Notes.

When implementing any modification pursuant to the above:

- (a) neither the Note Trustee nor the Security Trustee shall consider the interests of the Noteholders 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 and shall not be liable to the Noteholders 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;
- (b) The Note Trustee and the Security Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Note Trustee or the Security Trustee (as applicable) would have the effect of (a) exposing the Note Trustee or the Security Trustee (as applicable) 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 protections, of the Note Trustee or the Security Trustee (as applicable) in the Transaction Documents and/or the Trust Deed and/or the Deed of Charge (as applicable).

There is no guarantee that any modification to the Transaction Documents will not ultimately adversely affect the rights of Noteholders or payments on the Notes.

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 Modifications.

**The interests of the holders of the Class A Notes will prevail over the interests of the holders of the Class Z Notes**

The Trust Deed and the Conditions will provide that, in connection with the exercise of its trusts, authorities, powers and discretions under the Trust Deed, the Note Trustee is to have regard to the interests of the holders of all the classes of Notes equally. The Trust Deed provides that where, in the sole opinion of the Note Trustee, there is a conflict between the holders of the Class A Notes and the holders of the Class Z Notes, the Note Trustee is to have regard only to the interests of the holders of the Class A Notes only.

**There may be a conflict between the interests of the holders of each sub-class of the Class A Notes, and the interests of other sub-classes of Noteholders may prevail over your interests**

There may be circumstances where the interests of a sub-class of the Class A Noteholders conflict with the interests of another sub-class of the Class A Noteholders.

The Trust Deed and the Conditions will provide that where, in the sole opinion of the Note Trustee, there is such a conflict, then a resolution directing the Note Trustee to take any action must be passed at separate meetings of the holders of each such sub-class of the Class A Notes. A resolution may only be passed at a single meeting of the Class A Noteholders of each sub-class if the Note Trustee is, in its absolute discretion, satisfied that there is no conflict between them.

Similar provisions apply in relation to requests in writing from holders of a specified proportion of the Principal Amount Outstanding of the Class A Notes of each sub-class.

You should note that, as a result of the sequential repayments of principal on the Class A Notes (prior to the service of an Enforcement Notice on the Issuer), the Principal Amount Outstanding of each sub-class of the Class A Notes will change after the Closing Date.

### **The yield to maturity of your Notes may be adversely affected by prepayments or redemptions on the Mortgage Loans**

The yield to maturity of the Notes of each class will depend, inter alia, on (a) the amount and timing of payment of principal on the Mortgage Loans and (b) the price paid by the Noteholders of each class of Notes.

The yield to maturity of the Notes of each class may be adversely affected by a higher or lower than anticipated rate of prepayments on the Mortgage Loans. The factors affecting the rate of prepayment on the Mortgage Loans are described in "*Risk Factors – The Issuer's ability to redeem the Notes on their Final Maturity Dates may be affected by the rate of prepayment on the Mortgage Loans*" immediately below.

### **The Issuer's ability to redeem the Notes on their Final Maturity Date may be affected by the rate of prepayment on the Mortgage Loans**

Prepayments on the Mortgage Loans may result from refinancings, sales of properties by borrowers under those Mortgage Loans ("**Borrowers**") voluntarily or as a result of enforcement proceedings under the relevant Mortgage Loans, as well as the receipt of proceeds under the insurance policies.

The rate of prepayment of Mortgage Loans is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, local and regional economic conditions, homeowner mobility and the availability of financing. Generally, when market interest rates increase, borrowers are less likely to prepay their mortgages, while conversely, when market interest rates decrease, borrowers are generally more likely to prepay their mortgages. For instance, prepayments on the Mortgage Loans may be due to Borrowers refinancing their Mortgage Loans and sales of properties by Borrowers (either voluntarily or as a result of enforcement action taken). Prepayment rates in respect of the Mortgage Loans have declined recently in line with industry performance. If lower prepayment rates continue, this could leave the Issuer with insufficient proceeds to repay Notes on the relevant expected maturity date.

In addition, if the Seller exercises its option to repurchase a Mortgage Loan as described in the section entitled "*Summary of the Key Transaction Document – Mortgage Sale Agreement – Repurchase by the Seller*", or is required to repurchase a Mortgage Loan or Mortgage Loans under a mortgage account and their Related Security because, for example, one of the Mortgage Loans does not comply with the Loan Warranties in the Mortgage Sale Agreement or a Further Advance is being repurchased at the end of the Revolving Period or in certain circumstances a Product Switch, then the payment received by the Issuer will have the same effect as a prepayment of all of the Mortgage Loans under that mortgage account. Because these factors are not within the Issuer's control, no assurances can be given as to the level of prepayments that the Mortgage Portfolio may experience.

Further, the mortgage loan industry in the United Kingdom is highly competitive. This competitive environment, together with the most recent downturn in the UK economy, may affect the rate at which the Seller originates new Mortgage Loans and may also affect the repayment rate of the Seller's existing Borrowers.

Payments and prepayments of principal on the Mortgage Loans will be applied to reduce the Principal Amount Outstanding of the Notes on a pass-through basis on each Interest Payment Date after the Revolving Period End Date in accordance with the Pre-Enforcement Principal Priority of Payments (see section entitled "Cashflows" below).

During the Revolving Period, payments and repayments of principal on the Mortgage Loans will be credited to the Retained Principal Receipts Ledger and applied, subject to the terms of the Mortgage Sale Agreement, to acquire Further Mortgage Loans and Further Advances. During the Revolving Period the Seller will use its reasonable endeavours to offer to sell Further Mortgage Portfolios to the Issuer, but it is not obliged to do so. If no Further Mortgage Loans are sold to the Issuer during the Revolving Period, then that may adversely affect the yield to maturity of the Notes.

**The lending criteria in respect of Further Mortgage Loans may change over time which may affect the characteristics of the Mortgage Portfolio**

The lending criteria that apply to Further Mortgage Loans to be sold to the Issuer may be amended in the future without your consent. As a result, the Mortgage Portfolio may include types of Mortgage Loans in the future with different characteristics from those currently in the Provisional Portfolio. This may occur, for example, due to the development of new Mortgage Loan types in response to changing market conditions.

If any amendments are required to the Loan Warranties or the Mortgage Sale Agreement as a result of such new lending criteria, the consent of the parties to the Mortgage Sale Agreement would be required and the receipt of a Rating Agency Confirmation.

**As Further Mortgage Loans are sold to the Issuer or repurchased by the Seller or existing loans prepaid, the characteristics of the Mortgage Portfolio may change from those existing at the Closing Date, and those changes may adversely affect payments on the Notes**

There is no guarantee that any Further Mortgage Loans will be sold to the Issuer during the Revolving Period, or that those Further Mortgage Loans will have the same characteristics as the Mortgage Loans in the Mortgage Portfolio as at the Closing Date and, in particular, Further Mortgage Loans may have different payment characteristics from the Mortgage Loans in the Mortgage Portfolio as at the Closing Date. In addition, there is no guarantee that Mortgage Loans repurchased by the Seller pursuant to the Mortgage Sale Agreement or prepaid will be representative of the Mortgage Portfolio. The ultimate effect of this could be to delay or reduce the payments you receive on the Notes. However, any Further Mortgage Loans will be required to meet the Replenishment Criteria, as described in "*Summary of the Key Transaction Documents – Mortgage Sale Agreement – Replenishment Criteria*" below.

**The Seller has adopted procedures relating to investigations and searches for remortgages which could affect the characteristics of the Mortgage Portfolio and which may adversely affect payments on the Notes**

The Seller does not require a solicitor or licensed conveyancer to conduct a full investigation of the title to a property in all cases. Where the Borrower is remortgaging there will be a limited investigation to carry out some but not all of the searches and investigations which would normally be carried out by a solicitor or licensed conveyancer conducting a full investigation of the title to a Property. Properties 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 Properties not being accepted as security for a Mortgage Loan had such matters been revealed, though to mitigate against this risk search indemnity insurance is obtained in respect of such Properties. The introduction of Mortgage Loans secured by such Properties into the Mortgage Portfolio could result in a change of the characteristics of the Mortgage Portfolio. This could lead to a delay or a reduction in the payments received on the Notes.

**The timing and amount of payments on the Mortgage Loans could be affected by various factors which may adversely affect payments on the Notes**

The Mortgage Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in Borrowers' individual, personal or financial circumstances may affect the ability of Borrowers to repay Mortgage Loans. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by, and bankruptcies of, Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay Mortgage Loans.

If a Borrower fails to repay its Mortgage Loan and the related Property is repossessed, the likelihood of there being a net loss on disposition of the Property is increased if there is a higher loan-to-value ratio. 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 the 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 and, ultimately, may materially adversely affect the ability of the Issuer to make payments on the Notes. See "*Characteristics of the Provisional Portfolio*" below for information on the distribution of the loan-to-value ratios at origination of the Mortgage Loans sold to the Issuer in connection with a particular issuance of Notes.

In order to enforce a power of sale in respect of a property, the relevant mortgagee (which may be the Seller or the Issuer) must first obtain possession of the relevant property. Possession is usually obtained by way of a court order or decree although this can be a lengthy and costly process and will involve the mortgagee assuming certain risks. If obtaining possession of properties in such circumstances is lengthy or costly, the Issuer's ability to make payments on the Notes may be reduced.

**The Mortgage Portfolio may be subject to geographic concentration risks**

The Mortgage Portfolio may also be subject to geographic concentration risks. 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, a concentration of the Mortgage Loans in such a region may be expected to exacerbate all of the risks relating to the Mortgage Loans described in this section. The economy of each geographic region within the United Kingdom is dependent on different mixtures of industries. Any downturn in a local economy or particular industry may adversely affect the regional employment levels and consequently the repayment ability of the Borrowers in that region or the region that relies most heavily on that industry. Any natural disasters in a particular region may reduce the value of affected mortgaged properties. This may result in a loss being incurred upon sale of the mortgaged property. 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 on the Closing Date, see section entitled "*Characteristics of the Provisional Portfolio — Geographical distribution*".

**In certain circumstances, Mortgage Loans subject to Product Switches will be repurchased by the Seller from the Issuer, which will affect the prepayment rate of the Mortgage Loans, and this may affect the yield to maturity of the Notes**

A Mortgage Loan will be subject to a Product Switch if the Borrower and the Seller agree on, or the Servicer sends an offer of, a variation in the financial terms and conditions applicable to the relevant Borrower's Mortgage Loan, other than those variations set out in "*Summary of the Key Transaction Documents – Mortgage Sale Agreement – Further Advances and Product Switches*" below.

Loans subject to Product Switches will not be repurchased unless (i) the Seller agrees, or a Borrower is entitled, to such Product Switch on and from the Optional Call Date or (ii) it is determined on the Calculation Date immediately following the Switch Date that the relevant switched Mortgage Loan does not comply with the Loan Warranties or the Replenishment Criteria set out in the section entitled "*Summary of the Key Transaction Documents – Mortgage Sale*".



*Agreement*" below. Subject to the terms of the Mortgage Sale Agreement, the Seller will be required to repurchase any such non-compliant Mortgage Loan and its Related Security that is subject to Product Switches. The Seller will be required to repurchase the relevant Mortgage Loans and their Related Security from the Issuer at a price equal to the Principal Amount Outstanding of those Mortgage Loans together with accrued and unpaid interest and expenses to the date of purchase.

The yield to maturity of the Notes may be affected by the repurchase of Mortgage Loans subject to Product Switches.

**At the end of the Revolving Period, Mortgage Loans subject to Further Advances will be repurchased by the Seller from the Issuer, which will affect the prepayment rate of the Mortgage Loans and this may affect the yield to maturity of the Notes**

After the end of the Revolving Period, if the Seller at its discretion decides to grant a Borrower a Further Advance, the Seller will repurchase that Mortgage Loan under the relevant mortgage account and its Related Security from the Issuer (save for any Mortgage Loan in arrears) at a price equal to the Principal Amount Outstanding of those Mortgage Loans together with any accrued and unpaid interest and expenses to the date of purchase.

The yield to maturity of the Notes may be affected by the repurchase of Mortgage Loans subject to Further Advances as described above.

#### **Repurchase Mortgage Loans with a balance under £100**

The Seller may from time to time request that the Issuer sell it a Mortgage Loan and its Related Security included in the Mortgage Portfolio if such Mortgage Loan has a Current Balance of £100 or less (a “**De Minimis Mortgage Loan**”), by delivering a written notice to the Issuer, the Servicer, the Cash Manager and the Security Trustee identifying the Mortgage Loans to be repurchased pursuant to the terms of the Mortgage Sale Agreement. Within two business days of receipt of such notice, the Issuer (or the Cash Manager on its behalf) shall sign the acknowledgment to the repurchase notice thereby agreeing to reassign or retransfer to the Seller free from the security interests created by the Deed of Charge and any supplement thereto, each relevant Mortgage Loan and their Related Security. On completion of such repurchase the Seller shall pay to the Transaction Account an amount equal to the aggregate Current Balance of such Mortgage Loan or Mortgage Loans and any Related Security and all arrears of interest and accrued interest related thereto. The amount of Mortgage Loans repurchased pursuant to the terms of the Mortgage Sale Agreement shall be notified to the Servicer for inclusion in the monthly investor report. The yield to maturity of the Notes should not be affected by the repurchase of De Minimis Mortgage Loans, but that cannot be guaranteed.

**Ratings assigned to the Notes may be lowered or withdrawn after you purchase the Notes, which may lower the market value of the Notes**

The ratings assigned by Fitch to the each Class of Rated Notes address the likelihood of full and timely payment to Noteholders of all payments of interest on each Interest Payment Date under that class (or sub-class) of Notes in accordance with the terms of the Transaction Documents and the terms and conditions of the Notes. The ratings also address the likelihood of "ultimate" payment of principal by the Final Maturity Date of each class of Rated Note.

The ratings assigned by Moody's to each class of Notes address the expected loss in proportion to the initial principal amount of such class (or sub-class) and express Moody's opinion that the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. The expected ratings of each class of Rated Note offered under this prospectus are set out above.

A credit rating is not a recommendation to buy, sell or hold securities and any Rating Agency may qualify, suspend, lower its rating or withdraw its rating for any reason, including as a result of changes in, or unavailability of, information or a revision of its relevant rating methodology or if, in the sole judgment of the Rating Agency, the credit quality of the Notes has declined or is in question or circumstances so warrant. If any rating assigned to the Notes is subsequently qualified, suspended, lowered or withdrawn, the market value of the Notes may be reduced.

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). 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, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant Rating Agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant Rating Agency and the publication of the updated ESMA list. The ratings assigned to each class of Rated Notes is set out above.

**The issuance of unsolicited ratings on your Notes could adversely affect the market value of your Notes and/or liquidity of your Notes**

Other credit rating agencies that have not been engaged to rate the Rated Notes by the Issuer may issue unsolicited credit ratings on the Notes at any time. Any unsolicited ratings in respect of the Notes may differ from the ratings expected to be assigned by Fitch and Moody's as reflected in this prospectus. Issuance of an unsolicited rating which is lower than the ratings assigned by Fitch or Moody's in respect of the Notes may adversely affect the market value and/or the liquidity of the Notes.

**Ratings confirmation in relation to the Notes in respect of certain actions**

If a Rating Agency Confirmation is required for the Issuer to take certain actions under the Transaction Documents and a Rating Agency does not provide such confirmation, the Issuer may still take such action.

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 Note Trustee may require the Issuer to seek confirmation from the Rating Agencies that this would be the case (such confirmation being a "**Rating Agency Confirmation**"). A Rating Agency Confirmation does not confirm that any proposed action or inaction (i) is permitted by the terms of the Transaction Documents or (ii) is in the best interests of, or not prejudicial to, the Noteholders. No actual or contingent liability is imposed or extended on the Rating Agencies to the Noteholders or other Secured Creditors by providing a Rating Agency Confirmation, nor does it create any legal relationship (by way of contract or otherwise) between the Rating Agencies, the Issuer and the Noteholders or other Secured Creditors. The Note Trustee may, but is not required to, have regard to any Rating Agency Confirmation.

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

The secondary market for mortgage-backed securities has in recent years experienced disruptions as a result of reduced investor demand for loans and mortgage-backed securities and increased investor yield requirements for those loans and securities. This has had a material adverse impact on the market value of mortgage-backed securities and resulted in the secondary market for mortgage-backed securities experiencing at times very limited liquidity and a material increase in the price of credit protection on mortgage-backed securities through credit derivatives.

Limited liquidity in the secondary market may continue to have an adverse impact 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 certain categories of investors.

To the extent there is a lack of liquidity in the secondary market, an investor in the Notes may not be able to sell its Notes (thus potentially holding its Notes to maturity) or acquire credit protection on its Notes readily. In addition, market values of the Notes in this scenario are likely to fluctuate. Any of these fluctuations may be significant and could result in significant losses to an investor. Accordingly, no assurance can be given as to the development or liquidity of any market for the Notes.

## **General volatility in the wholesale funding markets and post-UK referendum uncertainty**

Concerns relating to credit risk (including that of sovereigns and of those entities which have exposure to sovereigns) persist, in particular with respect to current economic, monetary and political conditions in the Eurozone. If such conditions further deteriorate (including as may be demonstrated by any relevant credit rating agency action, any default or restructuring of indebtedness by one or more states or institutions and/or any exit(s) by any member state(s) from the European Union and/or any changes to, including any break up of, the Eurozone), then these matters may cause further severe stress in the financial system generally and/or may adversely affect the U.K. housing market, the Issuer, one or more of the Secured Creditors (including the Seller, the Servicer, the Account Bank, the Cash Manager and the Swap Provider) and/or any Borrower in respect of the underlying Mortgage Loans. Given the current uncertainty and the range of possible outcomes, no assurance can be given as to the impact of any of the matters described above and, in particular, no assurance can be given that such matters would not adversely affect the rights of the Noteholders, the market value of the Notes, the U.K. housing market, the existence of a secondary market for the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes.

Prospective investors should note that, pursuant to a referendum held in June 2016, the UK has voted to leave the European Union and the UK Government invoked article 50 of the Treaty on the European Union relating to withdrawal from the European Union on 29 March 2017. Under Article 50, the Treaty on the European Union and the Treaty on the Functioning of the European Union cease to apply in the relevant state from the date of entry into force of a withdrawal agreement or, failing that, two years after the notification of intention to withdraw, although this period may be extended in certain circumstances.

There are a number of areas of uncertainty in connection with the future of the UK and its relationship with the European Union and the negotiation of the UK's exit terms and related matters may take several years. Given this uncertainty and the range of possible outcomes, it is not currently possible to determine the impact that the referendum, the UK's departure from the European Union and/or any related matters may have on general economic conditions in the UK, including the performance of the UK housing market. It is also not possible to determine the impact that these matters will have on the business of the Issuer (including the performance of the underlying Mortgage Loans), any other party to the Transaction Documents (including the Seller) and/or any Borrower in respect of the underlying Mortgage Loans, or on the regulatory position of any such entity or of the transactions contemplated by the Transaction Documents under European Union regulation or more generally.

No assurance can be given that any of the matters outlined above would not adversely affect the ability of the Issuer to satisfy its obligations under the Notes and/or the market value or liquidity of the Notes in the secondary market.

Finally, the EU Referendum has resulted in downgrades of the UK sovereign and the Bank of England by Standard & Poor's Rating Services, a division of Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**") and by 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 the 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 Mortgage Portfolio and accordingly the ability of the Issuer to pay interest and repay principal to Noteholders and the ratings assigned to the Notes could be adversely affected.

Various parties to this transaction may be subject to substantial EU-derived laws, regulation and oversight. There is now significant uncertainty as to the respective legal and regulatory environments in which parties will operate when the UK is no longer a member of the EU. In particular, certain of the parties may no longer be able to rely on the European passporting framework for financial services, which could result in the loss of customers and/or the requirement for the relevant parties to apply for authorisation in multiple EU jurisdictions, the costs, timing and viability of which are uncertain.

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

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

Borrowers seeking to avoid these increased monthly payments (caused by, for example, the expiry of an initial fixed rate or low introductory rate, or a rise in the related mortgage interest rates) by refinancing their Mortgage Loans may no longer be able to find available replacement loans at comparably low interest rates. Any decline in housing prices may also leave Borrowers with insufficient equity in their homes to permit them to refinance. These events, alone or in combination, may contribute to higher delinquency rates and losses.

## **The market continues to develop in relation to SONIA as a reference rate in the capital markets**

Investors should be aware that the market continues to develop in relation to the Sterling Overnight Index Average ("SONIA") as a reference rate in the capital markets and its adoption as an alternative to Sterling LIBOR. In particular, market participants and relevant working groups are exploring alternative reference rates based on SONIA, including term SONIA reference rates (which seek to measure the market's forward expectation of an average SONIA rate over a designated term). The market or a significant part thereof may adopt an application of SONIA that differs significantly from that set out in the Conditions and used in relation to Notes that reference a SONIA rate issued under this Prospectus. Interest on Notes which reference a SONIA rate is only capable of being determined at the end of the relevant Observation Period and immediately prior to the relevant Interest Payment Date. It may be difficult for investors in Notes which reference a SONIA rate to reliably estimate the amount of interest which will be payable on such Notes.

## **Risks associated with the Swap**

To provide a hedge against the possible variance between (a) the fixed rates of interest payable on the Fixed Rate Loans and (b) the rate of interest payable by the Issuer under the Notes, the Issuer has entered into the Swap Agreement. If the Issuer fails to make timely payments under the Swap, it will have defaulted under the Swap. The Swap Provider is obliged only to make payments under the Swap if and for so long as the Issuer makes payments under the same and the Issuer has not otherwise defaulted under the Swap Agreement. In respect of each calculation period, a single "net" payment will be determined under the Swap.

If the Swap Provider is not obliged to make payments, or if it exercises any right that it may have under the Swap Agreement to terminate the Swap or if it defaults in its obligation to make payments under the Swap, the Issuer will be exposed to the variance between the rates of interest payable on the Fixed Rate Loans and the rate of interest payable by it under the Notes unless a replacement interest rate swap is entered into.

In the event of a breach of the Required Swap Rating (as outlined below in the section entitled '*Transaction Overview – Triggers Table: Rating Triggers Table*'), there can be no assurance that a guarantor or replacement interest rate swap provider will be found or that the amount of collateral provided will be sufficient to meet the Swap Provider's obligations. Unless one or more comparable replacement swaps are entered into, the Issuer may have insufficient funds to make payments due on the Notes.

If a replacement Swap is entered into, this may be on terms less favourable to the Issuer and therefore may mean that reduced amounts are available for distribution by the Issuer to the Secured Creditors (including, *inter alia*, the Noteholders). The Issuer may not be able to enter into a replacement Swap with a replacement interest rate swap

provider immediately or at a later date and no assurance can be given as to the credit rating of the interest rate swap provider for the replacement interest rate swaps if one is found.

If the Swap terminates, the Issuer may as a result be obliged to make a termination payment to (or entitled to receive a termination payment from) the Swap Provider. Any variance between the rates of interest payable on the Fixed Rate Loans and the rate of interest payable by the Issuer under the Notes and any termination payment payable by it to the Swap Provider may adversely affect the ability of the Issuer to meet its obligations under the Notes (see also "*Risk Factors – The Issuer is not obliged to make payments on the Notes if it does not have enough money to do so, which could adversely affect payments on your Notes*" above).

Furthermore, you should note that the Swap Agreement only provides a hedge against the possible variance between (a) the fixed rates of interest payable on the Fixed Rate Loans and (b) the rate of interest payable by the Issuer under the Notes. Any variance between (a) the variable rates of interest payable on any Mortgage Loans and (b) the rate of interest payable by the Issuer under the Notes will not be hedged. In both of these scenarios, the funds available to the Issuer to pay any interest under the Notes will be reduced if the interest revenues received by the Issuer on such Mortgage Loans in the Mortgage Portfolio are lower than the rate of interest payable by it under the Notes. In these circumstances, the holders of Notes may experience delays and/or reductions in the interest payments to be received by them, and the ratings of the some Notes may also be downgraded.

Changes to SONIA may also adversely affect the operation of the Swap (see also "*Risk Factors – The market continues to develop in relation to SONIA as a reference rate in the capital markets*" above).

#### **No step-up from Optional Call Date**

You should note that if the Notes are not called on the "**Optional Call Date**", which is the Interest Payment Date falling in December 2025, there is no increase in the Margin applicable to the Notes.

#### **The Account Bank may cease to satisfy certain criteria to provide the Bank Accounts**

The Account Bank is required to satisfy certain rating criteria (including certain criteria and/or permissions set or required by the FCA from time to time) in order to continue to receive deposits in the Transaction Account and the Swap Collateral Account. If Account Bank ceases to satisfy those criteria and such failure is not remedied within the relevant grace period, then the Bank Accounts may be transferred to another entity which does satisfy those criteria. In these circumstances the new account may not offer a transaction account or swap collateral on terms as favourable as those provided by the Account Bank.

The criteria referred to above include the Account Bank Requisite Rating as set out in "*Credit structure – Transaction Overview – Triggers Tables – Rating Triggers Table – Account Bank*" below.

#### **Excess revenue receipts available to the Issuer may not be sufficient to replenish principal that has been used to pay interest due on Mortgage Loan tranches, which may result in your Notes not being repaid in full**

If, on any Interest Payment Date, Revenue Receipts available to the Issuer (including the General Reserve Fund) are insufficient to enable it to pay interest on the Rated Notes and its other expenses ranking in priority to interest due on the Rated Notes, then the Issuer may use Available Principal Receipts to make up that Senior Expenses Deficit (defined below in "*Transactions Overview – Credit Structure and Cashflow – General Credit Structure*").

The Issuer will use Available Principal Receipts that would have been applied to repay those items in (b) to (h) of the Pre-Enforcement Principal Priority of Payments to pay the Senior Expenses Deficit described in the preceding paragraph where there is a shortfall of monies to pay those amounts.

The Cash Manager will be obliged to keep a ledger that records any principal applied to any Senior Expenses Deficit as well as any Losses on the Mortgage Loans causing a principal deficiency (the "**Principal Deficiency Ledger**"). The Principal Deficiency Ledger will have two sub-ledgers – the Class Z Principal Deficiency Sub-Ledger and the Class A

Principal Deficiency Sub-Ledger. Any debit entry on the Principal Deficiency Ledger will be applied first to Class Z Principal Deficiency Sub-Ledger (until the debit entry is at least equal to the Principal Amount Outstanding of the Class Z Notes) and then to the Class A Principal Deficiency Sub-Ledger.

During the term of the life of the Notes, however, it is expected that these principal deficiencies will be recouped from subsequent excess Available Revenue Receipts and (in respect of the Rated Notes only) amounts standing to the credit of the General Reserve Fund.

Available Revenue Receipts will be applied first to cover any principal deficiency in respect of the Rated Notes and then the Class Z Notes.

If there are insufficient funds available because of revenue or principal deficiencies, then one or more of the following consequences may occur:

- (a) the interest and other net income of the Issuer may not be sufficient, after making the payments to be made in priority, to pay, in full or at all, interest due on the first on the Class Z Notes and then on the Class A Notes;
- (b) there may be insufficient funds to repay the principal due and payable first on the Class Z Notes and then on the Class A Notes prior to their Final Maturity Date; and/or
- (c) if the amount of principal deficiencies exceeds the Principal Amount Outstanding of any of the Class Z Notes and the Class A Notes (and the principal deficiencies cannot be covered by the other income of the Issuer), then respectively you may not be repaid or you may not receive the full principal amount of the Class Z Notes or the Class A Notes, as the case may be.

For more information on principal deficiencies, see section entitled "*Credit structure –Principal Deficiency Ledger*" below.

**The Issuer will only have recourse to the Seller if there is a breach of warranty by the Seller, but otherwise the Seller's assets will not be available to the Issuer as a source of funds to make payments on the Notes**

After an Enforcement Notice is given the Security Trustee may, but shall not be obliged to, sell the Issuer's interest in the Mortgage Portfolio. There is no assurance that a buyer would be found or that such a sale would realise enough money to repay amounts due and payable under the Notes.

The Issuer and the Security Trustee will not, other than in respect of a breach of warranty under the Mortgage Sale Agreement and as described here as it relates to certain set-off risks intended to be borne by the Class Z Noteholders as described further below, have any recourse to the Seller.

The Issuer and the Security Trustee will not undertake any investigations, searches or other actions on any Mortgage Loan or its Related Security but instead will rely solely on the Loan Warranties given in the Mortgage Sale Agreement by the Seller on the Closing Date and given to each of the Issuer and the Security Trustee regarding any Further Mortgage Loans and their Further Related Security sold to the Issuer on any Further Sale Date or in relation to any Further Advances and Product Switches at the relevant Further Advance Date or Switch Date, as applicable (see "*Summary of the Key Transaction Documents — Mortgage Sale Agreement*" below for a summary of these).

If any of the Loan Warranties made by the Seller is materially untrue as at the Closing Date, the Further Sale Date, the Further Advance Date or the Switch Date (as applicable), then the Seller will be required to remedy the breach within 90 days of being notified by the Issuer, failing which it will be required to repurchase the Mortgage Loan and their Related Security at their Current Balance as at the date of repurchase together with any arrears of interest and accrued and unpaid interest and expenses.

There can be no assurance that the Seller will have the financial resources to repurchase the Mortgage Loan and their Related Security.

**The Issuer's ability to pay interest on and/or redeem the Notes on the interest payment, or Final Maturity Dates may be affected by a high rate of default on the Mortgage Loans**

The amounts required to pay interest on and/or redeem the Notes are generated substantially from payments of interest and principal pursuant to the Mortgage Loans. Where defaults in payment of these occur there is a risk that the payments made under the remaining Mortgage Loans (where no default has occurred) may not be sufficient to pay interest on and/or redeem the Notes on the Interest Payment Dates or at all.

The default by a Borrower under a Mortgage Loan in payment of interest and/or principal gives rise to the lender's rights to enforce its security (for example by selling the property) in order to repay the debt secured. There are, however, several requirements which would need to be complied with before proceeds could be realised from such security and be applied in or towards repayment of the related Mortgage Loan. These include complying with any applicable current or future codes of practice and protocols relating to possession proceedings and the discussion of the FCA's changes to MCOB with respect to forbearance contained in "*Risk factors - Changes to mortgage regulation and to the regulatory structure in the United Kingdom may adversely affect payments on your Notes*" below), obtaining a court order for possession and marketing the property for a reasonable period in order to ensure a proper price is obtained.

The combined effect of the above is that there may be several months between the date of any default occurring under any Mortgage Loan and the time when the proceeds of the sale of the security for such Mortgage Loan are available to repay such Mortgage Loan. During this period there may be no payments made under the relevant Mortgage Loan (thus increasing the amount of the arrears) and there may also be costs and expenses (for example maintenance costs, insurance premiums, and/or the costs of providing services and/or enforcing the security) relating to the property which would need to be discharged. There can be no assurance, at the end of such process, that such realisation proceeds would be sufficient to discharge payments due in respect of the relevant Mortgage Loan.

**There can be no assurance that a Borrower will repay principal at the end of the term on an interest-only Mortgage Loan, which may adversely affect repayments on the Notes**

Each Mortgage Loan in the Mortgage Portfolio is repayable on one of the following bases: (a) on a principal repayment basis; (b) on an interest-only basis; or (c) on a part principal repayment/part interest-only basis. For interest-only loans or loans with an interest-only element, because the principal or the remaining principal element is repaid in a lump sum at the maturity of the Mortgage Loan, it is the responsibility of the Borrower to have an investment plan in place to assist the Borrower to ensure that funds will be available to repay the principal at the end of the term. However, the Seller has not in all cases verified that an investment plan is in place and does not take security over these repayment mechanisms. The Borrower is also recommended to take out a life insurance policy in relation to the Mortgage Loan but, as with repayment mechanisms, the Seller does not take security over these life insurance policies.

The ability of a Borrower to repay the principal on an interest-only loan, or the principal element of a loan of type (c) above, at maturity depends on the Borrower ensuring that sufficient funds are available from an investment plan or another source, such as ISAs, pension policies, personal equity plans or endowment policies, as well as the financial condition of the Borrower, tax laws and general economic conditions at the time.

The proceeds from an investment plan or other investment may be insufficient to cover the repayment of the principal of the Mortgage Loan. There can be no assurance that the Borrower will have the funds required to repay the principal at the end of the term. If a Borrower cannot repay the Mortgage Loan and a loss occurs on the Mortgage Loan, then this may affect repayments of principal on the Notes if that loss cannot be cured by application of excess Available Revenue Receipts. See "*Characteristics of the Provisional Portfolio*" below for the amount of the Mortgage Loans in the expected Portfolio that are interest-only Mortgage Loans.

**There may be risks associated with the fact that the Issuer has no legal title to the Mortgage Loans and their Related Security, which may adversely affect payments on the Notes**

The sale by the Seller to the Issuer of the Mortgage Loans and their Related Security on the Closing Date and each Further Sale Date will take effect in equity only. This means that legal title to the Mortgage Loans in the Mortgage Portfolio remains with the Seller, but the Issuer has all the other rights and benefits relating to ownership of each Mortgage Loan and its Related Security. The Issuer has the right to demand that the Seller give it legal title to the Mortgage Loans and the Related Security in the circumstances described in "*Summary of the Key Transaction Documents – Mortgage Sale Agreement – Completion of Transfer of the Mortgage Loans (Perfection)*" below. Until then, no notice of the sale of the Mortgage Loans and their Related Security will be given to any Borrower, no application will be made to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the Mortgage Loans and their Related Security.

Because the Issuer has not obtained legal title to the Mortgage Loans or their Related Security, there are the following risks to the Mortgage Portfolio:

- (a) first, if the Seller wrongly sold a Mortgage Loan to another person which has already been sold to the Issuer, and that person acted in good faith and did not have notice of the interests of the Issuer in the Mortgage Loan, then she or he might obtain good title to the Mortgage Loan, free from the interests of the Issuer. If this occurred then the Issuer would not have good title to the affected Mortgage Loan and its Related Security and it would not be entitled to payments by a Borrower in respect of that Mortgage Loan. This may affect the ability of the Issuer to make payments on the Notes; and
- (b) second, the rights of the Issuer may be subject to the rights of the Borrowers against the Seller, such as the rights of set-off which occur in relation to transactions or deposits made between some Borrowers and the Seller (which since the reorganisation date also includes deposits originally made by some Borrowers with other entities in the HBOS group whose businesses have like that of Halifax transferred to Bank of Scotland in accordance with the HBOS Group Reorganisation Act 2006 and further deposits by such Borrowers with Bank of Scotland) and the rights of Borrowers to redeem their mortgages by repaying the Mortgage Loan directly to the Seller. If these rights were exercised, the Issuer may receive less money than anticipated from the Mortgage Loans, which may affect the ability of the Issuer to repay the Notes.

However, if a Borrower exercises any set-off rights, then an amount equal to the amount set-off will firstly be borne as losses by the Class Z Noteholders, and the Class Z Notes have been sized amongst other things in an amount expected to cover this risk, although there is no assurance that it will. If the Class Z Notes are insufficient to bear such losses, then the amount of any set-offs would be debited from the Class A Principal Deficiency Sub-Ledger.

The assignment of the Mortgage Loans is intended to be effective against the Seller and any creditor of the Seller in its insolvency, although to the extent that the Issuer needed to commence or continue legal proceedings against the Seller to enforce its rights in respect of the legal title, the consent of the insolvency officeholder or the leave of the court may be required.

An assignment of Mortgage Loans may be subject to clawback by a bank administrator or liquidator appointed in respect of the Seller, but only where the assignment was made within specific periods prior to the onset of the insolvency and it was made at an undervalue or the assignee was a preferred creditor.

**Independent set-off risks which a Borrower has against the Seller may adversely affect the funds available to the Issuer to repay the Notes**

Once notice has been given to Borrowers of the transfer of the Mortgage Loans and their Related Security to the Issuer, independent set-off rights which a Borrower has against the Seller will crystallise (such as, for example, set-off rights associated with Borrowers holding deposits with the Seller) and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under transaction set-off (which are set-off claims arising out of a transaction connected with the Mortgage



Loan) will not be affected by that notice. These set-off rights if exercised could reduce the Mortgage Loan receipts available to the Issuer to distribute for payments on the Notes.

The Class Z Notes have been sized amongst other things in an amount expected to cover this set-off risk, although there is no assurance that it will. If the Class Z Notes are insufficient to bear such losses, then the amount of any set-offs may adversely affect amounts available to repay the Class A Notes.

**If the Servicer is removed, there is no guarantee that a substitute Servicer would be found, which could delay collection of payments on the Mortgage Loans and ultimately could adversely affect payments on your Notes**

The Issuer has appointed Bank of Scotland plc as Servicer to service the Mortgage Loans. If the Servicer breaches the terms of the Servicing Agreement, then (prior to the delivery of an Enforcement Notice and with the prior written consent of the Security Trustee) the Issuer or (after delivery of an Enforcement Notice) the Security Trustee will be entitled to terminate the appointment of the Servicer and appoint a new servicer in its place.

There can be no assurance that a substitute Servicer with sufficient experience of administering mortgages of residential properties would be found who would be willing and able to service the Mortgage Loans on the terms of the Servicing Agreement. In addition, any substitute servicer would be required to be authorised with the appropriate permissions under the FSMA as mortgage administration is a regulated activity. The ability of a substitute servicer to perform fully the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect payments on the Mortgage Loans and hence the Issuer's ability to make payments when due on the Notes.

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

**Issuer Reliance on Third Parties**

The Issuer is also party to contracts with a number of other third parties who have agreed to perform services in relation to the Notes. In particular, but without limitation, the Corporate Services Provider has agreed to provide certain corporate services to the Issuer pursuant to the Corporate Services Agreement, the Account Bank has agreed to provide the Transaction Account to the Issuer pursuant to the Bank Account Agreement, the Servicer has agreed to service the Mortgage Portfolio pursuant to the Servicing Agreement and the Paying Agents, the Registrar and the Agent Bank have all agreed to provide services with respect to the Notes pursuant to the Agency Agreement. In the event that any of the above parties were to fail to perform their obligations under the respective agreements to which they are a party, Noteholders may be adversely affected.

**The Issuer may not receive the benefit of any claims made on the Insurance Policies which could adversely affect payments on the Notes**

The current practice of the Seller in relation to Insurance Policies is described under the section entitled "*The Mortgage Loans – Insurance policies*" below. The Seller does not have any back-up insurance policy (sometimes referred to as a "block buildings insurance policy") if a Borrower fails to maintain insurance cover in respect of his or her property.

No assurance can be given that the Issuer will always receive the benefit of any claims made under any applicable insurance contracts. This could reduce the Principal Receipts received by the Issuer and could adversely affect the Issuer's ability to redeem the Notes.

You should note that Insurance Policies are usually renewed annually. As the Seller does not verify if Insurance Policies have been taken out by a Borrower, the Seller cannot be certain that a Borrower has taken out or maintained building insurance or that any such cover would be sufficient to cover any loss. Amounts paid under the Insurance Policies are generally utilised to fund the reinstatement of the property and, only on very rare occasions, are paid to the Seller to reduce the amount of the Mortgage Loan(s). In the latter circumstance, all insurance cover will be removed but, as noted, no assurance can be given that amounts paid under the Insurance Policies will be paid to the Seller.

**The Issuer's entitlement to be indemnified for liabilities undertaken during the enforcement process may adversely affect the funds available for it to pay the Notes**

In order to enforce a power of sale in respect of a mortgaged property, the relevant mortgagee must first obtain possession of the mortgaged property unless the property is vacant. Possession is usually obtained by way of a court order although this can be a lengthy process and the mortgagee must assume certain risks. The Issuer is entitled to be indemnified to its satisfaction against personal liabilities which it could incur if it were to become a mortgagee in possession before it is obliged to seek possession.

**Certain regulatory considerations**

***Failure by the Seller or any broker to hold authorisation under the FSMA may have an adverse effect on enforceability of mortgage contracts***

In the UK, regulation of residential mortgage business under the FSMA came into force on 31 October 2004 (the "**Regulation Effective Date**"). Residential mortgage lending under the FSMA is regulated by the FCA. Entering into, arranging or advising in respect of, and administering, regulated mortgage contracts, and agreeing to do any of those activities, are (subject to certain exemptions) regulated activities under the FSMA and the FSMA (Regulated Activities) Order 2001 (as amended) (the "**RAO**") requiring authorisation and permission from the FCA.

The original definition of a regulated mortgage contract was such that if a mortgage contract was entered into on or after the Regulation Effective Date but before 21 March 2016, it was a regulated mortgage contract under the RAO if: (a) the lender provided credit to an individual or to trustees; and (b) the obligation of the borrower to repay was secured by a first legal mortgage on land (other than timeshare accommodation) in the United Kingdom, at least 40% of which was used, or was 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 was a beneficiary of the trust, or by a related person. A related person (in relation to a borrower, or in the case of credit provided to trustees, a beneficiary of the trust) is broadly the person's spouse or civil partner, near relative or a person with whom the borrower (or in the case of credit provided to trustees, a beneficiary of the trust) has a relationship which is characteristic of a spouse.

There have been incremental changes to the definition of regulated mortgage contract over time, including, from 21 March 2016, as a result of the implementation of the European Mortgage Credit Directive (2014/17/EU) (the "**Mortgage Credit Directive**"), the removal of the requirement for the security to be first ranking and the extension of the territorial scope to cover property in the EEA rather than just the UK.

The current definition of a regulated mortgage contract is such that if a mortgage contract is entered into on or after 21 March 2016, it will be a regulated mortgage contract if it meets the following conditions (when read in conjunction with and subject to certain relevant exclusions such as the relevant exclusions for buy-to-let loans): (a) the borrower is an individual or trustee; and (b) the obligation of the borrower to repay is secured by a mortgage on land in the EEA, at least 40% of which is used, or is intended to be used, in the case of credit provided to an individual, as or in connection with a dwelling or in the case of credit provided to a trustee who is not an individual, as or in connection with a dwelling by an individual who is a beneficiary of the trust, or by a related person.

Credit agreements which were originated before 21 March 2016, which were regulated by the Consumer Credit Act 2006 (the "**CCA 2006**"), and that would have been regulated mortgage contracts had they been entered into on or after 21 March 2016 are 'consumer credit back book mortgage contracts' and are also therefore regulated mortgage contracts (see section entitled "*Risk factors – Certain regulatory considerations - Regulation of residential secured lending*" below). Unless an exclusion or exemption applies, each entity carrying on a regulated activity under the FSMA has to hold authorisation and permission under the FSMA to carry on that activity.

On and from the Regulation Effective Date, subject to any exemption, persons carrying on any specified regulated mortgage-related activities by way of business must be authorised under the FSMA. The specified activities currently are: (a) entering into a Regulated Mortgage Contract as lender; (b) administering a Regulated Mortgage Contract (administering in this context broadly means notifying borrowers of changes in mortgage payments and/or collecting

payments due under the mortgage loan); (c) advising in respect of Regulated Mortgage Contracts; and (d) arranging Regulated Mortgage Contracts. Agreeing to carry on any of these activities is also a regulated activity. If requirements as to 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. 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 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 financial promotions) is a criminal offence and will render the Regulated Mortgage Contract or other secured credit agreement in question unenforceable against the borrower except with the approval of a court.

The Seller is required to hold authorisation and permission to enter into and to administer and, where applicable, to advise in respect of Regulated Mortgage Contracts. Subject to any exemption, brokers will be required to hold authorisation and permission to arrange and, where applicable, to advise in respect of regulated mortgage contracts.

The Issuer is not, nor proposes to be, authorised persons under the FSMA. The Issuer does not require authorisation in order to acquire legal or beneficial title to a regulated mortgage contract. The Issuer does not carry on the regulated activity of administering (servicing) regulated mortgage contracts, because the Mortgage Loans are serviced pursuant to the Servicing Agreement by the Servicer, which has the required FCA authorisation and permission under the FSMA. If the Servicing Agreement terminates, however, the Issuer will be required to appoint a replacement servicer which has the required FCA authorisation and permission under the FSMA. In addition, no variation may be made to the Mortgage Loans in the Mortgage Portfolio and no Further Advance or Product Switch has been or will be made in relation to a Mortgage Loan in the Mortgage Portfolio where it would result in the Issuer arranging or advising in respect of, administering (servicing) or entering into a Regulated Mortgage contract or debt-counselling or debt-collecting or performing debt administration in respect of, an unregulated first charge mortgage 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 FCA's Mortgages and Home Finance: Conduct of Business sourcebook ("**MCOB**"), which sets out the FCA's rules for regulated mortgage activities, came into force on 31 October 2004. These rules cover, amongst other things, certain pre-origination matters such as financial promotion and pre-application illustrations, pre contract and start-of-contract and post-contract disclosure, contract changes, charges and arrears and repossessions.

If requirements as to authorisation and permission of lenders and brokers or as to issue and approval of financial promotions are not complied with, a regulated mortgage contract may be unenforceable against the Borrower except with the approval of a court. In addition, a Borrower who is a private person may be entitled to claim damages for loss suffered as a result of any contravention by an authorised person of an FCA rule, and may set-off the amount of the claim against the amount owing by the Borrower under a Mortgage Loan or any other Mortgage Loan that the Borrower has taken with that authorised person. Any such claim or set-off may reduce the amounts available to meet the payments due in respect of the Issuer Notes.

### ***Regulation of residential secured lending***

The UK government had a policy commitment to move second charge lending into the regulatory regime for mortgage lending, replacing the regime for consumer credit under which second charge lending previously fell. The UK government concluded there was a strong case for regulating lending secured on a borrower's home consistently, regardless of whether it is secured by a first or subsequent charge. The Mortgage Credit Directive also follows this principle and makes no distinction between requirements for first charge and second (and subsequent) charge mortgage lending. The UK government therefore concluded that it made sense to implement changes to second (and subsequent) charge lending alongside the implementation of the Mortgage Credit Directive. The UK government also proposed to move the regulation of second (and subsequent) charge loans already in existence before 21 March 2016 to the

regulated mortgage contract regime rather than keeping them within the consumer credit regime. This policy of regulating lending secured on a borrower's home consistently also meant that the UK government decided to change the regulatory regime for pre-2004 first charge loans regulated by the CCA. Mortgage regulation under FSMA began on 31 October 2004. Mortgages entered into before that date were regulated by the CCA, provided they did not exceed the financial threshold in place when they were entered into and were not otherwise exempt. Consequently, in November 2015, the UK government made legislation the effect of which was that the administration of and other activities relating to pre-October 2004 first charge mortgages which at that time were regulated by the CCA became regulated mortgage activities from 21 March 2017, although firms could have adopted the new rules from 21 March 2016 if they chose. The move of CCA regulated mortgages to the FSMA regime was implemented by the Mortgage Credit Directive Order 2015 on 21 March 2016 (the "**Mortgage Credit Directive Order**"). The government put in place transitional provisions for existing Mortgage Loans so that some of the CCA protections in place when the loans were originally taken out were not removed retrospectively.

Credit agreements which were originated before 21 March 2016 which were regulated by the CCA and that would have been regulated mortgage contracts had they been entered into on or after 21 March 2016 are defined by the Mortgage Credit Directive Order as "consumer credit back book mortgage contracts" and are now regulated mortgage contracts. The main CCA consumer protection retained in respect of consumer credit back book mortgage contracts is the continuing unenforceability of the agreement if it was rendered unenforceable by the CCA prior to 21 March 2016. Unless the agreement was irredeemably unenforceable, the lender may enforce the agreement by seeking a court order or bringing any relevant period of non-compliance with the CCA to an end in the same manner as would have applied if the agreement were still regulated by the CCA. If a consumer credit back book mortgage contract was void as a result of section 56(3) of the CCA, that agreement or the relevant part of it will remain void. Restrictions on early settlement fees will also be retained. If interest was not chargeable under a consumer credit back book mortgage contract due to non-compliance with section 77A of the CCA (duty to serve an annual statement) or section 86B of the CCA (duty to serve a notice of sums in arrears (NOSIA)), once the consumer credit back book mortgage contract became regulated by FSMA under the Mortgage Credit Directive Order as of 21 March 2016, the sanction of interest not being chargeable under section 77A of the CCA and section 86D of the CCA ceased to apply, but only for interest payable under those Mortgage Loans after 21 March 2016. A consumer credit back book mortgage contract will also be subject to the unfair relationship provisions described below (see section entitled "*Risk factors – Certain regulatory considerations – Unfair Relationships*" below). Certain provisions of MCOB are applicable to these consumer credit back book mortgage contracts. These include the rules relating to disclosure at the start of a contract and post-sale disclosure (MCOB 7), charges (MCOB 12) and arrears, payment shortfalls and repossessions (MCOB 13). General conduct of business standards will also apply (MCOB 2). This process is subject to detailed transitional provisions that are intended to retain certain customer protections in the FCA's Consumer Credit Sourcebook and the CCA that are not contained within MCOB.

The Seller has given or, as applicable, will give warranties to the Issuer and the Security Trustee in the Mortgage Sale Agreement that, *inter alia*, each Mortgage Loan and its Related Security is enforceable (subject to certain exceptions). If a Mortgage Loan or its Related Security does not materially comply with these warranties, and if the default cannot be or is not cured within 90 days of the Seller being notified by the Issuer, then the Seller will, upon receipt of notice from the Issuer, be required to repurchase the Mortgage Loans and their Related Security.

This regulatory regime may result in adverse effects on the enforceability of certain Mortgage Loans and consequently the Issuer's ability to make payment in full on the Issuer Notes when due.

***Changes to mortgage regulation and to the regulatory structure in the United Kingdom may adversely affect payments on your Notes***

In December 2011, the former Financial Services Authority (the "FSA") published a consultation paper that consolidated proposals arising out of its wide-ranging mortgage market review, which was launched in October 2009 to consider strengthening rules and guidance on, *inter alia*, affordability assessments, product regulation, arrears charges and responsible lending. The FSA's aim was to ensure the continued provision of mortgage credit for the majority of borrowers who can afford the financial commitment of a mortgage, while preventing a re-emergence of poor lending practices as the supply of mortgage credit in the market recovered. In October 2012, the FSA published a feedback

statement and final rules that generally came into force on 26 April 2014 with transitional arrangements where, among other things, the borrower does not take on additional borrowing. These rules have, for example, imposed more stringent requirements on lenders to assess the affordability of a loan made to a borrower and to verify the income of a borrower.

In relation to interest-only loans that are not buy-to-let loans, the mortgage market review introduced rules that require relevant institutions, with effect from 26 April 2014, to obtain evidence (with permitted exceptions) that a borrower will have in place a clearly understood and credible payment strategy and that the payment strategy has the potential to repay the principal at the end of the term of an interest-only loan.

The FCA started to track firms' progress towards implementation of the mortgage market review from the second quarter of 2013 and: (i) in June 2015 published a report following a thematic review concerning the quality and suitability of mortgage advice provided by firms; and (ii) began a further thematic review on responsible lending in April 2015, on which it reported in May 2016. This is in addition to regulatory reforms which were made as a result of the implementation of the Mortgage Credit Directive (see section entitled "*Risk factors – Certain regulatory considerations – Mortgage Credit Directive*"). It is possible that further changes may be made to the FCA's MCOB rules as a result of these reviews and other related future regulatory reforms. To the extent that any new rules do 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 reduce the amounts available to meet the payments due in respect of the Issuer Notes.

Any further changes to the FCA's MCOB rules or the FSMA or changes in the regulatory structure or the Financial Services Act 2012, may adversely affect the Mortgage Loans, the Seller, the Issuer, the Servicer and their respective businesses and operations.

### **Unfair relationships**

Under the CCA 2006, the earlier "extortionate credit" regime under the CCA was replaced by an "unfair relationship" test. The "unfair relationship" test applies to all existing and new credit agreements, except regulated mortgage contracts under the FSMA, and also applies to (as described above) "consumer credit back book mortgage contracts". If the court makes a determination that the relationship between a lender and a borrower is unfair, then it may make an order, among other things, requiring the originator, or any assignee (such as the Issuer), to repay amounts received from such borrower. In applying the "unfair relationship" test, the courts are able to consider a wider range of circumstances surrounding the transaction, including the creditor's conduct (or anyone acting on behalf of the creditor) before and after making the agreement. There is no statutory definition of the word "unfair" in the CCA as the intention is for the test to be flexible and subject to judicial discretion and it is therefore difficult to predict whether a court would find a relationship "unfair". However, the word "unfair" is not an unfamiliar term in UK legislation due to the UTCCR and the CRA (each as defined below). The courts may, but are not obliged to, look solely to the CCA 2006 for guidance. The principle of "treating customers fairly" under the FSMA, and guidance published by the FSA and, subsequently, the FCA on that principle and by the OFT on the unfair relationship test, may also be relevant. Under the CCA, once the debtor alleges that an "unfair relationship" exists, the burden of proof is on the creditor to prove the contrary.

*Plevin v Paragon* [2014] UKSC 61 ("*Plevin*"), a Supreme Court judgment, has clarified that compliance with the relevant regulatory rules by the creditor (or a person acting on behalf of the creditor) does not preclude a finding of unfairness, as a wider range of considerations may be relevant to the fairness of the relationship than those which would be relevant to the application of the rules.

In March 2017, the FCA published final rules and guidance with respect to payment protection insurance complaints in light of *Plevin*. The rules will not apply to borrowers with regulated mortgage contracts. The FCA rules came into force on 29 August 2017 and require that firms that sold payment protection insurance ("**PPI**") must have written to previously rejected mis-selling complainants who are eligible to complain again in light of *Plevin* in order to explain this to them by 29 November 2017. The FCA rules state that if the anticipated profit share and commission or the likely range of profit share and commission on a PPI contract was not disclosed to the borrower before the PPI contract was entered into, the firm should consider whether it can satisfy itself on reasonable grounds that an unfair relationship did

not arise. A firm should make a rebuttable presumption that failure to disclose commission gave rise to an unfair relationship if the anticipated profit share plus the commission known or reasonably foreseeable at the time of sale was, in relation to a single premium payment protection contract, more than 50% of the total amount paid in relation to the PPI contract or in the case of a regular premium PPI contract, at any time in the relevant period or periods more than 50% of the total amount paid in relation to the PPI contract in respect of the relevant period or periods. The FCA cites, amongst others, an example of such presumption being rebutted by the lender not having known and not being reasonably expected to have known or foreseen the level of commission and anticipated profit share. Where the firm concludes that the non-disclosure of commission on a PPI contract has given rise to an unfair relationship, the firm should remedy the unfairness by paying the complainant a sum equal to the total commission paid by the complainant for PPI plus an amount representing any profit share payment, minus 50% of the total amount paid by the complainant for the PPI. The firm should also repay interest received by it in relation to that sum, where relevant and also pay simple interest on the whole amount.

If a court determined that there was an unfair relationship between the lender and the Borrowers in respect of the Mortgage Loans and ordered that financial redress be made in respect of such Mortgage Loans or if redress was due in accordance with the FCA rules and guidance on PPI complaints, such redress may adversely affect the ultimate amount received by the Issuer in respect of the relevant Mortgage Loans.

### ***Mortgage Credit Directive***

The Mortgage Credit Directive, which entered into force on 21 March 2014, aims to create an EU-wide mortgage credit market with a high level of consumer protection and it applies to: (a) credit agreements secured by a mortgage or comparable security commonly used in a Member State on residential immovable property, or secured by a right relating to residential immovable property; and (b) credit agreements the purpose of which is to finance the purchase or retention of rights in land or in an existing or proposed residential building; and extends the Consumer Credit Directive (2008/48/EC) to unsecured credit agreements the purpose of which is to renovate residential immovable property involving a total amount of credit above €75,000. There are a number of exemptions from the Mortgage Credit Directive, for example, the Mortgage Credit Directive does not apply to certain equity release credit agreements to be repaid from the sale proceeds of an immovable property, or to certain credit granted by an employer to its employees.

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

On 25 March 2015, the Mortgage Credit Directive Order was passed in order to make the necessary legislative changes to implement the Mortgage Credit Directive in the UK. Whilst certain provisions of the Mortgage Credit Directive Order came into force before 21 March 2016, the Mortgage Credit Directive Order took effect for most purposes on 21 March 2016. The FCA also made amendments to its handbook in order to give effect to the Mortgage Credit Directive, including an amendment to make consumer buy-to-let mortgage business subject to the FCA's dispute resolution rules and within the Financial Ombudsman Service's jurisdiction. Although the Mortgage Credit Directive generally only applies to credit agreements entered into on or after 21 March 2016, the UK's implementation of the Mortgage Credit Directive has also operated to bring consumer credit back book mortgage contracts (as described in section "*Risk factors – Certain regulatory considerations – Failure by the Seller or any broker to hold authorisation under the FSMA may have an adverse effect on enforceability of mortgage contracts*" above) into the FCA regime for regulated mortgage contracts.

It is not yet possible to know with certainty what effect the Mortgage Credit Directive and the implementation of the directive into UK law will have on the Mortgage Loans, the Seller, the Issuer and/or the Servicer and their respective businesses and operations. However, the UK's approach to implementation has been to seek to minimise the impact of the Mortgage Credit Directive on the UK mortgage market by building on the existing UK regulatory regime (rather than copying out the directive into UK legislation).

***Under applicable distance marketing regulations, some of the Mortgage Loans may be cancellable, which may have an adverse effect on the Issuer's ability to make payments on the Notes***

In the UK, the Financial Services (Distance Marketing) Regulations 2004 (the "**DM Regulations**") apply to, among other things, credit agreements entered into on or after 31 October 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the Seller and the Borrower).

The DM Regulations (and MCOB in respect of activities related to regulated mortgage contracts) require suppliers of financial services by way of distance communication to provide certain information to consumers. This information generally has to be provided before the consumer is bound by a distance contract for the supply of the financial services in question and includes, but is not limited to, general information in respect of the supplier and the financial service, contractual terms and conditions, and whether or not there is a right of cancellation.

A regulated mortgage contract under the FSMA, if originated by a UK lender from an establishment in the United Kingdom, will not be cancellable under the DM Regulations but will be subject to related pre-contract disclosure requirements in MCOB. Certain other credit agreements will be cancellable under the DM Regulations if the Borrower does not receive prescribed information at the prescribed time, or in any event for certain unsecured lending. Where the credit agreement is cancellable under the DM Regulations, the Borrower may send notice of cancellation at any time before the end of the 14th day after the day on which the cancellable agreement is made, where all the prescribed information has been received, or, if later, the Borrower receives the last of the prescribed information.

Compliance with the DM Regulations may be secured by way of injunction, granted on such terms as the court thinks fit to ensure such compliance, and certain breaches of the DM Regulations may render the supplier or intermediaries (and their respective relevant officers) liable to a fine. Failure to comply with MCOB rules could result in, inter alia, disciplinary action by the FCA and possible claims under Section 138D of the FSMA for breach of FCA rules.

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

If a significant portion of the Mortgage Loans in the Mortgage Portfolio are characterised as being cancellable under the DM Regulations, then there could be an adverse effect on the Issuer's receipts in respect of the Mortgage Loans, affecting the Issuer's ability to make payments on the Notes.

**Regulations in the United Kingdom could lead to some terms of the Mortgage Loans being unenforceable, which may adversely affect payments on your Notes**

***Unfair Terms in Consumer Contracts Regulations 1994 and 1999 and Consumer Rights Act 2015***

In the United Kingdom, the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the "**1999 Regulations**"), together with (in so far as applicable) the Unfair Terms in Consumer Contracts Regulations 1994 (together with the 1999 Regulations, the "**UTCCR**"), apply to agreements made on or after 1 July 1995 and before 1 October 2015 by a "consumer" within the meaning of the UTCCR, where the terms have not been individually negotiated. The Consumer Rights Act 2015 (the "**Consumer Rights Act**") has revoked the UTCCR in respect of contracts made on or after 1 October 2015.

The UTCCR and the Consumer Rights Act provide that a consumer (which would include a Borrower under all or almost all of the Mortgage Loans) may challenge a term in an agreement on the basis that it is "unfair" within the UTCCR or the Consumer Rights Act as applicable and therefore not binding on the consumer (although the rest of the

agreement will remain enforceable if it is capable of continuing in existence without the unfair term) and provide that a regulator may take action to stop the use of terms which are considered to be unfair.

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

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

On 12 January 2016, the FCA and the Competition and Markets Authority (the "CMA") entered into a memorandum of understanding in relation to consumer protection (the "MoU") which stated that the CMA may consider fairness, but will not usually expect to do so, where the firm concerned is an authorised firm or an authorised representative under FSMA. Further, the MoU stated that the FCA will consider fairness within the meaning of the Consumer Rights Act and the UTCCR of standard terms, and the Consumer Rights Act of negotiated terms, in financial services contracts issued by authorised firms or appointed representatives, when such firms or representatives are undertaking any regulated activity (as specified in Part II of the RAO), in the UK. In this MoU 'authorised' includes having an interim permission and a 'relevant permission' includes an interim permission. This will include contracts for:

- (a) mortgages and the selling of mortgages;
- (b) insurance and the selling of insurance;
- (c) bank, building society and credit union accounts;
- (d) life assurance;
- (e) pensions;
- (f) investments;
- (g) consumer credit;
- (h) consumer hire; and
- (i) other credit-related regulated activities.

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

In July 2012, the Law Commission launched a consultation in order to review and update the recommendations set out in their 2005 Report on Unfair Terms in Contracts. In March 2013, the Law Commission published its advice, in a



paper entitled "Unfair Terms in Consumer Contracts: Advice to the Department for Business, Innovation and Skills". This advice paper repeated the recommendation from the 2005 Report on Unfair Terms in Contracts that the Unfair Contract Terms Act 1977 and the UTCCR should be consolidated, as well as providing new recommendations, including extending the protections of unfair terms legislation to notices and some additions to the "grey list" of terms (as included in Schedule 2 of the Consumer Rights Act) which are indicatively unfair. The Law Commission also recommended that the UTCCR should expressly provide that, in proceedings brought by individual consumers, the court is required to consider the fairness of the term, even if the consumer has not raised the issue, where the court has available to it the legal and factual elements necessary for that task. Such reforms are included in the Consumer Rights Act, which came into force in October 2015.

Historically the OFT, FSA and FCA (as appropriate) have issued guidance on the UTCCR. This has included: (i) OFT guidance on fair terms for interest variation in mortgage contracts dated February 2000; (ii) an FSA statement of good practice on fairness of terms in consumer contracts dated May 2005; (iii) an FSA statement of good practice on mortgage exit administration fees dated January 2007; and (iv) FSA finalised guidance on unfair contract terms and improving standards in consumer contracts dated January 2012.

On 2 March 2015, the FCA updated its online unfair contract terms library by removing some of its material (including the abovementioned guidance) relating to unfair contract terms. The FCA stated that such material "no longer reflects the FCA's views on unfair contract terms" and that firms should no longer rely on the content of the documents that had been removed.

The broad and general wording of the UTCCR and Consumer Rights Act makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any Mortgage Loans which have been made to Borrowers covered by the UTCCR and the Consumer Rights Act may contain unfair terms which may result in the possible unenforceability of the terms of the underlying Mortgage Loans. If any term of the Mortgage Loans entered into between 1 July 1999 and 30 September 2015 is found to be unfair for the purpose of the UTCCR, this may reduce the amounts available to meet the payments due in respect of the Issuer Notes.

The guidance issued by the FSA (and, as of 1 April 2013, the FCA), the OFT and the CMA has changed over time and it is possible that it may change in the future. No assurance can be given that any such changes in guidance on the UTCCR and Consumer Rights Act, or reform of the UTCCR and the Consumer Rights Act, will not have a material adverse effect on the Seller, the Servicer and the Issuer and their respective businesses and operations. This may adversely affect the ability of the Issuer to make payments in full on the Issuer Notes when due.

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

The main provisions of the Consumer Rights Act came into force on 1 October 2015. The Consumer Rights Act significantly reforms and consolidates consumer law in the UK. The Consumer Rights Act 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 for contracts entered into on or after 1 October 2015. The Consumer Rights Act has revoked the UTCCR in respect of contracts made on or after 1 October 2015 and introduced a new regime for dealing with unfair contractual terms as follows:

Under Part 2 of the Consumer Rights Act 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 of the Consumer Rights Act 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 although 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 by or due to the consumer, or the amount of other charges for financial services without notice where there is a valid reason if 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 of a consumer contract which is not on the "grey list" 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, provided it is transparent and prominent.

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 susceptible 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.

On 17 May 2018, the FCA launched a consultation on new guidance: "Fairness of variation terms in financial services consumer contracts under the Consumer Rights Act 2015" (GC18/2), outlining factors firms should consider under the Consumer Rights Act when drafting and reviewing variation terms in their consumer contracts. This follows developments in case law, including at the Court of Justice of the EU. The draft guidance relates to all financial services consumer contracts entered into since 1 July 1995. The consultation closes on 7 September 2018. The FCA have stated that the guidance when finalised should be read with the material already in the unfair contract terms library on the FCA website and will apply to FCA authorised persons and their appointed representative in relation to any consumer contracts they issue which contain variation terms.

The provisions in the Consumer Rights Act governing unfair contractual terms came into force on 1 October 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 Consumer Rights Act and the Competition and Markets Authority published guidance on the unfair terms provisions in the Consumer Rights Act on 31 July 2015 (the "**CMA Guidance**"). The CMA indicated in the CMA Guidance that the fairness and transparency provisions of the Consumer Rights Act are regarded to be "effectively the same as those of the UTCCR". The document further Notes that "the extent of continuity in unfair terms legislation means that existing case law generally, and that of the Court of Justice of the European Union particularly, is for the most part as relevant to the Act as it was the UTCCRs". In general, there is little reported case law on the UTCCR and/or the Consumer Rights Act and the interpretation of each is open to some doubt. The broad and general wording of the Consumer Rights Act makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any Mortgage Loans which have been made to Borrowers covered by the Consumer Rights Act may contain unfair terms which may result in the possible unenforceability of the terms of the underlying Mortgage Loans. If any term of the Mortgage Loans entered into on or after 1 October 2015 is found to be unfair for the purpose of the Consumer Rights Act, this may reduce the amounts available to meet the payments due in respect of the Notes.

The guidance issued by the FSA, the OFT and the Law Commission has evolved over time and it is possible that a different approach may be taken in the future, including by the FCA and/or the CMA. No assurance can be given that future changes to guidance on unfair contract terms legislation will not have a material adverse effect on the Issuer's ability to make payments on the Notes.

***United Kingdom implementation of the Unfair Commercial Practices Directive 2005 may have a material adverse effect on the Mortgage Loans and accordingly on the ability of the Issuer to make payments to the holders of the Notes***

On 11 May 2005, the European Parliament and the Council adopted Directive (2005/29/EC) regarding unfair business-to-consumer commercial practices (the "**Unfair Practices Directive**"). Generally, this directive applies full harmonisation, which means that member states may not impose more stringent provisions in the fields to which full harmonisation applies. However, by way of exception, this directive permits member states to impose more stringent provisions in the fields of financial services and immovable property, such as mortgage loans.

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

The Unfair Practices Directive has been implemented in the UK through the Consumer Protection from Unfair Trading Regulations 2008 (the "**CPUTR**"), which came into force on 26 May 2008. The CPUTR prohibit certain practices which are deemed to be "*unfair*". Breach of the CPUTR does not (of itself) render an agreement void or unenforceable, but the possible liabilities for misrepresentation or breach of contract in relation to the underlying credit agreement may result in losses on amounts to which such agreements apply. Breach of certain CPUTR provisions is a criminal offence. The Consumer Protection (Amendment) Regulations 2014 amended the CPUTR with effect from 1 October 2014 so as to give consumers a right to redress for prohibited practices, including a right to unwind agreements.

In addition, the FSA (and, following 1 April 2013, the FCA) has taken the Unfair Practices Directive into account in reviewing its relevant rules, such as MCOB, and the OFT addressed commercial practices in administering licences under the CCA. For example, the FCA's MCOB rules for regulated mortgage contracts from 25 June 2010 (formerly these were matters of non-binding guidance) prevent the lender from: (a) repossessing the mortgaged 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 conversion to interest-only for a period, or a Product Switch; and (b) automatically capitalising a payment shortfall.

No assurance can be given that the UK's implementation of the Unfair Practices Directive will not have a material adverse effect on the Mortgage Loans or on the manner in which they are serviced and accordingly on the ability of the Issuer to make payments to the holders of the Notes.

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

Under the FSMA, the Ombudsman is required to make decisions on, inter alia, complaints relating to the activities and transactions under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all the circumstances of the case, taking into account, inter alia, law and guidance. Transitional provisions exist by which certain complaints relating to breach of the Mortgage Code occurring before the Regulation Effective Date may be dealt with by the Ombudsman. 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 is first adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Ombudsman. As the Ombudsman is required to make decisions on the basis of, inter alia, the principles of fairness, and may order a money award to the Borrower, it is not possible to predict how any future decision of the Ombudsman would affect the Issuer's ability to make payments in full on the Notes when due.

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

No assurance can be given that changes will not be made to the regulatory regime and developments described above in respect of the mortgage market in the United Kingdom generally, the Seller's particular sector in that market or specifically in relation to the Seller. Any such action or developments, in particular, but not limited to, the cost of

compliance, may have a material adverse effect on the Seller, the Issuer and/or the Servicer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full when due on the Notes.

Lloyds Banking Group (as defined below in the section entitled "*Bank of Scotland plc (The Seller, the Servicer, the Cash Manager, the Swap Provider and the Account Bank)*") is also subject to a number of EU and UK proposals and measures targeted at preventing financial crime (including anti-money laundering and terrorist financing). This includes the EU's Fourth Anti-Money Laundering Directive (Directive (EU) 2015/849), which came into force in June 2017 and aims to enhance processes to counter money laundering and terrorist financing. Lloyds Banking Group is committed to operating a business that prevents, deters and detects money laundering and terrorist financing, and will introduce any changes required in line with the new directive and industry guidance. However, if there are breaches of these measures or existing law and regulation relating to financial crime, Lloyds Banking Group could face significant administrative, regulatory and criminal sanctions as well as reputational damage which may have a material adverse effect on Lloyds Banking Group entities undertaking roles under this transaction and could impact their businesses and products including businesses and products directly relevant to this transaction's operation, financial condition and prospects.

#### ***The Senior Managers and Certification Regime may have a substantial impact on Lloyds Banking Group's business***

The Senior Managers and Certification Regime (the "**SM&CR**") came into force on 7 March 2016 and is intended to govern the individual accountability and conduct of senior persons within UK banks, building societies, credit unions, PRA designated investment firms and branches of foreign banks operating in the UK. The FCA and the PRA have now published the majority of their rules and guidance on the SM&CR. Among other things, the SM&CR introduced: (i) requirements on financial institutions to allocate and map senior management responsibilities and reporting lines across all areas of the organisation's activities; (ii) a new senior persons regime governing the conduct of bank staff approved by the PRA and FCA to perform senior management functions (including certain non-executive directors); (iii) new rules requiring financial institutions to certify the ongoing suitability of a wide range of staff performing certain functions; (iv) the extension (from March 2017) of conduct rules (enforceable by PRA and/or FCA disciplinary action, including financial penalties and public censure) previously only applicable to Senior Managers and certified staff to all bank staff other than those undertaking purely ancillary functions; and (v) the introduction of a criminal offence for reckless misconduct by senior bank staff. Rules regarding regulatory references for Senior Managers and staff within the SM&CR also came into force from 7 March 2017.

The PRA and FCA continue to publish guidance on the SM&CR, most recently Policy Statement 12/17 on strengthening individual accountability in banking and insurance: amendments and optimizations. The SM&CR will continue to have a substantial impact on banks and building societies in the UK generally, including Lloyds Banking Group entities undertaking roles under this transaction, which could impact their businesses and products including businesses and products directly relevant to the transaction's operation, financial condition and prospects.

#### ***Securitisation Company Tax Regime***

The Issuer has been advised that it should fall within the permanent regime for the taxation of securitisation companies (as set out in the Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296) (as amended) (the "**TSC Regulations**")), and as such should be taxed only on the amount of its "retained profit" (as that term is defined in the TSC Regulations), for so long as it satisfies the conditions of the TSC Regulations.

However, if the Issuer does not in fact satisfy the conditions of the TSC Regulations (or subsequently cease to satisfy those conditions), then the relevant entity may be subject to tax liabilities not contemplated in the cash flows for the transaction described in this prospectus. Any such tax liabilities may reduce amounts available to the Issuer to meet its obligations under the Notes and may result in investors receiving less interest and/or principal than expected.

#### ***EU financial transaction tax***

On 14 February 2013, the European Commission issued proposals, including a draft Directive (the "**Commission's proposal**") for a financial transaction tax ("**FTT**") to be adopted in certain participating EU member states (including

Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia, although Estonia has since stated that it will not participate). If the Commission's proposal was adopted, the FTT would be a tax primarily on "financial institutions" (which would include the Issuer) in relation to "financial transactions" (which would include the conclusion or modification of derivative contracts and the purchase and sale of financial instruments).

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 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 financial transaction is issued in a participating member state.

The FTT may give rise to tax liabilities for the Issuer with respect to certain transactions (including concluding swap transactions and/or purchases or sales of securities (such as authorised investments)) if it is adopted based on the Commission's proposal. Any such tax liabilities may reduce amounts available to the Issuer to meet its obligations under the Notes and may result in investors receiving less interest or principal than expected. To the extent that such liabilities may arise at a time when winding up proceedings have been commenced in respect of the Issuer, such liabilities may be regarded as an expense of the liquidation and, as such, be payable out of the floating charge assets of the Issuer (and its general estate) in priority to the claims of Noteholders and other Secured Creditors. It should also be noted that the FTT could be payable in relation to relevant transactions by investors in respect of the Notes (including secondary market transactions) if the conditions for a charge to arise are satisfied and the FTT is adopted based on the Commission's proposal. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

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.

***Your interests may be adversely affected by a change of law in relation to UK withholding tax***

Provided that the Notes are and continue to be "listed on a recognised stock exchange" (within the meaning of section 1005 of the Income Tax Act 2007), as at the date of this Prospectus, no withholding or deduction for or on account of United Kingdom income tax will be required on payments of interest on the Notes. However, there can be no assurance that the law in this area will not change during the life of the Notes.

In the event that any withholding or deduction for or on account of any tax is imposed on payments in respect of the Notes, neither the Issuer nor any other person will be obliged to gross up or otherwise compensate Noteholders for such withholding or deduction. The Issuer may, in certain circumstances, redeem the Notes where a withholding tax is applicable to payments on the Notes (as described in Condition 7.4 (*Optional redemption for taxation or other reasons*) of the Notes).

The applicability of any withholding or deduction for or on account of United Kingdom tax on payments of interest on the Notes is discussed further under "*Taxation – United Kingdom taxation*" below.

***Changes of law may adversely affect your interests***

The structure of the transactions and, inter alia, the issue of the Notes and the ratings of the Notes are based on English law, UK tax law and HM Revenue and Customs published practice in effect as at the date of this Prospectus. The transactions described in this Prospectus (including the issuance of the Notes) and the ratings which are to be assigned to the Notes are based on the relevant law and administrative practice in effect as at the date hereof, 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 the law (including any change in regulation which may occur without a change in primary legislation), administrative practice or tax treatment after the date of this Prospectus nor can any assurance be

given as to whether any such change would adversely affect the ability of the Issuer to make payments under the Notes. 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.

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

In Europe, the U.S. and elsewhere there is increased political and regulatory scrutiny of the asset-backed securities industry. This has resulted in a raft of measures for increased regulation which are currently at various stages of implementation and which may have an adverse impact on the regulatory position for certain investors in securitisation exposures and/or the incentives for certain investors to hold asset-backed securities, and may thereby affect the liquidity of such securities. Investors in the Notes are responsible for analysing their own regulatory position and none of the Issuer, the Arranger, the Lead Managers 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.

In particular, investors should note that the Basel Committee on Banking Supervision ("**BCBS**") has approved a series of significant changes to the Basel regulatory capital and liquidity framework (such changes being referred to by the BCBS as "**Basel III**"), including revisions to the securitisation framework which may result in increased regulatory capital requirements in respect of certain positions. Basel III envisages a substantial strengthening of the existing prudential rules including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards and a minimum leverage ratio for financial institutions. The changes include, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (referred to as the "**Liquidity Coverage Ratio**" and the "**Net Stable Funding Ratio**").

BCBS member countries agreed to implement the initial phase of the Basel III reforms from 1 January 2013 and the second phase from 1 January 2022, subject to transitional and phase-in arrangements for certain requirements. As implementation of any changes to the Basel framework (including those made via Basel III) requires national legislation, the final rules and the timetable for its implementation in each jurisdiction, as well as the treatment of asset-backed securities, may be subject to some level of national variation. It should also be noted that changes to regulatory capital requirements have been made for insurance and reinsurance undertakings through participating jurisdiction initiatives, such as the Solvency II framework in Europe.

On 26 June 2013 the European Parliament and European Council adopted a legislative package of proposals by a Capital Requirements Regulation and an associated Capital Requirements Directive (known together as "**CRD IV**") to implement the Basel III changes. The legislation entered into force on 1 January 2014, although many provisions will be phased in with full implementation of CRD IV required by January 2024; however, the proposals allow individual Member States to implement the stricter requirements of contributing instruments and/or implement increases to the required levels of capital more quickly than envisaged.

CRD IV substantially reflects the Basel III capital and liquidity standards and the applicable implementation timeframes, although there are some differences. CRD IV provides for (among other things) new requirements to reduce reliance by credit institutions on external credit ratings, by requiring that all banks' investment decisions are based not only on ratings but also on their own internal credit opinion, and that banks with a material number of exposures in a given mortgage portfolio develop internal ratings for that mortgage portfolio instead of relying on external ratings for the calculation of their capital requirements.

The changes approved, and the further changes being considered, by the Basel Committee and those in the process of implementation by European authorities may have an impact on incentives to hold the Notes for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of

the Notes. It should also be noted that changes to regulatory capital requirements are coming for insurance and reinsurance undertakings through national initiatives, such as the Solvency II framework in Europe.

In addition, investors should be aware of the EU risk retention and due diligence requirements which currently apply, or are expected to apply in the future, in respect of various types of EU regulated investors including credit institutions, authorised alternative investment fund managers, investment firms, insurance and reinsurance undertakings and UCITS funds. 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% 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. Aspects of the requirements and what is or will be required to demonstrate compliance to national regulators remain unclear.

The risk retention and due diligence requirements described above are expected to apply, in respect of the Notes. With respect to the commitment of the Seller 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 by the Seller in its capacity as the Servicer or the Cash Manager on the Issuer's behalf), please see the statements set out under "*Regulatory Disclosures – EU risk retention*" below. 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 Arranger, the managers or the Seller 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 two new regulations related to securitisation (being Regulation (EU) 2017/2401 and Regulation (EU) 2017/2402) which will apply in general from 1 January 2019. Amongst other things, the regulations 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. 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 (i.e. direct application versus indirect application) 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, which guidance is to be made through new technical standards. In general, the new regulations (including the retention and due diligence requirements) apply to securitisations the securities of which are issued on or after the application date of 1 January 2019, including securitisations established prior to the date where further securities are issued on or after 1 January 2019. Accordingly, the new requirements may apply in respect of the Notes if there is an issuance of Notes on or after the application date. Aspects of the application of the new requirements in the context of existing transactions involving further issuances are unclear.

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.

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

The Banking Act 2009 (the "**Banking Act**") includes provision for a special resolution regime ("**SRR**") pursuant to which specified UK authorities have extended tools to deal with the failure (or likely failure) of certain UK incorporated entities, including authorised deposit-taking institutions and investment firms, and powers to take certain resolution actions in respect of EEA and third country institutions. Relevant transaction entities for these purposes may include the

Seller, the Servicer, the Cash Manager, the Account Bank, the Subordinated Loan Provider and the Swap Provider. The tools available under the Banking Act may be used in respect of relevant institutions and, in certain circumstances, their UK established banking group companies (such as Lloyds Banking Group) and such tools include share and property transfer powers (including powers for partial property transfers), bail-in powers, certain ancillary powers (including powers to modify contractual arrangements in certain circumstances) and special insolvency procedures which may be commenced by the UK authorities. It is possible that the extended tools described above could be used prior to the point at which an application for insolvency proceedings with respect to a relevant entity could be made and, in certain circumstances, the UK authorities may exercise broad pre-resolution powers in respect of relevant entities with a view to removing impediments to the exercise of the stabilisation tools.

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

If an instrument or order were to be made under the provisions of the Banking Act currently in force in respect of a relevant entity as described above, such action may (amongst other things) affect the ability of such entities to satisfy their obligations under the Transaction Documents and/or result in the cancellation, modification or conversion of certain unsecured liabilities of such entity under the Transaction Documents or in other modifications to such documents. In particular, modifications may be made pursuant to powers permitting (i) certain trust arrangements to be removed or modified, (ii) contractual arrangements between relevant entities and other parties to be removed, modified or created where considered necessary to enable a transferee in the context of a property or share transfer to operate the transferred business effectively and (iii) in connection with the modification of an unsecured liability through use of the bail-in tool, the discharge of a relevant entity from further performance of its obligations under a contract. In addition, subject to certain conditions, powers would apply to require a relevant instrument or order (and related events) to be disregarded in determining whether certain widely defined "default events" have occurred (which events may include trigger events included in the Transaction Documents in respect of the relevant entity, including termination events and (in the case of the Seller) trigger events in respect of perfection of legal title to the Mortgage Loans). As a result, the making of an instrument or order in respect of a relevant entity as described above may affect the ability of the Issuer to meet its obligations in respect of the Notes.

As noted above, the stabilisation tools may be used in respect of certain banking group companies provided certain conditions are met. If the Issuer was regarded to be a banking group company and no exclusion applied, then it would be possible in certain scenarios for the relevant authority to exercise one or more relevant stabilisation tools (including the property transfer powers and/or the bail-in powers) in respect of it, which could result in reduced amounts being available to make payments in respect of the Notes and/or in the modification, cancellation or conversion of any unsecured portion of the liability of the Issuer under the Notes at the relevant time. In this regard, it should be noted that the UK authorities have provided an exclusion for certain securitisation companies, which exclusion is expected to extend to the Issuer, although aspects of the relevant provisions are not entirely clear.

At present, the UK authorities have not made an instrument or order under the Banking Act in respect of the entities referred to above and there has been no indication that any such instrument or order will be made, but there can be no assurance that this will not change and/or that Noteholders will not be adversely affected by any such instrument or order if made. While there is provision for compensation in certain circumstances under the Banking Act, there can be no assurance that Noteholders would recover compensation promptly and equal to any loss actually incurred.

Lastly, on 15 May 2014, the European Parliament and Council adopted a directive establishing an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the "**Banking Recovery and Resolution Directive**" or "**BRRD**"). The final text of the BRRD was published in the Official Journal of the European Union on 12 June 2014 and entered into force on 2 July 2014, with Member States required to adopt necessary implementing measures under national law by no later than 31 December 2014. In the UK, the Banking Reform Act, which made



provision for certain aspects of the "bail-in" power and further legislation, was enacted during 2014 in order to give full effect to the majority of the provisions of BRRD from 1 January 2015.

The stated aim of the BRRD is to provide authorities designated by Member States to apply the resolution tools and exercise the resolution powers set forth in the BRRD (the "**resolution authorities**") with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses. The powers granted to resolution authorities under the BRRD include (but are not limited to): (i) a "write-down and conversion power" relating to Tier 1 and Tier 2 capital instruments and (ii) a "bail-in" power relating to eligible liabilities. Such powers give resolution authorities the ability to write down or write off all or a portion of the claims of certain unsecured creditors of a failing institution or group and/or to convert certain debt claims into another security, including ordinary shares of the surviving entity, if any. Such resulting ordinary shares may also be subject to write down or write off. Such powers were implemented in the UK with effect from 1 January 2015.

The conditions for use of the bail-in power are, in summary, that: (i) the regulator determines that the bank is failing or likely to fail, (ii) having regard to timing and other relevant circumstances, it is not reasonably likely that (ignoring the stabilisation powers) action will be taken by or in respect of the bank to avoid the failure of the bank, (iii) the relevant UK resolution authority determines that it is necessary having regard to the public interest to exercise the bail-in power in the advancement of one of the statutory objectives of resolution and (iv) one or more of those objectives would not be met to the same extent by the winding up of the bank. The BRRD, as implemented, contains certain other limited safeguards for creditors in specific circumstances which (a) in the case of the write-down and conversion power, may provide compensation to holders of the relevant capital instruments via the issue or transfer of ordinary shares of the bank or its parent undertaking in certain circumstances and (b) in the case of senior creditors, aim to ensure that they do not incur greater losses than they would have incurred had the relevant financial institution been wound up under normal insolvency proceedings.

***EU regulatory framework and legal regime relating to derivatives: the European Market Infrastructure Regulation EU 648/2012, the Markets in Financial Instruments Directive 2014/65/EU and MiFID II***

Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories ("**EMIR**") which entered into force on 16 August 2012 establishes certain requirements for derivatives contracts, including (i) a mandatory clearing obligation for certain classes of OTC derivatives contracts (the "**Clearing Obligation**"); (ii) a collateral exchange obligation for OTC derivatives contracts not subject to clearing (the "**Collateral Obligation**"); (iii) daily valuations and other risk-mitigation techniques for OTC derivatives contracts not subject to clearing ; and (iv) reporting and record-keeping requirements for all derivatives contracts.

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 authorized 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 European Union). The process for implementing the Clearing Obligation is under way and a timeframe for compliance has been established for the first class of transactions (being certain 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.

Under EMIR, OTC derivatives contracts entered into by NFC+ and FC entities (and/or third country equivalent entities) that are not cleared by a CCP may be subject to certain margining requirements, unless certain exemptions apply. The regulatory technical standards relating to the collateralization obligations in respect of OTC derivatives contracts which are not cleared are now in force and the obligation for In-scope Counterparties to margin uncleared OTC derivatives

contracts was phased in from the first quarter of 2017 with variation margin obligations applying to all transactions entered into by In-scope Counterparties from 1 March 2017.

On the basis that the Issuer is currently a non-financial counterparty whose position, together with the positions of all other non-financial counterparties in its "group", in OTC derivatives (after the exclusion of hedging positions) do not exceed any of the specified clearing thresholds (each, an "NFC-"), OTC derivatives contracts that are entered into by the Issuer would not in any event be subject to any mandatory clearing or frontloading requirements or margining requirements. However, if the Issuer's counterparty status as an NFC- changes to NFC+ or FC then any new Swap Agreements entered into or existing Swap Agreements that are materially amended may become subject to the Clearing Obligation or, more likely, the Collateral Obligation, as the case may be, on or after the relevant clearing compliance date or collateral compliance date, as the case may be, for the relevant counterparty pair and class of derivatives. The Issuer may not be able 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 Swap Agreement (possibly resulting in a restructuring or termination of the swap) 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.

Further, OTC derivatives contracts that are not cleared by a CCP are also subject to certain other risk mitigation techniques, including arrangements for timely confirmation of OTC derivatives contracts, portfolio reconciliation, dispute resolution and arrangements for monitoring the value of outstanding OTC derivatives contracts. These requirements are already in effect. In order to comply with certain of these risk mitigation requirements the Issuer includes appropriate provisions in the Swap Agreement. In addition, under EMIR, counterparties must report all their OTC and exchange traded derivatives contracts to an authorized or recognized trade repository or to ESMA.

Notwithstanding the qualification on application described above, the position of any of the swaps under each of the Clearing Obligation and Collateral Obligation is not entirely clear and may be affected by further measures still to be made. In this regard, we note Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 (the "**Securitisation Regulation**"), which entered into force on 17 January 2018. The Securitisation Regulation will apply from the start of 2019 and includes, amongst other things, amendments to EMIR. The amendments make provision for the development of technical standards specifying reliefs from each of the obligations referred to above for certain OTC derivative contracts entered into by a securitisation special purpose entity in connection with certain securitisations.

Separately, it should also be noted that further changes will be made to the EMIR framework in the context of the EMIR review process which is on-going and expected to be finalised during the course of 2018. We note that the European Commission and European Parliament have adopted legislative proposals providing for certain amendments to EMIR, including in respect of counterparty classification. If the proposals are adopted in the form originally proposed by the European Commission, the classification of certain counterparties under EMIR would change including with respect to certain securitisation vehicles such as the Issuer. We note that the legislative process is on-going, including discussions to potentially disregard the proposed counterparty classification change, however, no assurances can be given that any such changes made to EMIR would not cause the status of the Issuer to change to FC and lead to some or all of the potentially adverse consequences outlined above.

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 certain conditions, the Note Trustee and the Security Trustee shall be obliged, without any consent or sanction of the Noteholders, or any of the other Secured Creditors to concur with the Issuer or any other person, in making any modifications to the Transaction Documents and/or the terms and conditions applying to Notes to comply with EMIR or any other applicable laws or regulations including, without limitation, any associated regulatory or implementing technical standards and advice, guidance or recommendations from relevant competent authorities or ESMA. Furthermore, certain modifications may be made to the Transaction Documents by the Note Trustee and the Security Trustee without the consent of the Secured Creditors, as applicable, as described above under the section entitled "*Risk Factors – The Note Trustee or, as the case may be, the Security Trustee*

*may agree modifications to the Transaction Documents, which may adversely affect your interests*". In each case, such amendments may be made irrespective of whether such modifications are materially prejudicial to the interests of any Noteholder or any other secured creditor and provided such modifications do not relate to a Basic Terms Modification.

The EU regulatory framework and legal regime relating to derivatives is set not only by EMIR but also by MiFID II and Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 ("**MiFIR**" and together with MiFID II, "**MiFID II/MiFIR**"), together with delegated acts and technical standards which set out further detail of the requirements under MiFID II/MiFIR.

Member States were required to adopt and publish their laws, regulations and administrative provisions transposing MiFID II into national law by 3 July 2017, and to apply those measures from 3 January 2018. As an EU Regulation, MiFIR automatically forms part of the national law of each Member State, so does not require implementing legislation. MiFIR came into effect on 3 January 2018.

Amongst other requirements, MiFIR requires certain standardised derivatives to be traded on exchanges and other electronic trading platforms (the "**Trading Obligation**"). Certain interest rate and credit derivatives transactions have been subject to the Trading Obligation from 3 January 2018, and further regulatory technical standards will be developed to determine which other derivatives transactions will be subject to the Trading Obligation. The Issuer will currently not be subject to the Trading Obligation, but if the proposal amending EMIR is adopted in a form that categorises securitisation special purpose entities such as the Issuer as FCs, the Issuer may become subject to the Trading Obligation. In this respect, it is difficult to predict the full impact of these regulatory requirements on the Issuer.

Prospective investors should be aware that the regulatory changes arising from EMIR and MiFID II/MiFIR may significantly raise the costs of entering into derivative contracts and may adversely affect the Issuer's ability to engage in transactions in OTC derivatives and 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. As such, investors should consult their own independent advisers and make their own assessment about the potential risks posed by EMIR and MiFID II/MiFIR, and any technical standards made thereunder, in making any investment decision in respect of the Notes.

## **Insolvency considerations**

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

The Issuer has entered into the Deed of Charge pursuant to which it granted the Security in respect of certain of its obligations, including its obligations under the Notes (as to which, see "*Summary of the Key Transaction Documents — Deed of Charge*" below). In certain circumstances, including the occurrence of certain insolvency events in respect of the Issuer, the ability to realise the Security may be delayed and/or the value of the Security impaired. While the transaction structure is designed to minimise the likelihood of the Issuer becoming insolvent, there can be no assurance that the Issuer will not become insolvent and/or the subject of insolvency proceedings and/or that the Noteholders would not be adversely affected by the application of insolvency laws (including English insolvency laws).

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

### ***Liquidation expenses***

On 6 April 2008, a provision in the Insolvency Act 1986 came into force which effectively reversed by statute the House of Lords' decision in the case of *Leyland Daf* in 2004. Accordingly, the costs and expenses of a liquidation (including certain tax charges) will be payable out of floating charge assets in priority to the claims of the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to provisions set out in rules 4.218A to 4.218E of the Insolvency Rules 1986. In general, the reversal of the *Leyland Daf* case applies in respect of all liquidations commenced on or after 6 April 2008.

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

### **You will not generally receive Notes in physical form, which may cause delays in distributions and hamper your ability to pledge or resell the Notes**

Your beneficial ownership of the Notes (other than when in definitive form) will only be recorded in book-entry form with Euroclear, Clearstream, Luxembourg or with any alternative clearing system agreed by the Issuer ("**Book-Entry Interests**"). The Global Notes will not be exchanged for Definitive Notes except in the limited set of circumstances. The lack of Notes in physical form could, among other things:

- (a) result in payment delays on such Notes because the Issuer will be sending distributions on the Notes to Euroclear, Clearstream, Luxembourg or any alternative clearing system agreed by the Issuer instead of directly to you;
- (b) make it difficult for you to pledge such Notes if notes in physical form are required by the party demanding the pledge; and
- (c) hinder your ability to resell such Notes because some investors may be unwilling to buy Notes that are not in physical form.

### **The minimum denominations on the Notes may adversely affect payments on the Notes if issued in definitive form**

The minimum denominations on the Notes may adversely affect payments on the Notes if issued in definitive form. Each sterling-denominated Note will be issued in minimum denominations of £100,000 and in integral multiples of £1,000 in excess thereof, provided that Notes issued with a maturity of less than one year will be issued in minimum denominations of £100,000 (or its equivalent in any other currency as at the date of issue of such Notes). However, 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 (or the equivalent in any other currency as at the date of the issue of the Notes), as the case may be. Accordingly, it is possible that the Notes may be traded in amounts in excess of the minimum authorised denomination that are not integral multiples of such denomination. In such a case, if Definitive Notes are required to be issued, a Noteholder who holds a principal amount which (after deducting integral multiples of such minimum authorised denomination) is 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 Notes such that its holding amounts to the minimum authorised denomination (or another relevant denomination amount).

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

## Book-Entry Interests

Unless and until Definitive Notes are issued in exchange for Book-Entry Interests, holders and beneficial owners of Book-Entry Interests will not be considered the legal owners or holders of 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 to Euroclear or Clearstream, Luxembourg or to holders or beneficial owners of Book-Entry Interests.

Euroclear or Clearstream, Luxembourg or its nominee or to the extent Notes are deposited with a Common Safekeeper, a nominee of the Common Safekeeper will be the registered holder and sole legal Noteholder of the Global Notes under the Trust Deed while any Notes are represented by 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 through Euroclear and/or Clearstream, Luxembourg. Upon receipt of any payment from the Principal Paying Agent, Euroclear and/or Clearstream, Luxembourg, as applicable, will promptly credit participants' accounts with payment in amounts proportionate to their respective ownership of Book-Entry Interests as shown on their records. 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 or indirect participants to owners of interests in Book-Entry Interests held through such participants or indirect participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers registered in "streetname", and will be the responsibility of such participants or indirect participants. None of the Issuer, the Security Trustee, the Note Trustee, the Principal Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, the Book-Entry Interests or for maintaining, supervising or reviewing any records relating to such Book-Entry Interests.

Unlike Noteholders, holders of the Book-Entry Interests will not have the right under the Trust Deed to act upon solicitations by or on behalf of the Issuer for consents or requests by or on behalf of the Issuer for waivers or other actions from Noteholders. Instead, a holder of Book-Entry Interests will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear or Clearstream, Luxembourg (as the case may be) and, if applicable, their participants. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable holders of Book-Entry Interests to vote on any requested actions on a timely basis. Similarly, upon the occurrence of an Event of Default under the Notes, holders of Book-Entry Interests will be restricted to acting through Euroclear and Clearstream, Luxembourg unless and until Definitive Notes are issued in accordance with the relevant provisions described herein under the section entitled "*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 participants of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Security Trustee or the Note Trustee, or any of their agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

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

## **Eurosystem Eligibility**

Notes issued under the this Prospectus may not be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition depends upon satisfaction of the Eurosystem eligibility criteria from time to time. In this regard, we note that, in order for asset-backed securities to become or remain eligible for Eurosystem monetary policy operations, the Eurosystem requires, inter alia:

- (a) standardised data on the pool of underlying assets ("**ECB Eligibility Data**") to be submitted by the relevant parties.
- (b) the Issuer must be incorporated in the EEA; and
- (c) a counterparty cannot use the Notes as collateral in the Eurosystem monetary policy operations if it (or any party with which it has "close links"), provides liquidity support in the form of a cash reserve or liquidity reserve. This includes closes links to the Account Bank where the General Reserve Fund exceeds a certain level compared to the Principal Amount Outstanding of the Notes.

Any potential investor in the Notes should make their own conclusions and seek their own advice with respect to whether or not such Notes constitute Eurosystem eligible collateral.

**Lloyds Banking Group's businesses are subject to substantial regulation and regulatory and governmental oversight, legal and regulatory risk and legal and regulatory actions. Adverse legal or regulatory developments or exposure to legal or regulatory risk could have a material adverse effect on Lloyds Banking Group entities performing roles under this transaction and/or the Notes**

Lloyds Banking Group's businesses are subject to substantial on-going regulation and to legal and regulatory risks, including the effects of changes in the laws, regulations, policies, court rulings, voluntary codes of practice and interpretations in the UK, the European Union and the other markets in which they operate. The legal and regulatory environment is uncertain and rapidly evolving. The UK Government, the FCA and other regulators in the UK, the European Union or overseas may intervene further in relation to areas of industry risk already identified, or in new areas, which could affect Lloyds Banking Group. Implementation of legal and regulatory developments could result in additional costs or limit, restrict or change the way that Lloyds Banking Group entities conduct their business. Increased regulatory oversight (for example in respect of conduct issues) could significantly affect the way such entities do business. Future changes in laws and regulations and the impact of increased oversight by regulators are difficult to predict but such matters could materially adversely affect Lloyds Banking Group entities that undertake roles under this transaction and their businesses and this could in turn have a material adverse effect on the Notes. For additional information generally on current regulatory developments, see section entitled "*Risk factors — Certain Regulatory Considerations*" above.

In addition, Lloyds Banking Group entities undertaking roles under this transaction are exposed to various forms of legal and regulatory risk in their current, past and future operations, including the risk of acting in breach of legal or regulatory principles or requirements, any of which could have a material adverse effect on such entities, their businesses and/or the Notes. These risks include, but are not limited to:

- (a) certain aspects of Lloyds Banking Group's businesses may be determined by the relevant authorities, the Ombudsman or the courts not to have been conducted in accordance with applicable laws or regulations, or, in the case of the Ombudsman, with what is fair and reasonable in the Ombudsman's opinion;
- (b) the possibility of alleged mis-selling of financial products or the mishandling of complaints related to the sale of such products by or attributed to a member of Lloyds Banking Group, resulting in disciplinary action or requirements to amend sales processes, withdraw products, or provide restitution to affected customers, all of which may require additional provisions;

- (c) the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the press and politicians; the FCA in particular continues to drive focus on conduct of business activities through its supervision activity;
- (d) contractual obligations may either not be enforceable as intended or may be enforced in an adverse way;
- (e) Lloyds Banking Group entities may be liable for damages to third parties (including customers) harmed by the conduct of their business; and
- (f) the risk of regulatory proceedings and/or private litigation arising out of regulatory investigations or otherwise (brought by individuals or groups of plaintiffs) in the UK and other jurisdictions.

Risks identified above may materially adversely impact Lloyds Banking Group entities undertaking roles under the this transaction and/or may impact or relate to the businesses or products of such entities including businesses and products directly relevant to the transaction, for example, the business of origination of Mortgage Loans by the Seller or of management and servicing of such Mortgage Loans by the Servicer.

Further, claims, proceedings or investigations in respect of any such matters could lead to such entities being subject to substantial monetary damages or fines or being required to provide restitution to affected customers (which may include Borrowers under Mortgage Loans) or being required to indemnify entities under this transaction or lead to other consequences which could have a material adverse effect on the Notes. Any such amounts due to affected parties may be difficult to predict. In addition, including as a result of regulatory actions, Lloyds Banking Group entities may be subject to other penalties, censure and injunctive relief, civil or private litigation arising out of a regulatory investigation or otherwise, the potential for criminal prosecution in certain circumstances and regulatory restrictions on the business of such entities.

Furthermore, Lloyds Banking Group entities may settle litigation or regulatory proceedings prior to a final judgment or determination of liability. Such entities may do so to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when Lloyds Banking Group believes that it has no liability. Such entities may also do so when the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Furthermore, such entities may, for similar reasons, reimburse counterparties for their losses even in situations where Lloyds Banking Group does not believe that it is legally compelled to do so.

Lloyds Banking Group's operations, in particular related to its treatment of customers, are subject to supervision by the FCA and other regulatory authorities in the UK or elsewhere. In recent periods, the UK banking industry has been subject to heightened attention from these regulatory authorities, as well as the press and the UK Government. The FCA in particular continues to focus on conduct of business issues through its supervision activities and its establishment of a new Payment System Regulator. Other regulatory activity includes the implementation of the UK Mortgage Market Review, which now requires lenders to obtain evidence of Borrowers' income so as to ensure they can afford mortgage payments, with forecasted interest rate rises.

In August 2014, the Northern Ireland High Court handed down judgment in favour of the borrowers in relation to three residential mortgage test cases concerning certain aspects of Lloyds Banking Group's practice with respect to the recalculation of contractual monthly instalments of customers in arrears. The FCA is actively engaged with the industry in relation to these considerations and has published Guidance on the treatment of customers with mortgage payment shortfalls. The Guidance covers remediation for mortgage customers who may have been affected by the way firms calculate these customers' monthly mortgage instalments. The Group is implementing the Guidance and has now contacted most of the affected customers with any remaining affected customers being contacted in 2019.

On 26 May 2016, Lloyds Banking Group was informed that an enforcement team at the FCA had commenced an investigation in connection with Lloyds Banking Group's mortgage arrears handling activities. This investigation is ongoing and it is currently not possible to make a reliable assessment of the liability, if any, that may result from the investigation.

All such matters are subject to many uncertainties, and the outcome of individual matters is not predictable. Failure to manage these risks adequately could impact Lloyds Banking Group adversely and materially, both financially and reputationally. The financial impact of legal and regulatory risks might be material but is difficult to quantify. Amounts eventually paid may materially exceed the amount of provisions set aside to cover such risks. Any of the above risks could have an adverse impact on the operations, financial results, condition and prospects of Lloyds Banking Group entities undertaking roles under this transaction and could impact their businesses and products including businesses and products directly relevant to this transaction.

Lloyds Banking Group and its subsidiaries perform various roles in the transaction, including Bank of Scotland as Seller of Mortgage Loans to the Issuer, Servicer of such Mortgage Loans, Cash Manager, Account Bank, Subordinated Loan Provider, and the Swap Provider. As a result, adverse events and risks relating to the Lloyds Banking Group and its businesses including, but not limited to those events and risks described above could impact such Lloyds Banking Group entities and their businesses including their ability to or the way in which they undertake their roles in relation to this transaction and also the market for the Notes, which could result in risks to Noteholders including, but not limited to, the occurrence of an Insolvency Event, the risk of set-off and/or other adverse consequences leading to Noteholders incurring a loss on their investment.

Companies within Lloyds Banking Group are responsible for contributing to compensation schemes such as the UK Financial Services Compensation Scheme (the "FSCS") in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers. Going forward, further provisions in respect of these costs are likely to be necessary. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and, if necessary, the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain but may be significant and may have a material adverse effect on the results of operations and financial condition of Lloyds Banking Group entities performing their roles under this transaction.

For additional information, Noteholders should also read the detailed information on specific legal and/or regulatory risks and developments set out elsewhere in these risk factors.

#### **Pensions Act 2004**

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

A contribution notice could be served on the Issuer if connected to one or more employers under an occupational pension scheme which is within the Lloyds Banking Group and it were party to an act, or a deliberate failure to act, which either (a) has caused a material detriment to the pension scheme (whether or not intentionally) or (b) the main purpose or one of the main purposes of which was either (i) to prevent the recovery of the whole or any part of a debt which was, or might become, due from the employer under Section 75 of the Pensions Act 1995 or (ii) otherwise than in good faith, to prevent such a debt becoming due, to compromise or otherwise settle such a debt, or to reduce the amount of such a debt which would otherwise become due.

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

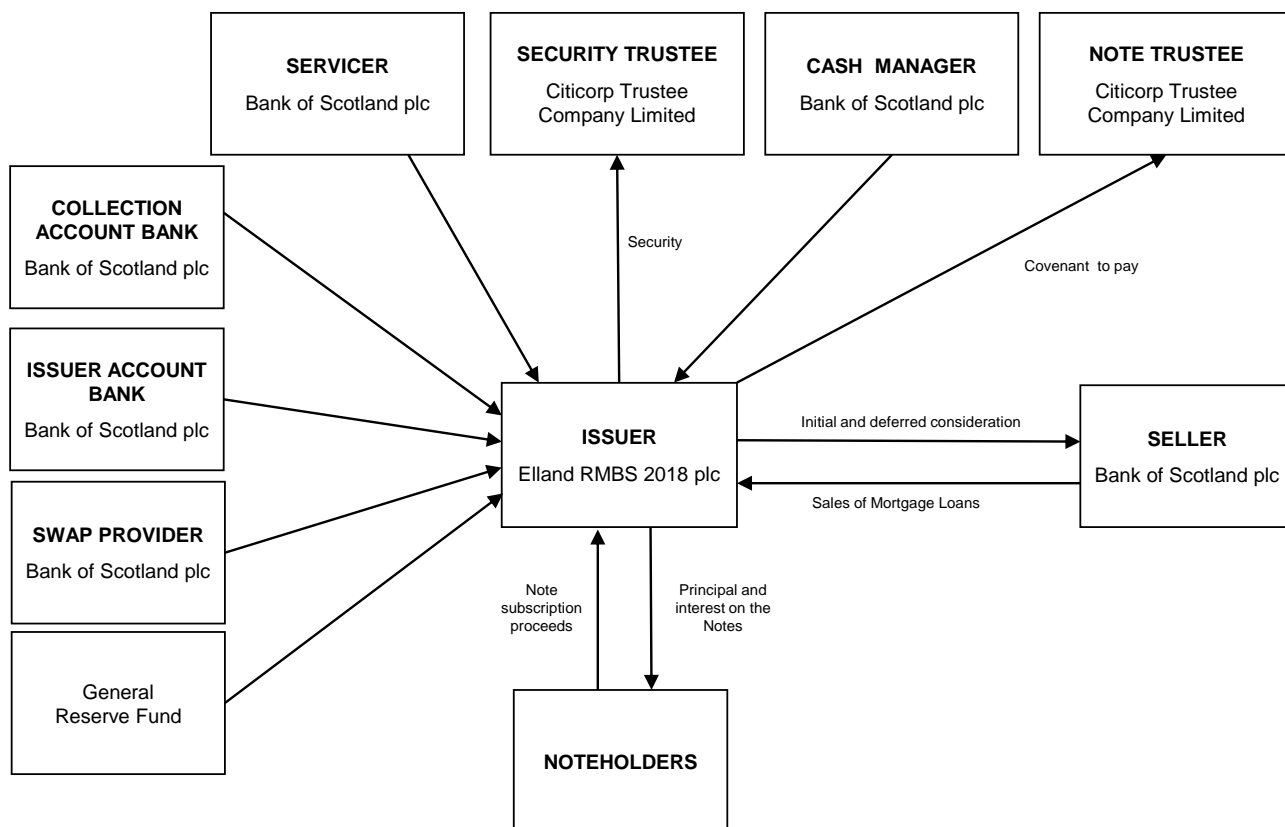
If a contribution notice or financial support direction were to be served on the Issuer, this could adversely affect the interests of the Noteholders.



## STRUCTURE DIAGRAMS

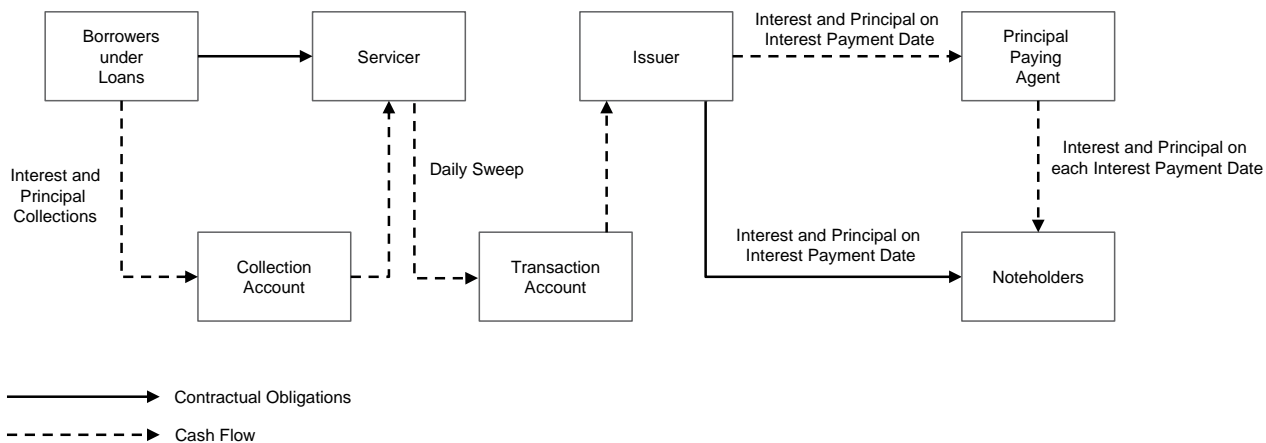
### DIAGRAMMATIC OVERVIEW OF THE TRANSACTION

Figure 1 – Transaction Structure



## DIAGRAMMATIC OVERVIEW OF ONGOING CASH FLOWS

Figure 2 – Cashflow Structure



The Issuer will purchase the Initial Mortgage Portfolio on the Closing Date and Further Mortgage Loans on each Further Sale Date during the Revolving Period.

## OWNERSHIP STRUCTURE DIAGRAM OF THE ISSUER

Figure 3 – Ownership Structure

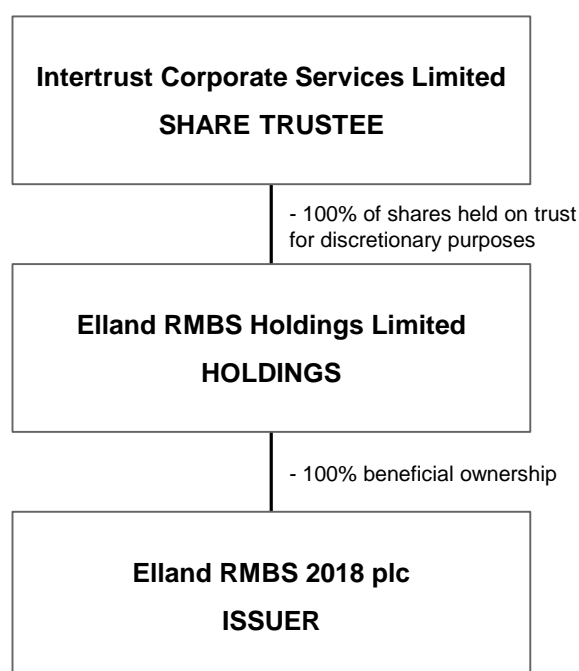


Figure 3 illustrates the ownership structure of the special purpose companies that are parties to the Transaction Documents, as follows:

- 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 (the “**Share Trust Deed**”).
- 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

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

### TRANSACTION OVERVIEW – TRANSACTION PARTIES ON THE CLOSING DATE

Party	Name	Address	Document under which appointed/Further Information
"Issuer"	Elland RMBS 2018 plc	35 Great St. Helen's, London EC3A 6AP	See the section entitled " <i>The Issuer</i> " for further information.
"Holdings"	Elland RMBS Holdings Limited	35 Great St. Helen's, London EC3A 6AP	See the section entitled " <i>Holdings</i> " for further information.
"Share Trustee"	Intertrust Corporate Services Limited	35 Great St. Helen's, London EC3A 6AP	Share Trust Deed dated 2 November 2018 pursuant to which the Share Trustee holds the beneficial interest in one fully paid ordinary share of Holdings on trust for certain discretionary purpose.
"Seller"	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ	See the section entitled " <i>Bank of Scotland plc (The Seller, the Servicer, the Cash Manager, the Swap Provider and the Account Bank)</i> " for further information.
"Servicer"	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ	Servicing Agreement by the Issuer. See the section entitled " <i>Summary of the Key Transaction Documents – Servicing Agreement</i> " and " <i>Bank of Scotland plc (The Seller, the Servicer, the Cash Manager, the Swap Provider and the Account Bank)</i> " for further information.
"Cash Manager"	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ	Cash Management Agreement by the Issuer. See the sections entitled " <i>Summary of the Key Transaction Documents – Cash Management Agreement</i> " and " <i>Bank of Scotland plc (The Seller, the Servicer, the Cash Manager, the Swap Provider and the Account Bank)</i> " for further information.

<b>"Swap Provider"</b>	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ	Swap Agreement by the Issuer. See the sections entitled " <i>Credit Structure – Interest Rate Risk for the Notes</i> " and " <i>Bank of Scotland plc (The Seller, the Servicer, the Cash Manager, the Swap Provider and the Account Bank)</i> " for further information.
<b>"Account Bank"</b>	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ	Bank Account Agreement by the Issuer. See the sections entitled " <i>Summary of the Key Transaction Documents – Bank Account Agreement</i> " and " <i>Bank of Scotland plc (The Seller, the Servicer, the Cash Manager, the Swap Provider and the Account Bank)</i> " for further information.
<b>"Security Trustee"</b>	Citicorp Trustee Company Limited	Citigroup Centre, 33 Canada Square, Canary Wharf, London E14 5LB	See the sections entitled " <i>Summary of the Key Transaction Documents – The Deed of Charge</i> " and " <i>The Note Trustee and the Security Trustee</i> " for further information.
<b>"Note Trustee"</b>	Citicorp Trustee Company Limited	Citigroup Centre, 33 Canada Square, Canary Wharf, London E14 5LB	See the sections entitled " <i>Summary of the Key Transaction Documents – The Trust Deed</i> ", " <i>Terms and Conditions of the Notes</i> " and " <i>The Note Trustee and the Security Trustee</i> " for further information.
<b>"Principal Paying Agent" and "Agent Bank"</b>	Citibank, N.A., London Branch	Citigroup Centre, 33 Canada Square, Canary Wharf, London E14 5LB	Agency Agreement by the Issuer. See the section entitled " <i>Summary of the Key Transaction Documents – Agency Agreement</i> " for further information.
<b>"Registrar"</b>	Citibank, N.A., London Branch	Citigroup Centre, 33 Canada Square, Canary Wharf, London E14 5LB	Agency Agreement by the Issuer. See the section entitled " <i>Summary of the Key Transaction Documents – Agency Agreement</i> " for further information.
<b>"Corporate Services Provider"</b>	Intertrust Management Limited	35 Great St. Helen's, London EC3A 6AP	Corporate Services Agreement by the Issuer and Holdings. See the section entitled " <i>Summary of the Key Transaction Documents – Corporate Services Agreement</i> " and " <i>The Corporate Services Provider</i> " for further information.

## TRANSACTION OVERVIEW – PORTFOLIO AND SERVICING

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

### Sale of Portfolio

The Mortgage Portfolio will consist of the Mortgage Loans, the Related Security and all monies derived therein from time to time, which will be sold to the Issuer on (a) in the case of the Initial Mortgage Portfolio, the Closing Date and (b) in the case of any Further Mortgage Portfolio, any Further Sale Date during the Revolving Period.

Each Mortgage Loan and Related Security will be governed by English Law.

The term "**Mortgage Loan**" when used in this Prospectus means the residential mortgage loans secured by Mortgages and Related Security in the Initial Mortgage Portfolio sold to the Issuer by the Seller on the Closing Date and each Further Mortgage Loan and its Further Related Security comprising a Further Mortgage Portfolio sold to the Issuer by the Seller on any Further Sale Date during the Revolving Period, pursuant to the Mortgage Sale Agreement including, where the context so requires, each Further Advance sold to the Issuer by the Seller on any Further Advance Date and any new Mortgage Loans created by the Seller pursuant to a Product Switch but excluding (for the avoidance of doubt) (a) each Mortgage Loan and its Related Security redeemed or repurchased by the Seller pursuant to the Mortgage Sale Agreement or otherwise sold by the Issuer in accordance with the terms of the Transaction Documents and no longer beneficially owned by it and (b) any Associated Debt;

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

### Features of Mortgage Loans

The following is a summary of certain features of the Mortgage Loans that may be included in the Mortgage Portfolio during the Revolving Period, subject to the Replenishment Criteria set out below ("Replenishment Criteria"):

Type of mortgage loan	Repayment Interest-Only (including Part and Part) Re-Mortgage Owner occupied at the time of origination
Type of interest rate	Variable Base Rate Tracker Fixed
Self-certified mortgage loans	No

The following is a summary of certain features of the Mortgage Loans comprising the Provisional Portfolio as at 31 October 2018 (the "**Mortgage Portfolio Reference Date**") and investors should refer to, and carefully consider, further details in respect of the Mortgage Loans set out in "*Characteristics of the Provisional Portfolio*" below

Current Balances of Provisional Portfolio £7,591,575,650.04

No. of Mortgage Loans 39,400

Repayment 96.79%

Interest Only (including Part and Part) 3.21%

	<u>Weighted average</u>	<u>Minimum</u>	<u>Maximum</u>
Current Balance	£272,389.42	£345.16	£1,191,735.63
Original LTV	74.68%	0.81%	95.00%
Seasoning (months)	6.54	3.02	54.24
Remaining Term (years)	26.43	0	40

#### **Initial Consideration**

Consideration payable by the Issuer in respect of the sale of the Initial Mortgage Portfolio shall be equal to the sum of (a) the Current Balance of the Initial Mortgage Loans being sold by the Seller as at the Closing Date together with any interest and expenses accrued thereon as at the Closing Date; (b) Deferred Consideration; and (c) any Early Repayment Charge and the Servicing Related Fees which shall be paid to the Seller as and when they are received and identified by the Issuer (or netted off against the daily sweep from the Seller's Collection Account).

#### **Further Consideration**

Consideration payable by the Issuer in respect of the sale of any Further Mortgage Portfolio shall be equal to (a) the Current Balance of the Further Mortgage Loans being sold by the Seller as at the Further Sale Date together with any interest and expenses accrued thereon as at the Closing Date; (b) Deferred Consideration; and (c) an amount equal to any Servicing Related Fee as and when they are received and identified by the Issuer (or netted off against the daily sweep from the Seller's Collection Account).

#### **Revolving Period**

The Seller may only offer to sell Further Mortgage Portfolios to the Issuer during the Revolving Period. The Revolving Period will commence on and include the Closing Date and end on but exclude the earlier to occur of (a) the Interest Payment Date falling in January 2022 and (b) a Revolving Period Termination Event.

During the Revolving Period Available Principal Receipts not applied to meet any Senior Expense Deficit shall be credited to the Retained Principal Receipts

Ledger on the Transaction Account. Such funds shall be utilised on subsequent days during the Revolving Period to acquire Further Mortgage Portfolios.

**Revolving Period Termination Events**

See *Triggers Table*. A Revolving Period Termination Event is not curable.

**Further Advances**

During the Revolving Period, the Issuer shall purchase Further Advances from the Seller on the Further Advance Date. The initial consideration in respect of any Further Advance will be an amount equal to the Further Advance Purchase Price. On the Business Day following the Further Advance Date, the Seller will deduct the Further Advance Purchase Price from Principal Collections, before such Principal Collections are transferred to the Transaction Account of the Issuer. To the extent that the available Principal Collections are insufficient to pay the Further Advance Purchase Price which is due on the Business Day following the Further Advance Date, the shortfall will be paid from available Principal Collections on the next or subsequent Business Days, as required.

**Product Switches**

During the Product Switch Period, any Mortgage Loan which has been subject to a Product Switch will remain in the Mortgage Portfolio on the Switch Date if it complies with the applicable Loan Warranties and Replenishment Criteria as tested on the Calculation Date following the Monthly Period in which the Switch Date occurs.

**Representations and Warranties**

The Seller will make certain warranties to the Issuer regarding the Mortgage Loans and Related Security comprising the Initial Mortgage Portfolio on the Closing Date, the Mortgage Loans and Related Security comprising any Further Mortgage Portfolios on the relevant Further Sale Date, the Further Advances and the Further Advance Increased Mortgage Loans on the Calculation Date following the relevant Further Advance Date and each Mortgage Loan which is subject to a Product Switch on the Calculation Date following the relevant Switch Date (the "**Loan Warranties**").

The Loan Warranties include, *inter alia*:

- each Mortgage Loan and its Related Security is valid, binding and enforceable in accordance with its terms and is non-cancellable except in relation to (i) any term that is not binding by virtue of the UTCCR and (ii) any amount advanced under any Further Advance, in each case which is not enforceable by virtue of the CCA;
- each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage over the relevant Property, subject only in certain appropriate cases to applications for registration at the Land Registry which where requisite have been made and are pending and (in relation to such cases) the Seller is not aware of any caution, notice, inhibition or any other matter that would prevent such registration;
- no Mortgage Loan is a Buy to Let Loan;
- no Mortgage Loan is a Help to Buy Loan;
- all of the Properties are in England or Wales;
- each Borrower has made at least two monthly payments in respect of its



Mortgage Loan;

- the Current Balance of each Mortgage Loan does not exceed £1,200,000.00;
- the total amount of arrears on any Mortgage Loan is not on the Closing Date or Further Sale Date in respect of any Mortgage Loan more than the amount of the Monthly Payment then due;
- no Mortgage Loan had a LTV ratio (including capitalised fees) in excess of 97% at the date of origination; and
- the final maturity date of each Mortgage Loan is no later than December 2061.

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

### **Replenishment Criteria**

The assignment by the Seller of Further Mortgage Portfolios and their Related Security and Further Advances to the Issuer and to any Mortgage Loan subject to a Product Switch which remains in the Mortgage Portfolio shall be subject to the satisfaction of certain conditions as tested on the Calculation Date immediately following the Monthly Period in which the relevant Further Sale Date, Further Advance Date or Switch Date occurred, by reference to the facts existing at the end of the Monthly Period in which the relevant Further Sale Date, Further Advance Date or Switch Date occurred (the "**Replenishment Criteria**"). The Replenishment Criteria include, *inter alia*:

- following the addition of the Further Mortgage Loans or, as applicable, the Further Advances to the Mortgage Portfolio or following the occurrence of any Product Switch, the weighted average Current LTV Ratio (including capitalised fees) of all Mortgage Loans in the Mortgage Portfolio will not exceed 80 per cent;
- following the addition of the Further Mortgage Loans or, as applicable, the Further Advances to the Mortgage Portfolio or following the occurrence of any Product Switch, the aggregate of the outstanding Current Balance of any Mortgage Loan in the Mortgage Portfolio with a Current LTV ratio (including capitalised fees) of more than 90 per cent. will not exceed 12 per cent. of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio;
- the remaining fixed rate period applicable to each Further Mortgage Loan or, as applicable, the Further Advance Increased Mortgage Loans or following the occurrence of any Product Switch that is a Fixed Rate Loan will not be longer than 5 years and 6 months;
- following the addition of the Further Mortgage Loans or, as applicable, the Further Advances to the Mortgage Portfolio or following the occurrence of any Product Switch, the aggregate of the outstanding Current Balance of any Mortgage Loan in the Mortgage Portfolio which has a Tracker Rate of interest will not exceed 10 per cent. of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio;

- following the addition of the Further Mortgage Loans or, as applicable, the Further Advances to the Mortgage Portfolio or following the occurrence of any Product Switch, the weighted average interest rate applicable to the Current Balance of all Tracker Rate Loans is not less than (i) where the aggregate Current Balance of all Tracker Rate Loans represents less than 3 per cent of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio, the Bank of England base rate or (ii) where the aggregate Current Balance of all Tracker Rate Loans represents 3 per cent or more of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio, the Bank of England base rate plus 0.5 per cent;
- the minimum rate of interest for a Mortgage Loans that is a Variable Base Rate Loan shall be not less than the Bank of England base rate plus 2.75 per cent.

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

#### **Repurchase of the Mortgage Loans and Related Security**

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

- upon a material breach of Loan Warranties (which is either not capable of remedy or if the Seller failed to remedy it within 90 days of receipt of notice from the Issuer);
- if it is determined that (i) a Further Mortgage Loan or Further Advance sold to the Issuer during the Revolving Period; or (ii) a Mortgage Loan subject to a Product Switch which remains in the Mortgage Portfolio, has not complied with the Replenishment Criteria (where such breach is either not capable of remedy or if the Seller failed to remedy it within 90 days of receipt of notice from the Issuer)
- if the Seller has elected to make an Ineligible Product Switch, being a Product Switch where the relevant switched Mortgage Loan does not comply with the Loan Warranties or the Replenishment Criteria, as determined on the Calculation Date following the Monthly Period in which the relevant Switch Date occurred (where such breach is either not capable of remedy or if the Seller failed to remedy it within 90 days of receipt of notice from the Issuer);
- on and from the Revolving Period End Date, if the Seller has elected to make a Further Advance to a Borrower after the Revolving Period End Date;
- on and from the Optional Call Date, if the Seller agrees, or a Borrower is entitled, to a Product Switch.

The Seller may repurchase:

- on any Interest Payment Date, all of the Mortgage Loans and their Related Security if the Issuer exercises its Clean Up Call Option or following any other optional or mandatory redemption of the Notes by

the Issuer (including for tax or illegality reasons); or

- on any Business Day, all of the De Minimis Mortgage Loans; and/or
- on any Interest Payment Date on and from the Optional Call Date, all of the Mortgage Loans and their Related Security.

**Consideration for repurchase**

Consideration payable by the Seller in respect of the repurchase of the Mortgage Loans and Related Security shall be equal to the Current Balance of the relevant Mortgage Loans as at the relevant repurchase date together with any interest and expenses accrued thereon.

**Perfection Events**

Transfer of the legal title to the relevant Mortgage Loans and Related Security will be completed on the occurrence of certain Perfection Events, which include, *inter alia*, the occurrence of an Insolvency Event in respect of the Seller. See "*Perfection Events*" in the section entitled "*Transaction Overview – Triggers Tables – Non Rating Triggers Table*".

Prior to the completion of the transfer of legal title to the relevant Mortgage Loans and Related Security, the Issuer will hold only the equitable title to those Mortgage Loans and will therefore be subject to certain risks as set out in the risk factor entitled "*There may be risks associated with the fact that the Issuer has no legal title to the Mortgage Loans and their Related Security, which may adversely affect payments on the Notes*" in the Risk Factors section.

**Servicing of the Mortgage Portfolio**

The Servicer will be appointed by the Issuer to service the Mortgage Portfolio on a day-to-day basis. The appointment of the Servicer may be terminated by the Issuer and the Security Trustee upon the occurrence of certain Servicer Termination Events, which include, *inter alia*, insolvency of the Servicer. See "*Servicer Termination Events*" in the "*Transaction Overview – Triggers Tables – Non Rating Triggers Table*".

The Servicer may also resign upon giving not less than 12 months' notice, subject to, *inter alia*, a replacement servicer having been appointed by the Issuer.

In the absence of a Servicer Termination Event, Noteholders have no right to instruct the Security Trustee to terminate the appointment of the Servicer. Following the service of an Enforcement Notice, once a Servicer Termination Event has occurred, Noteholders may, by Extraordinary Resolution, instruct the Security Trustee to replace the Servicer.

**Delegation**

The Servicer may delegate some of its servicing functions to a third party provided that the Servicer remains responsible for the performance of any functions so delegated.

See the section entitled "*Summary of the Key Transaction Documents – Servicing Agreement – Right of Delegation by the Servicer*".

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

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

### FULL CAPITAL STRUCTURE OF THE NOTES

	<u>Class A1</u>	<u>Class A2</u>	<u>Class A3</u>	<u>Class A4</u>	<u>Class Z</u>
<b>Currency</b>	GBP	GBP	GBP	GBP	GBP
<b>Initial Principal Amount</b>	£1,634,000,000	£1,634,000,000	£1,634,000,000	£1,634,000,000	£1,064,000,000
<b>Credit Enhancement features</b>	Subordination of the Class Z Notes; prior to the service of an Enforcement Notice subordination of payments of principal on the Class A2, A3 and A4 Notes; excess spread; and the General Reserve Fund	Subordination of the Class Z Notes; prior to the service of an Enforcement Notice subordination of payments of principal on the Class A3 and A4 Notes; excess spread; and the General Reserve Fund	Subordination of the Class Z Notes; prior to the service of an Enforcement Notice subordination of payments of principal on the Class A4 Notes; excess spread; and the General Reserve Fund	Subordination of payments of principal on the Class Z Notes; excess spread and the General Reserve Fund	Excess spread
<b>Liquidity Support features</b>	Available Receipts applied as Available Revenue Receipts to fund Senior Expenses Deficit and General Reserve Fund	Available Receipts applied as Available Revenue Receipts to fund Senior Expenses Deficit and General Reserve Fund	Available Receipts applied as Available Revenue Receipts to fund Senior Expenses Deficit and General Reserve Fund	Available Principal Receipts applied as Available Revenue Receipts to fund Senior Expenses Deficit and General Reserve Fund	N/A
<b>Issue Price</b>	100%	100%	100%	100%	100%
<b>Interest Rate</b>	Compounded SONIA + Margin	Compounded SONIA + Margin	Compounded SONIA + Margin	Compounded Daily SONIA + Margin	Compounded Daily SONIA + Margin
<b>Margin</b>	0.90% per annum	1.00% per annum	1.15% per annum	1.20% per annum	0.50% per annum
<b>Interest Accrual Method</b>	Actual/365 (Fixed)	Actual/365 (Fixed)	Actual/365 (Fixed)	Actual/365 (Fixed)	Actual/365 (Fixed)

	<u>Class A1</u>	<u>Class A2</u>	<u>Class A3</u>	<u>Class A4</u>	<u>Class Z</u>
<b>Interest Payment Dates</b>	12th day of each calendar month (subject to adjustment for non-Business Days)				
<b>Business Day Convention</b>	Modified following				
<b>First Interest Payment Date</b>	Interest Payment Date falling in February 2019				
<b>First Interest Period</b>	The period from the Closing Date to the first Interest Payment Date				
<b>Pre-Enforcement Redemption Profile</b>	On and from the Revolving Period End Date, pass through amortisation on each Interest Payment Date, subject to and in accordance with the relevant Priority of Payments				
<b>Post-Enforcement Redemption Profile</b>	Pass through amortisation, subject to and in accordance with the Post-Enforcement Priority of Payments				
<b>Portfolio call option</b>	On any Interest Payment Date on and from the Interest Payment Date falling in December 2025				
<b>Other early redemption in full events</b>	Tax call/10 per cent. clean up call				
<b>Final Maturity Date</b>	Interest Payment Date falling in December 2063				
<b>Form of the Notes</b>	Registered	Registered	Registered	Registered	Registered
<b>Application for Listing</b>	London	London	London	London	London
<b>ISIN</b>	XS1921542434	XS1921543168	XS1921543325	XS1921543911	XS1921544216
<b>Common Code</b>	192154243	192154316	192154332	192154391	192154421
<b>Clearance/Settlement</b>	Euroclear/Clearstream, Luxembourg	Euroclear/Clearstream, Luxembourg	Euroclear/Clearstream, Luxembourg	Euroclear/Clearstream, Luxembourg	Euroclear/Clearstream, Luxembourg
<b>Minimum Denomination</b>	£100,000 and £1,000 increments	£100,000 and £1,000 increments	£100,000 and £1,000 increments	£100,000 and £1,000 increments	£100,000 and £1,000 increments

**Ranking of payments of Interest**

The Class A1 Notes, the Class A2 Notes, the Class A3 Notes and the Class A4 Notes will rank *pro rata* and *pari passu* without any preference or priority among themselves as to payments of interest at all times.

The Class Z Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of interest at all times, but subordinate to the Class A1 Notes, the Class A2 Notes, the Class A3 Notes and the Class A4 Notes.

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.

**Ranking of payments of Principal**

Prior to the service of an Enforcement Notice:

- (a) the Class A1 Notes, will rank *pro rata* and *pari passu* without any preference or priority among themselves as to payments of principal at all times;
- (b) the Class A2 Notes will rank *pro rata* and *pari passu* without any preference or priority among themselves as to payments of principal at all times, but subordinate to the Class A1 Notes;
- (c) the Class A3 Notes will rank *pro rata* and *pari passu* without any preference or priority among themselves as to payments of principal at all times, but subordinated to the Class A1 Notes and the Class A2 Notes;
- (d) the Class A4 Notes will rank *pro rata* and *pari passu* without any preference or priority among themselves as to payments of principal at all times, but subordinate to the Class A1 Notes, the Class A2 Notes and the Class A3 Notes;
- (e) the Class Z Notes will rank *pro rata* and *pari passu* without any preference or priority among themselves as to payments of principal at all times, but subordinate to the Class A1 Notes, the Class A2 Notes, the Class A3 Notes and the Class A4 Notes.

After the service of an Enforcement Notice:

- (a) the Class A1 Notes, the Class A2 Notes, the Class A3 Notes and the Class A4 Notes will rank *pro rata* and *pari passu* without any preference or priority among themselves as to payments of principal at all times; and
- (b) the Class Z Notes rank *pro rata* and *pari passu* without preference or priority among themselves in relation to payment of principal at all times, but subordinate to the Class A1 Notes, the Class A2 Notes, the Class A3 Notes and the Class A4 Notes.

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

The Notes are secured and will share the Security with the other Secured Obligations of the Issuer. The security granted by the Issuer includes:

- (a) assignment by way of security of the Issuer's rights, title, interest and benefit in and to the Transaction Documents (other than the Note Purchase Agreement, Trust Deed and Deed of Charge);
- (b) assignment by way of security of the Issuer's interest in the Mortgage Loans, their Related Security and any related rights comprised in the Mortgage Portfolio;
- (c) a first fixed charge over the Issuer's interest in its bank accounts maintained with the Account Bank and any sums standing to the credit thereof; and
- (d) 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.

See "*Summary of the Key Transaction Documents – Deed of Charge*" below and the risk factor entitled "*Fixed charges may take effect under English law as floating charges*".

## Interest Provisions

Please refer to "*Full Capital Structure of the Notes*" as set out above and as fully set out in Condition 5(*Interest*).

**Interest will not be deferred on the Class A Notes.**

## Gross-up

None of the Issuer or any Paying Agent will be obliged to gross-up if there is any withholding or deduction in respect of the Notes on account of taxes.

## Redemption

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

- (a) mandatory redemption in whole on the Final Maturity Date, as fully set out in Condition 7.1 (*Redemption at maturity*);
- (b) mandatory redemption in part on any Interest Payment Date from and including the Revolving Period End Date but prior to the service of an Enforcement Note, subject to the availability of Available Principal Receipts (to the extent not applied to cover any Senior Expenses Deficit) which will be applied as described above in "*Ranking of payments of Principal*" and as fully set out in Condition 7.2 (*Mandatory redemption*);
- (c) optional redemption in whole exercisable on any Interest Payment Date where the Principal Amount Outstanding of all the Notes is less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date, as fully set out in Condition 7.3 (*Optional redemption*) (the "**Clean Up Call Option**");
- (d) optional redemption in whole exercisable by the Issuer for tax reasons, as fully set out in Condition 7.4 (*Optional redemption for taxation or other reasons*).

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

**Event of Default**

As fully set out in Condition 10 (*Events of Default*), which includes, inter alia, (where relevant, subject to the applicable grace period):

- (a) non-payment of interest in respect of the Most Senior Class of Notes;
- (b) non-payment of principal of the Most Senior Class of Notes on the Final Maturity Date;
- (c) breach of any contractual obligations by the Issuer under the Transaction Documents which is materially prejudicial to the interests of the holders of the Most Senior Class of Notes;
- (d) any material representation made by the Issuer being incorrect; and
- (e) the occurrence of certain insolvency related events in relation to the Issuer.

**Most Senior Class**

The "**Most Senior Class of Notes**" means the Class A Notes for so long as the Class A Notes are outstanding, and thereafter means the Class Z Notes.

**Enforcement**

If an Event of Default has occurred, the Note Trustee at its absolute discretion may, and if so directed in writing by the holders of at least twenty-five per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of Notes, shall (but only if it has been indemnified and/or prefunded and/or secured to its satisfaction) deliver an Enforcement Notice to the Issuer. Following service of an Enforcement Notice, all classes of the Notes then outstanding shall immediately become due and repayable at their respective Principal Amounts Outstanding, together with accrued interest and the Security Trustee may enforce the Security.

**Limited Recourse**

The Notes are limited recourse obligations of the Issuer, and, if not repaid in full, amounts outstanding are subject to a final write-off, which is described in more detail in Condition 11 (*Enforcement*).

**Non-petition**

In accordance with Condition 11 (*Enforcement*), no Noteholder may proceed directly against the Issuer unless the Note Trustee or the Security 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.



## 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:** Prior to the occurrence of an Event of Default, Noteholders holding not less than 10 per cent. of the Principal Amount Outstanding of the Notes then outstanding are entitled to 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 Note Trustee, without the consent of the Issuer and, if applicable, certain other transaction parties, unless the Issuer has an obligation to take such actions under the relevant Transaction Documents.

**Following an Event of Default:** Following the occurrence of an Event of Default which is continuing, Noteholders may, if they hold not less than 25 per cent. of the 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 Note Trustee to give an Enforcement Notice to the Issuer stating that all classes of the Notes are immediately due and repayable at their respective Principal Amount Outstanding together with accrued (but unpaid) interest. The Note Trustee shall not be bound to take any such action unless first indemnified and/or prefunded and/or secured to its satisfaction.

### **Noteholders Meeting provisions:**

	<i>Initial meeting</i>	<i>Adjourned meeting</i>
Notice period for Ordinary Resolution:	At least 21 clear days	Adjourned meeting held same day in the next week (or if such day is a public holiday the next succeeding business day)
Notice period for Extraordinary Resolution	At least 10 clear days	Not less than 13 clear days nor more than 42 clear days for the adjourned meeting
Quorum for consideration of any Ordinary Resolution:	One or more persons holding or representing not less than 25% of the Principal Amount Outstanding of the relevant Class of Notes	At an adjourned meeting one or more persons being or representing Noteholders of the relevant Class or Classes of Notes outstanding, whatever the Principal Amount Outstanding of the Notes then outstanding held or represented by such person(s)

<p>Quorum for consideration of any Extraordinary Resolution (other than a Basic Terms Modification):</p>	<p>for One or more persons holding or representing not less than 50% of the Principal Amount Outstanding of the relevant Class of Notes</p>	<p>At an adjourned meeting one or more persons being or representing Noteholders of the relevant Class or Classes of Notes outstanding, whatever the Principal Amount Outstanding of the Notes then outstanding held or represented by such person(s)</p>
<p>Quorum for consideration of a Basic Terms Modification:</p>	<p>for One or more persons holding or representing not less than 75% of the Principal Amount Outstanding of the relevant Class of Notes</p>	<p>One or more persons holding or representing not less than 25% of the Principal Amount Outstanding of the relevant Class of Notes</p>
<p>Required majority for an Ordinary Resolution:</p>	<p>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, by a clear majority of the votes cast on such poll</p>	
<p>Required majority for an Extraordinary Resolution:</p>	<p>Majority consisting of not less than 75% of persons eligible to attend and vote at such meeting upon a show of hands or, if a poll is duly demanded, by a majority consisting of not less than 75% of votes cast on such poll</p>	
<p>Required majority for a written resolution:</p>	<p>75% of the Principal Amount Outstanding of the relevant Class of Notes. A written resolution has the same effect as an Extraordinary Resolution.</p>	

**Matters requiring Extraordinary Resolution:**

The following matters, amongst others, 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 Note 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 7.4 (*Optional redemption for taxation or other reasons*) or Condition 17 (*Substitution of Issuer*);
- 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 Note Trustee without the consent or sanction of the Noteholders in accordance with the terms of the Trust Deed;
- to give any authority or sanction which under the Trust Deed or any other Transaction Document is required to be given by Extraordinary Resolution;
- to appoint any persons (whether Noteholders or not) as a committee or committees to represent the interests of the Noteholders and to confer upon such committee or committees any powers or discretions which the Noteholders could themselves exercise by Extraordinary Resolution;
- to direct the Note Trustee to serve an Enforcement Notice;
- to remove the Note Trustee and/or the Security Trustee;
- to approve the appointment of a new Note Trustee and/or Security Trustee;
- to discharge or exonerate the Note Trustee and/or any Appointee from all liability in respect of any act or omission for which the Note Trustee and/or such Appointee may have become responsible under the Trust Deed;
- to sanction any scheme or proposal for the exchange or sale of the Notes for or the conversion of the Notes into or the cancellation of the Notes in consideration of shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash; and
- to approve the appointment of a substitute Servicer in circumstances where the Servicer has resigned and the appointment of the substitute Servicer could have an adverse effect on the rating of the Rated Notes or if it is not clear whether the rating for the Rated Notes will be maintained as the rating before the termination of the Servicer.

<b>Right of modification without Noteholder consent</b>	The Note Trustee and the Security Trustee are also obliged to agree certain other changes to the Transaction Documents, and Noteholder consent will not be required for those changes – see further Condition 12 ( <i>Meetings of Noteholders, modification and waiver</i> ) and " <i>Risk Factors - The Note Trustee or, as the case may be, the Security Trustee may agree modifications to the Transaction Documents, which may adversely affect your interests</i> ".
<b>Relationship between Classes of Noteholders:</b>	<p>Subject to the paragraph below and the provisions governing a Basic Terms Modification, an Extraordinary Resolution of a relevant Class of Notes shall be binding on all other Classes of Notes which are subordinate to such Class of Notes in the Post-Enforcement Priority of Payments, irrespective of the effect upon them.</p> <p>No Extraordinary Resolution of any the Class Z Noteholders shall take effect for any purpose while the Class A Notes remain outstanding unless it shall have been sanctioned by an Extraordinary Resolution of the holders of the Class A Notes, or the Note Trustee and/or Security Trustee is of the opinion it would not be materially prejudicial to the interests of the holders of the Class A Notes.</p> <p>A Basic Terms Modification requires an Extraordinary Resolution of the holders of the relevant affected Class or Classes of Notes then outstanding.</p>
<b>Relationship between Noteholders and other Secured Creditors:</b>	So long as any of the Notes are outstanding, neither the Security Trustee nor the Note Trustee shall have regard to the interests of the Secured Creditors except the Noteholders.
<b>Seller as Noteholder:</b>	For certain purposes, including the determination as to whether Notes are deemed outstanding, for the purposes of convening a meeting of Noteholders, those Notes which are for the time being held by or on behalf of or for the benefit of the Issuer, the Seller, any Holding Company of any of them or any other Subsidiary of either such Holding Company (each such entity a " <b>Relevant Person</b> "), in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain outstanding, except in the case of the Seller, any Holding Company of the Seller or any other Subsidiary of any such Holding Company where all of the Notes of any Class are held by or on behalf of or for the benefit of one or more Relevant Persons, in which case such Classes of Notes (the " <b>Relevant Class</b> ") shall be deemed to remain outstanding except that, if there is any other Class of Notes ranking (with regard to the definition of Most Senior Class) <i>pari passu</i> with, or junior to, the Relevant Class and one or more Relevant Persons are not the beneficial owners of all of such Class of Notes, then the Relevant Class shall be deemed not to remain outstanding

**Provision of Information to the Noteholders:**

Information in respect of this transaction (including material transaction documents, monthly investor reports, quarterly anonymised loan-level data and a liability-only cash flow model) will be made available to investors, potential investors and certain other market professionals acting on their behalf on a secure website (which can be accessed via <https://www.lloydsbankinggroup.com/investors/fixed-income-investors/securitisation>).

Such information will be made available after the Closing Date and, once made available, such information will be updated on a periodic basis and will continue to be available for as long as the Class A Notes remain outstanding.

The website and the contents thereof do not form part of this Prospectus.

**Communication with Noteholders:**

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

- (a) any notice to Noteholders shall be validly given if published in the *Financial Times*, or, if such newspaper shall cease to be published or, if timely publication therein is not practicable, in such other English newspaper or newspapers as the Note Trustee shall approve in advance having a general circulation in the United Kingdom, provided that if, at any time, the Issuer procures that the information concerned in such notice shall appear on a page of the Reuters screen, the Bloomberg screen or any other medium for electronic display of data as may be previously approved in writing by the Note Trustee and notified to Noteholders (in each case a "**Relevant Screen**"), publication in the newspaper set out above or such other newspaper or newspapers shall not be required with respect to such information;
- (b) in respect of Notes in definitive form, notices to Noteholders will be sent to them by first class post (or its equivalent) or (if posted to an address outside the United Kingdom) by airmail at the respective addresses on the Register;
- (c) whilst the Notes are represented by Global Notes, notices to Noteholders will be valid if published as described above, or, at the option of the Issuer, 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.

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

## 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 cash flow of the transaction and the definitions of "Available Revenue Receipts" and "Available Principal Receipts".

### Summary of Priorities of Payments:

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

<u>Pre-Enforcement Revenue Priority of Payments:</u>	<u>Pre-Enforcement Principal Priority of Payments:</u>	<u>Post-Enforcement Priority of Payments:</u>
(a) Amounts due to the Note Trustee and the Security Trustee and any Appointee thereof including charges, liabilities, fees, costs and expenses	(a) Available Principal Receipts to be applied to meet any Senior Expenses Deficit (such amount being the Principal Addition Amount)	(a) Amounts due in respect of the Note Trustee and the Security Trustee and any Appointee thereof including charges, liabilities, fees, costs and expenses
(b) Amounts due to the Agent Bank, the Registrar, the Paying Agents, the Corporate Services Provider, the Servicer, the Cash Manager and the Account Bank in each case including all fees and costs and any Transfer Costs	(b) During the Revolving Period, amounts to the Retained Principal Receipts Fund in an amount equal to all remaining Available Principal Receipts	(b) Amounts due to the Agent Bank, the Registrar, the Paying Agents, the Corporate Services Provider, the Servicer, the Cash Manager and the Account Bank in each case including all fees and costs
(c) Amounts due to certain other third parties (such as auditors, taxes)	(c) On and from the Revolving Period End Date towards payment of principal on the Class A1 Notes	(c) Amounts due to the Swap Provider (excluding any Hedge Subordinated Amounts)
(d) Amounts due to the Swap Provider (excluding any Hedge Subordinated Amounts)	(d) On and from the Revolving Period End Date towards payment of principal on the Class A2 Notes	(d) Interest due on the Class A1 Notes, the Class A2 Notes, the Class A3 Notes and the Class A4 Notes
(e) Issuer Profit Amount	(e) On and from the Revolving Period End Date towards payment of principal on the Class A3 Notes	(e) Principal on the Class A1 Notes, the Class A2 Notes, the Class A3 Notes and the Class A4 Notes
(f) Interest due on the Class A1 Notes, the Class A2 Notes, the Class A3 Notes and the Class A4 Notes	(f) On and from the Revolving Period End Date towards payment of principal on the Class A4 Notes	(f) Any Hedge Subordinated Amounts
(g) Class A Principal Deficiency Sub-Ledger	(g) On and from the date the Class A Notes are fully repaid, towards payment of principal on the Class Z Notes	(g) Interest due on the Class Z Notes
(h) Replenish the General Reserve Fund up to the General Reserve Fund Required Amount	(h) On and from the date the Class A Notes are fully repaid, towards payment of principal on the Class Z Notes	(h) Principal on the Class Z Notes

- |     |  |     |   |     |  |
|-----|--|-----|---|-----|--|
| (i) | Class Z Principal Deficiency Sub-Ledger  | (h) | All remaining amounts to be applied as Available Revenue Receipts | (i) | Interest due to the Subordinated Loan Provider under the Subordinated Loan Agreement       |
| (j) | Any Hedge Subordinated Amounts (to the extent not satisfied by payment to the Swap Provider by the Issuer of any Replacement Swap Premium)   |     |   | (j) | Principal due to the Subordinated Loan Provider under the Subordinated Loan Agreement      |
| (k) | Interest due on the Class Z Notes  |     |   | (k) | Issuer Profit Amount   |
| (l) | Interest due or accrued (if any) but unpaid and any capitalised interest due to the Subordinated Loan Provider under the Subordinated Loan Agreement                                     |     |   | (l) | Any deferred consideration due and payable under the Mortgage Sale Agreement to the Seller |
| (m) | Principal amounts outstanding to the Subordinated Loan Provider under the Subordinated Loan Agreement until the outstanding balance is equal to the General Reserve Fund Required Amount |     |   |     |  |
| (n) | Any deferred consideration due and payable under the Mortgage Sale Agreement to the Seller   |     |   |     |  |

**General Reserve Fund:**

On the Closing Date, the Issuer (or the Cash Manager on the Issuer's behalf) will establish the General Reserve Fund from the proceeds of the issue of a tranche of the Subordinated Loan.

The General Reserve Fund will be replenished on each Interest Payment Date up to the General Reserve Fund Required Amount from Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments. The General Reserve Fund will be credited to the Transaction Account (with a corresponding credit to the General Reserve Fund Ledger).

The General Reserve Fund Required Amount will amortise (subject to a floor of 0.5 per cent. of the Principal Amount Outstanding of the Class A Notes on the Closing Date, provided that the General Reserve Fund Release Conditions are satisfied).

Amounts standing to the credit of the General Reserve Fund will be applied on each Interest Payment Date as Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments.

See the section entitled "*Credit Structure – General Reserve Fund*".

**Application of Available Principal Receipts to pay a Senior Expenses Deficit**

Pursuant to item (a) of the Pre-Enforcement Principal Priority of Payments, to the extent that, after application of the Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments, there is a Senior Expenses Deficit the Issuer shall apply an amount of Available Principal Receipts as Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments (the "**Principal Addition Amounts**") to meet any Senior Expenses Deficit, against the relevant items in the Pre-Enforcement Revenue Priority of Payments in such order of priority as such items appear in the Pre-Enforcement Revenue Priority of Payments. Any Available Principal Receipts applied as Principal Addition Amounts will be recorded as a debit on the Principal Deficiency Ledger (as further described below).

See the section entitled "*Credit Structure – Use of Available Principal Receipts to cure Senior Expenses Deficit*".

**Principal Deficiency Ledger**

A Principal Deficiency Ledger will be established to record as a debit any Losses on the Mortgage Portfolio and Principal Addition Amounts and record as a credit Available Revenue Receipts applied pursuant to items (g) and (i) of the Pre-Enforcement Revenue Priority of Payments (if any) (which amounts shall, for the avoidance of doubt, thereupon become Available Principal Receipts).

The Principal Deficiency Ledger will be divided into two sub-ledgers which will correspond to the Class A Notes and the Class Z Notes. The sub-ledger for each class of Notes will show separate entries for each class of Notes. The Principal Deficiency Ledger shall be debited in the following order:

- first, to the Class Z Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class Z Notes; and
- second, to the Class A Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class A Notes;

The Principal Deficiency Ledger will be credited by the amount of any Available Revenue Receipts applied as Available Principal Receipts in accordance with items (g) and (i) of the Pre-Enforcement Revenue Priority of Payments.

See the section entitled "*Credit Structure – Principal Deficiency Ledger*"; and

**Swap Agreement**

Availability of the swap provided by the Swap Provider to hedge against the possible variance between the rates of interest payable on the Fixed Rate Loans in the Mortgage Portfolio and the interest payable in respect of the Notes. See the section entitled "*Credit Structure – Interest Rate Risk for the Notes*".

**Bank Accounts and Cash Management**

On the Closing Date the Issuer will enter into the Bank Account Agreement with the Account Bank in respect of the opening and maintenance of the Transaction Account and together with any Additional Accounts to be established pursuant to the Bank Account Agreement (the "**Bank Accounts**"). The Account Bank will agree to pay a rate of interest in relation to the Transaction Account. The Swap Collateral Account will not be opened on the Closing Date but the Bank Account Agreement provides for relevant amendments to be made to that Agreement to enable it to be opened in the future if required. The Note Trustee and the Security



Trustee will be obliged to agree to such amendments to the Bank Account Agreement subject to and in accordance with the Conditions.

On each Interest Payment Date, the Cash Manager will apply moneys in the Transaction Account in accordance with the relevant Priority of Payments.

The Servicer is responsible for procuring that all payments attributable to the Mortgage Loans, received during banking hours on any particular day, are credited to the Transaction Account on the Business Day following such day of receipt. All payments are made by Borrowers by way of DDR (as defined below) except where the Seller has specifically agreed another form of payment with the individual Borrower.

### **Summary of key swap terms**

The Swap has the following key commercial terms:

- Swap Notional Amount: The Current Balance of the Fixed Rate Loans which are not more than three months in arrears, in each case, as at the open of business on the first day of the Monthly Period (the “**Performing Loans**”).
- Issuer payment: Determined based on the product of a fixed rate of interest reflecting the weighted average by Current Balance of the fixed rates of interest charged to Borrowers of the Performing Loans, in each case, as at the first day of the Monthly Period, the relevant Swap Notional Amount and the relevant day count fraction.
- Swap Provider payment: Determined based on the product of Compounded Daily SONIA for the relevant Interest Period plus the Relevant Margin, the relevant Swap Notional Amount and the relevant day count fraction.
- Frequency of payment: Monthly.

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

## TRANSACTION OVERVIEW – TRIGGERS TABLES

### Rating Triggers Table

Transaction Party	Required Ratings/Triggers	Possible effects of Trigger being breached include the following:
<b>Account Bank:</b>	<ul style="list-style-type: none"> <li>• <u>Moody's</u>: Baa1 (long term);</li> <li>• <u>Fitch</u>: F1 (short term issuer default rating) or A (long term issuer default rating or, if not available, deposit rating);</li> </ul> <p>or such other lower rating which is consistent with the then current rating methodology of the Rating Agencies in respect of the then current ratings of the Rated Notes (the "<b>Account Bank Requisite Rating</b>").</p>	<p>Within 60 days of such downgrade, the Issuer shall use all reasonable endeavours to:</p> <ul style="list-style-type: none"> <li>(a) replace the Account Bank with a financial institution which has the Account Bank Requisite Ratings;</li> <li>(b) obtain a guarantee of the Account Bank's obligations from a financial institution which has the Account Bank Requisite Ratings; or</li> <li>(c) take any other reasonable action as the Rating Agencies may agree will not result in a downgrade of the Rated Notes.</li> </ul>
<b>Swap Provider:</b>	<p><u>Moody's</u>: A3(cr) (long term counterparty risk assessment) or A3 (senior unsecured debt rating).</p> <p><u>Fitch</u>: F1 (short term issuer default rating) or A (derivative counterparty rating or, if not available, long-term issuer default rating).</p>	<p>Within 30 days of such downgrade, the Swap Provider shall, if required, post collateral and may either (i) transfer its rights and obligations under the Swap Agreement to an appropriately rated replacement third party, or (ii) procure a guarantee from an appropriately rated third party.</p> <p>Within 14 days of such downgrade, the Swap Provider shall, if required, use reasonable efforts (at its own cost) to post collateral.</p> <p>Within 30 days of such downgrade, the Swap Provider may (without prejudice to any requirement to post collateral as stated above):</p> <ul style="list-style-type: none"> <li>(a) transfer its rights and obligations under the Swap Agreement to an appropriately rated replacement third party (or a replacement third party with an eligible and appropriately rated guarantor);</li> <li>(b) obtain a co-obligation or guarantee from an appropriately rated third party; or</li> </ul>

- (c) take any other action as the Rating Agencies may agree will not result in a downgrade of the Rated Notes.

Moody's: Baa2(cr) (long term counterparty risk assessment) or Baa2 (senior unsecured debt rating).

As soon as reasonably practicable (and in any event within 30 Business Days of such downgrade), the Swap Provider shall use commercially reasonable efforts to:

- (a) transfer its rights and obligations under the Swap Agreement to an appropriately rated replacement third party (or a replacement third party with an eligible and appropriately rated guarantor);
- (b) obtain a co obligation or guarantee from an appropriately rated third party; or
- (c) take any other action as the Rating Agencies may agree will not result in a downgrade of the Rated Notes.

Fitch: F3 (short term issuer default rating) or BBB- (derivative counterparty rating or, if not available, long term issuer default rating).

Within 30 calendar days of such downgrade, the Swap Provider shall (without prejudice to any requirement to post collateral) use reasonable efforts (at its own cost) to

- (a) transfer its rights and obligations under the Swap Agreement to an appropriately rated replacement third party (or a replacement third party with an eligible and appropriately rated guarantor);
- (b) obtain a co obligation or guarantee from an appropriately rated third party; or
- (c) take any other action as the Rating Agencies may agree will not result in a downgrade of the Rated Notes.

A failure by the Swap Provider to take any of the steps set out above will, in certain circumstances, allow the Issuer to terminate the Swap Agreement.

### Non-Rating Triggers Table

Nature of Trigger	Description of Trigger	Consequence of Trigger
Perfection Events	<p>The occurrence of any of the following:</p> <ul style="list-style-type: none"> <li>(a) the Seller being required to perfect the Issuer's legal title to the Mortgage Loans, or procure any or all of the acts referred to in these paragraphs (a) to (e) by an order of a court of competent jurisdiction or by any regulatory authority of which the Seller is a member or any organisation whose members comprise (but are not necessarily limited to) mortgage lenders and with whose instructions it is customary for the Seller to comply;</li> <li>(b) it becoming necessary by law to do any or all of the acts referred to in these paragraphs (a) to (e);</li> <li>(c) unless otherwise agreed in writing by the Rating Agencies and the Security Trustee and provided that the then current ratings of the Notes will not be adversely affected, the termination of the Seller's role as Servicer under the Servicing Agreement;</li> <li>(d) the Seller calling for perfection by serving notice in writing to that effect on the Issuer and the Security Trustee;</li> <li>(e) an Insolvency Event in respect of the Seller; or</li> <li>(f) a Servicer Termination Event.</li> </ul>	<p>Completion of transfer of the legal title of the Mortgage Loans by the Seller to the Issuer to be completed on or before the 30th Business Day after the occurrence of such Perfection Event.</p>
Servicer Termination Events	<p>The occurrence of any of the following:</p> <ul style="list-style-type: none"> <li>(a) default 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 5 Business Days after receiving written notice of such default; or</li> <li>(b) default by the Servicer in the performance or observance of any of its other covenants and obligations under the Servicing Agreement, which in the opinion of the Note Trustee as notified to the Security Trustee is materially prejudicial to the interests of the Noteholders and such default continues unremedied for a period of 20 Business Days after becoming aware of such default provided however that where the relevant default occurs as a result of a default by any person to whom the Servicer has sub-contracted or delegated part of its obligations</li> </ul>	<p>The Issuer (prior to the delivery of the Enforcement Notice) with the written consent of the Security Trustee, or the Security Trustee itself (after delivery of a Enforcement Notice) (in the case of (a), (b) or (d)) may, at once or at any time thereafter while such default continues, and (in the case of (c)) shall, at once, by notice in writing to the Servicer and the Rating Agencies terminate the Servicer's appointment as a Servicer under the Servicing Agreement</p>

hereunder, such default shall not constitute a Servicer Termination Event if, within such period of ten (10) Business Days of receipt of such notice from the Issuer or (after the delivery of an Enforcement Notice) the Security Trustee, the Servicer terminates the relevant sub-contracting or delegation arrangements and takes such steps as the Issuer or (after the delivery of an Enforcement Notice) the Security Trustee may in their absolute discretion specify to remedy such default or to indemnify the Issuer against the consequences of such default;

- (c) an Insolvency Event occurs in relation to the Servicer; or
- (d) material breach of representation by the Servicer which continues unremedied for 20 Business Days and which in the opinion of the Note Trustee as notified to the Security Trustee is materially prejudicial to Noteholders.

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

Cash Manager Termination Event	<p>The occurrence of any of the following:</p> <ul style="list-style-type: none"> <li>(a) the Cash Manager defaults in the performance of its payment obligations under the Cash Management Agreement and such default remains unremedied for a period of 7 Business Days after the Cash Manager becomes aware of such default;</li> <li>(b) the Cash Manager defaults in the performance or observance of its other covenants and obligations under the Cash Management Agreement which in the opinion of the Note Trustee as notified to the Security Trustee is materially prejudicial to the interests of the Noteholders and such default remains unremedied for a period of 20 Business Days after the Cash Manager becomes aware of such default; or</li> <li>(c) material breach of representation by the Cash Manager which continues unremedied for 20 Business Days and which in the opinion of the Note Trustee as notified to the Security Trustee is materially prejudicial to Noteholders; or</li> <li>(d) an Insolvency Event occurs in relation to the Cash Manager</li> </ul>	<p>The Issuer (prior to the delivery of a Enforcement Notice and with the written consent of the Security Trustee) or the Security Trustee (following the delivery of a Enforcement Notice) may at once or at any time thereafter if the default is continuing, by notice in writing to the Cash Manager, terminate the appointment of the Cash Manager</p>
Revolving Period Termination Event	<p>Each of the following events is a Revolving Period Termination Event:</p> <ul style="list-style-type: none"> <li>(a) the occurrence Event of Default;</li> </ul>	<p>No Further Advances or Further Mortgage Portfolios to be purchased by the Issuer from the Seller.</p>

- (b) an Insolvency Event occurs with respect to the Seller; Funds in the Retained Principal Receipts Fund to be released as Available Principal Receipts.
- (c) on any Interest Payment Date, a debit entry is made on the Class Z Principal Deficiency Sub-Ledger, which is in excess of one per cent. of the aggregate Principal Amount Outstanding of the Notes as that Interest Payment Date (after taking into account the application of Available Revenue Receipts on such Interest Payment Date), which has not been cured by the next following Interest Payment Date;
- (d) as at the end of a Monthly Period, the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio which are then in arrears for three months or more is greater than or equal to five per cent. of the aggregate Current Balance of all Mortgage Loans in the Mortgage Portfolio as at the end of that Monthly Period;
- (e) on any Interest Payment Date (after taking into account the application of Available Revenue Receipts on such Interest Payment Date), the amount standing to the credit of the General Reserve Fund is less than the General Reserve Fund Required Amount; and
- (f) on any Calculation Date the amount standing to the Retained Principal Receipts Ledger exceeds five per cent. of the aggregate Current Balance of all Mortgage Loans in the Mortgage Portfolio at the end of the immediately preceding Monthly Period.

Revolving Period Termination Events are not curable.

## TRANSACTION OVERVIEW – FEES

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

Type of Fee	Amount of Fee	Priority in Cashflow	Frequency
Servicing fees	0.05 per cent. per annum (inclusive of VAT) on the aggregate Current Balance of the Mortgage Loans.	Ahead of all outstanding Notes.	Monthly in arrear on each Interest Payment Date.
Cash Management fees	£20,000 per month (inclusive of VAT)	Ahead of all outstanding Notes.	Monthly in arrear on each Interest Payment Date.
Other fees and expenses of the Issuer (including tax and audit costs)	Estimated at £50,000 each year (exclusive of VAT, where so provided in the relevant Transaction Document).	Ahead of all outstanding Notes.	Monthly in arrear on each Interest Payment Date.

## REGULATORY DISCLOSURES

### EU Risk Retention

Bank of Scotland plc, as the originator, 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 CRR, Article 51 of the AIFM Regulation and Article 254 of the Solvency II Regulation (in each case, not taking into account any relevant national measures). As at the Closing Date, such interest will be comprised of an interest in the first loss tranche as required by the text of 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. Any change to the manner in which such interest is held will be notified to Noteholders.

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 monthly investor reports (the "**Investor Report**") provided to the Noteholders pursuant to the Cash Management Agreement and published on a secure website which can be accessed via: <https://www.lloydsbankinggroup.com/investors/fixed-income-investors/securitisation>.

The Seller has provided a corresponding undertaking with respect to the interest to be retained by it to (i) the Lead Manager and the Arranger in the Note Purchase Agreement and (ii) to the Issuer and the Security Trustee in the Mortgage Sale Agreement.

Each prospective investor is required to independently assess and determine the sufficiency of the information described above and in the 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) and Chapter VIII of Title I of the Solvency II Regulation (including Article 254) and any corresponding national measures which may be relevant and none of the Issuer nor any Relevant Party makes any representation that the information described above or in the Prospectus is sufficient in all circumstances for such purposes.

For further information on the requirements referred to above and the corresponding risks, please refer to the Risk Factor entitled "*Regulatory initiatives may have an adverse impact on the regulatory treatment of the Notes*".

### 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 Section 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 Section 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, 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.



The Mortgage Portfolio will be comprised of Mortgage Loans and their related security, all of which are originated by Bank of Scotland plc, a company incorporated under the laws of Scotland. See the section entitled "*Bank of Scotland plc (the Seller, the Servicer, the Cash Manager, the Swap Provider and the Account Bank)*".

Prior to any Notes which are offered and sold in the initial distribution of the Notes (including any initial distribution of the Notes to third parties by the Seller) 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 Seller that it is a Risk Retention U.S. Person and obtain the written consent of the Seller in the form of a U.S. Risk Retention Consent. 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)(i), which are different than comparable provisions from Regulation S.

Under the U.S. Risk Retention Rules, and subject to limited exceptions, "**U.S. person**" (and "**Risk Retention U.S. Person**") as used in this Prospectus) 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;<sup>1</sup>
- (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;<sup>2</sup>

Each holder of a Note or a beneficial interest therein acquired in the initial distribution of the Notes (including any initial distribution of the Notes to third parties by the Seller), 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 and the Seller that it (1) either (i) is not a Risk Retention U.S. Person or (ii) it has obtained a U.S. Risk Retention Consent, (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 (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 described herein).

<sup>1</sup> The comparable provision from Regulation S is "(ii) any partnership or corporation organised or incorporated under the laws of the United States.

<sup>2</sup> The comparable provision from Regulation S "(vii)(B) formed by a U.S. person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organised or incorporated, and owned, by accredited investors (as defined in 17 CFR 230.501(a)) who are not natural persons, estates or trusts.

There can be no assurance that the requirement to request the Seller to give its prior written consent to any Notes 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 Section 20 of the U.S. Risk Retention Rules regarding non-U.S. transactions will be available. No assurance can be given as to whether a failure by the Seller 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 the market value of the Notes. Furthermore, the impact of the U.S. Risk Retention Rules on the securitization market generally is uncertain, and a failure by the Seller to comply with the U.S. Risk Retention Rules could therefore negatively affect the market value and secondary market liquidity of the Notes.

## WEIGHTED AVERAGE LIVES OF THE NOTES

The term "weighted average life" refers to the average amount of time that will elapse from the date of issuance of a security to the date of distribution to the relevant investor of amounts sufficient to fully repay principal in respect of such security (assuming no losses on the Mortgage Loans and weighted by the principal amortisation of the Notes on each Interest Payment Date). The weighted average lives of the Notes will be influenced by, among other things, the actual rate of repayment of the Mortgage Loans in the Mortgage Portfolio.

The actual weighted average lives of the Notes cannot be stated, as the ultimate rate of 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. The following tables were prepared based on the characteristics of the loans included in the Provisional Portfolio, the provisions of the Conditions and the following additional assumptions (the "**Modelling Assumptions**"):

- (a) the Mortgage Loans are assumed to amortise in accordance with the assumed prepayment rate of between 5 per cent. and 30 per cent. per annum (for the avoidance of doubt, excluding scheduled payments);
- (b) the Issuer exercises option to redeem the Notes in accordance with Condition 7.3 (*Optional redemption*) on the Optional Call Date, in the first scenario, or the Issuer does not exercise its option to redeem the Notes on or after the Optional Call Date, in the second scenario;
- (c) no Security has been enforced;
- (d) the Seller is not in breach of the terms of the Mortgage Sale Agreement;
- (e) no Enforcement Notice has been served on the Issuer and no Event of Default has occurred;
- (f) the assets of the Issuer are not sold except as may be necessary to enable the Issuer to realise sufficient funds to exercise its option to redeem the Notes in accordance with Condition 7.3 (*Optional redemption*);
- (g) the Mortgages continue to be fully performing;
- (h) there is no debit balance on the Principal Deficiency Ledger;
- (i) during the Revolving Period the Mortgage Portfolio will continue to be topped up to the amount of the Notes and the Mortgage Portfolio composition will not change between the Mortgage Portfolio Reference Date and the Revolving Period End Date;
- (j) there will be no Product Switches or Further Advances in relation to the Mortgage Portfolio;
- (k) no Revolving Period Termination Event occurs;
- (l) no principal payment will be made on the Notes during the Revolving Period. The first principal payment being on the Interest Payment Date falling in January 2022;
- (m) the Notes are issued on or about 14 December 2018;
- (n) the Interest Payment Dates are on the 12th day of each month, subject to adjustment for the business day convention, with the first Interest Payment Date falling in February 2019 and the Optional Call Date being the Interest Payment Date falling in December 2025;
- (o) the weighted average lives of the Notes are calculated on an Actual/365 (fixed); and
- (p) the Issuer exercises the Clean Up Call Option.

The actual characteristics and performance of the Mortgage Loans are likely to differ from the Modelling Assumptions. The following tables are hypothetical in nature and are provided only to give a general sense of how the principal cash flows might behave under various prepayment scenarios. For example, the Issuer does not expect that the Mortgage Loans will prepay at a constant rate until maturity, or that there will be no defaults 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 cause the weighted average lives of the Notes to differ (which difference could be material) from the corresponding information in the tables for each indicated constant prepayment rate (CPR).

"CPR" means, on any Calculation Date, the annualised principal prepayment rate of all the Mortgage Loans during the previous Monthly Period calculated as follows:

$$1 - ((1-R) ^ (12))$$

where R equals the result (expressed as a percentage) of the total principal prepayments received by the Issuer during the immediately preceding Monthly Period divided by the aggregate Principal Amount Outstanding of the Mortgage Loans as at the first day of that Monthly Period.

CPR	(Assuming Issuer exercises the option to redeem the Notes on the Optional Call Date)			
	Possible Weighted Average Life (in years) of:			
	Class A1 Notes	Class A2 Notes	Class A3 Notes	Class A4 Notes
5%	5.25	7.00	7.00	7.00
10%	4.14	6.50	7.00	7.00
15%	3.75	5.46	6.95	7.00
20%	3.56	4.80	6.45	7.00
25%	3.44	4.41	5.75	6.97
30%	3.37	4.14	5.23	6.71

CPR	(Assuming Issuer does not exercise the option to redeem the Notes on or after the Optional Call Date)			
	Possible Weighted Average Life (in years) of:			
	Class A1 Notes	Class A2 Notes	Class A3 Notes	Class A4 Notes
5%	5.31	10.72	18.26	30.93
10%	4.14	6.78	10.45	16.62
15%	3.75	5.46	7.84	11.84
20%	3.56	4.80	6.54	9.45
25%	3.44	4.41	5.75	8.01
30%	3.37	4.14	5.23	7.05

## **USE OF PROCEEDS**

On the Closing Date, the Issuer will use the gross proceeds of the Notes to pay the Initial Consideration payable by the Issuer for the Initial Mortgage Portfolio to be acquired from the Seller on the Closing Date with any surplus to be credited to the Retained Principal Receipts Ledger.

On the Closing Date, the Issuer will use the proceeds of the Subordinated Loan to (a) pay for certain of the Issuer's initial fees and expenses incurred in connection with the issue of the Notes and (b) establish the General Reserve Fund and pay certain amounts due on the first Interest Payment Date.

## THE ISSUER

### Introduction

The Issuer was incorporated in England and Wales on 18 October 2018 (registered number 11630009) 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 comprises 50,000 ordinary shares of £1 each of which one share is fully-paid up and 49,999 shares are quarter-paid and all shares are held by Holdings (see section entitled "*Holdings*" below).

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

The Issuer was established as a special purpose vehicle solely for the purpose of purchasing the mortgage loans and issuing asset backed notes. The Issuer is permitted, pursuant to the terms of its articles of association, *inter alia*, to purchase the Mortgage Loans and issue the Notes. The Issuer will covenant to observe certain restrictions on its activities which are set out in Condition 4 (*Covenants*).

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

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

The Issuer has not engaged, since its incorporation, in any material activities nor commenced operations other than those incidental to its registration as a public company under the Companies Act 2006 (as amended) and to the proposed issue of the Notes and the authorisation of the other Transaction Documents referred to in this Prospectus to which it is or will be a party and other matters which are incidental or ancillary to the foregoing. The Issuer, as necessary, has paid the data protection fee under the Data Protection Laws. 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 2019.

There is no intention to accumulate surpluses in the Issuer (other than amounts standing to the General Reserve Fund Ledger and the Issuer Profit 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
Susan Iris Abrahams	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 Iris Abrahams	35 Great St. Helen's, London EC3A 6AP	Director
Michelle O'Flaherty	35 Great St. Helen's, London EC3A 6AP	Director
Clive Matthew Short	35 Great St. Helen's, London EC3A 6AP	Director
Paivi Helena Whitaker	35 Great St. Helen's, London EC3A 6AP	Director
Andrea Ayodele Williams	35 Great St. Helen's, London EC3A 6AP	Director

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

## HOLDINGS

### Introduction

Holdings was incorporated in England and Wales on 18 October 2018 (registered number 11629864) 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. Intertrust Corporate Services Limited (the "**Share Trustee**") holds the entire beneficial interest in the issued share under a discretionary trust for discretionary purposes. Holdings holds the beneficial interest in the issued share capital of the Issuer.

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

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:

<b>Name</b>	<b>Business Address</b>	<b>Business Occupation</b>
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
Susan Iris Abrahams	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:

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



<u>Name</u>	<u>Business Address</u>	<u>Principal Activities</u>
	6AP	

The accounting reference date of Holdings is 31 December and the first statutory accounts of Holdings will be drawn up to 31 December 2019.

Holdings has no employees.

## **BANK OF SCOTLAND PLC (THE SELLER, THE SERVICER, THE CASH MANAGER, THE SWAP PROVIDER AND THE ACCOUNT BANK)**

Bank of Scotland plc ("**Bank of Scotland**") is incorporated under the laws of Scotland with limited liability, registration number SC327000. Bank of Scotland's registered office is at The Mound, Edinburgh EH1 1YZ, Scotland.

### **Overview**

Bank of Scotland is a leading UK based financial services group providing a wide range of banking and financial services, primarily in the UK, to individual and business customers. Its main business activities are retail and commercial banking. Bank of Scotland and its subsidiaries' revenue is earned through interest and fees on a broad range of financial services products including current and savings accounts, personal loans, credit cards and mortgages within the retail market; loans and capital market products to commercial, corporate and asset finance customers; and private banking. Bank of Scotland is a directly owned and controlled subsidiary of HBOS which in turn is directly owned and controlled by Lloyds Bank plc which in turn is directly owned and controlled by Lloyds Banking Group plc (and, together with its subsidiary undertakings from time to time, "**Lloyds Banking Group**").

### **Availability of Public Information**

Additional information, including copies of the most recent publicly available financial results of Bank of Scotland, Lloyds Bank and Lloyds Banking Group, is available from Investor Relations, Lloyds Banking Group, 25 Gresham Street, London EC2V 7HN or from the following internet website address: <http://www.lloydsbankinggroup.com>. The information on this website does not form part of this Prospectus.

### **Business and activities**

As at 30 June 2018, Lloyds Banking Group's activities were organised into three financial reporting segments: Retail; Commercial Banking; and Insurance and Wealth.

## **THE NOTE TRUSTEE AND THE SECURITY TRUSTEE**

Citicorp Trustee Company Limited (“**Citicorp**”) 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.

Citicorp is an indirect wholly-owned subsidiary of Citicorp Inc., a diversified global financial holding company incorporated in Delaware. Citicorp is regulated by the UK’s Financial Conduct Authority.

## **THE CORPORATE SERVICES PROVIDER**

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 MORTGAGE LOANS

The following is a description of some of the characteristics of the Mortgage Loans, the Seller's Lending Criteria as at the Closing Date.

Unless otherwise indicated, the description that follows relates to types of mortgage loans that could be sold to the Issuer as part of the Mortgage Portfolio as at the Closing Date. For information as to how the Seller selected the Mortgage Portfolio, see the section entitled "*Characteristics of the Provisional Portfolio*". For information relating to the servicing of the Mortgage Loans comprising the Mortgage Portfolio, see the section entitled "*Summary of the Key Transaction Documents – Servicing Agreement*".

### Characteristics of the Mortgage Loans

#### *Repayment terms*

The Mortgage Loans in the Mortgage Portfolio are one of the following:

- a repayment loan where the Borrower makes monthly payments of both interest and principal so that, when the Mortgage Loan matures, the full amount of the principal of the Mortgage Loan will have been repaid (a "**Repayment Loan**");
- an interest-only loan where the Borrower makes monthly payments of interest but not of principal so that, when the Mortgage Loan matures, the entire principal amount of the Mortgage Loan is still outstanding and is payable in one lump sum (an "**Interest-Only Loan**"); or
- a combination of both these options (a "**Part and Part Loan**").

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

For Interest-Only Loans, because the principal is repaid in a lump sum at the maturity of the Mortgage Loan, the Borrower is and has always been required to have some repayment mechanism (such as an investment plan) which is intended to provide sufficient funds to repay the principal at the end of the term. The Seller has procedures to verify that a repayment mechanism is in place but it does not take security over these repayment mechanisms.

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

#### *Payment methods*

All payments on the Mortgage Loans must be made in sterling and the majority of the payments are made by direct debit ("**DDR**") instruction from a bank or building society account.

#### *Types of Mortgage Loans and interest rate setting*

The Seller has responded to the competitive mortgage market by developing a range of products with special features that are used to attract new borrowers and retain existing customers. The Seller currently offers the following special rate loans and is able to combine these to suit the requirements of the Borrower:

- fixed rate loans, which are subject to a fixed rate of interest ("**Fixed Rate Loans**"); and

- tracker rate loans, which are subject to a variable interest rate other than the variable base rate. The rate will be set at a fixed margin above or below, or the same rate as, the base rate set by the Bank of England ("**Tracker Rate Loans**").

Each of the above special rates is offered for a predetermined period, usually between one and five years, at the commencement of the Mortgage Loan (the "**Product Period**"). At the end of the Product Period the rate of interest charged will either: (a) move to some other interest rate type for a predetermined period; or (b) revert to a variable base rate of interest (the "**Variable Base Rate**"), which is administered, at the discretion of the Seller, by reference to the general level of interest rates and competitive forces in the UK mortgage market. In certain instances, Early Repayment Charges are payable by the Borrower if the Mortgage Loan is redeemed within the Product Period. See "*Early repayment charges*" below. Other customer incentives may be offered with the product including cashback, free valuations and payment of legal fees. Additional features such as payment holidays (temporary suspension of monthly payments) and the ability to make overpayments or underpayments are also available to most Borrowers. See "*Overpayments and underpayments*" and "*Payment holidays*" below.

Interest is calculated on the Mortgage Loans on a daily basis rather than on an annual basis. Any payment by the Borrower will reduce the Borrower's balance on which interest will be calculated the following day.

The Seller may change the interest rate, by giving the Borrowers notice, on any part of the Mortgage Loan, unless otherwise agreed in the mortgage offer subject to having a valid reason to change the interest rate. The valid reasons are set out in the Mortgage Conditions governing the Mortgage Loan. An added rate of not more than 2 per cent. may be charged on the Mortgage Loan if the Borrower has let the Property, without the Seller's consent, changed the use of the Property or it has become more difficult for the Seller to exercise its powers over the Property. The Seller may also change the Borrower's monthly payments, the repayment period and the accounting period by giving the Borrower's notice.

Except in limited circumstances as set out in "*Summary of the Key Transaction Documents – Servicing Agreement – Interest Rates*" below, the Servicer is responsible for setting the Variable Base Rate on the Mortgage Loans in the Mortgage Portfolio as well as on any Further Mortgage Loans that are sold to the Issuer. The Mortgage Conditions applicable to all of the Variable Base Rate Loans provide that the Variable Base Rate (called the lender variable rate in the Mortgage Conditions) may only be varied in accordance with reasons that are specified in the Mortgage Conditions. These reasons as set out in Mortgage Conditions are:

- *Change to the Seller's cost of lending*: if the costs of raising money lent to its residential mortgage customers change, the Seller can change a lender variable rate in proportion to the change in costs; or
- *Change to laws and regulations*: if a change in laws and regulations means the Seller should change a lender variable rate, the Seller will do so or if there is a change to the Seller's cost of following laws and regulations, as a result of a change to them, the Seller can also change a lender variable rate in proportion to the change in cost.

In maintaining, determining or setting the Variable Base Rate, the Servicer will apply the factors set out here.

#### *Early Repayment Charges*

The Borrower may be required to pay an Early Repayment Charge if certain events occur during the predetermined Product Period and the mortgage offer states that the Borrower is liable for Early Repayment Charges. These events include a full or partial unscheduled repayment of principal or an agreement between the Seller and the Borrower to switch to a different mortgage product. If all or part of the principal owed by the Borrower, other than the scheduled monthly payments, is repaid before the end of the Product Period, the Borrower will be liable to pay to the Seller all or part of the Early Repayment Charge based on the amount of principal borrowed at the outset of the mortgage (if a mortgage is redeemed in part, then a proportionate part of the Early Repayment Charge set out in the mortgage offer is payable). If the Borrower has more than one product attached to the mortgage, the Borrower may choose under which product the principal should be allocated.

The Seller currently permits Borrowers to repay up to 10 per cent. of the amount outstanding on a mortgage in addition to scheduled repayments in any calendar year without having to pay an Early Repayment Charge, though the Seller may withdraw this concession at its discretion. The Seller currently has a policy not to charge the Early Repayment Charge in certain circumstances, for example, if the repayment is due to the death of the Borrower.

Some of the Mortgage Loans offered by the Seller include a cashback, under which the Borrower is offered a sum of money usually paid on completion of the Mortgage Loan. The incentive may take the form of a fixed amount, a percentage of the Mortgage Loan amount or a combination of the two. Where any Mortgage Loan is subject to a cashback, if there is an unscheduled principal repayment or a Product Switch (as described in "*Product Switches*" below), in either case before a date specified in the agreement, then an Early Repayment Charge may be repayable by the Borrower.

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

#### *Overpayments and underpayments*

Borrowers may repay up to 10 per cent. of their Mortgage Loan in any calendar year without incurring a repayment charge.

If Borrowers pay more than the scheduled monthly payment, the balance on their mortgage account will be reduced. The Seller will charge interest on the reduced balance, which reduces the amount of interest the Borrower must pay.

*Borrowers may underpay to the extent of previous overpayments.*

Missed payments or underpayments are rolled up and added to the mortgage, and must be repaid over the remaining life of the mortgage unless it is otherwise agreed by the Seller and the Borrower to extend the mortgage term.

Any overpayments will be treated as prepayments of principal on the Mortgage Loans.

#### *Payment holidays*

The Seller offers payment holidays, during which a Borrower may suspend mortgage payments. This option may be exercised, upon the Seller's agreement, for one or two months at any one time up to a maximum of six months during the life of the mortgage (maximum of one payment holiday comprising of no more than two months every 3 years). The payment holiday option does not include any insurance premiums.

In order to qualify, the mortgage cannot be a building mortgage and more than one month in arrears when the payment holiday is applied for and no payment arrangement may be either currently in force or have been in force within the last six months. Additionally, at least twelve months must have elapsed since the date of the initial advance to the Borrower and the Borrower cannot have arranged without the consent of the Seller to let the Property, or taken any further lending within the last six months.

Furthermore, the Borrower can neither be currently applying for, or in receipt of, income support, nor in receipt of amounts to pay the mortgage under a mortgage repayments insurance policy at the time of the application. The Borrower may not borrow any further money from the Seller during the course of the payment holiday.

Payments deferred under the payment holiday are rolled up and added to the mortgage and must be repaid over the remaining life of the mortgage, unless the Seller and the Borrower agree to amend the mortgage term. The Seller will provide the Borrower with a new scheduled monthly payment based on the new amount owed. The total debt must not exceed 75 per cent. of the value of the Property at the time of application and must comply with the Seller's normal lending limits. The Borrower may make overpayments (subject to terms and conditions) to pay off their debt sooner.

### *Further advances*

If a Borrower wishes to borrow a further amount under its Mortgage Loan after the Closing Date, which amount is secured by the same mortgage as the Initial Advance under such Mortgage Loan (a "**Further Advance**"), the Borrower will need to make a Further Advance application and the Seller will use the lending criteria applicable to Further Advances at that time in determining whether to approve the application. All Further Advances will be funded solely by the Seller. Where the aggregate of the Initial Advance and any Further Advance is greater than a certain percentage of the indexed value of the Property, the Seller will reassess the Property's value, by instructing a valuer, who may physically inspect the Property. A new loan-to-value, or LTV, ratio will be calculated by dividing the aggregate of the outstanding amount and the Further Advance by the reassessed valuation or the indexed valuation if no reassessment is required. The Seller reserves the right to re-underwrite the Mortgage Loans. The aggregate of the outstanding amount of the Mortgage Loan and the Further Advance may be greater than the original amount of the Mortgage Loan. No Mortgage Loans will be sold to the Issuer where the LTV ratio at the time of origination or Further Advance is in excess of 97 per cent.

In certain instances the Further Advance may be granted subject to the completion of improvements, alterations or repairs to the Property. The Seller reserves the right to confirm the completion of the work, either through an inspection of the improvement bills or a physical inspection of the Property.

None of the Mortgage Loans in the Provisional Portfolio obliges the Seller to make Further Advances. However, some Mortgage Loans in the Mortgage Portfolio may have Further Advances made on them prior to their being sold to the Issuer and new Mortgage Loans added to the Mortgage Portfolio in the future may have had Further Advances made on them prior to that time.

### *Product switches*

From time to time Borrowers may request or the Servicer may send an offer of a variation in the financial terms and conditions applicable to the Borrower's Mortgage Loan. However, as described in "*Risk factors – Failure by the Seller or any broker to hold authorisation under the FSMA may have an adverse effect on enforceability of mortgage contracts*" above, no variation or Product Switch will be made in relation to a Mortgage Loan where it would result in the Issuer arranging or advising in respect of, administering (servicing) or entering into a regulated mortgage contract or agreeing to carry on any of these activities, if the Issuer would be required to be authorised under the FSMA to do so. In limited circumstances, if a Mortgage Loan is subject to a Product Switch as a result of a variation, then the Seller will be required to repurchase the Mortgage Loan or Mortgage Loans under the relevant mortgage account and their Related Security from the Issuer, unless the relevant Mortgage Loan is in arrears (in which case no repurchase will be required). Those limited circumstances are that (i) the Seller agreed to or the Borrower became entitled to the Product Switch on or after the Optional Call Date or (ii) in the case of a Product Switch during the Product Switch Period, as at the Calculation Date following the Switch Date, the switched Mortgage Loan does not comply with the Loan Warranties or would breach the Replenishment Criteria. From the date during the Product Switch Period when those conditions precedent in (ii) above have been satisfied, then a Mortgage Loan that has been subject to a Product Switch will not be so repurchased by the Seller. See further "*Risk factors – In certain circumstances, Mortgage Loans subject to Product Switches will be repurchased by the Seller from the Issuer, which will affect the prepayment rate of the Mortgage Loans, and this may affect the yield to maturity of the Notes*" above and "*Summary of the Key Transaction Documents – Mortgage Sale Agreement*" below.

### *Origination channels*

The Seller currently derives its mortgage-lending business under the Halifax brand through its branch network throughout the United Kingdom, through intermediaries, through internet applications and from telephone sales.

### *Right-to-buy scheme*

Mortgages in the Mortgage Portfolio may be extended to Borrowers in connection with the purchase by those Borrowers of properties from local authorities or certain other landlords (each, a "**Landlord**") under the "right-to buy"



schemes governed by the Housing Act 1985 (as amended) Properties sold under these schemes are sold by the Landlords at a discount to market value calculated in accordance with the Housing Act 1985 (as amended). A purchaser under these schemes must, if he sells the Property within three years (or in cases where the right to buy was exercised in relation to properties in England and Wales after 18 January 2005, five years) (the "**RTB Disposal Period**"), repay a proportion of the discount he received or, in England and Wales only, the resale price (the resale share) to the Landlord. The Landlord obtains a statutory charge over the Property in respect of the contingent liability of the purchaser under the relevant scheme to repay the resale share. In England and Wales, the statutory charge ranks senior to other charges, including that of any 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 or (ii) the relevant local authority issues a deed of postponement postponing its statutory charge to that of a mortgage lender. In the case of Mortgage Loans made for approved purposes, the statutory charge is only postponed if the relevant Landlord agrees to the postponement but the relevant legislation obliges the Landlord to agree to the postponement. However, in practice the lender will need to provide evidence to the relevant Landlord as to whether the Mortgage Loan was made for approved purposes.

The Seller is an approved lending institution under the Housing Act 1985. The Seller will, in the Mortgage Sale Agreement, warrant that all mortgages originated by it were made to the person exercising the right to buy for that purpose or, in England and Wales, another approved purpose and have (or the Seller has the evidence necessary to ensure that the mortgages will have) priority over any statutory charge in favour of the relevant Landlord, save in cases where the Mortgage Loan is made at a time where there is no more than one year remaining of the RTB Disposal Period (in which case, the Seller's view is that if it has to enforce, it is likely that the RTB Disposal Period will have expired by the time it sells the relevant Property so the statutory charge will have ceased to subsist) or where adequate insurance is in place.

The Seller usually obtains the relevant Landlord's approval for Mortgage Loans for "approved purposes" retrospectively rather than in advance of making a Mortgage Loan because of the delays inherent in seeking that approval. Until that approval is given, the relevant advance ranks (in England and Wales) behind the statutory charge.

Amendments to the Housing Act 1985 introduced by the Housing Act 2004 give the relevant Landlord a right of first refusal should the relevant Property be disposed of within the first ten years following the exercise of the right to buy (when the right to buy is exercised after 18 January 2005). The consideration payable by the relevant Landlord is the value of the Property determined, in the absence of agreement between the Landlord and the owner, by the district valuer. This right of first refusal may add to the time it takes to dispose of a Property where the Seller enforces its security, and the district valuer may determine that the value of the Property is lower than that the Seller believes is available in the market.

### **Underwriting**

An automated credit decisioning system (incorporating scorecards and rules) is used by the Seller as the primary tool for assessing a Mortgage Loan. Manual sanctioning, by an independent underwriting unit, is used to complement the automated decision where there is insufficient information for the automated decision to be robust or information needs additional scrutiny e.g. certain self-employed cases. These underwriters are experienced specialists in this area and use their knowledge to make decisions on such loan applications based on the lending mandates they hold and the risk to the Seller.

All mortgage decisions, whether completed through automated or manual decisioning, are subject to internal monitoring by the Seller in order to ensure the Seller's procedures and policies regarding underwriting are being followed by staff.

### **Lending criteria**

Each Mortgage Loan in the Provisional Portfolio was originated according to the Seller's lending criteria applicable at the time the Mortgage Loan was offered, which included some or all of the criteria set out in this section. Further Mortgage Loans may only be included in the Mortgage Portfolio if they are originated in accordance with the lending

criteria applicable at the time the Mortgage Loan is offered and if the conditions set out in "*Summary of the Key Transaction Documents – Mortgage Sale Agreement – Replenishment Criteria*" below have been satisfied. However, the Seller retains the right to revise its lending criteria from time to time, so the criteria applicable to Further Mortgage Loans may not be the same as those currently used. Some of the factors currently used in making a lending decision are as follows.

(1) *Type of Property*

Properties may be either freehold or leasehold. In the case of leasehold properties, the Seller currently requires the lease to have a minimum unexpired term of 70 years at the point of sale, although this may be reduced under certain circumstances. For existing customers, the lease must have a minimum term remaining that is at least 30 years beyond the expiry date of the mortgage term. The Property must be used solely for residential purposes (with extremely limited case-by-case exceptions) and must be in sound structural condition and repair or be capable of being put into such state. House boats, mobile homes and any Property on which an Insurance Policy cannot be arranged are not acceptable. All persons who are to be legal owners of the Property on completion must be Borrowers under the mortgage.

All Properties have been valued by a valuer approved by the Seller or, where appropriate, according to a methodology which would meet the standards of a Reasonable, Prudent Mortgage Lender (as referred to under the section entitled "*Summary of the Key Transaction Documents – Servicing Agreement*" below) and which has been approved by the Seller.

(2) *Term of Mortgage Loan*

There is no minimum term on home purchase Mortgage Loans and the current maximum term available is 40 years for all Mortgage Loans. A Borrower may request to increase the term of the Mortgage Loan and the Seller may, at its discretion, agree to such request subject to the following:

- the consent of any subsequent lender or guarantor; and
- in the case of all leasehold properties, there being a minimum of 30 years remaining on the lease at expiry of the revised mortgage term (or 10 years in certain circumstances).

The term of a Mortgage Loan may be extended up to a maximum of 40 years from the date of variation, subject to the Borrower's age (see "*Age of applicant*" below).

(3) *Age of applicant*

All Borrowers must be aged 18 or over and the maximum age limit at the end of the mortgage term is 80. If the term of the mortgage extends into the Borrower's retirement, or the Borrower is already retired, the Seller will consider the Borrower's ability to support the Mortgage Loan in retirement.

(4) *Loan-to-value (or LTV) ratio*

For the Mortgage Loans in the Provisional Portfolio, the Seller has lent up to 95 per cent. of the improved valuation of the Property (the original valuation plus the increase in value deriving from any improvements).

All current lending for new purchases is based on a maximum of 95 per cent. of the lower of purchase price or valuation. For example, if the value of a Property was £90,000 and the purchase price was £95,000, the maximum that the Seller would lend is £85,500 (95 per cent. of £90,000).

(5) *Status of applicant(s)*

The maximum aggregate loan amount under a mortgage account is determined by the application of an affordability model. This model delivers an individualised result that reflects the applicant's net income, existing credit commitments

and burden of family expenditure. The model also calculates the full debt servicing cost at a stressed rate of interest before comparing this cost to the net disposable income that the applicant has available. The Seller maintains rules on the amount of variable income (overtime, bonus, commission) that it will allow into the model and as a general rule will allow no more than 60 per cent. of these items. The sustainability of income is established; and non-sustainable income is excluded from the affordability model. The Seller maintains a policy rule that it will not lend more than an amount equal to 5 times gross annual allowable income, subject to loan size, LTV and income levels. Any decision to override this policy and lend more than an amount equal to 5 times income will be made by an underwriter after fully assessing the risk to the Seller.

In cases where a single Borrower is attempting to have the Seller take a secondary income into account, the Seller will consider the sustainability of the Borrower's work hours, the similarity of the jobs and/or skills, the commuting time and distance between the jobs, the length of employment at both positions and whether the salary is consistent with the type of employment. The Seller will determine, after assessing the above factors, if it is appropriate to use both incomes. If so, both incomes will be used as part of the normal income calculation.

When there are two applicants, the Seller adds joint incomes together for the purpose of calculating the applicants' total income. The Seller may at its discretion consider the income of additional applicants subject to manual underwriting review.

Positive proof of the Borrower's identity and address must be established. In exceptional circumstances this requirement can be waived (provided money laundering regulations are complied with), but the reasons for doing so must be fully documented.

The Seller may exercise discretion within its lending criteria in applying those factors that are used to determine the maximum amount of the Mortgage Loan(s). Accordingly, these parameters may vary for some Mortgage Loans. The Seller may take the following into account when exercising discretion: credit score result, existing customer relationship, percentage of LTV, stability of employment and career progression, availability of living allowances and/or mortgage subsidy from the employer, employer's standing, regularity of overtime, bonus or commission (up to a maximum of 60 per cent. of the income), credit commitments, quality of security (such as type of property, repairs, location or saleability) and the increase in income needed to support the Mortgage Loan.

(6) *Credit history*

(a) Credit search

A credit search is carried out in respect of all applicants. Applications may be declined where an adverse credit history (for example, county court judgment, default or bankruptcy notice) is revealed.

(b) Bank statements

The applicant may be required to provide bank statements in support of his or her application.

(7) *Scorecard*

The Seller uses some of the criteria described here and various other criteria to produce an overall score for the application that reflects a statistical analysis of the risk of advancing the Mortgage Loan. The lending policies and processes are determined centrally to ensure consistency in the management and monitoring of credit risk exposure. Full use is made of software technology in credit scoring new applications. Credit scoring applies statistical analysis to credit reference agency data (some of which is publicly available data) and customer-provided data to assess the likelihood of an account going into arrears.

The Seller reserves the right to decline an application that has received a passing score. The Seller does have an appeals process if a potential Borrower believes his or her application has been unfairly denied. It is the Seller's policy to allow only authorised individuals to exercise discretion in granting variances from the scorecard.

(8) *Income verification*

Income verification is required for all Borrowers and has been since April 2014.

(9) *Credit impaired loans*

The Seller's lending criteria prevents lending to Borrower's with an un-discharged bankruptcy or an individual voluntary arrangement (IVA) or a debt management plan that has not completed. Where a discharge from bankruptcy, IVA or debt management plan occurs within the last 6 years, lending will only be considered by underwriters to existing borrowers and only then if the Seller's position in terms of LTV and loan amount is improved.

*Changes to the underwriting policies and the lending criteria*

The Seller's underwriting policies and lending criteria are subject to change within the Seller's sole discretion. Further Mortgage Loans and Further Advances that are originated under lending criteria that are different from the criteria set out here may be sold to the Issuer.

There has been no revaluation of the Properties for the purpose of the issue of the Notes and the valuations quoted are as at the date of origination of the relevant Mortgage Loans in accordance with the Seller's policy. Neither the Issuer nor the Seller will revalue (a) any of the Properties in the Mortgage Portfolio or (b) any Further Mortgage Loans which are to be sold to the Issuer from time to time.

**Insurance policies**

*Insurance on the Property*

A Borrower is required to insure the Property with an Insurance Policy. The insurance may be purchased through the Seller or, alternatively, the Borrower or Landlord (in the case of a leasehold property) may arrange the insurance independently. In either case, the Borrower must take reasonable steps to ensure that nothing happens which may harm the ability to make a claim under the insurance, render the insurance invalid and ensure that the insurance premiums are kept up to date.

On newly originated Mortgage Loans, the solicitors and licensed conveyancers should advise the customer in writing of the need to ensure that adequate insurance cover is in place and must take steps to confirm this is the case in accordance with the requirements of the CML Lenders' Handbook for England & Wales.

If the Borrower does not insure the Property, or insures the Property but not in accordance with the Mortgage Conditions, the Seller may, upon becoming aware of the same, insure the Property itself, in which case the Seller may determine who the insurer will be, what will be covered by the policy, the amount of the sum insured and any excess. The Borrower will be responsible for the payment of insurance premiums and the cost may be added to the Borrower's Mortgage Loan and interest charged. The Seller retains the right to settle all insurance claims on reasonable terms without the Borrower's consent. The Seller's current policy is that in most cases where it becomes aware that a Property is not insured, it will not arrange insurance cover except where the Property is in possession.

**Governing Law**

Each of the Mortgage Loans and any non-contractual obligations arising out of or in connection with them are governed by the laws of England and Wales.

## CHARACTERISTICS OF THE PROVISIONAL PORTFOLIO

The statistical and other information contained in this Prospectus (including the tables below) has been compiled by reference to loans originated by the Seller in a provisional portfolio (the "**Provisional Portfolio**") and extracted from the systems of the Seller on the Mortgage Portfolio Reference Date.

The Seller has selected the Provisional Portfolio using an internally developed system containing defined data on each of the qualifying Mortgage Loans in the Seller's overall portfolio of loans available for selection. This system allows the setting of exclusion criteria, among others, corresponding to relevant Loan Warranties that the Seller makes in the Mortgage Sale Agreement in relation to the Mortgage Loans. Once the criteria have been determined, the system identifies all loans owned by the Seller that are consistent with the criteria. From this subset, Mortgage Loans are selected at random until the target balance for Mortgage Loans has been reached or the subset has been exhausted. Columns may not add up to 100 per cent. due to rounding. Except as otherwise indicated, these tables have been prepared using the Current Balance of each loan in the Provisional Portfolio as at the Mortgage Portfolio Reference Date, which includes all principal and accrued interest for the loans in the Provisional Portfolio.

The Properties over which the loans in the Provisional Portfolio are secured have not been revalued for the purposes of the issue of the Notes.

The characteristics of the Mortgage Portfolio will differ from those set out below as a result of, among other things, repayments and redemptions of loans in the Provisional Portfolio from the Mortgage Portfolio Reference Date to the Closing Date and removal of any loans that do not comply with the Loan Warranties as at the Closing Date. If loans selected for the Mortgage Portfolio are repaid in full between the Mortgage Portfolio Reference Date and the Closing Date, the portfolio purchased will be smaller and any difference between this and the Note balance will be credited to the Retained Principal Receipts Ledger and will be available during the Revolving Period to purchase Further Mortgage Portfolios.

### (A) Summary table of the Provisional Portfolio as at the Mortgage Portfolio Reference Date

Mortgage Portfolio Reference Date:	31 October 2018
Current Balance (£):	7,591,575,650.04
No. of accounts:	39,400
Average Current Balance (£):	192,679.59
First legal mortgage / first ranking standard security %:	100%
Weighted average Original Loan to Value Ratio %:	74.68%
Weighted average Current Loan to Value Ratio %:	73.77%
Weighted average interest rate %:	2.13%
Interest-only Mortgage Loans (as % of Current Balance):	3.21%
Weighted average seasoning (months):	6.54
Weighted average remaining term (years):	26.43
Arrears (as % of Current Balance):	0%
Self-certified Mortgage Loans (as % of Current Balance):	0%
Mortgage Loans to borrowers with CCJ, prior IVA or bankruptcy at origination (as % of Current Balance):	0%
Owner-occupied properties (as % of Current Balance):	100%
Buy-To-Let Mortgage Loans (as % of Current Balance):	0%
Right to buy Mortgage Loans (as % of Current Balance):	0.83%

**(B) Current Balances as at the Mortgage Portfolio Reference Date**

The following table shows the range of outstanding Current Balances (including capitalised interest, insurance fees, booking fees and valuation fees) as at the Mortgage Portfolio Reference Date:

<b>Range of Current Balances as at the Mortgage Portfolio Reference Date*</b>	<b>Aggregate Current Balances as at the Mortgage Portfolio Reference Date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
£0 – <£25,000 .....	9,631,382.97	0.13	539	1.37
£25,000 – <£50,000 .....	61,374,403.23	0.81	1,574	3.99
£50,000 – <£75,000 .....	166,732,213.98	2.20	2,625	6.66
£75,000 – <£100,000 .....	332,320,021.16	4.38	3,768	9.56
£100,000 – <£125,000 .....	486,162,659.90	6.40	4,308	10.93
£125,000 – <£150,000 .....	626,232,029.71	8.25	4,560	11.57
£150,000 – <£175,000 .....	640,006,823.75	8.43	3,947	10.02
£175,000 – <£200,000 .....	636,986,190.50	8.39	3,396	8.62
£200,000 – <£225,000 .....	600,927,494.54	7.92	2,829	7.18
£225,000 – <£250,000 .....	552,232,865.03	7.27	2,328	5.91
£250,000 – <£275,000 .....	506,728,713.65	6.67	1,932	4.90
£275,000 – <£300,000 .....	435,547,641.02	5.74	1,517	3.85
£300,000 – <£350,000 .....	681,114,985.64	8.97	2,105	5.34
£350,000 – <£400,000 .....	523,146,204.75	6.89	1,399	3.55
£400,000 – <£450,000 .....	383,842,968.63	5.06	907	2.30
£450,000 – <£500,000 .....	320,338,627.37	4.22	673	1.71
£500,000 – <£650,000 .....	376,477,778.27	4.96	665	1.69
£650,000 – <£800,000 .....	161,044,800.82	2.12	227	0.58
>=£800,000 .....	90,727,845.12	1.20	101	0.26
<b>Total .....</b>	<b>7,591,575,650.04</b>	<b>100.00</b>	<b>39,400</b>	<b>100.00</b>

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

The largest mortgage account (including capitalised interest, insurance fees, booking fees and valuation fees) had an outstanding Current Balance as at the Mortgage Portfolio Reference Date of £1,191,735.68 and the smallest mortgage account had an outstanding Current Balance as at the Mortgage Portfolio Reference Date of £345.16. The weighted average Current Balance (including capitalised interest, insurance fees, booking fees and valuation fees) as at the Mortgage Portfolio Reference Date was £272,389.42.

**(C) LTV Ratios at origination**

The following table shows the range of LTV Ratios, which express the outstanding Current Balance of the aggregate of loans in a mortgage account (excluding capitalised interest, insurance fees, booking fees and valuation fees) as at the date of the initial loan origination divided by the value of the property securing the loans in that mortgage account, held in the Seller's systems, at the same date.

<b>Range of LTV Ratios at origination*</b>	<b>Aggregate Current Balances as at the Mortgage Portfolio Reference Date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
0% – <25% .....	102,526,676.00	1.35	1,789	4.54
25% – <50% .....	659,842,073.79	8.69	4,777	12.12
50% – <75% .....	2,180,245,349.70	28.72	10,789	27.38
75% – <80% .....	766,258,144.19	10.09	3,625	9.20
80% – <85% .....	1,131,085,440.87	14.90	5,163	13.10
85% – <90% .....	1,315,851,430.09	17.33	6,018	15.27
90% – <95% .....	1,208,203,766.87	15.92	5,903	14.98

<b>Range of LTV Ratios at origination*</b>	<b>Aggregate Current Balances as at the Mortgage Portfolio Reference Date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
>=95% .....	227,562,768.53	3.00	1,336	3.39
<b>Total .....</b>	<b>7,591,575,650.04</b>	<b>100.00</b>	<b>39,400</b>	<b>100.00</b>

\* Excluding capitalised interest, insurance fees, booking fees and valuation fees.

The weighted average LTV ratio of the mortgage accounts (excluding any capitalised interest, insurance fees, booking fees and valuation fees) at origination was 74.68%. The highest LTV Ratio of any mortgage account (excluding any capitalised interest, insurance fees, booking fees and valuation fees) at origination was 95.00% and the lowest was 0.81%.

#### (D) Mortgage Portfolio Reference Date LTV Ratios

The following table shows the range of LTV Ratios, which express the Current Balance of the aggregate of loans in a mortgage account (including capitalised interest, insurance fees, booking fees and valuation fees) as at the Mortgage Portfolio Reference Date divided by the latest valuation of the property securing the loans in that mortgage account at the same date.

<b>Range of LTV Ratios as at the Mortgage Portfolio Reference Date*</b>	<b>Aggregate Current Balances at the Mortgage Portfolio Reference Date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
0% – <25% .....	111,628,277.61	1.47	1,931	4.90
25% – <50% .....	705,107,894.18	9.29	5,056	12.83
50% – <75% .....	2,352,301,557.44	30.99	11,456	29.08
75% – <80% .....	866,869,648.60	11.42	3,998	10.15
80% – <85% .....	1,587,449,114.84	20.91	7,236	18.37
85% – <90% .....	1,472,645,182.39	19.40	7,105	18.03
90% – <95% .....	495,573,974.98	6.53	2,618	6.64
>=95% .....	-	0.00	-	0.00
<b>Total .....</b>	<b>7,591,575,650.04</b>	<b>100.00</b>	<b>39,400</b>	<b>100.00</b>

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

The weighted average LTV Ratio of the mortgage accounts (including any capitalised interest, insurance fees, booking fees and valuation fees) as at the Mortgage Portfolio Reference Date was 73.77%. The highest LTV ratio of any mortgage account (including any capitalised interest, insurance fees, booking fees and valuation fees) was 94.83% and the lowest was 0.28%.

#### (E) Geographical distribution

The following table shows the distribution of properties securing the Mortgage Loans throughout England and Wales as at the Mortgage Portfolio Reference Date. No such properties are situated outside England or Wales. The Seller's lending criteria and current credit scoring tests do not take into account the geographical location of the property securing a loan.

<b>Regions</b>	<b>Aggregate Current Balances at the Mortgage Portfolio Reference Date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
East Midlands .....	493,515,947.90	6.50	3,279	8.32
East of England.....	1,078,588,857.88	14.21	4,948	12.56
London.....	1,562,919,933.03	20.59	4,910	12.46
North East.....	189,094,335.07	2.49	1,534	3.89
North West.....	684,966,631.67	9.02	5,058	12.84

<b>Regions</b>	<b>Aggregate Current Balances at the Mortgage Portfolio Reference Date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
South East.....	1,670,958,303.20	22.01	6,936	17.60
South West.....	658,184,080.85	8.67	3,617	9.18
Wales.....	231,823,051.30	3.05	1,766	4.48
West Midlands.....	519,199,305.03	6.84	3,445	8.74
Yorkshire & The Humber.....	502,325,204.11	6.62	3,907	9.92
Unknown*.....	-	0.00	-	0.00
<b>Total.....</b>	<b>7,591,575,650.04</b>	<b>100.00</b>	<b>39,400</b>	<b>100.00</b>

\* Where the postal code for the relevant property has not yet been allocated or is not shown in the Seller's records.

#### (F) Property type

The following table shows the types of properties to which the mortgage accounts relate.

<b>Property type</b>	<b>Aggregate Current Balance as at the Mortgage Portfolio Reference Date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
Detached house.....	2,023,974,707.16	26.66	8,046	20.42
Semi-detached house.....	2,244,195,922.38	29.56	12,844	32.60
Terraced house.....	2,045,393,917.81	26.94	12,098	30.71
Flat or maisonette.....	994,419,191.35	13.10	4,769	12.10
Bungalow.....	283,591,911.34	3.74	1,643	4.17
<b>Total.....</b>	<b>7,591,575,650.04</b>	<b>100.00</b>	<b>39,400</b>	<b>100.00</b>

As at the Mortgage Portfolio Reference Date, the weighted average balance of loans secured by detached houses, semi-detached houses, terraced houses, bungalows and flats (including maisonettes) was £332,311.41, £241,718.33, £241,475.40, £242,896.93 and £291,643.39, respectively.

#### (G) Seasoning of loans

The following table shows the number of months since the date of origination of the initial loan in a mortgage account as at the Mortgage Portfolio Reference Date.

<b>Age of loans in months as at the Mortgage Portfolio Reference Date</b>	<b>Aggregate Current Balances at the Mortgage Portfolio Reference Date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
0 to <6.....	3,501,833,903.97	46.13	17,644	44.78
6 to <12.....	3,954,258,676.11	52.09	21,027	53.37
12 to <18.....	103,294,364.27	1.36	542	1.38
18 to <24.....	4,153,918.38	0.05	25	0.06
24 to <30.....	7,672,566.35	0.10	51	0.13
30 to <36.....	8,138,358.63	0.11	44	0.11
36 to <48.....	6,310,483.74	0.08	30	0.08
48 to <60.....	5,913,378.59	0.08	37	0.09
>=60.....	-	0.00	-	0.00
<b>Total.....</b>	<b>7,591,575,650.04</b>	<b>100.00</b>	<b>39,400</b>	<b>100.00</b>

The maximum, minimum and weighted average seasoning of loans as at the Mortgage Portfolio Reference Date is 54.24, 3.02 and 6.54 months, respectively.



#### (H) Years to maturity of loans

The following table shows the number of remaining years of the term of the initial loan in a mortgage account as at the Mortgage Portfolio Reference Date.

<b>Years to maturity as at the Mortgage Portfolio Reference Date</b>	<b>Aggregate Current Balances at the Mortgage Portfolio Reference Date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
<5.....	21,394,471.74	0.28	376	0.95
5 to <10.....	150,640,009.32	1.98	1,844	4.68
10 to <15.....	440,601,319.54	5.80	3,427	8.70
15 to <20.....	861,862,455.57	11.35	5,085	12.91
20 to <25.....	1,896,387,672.37	24.98	8,997	22.84
25 to <30.....	1,909,725,349.90	25.16	8,543	21.68
30 to <35.....	1,759,885,161.47	23.18	8,145	20.67
>=35.....	551,079,210.13	7.26	2,983	7.57
<b>Total.....</b>	<b>7,591,575,650.04</b>	<b>100.00</b>	<b>39,400</b>	<b>100.00</b>

The maximum, minimum and weighted average remaining term of the loans as at the Mortgage Portfolio Reference Date was 40, 0 and 26.43 years, respectively.

The following three tables have been calculated on the basis of the type of loan applicable to each mortgage account's primary product holding. In addition to the primary product holding, a mortgage account may have other active product holdings, which may or may not be of the same type as the primary product holding.

#### (I) Distribution of types of Mortgage Loans

The following table shows the distribution of types of loans as at the Mortgage Portfolio Reference Date.

<b>Type of loan</b>	<b>Aggregate Current Balances at the Mortgage Portfolio Reference Date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
Fixed Rate Loans.....	7,512,808,020.73	98.96	38,893	98.71
Tracker Rate Loans.....	48,762,404.97	0.64	302	0.77
Variable Base Rate Loans	30,005,224.34	0.40	205	0.52
<b>Total.....</b>	<b>7,591,575,650.04</b>	<b>100.00</b>	<b>39,400</b>	<b>100.00</b>

#### (J) Distribution of Fixed Rate Loans

The following tables show the distribution of Fixed Rate Loans by their fixed rate of interest as at such date and the year in which the loans cease to bear a fixed rate of interest.

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

<b>Fixed rate %</b>	<b>Aggregate Current Balances as at the Mortgage Portfolio Reference Date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
0 – <3.00.....	6,744,504,177.54	89.77	34,142	87.78
3.00 – <4.00.....	506,587,981.16	6.74	3,107	7.99
4.00 – <5.00.....	258,182,490.86	3.44	1,618	4.16

<b>Fixed rate %</b>	<b>Aggregate Current Balances as at the Mortgage Portfolio Reference Date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
>=5.00.....	3,533,371.17	0.05	26	0.07
<b>Total .....</b>	<b>7,512,808,020.73</b>	<b>100.00</b>	<b>38,893</b>	<b>100.00</b>

<b>Year in which current fixed rate period ends</b>	<b>Aggregate Current Balances as at the Mortgage Portfolio Reference Date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
2018 .....	23,780,953.02	0.32	127	0.33
2019 .....	1,009,300,780.74	13.43	4,996	12.85
2020 .....	4,087,464,449.17	54.41	20,243	52.05
2021 .....	417,017,127.45	5.55	1,696	4.36
2022 .....	286,421,719.73	3.81	1,722	4.43
2023 .....	1,683,716,324.20	22.41	10,077	25.91
>=2024.....	5,106,666.42	0.07	32	0.08
<b>Total .....</b>	<b>7,512,808,020.73</b>	<b>100.00</b>	<b>38,893</b>	<b>100.00</b>

## CHARACTERISTICS OF THE UNITED KINGDOM RESIDENTIAL MORTGAGE MARKET

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

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

### Industry PPR rates

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

Quarter	Industry PPR rate for the quarter (%)	12-month rolling average (%)	Quarter	Industry PPR rate for the quarter (%)	12-month rolling average (%)
December 1999	16.79	15.88	June 2009	11.90	15.58
March 2000	13.91	16.21	September 2009	13.34	13.68
June 2000	15.63	16.05	December 2009	12.53	12.81
September 2000	16.31	15.66	March 2010	9.97	11.94
December 2000	16.02	15.47	June 2010	11.01	11.71
March 2001	15.76	15.93	September 2010	11.76	11.32
June 2001	18.67	16.69	December 2010	11.39	11.03
September 2001	20.74	17.80	March 2011	10.40	11.14
December 2001	20.56	18.93	June 2011	11.00	11.14
March 2002	19.24	19.80	September 2011	12.37	11.29
June 2002	21.63	20.54	December 2011	11.86	11.41
September 2002	24.22	21.41	March 2012	10.97	11.55
December 2002	23.47	22.14	June 2012	11.27	11.62
March 2003	21.80	22.78	September 2012	11.53	11.41
June 2003	23.00	23.12	December 2012	11.82	11.40
September 2003	24.63	23.22	March 2013	11.38	11.50
December 2003	25.49	23.73	June 2013	13.00	11.93
March 2004	21.77	23.72	September 2013	14.67	12.72
June 2004	23.52	23.85	December 2013	14.94	13.50
September 2004	24.90	23.92	March 2014	13.53	14.03
December 2004	21.37	22.89	June 2014	14.21	14.34
March 2005	18.44	22.06	September 2014	15.16	14.46
June 2005	21.89	21.65	December 2014	14.24	14.28
September 2005	24.96	21.66	March 2015	13.01	14.15
December 2005	25.32	22.65	June 2015	13.99	14.10
March 2006	22.95	23.78	September 2015	15.19	14.11
June 2006	24.11	24.34	December 2015	15.45	14.41
September 2006	25.73	24.53	March 2016	15.10	14.93
December 2006	25.63	24.61	June 2016	15.11	15.21
March 2007	24.56	25.01	September 2016	15.85	15.38
June 2007	25.64	25.39	December 2016	15.36	15.35
September 2007	26.32	25.54	March 2017	14.81	15.28
December 2007	24.36	25.22	June 2017	14.83	15.21
March 2008	20.26	24.15	September 2017	16.00	15.25
June 2008	21.65	23.15	December 2017	16.38	15.50
September 2008	20.94	21.80	March 2018	15.06	15.57
December 2008	15.99	19.71	June 2018	15.33	15.69
March 2009	13.49	18.02			

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

### Repossession rate

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

Year	Repossessions (%)	Year	Repossessions (%)	Year	Repossessions (%)
1985	0.25	1996	0.40	2007	0.22
1986	0.30	1997	0.31	2008	0.34
1987	0.32	1998	0.31	2009	0.43
1988	0.22	1999	0.27	2010	0.34
1989	0.17	2000	0.20	2011	0.33
1990	0.47	2001	0.16	2012	0.30
1991	0.77	2002	0.11	2013	0.26
1992	0.69	2003	0.07	2014	0.19
1993	0.58	2004	0.07	2015	0.09
1994	0.47	2005	0.12	2016	0.07
1995	0.47	2006	0.18	2017	0.07

Source: Council of Mortgage Lenders

All information contained in this Prospectus in respect of industry PPR rates and repossession rates has been reproduced from information published by the Council of Mortgage Lenders. The Issuer confirms that all information in this Prospectus in respect of industry PPR rates and repossession rates has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by the Council of Mortgage Lenders, no facts have been omitted which would render the reproduced information inaccurate or misleading.

### House price to earnings ratio

The following table shows the ratio for each year since 1994 of the average house price compared to the average annual income of borrowers in the United Kingdom.

Year	Average annual earnings (£)	Average house price (£)	House price to earnings ratio
1994	22,288	64,787	2.91
1995	23,114	65,644	2.84
1996	24,740	70,626	2.85
1997	26,086	76,103	2.92
1998	27,317	81,774	2.99
1999	29,864	92,521	3.10
2000	31,193	101,550	3.26
2001	33,967	112,835	3.32
2002	36,277	128,265	3.54
2003	38,538	155,627	4.04
2004	39,873	180,248	4.52
2005	43,690	190,760	4.37
2006	50,789	204,813	4.03
2007	53,617	223,405	4.17
2008	54,527	227,765	4.18
2009	53,975	226,064	4.19
2010	57,973	251,174	4.33
2011	56,957	245,319	4.31
2012	57,121	246,032	4.31
2013	58,268	250,768	4.30
2014	59,808	267,132	4.47
2015	62,230	276,555	4.44
2016	61,516	282,511	4.59
2017	59,426	280,304	4.72

Source: Office for National Statistics

House prices and incomes vary throughout England and Wales. The table below summarises the average house price and the average income of borrowers for each region for the year ended 31 December 2017 in order to produce a house price to earnings ratio for each region.

Regions	Average annual earnings (£)	Average house price (£)	House price to earnings ratio
North East.....	45,531	167,535	3.68
North West.....	50,120	197,885	3.95
Yorkshire & Humberside.....	48,140	192,185	3.99
East Midlands.....	49,312	212,653	4.31
West Midlands.....	51,023	223,149	4.37
East of England.....	64,918	335,126	5.16
London.....	98,059	535,732	5.46
South East.....	71,029	379,278	5.34
South West.....	55,266	277,221	5.02
Wales.....	45,944	183,683	4.00

Source: Office for National Statistics

All information contained in this Prospectus in respect of average house prices and average earnings has been reproduced from information published by the Department for Communities and Local Government. The Issuer confirms that all information in this Prospectus in respect of average house prices and average earnings has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by the Department for Communities and Local Government, no facts have been omitted which would render the reproduced information inaccurate or misleading.

### House price index

United Kingdom residential property prices, as measured by the Nationwide House Price Index, have generally outperformed the United Kingdom Retail Price Index over the past 25 years. (Nationwide is a United Kingdom building society.)

The United Kingdom housing market has been through various economic cycles in this period, with large year-to-year increases in house prices occurring in the late 1980s and the mid 1990s through to mid 2007 and decreases occurring in the early 1990s and mid 2007 through late 2009. Prices remained broadly stable until 2013 and have increased year on year since.

Year	Retail Price Index		Nationwide House Price Index	
	Index	% annual change	Index	% annual change
1988.....	106.9	4.9	.	.
1989.....	115.2	7.8	.	.
1990.....	126.1	9.5	.	.
1991.....	133.5	5.9	107.1	.
1992.....	138.5	3.7	103.0	(3.8)
1993.....	140.7	1.6	102.1	(0.8)
1994.....	144.1	2.4	103.5	1.3
1995.....	149.1	3.5	102.3	(1.2)
1996.....	152.7	2.4	106.3	3.9
1997.....	157.5	3.1	117.9	10.9
1998.....	162.9	3.4	129.8	10.1
1999.....	165.4	1.5	141.7	9.2
2000.....	170.3	3.0	160.0	12.9
2001.....	173.3	1.8	177.0	10.6
2002.....	176.2	1.7	211.8	19.7
2003.....	181.3	2.9	253.0	19.4
2004.....	186.7	3.0	296.3	17.1
2005.....	192.0	2.8	311.4	5.1
2006.....	198.1	3.2	331.4	6.4
2007.....	206.6	4.3	361.8	9.2
2008.....	214.8	4.0	337.4	(6.7)

Year	Retail Price Index		Nationwide House Price Index	
	Index	% annual change	Index	% annual change
2009.....	213.7	(0.5)	312.4	(7.4)
2010.....	223.6	4.6	330.6	5.8
2011.....	235.2	5.2	329.9	(0.2)
2012.....	242.7	3.2	327.1	(0.8)
2013.....	250.1	3.0	337.4	3.1
2014.....	256.0	2.4	370.3	9.8
2015.....	258.5	1.0	386.6	4.4
2016.....	263.1	1.8	405.7	4.9
2017.....	272.5	3.6	417.5	2.9

Source: Office for National Statistics and Nationwide Building Society.

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

$(X-Y)/Y$  where **X** is equal to the current year's index value and **Y** is equal to the index value of the previous year.

The figures for the Nationwide House Price Index are the average of the published monthly indices for that year.

#### Quarterly house price index

Quarter	Retail Price Index		Nationwide House Price Index (SA)*	
	Index	% annual change	Index	% annual change
March 2007 .....	203.0	4.5	353.9	9.5
June 2007 .....	206.3	4.4	360.1	10.2
September 2007 .....	207.1	3.9	365.1	9.3
December 2007 .....	209.8	4.2	367.8	6.8
March 2008 .....	211.1	4.0	361.9	2.3
June 2008 .....	215.3	4.4	345.7	(4.0)
September 2008 .....	217.4	5.0	327.5	(10.3)
December 2008 .....	215.5	2.7	313.4	(14.8)
March 2009 .....	210.9	(0.1)	302.4	(16.4)
June 2009 .....	212.6	(1.3)	305.0	(11.8)
September 2009 .....	214.4	(1.4)	317.3	(3.1)
December 2009 .....	216.9	0.6	324.0	3.4
March 2010 .....	219.3	4.0	329.3	8.9
June 2010 .....	223.5	5.1	333.8	9.4
September 2010 .....	224.5	4.7	331.5	4.5
December 2010 .....	227.0	4.7	325.9	0.6
March 2011 .....	230.9	5.3	328.3	(0.3)
June 2011 .....	234.9	5.1	329.7	(1.2)
September 2011 .....	236.2	5.2	330.1	(0.4)
December 2011 .....	238.6	5.1	329.7	1.2
March 2012 .....	239.6	3.8	328.8	0.2
June 2012 .....	242.2	3.1	326.0	(1.1)
September 2012 .....	243.1	2.9	325.0	(1.5)
December 2012 .....	246.0	3.1	326.1	(1.1)
March 2013 .....	247.4	3.3	329.1	0.1
June 2013 .....	249.7	3.1	330.7	1.4
September 2013 .....	250.9	3.2	339.1	4.4
December 2013 .....	252.5	2.6	349.1	7.1
March 2014 .....	253.9	2.6	359.2	9.1
June 2014 .....	256.0	2.5	369.0	11.6
September 2014 .....	256.9	2.4	374.8	10.5
December 2014 .....	257.4	1.9	378.2	8.3

Quarter	Retail Price Index		Nationwide House Price Index (SA)*	
	Index	% annual change	Index	% annual change
March 2015 .....	256.4	1.0	379.8	5.7
June 2015 .....	258.5	1.0	384.6	4.2
September 2015 .....	259.3	0.9	388.6	3.7
December 2015 .....	260.0	1.0	394.3	4.2
March 2016 .....	260.0	1.4	399.5	5.2
June 2016 .....	262.2	1.4	404.8	5.2
September 2016 .....	264.2	1.9	409.7	5.4
December 2016 .....	265.8	2.2	412.0	4.5
March 2017 .....	267.7	3.0	415.4	4.0
June 2017 .....	271.5	3.5	416.6	2.9
September 2017 .....	274.2	3.8	420.3	2.6
December 2017 .....	276.4	4.0	423.0	2.7
March 2018 .....	277.5	3.7	425.4	2.4
June 2018 .....	280.6	3.4	426.0	2.3
September 2018 .....	283.3	3.3	429.2	2.1

Source: Office for National Statistics and Nationwide Building Society.

\* Seasonally adjusted.

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

$(X-Y)/Y$  where **X** is equal to the current quarter's index value and **Y** is equal to the index value of the previous year's corresponding quarter.

All information contained in this Prospectus in respect of the Retail Price Index has been reproduced from information published by the Office for National Statistics. All information contained in this Prospectus in respect of the Nationwide House Price Index has been reproduced from information published by Nationwide Building Society. The Issuer confirms that all information in this Prospectus in respect of the Retail Price Index and the Nationwide House Price Index has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by the Office for National Statistics and Nationwide Building Society, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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

## SUMMARY OF THE KEY TRANSACTION DOCUMENTS

### Mortgage Sale Agreement

#### Initial Mortgage Portfolio

Under the Mortgage Sale Agreement, on the Closing Date a portfolio of English and Welsh residential mortgage loans (the "**Initial Mortgage Loans**") and their associated mortgages (the "**Initial Mortgages**") and other Related Security (collectively referred to as the "**Initial Mortgage Portfolio**") will be sold by way of equitable assignment to the Issuer. Any sale of Further Mortgage Loans in the future will be given effect by way of equitable assignment (the "**sale**").

The consideration due to the Seller in respect of the sale of the Initial Mortgage Portfolio is the aggregate of:

- (a) an amount equal to the Current Balance of the Initial Mortgage Loans as at the Closing Date together with any interest and expenses accrued thereon as at the Closing Date ("**Accrued Amounts**") (together, the "**Initial Consideration**");
- (b) a covenant by the Issuer to pay the Deferred Consideration in respect of the sale of the Initial Mortgage Portfolio; and
- (c) an amount equal to any fees received as a consequence of the early termination of a Mortgage Loan ("**Early Repayment Charges**") and certain other fees charged by the Seller in respect of its administration of the Mortgage Loans (together, the "**Servicing Related Fees**") which shall be paid to the Seller as and when they are received and identified by the Issuer.

The consideration attributable to Servicing Related Fees on the Initial Mortgage Loans will be paid (as and when received and identified) outside of the Priorities of Payments from the payments made by Borrowers in respect of the Initial Mortgage Loans on or after the Closing Date. The Deferred Consideration will be paid in accordance with the applicable Priorities of Payments set out in the section headed "*Cashflows*" below.

The terms "**sale**", "**sell**" and "**sold**" when used in the Mortgage Sale Agreement and the other Transaction Documents in connection with the Mortgage Loans and their Related Security are construed to mean the equitable assignment of the beneficial interest in the Mortgage Loans and their Related Security.

The terms "**repurchase**" and "**repurchased**" when used in the Mortgage Sale Agreement and the other Transaction Documents in connection with the Mortgage Loans and their Related Security are construed to mean the repurchase of the beneficial interest of the Issuer in respect of such Mortgage Loans and their Related Security by way of assignment.

#### Further Mortgage Loans

After the Closing Date and until (but excluding) the Revolving Period End Date (such period, the "**Revolving Period**"), the Issuer may apply, amounts standing to the credit of the Retained Principal Receipts Ledger to purchase from the Seller new residential mortgage loans (the "**Further Mortgage Loans**" together with their associated mortgages (the "**Further Mortgages**" and together with the Initial Mortgages, as the context requires, the "**Mortgages**"), and other security for the Further Mortgage Loans (the "**Further Related Security**" and, together with the Initial Related Security, as the context requires, the "**Related Security**") and all monies derived therefrom from time to time (collectively referred to as the "**Further Mortgage Portfolio**"). The Mortgage Loans and the Related Security and all monies derived therefrom from time to time are referred to herein as the "**Mortgage Portfolio**". The "**Mortgage Loans**" and "**Related Security**" are further defined in "*Transaction Overview*".

During the period from the Closing Date to but excluding the first Interest Payment Date, Further Mortgage Loans will only be purchased using "**Excess Note Proceeds**" (that is, the excess of the proceeds of the Notes over the Initial



Consideration payable on the Closing Date). Thereafter, the Cash Manager may on any Business Day during the Revolving Period, withdraw moneys credited to the Retained Principal Receipts Ledger to acquire Further Mortgage Loans from the Seller.

The consideration for the sale of such Further Mortgage Loans and their Further Related Security to the Issuer will consist of:

- (a) the Issuer paying to the Seller an amount equal to the Current Balance of the Further Mortgage Loans together with Accrued Amounts thereon as at the relevant Further Sale Date thereof (the "**Further Mortgage Loan Initial Consideration**"); and
- (b) a covenant by the Issuer to pay the Deferred Consideration in respect of the sale of the Further Mortgage Loans; and
- (c) an amount equal to any Servicing Related Fees as and when they are received and identified by the Issuer.

The Seller will select the Further Mortgage Loans to be offered to the Issuer during the Revolving Period using an internally developed system containing defined data on each of the qualifying Further Mortgage Loans in the Seller's overall portfolio of loans available for selection. This system allows the setting of exclusion criteria, among others, corresponding to relevant Loan Warranties that the Seller makes in the Mortgage Sale Agreement in relation to the Mortgage Loans and the Replenishment Criteria (see "*Summary of the Transaction Documents — Mortgage Sale Agreement — Representations and Warranties*" and "*Summary of the Transaction Documents — Mortgage Sale Agreement — Replenishment Criteria*" below). Once the criteria have been determined, the system identifies all loans owned by the Seller that are consistent with the criteria. From this subset, Further Mortgage Loans are selected at random until the target balance for Further Mortgage Loans has been reached or the subset has been exhausted. After a portfolio of Further Mortgage Loans is selected in this way, the constituent Further Mortgage Loans are monitored so that they continue to comply with the relevant criteria on the relevant Further Sale Date.

The sale of Further Mortgage Loans (and their Further Related Security) to the Issuer will in all cases also be subject to certain conditions, being satisfied on the relevant date the Further Mortgage Loans are sold (in respect of any Further Mortgage Loan, its "**Further Sale Date**". These are:

- (a) the relevant Further Sale Date or, as applicable, Further Advance Date falls on a date which is prior to the Revolving Period End Date;
- (d) there has been no failure by the Seller of its obligations to repurchase any Mortgage Loan pursuant to the Mortgage Sale Agreement; and
- (e) there are sufficient Principal Receipts standing to the credit of the Retained Principal Receipts Ledger as at the Further Sale Date to finance the Further Mortgage Loan Initial Consideration.

During the Revolving Period the Seller will use its reasonable endeavours to offer to sell Further Mortgage Portfolios to the Issuer. For the avoidance of doubt, the Seller shall not be obliged to sell Further Mortgage Portfolios if, in the Seller's opinion, it would adversely affect the business of the Seller.

No Further Mortgage Loans will be sold by the Seller to the Issuer from and including the Revolving Period End Date.

#### ***Further Advances and Product Switches***

The Seller shall be solely responsible for funding all future Further Advances in respect of Mortgage Loans constituting the Mortgage Portfolio. As used in this Prospectus, "**Initial Advance**" means all amounts advanced by the Seller to a Borrower under a Mortgage Loan other than a Further Advance. Subject to the satisfaction of certain conditions described generally below, the Issuer will acquire Further Advances.

**Further Advances:** During the Revolving Period, the Issuer shall purchase Further Advances from the Seller on the date that the relevant Further Advance is advanced to the relevant Borrowers by the Seller (the "**Further Advance Date**"). The initial consideration in respect of any Further Advance will be an amount equal to the principal amount of the relevant Further Advance (the "**Further Advance Purchase Price**"). On the Business Day following the Further Advance Date, the Seller will deduct the Further Advance Purchase Price from principal repayments received from Borrowers under the Mortgage Loans ("**Principal Collections**"), before such Principal Collections are transferred to the Transaction Account of the Issuer. To the extent that the available Principal Collections are insufficient to pay the Further Advance Purchase Price which is due on the Business Day following the Further Advance Date, the shortfall will be paid from available Principal Collections on the next or subsequent Business Days, as required.

Neither the Seller nor the Servicer (as applicable) shall be permitted to issue any offer for a Further Advance to any Borrower with a Mortgage Loan which is delinquent or which is in default (subject to limited case by case exceptions as would be acceptable to a Reasonable, Prudent Mortgage Lender).

**Product Switches:** The Seller (or the Servicer on behalf of the Seller) may offer a Borrower (and the Borrower may accept), or a Borrower may request, a Product Switch.

A Mortgage Loan will be subject to a "**Product Switch**" if the Borrower and the Seller (or the Servicer on behalf of the Seller) agree on, or the Servicer sends an offer of, a variation in the financial terms and conditions applicable to the relevant Borrower's Mortgage Loan other than any variation:

- (a) agreed with a Borrower to control or manage arrears on the Mortgage Loan;
- (b) imposed by statute;
- (c) in the maturity date of the Mortgage Loan unless the maturity date would be extended to a date later than December 2061 in which case such variation will constitute a Product Switch.

During the Product Switch Period, any Mortgage Loan which has been subject to a Product Switch will remain in the Mortgage Portfolio on the date that the Product Switch is made (the "**Switch Date**") if it complies with the applicable Loan Warranties and Replenishment Criteria as tested on the Calculation Date following the Monthly Period in which the Switch Date occurs) (an "**Eligible Product Switch**").

An "**Ineligible Product Switch**" is a Product Switch that is not an Eligible Product Switch.

#### **Completion of Transfer of the Mortgage Loans (Perfection)**

The completion of the legal transfer or conveyance of the Mortgage Loans and their Related Security (and where appropriate their registration) to the Issuer is, save in the limited circumstances referred to below, deferred. Legal title to the Mortgage Loans and Related Security therefore remains with the Seller. Notice of the sale of the Mortgage Loans and their Related Security to the Issuer will not (except as stated below) be given to any Borrower.

Perfection of title and legal assignment to the Issuer will be completed on or before the thirtieth Business Day after the occurrence of any of the following events:

- (a) the Seller being required to perfect the Issuer's legal title to the Mortgage Loans, or to procure any or all of the acts referred to in these paragraphs (a) to (e) by an order of a court of competent jurisdiction or by any regulatory authority of which the Seller is a member or any organisation whose members comprise (but are not necessarily limited to) mortgage lenders and with whose instructions it is customary for the Seller to comply;  
or
- (b) it becoming necessary by law to make the notifications or registrations referred to in these paragraphs (a) to (e);  
or

- (c) unless otherwise agreed in writing by the Rating Agencies and the Security Trustee and provided that the then current ratings of the Notes will not be adversely affected, the termination of the Seller's role as Servicer under the Servicing Agreement; or
- (d) the Seller calling for perfection by serving notice in writing to that effect on the Issuer and the Security Trustee; or
- (e) an Insolvency Event in respect of the Seller;
- (f) a Servicer Termination Event,

each of (a) to (f) above, a "**Perfection Event**".

On the occurrence of a Perfection Event, the Issuer shall send written notice to each Borrower informing such Borrower of, *inter alia*, the interests of the Issuer in the relevant Mortgage Loan and its Related Security pursuant to the Mortgage Sale Agreement.

On the occurrence of a Perfection Event, the Issuer may direct that legal title to the Mortgage Loans is transferred to a nominee of the Issuer, rather than the Issuer itself. In such circumstances, any notice to Borrowers as described above will refer to such nominee rather than (or in addition to) the Issuer.

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

### **Undertakings**

Pursuant to the terms of the Mortgage Sale Agreement, the Issuer has undertaken to the Seller and the Security Trustee that it will at all times (or will direct the Servicer at all times to) use reasonable endeavours to administer and enforce (and exercise its powers and rights and perform its obligations under) the relevant Mortgage Loans comprised in the Mortgage Portfolio and their Related Security in accordance with the Seller's Policy (for so long as it exists and thereafter in accordance with such policies as would be applied by a Reasonable, Prudent Mortgage Lender in the conduct of its business), provided that the Issuer or the Servicer on its behalf shall be entitled to waive any Early Repayment Charge in respect of any relevant Mortgage Loan and its Related Security if, in the Servicer's reasonable opinion, such waiver is reasonably necessary in order to effect an interest rate change.

Pursuant to the terms of the Mortgage Sale Agreement, the Seller has undertaken to the Issuer and the Security Trustee that if a Borrower exercises a right of set-off in relation to Mortgage Loans constituting part of the Portfolio:

- (a) as a result of any act or omission of the Seller at any time; or
- (b) in relation to any debt or other monies owing by the Seller to the Borrower,

so that the amount of principal and/or interest owing under a Mortgage Loan is reduced but no corresponding amount is received by the Issuer, then the Seller will reimburse the Issuer for any such reduction.

The Seller has also undertaken to the Issuer and the Security Trustee that, pending perfection of the assignment of the Mortgage Loans, (among other things) it:

- (a) shall not do or omit to do any act or thing which might prejudice the interests of the Issuer and/or the Security Trustee in the Mortgage Portfolio;
- (b) shall promptly notify the Issuer and the Security Trustee in writing if it receives written notice of any litigation or claim calling into question in any material way the Seller's or the Issuer's title to any relevant Mortgage Loan comprised in the Mortgage Portfolio or its Related Security; and

- (c) shall, if reasonably required to do so by the Issuer or the Security Trustee, participate or join in any legal proceedings to the extent necessary to protect, preserve and enforce the Seller's or the Issuer's title to or interest in any relevant Mortgage Loan or its Related Security.

### **Representations and Warranties**

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

The Seller has represented and warranted (or, as the case may be, will represent and warrant) to the Issuer in the Mortgage Sale Agreement in the form of Loan Warranties (as defined below):

- (a) in relation to each Mortgage Loan and its Related Security in the Initial Mortgage Portfolio as at the Closing Date (excluding the Loan Warranties set out in paragraph 8 (Further Advances and Product Switches) of the Loan Warranties listed below);
- (b) in relation to each Further Mortgage Loan and its Related Security in each Further Mortgage Portfolio, as at the relevant Further Sale Date, as if references in the Loan Warranties to the "Mortgage Loan" included the relevant Further Mortgage Loan (without prejudice to any of those Loan Warranties explicitly stated to not apply to Further Mortgage Loans) (but excluding the Loan Warranties set out in paragraph 8 (Further Advances and Product Switches) of the Loan Warranties listed below);
- (c) in relation to any Further Advance, as at the relevant Calculation Date following the Further Advance Date, as if references in the Loan Warranties listed below to the "Mortgage Loan" and to "Further Mortgage Loan" include the relevant Mortgage Loan subject to a Further Advance (each such Mortgage Loan together with the Further Advance the **Further Advance Increased Mortgage Loan**) and as if references to "Further Sale Date" are to the Calculation Date following the Further Advance Date, but without prejudice to the matters stated not to apply to Further Advances in the Loan Warranties listed below (but including the Loan Warranties set out in paragraph 8 (Further Advances and Product Switches)); and
- (d) in relation to each Mortgage Loan which is subject to a Product Switch, as at the Calculation Date following the relevant Switch Date as if references in the Loan Warranties to the "Mortgage Loan" and to "Further Mortgage Loans" are to the relevant Mortgage Loan subject to a Product Switch, and as if references to "Further Sale Date" are to the Calculation Date following the Switch Date (including the Mortgage Loan Warranties set out in paragraph 8 (Further Advances and Product Switches) of the Loan Warranties listed below).

In respect of the sale of any Further Mortgage Loans or Further Advances to the Issuer or any Mortgage Loan subject to a Product Switch which remains in the Mortgage Portfolio, the Seller further warrants to the Issuer and the Security Trustee that the Replenishment Criteria will be satisfied on the Calculation Date immediately following the Monthly Period in which the relevant Further Sale Date, Further Advance Date or Switch Date occurred, by reference to the facts existing at the end of the Monthly Period in which the relevant Further Sale Date, Further Advance Date or Switch Date.

The "**Loan Warranties**" are that:

#### **1. Mortgage Loans**

- (a) In respect of any sale of the Further Mortgage Loans, the particulars of the Mortgage Loans set out in any Further Mortgage Portfolio Notice are true, complete and accurate in all material respects.
- (b) Each Mortgage Loan was originated by the Seller under the Halifax brand.

- (c) Each Mortgage Loan is denominated in pounds sterling.
- (d) Each Mortgage Loan and its Related Security was originated after 31 March 2014.
- (e) The final maturity date of each Mortgage Loan is no later than December 2061.
- (f) No Mortgage Loan has or will have a Current Balance of more than £1,200 000.
- (g) No Mortgage Loan had an LTV Ratio (including capitalised fees) in excess of 97 per cent. as at the date of origination.
- (h) Prior to the making of each Initial Advance and Further Advance under a Mortgage Loan, the Lending Criteria and all preconditions to the making of any Mortgage Loan were satisfied in all material respects subject only to such exceptions as made on a case by case basis as would be acceptable to a reasonably prudent prime residential mortgage lender lending to borrowers in England and Wales who generally satisfy the lending criteria of traditional sources of residential mortgage capital (a "**Reasonable, Prudent Mortgage Lender**").
- (i)
  - (i) 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, lessen, modify or otherwise vary the express provisions of any of the same in any material respect.
  - (ii) The brochures, application forms, offers, offer conditions and marketing material distributed by the Seller to the Borrower when offering a Mortgage Loan to a Borrower:
    - (A) do not conflict in any material respect with the terms applicable to the relevant Mortgage Loan and its Related Security at the time that the Mortgage Loan was entered into; and
    - (B) do not conflict with and would not prohibit or otherwise limit the terms of, the Transaction Documents or the matters contemplated thereby, including for the avoidance of doubt and without limitation:
      - I. the assignment of the Mortgage Loans and their Related Security to the Issuer;
      - II. the administration of the Mortgage Loans and their Related Security by the Servicer or a delegate or sub-contractor of the Servicer or (for as long as the Seller and the Servicer are the same legal entity) the appointment of a new Servicer following the occurrence of an Insolvency Event in relation to the Seller; and
      - III. so far as the Seller is aware to the best of its knowledge, information and belief, the ability of the Issuer or the Security Trustee to set the variable rate payable under any Variable Base Rate Loan independently of (and without regard to the level of) the Seller's standard variable rate of interest subject to any applicable cap on that variable rate which is not itself linked to any rate set by the Seller.
  - (iii) There is no restriction on the Seller's successors and assigns and assignees to the legal title of the Mortgage Loans right to set the variable rate payable under any Variable Base Rate Loan independently of (and without regard to the level of) the Seller's standard variable rate of interest, subject to any applicable cap on that variable rate which is not itself linked to any rate set by the Seller (subject to complying with the obligations under the Standard Documentation as to changes in interest rates generally and so that in particular the successors will not be able to change the interest rate following a transfer of legal title unless the reasons for changing the interest rate set out in the Standard Documentation apply).

- (j) The Seller is under no obligation to make Further Advances or to pay fees or other sums relating to any Mortgage Loan or its Related Security to any Borrower.
- (k) No Mortgage Loan has been made to a Borrower who is an employee of the Seller.
- (l) Each Borrower has made at least two monthly payments in respect of its Mortgage Loan.
- (m) Other than with respect to monthly interest payments or as provided in paragraph (n) below, so far as the Seller is aware no Borrower is or has, since the date of the relevant Mortgage, been in material breach of any obligation owed in respect of the relevant Mortgage Loan or under the Related Security and accordingly no steps have been taken by the Seller to enforce any Related Security.
- (n) To the best of the Seller's knowledge no Borrower has been declared insolvent or had a court grant his creditors a final non-appealable right of enforcement or material damages as a result of a missed payment within three years prior to the date of origination of the relevant Mortgage Loan or has undergone a debt-restructuring process with regard to his non-performing exposures within three years prior to the Closing or Further Sale Date (as applicable).
- (o) The total amount of arrears on any Mortgage Loan is not on the Closing Date or the Further Sale Date (as applicable) in respect of any Mortgage Loan, more than the amount of the Monthly Payment then due.
- (p) No Mortgage Loan is guaranteed by a third party save where the guarantee constitutes legal, valid and binding obligations of the guarantor enforceable in accordance with their terms.
- (q) Interest on each Mortgage Loan is charged in accordance with the Standard Documentation.
- (r) Interest on each Mortgage Loan is payable monthly in arrears.
- (s) Each Mortgage Loan and its Related Security is valid, binding and enforceable in accordance with its terms and is non-cancellable:
  - (i) except in relation to any term in any Mortgage Loan or in its Related Security, in each case which is not binding by virtue of the UTCCR; and
  - (ii) except in relation to any amount advanced under any Further Advance, in each case which is not enforceable by virtue of the CCA.
- (t) So far as the Seller is aware, none of the terms in any Mortgage Loan or in its Related Security is not binding by virtue of its either (a) being unfair within the meaning of the UTCCR or (b) not being compliant with the terms of the CCA. In this paragraph (t) and paragraph (s) above, reference to any legislation shall be construed as a reference to that legislation as amended, extended or re-enacted from time to time.
- (u) All of the Borrowers are individuals and were aged 18 years or older at the date of execution of the relevant Mortgage.
- (v) No Mortgage Loan is a Second Home Loan.
- (w) Each Mortgage Loan in the Mortgage Portfolio is either:
  - (i) a Variable Base Rate Loan, Tracker Rate Loan or Fixed Rate Loan; or
  - (ii) a New Loan Product which each of the Rating Agencies has confirmed in writing may be included in the Further Mortgage Loans to be sold into the Further Mortgage Portfolio.
- (x) No Mortgage Loan is an Equity Release Mortgage Loan.

- (y) No Mortgage Loan is a Buy to Let Loan.
- (z) No Mortgage Loan is a Help to Buy Loan.

## **2. Mortgages**

- (a) The whole of the Current Balance on each Mortgage Loan and any Arrears of Interest and all Accrued Interest is secured by a Mortgage.
- (b) Each Mortgage is in the form of the relevant pro forma contained in the Standard Documentation which was applicable at the time the Mortgage was executed.
- (c) Each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage over the relevant Property subject only in certain appropriate cases to applications for registration at the Land Registry which where requisite have been made and are pending and (in relation to such cases) the Seller is not aware of any caution, notice, inhibition or any other matter that would prevent such registration.
- (d) Each Mortgage has first priority for the whole of the Current Balance on the Mortgage Loan and all Arrears of Interest and Accrued Interest thereon and all future interest, fees, costs and expenses payable under or in respect of such Mortgage.
- (e) Each Mortgage Loan has been originated and administered in all material respects in accordance with all applicable laws and regulations, including without limitation the FCA's rules in MCOB.
- (f) Each Mortgage in respect of a RTB Loan was made to a Borrower for the purposes of exercising the right-to-buy or for another approved purpose (save where a deed of postponement has been entered into by the relevant landlord) and has (or the Seller has the evidence necessary to ensure that the relevant Mortgage will have) priority over any statutory charge or standard security granted in favour of the relevant landlord save in cases where the Mortgage is originated at a time where there is no more than one year remaining of the RTB Disposal Period or where adequate insurance is in place.
- (g) Each intermediary who has introduced a Mortgage Loan to the Seller was, at the time of the relevant introduction and insofar as required, authorised by the FCA.

## **3. The Properties**

- (a) All of the Properties are in England or Wales.
- (b) Each Property constitutes a separate dwelling unit (subject to limited case by case exceptions) and is either freehold or leasehold.
- (c) Save for children of Borrowers and children of someone living with the Borrower, every person who, at the date upon which any Mortgage was granted, had attained the age of eighteen and was in or about to be in actual occupation of the relevant Property, is either named as a Borrower or has signed a Deed of Consent in the form of the pro forma contained in the Standard Documentation which was applicable at the time the Mortgage was executed.
- (d) No Property has been let otherwise than by way of:
  - (i) an assured shorthold tenancy which meets the requirements of Section 19A or Section 20 of the Housing Act 1988; or
  - (ii) an assured tenancy;

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

- (e) No Property is the subject of a shared ownership lease arrangement or staircase purchasing arrangement.

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

- (a) Not more than twelve months (or a longer period as may be acceptable to a Reasonable, Prudent Mortgage Lender) prior to the grant of each Mortgage, the Seller received a Valuation Report on the relevant Property (or such other form of report concerning the valuation of the relevant Property as would be acceptable to a Reasonable, Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender.
- (b) Prior to the taking of each Mortgage (other than a remortgage), the Seller:
  - (i) instructed its solicitor or licensed conveyancer to carry out an investigation of title to the relevant Property and to undertake such other searches, investigation, enquiries and other actions on behalf of the Seller in accordance with the instructions which the Seller issued to the relevant solicitor or licensed conveyancer as are set out in the CML's Lenders' Handbook for England and Wales in relation to the Mortgages (or such comparable, predecessor or successor instructions and/or guidelines as may for the time being be in place), subject only to such variations made as would be acceptable to a Reasonable, Prudent Mortgage Lender; or
  - (ii) received a Certificate of Title from such solicitor or licensed conveyancer relating to such Property, the contents of which would have been acceptable to a Reasonable, Prudent Mortgage Lender at that time.

#### **5. Building insurance**

The Standard Documentation requires each Property to be insured under:

- (i) an Insurance Policy arranged by the Borrower in accordance with the relevant Mortgage Conditions; or
- (ii) an Insurance Policy arranged by the relevant landlord.

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

- (a) The Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits agreed to be sold and/or assigned by the Seller to the Issuer pursuant to the Mortgage Sale Agreement free and clear of all security interests, claims and equities (including, without limitation, rights of set-off or counterclaim);
- (b) All steps necessary to perfect the Seller's title to the Mortgage Loans and the Related Security were duly taken at the appropriate time or are in the process of being taken, in each case (where relevant) within any applicable priority periods or time limits for registration with all due diligence and without undue delay.
- (c) Neither the entry by the Seller into the Mortgage Sale Agreement nor any transfer, assignment, assignation or creation of trust contemplated by the Mortgage Sale Agreement affects or will adversely affect any of the Mortgage Loans and their Related Security and the Seller may freely assign and enter into trust arrangements in respect of all its rights, title, interests and benefits therein as contemplated in the Mortgage Sale Agreement without breaching any term or condition applying to any of them;



- (d) The Seller has not knowingly waived or acquiesced in any breach of any of its rights in respect of a Mortgage Loan or its Related Security, other than waivers and acquiescence such as a Reasonable, Prudent Mortgage Lender might make on a case by case basis.

## **7. General**

- (a) The Seller has, since the making of each Mortgage Loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all transactions, payments, receipts, proceedings and notices relating to such Mortgage Loan.
- (b) Neither the Seller nor as far as the Seller is aware any of its agents has received written notice of any litigation, claim, dispute or complaint (in each case, subsisting, threatened or pending) in respect of any Borrower, Property, Mortgage Loan, Related Security or Insurance Policy which is reasonably likely to be adversely determined and if so adversely determined would be reasonably expected to have a material adverse effect on the Mortgage Portfolio or any part of it.
- (c) The Seller has received from each Borrower a variable direct debit instruction in favour of the Seller signed by the relevant Borrower and addressed to its bank, variable as to the amount payable by such Borrower by unilateral notice given from time to time by the Seller to such Borrower's bank without further instruction or consent from such Borrower or such other method of payment as may be acceptable to a Reasonable, Prudent Mortgage Lender.
- (d) There are no authorisations, permissions, approvals, licences or consents required as appropriate for the Seller to enter into or to perform the obligations under the Mortgage Sale Agreement or to render Mortgage Sale Agreement legal, valid, binding, enforceable and admissible in evidence.

## **8. Further Advances and Product Switches**

- (a) The Further Advance is secured by a Mortgage constituting a valid and subsisting first charge by way of legal mortgage, mortgage or charge over the relevant Property, subject only (in appropriate cases) to registration or recording at the Land Registry.
- (b) There is no Insolvency Event in respect of the Seller continuing as at the relevant Further Advance Date.
- (c) The Product Switch will be effected by such means as would be adopted by the Seller, for the purpose of ensuring the validity and priority of the Mortgage Loan, were such switch in respect of a loan advanced by the Seller which is not part of the Mortgage Portfolio;
- (d) The Product Switch will be similar to switches offered to the Seller's mortgage borrowers whose mortgages do not form part of the Mortgage Portfolio.

### ***Replenishment Criteria:***

The following replenishment criteria (the "**Replenishment Criteria**") will apply to the sale of any Further Mortgage Loans or Further Advance Increased Mortgage Loans to the Issuer and to any Mortgage Loan subject to a Product Switch which remains in the Mortgage Portfolio, as tested on the Calculation Date immediately following the Monthly Period in which the relevant Further Sale Date, Further Advance Date or Switch Date occurred, by reference to the facts existing at the end of the Monthly Period in which in which the relevant Further Sale Date, Further Advance Date or Switch Date occurred:

- (a) following the addition of the Further Mortgage Loans or, as applicable, the Further Advances to the Mortgage Portfolio or following the occurrence of any Product Switch, the weighted average Current LTV Ratio (including capitalised fees) of all Mortgage Loans in the Mortgage Portfolio will not exceed 80 per cent.;

- (b) following the addition of the Further Mortgage Loans or, as applicable, the Further Advances to the Mortgage Portfolio or following the occurrence of any Product Switch, the aggregate of the outstanding Current Balance of any Mortgage Loan in the Mortgage Portfolio with a Current LTV ratio (including capitalised fees) of more than 90 per cent. will not exceed 12 per cent. of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio;
- (c) the remaining fixed rate period applicable to each Further Mortgage Loan or, as applicable, each Further Advance Increased Mortgage Loans or each Mortgage Loan subject to a Product Switch that is a Fixed Rate Loan will not be longer than 5 years and 6 months;
- (d) following the addition of the Further Mortgage Loans or, as applicable, the Further Advances to the Mortgage Portfolio or following the occurrence of any Product Switch, the aggregate of the outstanding Current Balance of any Mortgage Loan in the Mortgage Portfolio which has a Tracker Rate of interest will not exceed 10 per cent. of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio;
- (e) following the addition of the Further Mortgage Loans or, as applicable, the Further Advances to the Mortgage Portfolio or following the occurrence of any Product Switch, the weighted average interest rate applicable to the Current Balance of all Tracker Rate Loans is not less than (i) where the aggregate Current Balance of all Tracker Rate Loans represents less than 3 per cent of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio, the Bank of England base rate or (ii) where the aggregate Current Balance of all Tracker Rate Loans represents 3 per cent or more of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio, the Bank of England base rate plus 0.5 per cent; and
- (f) the minimum rate of interest for a Mortgage Loan that is a Variable Base Rate Loan shall be not less than the Bank of England base rate plus 2.75 per cent.

If any of the Replenishment Criteria are breached in respect of a Further Mortgage Loan or, Further Advance Increased Mortgage Loan or a Mortgage Loan subject to a Product Switch which remains in the Mortgage Portfolio, as at the relevant Calculation Date, the Seller will be required to remedy the breach within 90 days of being notified by the Issuer, failing which such Mortgage Loan and its Related Security will be repurchased by the Seller in accordance with the provisions of the Mortgage Sale Agreement. (See "*Repurchase by the Seller*" below for more details.)

### ***Repurchase by the Seller***

The Seller will be required to repurchase any Mortgage Loan and its Related Security sold pursuant to the Mortgage Sale Agreement in the following circumstances:

- (a) *Breach of Loan Warranties*: In the event that there is a material breach of any of the Loan Warranties or the Replenishment Criteria in respect of any Mortgage Loan and/or its Related Security, any Further Advance Increased Mortgage Loan or Product Switch as at the relevant date the Loans Warranties are made in respect thereof, provided that:
  - (i) the Issuer (or the Servicer on the Issuer's behalf) has given the Seller not less than 90 days' notice in writing (or such shorter period of notice as may be agreed between the Issuer (or the Servicer on the Issuer's behalf) and the Seller); and
  - (ii) such material breach, untruth or non-satisfaction, where capable of remedy, is not remedied to the reasonable satisfaction of the Issuer within the 90 day period referred to in paragraph (a) above (or such longer period as may be agreed between the Issuer and the Seller),

then the Servicer (on behalf of the Issuer) will be obliged to serve upon the Seller a notice requiring the Seller to repurchase the relevant Mortgage Loan and its Related Security (and any other Mortgage Loan secured or intended to be secured by that Related Security or any part of it) in accordance with the terms of the Mortgage Sale Agreement. Completion of such repurchase shall take place within fifteen days after receipt by the Seller

of such notice when the Seller shall pay to the Transaction Account (or as the Issuer shall direct) an amount equal to the aggregate Repurchase Price.

- (b) Prior to the occurrence of a Perfection Event or an Event of Default, the Seller may also at any time, offer to repurchase a Mortgage Loan and its Related Security from the Issuer and the Issuer may at its absolute discretion accept such offer. However, if the Issuer intends to use the proceeds of such a sale of Mortgage Loans and their Related Security to redeem all, or any sub-class, of the Notes, then the Issuer's (or the Servicer acting on its behalf) acceptance of such an offer shall be subject to its compliance with Condition 7.3 (*Optional Redemption*) or Condition 7.4 (*Optional redemption for taxation or other reasons*) of the Conditions.
- (c) On and from the Revolving Period End Date, if the Seller elects to make a Further Advance to a Borrower, the Servicer (on behalf of the Issuer) shall serve upon the Seller a notice requiring the Seller to repurchase the relevant Mortgage Loan and its Related Security (and any other Mortgage Loan secured or intended to be secured by that Related Security or any part of it) to which the proposed Further Advance relates.
- (d) On and from the Optional Call Date, if the Seller agrees, or a Borrower is entitled, to a Product Switch, the Servicer (on behalf of the Issuer) shall serve upon the Seller a notice requiring the Seller to repurchase the relevant Mortgage Loan and its Related Security (and any other Mortgage Loan secured or intended to be secured by that Related Security or any part of it) to which the proposed Product Switch relates.
- (e) Prior to the occurrence of a Perfection Event or an Event of Default, the Seller may at any time, offer to repurchase one or more De Minimis Mortgage Loans and their Related Security from the Issuer.

**Repurchase Price** means the Current Balance of the Mortgage Loan(s) determined as at the relevant repurchase date together with any Accrued Amounts thereon.

#### **Governing Law**

The Mortgage Sale Agreement is governed by English law.

## **Servicing Agreement**

On the Closing Date, Bank of Scotland (in such capacity, the "**Servicer**") will be appointed as servicer under the Servicing Agreement to service the Mortgage Loans and perform related duties (the "**Loan Services**"). In connection with the provision of the Loan Services, the Servicer has covenanted to conduct its business so as to:

- (a) service the Mortgage Loans and their Related Security as if the same had not been sold to the Issuer but remained on the BoS Mortgage Book;
- (b) service all loans on the with the same level of skill, care and diligence as would a Reasonable, Prudent Mortgage Lender;
- (c) keep in force all licences, approvals, authorisations, permissions and consents which may be necessary in connection with the performance of the Services, and prepare and submit on a timely basis all necessary applications and requests for any further licence, approval, authorisation, permission, registration or consent required in connection with the performance of the Services in particular any necessary registrations under the Data Protection Laws and any authorisation and permissions under the FSMA;
- (d) not knowingly fail to comply with any material legal requirements in the performance of the Services including, without limitation, any rules of MCOB or otherwise;
- (e) 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;
- (f) notify the Issuer, the Seller and the Security Trustee in writing of any matter which gives rise to an obligation of the Seller to repurchase any Mortgage Loan pursuant to the Mortgage Sale Agreement or which is otherwise a breach of the undertakings in the Mortgage Sale Agreement and, in such notice, to set out whether, in its opinion, the breach is capable of remedy and, if it is expressed to be capable of remedy, any proposals for remedying such breach (which proposals shall be subject to prior written approval by the Issuer and (following the delivery of an Enforcement Notice) the Security Trustee prior to their implementation); and
- (g) set the Variable Base Rate as further described below.

### **Collection of Payments**

The Servicer is responsible for procuring that all payments attributable to the Mortgage Loans, received during banking hours on any particular day, are credited to the Collection Account on the Business Day following such day of receipt. All payments are made by Borrowers by way of DDR except where the Seller has specifically agreed another form of payment with the individual Borrower.

Except for Principal Collections applied to pay the Further Advance Purchase Price due to the Seller, amounts held in the Collection Account will be transferred into the Transaction Account on a regular basis and in any event in the case of direct debits no later than the next Business Day after they are deposited in the Collection Account.

All Principal Receipts and Revenue Receipts received from Borrowers which should be paid into the Collection Account (as applicable) but which are credited in error to an account of the Seller will be held on trust, express or implied, by the Seller for the Issuer and transferred to the Collection Account (as applicable) by the Seller as soon as reasonably practicable and in any event within three Business Days after receipt of the same.

## Interest Rates

Except in the limited circumstances set out below, the Servicer will determine and set the variable base rates in relation to the Mortgage Loans constituting the Mortgage Portfolio (the "**Variable Base Rates**") on behalf of the Issuer as if such Mortgage Loans and their Related Security had not been transferred to the Issuer and accordingly remained on the BoS Mortgage Book. Interest is calculated on the amount owing by a Borrower (including but not limited to, capitalised and accrued interest) and is adjusted to take account of capital repayments.

The Servicer will undertake to each of the other parties to the Servicing Agreement that it will not at any time, without the prior consent of the issuer set or maintain the Variable Base Rates at rates which are higher than (although they may be lower than or equal to) the then prevailing Bank of Scotland variable base rate which apply to loans beneficially owned by the Seller outside the Mortgage Portfolio. If the Servicer sets the Variable Base Rate at a rate which is lower than that of the competitors of the Seller, such rate setting will be deemed to be in accordance with the standards of a Reasonable, Prudent Mortgage Lender.

On each Calculation Date, if the amounts standing to the credit of the General Reserve Fund is below the General Reserve Required Amount, the Servicer will determine, having regard to the aggregate of:

- (a) the income which the Issuer would expect to receive during the Interest Period in which that Calculation Date falls;
- (b) the Variable Base Rate which the Servicer proposes to set under the Servicing Agreement; and
- (c) the other resources available to the Issuer, including the Swap Agreement and the General Reserve Fund,

whether the Issuer would receive an amount of revenue during that Interest Period which is less than the amount which is the aggregate of the amount of interest which will be payable in respect of the Class A Notes on the Interest Payment Date following the end of that Interest Period and amounts which rank in priority thereto under the Priority of Payments (the amount by which it is less being the "**Shortfall**").

If the Servicer determines that there would be a Shortfall, it will give written notice to the Issuer and the Security Trustee, within one Business Day of such determination of the amount of the Shortfall and the Variable Base Rate which would (taking into account the applicable Mortgage Conditions), in the Servicer's reasonable opinion, need to be set in order for no Shortfall to arise, having regard to the date(s) on which the change to the Variable Base Rate would take effect and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender.

If the Issuer notifies the Servicer (with a copy to the Security Trustee) that, having regard to the obligations of the Issuer, the Variable Base Rate should be increased, then the Servicer will take all steps which are necessary to increase the Variable Base Rate including publishing any notice which is required in accordance with the Mortgage Conditions.

The Issuer (prior to the delivery of an Enforcement Notice and with the prior written consent of the Security Trustee) and (following the delivery of an Enforcement Notice), the Security Trustee may terminate the authority of the Servicer under the Servicing Agreement to determine and set the Variable Base on or after the occurrence of a Perfection Event, in which case the Issuer shall set the Variable Base Rate itself in accordance with the Servicing Agreement.

Interest on the Fixed Rate Loans will continue to be paid at the relevant fixed rate until the expiry of the final relevant fixed rate Product Period in accordance with the relevant Offer Conditions. Following the expiry of the final fixed rate Product Period, interest will be payable by the Borrower at either (i) some other interest rate type for a predetermined period; or (ii) the Variable Base Rate.

## Notification

The Servicer will take all steps rendered necessary by the Mortgage Conditions and Offer Conditions to bring to the attention of the Borrowers any change in the interest rates applicable to the Mortgage Loans, whether due to a change in the Variable Base Rate or as a consequence of any provisions of the Mortgage Conditions or Offer Conditions.

### *Remuneration of the Servicer*

The Servicing Agreement makes provision for payments to be made to the Servicer. The Issuer will pay to the Servicer a servicing fee (inclusive of value added tax) of 0.05 per cent. per annum in respect of the provision of the Loan Services on the aggregate Current Balance of all Mortgage Loans in the Mortgage Portfolio as at the first day of the Monthly Period or, in respect of the first payment, the Closing Date. The fee is payable monthly in arrears on each Interest Payment Date in the manner contemplated by and in accordance with the Pre-Enforcement Revenue Priority of Payments or, as the case may be, the Post-Enforcement Priority of Payments.

### *Termination of Appointment of the Servicer*

If any of the following events (each a "**Servicer Termination Event**") shall occur:

- (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 the Servicer receiving written notice of such default from the Issuer, the Seller or (after the delivery of an Enforcement Notice) the Security Trustee requiring the default to be remedied; or
- (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 in the opinion of the Note Trustee as notified to the Security Trustee is materially prejudicial to the interests of the Noteholders (which determinations shall be conclusive and binding on all other Secured Creditors) and such default continues unremedied for a period of 20 Business Days after becoming aware of such default provided however that where the relevant default occurs as a result of a default by any person to whom the Servicer has sub-contracted or delegated part of its obligations hereunder, such default shall not constitute a Servicer Termination Event if, within such period of ten (10) Business Days of receipt of such notice from the Issuer or the Security Trustee, the Servicer terminates the relevant sub-contracting or delegation arrangements and takes such steps as the Issuer and/or (as the case may be) the Security Trustee may in their absolute discretion specify to remedy such default or to indemnify Issuer and/or the Security Trustee against the consequences of such default;
- (c) material breach of representation by the Servicer which continues unremedied for twenty (20) Business Days and which in the opinion of the Note Trustee as notified to the Security Trustee is materially prejudicial to Noteholders; or
- (d) an Insolvency Event occurs in relation to the Servicer,

then the Issuer (prior to the delivery of the Enforcement Notice) with the written consent of the Security Trustee, or the Security Trustee itself (after delivery of an Enforcement Notice) (in the case of (a), (b) or (d)) may, at once or at any time thereafter while such default continues, and (in the case of (c)) shall, at once, by notice in writing to the Servicer and the Rating Agencies terminate the Servicer's appointment as a Servicer under the Servicing Agreement with effect from a date (not earlier than the date of the notice) specified in the notice. Upon termination of the appointment of the Servicer, the Issuer and the Seller shall use their reasonable endeavours to appoint a substitute servicer that satisfies the following conditions (i) it holds all licences, approvals, authorisations, permissions and consents required in connection with the provision of the Services, (ii) it has experience of servicing mortgages of residential property in the United Kingdom and the identity thereof is approved by the Security Trustee; (iii) it enters into an agreement substantially on the same terms as the Servicing Agreement; and (iv) (if the Class A Notes remain outstanding) its identity and the terms of the replacement servicing agreement have been notified to the Rating Agencies in advance of

the appointment of the substitute servicer, and the Issuer is satisfied, by way of receipt of a Rating Agency Confirmation, or the Issuer acting reasonably is satisfied, that Condition 18(a) has occurred and the condition in Condition 18(b) is fulfilled, that the appointment of such substitute servicer would not cause the then current ratings of the Class A Notes to be adversely affected (unless otherwise agreed by the Class A Noteholders by an Extraordinary Resolution).

Subject to the fulfilment of a number of conditions (including the prior appointment of a substitute servicer which satisfies the conditions set out above), the Servicer may voluntarily resign by giving not less than 12 months' notice to the Issuer, the Security Trustee and the Seller.

If the appointment of the Servicer is terminated, the Servicer must deliver Customer Files, any Title Information Documents, all books of account, papers, records, registers, correspondence and documents in its possession or under its control relating to the Mortgage Loans to, or at the direction of, the Issuer or (after the delivery of an Enforcement Notice) the Security Trustee. The Servicing Agreement will terminate when the Issuer ceases to have any interest in the Mortgage Portfolio.

### ***Right of Delegation by the Servicer***

The Servicer may sub-contract or delegate the performance of all or any of its powers and obligations under the Servicing Agreement, provided that such sub-contracting or delegation would not prevent such Servicer, the Issuer or the Security Trustee from complying in all material respects with any law, statute, judgement, decree, order, licence, authorisation or rule and provided further, including that:

- (a) prior written notification of the proposed arrangement has been given to the Issuer, the Security Trustee and each of the Rating Agencies by the Servicer;
- (b) where the arrangement involves the custody or control of any Customer Files and/or Title Information Documents (if any) relating to the relevant Mortgage Loans and their Related Security in the Mortgage Portfolio, for the purpose of performing any delegated Loan Services the subcontractor or delegate has executed a written acknowledgement in form and substance acceptable to the Issuer and (after the delivery of an Enforcement Notice) the Security Trustee to the effect that any such Customer Files and/or Title Information Documents are and will be held to the order of the Issuer or (after the delivery of an Enforcement Notice) the Security Trustee;
- (c) where the arrangement involves or may involve the receipt by the sub-contractor or delegate of monies belonging to the Issuer which, in accordance with the Servicing Agreement or any other Transaction Document, are to be paid into the Collection Account, the Transaction Account or any Additional Account as the case may be, the sub-contractor or delegate has executed a declaration in form and substance acceptable to the Issuer that any such monies held by it or to its order are held on trust for the Issuer and will be paid forthwith into the Collection Account, the Transaction Account or the relevant Additional Account, as the case may be, in accordance with the terms of the Servicing Agreement and any other applicable Transaction Documents;
- (d) any such sub-contractor or delegate has executed a written waiver of any Security Interest arising in connection with such delegated Loan Services (to the extent that such Security Interest relates to the relevant Mortgage Loans and their Related Security in the Mortgage Portfolio or any amount referred to in the immediately preceding paragraph);
- (e) it shall be a term of any such arrangement that the sub-contractor or delegate has, and shall maintain, all requisite licences, approvals, authorisations and consents, including without limitation any necessary notifications under the Data Protection Laws, and authorisations and permissions under the FSMA, to enable it to fulfil its obligations under or in connection with any such arrangements;

- (f) neither the Security Trustee nor the Issuer shall have any liability for any costs, charges or expenses payable to or incurred by such sub-contractor or delegate or arising from the entering into, the continuance or the termination of any such arrangement; and
- (g) any such sub-contractor or delegate shall have confirmed to the Servicer, the Issuer and the Security Trustee that it has, and shall maintain, all approvals required for itself in connection with the fulfilment of its obligations under the Servicing Agreement and any agreement with the Servicer.

If the Servicer sub-contracts or delegates the performance of its duties, it will nevertheless remain responsible for the performance of those duties to the Issuer and the Security Trustee. The Servicer may delegate the performance of any of the Services to any member of the Lloyds Banking Group without satisfying the condition described in (a) above.

*Liability of the Servicer*

The Servicer will indemnify the Issuer and the Security Trustee on demand on an after-Tax basis against all losses, liabilities, claims, expenses or damages suffered or incurred as a result of negligence or wilful default by the Servicer in carrying out its functions under the Servicing Agreement or any other Transaction Document or as a result of a breach of the terms of the Servicing Agreement or the other Transaction Documents in relation to such functions.

*Governing Law*

The Servicing Agreement is governed by English law.



## Deed of Charge

On or about the Closing Date, the Issuer will enter into a deed of charge (the "**Deed of Charge**") with, *inter alios*, the Security Trustee.

### Security

Under the terms of the Deed of Charge, the Issuer will provide the Security Trustee with the benefit of, *inter alia*, the following security (the "**Security**"):

- (a) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's right, title, interest and benefit in and to the Transaction Documents (other than the Note Purchase Agreement, the Trust Deed and the Deed of Charge);
- (b) an assignment by way of security of (and, to the extent not assigned, a charge by way of first fixed charge (which may take effect as a floating charge) over) the Issuer's interest in the Mortgage Loans and their Related Security and other related rights comprised in the Mortgage Portfolio;
- (c) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in its bank accounts maintained with the Account Bank and any sums standing to the credit thereof; and
- (d) a floating charge over all other assets of the Issuer not otherwise subject to a fixed charge.

"**Transaction Documents**" means the Servicing Agreement, the Agency Agreement, the Bank Account Agreement, the Cash Management Agreement, the Corporate Services Agreement, the Deed of Charge (and any documents entered into pursuant to the Deed of Charge), the Swap Agreement, the Holdings Declaration of Trust, the Issuer Power of Attorney, the Master Definitions and Construction Schedule, the Mortgage Sale Agreement, the Seller Power of Attorney, the Subordinated Loan Agreement, the Note Purchase Agreement, the Trust Deed and such other related documents which are referred to in the terms of the above documents or which relate to the issue of the Notes.

Whether a fixed security interest expressed to be created by the Deed of Charge will be upheld as a fixed security interest rather than floating security will depend, among other things, on whether the Security Trustee has the requisite degree of control under the Transaction Documents over the chargor's ability to deal in the relevant assets and the proceeds thereof, and if so, whether such control is exercised by the Security Trustee in practice. Noteholders should assume that there is a floating charge only over the charged assets.

Unlike the fixed charges, the floating charge does not attach to specific assets but instead "floats" over a class of assets which may change from time to time, allowing the Issuer to deal with those assets and to give third parties title to those assets free from any encumbrance in the event of sale, discharge or modification, provided those dealings and transfers of title are in the ordinary course of the Issuer's business. Any assets acquired by the Issuer after the Closing Date (including assets acquired as a result of the disposition of any other assets of the Issuer) will also be subject to the floating charge unless they are subject to the fixed charges mentioned in this section.

The floating charge created by the Deed of Charge allows the Security Trustee to appoint an administrative receiver of the Issuer and thereby prevent the appointment of a servicer of the Issuer by one of the Issuer's other creditors. An appointment of an administrative receiver by the Security Trustee under the Deed of Charge will not be prohibited by Section 72A of the Insolvency Act 1986 as the appointment will fall within the exception set out under Section 72B of the Insolvency Act 1986 (First Exception: Capital Markets). Therefore, in the event that enforcement proceedings are commenced in respect of amounts due and owing by the Issuer, the Security Trustee will be entitled to control those proceedings in the best interests of the Noteholders. However, see "*Risk factors — Changes of law may adversely affect your interests*" relating to the appointment of administrative receivers.

"**Secured Creditors**" means the Security Trustee, the Note Trustee, the Noteholders, the Seller, the Servicer, the Cash Manager, the Swap Provider, the Account Bank, the Subordinated Loan Provider, the Corporate Services Provider, the

Paying Agents, the Registrar, the Agent Bank and any other person who is expressed in any deed supplemental to the Deed of Charge to be a secured creditor.

The interest of the Secured Creditors in property and assets over which there is a floating charge will rank behind the expenses of any administration or liquidator and the claims of certain preferential creditors on enforcement of the Security. Section 250 of the Enterprise Act 2002 abolishes Crown Preference in relation to all insolvencies (and thus reduces the categories of preferential debts that are to be paid in priority to debts due to the holder of a floating charge) but a Section 176A of the Insolvency Act 1986 (as inserted by Section 251 of the Enterprise Act 2002) 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.

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

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

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

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

After the Note Trustee has served an Enforcement Notice on the Issuer pursuant to Condition 10 (*Events of Default*) of the Notes, declaring the Notes to be immediately due and payable, the Security Trustee shall apply the moneys available in accordance with the Post-Enforcement Priority of Payments defined in "*Cashflows — Distributions following the service of an Enforcement Notice*" below.

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

- (a) a sufficient amount would be realised to allow discharge in full of all amounts owing to the Noteholders (and all persons ranking in priority to the Noteholders as set out in the order of priority of payment below); or
- (b) the Security Trustee is of the opinion that the cashflow expected to be received by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Noteholders (and all persons ranking in priority to the Noteholders as set out in the order of priority below), which opinion shall be binding on the Secured Creditors and reached after considering at any time and from time to time the advice of any financial adviser (or such other professional adviser selected by the Security Trustee for the purpose of giving such advice).

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

**Governing Law**

The Deed of Charge is governed by English law.

## Cash Management Agreement

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

### Cash Management Services to be provided to the Issuer

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

- (a) operating the Transaction Account and any Additional Account(s) and ensuring that payments are made into and from such accounts in accordance with the Transaction Documents;
- (b) applying, or causing to be applied, Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments and Available Principal Receipts in accordance with the Pre-Enforcement Principal Priority of Payments;
- (c) if required by the Security Trustee following the delivery of an Enforcement Notice, applying, or causing to be applied, Available Revenue Receipts and Available Principal Receipts in accordance with the Post-Enforcement Priority of Payments;
- (d) during the Revolving Period, on behalf of the Issuer withdrawing funds from the Retained Principal Receipts Ledger on the Transaction Account towards the purchase of any Further Mortgage Loans;
- (e) maintaining the ledgers of the Issuer, as further described below;
- (f) making withdrawals (when necessary) from the Transaction Account to pay any amounts which properly belong to third parties;
- (g) calculating the amount of Available Revenue Receipts and Available Principal Receipts to be applied on the relevant Interest Payment Date; and
- (h) preparing the monthly Investor Report.

### Operation of ledgers

The Cash Manager will maintain the following ledgers (the "**Ledgers**") on behalf of the Issuer::

- (a) the "**Principal Ledger**", which records all Principal Receipts received by the Issuer and the distribution of the Principal Receipts in accordance with the Pre-Enforcement Principal Priority of Payments or the Post-Enforcement Priority of Payments (as applicable);
- (b) the "**Revenue Ledger**", which records all amounts under items (a), (b), (c), (e) and (f) of Available Revenue Receipts received by the Issuer and distribution of Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement Priority of Payments (as applicable);
- (c) the "**General Reserve Fund Ledger**", which records amounts credited to the general reserve fund (the "General Reserve Fund") from part of the proceeds of the Subordinated Loan and from Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments and, as debits, withdrawals from the General Reserve Fund on each Interest Payment Date (see "*Credit Structure — General Reserve Fund*" below);

- (d) the "**Retained Principal Receipts Ledger**", which records as a credit excess Available Principal Receipts (as determined in accordance with the Pre-Enforcement Principal Priority of Payments) on each Interest Payment Date during the Revolving Period and, as debits, withdrawals to be applied towards the payment of any Further Mortgage Loan Initial Consideration to the Seller in respect of a sale of any Further Mortgage Portfolio to the Issuer (see "*Credit Structure — Retained Principal Receipts Ledger*" and "*Cashflows – Available Principal Receipts*" below);
- (e) the "**Principal Deficiency Ledger**", comprising two sub ledgers, which shall record on the Class A Principal Deficiency Sub-Ledger and the Class Z Principal Deficiency Sub-Ledger (as the case may be) (i) as a debit, deficiencies arising from Losses on the Mortgage Portfolio and/or any Principal Addition Amounts and (ii) as a credit, Available Revenue Receipts applied pursuant to paragraphs (g) and (i) of the Pre-Enforcement Revenue Priority of Payments (if any) (which amounts shall, for the avoidance of doubt, thereupon be applied as Available Principal Receipts); and
- (f) the "**Issuer Profit Ledger**", which shall record (i) as a credit, the Issuer Profit Amount retained by the Issuer as profit in accordance with the relevant Priority of Payments and (ii) as a debit, any amount used to pay any tax liability of the Issuer.

### **Remuneration of Cash Manager**

The Cash Manager receives a fee for its cash management services under the Cash Management Agreement quarterly in arrears on each Interest Payment Date. The Issuer pays to the Cash Manager a cash management fee (inclusive of VAT, if any) of £20,000 per month. The fee is payable monthly in arrears on each Interest Payment Date in the manner contemplated by and in accordance with the Pre-Enforcement Revenue Priority of Payments or, as the case may be, the Post-Enforcement Priority of Payments.

### **Termination of Appointment of Cash Manager**

Each of the following constitutes a "**Cash Manager Termination Event**":

- (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 (if capable of remedy) for a period of seven (7) Business Days after the earlier of the Cash Manager becoming aware of such default and receipt by the Cash Manager of written notice from the Issuer or (following the service of an Enforcement Notice) the Security Trustee, as the case may be, requiring the same to be remedied; or
- (b) default is made by the Cash Manager in the performance or observance of any of its other covenants and obligations under the Cash Management Agreement, which in the opinion of the Note Trustee as notified to the Security Trustee is materially prejudicial to the interests of Noteholders and such default continues unremedied for a period of twenty (20) 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 Security Trustee, as the case may be, requiring the same to be remedied; or
- (c) material breach of representation by the Cash Manager which continues unremedied for twenty (20) Business Days and which in the opinion of the Note Trustee as notified to the Security Trustee is materially prejudicial to Noteholders; or
- (d) an Insolvency Event occurs in respect of the Cash Manager.

If the Cash Manager defaults in the performance of its obligations under the Cash Management Agreement and such default remains unremedied (if capable of remedy) for a specified period thereafter or an Insolvency Event occurs in relation to the Cash Manager, then the Issuer (prior to the delivery of an Enforcement Notice and with the written consent of the Security Trustee) or the Security Trustee (following the delivery of an Enforcement Notice) may at once

or at any time thereafter if the default is continuing, by notice in writing to the Cash Manager, terminate the appointment of the Cash Manager.

The Cash Manager is obliged to notify the Issuer and, following the delivery of an Enforcement Notice, the Security Trustee as soon as reasonably practicable of becoming aware of a Cash Manager Termination Event. Upon termination of the appointment of the Cash Manager the Issuer will be required to use reasonable endeavours to appoint a substitute cash manager (but shall have no liability to any person in the event that, having used reasonable endeavours, it is unable to appoint a substitute cash manager).

The appointment of any substitute cash manager will be subject to the satisfaction of the following conditions:

- (a) the substitute cash manager must have cash management experience and the identity thereof must be approved by the Security Trustee;
- (b) the substitute cash manager must enter into an agreement substantially on the same terms as the Cash Management Agreement; and
- (c) (if the Class A Notes remain outstanding) the identity of the substitute cash manager and the terms of the replacement cash management agreement must have been notified to the Rating Agencies in advance of the appointment of the substitute cash manager, and the Issuer must be satisfied, by way of receipt of a Rating Agency Confirmation, or the Issuer acting reasonably is satisfied, that Condition 18(a) has occurred and the condition in Condition 18(b) is fulfilled, that the appointment of such substitute cash manager would not cause the then current ratings of the Class A Notes to be adversely affected (unless otherwise agreed by the Class A Noteholders by Extraordinary Resolution).

The Cash Manager may resign from its appointment as Cash Manager on giving 12 months' written notice thereof to the Issuer but only if a substitute cash manager has been appointed (such appointment to be effective not later than the date of such termination) and the conditions set out in paragraphs (a), (b) and (c) above are satisfied.

### **Delegation by the Cash Manager**

The Cash Manager may sub-contract or delegate the performance of all or any of its powers and obligations under the Cash Management Agreement to any party whom it reasonably believes is capable of, and experienced in, performing the functions to be given to it, subject to certain conditions being satisfied. However, the Cash Manager may freely delegate its obligations to any member of the Lloyds Banking Group whether or not such conditions are satisfied.

Notwithstanding any sub-contracting or delegation, the Cash Manager will not be released or discharged from any liability under that and shall remain responsible for the performance of its obligations under the Cash Management Agreement.

Neither the Security Trustee nor the Issuer shall have any liability for any costs, charges or expenses payable to or incurred by such sub-contractor or delegate or arising from the entering into, the continuance or the termination of any such arrangement.

### **Liability of the Cash Manager**

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

**Governing Law**

The Cash Management Agreement is governed by English law.

## **Trust Deed**

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

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

In accordance with the terms of the Trust Deed, the Issuer will pay a fee to the Note Trustee for its services under the Trust Deed at the rate and times agreed between the Issuer and the Note Trustee (exclusive of VAT) together with payment of any liabilities incurred by the Note Trustee in relation to the Note Trustee's performance of its obligations under or in connection with the Trust Deed and the other Transaction Documents.

### **Retirement of Note Trustee**

The Note Trustee may retire at any time upon giving not less than 60 days' notice in writing to the Issuer without giving any reason therefor and without being responsible for any liabilities occasioned by such retirement. The holders of the Most Senior Class of Notes may, by Extraordinary Resolution, remove any trustee or trustees for the time being who are acting pursuant to the Trust Deed. The retirement of the Note Trustee shall not become effective unless there remains a trust corporation entitled by rules made under the Public Trustee Act 1906 to carry out the functions of a custodian trustee (a "**Trust Corporation**") in office after such retirement or removal by Extraordinary Resolution. The Issuer will agree in the Trust Deed that, in the event of the sole trustee or the only trustee under the Trust Deed giving notice of its retirement, it shall use its best endeavours to procure a new trustee to be appointed as soon as practicable thereafter and if, after 60 days from the date the Note Trustee gives its notice of retirement or the applicable Extraordinary Resolution of the holders of the Most Senior Class of Notes, the Issuer is not able to find such replacement, the Note Trustee will be entitled to procure that a new trustee be appointed but no such appointment shall take effect unless previously approved by Extraordinary Resolution of the holders of the Most Senior Class of Notes.

### **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, the Note Trustee and the Security 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.

## **Bank Account Agreement**

Pursuant to the terms of a bank account agreement entered into on or about the Closing Date between the Issuer, the Account Bank, the Cash Manager and the Security Trustee (the "**Bank Account Agreement**"), the Issuer will maintain with the Account Bank the Transaction Account, which will be operated in accordance with the Bank Account Agreement, Cash Management Agreement, the Deed of Charge. The Account Bank is required to have the Account Bank Requisite Rating.

### **Instructions**

The Account Bank may act on instructions that are received or purported to be received in writing from an authorised representative of the Issuer or the Cash Manager (acting on behalf of the Issuer) prior to the service of an Enforcement Notice by the Security Trustee in accordance with the Deed of Charge.

### **Interest**

If any amount is standing to the credit of the Transaction Account, such amount will bear interest at a rate as agreed from time to time in writing between the Issuer and the Account Bank in accordance with the Online Banking Terms and Conditions.

### **Termination**

The Issuer, prior to the delivery of an Enforcement Notice (with the prior written consent of the Security Trustee) or, following the delivery of an Enforcement Notice, the Security Trustee, may deliver a notice to the Account Bank (with a copy to the Cash Manager and the Security Trustee) immediately or at any time after the occurrence of any of the following events, terminating the Account Bank's appointment under the Bank Account Agreement from the later of (i) the date specified in such notice (such date being not less than 30 Business Days following the date of such notice) and (ii) the appointment of a successor account bank:

- (a) default is made by the Account Bank in the payment on the due date of any payment due and payable by it under the Bank Account Agreement (save where the Account Bank is entitled not to so process such instruction pursuant to the provisions of the Bank Account Agreement) and such default continues unremedied for a period of three Business Days after the earlier of the Account Bank becoming aware of such default and receipt by the Account Bank of written notice from the Issuer, the Cash Manager or, as the case may be, following the service of an Enforcement Notice, the Security Trustee, requiring the same to be remedied; or
- (b) without prejudice to paragraph (a) above:
  - (i) default is made by the Account Bank in the performance or observance of any of its other covenants and obligations under the Bank Account Agreement (save where the Account Bank is entitled not to perform or observe such covenants and/or obligations pursuant to the provisions of the Bank Account Agreement); or
  - (ii) any of the representations or warranties set out in Clause 8.2 (Representations and Warranties of the Account Bank) proves to be untrue, incomplete or inaccurate; or

- (iii) any certification or statement made by the Account Bank in any certificate or other document delivered pursuant to the Bank Account Agreement proves to be untrue, incomplete or inaccurate,

and (if such default is capable of remedy) such default continues unremedied for a period of ten Business Days after the earlier of the Account Bank becoming aware of such default and receipt by the Account Bank of written notice from the Issuer, the Cash Manager and/or, following the service of an Enforcement Notice, the Security Trustee requiring the same to be remedied; or

- (c) if an Insolvency Event occurs in relation to the Account Bank; or
- (d) if a deduction or withholding for or on account of any Tax is imposed, or it appears likely that such a deduction or withholding will be imposed, in respect of the interest payable on any Bank Account; or
- (e) it is or will become unlawful for the Account Bank to perform or comply with any of its obligations under the Bank Account Agreement.

### **Governing Law**

The Bank Account 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 Corporate Services Provider, the Share Trustee and Holdings 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.

### **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.

### **The Collection Account Declaration of Trust**

On the Closing Date, the Issuer will be a beneficiary of a trust declared by the Seller over the Collection Account.

All Revenue Receipts and Principal Receipts received in respect of the Mortgage Loans from Borrowers will be paid into the Collection Account. The Collection Account Bank will, unless it receives any instruction to the contrary from the Servicer or (following the delivery of an Enforcement Notice) the Security Trustee, transfer to the Transaction Account all Revenue Receipts and Principal Receipts received from Borrowers in respect of the Mortgage Loans which are available to be withdrawn at that time in on each Business Day, net of any Further Advance Purchase Price paid in respect of Further Advances acquired by the Issuer on the previous Business Day. The Collection Account Bank shall be entitled at any time to deduct from amounts standing to the credit of the Collection Account any amounts to satisfy any of its obligations and/or liabilities properly incurred under the Direct Debiting Scheme and/or in respect of other unpaid sums relating to amounts received in respect of the Mortgage Loans from Borrowers or to pay certain other amounts due or owing to the Collection Account Bank.

Certain fees and expenses of the Collection Account Bank will be paid by the Issuer, subject to and in accordance with the Priority of Payments.

The Collection Account Declaration of Trust and any non-contractual obligations arising out of or in connection with it will be governed by English law.

### **Other Agreements**

For a description of the Swap Agreement and the Subordinated Loan Agreement, see "*Credit Structure – Interest Rate Risk for the Notes*" and "*Credit Structure – Subordinated Loan*" respectively 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. However, there are a number of features in the transaction which enhance the likelihood of timely receipt of payments by the Noteholders, as summarised in the section entitled "*Transaction Overview – Credit Structure and Cashflow – General Credit Structure*" above. These features are described in more detail below.

### **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 so that the Available Revenue Receipts will be sufficient to pay the amounts payable under items (a) to (g) of the Pre-Enforcement Revenue Priority of Payments. The actual amount of any excess 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 "*Credit Structure – Interest Rate Risk for the Notes*" below) and the performance of the Mortgage Portfolio.

Available Revenue Receipts may be applied (after making payments or provisions ranking higher in the Pre-Enforcement Revenue Priority of Payments) on each Interest Payment Date in accordance with the Pre-Enforcement Revenue Priority of Payments, towards reducing any Principal Deficiency Ledger entries which may arise from Losses on the Mortgage Portfolio and from the application of Available Principal Receipts as Principal Addition Amounts to cure any Senior Expenses Deficit in accordance with item (a) of the Pre-Enforcement Principal Priority of Payments.

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

### **General Reserve Fund**

On the Closing Date, the Issuer will establish a fund which will be credited with the General Reserve Fund Required Amount plus an amount equal to £10,000,000 from the proceeds of the Subordinated Loan on the Closing Date (the "**General Reserve Fund**") to provide liquidity support and credit enhancement for the Class A Notes. The General Reserve Fund will be deposited to the Transaction Account (with a corresponding credit 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, on each Interest Payment Date the General Reserve Fund will be replenished up to the General Reserve Fund Required Amount from Available Revenue Receipts (to the extent available) in accordance with the provisions of the Pre-Enforcement Revenue Priority of Payments.

On each Interest Payment Date, the Cash Manager will apply (i) amounts standing to the credit of the General Reserve Fund (excluding the General Reserve Fund Excess Amount) as Available Revenue Receipts and (ii) General Reserve Fund Excess Amounts (as determined on the immediately preceding Calculation Date) as Available Revenue Receipts.

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

The "**General Reserve Fund Excess Amount**" on any Interest Payment Date will be an amount equal to the greater of:

- (a) zero; and
- (b) the amount standing to the credit of the General Reserve Fund Ledger on such Interest Payment Date, less the General Reserve Fund Required Amount on such Interest Payment Date.

"**General Reserve Fund Required Amount**" means:

- (a) on the Closing Date and during the Revolving Period, an amount equal to 1.5 per cent of the aggregate current Principal Amount Outstanding of the Class A Notes; or
- (b) from an including the Revolving Period End Date to but excluding the Interest Payment Date that the Class A Notes are fully repaid:
  - (i) if the General Reserve Fund Release Conditions are satisfied on the Calculation Date immediately preceding such Interest Payment Date, the higher of (A) an amount equal to 1.5 per cent. of the aggregate current Principal Amount Outstanding of the Class A Notes prior to the application of Available Principal Receipts on such Interest Payment Date and (B) an amount equal to 0.5 per cent. of the aggregate principal amount outstanding of the Class A Notes at the Closing Date; and
  - (ii) if the General Reserve Fund Release Conditions are not satisfied on the Calculation Date immediately preceding such Interest Payment Date, the General Reserve Fund Required Amount will remain unchanged from that standing at the prior Interest Payment Date; and
  - (iii) on each Interest Payment Date on and following the date that the Class A Notes are fully repaid, zero.

"**General Reserve Fund Release Conditions**" means each of the following:

- (a) no Event of Default has occurred which is continuing;
- (b) the amount standing to the debit of the Class Z Principal Deficiency Sub-Ledger would be zero after the application of the Priority of Payments on the immediately following Interest Payment Date;
- (c) the aggregate Current Balance of all Mortgage Loans that are three or more months in arrears on such date is less than 3 per cent. of aggregate Current Balance of all Mortgage Loans on such date; and
- (d) the aggregate principal Losses in respect of the Mortgage Portfolio are equal to less than 2 per cent. of the total Current Balance of the Mortgage Portfolio on the Closing Date.

Following service of an Enforcement Notice on the Issuer, all amounts standing to the credit of the General Reserve Fund Ledger will be applied in accordance with the Post-Enforcement Priority of Payments.

### **Retained Principal Receipts Fund**

The Issuer shall establish a ledger called the "**Retained Principal Receipts Fund**". The Retained Principal Receipts Fund may be funded from the first Interest Payment Date following the Closing Date and on each subsequent Interest Payment Date during the Revolving Period with Available Principal Receipts after paying or providing for any Senior Expenses Deficit. The Retained Principal Receipts Fund will be credited to the Transaction Account (with a corresponding credit to the Retained Principal Receipts Ledger).

The Cash Manager will maintain a ledger pursuant to the Cash Management Agreement to record the balance from time to time of the Retained Principal Receipts Fund (the "**Retained Principal Receipts Ledger**").

During the Revolving Period, amounts standing to the credit of the Retained Principal Receipts Fund will be applied by the Issuer (or the Cash Manager on its behalf) on a daily basis towards the payment of Further Mortgage Portfolio Purchase Price to the Seller in respect of a sale of any Further Mortgage Portfolio to the Issuer during such period (and for this purpose, any amounts standing to the credit of the Retained Principal Receipts Fund will be applied in the order in which such amounts were credited to the Retained Principal Receipts Fund (i.e. on a 'first in, first out' basis)). If not so applied, any such amounts that remain standing to the credit of the Retained Principal Receipts Fund on the Revolving Period End Date will comprise Available Principal Receipts in respect of such Interest Payment Date to be applied by the Issuer to redeem the Notes in accordance with items (c) to (h) of the Pre-Enforcement Principal Priority of Payments on such Interest Payment Date.

#### **Use of Available Principal Receipts to cure Senior Expenses Deficit**

On each Calculation Date prior to the service of an Enforcement Notice, and with reference to the immediately following Interest Payment Date, the Cash Manager will calculate whether there will be a shortfall of Available Revenue Receipts in meeting a Senior Expenses Deficit on such Interest Payment Date. If the Cash Manager determines that there will be a Senior Expenses Deficit, then pursuant to item (a) of the Pre-Enforcement Principal Priority of Payments, the Cash Manager on behalf of the Issuer shall apply an amount of Available Principal Receipts equal to the lesser of:

- (a) the amount of Available Principal Receipts available for application pursuant to the Pre-Enforcement Principal Priority of Payments on such Interest Payment Date; and
- (b) the amount of such Senior Expenses Deficit,

(such amount being the "**Principal Addition Amounts**"), in meeting such Senior Expenses 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.

"**Senior Expenses Deficit**" means, on any Interest Payment Date, an amount equal to any shortfall in Available Revenue Receipts to pay or provide for the amounts referred to in items (a) to (f) of the Pre-Enforcement Revenue Priority of Payments on such Interest Payment Date, as determined by the Cash Manager on the immediately preceding Calculation Date.

Any Available Principal Receipts applied as Principal Addition Amounts will be recorded as a debit on the Principal Deficiency Ledger (as further described below).

#### **Principal Deficiency Ledger**

A Principal Deficiency Ledger will be established to record any Losses affecting the Mortgage Loans in the Mortgage Portfolio and/or any Principal Addition Amounts. The "**Principal Deficiency Ledger**" will comprise the following sub-ledgers: the Principal Deficiency Ledger relating to the Class A Notes (the "**Class A Principal Deficiency Sub-Ledger**") and the Principal Deficiency Ledger relating to the Class Z Notes (the "**Class Z Principal Deficiency Sub-Ledger**") (each a "**Principal Deficiency Sub-Ledger**"). Any Losses on the Mortgage Portfolio and/or any Principal Addition Amounts will be recorded as a debit (on the date that the Cash Manager is informed of such Losses by the Servicer or such Principal Addition Amounts are determined by the Cash Manager (as applicable)) first (a) to the Class Z Principal Deficiency Sub-Ledger up to a maximum amount equal to the Principal Amount Outstanding of the Class Z Notes; then (b) to the Class A Principal Deficiency Sub-Ledger up to a maximum amount equal to the equal to the Principal Amount Outstanding of the Class A Notes. Investors should note that realised Losses in any period will be calculated after applying any recoveries following enforcement of a Mortgage Loan to outstanding fees and interest amounts due and payable on the relevant Mortgage Loan. The Cash Manager will record as a credit to the Principal Deficiency Ledger Available Revenue Receipts applied pursuant to items (g) and (i) of the Pre-Enforcement Revenue Priority of Payments (if any) (which amounts shall, for the avoidance of doubt, thereupon become Available Principal Receipts).

Any recoveries received after an account has been written off shall be for the account of the Seller only.

### **Transaction Account**

All amounts held by the Issuer will be deposited in the Transaction Account with the Account Bank. The Account Bank has agreed to pay interest at the rate agreed from time to time between the Issuer and the Account Bank in accordance with the Online Banking Terms and Conditions.

Amounts held in the Collection Account will be transferred into the Transaction Account on a regular basis and in any event in the case of direct debits no later than the next business day after they are deposited in the Collection Account.

"**Collection Account**" means the account in the name of the Seller with account number 00580200 and sort code 30-15-99 and/or such other replacement or additional collection account opened from time to time which is subject to the Collection Account Declaration of Trust.

"**Transaction Account**" means the account in the name of the Issuer maintained with the Account Bank pursuant to the terms of the Bank Account Agreement.

### **Subordinated Loan**

Bank of Scotland (acting as "**Subordinated Loan Provider**") will make a subordinated loan (the "**Subordinated Loan**") to the Issuer on the Closing Date pursuant to the Subordinated Loan Agreement consisting of two tranches. The first tranche of the Subordinated Loan will be in an amount of £900,000 and will be used for meeting the costs and expenses of the Issuer arising in connection with the sale of the Initial Mortgage Portfolio to the Issuer and other closing expenses. The second tranche of the Subordinated Loan will be in an amount of £108,040,000 and will be used to fund the General Reserve Fund and will be credited to the Transaction Account (with a corresponding credit to the General Reserve Fund Ledger).

The Subordinated Loan Provider will have the right to assign or novate its rights and/or obligations under the Subordinated Loan to a third party at any time, provided that such change will be notified to the Rating Agencies. Any agreement governing such change will be in accordance with the terms of the Subordinated Loan Agreement.

Prior to the service of an Enforcement Notice, the Subordinated Loan will be repaid in accordance with the Pre-Enforcement Revenue Priority of Payments but only such that the amount outstanding will not be less than the General Reserve Fund Required Amount.

The Subordinated Loan Agreement is governed by English law.

### **Interest Rate Risk for the Notes**

Some of the Mortgage Loans in the Mortgage Portfolio pay a variable rate of interest for a period of time which may be linked to the Variable Base Rate or linked to a variable interest rate other than the Variable Base Rate, such as the Bank of England base rate. Other Mortgage Loans 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 a Compounded Daily SONIA.

To provide a hedge against the possible variance between:

- (a) the various fixed rates of interest payable on the Mortgage Loans in the Mortgage Portfolio; and
- (b) the floating rate of interest payable on the Notes calculated by reference to Compounded Daily SONIA,

the Issuer will enter into the Swap Agreement on or about the Closing Date with the Swap Provider. It is not intended that variances between the interest rate on Mortgage Loans in the Mortgage Portfolio payable by reference to a variable

rate of interest will be hedged under the Swap Agreement, or any other swap agreement. The Swap Agreement is not designed to provide a perfect hedge for the Mortgage Loans included in the Mortgage Portfolio or eliminate all risks associated with the mismatch between rates payable in respect of such Mortgage Loans and interest rates in respect of the Notes.

#### *Cashflows under the Swap Agreement*

Under the Swap Agreement, the following amounts will be calculated in respect of each Interest Payment Date:

- (a) the amount produced by applying, for the calculation period relating to the relevant Interest Period which ends on the last day of such Interest Period, Compounded Daily SONIA as determined on the Interest Determination Date for the relevant Interest Period to the Notional Amount plus the Relevant Margin, such amount to be calculated on the basis of the day count fraction specified in the Swap Agreement and in each case for the relevant calculation period (the “**Fixed Interest Period Swap Provider Amount**”); and
- (b) the amount (the “**Fixed Interest Period Issuer Amount**”) produced by applying, for the calculation period relating to the relevant Interest Period, a fixed rate of interest (as specified in the Swap Agreement) to the Notional Amount, such amount to be calculated on the basis of the day count fraction specified in the Swap Agreement and in each case for the relevant calculation period.

The Fixed Interest Period Swap Provider Amount and the Fixed Interest Period Issuer Amount will be calculated in respect of each Interest Period.

The notional amount of the Swap (the “**Notional Amount**”) in respect of each calculation period thereunder will be the aggregate Current Balance of the Fixed Rate Loans in the Mortgage Portfolio on the first day of each Monthly Period relating to that calculation period excluding those Fixed Rate Loans which are more than three months in arrears as at the first day of that Monthly Period (the “**Performing Loans**”). For the avoidance of doubt, following the redemption in full of the Class A Notes, the Notional Amount shall be deemed to be zero.

After these amounts are calculated in respect of the Swap Agreement and in relation to an Interest Payment Date, the following payments will be made on or in respect of that Interest Payment Date: (i) if the Fixed Interest Period Issuer Amount is greater than the relevant Fixed Interest Period Swap Provider Amount, then the Issuer will pay the difference to the Swap Provider and (ii) if the Fixed Interest Period Swap Provider Amount is greater than the Fixed Interest Period Issuer Amount, then the Swap Provider will pay the difference to the Issuer.

If a payment is to be made by the Swap Provider (other than payments to be credited to the relevant Swap Collateral Account), that payment will be included in the Available Revenue Receipts and will be applied on the relevant Interest Payment Date according to the relevant Priority of Payments. If a payment is to be made by the Issuer, it will be made according to the relevant Priority of Payments.

#### *Termination of the Swap Agreement*

Unless a Swap Early Termination Event (as defined below) occurs, the Swap will terminate on the earlier of the Final Maturity Date and the date on which the aggregate Principal Amount Outstanding of the Class A Notes is reduced to zero.

A Swap may be terminated in certain circumstances including, inter alia, the following, each as more specifically defined in the Swap Agreement (a “**Swap 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 Provider is not remedied within the applicable grace period;
- (d) if a change of law results in the obligations of one of the parties becoming illegal;
- (e) in certain circumstances, if a deduction or withholding for or on account of taxes is imposed on payments under the Swap Agreement;
- (f) if the Swap Provider is downgraded and fails to comply with the requirements of the downgrade provisions contained in the Swap Agreement and described below in “–Ratings Downgrade of the Swap Provider” (a “**Swap Provider Downgrade Event**”);
- (g) if the Note Trustee serves an Enforcement Notice on the Issuer pursuant to Condition 10 (Events of Default) of the Notes;
- (h) if any amendment, modification or supplement is made without the prior written consent of the Swap Provider to: (i) the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement Priority of Payments such that the Issuer’s obligations to the Swap Provider under the Swap Agreement are further contractually subordinated to the Issuer’s obligations to any other Secured Creditor, (ii) any other provision of the Transaction Documents that has the effect of amending, modifying or supplementing the provisions referred to and having the effect described in (i) above, or (iii) any of the Transaction Documents which results in the Swap Provider ceasing to be a Secured Creditor;
- (i) if any of the Transaction Documents (i) is amended, modified or supplemented without the Swap Provider's prior written consent, where such amendment, modification or supplement could have an adverse effect on the interests of or place additional obligations on the Swap Provider under the Swap Agreement or under the Transaction Documents, or (ii) become void or unenforceable and the rights or interests of the Swap Provider are prejudiced as a consequence thereof.

Upon the occurrence of a Swap Early Termination Event, the Issuer or the Swap Provider may be liable to make a termination payment to the other. This termination payment will be calculated and made in Sterling. The amount of any termination payment will be based on the market value of the terminated swap based on market quotations of the cost of entering into a swap with the same terms and conditions that would have the effect of preserving the respective full payment obligations of the parties or otherwise determined using commercially reasonable procedures to produce a commercially reasonable result.

Any termination payment due by the Issuer (other than a Hedge Subordinated Amount) to the extent not satisfied by any applicable Replacement Swap Premium (which shall be paid directly by the Issuer to the Swap Provider) will rank prior to payments in respect of the Notes. In each case, payment of such termination amounts may affect amounts available to pay interest and principal on all the Notes.

#### *Ratings Downgrade of Swap Provider*

Under the terms of the Swap Agreement, in the event that the relevant rating(s) of the Swap Provider is or are, as applicable, downgraded by a Rating Agency below the Required Swap Rating at any time following the Closing Date (as outlined above in the section entitled ‘*Transaction Overview – Triggers Table: Rating Triggers Table*’), the Swap Provider will, in accordance with the Swap Agreement, be required to elect 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, arranging for its obligations under the Swap Agreement to be transferred to an entity with the Required Swap Rating, procuring another entity with the Required Swap Rating to become co-obligor or guarantor, as applicable, in respect of its obligations under the Swap Agreement or taking such other action that would result in the relevant Rating Agency continuing the then current rating of the Rated Notes. A failure to take such steps will allow the Issuer to terminate the Swap Agreement.

### *Taxation*

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 tax is imposed on payments made under the relevant Swap Agreement.

The Swap Provider is always 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 to the Issuer under the Swap Agreement. The imposition of a withholding or deduction for or on account of tax on payments made by the Swap Provider or the Issuer under the Swap Agreement will constitute a Tax Event (as defined in the Swap Agreement) and will give the Swap Provider a right to terminate the Swap Agreement subject to the terms thereof.

If the Issuer receives any Swap Tax Credits, payments in respect of such Swap Tax Credits will be used, to the extent provided for in the Swap Agreement, to reimburse the Swap Provider for any gross up in respect of any withholding or deduction made under the Swap Agreement.

### *Governing Law*

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

## **Replacement of the Swap Agreement**

### *Replacement upon early termination*

In the event that the Swap Agreement is terminated prior to its scheduled termination date, and prior to the service of an Enforcement Notice or the redemption in full of all outstanding Class A Notes, the Issuer shall use its reasonable efforts to enter into a replacement swap agreement on terms acceptable to the Issuer which are in accordance with the then current ratings of the relevant Rating Agencies, with a swap provider whom the relevant Rating Agencies have confirmed in writing to the Issuer will not cause the then current ratings of the Rated Notes to be downgraded, withdrawn or qualified. If the Issuer is unable to enter into a replacement interest rate swap on terms which are in accordance with the then current ratings criteria of the relevant Rating Agencies, this may affect amounts available to pay interest on the Notes. There can be no assurance that the Issuer will be able to enter into a replacement swap agreement or, if one is entered into, as to the terms of the replacement swap agreement or the credit rating of the replacement swap provider.

Depending on the circumstances prevailing in the market at the time, the Issuer or the replacement swap provider may be liable to make a payment to the other in order to enter into a replacement swap agreement (such payment, a “**Replacement Swap Premium**”). If a Replacement Swap Premium is payable by the replacement swap provider to the Issuer, any such amounts shall be paid directly by the Issuer to the Swap Provider. If a Replacement Swap Premium is payable by the Issuer to the replacement swap provider, the Issuer may not have sufficient funds standing to the credit of the relevant Swap Collateral Account in order to make such payment and therefore may be unable to enter into a replacement swap agreement.

### *Swap Credit Support Annex*

On or around the Closing Date, the Swap Provider will enter into a 1995 ISDA Credit Support Annex (Bilateral Form – Transfer) with the Issuer (each a “**Swap Credit Support Annex**”) in support of the obligations of the Swap Provider under the Swap Agreement. Pursuant to the terms of the Swap Credit Support Annex, if at any time the Swap Provider is required to provide collateral in respect of any of its obligations under the Swap Agreement, such Swap Credit Support Annex will provide that, from time to time, subject to the conditions specified in the Swap Credit Support Annex and Swap Agreement, the Swap Provider will make transfers of collateral to the Issuer in respect of its obligations under the Swap Agreement and the Issuer will be obliged to return such collateral in accordance with the terms of the Swap Credit Support Annex.

## **Swap Collateral**

In the event that the Swap Provider is required to transfer collateral to the Issuer in respect of its obligations under the Swap Agreement in accordance with the terms of the Swap Credit Support Annex, that collateral (and any interest and/or distributions earned thereon) will be credited to a separate Swap Collateral Account. In addition, upon any early termination of the Swap Agreement or novation of the Swap Provider's obligations under the Swap Agreement to a replacement Swap Provider, (i) any Replacement Swap Premium received by the Issuer from a replacement Swap Provider and/or (ii) any termination payment received by the Issuer from the outgoing Swap Provider will be credited to the relevant Swap Collateral Account.

## CASHFLOWS

This section sets out the Priorities of Payments. The Issuer expects to have Available Revenue Receipts and Available Principal Receipts for the purpose of making interest and principal payments under the Notes and the other Transaction Documents. The Issuer shall pay or provide for amounts due under the Pre-Enforcement Revenue Priority of Payments before paying amounts due under the Pre-Enforcement Principal Priority of Payments.

**"Accrued Interest"** means as at any date (the determination date) on or after the date hereof and in relation to any Mortgage Loan, interest on such Mortgage Loan (not being interest which is currently payable on the determination date) which has accrued from and including the Monthly Payment Day immediately prior to the determination date to and including the determination date and which has not been paid on or before the determination date;

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

**"Arrears of Interest"** means as at any date (the **"determination date"**) on or after the date hereof and in relation to any Mortgage Loan, interest and expenses (other than Capitalised Arrears and Capitalised Expenses) on such Mortgage Loan which is currently due, payable and unpaid on or before that determination date.

**"Available Principal Receipts"** means for any Interest Payment Date an amount (as determined by the Cash Manager on behalf of the Issuer on each Calculation Date) equal to the aggregate of:

- (a) all Principal Receipts received by the Issuer during the immediately preceding Monthly Period (less (during the Revolving Period) an amount equal to the aggregate of all Further Advance Purchase Prices payable in such Monthly Period) or, if in a Determination Period, any Calculated Principal Receipts, excluding an amount equal to any Reconciliation Amounts to be applied as Available Revenue Receipts on that Interest Payment Date;
- (b) (in respect of the first Interest Payment Date only) the amount paid into the Transaction Account on the Closing Date from the excess of the Notes proceeds over the Initial Consideration;
- (c) (in respect of the Interest Payment Date immediately following the end of the Revolving Period only) all amounts standing to the credit of the Retained Principal Receipts Fund; and
- (d) if in a Determination Period, any Reconciliation Amounts deemed to be Available Principal Receipts in accordance with Condition 5.8(c) (Determinations and Reconciliations); and
- (e) Amounts credited to the Principal Deficiency Ledger.

**"Available Revenue Receipts"** means for each Interest Payment Date, an amount (as determined by the Cash Manager on behalf of the Issuer on each Calculation Date) equal to the aggregate of (without double-counting):

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

Collateral, as set out under the Swap Agreement, (iii) any Replacement Swap Premium but only to the extent applied directly to pay any termination payment due and payable by the Issuer to the Swap Provider and (iv) amounts in respect of Swap Tax Credits on such Interest Payment Date);

- (d) the amounts standing to the credit of the General Reserve Fund including any General Reserve Fund Excess Amounts as at the relevant Calculation Date;
- (e) other net income of the Issuer received during the immediately preceding Monthly Period, excluding any Principal Receipts (except for amounts deemed to be Available Revenue Receipts in accordance with paragraph (h) of the Pre-Enforcement Principal Priority of Payments); and
- (f) if in a Determination Period, any Reconciliation Amounts deemed to be Available Revenue Receipts in accordance with Condition 5.8(c) (Determinations and Reconciliation);
- (g) any Principal Addition Amounts required to meet a Senior Expenses Deficit.

*less:*

- (h) amounts applied from time to time during the immediately preceding Monthly Period in making payment of certain moneys which properly belong to third parties (including the Seller) such as (but not limited to):
  - (i) Servicing Related Fees (which will be paid to the Seller as and when received as part consideration for the sale of the Mortgage Loans to the Seller);
  - (ii) payments of certain insurance premiums;
  - (iii) amounts under a DDR which are repaid to the bank making the payment if such bank is unable to recoup such amount itself from its customer's account; and
  - (iv) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service to that Borrower or the Seller,

(items within (h) being collectively referred to herein as **Third Party Amounts**). Third Party Amounts may be netted by the Cash Manager against monies being swept from the Collection Account on a daily basis to make payment to the persons entitled thereto

**"Monthly Payment Day"** means the date in each month on which interest (and principal in relation to a Repayment Loan) is due to be paid by a Borrower on a Mortgage Loan or, if any such day is not a business day, the next following business day;

**"Principal Receipts"** means payments received by the Issuer representing (without double counting):

- (a) principal repayments under the Mortgage Loans (including capitalised interest, capitalised expenses and capitalised arrears but excluding accrued interest and arrears of interest);
- (b) any Accrued Amounts on the Initial Mortgage Loans up to (but excluding) the Closing Date and any Accrued Amounts on the Further Mortgage Loans up to (but excluding) the relevant Further Sale Date;
- (c) recoveries of principal from defaulting Borrowers under Mortgage Loans being enforced (including the proceeds of the sale of the relevant Property);
- (d) the proceeds of the repurchase of any Mortgage Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement (excluding amounts attributable to Revenue Receipts).

**"Revenue Receipts"** means payments received by the Issuer directly or from the Seller recognised by the Seller as representing:

- (a) payments of interest on the Mortgage Loans (including Arrears of Interest and Accrued Interest but excluding capitalised interest, capitalised expenses, capitalised arrears and Accrued Amounts as at the relevant Further Sale Date) and fees (excluding Early Repayment Charges and Servicing Related Fees) paid from time to time under the Loans and other amounts received by the Issuer in respect of the Mortgage Loans other than the Principal Receipts;
- (b) recoveries of interest and outstanding fees (excluding capitalised interest, capitalised expenses and capitalised arrears, if any) from defaulting Borrowers under Mortgage Loans being enforced;
- (c) the proceeds of the repurchase of any Mortgage Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement to the extent such proceeds are attributable to accrued interest, arrears of interest and other interest amounts in respect of the Mortgage Loans (excluding, for the avoidance of doubt, capitalised interest, capitalised expenses and capitalised arrears) as at the relevant repurchase date; and
- (d) any early repayment charges which have been paid by the Borrower in respect of the Mortgage Loans (but excluding any Early Repayment Charges and/or Servicing Related Fees).

**Application of Available Revenue Receipts prior to the service of an Enforcement Notice on the Issuer**

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

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any fees, costs, charges, Liabilities, expenses and all other amounts then due to the Note Trustee and any Appointee under the provisions of the Trust Deed and the other Transaction Documents together with (if payable) VAT thereon as provided therein; and
  - (ii) any fees, costs, charges, Liabilities, expenses and all other amounts then due to the Security Trustee and any Appointee under the provisions of the Deed of Charge and the other Transaction Documents together with (if payable) VAT thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof (in each case without double counting) of:
  - (i) any amounts 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 (if payable) VAT thereon as provided therein;
  - (ii) any amounts then due and payable to the Cash Manager and any fees, costs, charges, Liabilities and expenses then due under the provisions of the Cash Management Agreement, together with VAT (if payable) thereon as provided therein;
  - (iii) any amounts then due and payable to the Servicer and any fees, costs, charges, Liabilities and expenses then due under the provisions of the Servicing Agreement, together with VAT (if payable) thereon as provided therein;

- (iv) 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 (if payable) VAT thereon as provided therein;
  - (v) any amounts then due and payable to the Account Bank and any fees, costs, charges, Liabilities and expenses then due under the provisions of the Bank Account Agreement, together with (if applicable) VAT thereon as provided therein; and
  - (vi) any Transfer Costs which the Seller has failed to pay;
- (c) *third*, any amounts due and payable by the Issuer to third parties and incurred without breach by the Issuer of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and any amounts required to pay or discharge any liability of the Issuer for corporation tax of the Issuer (but only to the extent not capable of being satisfied out of amounts retained by the Issuer under item (e) below);
  - (d) *fourth*, to pay, in or towards satisfaction of any amounts due to the Swap Provider in respect of the Swap Agreement (including any termination payment due and payable by the Issuer to the extent it is not satisfied by the payment by the Issuer directly to the Swap Provider of any Replacement Swap Premium but excluding, if applicable, any related Hedge Subordinated Amount);
  - (e) *fifth*, to pay the Issuer an amount equal to £100 to be retained by the Issuer as profit in respect of the business of the Issuer (the "**Issuer Profit Amount**");
  - (f) *sixth*, to pay, *pro rata* and *pari passu* according to the respective outstanding amounts thereof:
    - (i) interest due and payable on the Class A1 Notes;
    - (ii) interest due and payable on the Class A2 Notes;
    - (iii) interest due and payable on the Class A3 Notes; and
    - (iv) interest due and payable on the Class A4 Notes;
  - (g) *seventh*, (so long as the Class A Notes remain outstanding following such Interest Payment Date), to credit the Class A Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon (such amounts to be applied in repayment of principal as Available Principal Receipts);
  - (h) *eighth*, to credit the General Reserve Fund Ledger up to the General Reserve Fund Required Amount;
  - (i) *ninth*, (so long as the Class Z Notes remain outstanding following such Interest Payment Date), 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 Principal Receipts);
  - (j) *tenth*, to pay in accordance with the terms of the Swap Agreement to the Swap Provider in respect of any Hedge Subordinated Amounts (to the extent not satisfied by payment to the Swap Provider by the Issuer of any applicable Replacement Swap Premium);
  - (k) *eleventh*, to pay, *pro rata* and *pari passu* according to the respective outstanding amounts thereof interest due and payable on the Class Z Notes;
  - (l) *twelfth*, to pay all amounts of interest due or accrued (if any) but unpaid and any capitalised interest due to the Subordinated Loan Provider under the Subordinated Loan Agreement;
  - (m) *thirteenth*, pay all amounts of principal due to the Subordinated Loan Provider under the Subordinated Loan Agreement until the outstanding balance equals the General Reserve Fund Required Amount; and

- (n) *fourteenth*, to pay any deferred consideration due and payable under the Mortgage Sale Agreement to the Seller (the "**Deferred Consideration**").

#### **Application of Available Principal Receipts prior to the service of an Enforcement Notice on the Issuer**

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

- (a) *first*, Principal Addition Amounts to be applied to meet any Senior Expenses Deficit (such amounts to be applied as Available Revenue Receipts);
- (b) *second*, during the Revolving Period only, all remaining Available Principal Receipts to be credited to the Retained Principal Receipts Fund, where it may be used to purchase Further Mortgage Portfolios;
- (c) *third*, on and from the Revolving Period End Date, towards repayment of principal on the Class A1 Notes, until the Class A1 Notes are fully repaid;
- (d) *fourth*, on and from the Revolving Period End Date, towards repayment of principal on the Class A2 Notes, until the Class A2 Notes are fully repaid;
- (e) *fifth*, on and from the Revolving Period End Date, towards repayment of principal on the Class A3 Notes, until the Class A3 Notes are fully repaid;
- (f) *sixth*, on and from the Revolving Period End Date, towards repayment of principal on the Class A4 Notes, until the Class A4 Notes are fully repaid;
- (g) *seventh*, on and from the date that the Class A Notes are fully repaid, toward repayment of the Class Z Notes until the Class Z Notes are fully repaid; and
- (h) *eighth*, on and from the date that the Class Z Notes are fully repaid, any remaining Available Principal Receipts to be applied as Available Revenue Receipts.

#### **Distributions following the service of an Enforcement Notice**

Following the service of an Enforcement Notice by the Note Trustee on the Issuer, the Security Trustee (or the Cash Manager on its behalf or an Appointee) will apply all monies held in the Transaction Account and all amounts received or recovered following service of an Enforcement Notice (but excluding (a) any Excess Swap Collateral which shall be returned directly to the Swap Provider (and for the avoidance of doubt, such payment shall be without regard to the Post Enforcement Priority of Payments), (b) any Replacement Swap Premium (only to the extent it is applied directly to pay a Swap Termination Payment due and payable by the Issuer to the outgoing Swap Provider), (c) any Swap Tax Credits, which shall be paid directly to the Swap Provider in accordance with the Cash Management Agreement, and (d) in respect of the Swap Provider, prior to the designation of an early termination date under the Swap Agreement and the resulting application of the Swap Collateral by way of netting or set-off, an amount equal to the value of all Swap Collateral provided by the Swap Provider to the Issuer pursuant to the Swap Agreement (and any interest or distributions in respect thereof)) in the following order of priority (the "**Post-Enforcement Priority of Payments**" and, together with the Pre-Enforcement Revenue Priority of Payments and the Pre-Enforcement Principal Priority of Payments, the "**Priorities of Payments**" and each, a "**Priority of Payments**"):



- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any fees, costs, charges, Liabilities, expenses and all other amounts then due to the Note Trustee and any Appointee under the provisions of the Trust Deed and the other Transaction Documents together with (if payable) VAT thereon as provided therein; and
  - (ii) any fees, costs, charges, Liabilities, expenses and all other amounts then due to the Security Trustee and any Appointee (including any receiver) under the provisions of the Deed of Charge and the other Transaction Documents together with (if payable) VAT thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof (in each case without double counting) of:
  - (i) any amounts 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 (if payable) VAT thereon as provided therein;
  - (ii) any amounts then due and payable to the Cash Manager and any fees, costs, charges, Liabilities and expenses then due under the provisions of the Cash Management Agreement, together with VAT (if payable) thereon as provided therein;
  - (iii) any amounts then due and payable to the Servicer and any fees, costs, charges, Liabilities and expenses then due under the provisions of the Servicing Agreement, together with VAT (if payable) thereon as provided therein;
  - (iv) 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 (if payable) VAT thereon as provided therein;
  - (v) any amounts then due and payable to the Account Bank and any fees, costs, charges, Liabilities and expenses then due under the provisions of the Bank Account Agreement, together with (if applicable) VAT thereon as provided therein; and
  - (vi) any Transfer Costs which the Seller has failed to pay;
- (c) *third*, to pay, in or towards satisfaction of any amounts due to the Swap Provider in respect of the Swap Agreement (including any termination payment due and payable by the Issuer to the extent it is not satisfied by the payment by the Issuer directly to the Swap Provider of any Replacement Swap Premium but excluding, if applicable, any related Hedge Subordinated Amount);
- (d) *fourth*, to pay, *pro rata* and *pari passu* according to the respective outstanding amounts thereof:
  - (i) interest due and payable on the Class A1 Notes;
  - (ii) interest due and payable on the Class A2 Notes;
  - (iii) interest due and payable on the Class A3 Notes; and
  - (iv) interest due and payable on the Class A4 Notes;
- (e) *fifth*, to pay, *pro rata* and *pari passu* according to the respective outstanding amounts thereof until they are fully repaid:
  - (i) principal due and payable on the Class A1 Notes;

- (ii) principal due and payable on the Class A2 Notes;
- (iii) principal due and payable on the Class A3 Notes; and
- (iv) principal due and payable on the Class A4 Notes;
- (f) *sixth*, to provide for amounts due on the relevant Interest Payment Date, to pay in accordance with the terms of the Swap Agreement to the Swap Provider in respect of any Hedge Subordinated Amounts (to the extent not satisfied by payment to the Swap Provider by the Issuer of any applicable Replacement Swap Premium);
- (g) *seventh*, to pay, interest due and payable on the Class Z Notes;
- (h) *eighth*, to pay principal due and payable on the Class Z Notes until the Class Z Notes are fully repaid;
- (i) *ninth*, to pay, interest due and payable on the Subordinated Loan to the Subordinated Loan Provider;
- (j) *tenth*, to pay principal due and payable on the Subordinated Loan to the Subordinated Loan Provider until the Subordinated Loan is fully repaid;
- (k) *eleventh*, to pay the Issuer an amount equal to the Issuer Profit Amount; and
- (l) *twelfth*, all remaining amounts to be paid to the Seller as Deferred Consideration.

## FORM OF THE GLOBAL NOTES

### General

The Notes will be in registered form, without interest coupons attached, and issued outside the United States in reliance on Regulation S under the Securities Act.

Each Class of Notes will initially be represented by a global note in registered form (a "**Registered Global Note**"). Registered Global Notes will be deposited with a Common Safekeeper for Euroclear and Clearstream, Luxembourg, and registered in the name of the nominee for Euroclear and Clearstream, Luxembourg. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Notes in fully registered form.

The Registered Global Notes are intended to be held in a new safekeeping structure ("**NSS**") and in a manner which would allow Eurosystem eligibility and will be deposited with one of the ICSDs as Common Safekeeper. However, the deposit of the Registered Global Notes with one of the ICSDs as Common Safekeeper upon issuance or otherwise does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem at issuance or at any time during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register as the registered holder of the Registered Global Notes (as further described in "*Risk Factors – Book-Entry Interests*"). None of the Issuer, any Paying Agent, the Note Trustee, the Security Trustee or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Global Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. The Issuer will promptly give notice to Noteholders in accordance with Condition 15 (*Notice to Noteholders*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Registered Global Note) or the Note Trustee may give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

### Transfer of Interests

No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable.

## TERMS AND CONDITIONS OF THE NOTES

*The following are the terms and conditions of the Notes in the form in which they will be set out in the Trust Deed. If the Notes were to be represented by Definitive Notes, the Conditions set out on the reverse of each of such Definitive Note would be as follows. While the Notes are represented by Global Notes, they will be governed by the same terms and conditions, except to the extent that such terms and conditions are appropriate only to securities in definitive form or are expressly varied by the terms of such Global Notes. These terms and conditions are subject to the detailed provisions of the Trust Documents and the other Transaction Documents.*

### 1. GENERAL

- 1.1 The £1,634,000,000 Class A1 residential mortgage backed floating rate notes due December 2063 (the "**Class A1 Notes**"), the £1,634,000,000 Class A2 residential mortgage backed floating rate notes due December 2063 (the "**Class A2 Notes**"), the £1,634,000,000 Class A3 residential mortgage backed floating rate notes due December 2063 (the "**Class A3 Notes**"), the £1,634,000,000 Class A4 residential mortgage backed floating rate notes due December 2063 (the "**Class A4 Notes**"), and together with the Class A1 Notes, the Class A2 Notes and the Class A3 Notes, the "**Class A Notes**") and the £1,064,000,000 Class Z residential mortgage backed floating rate notes due December 2063 (the "**Class Z Notes**" and, together with the Class A Notes, the "**Notes**") in each case of Elland RMBS 2018 plc (the "**Issuer**") are constituted by a trust deed (the "**Trust Deed**") dated 14 December 2018 (the "**Closing Date**") and made between the Issuer and Citicorp Trustee Company Limited (in such capacity, the "**Note Trustee**") as trustee for the Noteholders (as defined below). Any reference in these terms and conditions ("**Conditions**") to a "**class**" of Notes or of Noteholders shall be a reference to the Class A1 Notes, the Class A2 Notes, the Class A3 Notes, the Class A4 Notes and the Class Z Notes, as the case may be, or to the respective holders thereof, in each case except where the context otherwise requires.
- 1.2 The security for the Notes is constituted by a deed of charge and assignment (the "**Deed of Charge**") dated the Closing Date and made between, among others, the Issuer and Citicorp Trustee Company Limited as trustee for the Secured Creditors (in such capacity, the "**Security Trustee**").
- 1.3 Pursuant to an agency agreement (the "**Agency Agreement**") dated the Closing Date and made between the Issuer, the Note Trustee, Citibank, N.A., London Branch as principal paying agent (in such capacity, the "**Principal Paying Agent**" and, together with such additional or other paying agents, if any, appointed from time to time pursuant to the Agency Agreement, the "**Paying Agents**"), Citibank, N.A., London Branch as agent bank (in such capacity, the "**Agent Bank**") and Citibank, N.A., London Branch as registrar (in such capacity, the "**Registrar**"), provision is made for, *inter alia*, the payment of principal and interest in respect of the Notes of each class.
- 1.4 The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Deed of Charge, the Agency Agreement and the master definitions and construction schedule entered into by, *inter alia*, the Issuer, the Note Trustee and the Security Trustee on the Closing Date (the "**Master Definitions and Construction Schedule**") and the other Transaction Documents (as defined therein).
- 1.5 Copies of the Trust Deed, the Deed of Charge, the Agency Agreement, the Master Definitions and Construction Schedule and the other Transaction Documents are available for inspection during normal business hours at the specified office for the time being of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

1.6 Capitalised terms not otherwise defined in these Conditions shall bear the meanings given to them in the Master Definitions and Construction Schedule available as described above. These Conditions shall be construed in accordance with the principles of construction set out in the Master Definitions and Construction Schedule.

## 2. FORM, DENOMINATION AND TITLE

### Form and Denomination

2.1 Each class of the Notes will initially be represented by a global note certificate in registered form (each, a "**Global Note**") in the aggregate principal amount on issue of £1,634,000,000 for the Class A1 Notes, £1,634,000,000 for the Class A2 Notes, £1,634,000,000 for the Class A3 Notes, £1,634,000,000 for the Class A4 Notes and £1,064,000,000 for the Class Z Notes. Each Global Note will be deposited with and registered in the name of a common safekeeper (the "**Common Safekeeper**") (or nominee thereof) for Clearstream Banking S.A. ("**Clearstream, Luxembourg**") and Euroclear Bank S.A/N.V. ("**Euroclear**" and together with Clearstream, Luxembourg, the "**Clearing Systems**") on the Closing Date.

2.2 For so long as any of the Notes are represented by a Global Note, transfers and exchanges of beneficial interests in a Global Note and entitlement to payments thereunder will be effected subject to and in accordance with the rules and procedures for the time being of the relevant Clearing System.

2.3 For so long as the Notes are represented by a Global Note and for so long as the Clearing Systems so permit, the Notes will be tradeable only in the minimum authorised denomination of £100,000 and higher integral multiples of £1,000, notwithstanding that no Registered Definitive Notes (as defined below) will be issued with a denomination above £199,000.

2.4 A Global Note will be exchanged for the Class A1 Notes, Class A2 Notes, Class A3 Notes, Class A4 Notes and Class Z Notes in definitive registered form (such exchanged Global Notes in definitive registered form, the "**Registered Definitive Notes**") (free of charge to the persons entitled to them) only if of the following applies (an "**Exchange Event**"):

(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) announces 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 acceptable to the Note Trustee is available; or

(b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will on the next Interest Payment Date (as defined below) be required to make any deduction or withholding for or on account of tax from any payment in respect of such Notes which would not be required were such Notes in definitive registered form.

2.5 If Registered Definitive Notes are issued in respect of the Class A1 Notes, the Class A2 Notes, the Class A3 Notes, the Class A4 Notes and the Class Z Notes originally represented by a Global Note, the beneficial interests represented by the Global Note shall be exchanged by the Issuer for the relevant class of Notes in registered definitive form. The aggregate principal amount of the Registered Definitive Notes shall be equal to the Principal Amount Outstanding at the date on which notice of exchange is given of the Global Note, subject

to and in accordance with the detailed provisions of these Conditions, the Agency Agreement, the Trust Deed and the Global Note.

- 2.6 Registered Definitive Notes (which, if issued, will be in the denomination set out below) will be serially numbered and will be issued in registered form only.
- 2.7 Registered Definitive Notes, if issued, will only be printed and issued in denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000. No Registered Definitive Notes will be issued with a denomination above £199,000.

References to "Notes" in these Conditions shall include the Global Notes and the Registered Definitive Notes.

### **Title**

- 2.8 Title to the Global Notes shall pass by and upon registration in the register (the "**Register**") which the Issuer shall procure to be kept by the Registrar. The registered holder of a Global Note may (to the fullest extent permitted by applicable laws) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments), as the absolute owner of such Global Note regardless of any notice of ownership, theft or loss or any trust or other interest therein or of any writing thereon (other than the endorsed form of transfer).
- 2.9 Title to a Registered Definitive Note shall only pass by and upon registration of the transfer in the Register.
- 2.10 Registered Definitive Notes may be transferred upon the surrender of the relevant Registered Definitive Note, with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar. Such transfers shall be subject to the minimum denominations specified in Condition 2.7 above. All transfers of Registered Definitive Notes are subject to any restrictions on transfer set out on the Registered Definitive Notes and the detailed regulations concerning transfers in the Agency Agreement.
- 2.11 Each new Registered Definitive Note to be issued upon transfer of such Registered Definitive Note will, within five Business Days of receipt and surrender of such Registered Definitive Note (duly completed and executed) for transfer, be available for delivery at the specified office of the Registrar or be mailed at the risk of the transferee entitled to such Registered Definitive Note to such address as may be specified in the relevant form of transfer.
- 2.12 Registration of a Registered Definitive Note on transfer will be effected without charge by the Registrar, but subject to payment of (or the giving of such indemnity as the Registrar may require for) any tax, stamp duty or other government charges which may be imposed in relation to it.

## **3. STATUS AND RELATIONSHIP BETWEEN THE NOTES AND SECURITY**

### **3.1 Status and relationship between the Notes**

The Class A Notes constitute direct, secured and, subject to the limited recourse provisions in **Condition 11 (Enforcement)**, the unconditional obligations of the Issuer. The Class A Notes will rank as follows:

- (a) in respect of payments of principal:
- (i) prior to (and including) the date of delivery of an Enforcement Notice pursuant to **Condition 10 (Events of Default)**;
- (I) the Class A1 Notes shall rank *pari passu* and without any preference or priority amongst themselves, and in priority to the Class A2 Notes, the Class A3 Notes, the Class A4 Notes and the Class Z Notes;

- (II) the Class A2 Notes shall rank *pari passu* and without any preference or priority amongst themselves, and in priority to the Class A3 Notes, the Class A4 Notes and the Class Z Notes;
- (III) the Class A3 Notes shall rank *pari passu* and without any preference or priority amongst themselves, and in priority to the Class A4 Notes and the Class Z Notes; and
- (IV) the Class A4 Notes shall rank *pari passu* and without any preference or priority amongst themselves, and in priority to the Class Z Notes,

in accordance with these Conditions and the applicable Priority of Payments; and

- (ii) after (and excluding) the earlier of (A) the date of delivery of an Enforcement Notice on the Issuer pursuant to **Condition 10 (Events of Default)**, the Class A Notes shall rank *pari passu* and *pro rata* without any preference or priority amongst themselves, and in priority to the Class Z Notes, in accordance with these Conditions and the applicable Priority of Payments; and
- (b) in respect of payments of interest, Class A Notes shall rank *pari passu* and *pro rata* without any preference or priority amongst themselves, and in priority to the Class Z Notes, in accordance with these Conditions and the applicable Priority of Payments.
- (c) The Class Z Notes constitute direct, secured and, subject to the limited recourse provisions in **Condition 11 (Enforcement)** and **Condition 16 (Subordination by deferral)**, unconditional obligations of the Issuer. The Class Z Notes rank *pari passu* without preference or priority amongst themselves as to payments of interest and principal but junior to the Class A 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 persons who for the time being are registered in the Register as holders of Class A Notes (the “**Class A Noteholders**”) (so long as the Class A Notes remain outstanding).
- (d) The Trust Deed contains provisions requiring the Note Trustee to have regard to the interests of the Class A Noteholders and the Class Z Noteholders equally as regards all rights, powers, trusts, authorities, duties and discretions of the Note Trustee (except where expressly provided otherwise), but requiring the Note Trustee in any such case to have regard only to the interests of the Class A Noteholders if, in the Note Trustee's opinion, there is a conflict between the interests of the Class A Noteholders (or any class of the Class A Noteholders) and the Class Z Noteholders.
- (e) The Trust Deed and the Deed of Charge contain provisions limiting the powers of the Class Z Noteholders to request or direct the Note Trustee or the Security Trustee (as applicable) to take any action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class A Noteholders. Except in certain circumstances the Trust Deed contains no such limitation on the powers of the Class A Noteholders, irrespective of the effect thereof on their interests.

## 3.2 Security

- (a) The security constituted by the Deed of Charge is granted to the Security Trustee, on trust for the Noteholders and the other Secured Creditors of the Issuer, upon and subject to the terms and conditions of the Deed of Charge.

- (b) The Noteholders and the other Secured Creditors will share in the benefit of the security constituted by the Deed of Charge, upon and subject to the terms and conditions of the Deed of Charge.

#### 4. COVENANTS

4.1 Save with the prior written consent of the Note Trustee or unless otherwise permitted under any of the Transaction Documents, the Issuer shall not, so long as any Note remains outstanding:

- (a) **Negative pledge:** create or permit to subsist any encumbrance (unless arising by operation of law) or other security interest whatsoever over any of its assets or undertaking;
- (b) **Restrictions on activities:** (i) engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities in which the Transaction Documents provide or envisage that the Issuer will engage; or (ii) have any subsidiaries (as defined in the Companies Act 2006), any subsidiary undertakings (as defined in the Companies Act 2006) or any employees or premises;
- (c) **Disposal of assets:** transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein;
- (d) **Dividends or distributions:** pay any dividend or make any other distribution to its shareholders or issue any further shares;
- (e) **Indebtedness:** incur any financial indebtedness or give any guarantee in respect of any financial indebtedness or of any other obligation of any person;
- (f) **Merger:** consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;
- (g) **No modification or waiver:** permit any of the Transaction Documents to which it is a party to become invalid or ineffective or permit the priority of the security interests created or evidenced thereby or pursuant thereto to be varied or agree to any modification of, or grant any consent, approval, authorisation or waiver pursuant to, or in connection with, any of the Transaction Documents to which it is a party or permit any party to any of the Transaction Documents to which it is a party to be released from its obligations or exercise any right to terminate any of the Transaction Documents to which it is a party;
- (h) **Bank accounts:** have an interest in any bank account other than the Bank Accounts, unless such account or interest therein is charged to the Security Trustee on terms acceptable to it;
- (i) **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;
- (j) **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;
- (k) **VAT:** apply to become part of any group for the purposes of section 43 of the Value Added Tax Act 1994 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 the Value Added Tax Act 1994; or



- (l) **Surrender of group relief:** offer or consent to surrender to any company any amounts which are available for surrender by way of group relief within Part 5 of the Corporation Tax Act 2010.

4.2 Save with the prior written consent of the Note Trustee or unless otherwise permitted under any of the Transaction Documents, the Issuer shall, so long as any Note remains outstanding:

- (a) maintain its books and records, accounts and financial statements separate from any other person or entity and use separate stationery, invoices and cheques;
- (b) hold itself out as a separate entity, conduct its business in its own name and maintain an arm's length relationship with its affiliates (if any);
- (c) pay its own liabilities out of its own funds;
- (d) not commingle its assets with those of any other entity; and
- (e) observe all formalities required by its memorandum and articles of association (including maintaining adequate capital for its operations);

## 5. INTEREST

### 5.1 Interest Accrual

Each Note bears interest on its Principal Amount Outstanding from (and including) the Closing Date. Each Note (or, in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest from and including the due date for redemption unless payment of the principal in respect of the Note is improperly withheld or refused or default is otherwise made in respect of the payment, in which event interest shall continue to accrue as provided in the Trust Deed.

### 5.2 Interest Payment Dates

The Notes bear interest on their respective Principal Amounts Outstanding from and including the Closing Date payable monthly in arrear on the 12th day of each month (each an "**Interest Payment Date**" in respect of the Interest Period (as defined below) ended immediately prior thereto. If any Interest Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would then fall into the next calendar month, in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. The first payment shall be due on February 2019. The period from and including the Closing Date to but excluding the first Interest Payment Date and each successive period from and including an Interest Payment Date to but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

### 5.3 Rate of Interest

The rate of interest payable from time to time in respect of each class of the Notes (each a "**Rate of Interest**") will be determined on the basis of the following provisions:

- (a) On each Interest Determination Date (as defined below), Citibank, N.A., London Branch (in such capacity, the "**Agent Bank**") will determine the Compounded Daily SONIA (as defined below) at approximately 11.00 a.m. (London time) on that Interest Determination Date.
- (b) The Rate of Interest for the Interest Period in respect of each class of the Notes shall be the Compounded Daily SONIA plus the Relevant Margin (as defined below).

- (c) Subject to paragraph (b) above, in the event that the Rate of Interest cannot be determined in accordance with the provisions of these Conditions by the Agent Bank (or such other party responsible for the calculation of the Rate of Interest), the Rate of Interest shall be (i) that determined as at the last preceding Interest Determination Date (though substituting, where a different Relevant Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Relevant Margin relating to the relevant Interest Period in place of the Relevant Margin relating to that last preceding Interest Period) or (ii) if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to such Notes for the first Interest Period had the Notes been in issue for a period equal in duration to the scheduled first Interest Period but ending on (and excluding) the Interest Commencement Date (but applying the Relevant Margin applicable to the first Interest Period).
- (d) The minimum Rate of Interest shall be zero. There will be no maximum Rate of Interest.
- (e) In these Conditions (except where otherwise defined), the expression:
- (i) "**Banking Day**" means, in respect of any city, any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in London;
- (ii) "**Compounded Daily SONIA**" means the rate of return of a daily compound interest investment (with the daily Sterling overnight reference rate as reference rate for the calculation of interest) and will be calculated by the Principal Paying Agent (or such other party responsible for the calculation of the Rate of Interest) on the Interest Determination Date, as follows, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[ \prod_{i=1}^{d_o} \left( 1 + \frac{\text{SONIA}_{i-5\text{LBD}} \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

where:

"**d**" is the number of calendar days in the relevant Interest Period;

"**d<sub>o</sub>**" is the number of Banking Days in the relevant Interest Period;

"**i**" is a series of whole numbers from one to **d<sub>o</sub>**, each representing the relevant Banking Day in chronological order from, and including, the first Banking Day in the relevant Interest Period;

"**n<sub>i</sub>**", for any day "**i**", means the number of calendar days from and including such day "**i**" up to but excluding the following Banking Day;

- (iii) "**Interest Determination Date**" means the fifth Banking Day before the Interest Payment Date for which the rate will apply;
- (iv) "**Observation Period**" means the period from and including the date falling five Banking Days prior to the first day of the relevant Interest Period (and the first Interest Period shall begin on and include the Interest Commencement Date) and ending on, but excluding, the date falling five Banking Days prior to the Interest Payment Date for such Interest Period (or,

if applicable, the date falling five Banking Days prior to any other date on which a payment of interest is to be made in respect of the Notes);

- (v) **"Relevant Margin"** means:
    - (A) in relation to the Class A1 Notes, 0.90 per cent. per annum;
    - (B) in relation to the Class A2 Notes, 1.00 per cent. per annum;
    - (C) in relation to the Class A3 Notes, 1.15 per cent. per annum;
    - (D) in relation to the Class A4 Notes, 1.20 per cent. per annum; and
    - (E) in relation to the Class Z Notes, 0.50 per cent. per annum;
  - (vi) **"Relevant Screen Page"** means the Reuters Screen SONIA Page (or any replacement thereto);
  - (vii) **"SONIA Reference Rate"** means, in respect of any Banking Day, a reference rate equal to the daily Sterling Overnight Index Average ("**SONIA**") rate for such Banking Day as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors (on the Banking Day immediately following such Banking Day).
- If, in respect of any Banking Day in the relevant Observation Period, the Agent Bank (or such other party responsible for the calculation of the Rate of Interest) determines that the SONIA Reference Rate is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, such SONIA Reference Rate shall be: (i) the Bank of England's Bank Rate (the "**Bank Rate**") prevailing at close of business on the relevant Banking Day; plus (ii) the mean of the spread of the SONIA Reference Rate to the Bank Rate over the previous five days on which a SONIA Reference Rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads) to the Bank Rate.
- (viii) **"SONIA<sub>F-5LBD</sub>"** means, in respect of any Banking Day falling in the relevant Observation Period, the SONIA Reference Rate for the Banking Day falling five Banking Days prior to the relevant Banking Day "i".

#### 5.4 Determination of Rate of Interest and Interest Amounts

The Agent Bank shall, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, but in no event later than the third Business Day thereafter, determine the Sterling amounts (the "**Interest Amounts**") payable in respect of interest on the aggregate Principal Amount Outstanding of each class of the Notes for the relevant Interest Period. The Interest Amounts shall be determined by applying the relevant Rate of Interest to such aggregate Principal Amount Outstanding, multiplying the sum by the actual number of days in the Interest Period concerned divided by 365 and rounding the resulting figure downwards to the nearest cent.

#### 5.5 Publication of Rate of Interest and Interest Amounts

The Agent Bank shall cause the Rates of Interest and the Interest Amounts for each Interest Period and each Interest Payment Date to be notified to the Issuer, the Note Trustee, the Cash Manager, the Registrar and the

Paying Agents (as applicable) as soon as possible after their determination and in no event later than the second Business Day thereafter.

After receiving each notification of the Rates of Interest and the Interest Amounts for each Interest Period and each Interest Payment Date, the Issuer shall cause these to be notified to any stock exchange or other relevant authority on which the Notes are at the relevant time admitted to trading and/or listed (but no later than the first day of each Interest Period).

After receiving each notification of the Rates of Interest and the Interest Amounts for each Interest Period and each Interest Payment Date, the Principal Paying Agent shall, on behalf of the Issuer, arrange for such Rates of Interest and the Interest Amounts for each Interest Period and each Interest Payment Date to be published in accordance with **Condition 15 (Notice to Noteholders)** as soon as possible after receipt of such notification and in no event later than the second Business Day thereafter.

The Interest Amounts and Interest Payment Date may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period.

## **5.6 Notifications, etc. to be Final**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this **Condition 5**, whether by the Agent Bank, the Cash Manager or the Note Trustee, will (in the absence of wilful default, gross negligence or fraud) be binding on the Issuer, the Cash Manager, the Note Trustee, the Agent Bank, the 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 Cash Manager, the Agent Bank, the Registrar or, if applicable, the Note Trustee in connection with the exercise or non-exercise by any of them of their powers, duties and discretions under this **Condition 5**.

## **5.7 Agent Bank**

The Issuer shall procure that, so long as any of the Notes remains outstanding, there is at all times an Agent Bank for the purposes of the Notes and the Issuer may, subject to the prior written approval of the Note Trustee, terminate the appointment of the Agent Bank. In the event of the appointed office of any bank being unable or unwilling to continue to act as the Agent Bank or failing duly to determine the Rates of Interest and the Interest Amounts for any Interest Period, the Issuer shall, subject to the prior written approval of the Note Trustee, appoint the London office of another major bank engaged in the relevant interbank market to act in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed.

## **5.8 Determinations and Reconciliation**

- (a) In the event that the Cash Manager does not receive any Servicer Report due during a Monthly Period (the “**Determination Period**”), then the Cash Manager may use the Servicer Reports in respect of the three most recent Monthly Periods (or, where there are not at least three such previous Servicer Reports, any previous such Servicer Reports) for the purposes of calculating the amounts available to the Issuer to make payments, as set out in this **Condition 5.8**. If and when the Cash Manager ultimately receives the Servicer Report relating to the relevant Determination Period, it will make the reconciliation calculations and reconciliation payments as set out in **Condition 5.8(c)**. Any: (i) calculations properly done on the basis of such estimates in accordance with **Conditions 5.8(b)** and/or **5.8(c)**; (ii) payments made under any of the Notes and Transaction Documents in accordance with such calculations; and (iii) reconciliation calculations and reconciliation payments made as a result of such reconciliation calculations, each in accordance with **Conditions 5.8(b)** and/or **5.8(c)**, shall (in any case) be deemed to be done, in accordance with the provisions of the Transaction Documents and will

in themselves not lead to an Event of Default and no liability will attach to the Cash Manager in connection with the exercise by it of its powers, duties and discretion for such purposes.

- (b) In respect of any Determination Period, the Cash Manager shall:
- (i) determine the Interest Determination Ratio by reference to the three most recent Servicer Reports (or, where there are not at least three such previous Servicer Reports, any previous such Servicer Reports);
  - (ii) calculate the Revenue Receipts for such Determination Period as the product of (i) the Interest Determination Ratio and (ii) all collections received by the Issuer during such Determination Period (the “**Calculated Revenue Receipts**”); and
  - (iii) calculate the Principal Receipts for such Determination Period as the product of (i) one minus the Interest Determination Ratio and (ii) all collections received by the Issuer during such Determination Period (the “**Calculated Principal Receipts**”).
- (c) Following any Determination Period, upon receipt by the Cash Manager of the Servicer Reports in respect of such Determination Period, the Cash Manager shall reconcile the calculations made in accordance with **Condition 5.8(b)** above to the actual collections set out in the Servicer Reports by allocating the Reconciliation Amount as follows:
- (i) if the Reconciliation Amount is a positive number, the Cash Manager shall apply an amount equal to the lesser of (A) the absolute value of the Reconciliation Amount and (B) the amount standing to the credit of the Revenue Ledger, as Available Principal Receipts (with a corresponding debit of the Revenue Ledger); and
  - (ii) if the Reconciliation Amount is a negative number, the Cash Manager shall apply an amount equal to the lesser of (A) the absolute value of the Reconciliation Amount and (B) the amount standing to the credit of the Principal Ledger, as Available Revenue Receipts (with a corresponding debit of the Principal Ledger),

provided that the Cash Manager shall apply such Reconciliation Amount in determining Available Revenue Receipts and Available Principal Receipts for such Monthly Period in accordance with the terms of the Cash Management Agreement, and the Cash Manager shall promptly notify the Issuer and the Security Trustee of such Reconciliation Amount.

- (d) In this **Condition 5.8**, the expression:

“**Interest Determination Ratio**” means (i) the aggregate Revenue Receipts calculated in the three previous Servicer Reports (or where there are not at least three previous such Servicer Reports, the relevant previous Servicer Reports used by the Cash Manager pursuant to **Condition 5.8(b)(i)** above) divided by (ii) the aggregate of all Revenue Receipts and all Principal Receipts calculated in such Servicer Reports;

“**Reconciliation Amount**” means, in respect of any Monthly Period which is a Determination Period, (i) the actual Principal Receipts as determined in accordance with the available Servicer Reports, less (ii) the Calculated Principal Receipts in respect of such Monthly Period, plus (iii) any Reconciliation Amount not applied in previous Monthly Periods; and

“**Servicer Report**” means a report to be provided by the Servicer on or prior to each Monthly Pool Date and detailing the information relating to the Mortgage Portfolio necessary to produce the Investor Report.

## **6. PAYMENTS**

### **6.1 Payments of Interest and Principal**

Payments of principal and interest shall be made by Sterling cheque or upon application by the relevant Noteholder to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a Sterling account maintained by the payee with a bank in London and (in the case of final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Global Notes or Registered Definitive Notes (as the case may be) at the specified office of any Paying Agent.

### **6.2 Payments subject to applicable laws**

Payments in respect of principal, premium (if any) and interest on the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment.

### **6.3 Payment of Interest following a Failure to pay Principal**

If payment of principal is improperly withheld or refused on or in respect of any Note or part thereof, the interest which continues to accrue in respect of such Note in accordance with **Condition 5.1 (Interest Accrual)** and **Condition 5.3 (Rate of Interest)** will be paid in accordance with this Condition 6.

### **6.4 Change of Paying Agents**

The name of the initial Principal Paying Agent and its initial specified office is set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Note Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent or the 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 the Registrar with a specified office in London.

Except where otherwise provided in the Trust Deed or the Agency Agreement, the Issuer will cause notice of no more than 30 days and no less than 15 days of any change in or addition to the Paying Agents or the Registrar or their specified offices to be given to the Noteholders in accordance with **Condition 15 (Notice to Noteholders)** and will notify the Rating Agencies of such change or addition.

### **6.5 No Payment on non-Business Day**

If the date for payment of any amount in respect of a Note is not a Business Day, Noteholders shall not be entitled to payment until the next following Business Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. In this **Condition 6.5**, the expression Business Day means a day which is (a) a Business Day and (b) a day on which banks are generally open for business in the relevant place.

### **6.6 Partial Payment**

If a Paying Agent 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.

### **6.7 Payment of Interest**

If interest is not paid in respect of a Note of any Class on the date when due and payable (other than because the due date is not a Business Day (as defined in **Condition 6.5 (No Payment on non-Business Day)**) or by reason of non-compliance by the Noteholder with **Condition 6.1 (Payment of Interest and Principal)**), then such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to such Note

until such interest and interest thereon are available for payment and notice thereof has been duly given in accordance with **Condition 15 (Notice to Noteholders)**.

## **7. REDEMPTION**

### **7.1 Redemption at maturity**

Unless previously redeemed in full or purchased and cancelled as provided below, the Issuer will redeem the Notes at their respective Principal Amounts Outstanding together with accrued (and unpaid) interest on the Principal Amounts Outstanding for the relevant class of Notes on the Interest Payment Date falling in December 2063 (the "**Final Maturity Date**").

### **7.2 Mandatory redemption**

On each Interest Payment Date from and including the Revolving Period End Date (the "**Mandatory Redemption Date**") and prior to the service of an Enforcement Notice, the whole or part of each Note of any class shall, subject to the availability of Available Principal Receipts for such purpose in accordance with the Pre-Enforcement Principal Priority of Payments and the Pre-Enforcement Revenue Priority of Payments (as applicable) and **Conditions 7.3 (Optional redemption)** and **7.4 (Optional redemption for taxation or other reasons)**, be redeemed in an amount up to the Principal Amount Outstanding of the relevant class of Notes, together with any accrued (and unpaid) interest on such Principal Amount Outstanding of the relevant class of Notes up to (but excluding) the Mandatory Redemption Date.

### **7.3 Optional redemption**

- (a) On giving not more than 60 nor less than 30 days' notice to the relevant Noteholders in accordance with **Condition 15 (Notice to Noteholders)**, the Note Trustee, and the Swap Provider, and provided that:
- (i) the "**Optional Redemption Date**" is (1) the Optional Call Date or any Interest Payment Date thereafter or (2) any Interest Payment Date on which the aggregate Principal Amount Outstanding of all the Notes is equal to or less than 10 per. cent of the aggregate Principal Amount Outstanding of the Notes on the Closing Date;
  - (ii) on or prior to the Optional Redemption Date on which such notice expires, no Enforcement Notice has been served; and
  - (iii) the Issuer has, immediately prior to giving such notice, certified to the Note Trustee that it will have the necessary funds to pay all principal and interest due in respect of the relevant class or classes of Notes on the relevant Optional Redemption Date and to discharge all other amounts required to be paid by it on the relevant Optional Redemption Date,

the Issuer may on the Optional Redemption Date redeem the redeem all (but not some only) of the Class A Notes at their respective Principal Amounts Outstanding together with any accrued (and unpaid) interest thereon up to (but excluding) such Optional Redemption Date, taking into account any amounts standing to the credit of the General Reserve Fund Ledger and the Retained Principal Receipts Fund Ledger on such Optional Redemption Date, which may be used by the Issuer in or towards the redemption of the Class A Notes in accordance with this **Condition 7.3(a)**.

- (b) The "**Optional Call Date**" is the Interest Payment Date falling in December 2025. There will be no increase in the Margin applicable to the Notes after the Optional Call Date.

#### 7.4 Optional redemption for taxation or other reasons

If:

- (a) by reason of a change in tax law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, on the next Interest Payment Date, the Issuer or the Paying Agents would be required to deduct or withhold from any payment of principal or interest on any class of the Notes (other than because the relevant holder has some connection with the United Kingdom other than the holding of Notes of such class) any amount for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein;
- (b) by reason of a change in law, 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 advances made or to be made by it under any of the Notes; or
- (c) 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 the next Interest Payment Date, the Issuer or the Swap Provider would be required to deduct or withhold from any payment of principal, interest or other sum due and payable pursuant to the Notes or the Swap Agreement any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein,

then the Issuer shall, if the same would avoid the effect of such relevant event described in **sub-paragraph (a), (b) or (c)** above, appoint a Paying Agent in another jurisdiction or use its reasonable endeavours to arrange the substitution of a company incorporated and/or tax resident in another jurisdiction approved in writing by the Note Trustee as principal debtor under the Notes, provided that the Note Trustee is satisfied that such substitution will not be materially prejudicial to the interests of the Noteholders.

If the Issuer satisfies the Note Trustee immediately before giving the notice referred to below that one or more of the events described in **sub-paragraph (a), (b) or (c)** above is continuing and that the appointment of a Paying Agent or a substitution as referred to above would not avoid the effect of the relevant event or that, having used its reasonable endeavours, the Issuer is unable to arrange such a substitution, then the Issuer may, on any Interest Payment Date and having given not more than 60 nor less than 30 days' notice (or, in the case of an event described in **sub-paragraph (b)** above, such shorter period expiring on or before the latest date permitted by relevant law) to the Noteholders, the Note Trustee and the Swap Provider in accordance with **Condition 15 (Notice to Noteholders)**, redeem all (but not some only) of the Notes at their respective Principal Amounts Outstanding together with any accrued (and unpaid) interest thereon up to (but excluding) the date of redemption. Prior to the publication of any notice of redemption pursuant to this **Condition 7.4**, the Issuer shall deliver to the Note Trustee a certificate signed by two directors of the Issuer stating that (i) one or more of the events described in **sub-paragraph (a), (b) or (c)** above is continuing and that the appointment of a Paying Agent or a substitution as referred to above would not avoid the effect of the relevant event or that, having used its reasonable endeavours, the Issuer is unable to arrange such a substitution; and (ii) the Issuer will have the necessary funds to pay all principal and interest due in respect of the Notes on the relevant Interest Payment Date and to discharge all other amounts required to be paid by it on the relevant Interest Payment Date, and the Note Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above and it shall be conclusive and binding on the Noteholders.



## 7.5 Principal Amount Outstanding

The "**Principal Amount Outstanding**" of a Note on any date shall be its original principal amount less the aggregate amount of all principal payments in respect of such Notes which have become due and payable since the Closing Date except if and to the extent that any such payment has been improperly withheld or refused.

## 7.6 Notice of redemption

Any such notice as is referred to in **Condition 7.3(a) (Optional redemption)** and **Condition 7.4 (Optional redemption for taxation or other reasons)** above shall be irrevocable and, upon the expiry of such notice, the Issuer shall be bound to redeem the relevant Notes at the applicable amounts specified above.

## 7.7 No purchase by the Issuer

The Issuer will not be permitted to purchase any of the Notes.

## 7.8 Cancellation

All Notes redeemed in full will be cancelled upon redemption and may not be resold or re-issued.

## 8. TAXATION

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**"), unless the withholding or deduction of the Taxes is required by applicable law. In that event, the Issuer or, as the case may be, the relevant 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 or any other person shall be obliged to make any additional payments to Noteholders in respect of such withholding or deduction.

## 9. PRESCRIPTION

Claims in respect of principal and interest on the Notes will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the relevant payment.

In this **Condition 9**, the "**Relevant Date**", in respect of a payment, is the date on which such payment first becomes due or (if the full amount of the moneys payable on that date has not been duly received by the Principal Paying Agent or the Note Trustee on or prior to such date) the date on which, the full amount of such moneys having been received, notice to that effect is duly given to the relevant Noteholders in accordance with **Condition 15 (Notice to Noteholders)**.

## 10. EVENTS OF DEFAULT

### 10.1 Class A Notes

The Note Trustee at its absolute discretion may, and if so directed in writing by the holders of at least twenty-five per cent. in aggregate Principal Amount Outstanding of the Class A Notes then outstanding or if so directed by an Extraordinary Resolution of the Class A Noteholders shall (subject, in each case, to being indemnified and/or secured and/or pre-funded to its satisfaction), (but, in the case of the happening of any of the events described in sub-paragraph (b), only if the Note Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class A Noteholders) give notice (an "**Enforcement Notice**") to the Issuer that all classes of the Notes are immediately due and repayable at their respective Principal Amounts Outstanding, together with accrued interest as provided in the Trust Deed, in any of the following events (each, an "**Event of Default**") subject to **Condition 10.4 (Restriction)**:

- (a) if default is made in the payment of any principal or interest due in respect of the Most Senior Class of Notes or any of them and the default continues for a period of seven (7) days following the due date for payment of such principal or fifteen (15) days following the due date for payment of such interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these Conditions or any Transaction Document to which it is a party and (except in any case where the Note Trustee considers the failure to be incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for a period of 30 days (or such longer period as the Note Trustee may permit) following the service by the Note Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) if any order is made by any competent court or any resolution is passed for the winding up or dissolution of the Issuer, save for the purposes of reorganisation on terms approved in writing by the Note Trustee or by Extraordinary Resolutions of the Noteholders; or
- (d) if the Issuer ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms approved in writing by the Note Trustee or by Extraordinary Resolutions of the Noteholders, or the Issuer stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account its contingent and prospective liabilities) or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law or is adjudicated or found bankrupt or insolvent; or
- (e) if (i) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, application to the court for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) or an administration order is granted or the appointment of an administrator takes effect or an administrative or other receiver, manager or other similar official is appointed, in relation to the Issuer or in relation to the whole or any part of the undertaking or assets of the Issuer or an encumbrancer takes possession of the whole or any part of the undertaking or assets of the Issuer, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of the Issuer and (ii), in the case of any such possession or any such last-mentioned process, unless initiated by the Issuer, is not discharged or otherwise ceases to apply within 14 days; or
- (f) if the Issuer (or its directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or takes steps with a view to obtaining a moratorium in respect of any of its indebtedness or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors).

## 10.2 Class Z Notes

This **Condition 10.2** shall not apply as long as any Class A Note is outstanding. Subject thereto, for so long as any Class Z Note is outstanding, the Note Trustee at its absolute discretion may, and if so directed in writing by the holders of at least twenty-five per cent. in aggregate Principal Amount Outstanding of the Class Z Notes then outstanding or if so directed by an Extraordinary Resolution of the Class Z Noteholders shall (subject, in each case, to being indemnified and/or secured and/or pre-funded to its satisfaction), (but, in the case of the happening of any of the events referred to in Condition 10.1(b) in sub-paragraph (b) below, only if the Note Trustee shall have certified in writing to the Issuer that such event is materially prejudicial to the interests of

the Class Z Noteholders) give an Enforcement Notice to the Issuer in any of the following events (each, an "Event of Default") subject to **Condition 10.4 (Restriction)**):

- (a) if default is made in the payment of any principal, premium or interest due in respect of the Class Z Notes and the default continues for a period of seven (7) days following the due date for payment of such principal or fifteen (15) days following the due date for payment of such interest; or
- (b) if any of the Events of Default referred to in **Conditions 10.1(b) to (f)** occurs.

### **10.3 General**

Upon the service of an Enforcement Notice by the Note Trustee in accordance with **Conditions 10.1 (Class A Notes)** or **10.2 (Class Z Notes)** above, all classes of the Notes then outstanding shall thereby immediately become due and repayable at their respective Principal Amounts Outstanding, together with accrued interest as provided in the Trust Deed. The security constituted by the Deed of Charge will become enforceable upon the service of an Enforcement Notice.

### **10.4 Restriction**

Except in the case of an Event of Default referred to in **Condition 10.1(a)** or **10.2(a)**, the Note Trustee will not be entitled to dispose of any of the assets comprised in the security constituted by the Deed of Charge unless a financial adviser approved by the Note Trustee has confirmed that, in its opinion, either (i) a sufficient amount would be realised from such disposal to allow discharge in full of all amounts owing to the Class A Noteholders or (ii) a sufficient amount would not be so realised, but the resulting shortfall would be less than the shortfall that would result from not disposing of such assets.

## **11. ENFORCEMENT**

The Note Trustee and the Security Trustee may, at any time, at its discretion and without notice, take such action under or in connection with any of the Transaction Documents as it may think fit (including, without limitation, in the case of the Security Trustee, after the service of an Enforcement Notice, to take steps to enforce the security constituted by the Deed of Charge), provided that:

- (a) the Note Trustee and the Security Trustee shall not be bound to take any such action unless (subject in all cases to restrictions contained in the Trust Deed to protect the interests of any higher ranking class or classes of Noteholders) it shall have been so directed by an Extraordinary Resolution of the relevant class of Noteholders or so directed in writing by the holders of at least twenty-five per cent. in aggregate Principal Amount Outstanding of the relevant class of Notes;
- (b) neither the Note Trustee nor the Security Trustee shall be bound to take any such action unless it shall have been indemnified and/or pre-funded and/or secured to its satisfaction; and
- (c) the Note Trustee shall not be entitled to take any steps or proceedings to procure the winding-up, administration or liquidation of the Issuer.

Notwithstanding the foregoing, the Deed of Charge will provide that the Security Trustee shall enforce the security constituted by the Deed of Charge by appointing an administrative receiver in respect of the Issuer if it has actual notice of (i) an application for the appointment of an administrator in respect of the Issuer or (ii) the giving of a notice of intention to appoint an administrator in respect of the Issuer, such appointment of an administrative receiver to take effect not later than the final day by which the appointment must be made in order to prevent an administration proceeding unless, in any such case, to do so would in the opinion of the Security Trustee be materially prejudicial to the interests of the Noteholders and the Rating Agencies have confirmed that not so appointing an administrative receiver to the Issuer would not have an adverse effect on their then current ratings of any of the Notes.

The Deed of Charge will further provide that (i) the Security Trustee will not be liable for any failure to appoint an administrative receiver in respect of the Issuer, save in the case of its own gross negligence, wilful default or fraud and (ii) in the event that the Security Trustee appoints an administrative receiver in respect of the Issuer under the Deed of Charge in the circumstances set out in the paragraph above, then the Issuer shall waive any claims against the Security Trustee in respect of the appointment of the administrative receiver.

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 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 Note Trustee or, as the case may be, the Security Trustee, having become bound so to proceed, (i) fails to do so within a reasonable period, or (ii) is unable for any reason to do so, and such failure or inability 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.

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 Charged Property. If:

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

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

## **12. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER**

- 12.1 The Trust Deed contains provisions for convening meetings of the Noteholders of each class and, in certain cases, more than one class to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of these Conditions or the provisions of any of the Transaction Documents.
- 12.2 An Extraordinary Resolution passed at any meeting of the Class A Noteholders shall be binding on the Class Z Noteholders irrespective of the effect upon them, except that an Extraordinary Resolution to sanction a modification of these Conditions or the provisions of any of the Transaction Documents or a waiver or authorisation of any breach or proposed breach thereof or certain other matters specified in the Trust Deed will not take effect unless either the Note Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class Z Noteholders or it shall have been sanctioned by an Extraordinary Resolution of the Class Z Noteholders (as applicable).
- 12.3 An Extraordinary Resolution passed at any meeting of the Class Z Noteholders shall not be effective for any purpose unless either the Note Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders or it is sanctioned by an Extraordinary Resolution of the Class A Noteholders.
- 12.4 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, or, at any adjourned meeting, one or more persons being or representing a Noteholder of the relevant Class or Classes, whatever the aggregate Principal Amount Outstanding of the Notes of such Class or Classes held or represented by it or them.

- 12.5 The quorum at any meeting of Noteholders of any class or classes for passing an Extraordinary Resolution to sanction a modification of the date of maturity of any Notes or which would have the effect of postponing any day for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of such Notes, altering the currency of payment of such Notes or altering the quorum or majority required in relation to this exception (each, a "**Basic Terms Modification**") shall be one or more persons holding or representing not less than 75 per cent. or, at any adjourned meeting, not less than 25 per cent. of the aggregate Principal Amount Outstanding of the Notes of such class or classes. Any Extraordinary Resolution in respect of a Basic Terms Modification shall only be effective if duly passed at a meeting of the Noteholders.

The Trust Deed provides that, except in the case of an Extraordinary Resolution directing the Note Trustee to give an Enforcement Notice, as to which the provisions of **Condition 10 (Events of Default)** shall apply:

- (i) a resolution which, in the opinion of the Note Trustee or the Security Trustee (as applicable), affects the interests of the holders of one class only of the Notes shall be deemed to have been duly passed if passed at a separate meeting of the holders of the Notes of that class;
- (ii) a resolution which, in the opinion of the Note Trustee or the Security Trustee (as applicable), affects the interests of the holders of more than one class of Notes but does not give rise to a conflict of interest between the holders of each class of Notes so affected shall be deemed to have been duly passed if passed at a single meeting of the holders of the Notes of all classes of Notes so affected; and
- (iii) a resolution which, in the opinion of the Note Trustee or the Security Trustee (as applicable), affects the interests of the holders of more than one class of Notes and gives or may give rise to a conflict of interest between the holders of each class of Notes so affected and the holders of another class of Notes so affected shall be deemed to have been duly passed only if in lieu of being passed at a single meeting of the holders of the Notes of all classes of Notes so affected, and shall be duly passed at separate meetings of the holders of each class of Notes so affected.

The Trust Deed and the Deed of Charge contain similar provisions in relation to directions in writing from the Noteholders upon which the Note Trustee or the Security Trustee (as applicable) is bound to act.

- 12.6 The Note Trustee or the Security Trustee may agree without the consent of the Noteholders:

- (i) (save in respect of a Basic Terms Modification) to any modification, or to any waiver or authorisation of any breach or proposed breach, of these Conditions or any of the Transaction Documents which, in the opinion of the Note Trustee or the Security Trustee (as applicable), is not materially prejudicial to the interests of the Noteholders; or
- (ii) to any modification which, in the opinion of the Note Trustee or the Security Trustee (as applicable), is to correct a manifest error or is of a formal, minor or technical nature.

- 12.7 The Note Trustee and the Security Trustee shall, without the consent of any of the Noteholders or any other Secured Creditor, concur with the Issuer in making any modifications to:

- (a) the Transaction Documents and/or these Conditions that are requested by the Issuer in order to enable the Issuer to comply with any requirements which apply to it under Regulation (EU) 648/2012 (the European Market Infrastructures Regulation or "**EMIR**") or any other applicable laws or regulations including, without limitation, any associated regulatory or implementing technical standards and advice, guidance or recommendations from relevant competent authorities or ESMA;

- (b) the Transaction Documents and/or these Conditions that are requested by the Issuer in order to enable the opening of a Swap Collateral Account or other bank account of the Issuer;
- (c) the Transaction Documents and/or these Conditions that are requested by the Issuer in order to sell of new types of Mortgage Loans to the Issuer; and/or
- (d) the Swap Agreement where such change is made solely to implement revised swap counterparty criteria used by any of the Rating Agencies, and where failing to implement such revised swap counterparty criteria may or may be expected to have an adverse impact on the ratings of the Notes,

subject, in each case, to receipt by the Note Trustee and the Security Trustee of a certificate of the Issuer (or the Cash Manager on its behalf) certifying to the Note Trustee and the Security Trustee that the requested amendments are to be made solely for the purpose of enabling the Issuer to undertake the matters set out above and do not constitute a Basic Terms Modification.

12.8 When implementing any modification pursuant to **Condition 12.7**:

- (a) neither the Note Trustee nor the Security Trustee shall consider the interests of the Noteholders 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 and shall not be liable to the Noteholders 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 Note Trustee and the Security Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Note Trustee or the Security Trustee (as applicable) would have the effect of (a) exposing the Note Trustee or the Security Trustee (as applicable) 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 protections, of the Note Trustee or the Security Trustee (as applicable), in the Transaction Documents and/or the Trust Deed and/or the Deed of Charge.

12.9 The Note Trustee and the Security Trustee may also, without the consent of the Noteholders, determine that an Event of Default shall not, or shall not subject to specified conditions, be treated as such.

12.10 Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Note Trustee or the Security Trustee (as applicable) agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with **Condition 15 (Notice to Noteholders)**.

12.11 In connection with any such substitution of principal debtor referred to in **Condition 7.4 (Optional redemption for taxation or other reasons)**, the Note Trustee and the Security Trustee (as applicable) may also agree, without the consent of the Noteholders, to a change of the laws governing the Notes, these Conditions and/or any of the Transaction Documents, provided that such change would not, in the opinion of the Note Trustee or the Security Trustee (as applicable), be materially prejudicial to the interests of the Noteholders.

12.12 The Note Trustee and Security Trustee shall be entitled to take into account, for the purpose of exercising or performing any right, power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Transaction Documents, among other things, to the extent that it considers, in its sole and absolute discretion, it is necessary and/or appropriate and/or relevant, any confirmation by any Rating Agency Confirmation (whether or not such confirmation is addressed to, or provides that it may be relied upon by, the Note Trustee and Security Trustee and irrespective of the method by which such confirmation is conveyed) (a) that the then current rating by it of the relevant class of Notes would not be downgraded, withdrawn or qualified by such exercise or performance and/or (b) if the original rating of the relevant class of Notes has

been downgraded previously, that such exercise or performance will not prevent the restoration of such original rating of such class of Notes.

- 12.13 Where, in connection with the exercise or performance by each of them of any right, power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Transaction Documents (including, without limitation, in relation to any modification, waiver, authorisation, determination, substitution or change of laws as referred to above), the Note Trustee or the Security Trustee (as applicable) is required to have regard to the interests of the Noteholders of any class, it shall have regard to the general interests of the Noteholders of such class as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise or performance for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Note Trustee or the Security Trustee (as applicable) shall not be entitled to require, nor shall any Noteholder be entitled to claim from the Issuer, the Note Trustee or the Security Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.
- 12.14 For certain purposes, including the determination as to whether Notes are deemed outstanding, for the purposes of convening a meeting of Noteholders, those Notes which are for the time being held by or on behalf of or for the benefit of the Issuer, the Seller, any Holding Company of any of them or any other Subsidiary of either such Holding Company (each such entity a "**Relevant Person**"), in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain outstanding, except in the case of the Seller, any Holding Company of the Seller or any other Subsidiary of any such Holding Company where all of the Notes of any Class are held by or on behalf of or for the benefit of one or more Relevant Persons, in which case such Classes of Notes (the "**Relevant Class**") shall be deemed to remain outstanding except that, if there is any other Class of Notes ranking (with regard to the definition of Most Senior Class of Notes) *pari passu* with, or junior to, the Relevant Class and one or more Relevant Persons are not the beneficial owners of all of such Class of Notes, then the Relevant Class shall be deemed not to remain outstanding.

### **13. INDEMNIFICATION AND EXONERATION OF THE NOTE TRUSTEE AND THE SECURITY TRUSTEE**

The Trust Deed and the Deed of Charge contain provisions governing the responsibility (and relief from responsibility) of the Note Trustee and the Security Trustee respectively and providing for their indemnification in certain circumstances, including provisions relieving them from taking action or, in the case of the Security Trustee, enforcing the security constituted by the Deed of Charge unless indemnified and/or secured and/or pre-funded to their satisfaction.

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

### **14. REPLACEMENT OF NOTES**

If any 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.

## 15. NOTICE TO NOTEHOLDERS

Any notice shall be deemed to have been duly given to the relevant Noteholders if sent to the Clearing Systems for communication by them to the holders of the Notes and shall be deemed to be given on the date on which it was so sent and (so long as the relevant Notes are admitted to trading on the London Stock Exchange's regulated market and listed on the official list of the Financial Conduct Authority in its capacity as UK Listing Authority ("**UKLA**"), any notice shall also be published in accordance with the relevant listing rules and regulations (which includes publication in a national newspaper in the United Kingdom).

In addition, for so long as the Notes are admitted to trading and listed as described above, the Issuer shall give two copies of each notice in accordance with this **Condition 15 (Notice to Noteholders)** to the UK Financial Conduct Authority.

The Note Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the relevant Notes are then admitted to trading and provided that notice of such other method is given to the Noteholders in such manner as the Note Trustee shall require.

## 16. SUBORDINATION BY DEFERRAL

### 16.1 Interest

In the event that, on any Interest Payment Date that any of the Class A Notes remain outstanding prior to the service of an Enforcement Notice, the amount available to the Issuer, subject to and in accordance with the Deed of Charge, to apply on such Interest Payment Date, after deducting the amounts specified as having a higher priority in the Pre-Enforcement Revenue Priority of Payments than the interest payable in respect of the Class Z Notes (each, an "**Interest Residual Amount**"), is not sufficient to satisfy in full the aggregate amount of interest (including amounts previously deferred under this **Condition 16.1** and accrued interest thereon) due and payable, subject to this **Condition 16.1**, on the Class Z Notes on such Interest Payment Date, there shall instead be due and payable on such Interest Payment Date, by way of interest (including as aforesaid) on each Class Z Note, only a *pro rata* share of the Interest Residual Amount attributable to the relevant class of Notes on such Interest Payment Date.

In any such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest (including as aforesaid) paid on the Class Z Notes on the relevant Interest Payment Date in accordance with this **Condition 16.1** falls short of the aggregate amount of interest (including as aforesaid) due and payable (but for the provisions of this **Condition 16.1**) on the Class Z Notes on that date pursuant to **Condition 5 (Interest)**. Such shortfall shall itself accrue interest at the same rate as that payable in respect of the Class Z Notes and shall be due and payable together with such accrued interest on the following Interest Payment Dates, subject to the provisions of the preceding paragraph.

### 16.2 Principal

In the event that, on any Interest Payment Date that any of the Class A Notes remain outstanding prior to the service of an Enforcement Notice, the amount available to the Issuer, subject to and in accordance with the Deed of Charge, to apply on such Interest Payment Date, after deducting the amounts specified as having a higher priority in the Pre-Enforcement Principal Priority of Payments than the principal payable in respect of the Class Z Notes (each, a "**Principal Residual Amount**"), is not sufficient to satisfy in full the aggregate amount of principal due and payable, subject to this **Condition 16.2**, on the Class Z Notes on such Interest Payment Date, there shall instead be due and payable on such Interest Payment Date, by way of principal on each Class Z Note, only a *pro rata* share of the Principal Residual Amount attributable to the relevant class of Notes on such Interest Payment Date.



In any such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of principal paid on the Class Z Notes on the relevant Interest Payment Date in accordance with this **Condition 16.2** falls short of the aggregate amount of principal due and payable (but for the provisions of this **Condition 16.2**) in respect of the Class Z Notes on that date pursuant to **Condition 7.2 (Mandatory redemption)**. Such shortfall shall accrue interest at the same rate as that payable in respect of the Class Z Notes and shall be due and payable together with such accrued interest on the following Interest Payment Dates, subject to the provisions of **Condition 16.1** (in the case of such accrued interest) or the preceding paragraph (in the case of such shortfall of principal).

### **16.3 General**

Any amounts of principal or interest in respect of the Class Z Notes otherwise payable under these Conditions which are not paid by virtue of this **Condition 16**, together with accrued interest thereon, shall in any event become due and payable on the Interest Payment Date falling in December 2063 or on such earlier date as the Class Z Notes, become due and repayable in full under **Condition 7 (Redemption)** or **10 (Events of Default)**.

### **16.4 Notification**

As soon as practicable after becoming aware that any part of a payment of interest or principal on the Class Z Notes will be deferred or that a payment previously deferred will be made in accordance with this **Condition 16**, the Issuer will give notice thereof to the Class Z Noteholders in accordance with **Condition 15 (Notice to Noteholders)**.

### **16.5 Application**

This **Condition 16** shall cease to apply in respect of the Class Z Notes, upon the redemption in full of all Class A Notes.

## **17. SUBSTITUTION OF ISSUER**

### **17.1 Substitution of Issuer**

The Note Trustee may, without the consent of the Noteholders or any other Secured Creditor, subject to:

- (a) the consent of the Issuer; and
- (b) such further conditions as are specified in the Trust Deed,

agree to the substitution of another single purpose company incorporated in any jurisdiction that meets the criteria established from time to time by the Rating Agencies for a single purpose company in England (a "**Substituted Obligor**") in place of the Issuer as the principal debtor in respect of the Trust Documents, the Transaction Documents, the Notes and the Secured Amounts.

### **17.2 Notice of Substitution of Issuer**

Promptly after any substitution of the Issuer in accordance with this **Condition 17**, the Substituted Obligor shall cause notice of such substitution to be given to the Noteholders and the other Secured Creditors in accordance with **Condition 15 (Notice to Noteholders)** and the other relevant Transaction Documents.

### **17.3 Change of Law**

In the case of a substitution pursuant to this **Condition 17**, the Note Trustee may in its absolute discretion agree, without the consent of the Noteholders or the other Secured Creditors, to a change of the law governing the Notes and/or any of the Transaction Documents provided that such change would not, in the opinion of the

Note Trustee, be materially prejudicial to the interests of the holders of the Most Senior Class of outstanding Notes and provided that the Rating Agencies are notified by the Issuer. For the avoidance of doubt, a Transaction Document cannot be amended without the written agreement of all the parties thereto and the prior written consent of the Note Trustee.

#### **17.4 No indemnity**

No Noteholder shall, in connection with any such substitution, be entitled to claim from the Issuer or the Note Trustee any indemnification or payment in respect of any tax consequence or any other consequence of any such substitution upon individual Noteholders.

#### **18. NON-RESPONSIVE RATING AGENCY**

In respect of each Rating Agency, if a Rating Agency Confirmation is a condition to any action, step or matter under any Transaction Document and a written request for such Rating Agency Confirmation is delivered to that Rating Agency by or on behalf of the Issuer (copied to the Note Trustee) and:

- (a) (A) that Rating Agency indicates that it does not consider a Rating Agency Confirmation necessary in the circumstances or otherwise declines to review the matter for which the Rating Agency Confirmation is sought (including as a result of the policy or practice of that Rating Agency) or (B) within 30 days of delivery of such request, that Rating Agency has not responded to the request for the Rating Agency Confirmation; and
- (b) the Issuer has otherwise received no indication from that Rating Agency that its then current ratings of the Rated Notes would be reduced, qualified, withdrawn or put on negative watch as a result of such action, step or matter,

then: (i) there shall be no requirement for the Rating Agency Confirmation from the Rating Agency if the Issuer certifies to the Note Trustee and the Security Trustee that one of the events in **Condition 18(a)** has occurred and the condition in **Condition 18(b)** is fulfilled; and (ii) neither the Issuer, the Security Trustee nor the Note Trustee shall be liable for any loss that the Noteholders may suffer as a result.

#### **19. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

##### **19.1 Governing Law**

Each of the Trust Deed, the Deed of Charge, the Notes and these Conditions (and, in each case, any non-contractual obligations arising out of or in connection with the relevant document) is governed by, and shall be construed in accordance with, English law, unless expressly stated otherwise.

##### **19.2 Submission to jurisdiction**

- (a) Subject to **Condition 19.2(c)** below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Note Trust Deed and the Notes, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Note Trust Deed and the Notes (a "**Dispute**") and accordingly each of the Issuer and the Note Trustee and any Noteholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.
- (b) For the purposes of this **Condition 19.2**, the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

- (c) To the extent allowed by law, each of the Note Trustee and the Noteholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

**20. RIGHTS OF THIRD PARTIES**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Notes or these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## TAXATION

### *United Kingdom Taxation*

*The following applies only to persons who are the beneficial owners of the Notes and is a summary of the Issuer's understanding of current United Kingdom law and published HM Revenue & Customs ("HMRC") practice relating only to the United Kingdom withholding tax treatment of payments of interest (as that term is understood for tax purposes) in respect of the Notes. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of the Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future (possibly with retrospective effect). Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek professional advice.*

### **Interest on the Notes**

Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for such purposes. Securities will be treated as "listed on the London Stock Exchange" for this purpose if they are included in the Official List (within the meaning and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom income tax.

In other cases, an amount must generally be withheld from payments of interest on the Notes that has a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any available exemptions or reliefs. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

### **Foreign Account Tax Compliance Act**

FATCA imposes a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "foreign financial institution", or "FFI" (as defined by FATCA)) that does not become a "**Participating FFI**" by entering into an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of the Issuer (a "**Recalcitrant Holder**"). The Issuer may be classified as an FFI.

The new withholding regime is now in effect for payments from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined) no earlier than 1 January 2017. This foreign passthru payment withholding would potentially apply to payments in respect of (i) any Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued after the "**grandfathering date**", which is the date that is six months after the date on which final U.S. Treasury regulations defining the term "foreign passthru payments" are filed with the Federal Register, or which are materially modified after the grandfathering date and (ii) any Notes characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued.

The United States and a number of other jurisdictions have entered into or announced their intention to enter into intergovernmental agreements to facilitate the implementation of FATCA (each, an "IGA"). Pursuant to FATCA and the "Model 1 IGA" and "Model 2 IGA" (each a "Model IGA") released by the United States, an FFI in an IGA signatory country could be treated as a "**Reporting FI**" not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction generally would not be required to withhold under FATCA or any law implementing an IGA (any such withholding being a "**FATCA Withholding**") from payments it makes. An FFI in a Model 2 IGA jurisdiction and a Participating FFI in a non-IGA jurisdiction may, depending on the circumstances, be required to make a FATCA Withholding in respect of certain payments from sources within the United States. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and the United Kingdom have entered into an agreement (the "**U.S.-UK IGA**") based largely on the Model 1 IGA.

The Issuer expects to be treated as a Reporting FI pursuant to the U.S.-UK IGA and does not anticipate being obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Issuer will be treated as a Reporting FI, or that it would in the future not be required to deduct FATCA Withholding from payments it makes. Accordingly, the Issuer and financial institutions through which payments on the Notes are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Notes is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA, or (ii) an investor is a Recalcitrant Holder.

While the Notes are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under or in respect of the Notes by the Issuer, any paying agent or the Common Safekeeper, given that each of the entities in the payment chain between the Issuer and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may convert into definitive form and therefore that they may cease to be held through the ICSDs. If this were to happen then, depending on the circumstances, a non-FATCA-compliant holder could be subject to FATCA Withholding. However, conversion into Registered Definitive Notes is only anticipated to occur in remote circumstances.

Notwithstanding this, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA Withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of FATCA Withholding, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA Withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA Withholding. The Issuer's obligations under the Notes are discharged once it has made payment to, or to the order of, the ICSDs, and the Issuer has therefore no responsibility for any amount thereafter transmitted through the ICSDs and custodians or intermediaries.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and the U.S.-UK IGA, all of which are subject to change or may be implemented in a materially different form.

## SUBSCRIPTION AND SALE

The Seller has, pursuant to a note purchase agreement dated on or around the date of this Prospectus between the Seller, the Arranger, the Lead Manager and the Issuer (the "**Note Purchase Agreement**"), agreed with the Issuer (subject to certain conditions) to purchase and pay for:

- (a) £1,634,000,000 of the Class A1 Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A1 Notes;
- (b) £1,634,000,000 of the Class A2 Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A2 Notes;
- (c) £1,634,000,000 of the Class A3 Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A3 Notes;
- (d) £1,634,000,000 of the Class A4 Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A4 Notes; and
- (e) £1,064,000,000 of the Class Z Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class Z Notes.

The Issuer has agreed to indemnify the Seller, the Arranger and the Lead Manager against certain Liabilities in connection with the issue of the Notes.

The Seller has no obligation to retain the Rated Notes on an ongoing basis.

Other than admission of the Notes to the Official List and the admission to trading on the London Stock Exchange's Regulated Market, no action has been taken by the Issuer or the Lead Manager, which would or is intended to permit a public offering of the Notes, or possession or distribution of this Prospectus or other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

The Lead Manager 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.

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.

Except with the prior written consent of the Seller via a U.S. Risk Retention Consent and where such sale falls within the exemption provided by section 20 of the U.S. Risk Retention Rules, the Notes offered and sold in the initial distribution of the Notes (including any initial distribution of the Notes to third parties by the Seller) may not be purchased by, or for the account or benefit of, any Risk Retention U.S. Persons. Each purchaser of the Notes or a beneficial interest therein acquired in the initial distribution of the Notes (including any initial distribution of the Notes to third parties by the Seller), by its acquisition of the Notes or a beneficial interest therein will be deemed to make certain representations and agreements set out in "*Important Information – Restrictions of Sales to U.S. Persons (as defined by the U.S. Risk Retention Rules)*" above.

### **Retail Investor Restriction**

The Lead Manager has represented and agreed that it has not made the Notes available, or sold the Notes, to a retail investor and that it will not make the Notes available, or sell the Notes, to a retail investor. The Notes are not intended 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:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (b) a customer within the meaning of 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 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.

### **United Kingdom**

The Lead Manager has represented and agreed 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.

### **United States**

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S) except pursuant to an exemption from the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold in offshore transactions in reliance on Regulation S.

The Lead Manager has agreed that, except as permitted by the Note Purchase Agreement, it will not offer or sell the Notes as part of its distribution at any time or otherwise until 40 days after the later of the commencement of the offering and the closing date (the "**Distribution Compliance Period**") within the United States or to, or for the account or benefit of, U.S. Persons except in accordance with Regulation S and that it will have sent to each affiliate or other dealer (if any) to which it sells Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons.

## GENERAL INFORMATION

### Authorisation

The issue of the Notes was authorised pursuant to a resolution of the board of directors of the Issuer passed on 5 December 2018.

### Listing of Notes

Application has been made to the London Stock Exchange for the Notes, subject only to the issue of the Global Notes initially representing the Notes, to be admitted to the Official List and trading on its regulated market on the Closing Date.

### Documents Available

For so long as the Notes are listed on the London Stock Exchange and admitted to trading on its Regulated Market, physical copies of the following documents may be inspected at the registered office of the Issuer (and, with the exception of paragraph (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) each Transaction Document; and
- (c) the most recently published audited annual financial statements of the Issuer. The Issuer does not publish interim accounts.

### Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following ISINs and Common Codes:

<u>Class of Notes</u>	<u>ISIN</u>	<u>Common Code</u>
Class A1 Notes	XS1921542434	192154243
Class A2 Notes	XS1921543168	192154316
Class A3 Notes	XS1921543325	192154332
Class A4 Notes	XS1921543911	192154391
Class Z Notes	XS1921544216	192154421

### Significant or Material Change

Since 18 October 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.

### Litigation

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 18



October 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).

### **Accounts**

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 2019.

### **Post-issuance information**

The Cash Manager on behalf of the Issuer will publish the monthly Investor Report detailing, *inter alia*, certain aggregated loan data in relation to the Mortgage Portfolio and certain information on the Mortgage Loans in the Mortgage Portfolio (as further described in “*Transaction Overview - Rights of Noteholders and Relationship with Other Secured Creditors – Provision of Information to the Noteholders*” above. Such Investor Reports and information will be published on a secure website which can be accessed via <https://www.lloydsbankinggroup.com/investors/fixed-income-investors/securitisation>. Other than as outlined above, the Issuer does not intend to provide post-issuance transaction information regarding the Notes or the Mortgage Loans.

### **No other activities since incorporation**

Since the date of its incorporation, the Issuer has not entered into any contracts or arrangements not being in the ordinary course of business.

### **Websites**

Any website referred to in this document does not form part of the Prospectus.

### **Miscellaneous**

The Issuer confirms that the Mortgage Loans backing the issue of the Notes have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. Investors are advised that this confirmation is based on the information available to the Issuer at the date of this Prospectus and may be affected by the future performance of such assets backing the issue of the Notes. Investors are advised to review carefully any disclosure in the Prospectus together with any amendments or supplements thereto.

## GLOSSARY

“**Additional Account**” means any account in the name of the Issuer at the Account Bank or any other bank created after the Closing Date established pursuant to and in accordance with the Bank Account Agreement including the Swap Collateral Account;

“**Associated Debt**” means any indebtedness a Borrower owes or may owe to Bank of Scotland, from time to time which is not assigned to the Issuer;

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

“**BoS Mortgage Book**” means those sterling-denominated loans originated in respect of properties in the United Kingdom to borrowers resident in the United Kingdom at the time of origination and their related security which are originated and administered by the Seller under the Halifax brand;

“**Business Day**” means a day (other than a Saturday or Sunday or a public holiday) on which banks are open for business in London;

“**Buy to Let Loan**” means Mortgage Loans taken out by Borrowers in relation to the purchase or re-mortgage of properties for letting purposes;

“**Calculation Date**” means the date which occurs four Business Days prior to each Interest Payment Date;

“**Capital Balance**” means for any Mortgage Loan at any date the Current Balance of that Mortgage Loan to which the Servicer applies the relevant interest rate at which interest on that Mortgage Loan accrues;

“**Capitalised Arrears**” means, in relation to a Mortgage Loan, at any date, amounts (excluding Arrears of Interest or amounts comprising Capitalised Expenses) which are overdue in respect of that Mortgage Loan and which as at that date have been added to the Capital Balance of the Mortgage Loan in accordance with the Mortgage Terms or otherwise by arrangement with the relevant Borrower;

“**Capitalised Expenses**” means, in relation to a Mortgage Loan, the amount of any expense, charge, fee, premium or payment (excluding any Arrears of Interest) capitalised and added to the Capital Balance of the Mortgage Loan in accordance with the relevant Mortgage Terms or otherwise by arrangement with the relevant Borrower;

“**Capitalised Interest**” means for any Mortgage Loan at any date, Arrears of Interest which as at that date has been added to the Capital Balance of the Mortgage Loan in accordance with the Mortgage Terms or otherwise by arrangement with the relevant Borrower;

“**Certificate of Title**” means a solicitor's or licensed conveyancer's report or certificate of title obtained by or on behalf of the Seller in respect of each Property substantially in the form of the pro-forma set out in the Standard Documentation;

“**Charged Property**” means the property charged by the Issuer pursuant to Clause 3 of the Deed of Charge;

“**Class**” means each of the Class A1 Notes, the Class A2 Notes, the Class A3 Notes, the Class A4 Notes and the Class Z Notes;

“**Class A Noteholders**” means each of the holders of the Class A1 Notes, the holders of the Class A2 Notes, the holders of the Class A3 Notes and the holders of the Class A4 Notes;

“**Collection Account Declaration of Trust**” means the deed entered into on or about the Closing Date, between, *inter alios*, the Issuer, the Servicer and the Seller whereby the Seller declared a trust of the Collection Account;

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

- (a) the Initial Advance and any Further Advances;
- (b) Capitalised Expenses;
- (c) Capitalised Arrears; and
- (d) an increase in the principal amount due under that Mortgage Loan due to the Borrower taking Payment Holidays or making Underpayments,

in each case relating to such Mortgage Loan less any prepayment, repayment or payment of the foregoing made on or prior to the determination date;

“**Customer File**” means the file or files relating to each Mortgage Loan and Related Security containing, *inter alia*:

- (a) all material correspondence relating to that Mortgage Loan and Related Security; and
- (b) the completed mortgage documentation applicable to the Mortgage Loan and Related Security (other than the Title Deeds) including the Valuation Report and the Certificate of Title (where applicable),

whether original documentation, in electronic form or otherwise;

“**Data Protection Laws**” means:

- (a) the GDPR; and
- (b) all other applicable laws or regulations concerning the processing of data relating to living persons, in each case as amended or replaced from time to time;

“**Deed of Consent**” means a deed whereby a person in or intended to be in occupation of a Property agrees with the Seller to postpone his or her interest (if any) in the Property so that it ranks after the interest created by the relevant Mortgage;

“**Eurozone**” means the member states of the European Union that have adopted the euro as their common currency and sole legal tender;

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

“**Exchange Event**” has the meaning given in Condition 2.4;

“**Extraordinary Resolution**” has the meaning set out in paragraph 1 of Schedule 3 to the Trust Deed;

“**Hedge Subordinated Amount**” means, in relation to the Swap Agreement, the amount of any termination payment due and payable to the Swap Provider as a result of a Swap Provider Default or a Swap Provider Downgrade Event;

“**Help to Buy Loan**” means Mortgage Loans which have the protection of the help-to-buy scheme operated by the UK Government;

“**Holding Company**” means in relation to a company or corporation, any other company or corporation in respect of which it is a Subsidiary;

“**ICSDs**” means Clearstream, Luxembourg and Euroclear;

“**Initial Advance**” means, in relation to a Mortgage Loan, the original principal amount together with the amount of any retention advanced to the relevant Borrower after completion of the Mortgage, and it may include any other fees (if capitalised);

“**Insolvency Event**” in respect of the Seller, the Servicer, the Corporate Services Provider, the Account Bank or the Cash Manager (each, for the purposes of this definition, a “**Relevant Entity**”) means:

- (a) an order is made or an effective resolution passed for the winding up of the Relevant Entity;
- (b) the Relevant Entity ceases or threatens to cease to carry on its business or stops payment or threatens to stop payment of its debts or is deemed unable to pay its debts within the meaning of section 123(i)(a), (b), (c) or (d) of the Insolvency Act 1986 or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amounts of its liabilities (taking into account, for both these purposes, contingent and prospective liabilities) or otherwise becomes insolvent; or
- (c) proceedings (including, but not limited to, presentation of an application for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) are initiated against the Relevant Entity under any applicable liquidation, administration reorganisation (other than a reorganisation where the Relevant Entity is solvent) or other similar laws, save where such proceedings are being contested in good faith; or an administrative or other receiver, administrator or other similar official is appointed in relation to the whole or any substantial part of the undertaking or assets of the Relevant Entity or the appointment of an administrator takes effect; or a distress, execution or diligence or other process is enforced upon the whole or any substantial part of the undertaking or assets of the Relevant Entity and in any of the foregoing cases it is not discharged within 15 Business Days; or if the Relevant Entity initiates or consents to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally or takes steps with a view to obtaining a moratorium in respect of any indebtedness;

“**Liability**” means, in respect of any person, any loss, damages, cost, charge, award, claim, demand, expense, judgment, action, proceeding or other liability whatsoever including, without limitation, legal fees and any Taxes and penalties incurred by that person, together with any VAT charged or chargeable in respect of any of the sums referred to in this definition;

“**Losses**” means all realised losses on the Mortgage Loans including any loss to the Issuer as a result of the exercise of a set-off by any Borrower;

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

“**Monthly Payment**” means the amount which the relevant Mortgage Terms require a Borrower to pay on each Monthly Payment Day in respect of that Borrower's Mortgage Loan;

“**Monthly Payment Day**” means the date in each month on which interest (and principal in relation to a Repayment Loan) is due to be paid by a Borrower on a Mortgage Loan under the applicable Mortgage Terms or, if any such day is not a Business Day, the next following Business Day;

“**Monthly Period**” means each period from (and including) the first day in the calendar month immediately preceding a Calculation Date (or in the case of the first Monthly Period, from (and including) the Closing Date) to (and including) the last day in the calendar month immediately preceding the Calculation Date (or, in the case of the first Monthly Period, the last day in the calendar month immediately preceding the first Calculation Date);

“**Mortgage**” means a first ranking legal charge secured over freehold or leasehold Properties located in England or Wales;

“**Mortgage Terms**” means all the terms and conditions applicable to a Mortgage Loan and/or Mortgage, including, without limitation, the applicable Mortgage Conditions and Offer Conditions;

“**Mortgage Conditions**” means the terms and conditions applicable to a Mortgage Loan and/or Mortgage as contained in the Seller's "Mortgage Conditions" booklet applicable from time to time;

“**Mortgaged Property**” or “**Property**” means a freehold or leasehold property which is subject to a Mortgage and together, the “**Mortgaged Properties**” or “**Properties**”;

“**New Loan Product**” means a type of loan product that is not offered by the Seller on the Closing Date;

“**Offer Conditions**” means the terms and conditions applicable to a specified Mortgage Loan as set out in the relevant offer letter to the Borrower;

“**Payment Holiday**” means any contractually authorised suspension of payments of principal, Capitalised Interest, Capitalised Expenses and Capitalised Arrears and any interest charged during the most recent Monthly Period;

“**Product Switch Period**” means the period from the Closing Date and until (but excluding) the Optional Call Date;

“**Register**” means the register of Noteholders kept by the Registrar and which records the identity of each Noteholder and the number of Notes which each Noteholder owns;

“**Replacement Swap Premium**” means an amount received by the Issuer from a replacement interest rate swap provider upon entry by the Issuer into an agreement with such replacement interest rate swap provider to replace the Swap Provider, which shall be paid directly by the Issuer to the Swap Provider;

“**Second Home Loan**” means a loan to a borrower that is, to the best of the Seller's knowledge, for the purchase of a second home which is not the main residence of the relevant borrower;

“**Secured Obligations**” means any and all of the moneys and liabilities which the Issuer covenants to pay or discharge under Clause 2 of the Deed of Charge and all other amounts owed by it to the Secured Creditors under and pursuant to the Transaction Documents;

“**Security**” means the security granted by the Issuer to the Security Trustee under and pursuant to the Deed of Charge in favour of the Secured Creditors;

“**Security Interest**” means any mortgage, sub-mortgage, standard security, charge, sub-charge, pledge, lien (other than a lien arising in the ordinary course of business or by operation of law), assignation in security or other encumbrance or security interest howsoever created or arising;

“**Seller's Policy**” means the originating, underwriting, administration, arrears and enforcement policy applied by the Seller from time to time to loans and the security for their repayment which are beneficially owned solely by the Seller;

“**Standard Documentation**” means the standard documentation, a list of which is set out in Part 2 of the Appendix to the Mortgage Sale Agreement and copies of which have been initialled on behalf of the parties thereto for the purposes

of identification, or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender;

“**Subsidiary**” means in relation to any company or corporation, a company or corporation:

- (a) which is controlled directly or indirectly, by the first mentioned company or corporation;
- (b) more than half the issued share capital of which is beneficially owned, directly or indirectly, by the first mentioned company or corporation; or
- (c) which is a Subsidiary of another Subsidiary of the first mentioned company or corporation,

and for this purpose a company or corporation shall be treated as being controlled by another if that other company or corporation is able to direct its affairs and/or control the composition of its board of directors or equivalent body;

“**Swap**” means the interest rate swap documented under the Swap Agreement;

“**Swap Collateral Account**” means any bank account opened with the Account Bank and/or such other banks (with the prior consent of the Security Trustee) and designated as such for the purposes of holding collateral posted by the Swap Provider pursuant to the Swap Agreement in accordance with the provisions of the Bank Account Agreement;

“**Swap Collateral**” means an amount equal to the value of collateral (or the applicable part of any collateral) provided by the Swap Provider to the Issuer under the Swap Agreement which is equal to that Swap Provider's liability under the Swap Agreement at any time, and includes any interest and distributions in respect thereof;

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

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

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

“**Title Information Documents**” means the Title Deeds and any related planning documents or other local authority documents relating to the Property;

“**Transfer Costs**” means the Issuer's costs and expenses associated with the transfer of administration to a substitute administrator;

“**Underpayment**” means a payment by a Borrower in an amount less than the Monthly Payment then due on the Mortgage Loan;

“**Valuation Report**” means the valuation report or reports for mortgage purposes obtained by the Seller from a Valuer in respect of each relevant Property or a valuation report in respect of a valuation made using a methodology which would be acceptable to a Reasonable, Prudent Mortgage Lender and which has been approved by the Seller (including an “Automated Valuation Model”);

“**Valuer**” means an Associate or Fellow of the Royal Institution of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers who was at the relevant times either a member of a firm which was on the list of Valuers approved by or on behalf of the Seller from time to time or an Associate or Fellow of the Royal Institution of Chartered

Surveyors or the Incorporated Society of Valuers and Auctioneers employed in-house by the Seller acting for the Seller in respect of the valuation of a Property;

**“Variable Base Rate Loan”** means a variable rate loan which allows the borrower to pay interest at one of the standard variable rates of the Seller which are serviced, at the discretion of the Seller, by reference to the general level of Mortgage Loans which are subject to variable rates of interest set by the Seller based on general interest rates and competitive forces in the UK mortgage market from time to time; (and shall, for the avoidance of doubt, exclude Mortgage Loans during the period that they are Fixed Rate Loans or Tracker Rate Loans)

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