

## IMPORTANT NOTICE

### NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE U.S. EXCEPT TO QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED BELOW)

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE SECURITIES OF FOSSE MASTER ISSUER PLC. THE FOLLOWING BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE NOTES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR THE BENEFIT OF, U.S. PERSONS (WITHIN THE MEANING OF 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.

This base prospectus has been delivered to you on the basis that you are a person into whose possession this base prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located. By accessing the base prospectus, you shall be deemed to have confirmed and represented to us that (a) you have understood and agree to the terms set out herein, (b) you consent to delivery of the base prospectus by electronic transmission, (c) you are either (i) not a U.S. person (within the meaning of Regulation S under the Securities Act) or acting for the account or benefit of a U.S. person and the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) or the District of Columbia or (ii) a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and (d) if you are a person in the United Kingdom, then you are a person who (i) is an investment professional within the meaning of article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the **FPO**) or (ii) is a high net worth entity falling within Article 49(2)(a) to (d) of the FPO (together, **relevant persons**). In the UK, this base prospectus must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this base prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

This base prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither Fosse Master Issuer plc, Barclays Bank PLC or Santander UK plc together with its affiliated and associated companies (**Santander UK**) nor any person who controls it, nor any director, officer, employee or agent of Fosse Master Issuer plc, Barclays Bank PLC or Santander UK nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the base prospectus distributed to you in electronic format and the hard copy version available to you on request from Santander UK.

**FOSSE MASTER ISSUER PLC**

*(incorporated in England and Wales with limited liability, registered number 5925693)*

**RESIDENTIAL MORTGAGE BACKED NOTE PROGRAMME**

<b>Programme establishment</b>	Fosse Master Issuer plc (the issuer) established a residential mortgage backed note programme (the <b>programme</b> ) on 28 November 2006 (the <b>initial closing date</b> ).
<b>Issuance in series</b>	Under the programme, the issuer may from time to time issue class A notes, class B notes, class M notes, class C notes, class D notes and class Z notes in one or more series (together, the notes). Each series will consist of one or more classes of notes. One or more series and one or more classes of notes may be issued at any one time.
<b>The notes</b>	<p>The notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the <b>Securities Act</b>) or the securities laws of any state of the United States and the notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (<b>Reg S</b>)) 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.</p> <p>The programme provides that the issuer may issue notes to be sold outside the United States to non-U.S. persons in reliance on Reg S. Such notes are collectively referred to herein as <b>Reg S notes</b>. The issuer may also issue notes which will be sold within the United States only to qualified institutional buyers (<b>QIBs</b>) within the meaning of Rule 144A under the Securities Act (<b>Rule 144A</b>) in reliance on Rule 144A. Such notes are collectively referred to herein as the <b>Rule 144A notes</b>. Prospective purchasers are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain further restrictions on offers, sales and transfers of notes in this base prospectus, see "<b>Subscription and sale</b>" below and "<b>Transfer restrictions and investor representations</b>" below.</p> <p>The programme also provides that, in addition to Reg S notes and Rule 144A notes, notes may be listed on such other or further stock exchange(s) as may be agreed between the issuer, the note trustee and the relevant dealers and/or managers. The issuer may also issue unlisted notes.</p> <p>References to the <b>listed notes</b> do not include any notes listed and/or traded on any exchange other than the Irish Stock Exchange (<b>non-ISE listed notes</b>). Non-ISE listed notes may be governed by or construed in accordance with a law other than English law (<b>foreign law notes</b>) as may be specified in the applicable issue terms (<b>issue terms</b>).</p> <p>The issue terms and any drawdown prospectus, as applicable, for any non-ISE listed notes will specify whether such non-ISE listed notes are foreign law notes and whether the terms and conditions of such non-ISE listed notes differ from the terms and conditions of the notes described herein.</p>
<b>Underlying assets</b>	<p>The principal asset from which the issuer will make payments on the notes is a master intercompany loan to an affiliated company called Fosse Funding (No.1) Limited (<b>Funding 1</b>). The principal asset from which Funding 1 will make payments on the master intercompany loan is its interest in a master trust over a pool of residential mortgage loans held by Fosse Trustee Limited (the <b>mortgages trustee</b>).</p> <p>The residential mortgage loans were originated by Alliance &amp; Leicester plc (<b>Alliance &amp; Leicester</b> or the <b>previous seller</b>) prior to the transfer of its business to Santander UK plc (previously known as Abbey National plc) (<b>Santander UK</b> or the <b>seller</b>) and thereafter by Santander UK and are secured over properties located in England, Wales, Northern Ireland and Scotland.</p>
<b>Credit enhancement</b>	Subject to the detailed description and limits set out in "Credit structure", the notes will have the benefit of the following credit enhancement or support: availability of excess portions of Funding 1's available revenue receipts and of Funding 1's available principal receipts; reserve funds that will be used in certain circumstances by Funding 1 to meet any deficit in revenue or to repay amounts of principal (other than with respect to the class Z notes); and subordination of junior classes of notes. The notes will also have the benefit of certain derivatives instruments which may include currency and interest rate swaps, if specified in the relevant final terms (as defined below).
<b>Listing</b>	This document comprises a base prospectus for the purposes of Directive 2003/71/EC (as amended) (the <b>Prospectus Directive</b> ). This base prospectus supersedes any previous prospectus describing the programme. Any notes issued

	<p>under the programme on or after the date of this base prospectus are issued subject to the provisions described herein. This base prospectus has been approved by the Central Bank of Ireland (the <b>Central Bank</b>) in its capacity as competent authority under the Prospectus Directive. The Central Bank has only approved this base prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the notes which are to be admitted to trading on a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC (the <b>MIFID</b>) and/or which are to be offered to the public in any member state of the European Economic Area (the <b>EEA</b>). This base prospectus is not a prospectus for the purposes of Section 12(a)(2) or any other provision of or rule under the Securities Act.</p> <p>Application will be made to the Irish Stock Exchange PLC (the <b>Irish Stock Exchange</b>) for notes (other than any notes which are to be unlisted or listed on any other exchange) issued during the period of 12 months from the date of this base prospectus to be admitted to the official list (the <b>Official List</b>) and traded on the Irish Stock Exchange's regulated market (the <b>Main Securities Market</b>). The Irish Stock Exchange's Main Securities Market is a regulated market for the purposes of the MIFID. The final terms or drawdown prospectus, if applicable, of an issuance of notes (including any series and classes or sub-classes of such notes, the aggregate nominal amounts of such notes, interest (if any) payable in respect of such notes and the issue price of such notes and certain financial and other information about the issuer's assets) will be determined by the issuer in accordance with the prevailing market conditions at the time of the issue of the relevant notes and will be set out in a separate document (the <b>final terms</b> or <b>drawdown prospectus</b>, as the case may be). The final terms and any drawdown prospectus for listed notes will be filed with the Irish Stock Exchange and made available to the public in accordance with the Irish and EU law pursuant to the Prospectus Directive (the <b>prospectus rules</b>). This base prospectus may be used to offer and sell the notes only if accompanied by the relevant final terms or drawdown prospectus, if any.</p> <p>The issuer may agree with any relevant dealer and/or manager and the note trustee that notes may be issued in a form not contemplated by the terms and conditions of the notes herein, in which event (in the case of notes admitted to the Official List only) a drawdown prospectus will be made available which will describe the effect of the agreement reached in relation to such notes.</p>
<p><b>Credit ratings</b></p>	<p>The notes (other than any notes which are to be unrated) comprising each series will be assigned certain ratings upon issue by each of Standard &amp; Poor's Ratings Services, a division of Standard &amp; Poor's Credit Market Services Europe Limited (<b>Standard &amp; Poor's</b> or <b>S&amp;P</b>), Moody's Investors Service Ltd. (<b>Moody's</b>) and Fitch Ratings Ltd. (<b>Fitch</b>) which are described in "<b>Transaction overview – Description of the notes – Issuance</b>" below. Standard &amp; Poor's Credit Market Services Europe Limited operates under its trading name Standard &amp; Poor's Ratings Services. The ratings assigned to the notes (other than any notes which are to be unrated) comprising each series will be specified in the accompanying final terms, the issuer terms (if any) or, if applicable, a drawdown prospectus. A 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. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under Regulation (EC) No 1060/2009 (as amended) (the <b>CRA Regulation</b>) or issued by a credit rating agency established in a third country but whose credit ratings are endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation or which is certified in accordance with the CRA Regulation (and such endorsement or certification, as the case may be, has not been withdrawn or suspended).</p> <p>Each of Standard &amp; Poor's, Moody's, and Fitch is established in the European Union and is registered under the CRA Regulation. As such each of the credit 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 in accordance with the CRA Regulation.</p>

Notwithstanding any provision in this base prospectus to the contrary, each prospective investor (and each employee, representative or other agent of each such prospective investor) may disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and U.S. federal income tax structure of any transaction contemplated in this base prospectus and all materials of any kind (including opinions or other tax analyses) that are provided to it relating to such U.S. federal income tax treatment and U.S. federal income tax structure.

A note is not a deposit and neither the notes nor the underlying receivables are insured or guaranteed by any United Kingdom or United States governmental agency.

**Neither the United States Securities and Exchange Commission nor any state securities commission in the United States or any other United States regulatory authority has approved or disapproved the notes or determined that this base prospectus is truthful or complete. Any representation to the contrary is a criminal offence in the United States.**

**Please consider carefully the risk factors beginning on page 13 of this base prospectus.**

The date of this base prospectus is 9 October 2014

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THERE IS NO UNDERTAKING TO REGISTER THE NOTES UNDER U.S. STATE OR FEDERAL SECURITIES LAWS. UNTIL 40 DAYS AFTER THE COMMENCEMENT OF THE OFFERING, AN OFFER OR SALE OF THE NOTES WITHIN THE UNITED STATES BY ANY DEALER OR MANAGER (WHETHER OR NOT PARTICIPATING IN THE OFFERING) MAY VIOLATE THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IF SUCH OFFER OR SALE IS MADE OTHERWISE THAN IN COMPLIANCE WITH RULE 144A OR PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THE CLASS A RULE 144A NOTES, CLASS B RULE 144A NOTES, CLASS M RULE 144A NOTES AND CLASS C RULE 144A NOTES OF EACH SERIES WILL BE ERISA-ELIGIBLE NOTES (AS DEFINED HEREIN) UNLESS OTHERWISE SET FORTH IN THE APPLICABLE FINAL TERMS. THE ERISA-ELIGIBILITY OF THE CLASS D RULE 144A NOTES WILL BE SET FORTH IN THE APPLICABLE FINAL TERMS. THE REG S NOTES AND ANY RULE 144A NOTES NOT SPECIFIED IN THE APPLICABLE FINAL TERMS AS ERISA-ELIGIBLE NOTES ARE NOT DESIGNED FOR, AND MAY NOT BE PURCHASED OR HELD BY, ANY "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**), WHICH IS SUBJECT THERETO, OR ANY "PLAN" AS DEFINED IN SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **CODE**) TO WHICH SECTION 4975 APPLIES, OR BY ANY PERSON ANY OF THE ASSETS OF WHICH ARE, OR ARE DEEMED FOR PURPOSES OF ERISA OR SECTION 4975 OF THE CODE TO BE, ASSETS OF SUCH AN "EMPLOYEE BENEFIT PLAN" OR "PLAN"; AND EACH PURCHASER OF SUCH NOTE WILL BE DEEMED TO HAVE REPRESENTED, WARRANTED AND AGREED THAT IT IS NOT, AND FOR SO LONG AS IT HOLDS SUCH A NOTE WILL NOT BE, SUCH AN "EMPLOYEE BENEFIT PLAN", "PLAN" OR PERSON.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE STATE OF NEW HAMPSHIRE REVISED STATUTES ANNOTATED (RSA 421-B) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

#### **AVAILABLE INFORMATION**

The issuer has agreed that, for so long as any of the Rule 144A notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the issuer will furnish, upon request of a holder or of any beneficial owner of such a Rule 144A note or of any prospective purchaser designated by such holder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request the issuer is not a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the **Exchange Act**), or is not exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

#### **ENFORCEABILITY OF JUDGMENTS**

The issuer is a public limited company registered in England and Wales. All of the issuer's assets are located outside the United States. None of the officers and directors of the issuer are residents of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the issuer or any such person not residing in the United States with respect to matters arising under the federal securities laws of the United States, or to enforce against them judgments of courts of the United States predicated upon the civil liability provisions of such securities laws. There is doubt as to the enforceability in England and Wales, in original actions or in actions for the enforcement of judgment of U.S. courts, of civil liabilities predicated solely upon the federal securities laws of the United States.

#### **DESCRIPTION OF THE PRIME COLLATERALISED SECURITIES INITIATIVE**

The Prime Collateralised Securities initiative (**PCS**) was launched on 14 November 2012 and is administered by Prime Collateralised Securities (PCS) UK Limited (**PCS Secretariat**). In summary, the PCS is an industry-led non-profit initiative which seeks to define and promote certain best practice standards in the asset-backed securities market by identifying standards for certain types of securitisations of quality,

transparency, simplicity and liquidity and by providing a process whereby a corresponding label (**PCS Label**) for compliant transactions (on an issuance, rather than programme, basis) may be sought.

The seller may apply to the PCS Secretariat for the PCS Label with respect to notes issued under the programme. As at the date of this base prospectus, several series of notes issued under the programme have been awarded the PCS Label and further information in relation to those awards is available on the PCS's website (<http://www.pcs.market.org>). Although the seller has applied for the PCS Label in relation to certain notes issued under the programme in the past, it is not yet known whether the seller will do so for notes issued under this base prospectus or whether the PCS Label will be provided, if sought. Following an award of the PCS Label, any amendment to (i) the transactions contemplated herein, (ii) this base prospectus or (iii) the application documentation submitted to the PCS Secretariat which affect the correctness or changes the details of the original application for the PCS Label shall be notified by the seller to the PCS Secretariat. Any failure to adhere to the PCS Eligibility Criteria may result in a subsequent withdrawal of the PCS Label and a retraction of a confirmation letter. For PCS purposes, (a) the underlying assets under the programme are residential mortgage loans secured over properties located in England, Wales, Scotland and Northern Ireland and none of the underlying assets under the programme are tranching debt securities themselves and (b) the programme does not involve a securitisation of one or more underlying assets (i) where risk transfer is achieved through the use of credit derivatives or other similar financial instruments and (ii) where there is no sale or granting of a security interest in the underlying assets to the mortgages trustee or Funding 1, as applicable.

For any notes issued under this programme in respect of which a PCS Label is awarded: (A) the first investor report that follows the award of the PCS Label will disclose the amount of the notes (i) privately placed with investors which are not in the originator group; (ii) retained by a member of the originator group; and (iii) publicly placed with investors which are not in the originator group; and (B) in relation to any amount initially retained by a member of the originator group, but subsequently placed with investors which are not in the originator group, the next investor report will (to the extent permissible) disclose such placement. For the purpose of this paragraph originator group means the originator and (i) its holding company; (ii) its subsidiaries; (iii) any other affiliated company as set out in the published accounts of any such company but excluding entities within the group that are in the business of investing in securities and whose investment decisions are taken independently of, and at arm's length from, the originator.

As a private sector initiative, neither the PCS Label nor the activity of it being provided is endorsed or regulated by any regulatory and/or supervisory authority. The PCS Secretariat is not regulated by any regulator and/or supervisory authority.

In general, it should be noted that the PCS Label operates only as a confirmation that the relevant securities satisfy (at the time of award) certain specific standards referred to in the PCS standards and corresponding eligibility criteria. The PCS Label is not an opinion on the creditworthiness of the relevant securities or on the level of risk associated with an investment in the relevant securities. In addition, it is not an indication of the suitability of the relevant securities for any investor and/or a recommendation to buy, sell or hold securities. It is not clear what significance (if any) may be attributed to the PCS Label by prospective investors and, as such, it is not clear what impact the final determination (be it positive or negative) in respect of the seller's application (if an application is made in relation to notes issued under this base prospectus) for the PCS Label may have with respect to the market value and/or liquidity of the notes issued under the programme.

THE NOTES WILL BE OBLIGATIONS OF THE ISSUER ONLY. THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY PERSON OTHER THAN THE ISSUER. IN PARTICULAR, THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY OF ALLIANCE & LEICESTER PLC (**ALLIANCE & LEICESTER**), SANTANDER UK PLC (**SANTANDER UK**), BARCLAYS BANK PLC (THE **ARRANGER**), THE DEALERS, THE MANAGERS, THE NOTE TRUSTEE, THE FUNDING 1 SECURITY TRUSTEE, THE ISSUER SECURITY TRUSTEE, FUNDING 1, THE MORTGAGES TRUSTEE, THE CORPORATE SERVICES PROVIDER, THE ISSUER CORPORATE SERVICES PROVIDER, THE FUNDING 1 SWAP PROVIDER, THE ISSUER SWAP PROVIDERS, ANY SWAP GUARANTORS (AS APPLICABLE), THE PAYING AGENTS, THE REGISTRAR, THE TRANSFER AGENT, THE EXCHANGE RATE AGENT (IF APPLICABLE), THE AGENT BANK, ANY REMARKETING AGENT (IF APPLICABLE), ANY CONDITIONAL PURCHASER (IF APPLICABLE), ANY COMPANY IN THE SAME GROUP OF COMPANIES AS ALLIANCE & LEICESTER, SANTANDER UK OR THE DEALERS, THE MANAGERS OR ANY OTHER PARTY TO THE TRANSACTION DOCUMENTS. NO LIABILITY WHATSOEVER IN RESPECT OF ANY FAILURE BY THE ISSUER TO PAY ANY AMOUNT DUE UNDER THE NOTES SHALL BE ACCEPTED BY ANY OF ALLIANCE & LEICESTER, SANTANDER UK, THE ARRANGER, THE DEALERS, THE MANAGERS, THE NOTE TRUSTEE, THE FUNDING 1 SECURITY TRUSTEE, THE ISSUER SECURITY TRUSTEE, FUNDING 1, THE MORTGAGES TRUSTEE, THE CORPORATE SERVICES PROVIDER, THE ISSUER CORPORATE SERVICES PROVIDER, THE FUNDING 1 SWAP PROVIDER, THE ISSUER SWAP PROVIDERS, ANY

SWAP GUARANTORS (AS APPLICABLE), THE PAYING AGENTS, THE REGISTRAR, THE TRANSFER AGENT, THE EXCHANGE RATE AGENT (IF APPLICABLE), THE AGENT BANK, ANY REMARKETING AGENT (IF APPLICABLE), ANY CONDITIONAL PURCHASER (IF APPLICABLE), ANY COMPANY IN THE SAME GROUP OF COMPANIES AS ALLIANCE & LEICESTER, SANTANDER UK OR THE DEALERS, THE MANAGERS OR ANY OTHER PARTY TO THE TRANSACTION DOCUMENTS (BUT WITHOUT PREJUDICE TO THE OBLIGATIONS OF FUNDING 1 TO THE ISSUER UNDER THE INTERCOMPANY LOAN AGREEMENT).

The issuer accepts responsibility for the information contained in this base prospectus and each final terms. To the best of the knowledge of the issuer (having taken all reasonable care to ensure that such is the case) the information contained in this base prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. The issuer accepts responsibility accordingly.

None of the arranger, the dealers or the managers has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and, to the fullest extent permitted by law, no responsibility or liability is accepted by any of the arranger, the dealers or the managers as to the accuracy or completeness of the information contained or incorporated in this base prospectus or any other information provided by the issuer in connection with the programme. None of the arranger, the dealers or the managers accepts any liability in relation to the information contained or incorporated by reference in this base prospectus or any other information provided by the issuer in connection with the programme.

A copy of this base prospectus and the accompanying final terms relating to listed notes will be available for inspection at the registered office of the issuer and at the specified office of the paying agents or, when filed with the Central Bank, will be made available to the public in accordance with the prospectus rules. A copy of the issue terms relating to notes which are not listed notes including in relation to non-ISE listed notes (if any) will be made available at the specified office of each paying agent.

If at any time the issuer shall be required to prepare a supplemental prospectus pursuant to the Prospectus Directive, the issuer will prepare and make available an appropriate amendment or supplement to this base prospectus which, in respect of any subsequent issue of notes to be listed on the Official List and admitted to trading on the Irish Stock Exchange's Main Securities Market for the purposes of the MiFID, shall constitute a supplemental prospectus as required by the Central Bank under Irish Law and EU Law pursuant to the Prospectus Directive.

No person is or has been authorised in connection with the issue and sale of the notes to give any information or to make any representation not contained in this base prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the issuer, the directors of the issuer, Funding 1, the mortgages trustee, Alliance & Leicester, Santander UK, the arranger, the dealers, the managers, the note trustee, the Funding 1 security trustee, the issuer security trustee, the corporate services provider, the issuer corporate services provider, the issuer swap providers, any swap guarantors (as applicable), the paying agents, the registrar, the transfer agent, the exchange rate agent (if applicable), the agent bank, any remarketing agent (if applicable), any conditional purchaser (if applicable), any company in the same group of companies as Santander UK or the dealers, the managers or any other party to the transaction documents. Any websites referred to herein do not form any part of the contents of this base prospectus.

Neither the delivery of this base prospectus nor any sale or allotment made in connection with the offering of any of the notes shall under any circumstances constitute a representation or create any implication that there has been no change in the affairs of the issuer, Funding 1, the mortgages trustee, Alliance & Leicester, Santander UK, the arranger, the dealers, the managers, the corporate services provider, the issuer corporate services provider, the Funding 1 swap provider, the issuer swap providers, any swap guarantors (as applicable), the paying agents, the registrar, the transfer agent, the exchange rate agent (if applicable), the agent bank, any remarketing agent (if applicable), any conditional purchaser (if applicable), any company in the same group of companies as Santander UK or the arranger, the dealers, the managers or any other party to the transaction documents or that there has been no change in the information contained herein since the date hereof or that the information contained herein is correct as at any time subsequent to the date hereof or that there has been no change in any other information supplied in connection with the programme as of any time subsequent to the date indicated in the document containing the same or that such information is correct at any time subsequent to the date thereof.

Other than the approval of this base prospectus as a base prospectus by the Central Bank, the filing of this base prospectus with the Central Bank and making this base prospectus available to the public in accordance with the prospectus rules, no action has been or will be taken to permit a public offering of any listed notes or the distribution of this base prospectus in any jurisdiction where action for that purpose is required. The distribution of this base prospectus and the offering of notes in certain jurisdictions may be restricted by law. Persons into whose possession this base prospectus (or any part hereof) comes are

required by the issuer, the managers and the dealers to inform themselves about, and to observe, any such restrictions. For a further description of certain restrictions on offers and sales of notes and distribution of this base prospectus, see “**Subscription and sale**” below. Neither this base prospectus nor any part hereof constitutes an offer of, or an invitation by, or on behalf of, the issuer or the arranger or the dealers or the managers to subscribe for or purchase any of the notes and neither this base prospectus, nor any part hereof, may be used for or in connection with an offer to, or solicitation by, any person in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

Accordingly, the notes may not be offered or sold, directly or indirectly, and neither this base prospectus nor any part hereof nor any other offering document, base prospectus, form of application, advertisement, other offering material or other information may be issued, distributed or published in any country or jurisdiction (including the United Kingdom), except in circumstances that will result in compliance with all applicable laws, orders, rules and regulations.

In connection with the issue of any series and class of notes, the dealer(s) and/or manager(s) named as stabilising manager(s) (or persons acting on behalf of any stabilising manager) in the applicable final terms may over-allot such notes (provided that in the case of any series and class of notes to be admitted to trading on the Irish Stock Exchange's regulated market or any other regulated market (within the meaning of the MiFID) in the European Economic Area, the aggregate principal amount of such notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant series and class) or effect transactions with a view to supporting the market price of that series and class of notes at a level higher than that which might otherwise prevail. However, there is no assurance that the stabilising manager(s) (or any persons acting on behalf of a stabilising manager) will undertake such action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant series and class of notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the closing date of the relevant series and class of notes and 60 days after the date of the allotment of the relevant series and class of notes.

## FORWARD-LOOKING STATEMENTS

This base prospectus contains statements which constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such statements appear in a number of places in this base prospectus, including, but not limited to, statements made under the captions “**Risk factors**”, “**The loans**” and “**Description of the transaction documents – Servicing agreement**” below. These forward-looking statements can be identified by the use of forward-looking terminology, such as the words “believes”, “expects”, “may”, “will”, “continue”, “intends”, “plans”, “should”, “could” or “anticipates”, or the negative or other variations of those terms. These statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results and performance of the notes, Santander UK or the UK residential mortgage industry to differ materially from any future results or performance expressed or implied in the forward-looking statements. These risks, uncertainties and other factors include, among other things: general economic and business conditions in the United Kingdom; currency exchange and interest rate fluctuations; government, statutory, regulatory or administrative initiatives affecting Santander UK; changes in business strategy, lending practices or customer relationships; and other factors that may be referred to in this base prospectus. 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. Some of the most significant of these risks, uncertainties and other factors are discussed under the caption “**Risk factors**” below, and you are encouraged to consider those factors carefully prior to making an investment decision. The issuer expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the issuer's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

## DEFINED TERMS AND CONVENTIONS

Terms used in this base prospectus are defined in the Glossary. Where terms first appear in the text, they are also defined there or reference is made there to a definition elsewhere.

References in this base prospectus to **final terms** are to the final terms for listed notes.

References in this base prospectus to a **drawdown prospectus** are to a drawdown prospectus which may be used when the issuer intends to issue notes in a form not contemplated by the terms and conditions of the notes herein, or if it considers that the information contained in this base prospectus and the final terms needs to be supplemented, amended and/or replaced in the context of an issue of a particular series



or class of notes. References to final terms will be deemed to include the applicable drawdown prospectus if a drawdown prospectus is required.

References in this base prospectus to **issue terms** are to the issue terms for non-ISE listed notes, if any, (including notes not offered under this base prospectus). Issue terms will be based on the form of final terms set forth in this base prospectus.

References in this document to **issuer, we** or **our** mean Fosse Master Issuer plc and references to **you** mean potential investors in the notes.

References in this base prospectus to **£, pounds** or **sterling** are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland and references to **sterling notes** mean notes issued and denominated in sterling.

References in this base prospectus to **U.S.\$, U.S. dollars** or **dollars** are to the lawful currency of the United States of America and references to **dollar notes** mean notes issued and denominated in dollars.

References in this base prospectus to **€, euro** or **Euro** are to the single currency introduced at the third stage of European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended from time to time and references to **euro notes** mean notes issued and denominated in euro.

Any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this base prospectus to the extent that a subsequent statement which is deemed to be incorporated by reference herein or contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise), (provided, however, that such statement shall only form part of the base prospectus to the extent that it is contained in a document all or the relevant portion of which is incorporated by reference by way of a supplement proposed in accordance with Article 16 of the Prospectus Directive). Any statement so modified or superseded shall not, except as so modified or superseded, constitute part of this base prospectus.

### **Important notice about information provided in this base prospectus and the accompanying final terms**

Information about each series of notes is contained in two separate documents: (a) this base prospectus, which provides general information, some of which may not apply to a particular series; and (b) the accompanying final terms for a particular series, which describes the specific terms of the notes of that series, including:

- the timing of interest and principal payments;
- financial and other information about our assets;
- information about the credit enhancement for your series or class of notes; and
- the ratings for your class of notes (other than any notes which are to be unrated).

This base prospectus may be used to offer and sell any series and class of notes only if accompanied by the final terms for that series and class.

Although the accompanying final terms for a particular series of notes cannot contradict the information contained in this base prospectus, insofar as the final terms contains specific information about the series that differs from the more general information contained in this base prospectus, you should rely on the information in the final terms.

You should rely only on the information contained in this base prospectus and the accompanying final terms, including any information incorporated by reference. The issuer has not authorised anyone to provide you with information that is different from that contained in this base prospectus and the accompanying final terms. The information in this base prospectus or the accompanying final terms is only accurate as of the dates on their respective covers.

Cross-references are included in this base prospectus and each accompanying final terms to captions in these materials where you can find further related discussions. The following table of contents and the table of contents included in each accompanying final terms provide the pages on which these captions are located.

## DOCUMENTS INCORPORATED BY REFERENCE

The audited financial statements of Funding 1 for the period up to and including the year ended 31 December 2012, which appear on pages 4 to 25 of Funding 1's Annual Report and Accounts for the year ended 31 December 2012, which have been filed with the Central Bank, are incorporated by reference into this base prospectus. Copies of these financial statements may be obtained at Funding 1's registered office at 35 Great St. Helen's, London EC3A 6AP, United Kingdom and may be viewed online at <http://www.santander.co.uk/uk/about-santander-uk/investor-relations/fosse-master-trust>. Deloitte LLP, members of the Institute of Chartered Accountants in England and Wales, have issued unqualified audit opinions on the financial statements of Funding 1 for the period ended 31 December 2012.

The audited financial statements of Funding 1 for the period up to and including the year ended 31 December 2013, which appear on pages 5 to 25 of Funding 1's Annual Report and Accounts for the year ended 31 December 2013, which have been filed with the Central Bank, are incorporated by reference into this base prospectus. Copies of these financial statements may be obtained at Funding 1's registered office at 35 Great St. Helen's, London EC3A 6AP, United Kingdom and may be viewed online at <http://www.santander.co.uk/uk/about-santander-uk/investor-relations/fosse-master-trust>. Deloitte LLP, members of the Institute of Chartered Accountants in England and Wales, have issued unqualified audit opinions on the financial statements of Funding 1 for the period ended 31 December 2013.

The audited financial statements of the issuer for the period up to and including the year ended 31 December 2012, which appear on pages 5 to 29 of the issuer's Annual Report and Accounts for the year ended 31 December 2012, which have been filed with the Central Bank, are incorporated by reference into this base prospectus. Copies of these financial statements may be obtained at the issuer's registered office at 35 Great St. Helen's, London EC3A 6AP, United Kingdom and may be viewed online at <http://www.santander.co.uk/uk/about-santander-uk/investor-relations/fosse-master-trust>. Deloitte LLP, members of the Institute of Chartered Accountants in England and Wales, have issued unqualified audit opinions on the financial statements of the issuer for the period ended 31 December 2012.

The audited financial statements of the issuer for the period up to and including the year ended 31 December 2013, which appear on pages 6 to 29 of the issuer's Annual Report and Accounts for the year ended 31 December 2013, which have been filed with the Central Bank, are incorporated by reference into this base prospectus. Copies of these financial statements may be obtained at the issuer's registered office at 35 Great St. Helen's, London EC3A 6AP, United Kingdom and may be viewed online at <http://www.santander.co.uk/uk/about-santander-uk/investor-relations/fosse-master-trust>. Deloitte LLP, members of the Institute of Chartered Accountants in England and Wales, have issued unqualified audit opinions on the financial statements of the issuer for the period ended 31 December 2013.

The terms and conditions of the notes contained in the previous prospectuses relating to the programme dated 8 March 2010, 21 April 2011, 27 April 2012 and 19 August 2013 are incorporated by reference into this base prospectus. Copies of the terms and conditions contained in the previous prospectuses referred to above may be viewed online at <http://www.santander.co.uk/uk/about-santander-uk/investor-relations/fosse-master-trust>.

If documents which are incorporated by reference themselves incorporate any information or other documents therein, either expressly or implicitly, such information or other documents will not form part of this base prospectus for the purposes of the Prospectus Directive except where such information or other documents are specifically incorporated by reference or attached to this base prospectus.

Any information in the documents incorporated by reference which is not incorporated in and does not form part of this base prospectus is not relevant for noteholders or is contained elsewhere in this base prospectus.

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## OVERVIEW

*The information in this section is an overview of the principal features of the notes, including the transaction documents and the loans that will generate the income for the issuer to make payments on the notes and is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this document. You should read the entire base prospectus carefully, especially the risks of investing in the notes discussed below under “**Risk factors**” herein.*

### Overview of the transaction

The following is a brief overview of the transaction and is further illustrated by the diagram set out in “**Structural diagram of the programme**” below.

- (1) On the initial closing date and thereafter from time to time until the Part VII effective date, Alliance & Leicester plc (the **previous seller**) and, from time to time after the Part VII effective date, Santander UK (the **seller**) sold loans and their **related security** (which is the security for the repayment of a loan, including the relevant mortgage and any rights under buildings insurance policies) to the mortgages trustee pursuant to a mortgage sale agreement. Going forward from time to time, the seller may, subject to satisfaction of the conditions of sale in “**Description of the transaction documents – The mortgage sale agreement – Conditions for sale of initial loans and new loans**” below, sell further loans and their related security to the mortgages trustee pursuant to the mortgage sale agreement. In relation to loans originated by Santander UK, only loans originated by Santander UK on or after the Part VII effective date have been or will be sold to the mortgages trustee pursuant to the mortgage sale agreement.
- (2) The **loans** are residential mortgage loans originated by Alliance & Leicester (prior to the Part VII effective date) or Santander UK (since the Part VII effective date) and secured over residential properties located in England, Wales, Scotland and Northern Ireland.
- (3) The mortgages trustee holds and will hold the loans and certain other property (the **trust property**) on trust for the benefit of the seller, Funding 1 and any further Funding companies that may be established from time to time as referred to in (11) below (together with Funding 1, the **Funding companies**) pursuant to a mortgages trust deed. The trust property includes the **portfolio**, which at any time consists of the loans and their related security held by the mortgages trustee together with any accrued interest on the loans, other amounts derived from the loans and their related security (including any early repayment charges) and any seller accrued interest amounts in respect of loans sold to the mortgages trustee on the initial closing date. Each of the seller, Funding 1 and any further Funding company has a joint and undivided interest in the trust property, but their entitlement to the proceeds from the trust property is in proportion to their respective shares of the trust property, as further described below under “**The mortgages trust**”.
- (4) The mortgages trustee distributes interest receipts on the loans to each of Funding 1, any further Funding company and the seller based on the percentage share that Funding 1 or such further Funding company, or the seller as the case may be, has in the trust property. The mortgages trustee allocates losses on the loans to the seller, Funding 1 and any other further Funding company in accordance with the percentage share that each of them has in the trust property. These percentages may fluctuate as described in “**The mortgages trust – Fluctuation of share in the trust property**” below. The mortgages trustee allocates principal receipts on the loans between the seller, Funding 1 and any further Funding company in amounts depending on whether Funding 1 or such further Funding company, as the case may be, is required to pay amounts on the intercompany loan or, as the case may be, any new intercompany loan of such further Funding company on the next Funding 1 interest payment date or interest payment date with respect to such further Funding company, as the case may be, or Funding 1 or such further Funding company, as the case may be, is accumulating cash to repay a bullet loan tranche or a scheduled amortisation instalment, as the case may be. However, Funding 1 and any further Funding companies will only be allocated principal receipts in accordance with the percentage share that each of them has in the trust property. The issuer will make loan tranches available to Funding 1 pursuant to the intercompany loan agreement from the proceeds of each series of notes (see “**Description of the notes – Relationship between the notes and the intercompany loan**” below). The types of loan tranches (namely, bullet loan tranches, scheduled amortisation loan tranches and pass-through loan tranches) are described below under “**Description of the notes – The intercompany loan**”.
- (5) Funding 1 uses the proceeds of any loan tranches received from time to time from the issuer to:

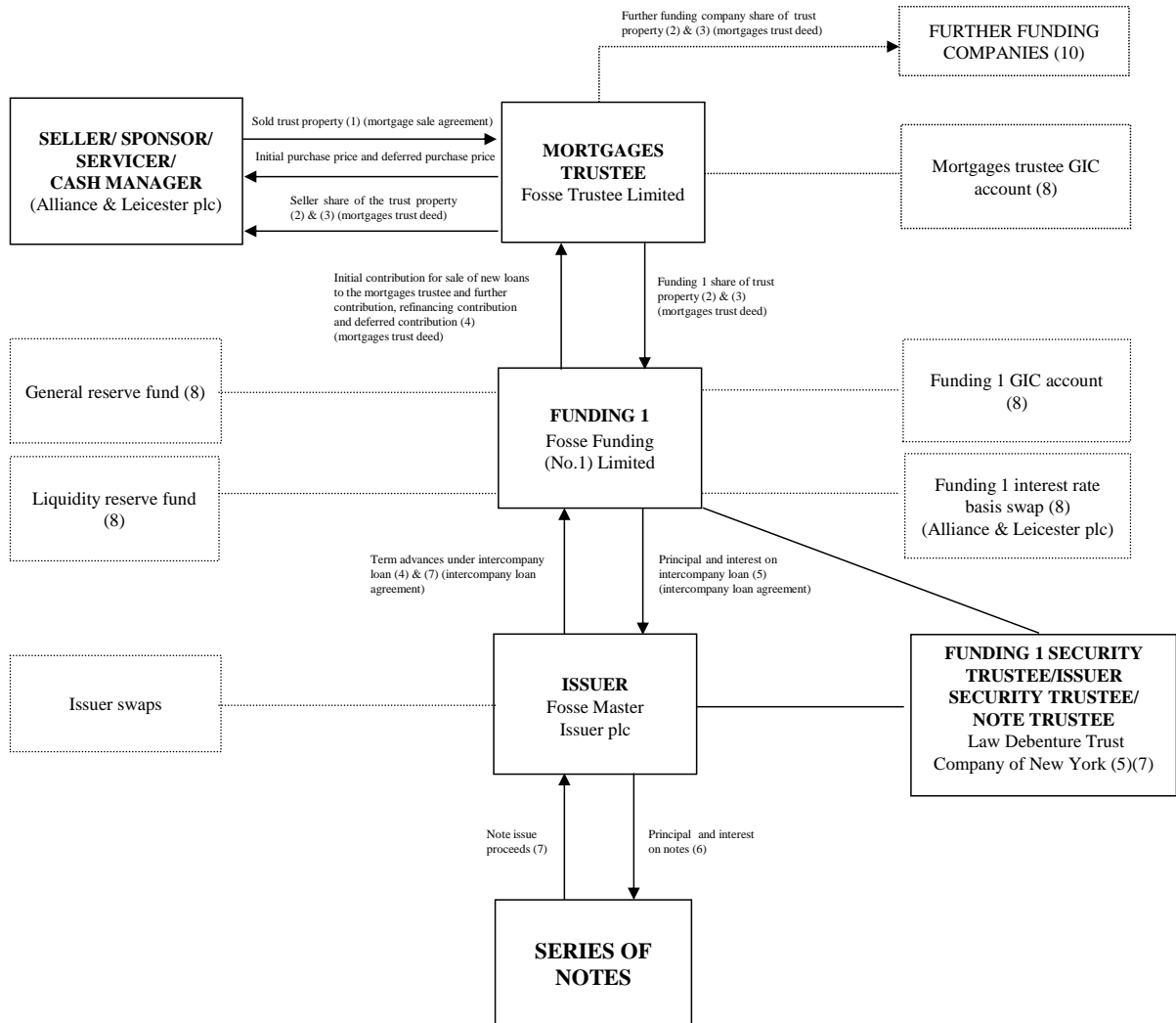
- (a) make an initial contribution (an **initial contribution**) to the mortgages trustee to acquire a share of the trust property. The mortgages trustee will use the proceeds of the initial contribution to pay the seller part of the consideration for loans (together with their related security) sold to the mortgages trustee in connection with the issuance of notes by the issuer and the making of the relevant loan tranches to Funding 1, which will result in a corresponding increase in Funding 1's share of the trust property; and/or
  - (b) make a further contribution to the mortgages trustee to acquire part of another further Funding company's share and/or the seller's share of the trust property (such contribution to be paid to such further Funding company (a **refinancing distribution**) or the seller (a **special distribution**), as the case may be, which will result in a corresponding decrease of such further Funding company's or the seller's share of the trust property, as the case may be, and a corresponding increase in Funding 1's share of the trust property);
  - (c) refinance and/or repay one or more of the loan tranches or new loan tranches (if any) made available to Funding 1 outstanding from time to time; and/or
  - (d) fund or replenish the general reserve fund.
- (6) Funding 1 uses a portion of the amounts received from its share in the trust property to meet its obligations to pay interest and principal due to the issuer under the intercompany loan. Funding 1's obligations to the issuer under the intercompany loan, among other things, will be secured under the Funding 1 deed of charge entered into with, among others, the Funding 1 security trustee and the issuer, by, among other things, Funding 1's share of the trust property.
  - (7) The issuer's obligations to pay principal and interest on the notes are funded primarily from the payments of principal and interest received by it from Funding 1 under the intercompany loan. The issuer's primary asset will be its rights under the intercompany loan agreement. Neither the issuer nor the noteholders will have any direct interest in the trust property, although the issuer will have a shared security interest under the Funding 1 deed of charge in Funding 1's share of the trust property. Prior to service of an intercompany acceleration notice, the issuer will only repay a class of notes (or part thereof) of any series on the relevant interest payment date if it has received principal repayments in respect of the loan tranche that was funded by the issue of such notes. Following service of an intercompany acceleration notice, the issuer will apply amounts received by it from Funding 1 under the intercompany loan to repay all classes of outstanding notes of any series in accordance with the relevant issuer priority of payments.
  - (8) Subject to satisfying certain issuance tests (as described below under "**The issuance of notes**"), the issuer issues notes in separate series and classes from time to time. Each series will consist of one or more classes of class A notes, class B notes, class M notes, class C notes, class D notes or class Z notes and may be offered pursuant to this base prospectus and the accompanying final terms setting out the terms of that series. The issuer's obligations under, among other things, the notes will be secured under the issuer deed of charge entered into with, among others, the issuer security trustee and the issuer, by, among other things, the issuer's rights under the intercompany loan agreement.
  - (9) These items and their function in the programme structure are described later in this base prospectus and in the accompanying final terms (where applicable). They are included in the first diagram below so that investors can refer back to see where they fit into the structure.
  - (10) New issuers may be established by Holdings from time to time and the proceeds of any new notes issued by new issuers will be on-lent to Funding 1 and/or further Funding companies (where applicable) under the terms of new intercompany loan agreements for any of the purposes described in paragraph (5). Your consent to the establishment of new issuers and the terms of the new notes and new intercompany loans will not be required nor will you have any right of review in respect thereof.
  - (11) Further Funding companies may be established by Holdings from time to time to become beneficiaries of the mortgages trust and to receive the proceeds of any new notes issued by new issuers under the terms of new intercompany loan agreements for the purposes described in paragraph (5). Your consent to the establishment of further Funding companies and terms of the new notes issued by new issuers and the new intercompany loans will not be required nor will you have any right of review in respect thereof.
  - (12) On 13 May 2010, an order (the **Part VII order**) was published by the High Court sanctioning a banking business transfer scheme under Part VII of the FSMA (the **Part VII scheme**) pursuant

to which the entire business of Alliance & Leicester, and all related assets and liabilities, were to be transferred to, and vested in or become liabilities of (as applicable) Santander UK. The Part VII scheme became effective at 00.01 on 28 May 2010 (the **Part VII effective date**).

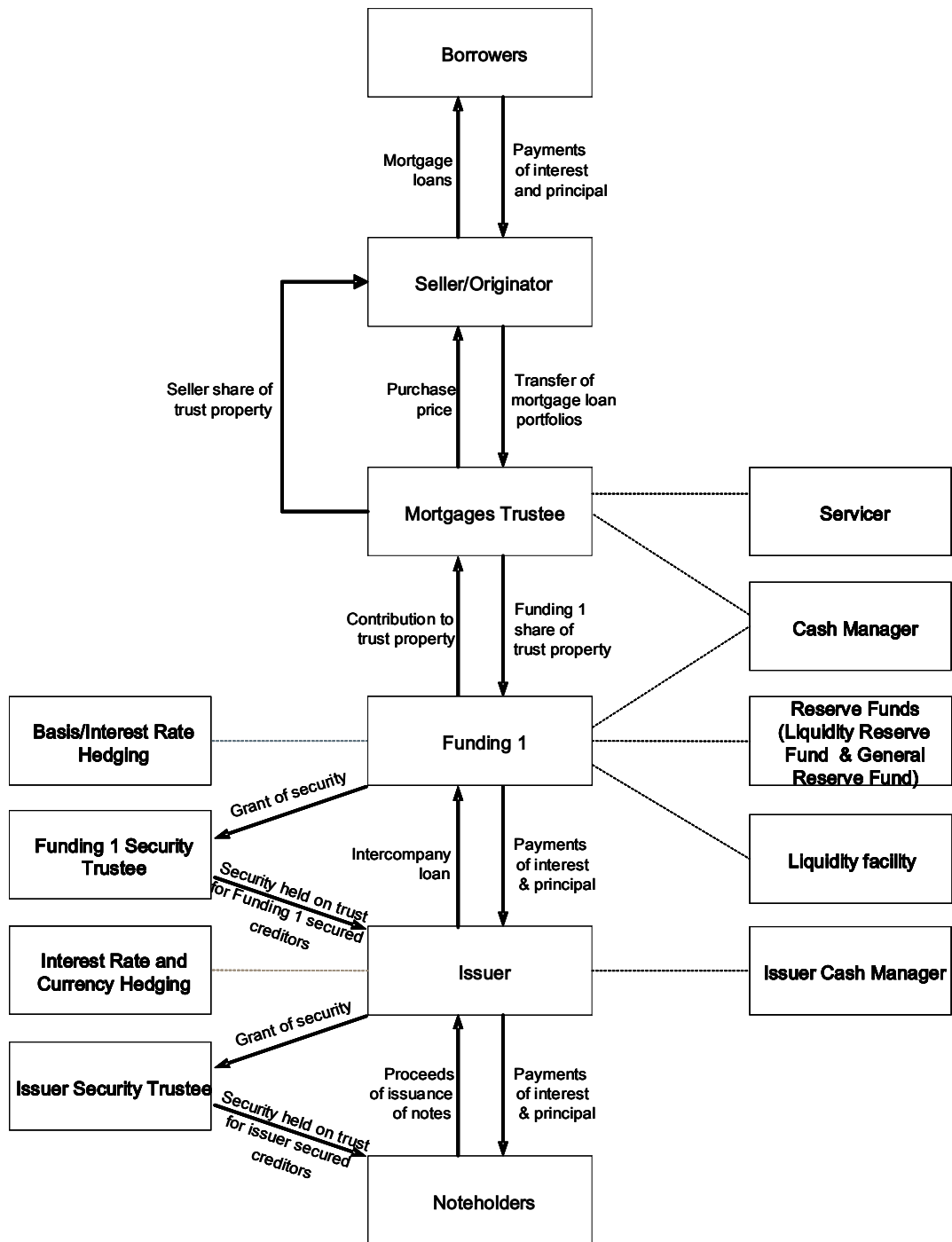
Pursuant to the Part VII scheme, all assets and liabilities of Alliance & Leicester, including all assets and liabilities of Alliance & Leicester related to the transactions described in this base prospectus (including in its capacities as, among others, the seller, the servicer, a beneficiary, the cash manager, the secretarial services provider, the Funding 1 start-up loan provider, the Funding 1 swap provider, an issuer swap provider and the issuer cash manager) were, by the Part VII order, transferred to, and vested in or became liabilities of (as applicable), Santander UK on the Part VII effective date (other than a discrete list of assets and liabilities agreed by Alliance & Leicester and Santander UK to be transferred after the Part VII effective date).

- (13) The issuer may choose to issue notes which are governed by, and are to be construed in accordance with, a law other than English law (**foreign law notes**). For foreign law notes to be issued, certain amendments to the existing transaction documents and the execution of further transaction documents may be required though your consent to those amendments and the execution of such further transaction documents may not be required (see "**Description of the notes – foreign law notes**" below).

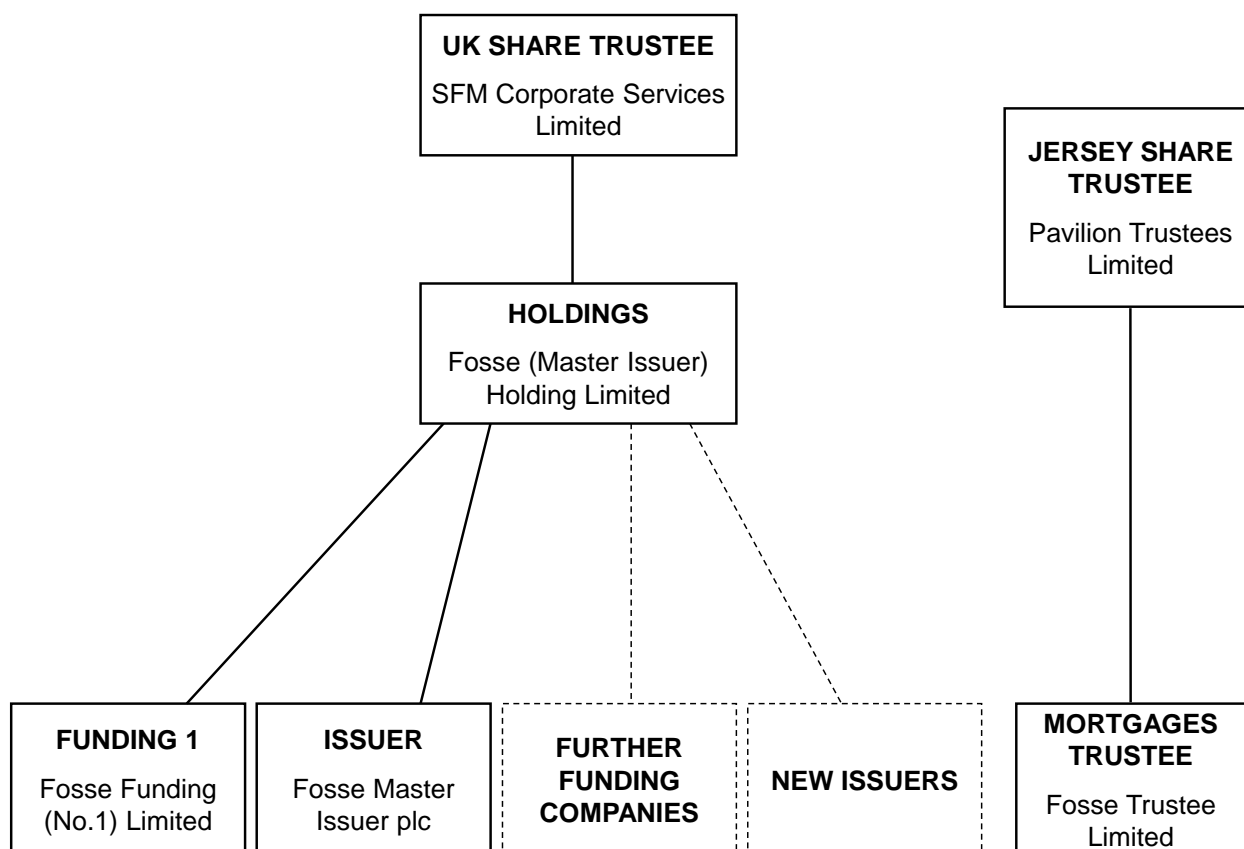
Structural diagram of the programme



Diagrammatic overview of on-going cashflows



## Diagram of ownership structure of special purpose vehicles



This diagram illustrates the ownership structure of the principal special purpose entities in respect of the programme, as follows:

The authorised share capital of Holdings is 100 ordinary shares of £1.00 each, of which the sole share issued is held on trust under the terms of a discretionary trust for charitable purposes by SFM Corporate Services Limited, the UK share trustee, not affiliated with the seller. See "**Holdings**" below.

The authorised share capital of Funding 1 is 100 ordinary shares of £1.00 each, of which the sole share issued is held by Holdings. Any further Funding company is also expected to be a wholly-owned subsidiary of Holdings. See "**Funding 1**" below.

The authorised share capital of the Issuer is 50,000 ordinary shares of £1.00 each, all of which have been issued. One share is held legally by SFM Nominees Limited and the other 49,999 shares are held legally by Holdings. All 50,000 ordinary shares are held beneficially by Holdings. Any new issuer is expected to have the same holding structure. See "**The issuer**" below.

The authorised share capital of the mortgages trustee is 2 ordinary shares of £1.00 each, all of which have been issued and are held under the terms of a discretionary trust for charitable purposes by Sanne Trustee Services Limited, the Jersey share trustee, not affiliated with the seller. See "**The mortgages trustee**" below.

Santander UK, who, as the sponsor, will organise and initiate each transaction under the programme, has no ownership interest in any of the entities in the diagrams above. As a result, any transaction under the programme will not be directly linked to the credit of Santander UK and Santander UK has no obligation to support such transaction financially, although Santander UK may still have a connection with such transaction for other reasons (such as acting as servicer of the loans and as a beneficiary under the mortgages trust). See "**Santander UK plc and the Santander UK group**" below.



## The parties

**issuer:** Fosse Master Issuer plc is a public limited company incorporated under the laws of England and Wales as a special purpose vehicle with registered number 5925693. The entire issued share capital of the issuer is owned beneficially by Holdings.

For a more detailed description of the issuer, see “**The issuer**” below.

**seller:** Santander UK is a public limited company incorporated under the laws of England and Wales with registered number 2294747 which, amongst other things, originates and acquires residential mortgage loans. Prior to the Part VII effective date, Alliance & Leicester plc (**Alliance & Leicester**) was the seller (in this capacity, the **previous seller**). Prior to the Part VII effective date, the previous seller originated all of the loans in the portfolio according to the lending criteria applicable at the time of origination and sold residential mortgage loans and their related security to the mortgages trustee pursuant to the terms of the mortgage sale agreement.

On and from the Part VII effective date, Santander UK is the seller in place of Alliance & Leicester and, from time to time, may sell, residential mortgage loans originated by it on or after the Part VII effective date, or originated by Alliance & Leicester prior to the Part VII effective date, and their related security to the mortgages trustee pursuant to the terms of the mortgage sale agreement. For a more detailed description of Santander UK, see “**Santander UK**” below.

**mortgages trustee:** Fosse Trustee Limited is a private limited company incorporated under the laws of Jersey, Channel Islands with registered number 94410. The entire issued share capital of the mortgages trustee is held beneficially on trust by the Jersey share trustee under the terms of a discretionary trust for charitable purposes.

For a more detailed description of the mortgages trustee, see “**The mortgages trustee**” below.

**Funding 1:** Fosse Funding (No.1) Limited is a private limited company incorporated under the laws of England and Wales with registered number 5925696 and is a wholly-owned subsidiary of Holdings. Funding 1 was established, *inter alia*, to acquire a joint and undivided beneficial interest, with the seller and any further Funding companies that may be established from time to time (together, the **beneficiaries**), in the trust property pursuant to the mortgages trust deed and to borrow funds under the intercompany loan agreement, as more fully described below.

For a more detailed description of Funding 1, see “**Funding 1**” below.

**servicer:** On the initial closing date, Alliance & Leicester was appointed as servicer to service the loans and their related security on behalf of the mortgages trustee and the beneficiaries pursuant to the terms of the servicing agreement.

Since the Part VII effective date, Santander UK has been the servicer (in such capacity, the **servicer**) and has and will service the loans and their related security on behalf of the mortgages trustee and the beneficiaries pursuant to the terms of the servicing agreement.

For a more detailed description of Santander UK, see “**Santander UK**” below.

For a more detailed description of the role of the servicer and the terms of the servicing agreement, see “**Description of the transaction documents – Servicing agreement**” below.

**cash manager:**

On the initial closing date, Alliance & Leicester was appointed as cash manager pursuant to the cash management agreement to provide cash management services to the mortgages trustee, the seller, Funding 1, the Funding 1 security trustee and each further Funding company and each security trustee with respect to any further Funding company (a **further Funding security trustee and, together with the Funding 1 security trustee, the Funding security trustees**) which accedes to the cash management agreement from time to time.

Since the Part VII effective date, Santander UK has been the cash manager (in such capacity, the **cash manager**) and, pursuant to the cash management agreement, has and will provide cash management services to the mortgages trustee, the seller, Funding 1, the Funding 1 security trustee and each further Funding company and each Funding security trustee which accedes to the cash management agreement from time to time.

For a more detailed description of Santander UK, see “**Santander UK**” below.

For a more detailed description of the role of the cash manager and the terms of the cash management agreement, see “**Description of the transaction documents – Cash management agreement**” below.

**issuer cash manager:**

On the initial closing date, Alliance & Leicester was appointed to provide cash management services to the issuer and the issuer security trustee pursuant to the issuer cash management agreement.

Since the Part VII effective date, Santander UK has been the issuer cash manager (in such capacity, the **issuer cash manager**) and, pursuant to the issuer cash management agreement, has and will provide cash management services to the issuer and the issuer security trustee.

For a more detailed description of Santander UK, see “**Santander UK**” below.

For a more detailed description of the role of the issuer cash manager and terms of the issuer cash management agreement, see “**Description of the transaction documents – Issuer cash management agreement**” below.

**issuer security trustee:**

Law Debenture Trust Company of New York, acting through its offices at 400 Madison Avenue – 4th Floor, New York, New York 10017 (in its capacity as security trustee pursuant to the issuer deed of charge, the **issuer security trustee**) holds the benefit of the security granted by the issuer under the issuer deed of charge and will be entitled to enforce the security granted in its favour under the issuer deed of charge.

For a more detailed description of the issuer security trustee, see “**The note trustee, issuer security trustee and Funding 1 security trustee**” below. For a more detailed description of the terms of the issuer deed of charge, see “**Description of the transaction documents – Issuer deed of charge**” below.

**note trustee:**

Law Debenture Trust Company of New York, acting through its offices at 400 Madison Avenue – 4th Floor, New York, New York 10017 (in its capacity as trustee pursuant to the note trust deed, the **note trustee**) has been appointed to act on behalf of the holders of the notes.

For a more detailed description of the note trustee, see “**The note trustee, issuer security trustee and Funding 1 security trustee**” below.

- Funding 1 security trustee:** Law Debenture Trust Company of New York, acting through its offices at 400 Madison Avenue – 4th Floor, New York, New York 10017 (in its capacity as security trustee pursuant to the Funding 1 deed of charge, the **Funding 1 security trustee**) holds the benefit of the security granted by Funding 1 under the Funding 1 deed of charge and will be entitled to enforce the security granted in its favour under the Funding 1 deed of charge.
- For a more detailed description of the Funding 1 security trustee, see “**The note trustee, issuer security trustee and Funding 1 security trustee**” below. For a more detailed description of the terms of the Funding 1 deed of charge, see “**Description of the transaction documents – Funding 1 deed of charge**” below.
- paying agents and agent bank:** Citibank, N.A., London Branch acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB (in such capacity, the **principal paying agent**) acts as principal paying agent pursuant to the paying agent and agent bank agreement.
- Citibank, N.A., New York Branch acting through its office at 14th Floor, 388 Greenwich Street, New York, New York 10013 (in such capacity, the **U.S. paying agent**) acts as paying agent in respect of the dollar notes.
- The principal paying agent and the U.S. paying agent are together referred to as the **paying agents**. The paying agents will make payments on the notes to the noteholders.
- Citibank, N.A., London Branch acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB (in such capacity, the **agent bank**) calculates the interest on the notes and under the intercompany loan agreement.
- exchange rate agent:** If an exchange rate agent is specified in the relevant final terms, Citibank, N.A., London Branch acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB (in such capacity, the **exchange rate agent**) acts as exchange rate agent in respect of the series pursuant to the paying agent and agent bank agreement.
- registrar and transfer agent:** Citibank, N.A., London Branch acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB maintains a register in respect of the notes (in such capacity, the **registrar**) which may or may not include the issuer unless expressly provided otherwise.
- Citibank, N.A., London Branch acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB is responsible for administering any transfer of notes (in such capacity, the **transfer agent**).
- Funding 1 swap provider:** Santander UK (in such capacity, the **Funding 1 swap provider**) acts as swap provider pursuant to the terms of the Funding 1 swap agreement in respect of the possible variances between the rates of interest payable on the loans in the portfolio sold by the seller to the mortgages trustee and the rates of interest payable by Funding 1 under the intercompany loan agreement.
- For a more detailed description of Santander UK, see “**Santander UK Plc and the Santander UK Group**” below.
- For a more detailed description of the Funding 1 swap(s), see “**Description of the transaction documents – Swap agreements – Funding 1 swap agreement**” below.

**issuer swap providers:**

Abbey National Treasury Services plc (**ANTS** an **issuer swap provider**) as issuer swap provider pursuant to the terms of an issuer swap agreement unless otherwise set forth in an applicable drawdown or supplemental prospectus. The issuer swap providers will hedge certain interest rate, currency and/or other risks in respect of amounts received by the issuer under the intercompany loan agreement and amounts payable by the issuer under the notes pursuant to the terms of issuer swap agreements.

For a more detailed description of ANTS, see “**The swap counterparty – Abbey National Treasury Services plc**” below.

For a more detailed description of the issuer swaps, see “**Description of the transaction documents – Swap agreements – Issuer swap agreements**” below.

**account bank A:**

The Bank of New York Mellon, acting through its London Branch, acts as account bank for the Funding 1 transaction account pursuant to the Funding 1 bank account agreement.

On or before the initial closing date, Alliance & Leicester was appointed to act as account bank to Funding 1 pursuant to the terms of the original Funding 1 bank account agreement.

On 23 November 2009, Alliance & Leicester’s role as account bank to Funding 1 was terminated and it was replaced by Santander UK pursuant to the terms of a new Funding 1 bank account agreement.

On or about the date hereof, Santander UK’s role as account bank to Funding 1 with respect to the Funding 1 transaction account was terminated and it was replaced by account bank A pursuant to the terms of an amended and restated Funding 1 bank account agreement.

For a more detailed description of the Funding 1 bank account agreement, see “**Description of the transaction documents – Funding 1 bank account agreement**” below.

**account bank B:**

Santander UK acts as account bank for the Funding 1 GIC account pursuant to the terms of the Funding 1 bank account agreement.

On or before the initial closing date, Alliance & Leicester was appointed to act as account bank to Funding 1 pursuant to the terms of the original Funding 1 bank account agreement.

On 23 November 2009, Alliance & Leicester's role as account bank to Funding 1 was terminated and it was replaced by Santander UK pursuant to the terms of a new Funding 1 bank account agreement which was amended and restated on or about the date hereof.

For a more detailed description of the Funding 1 bank account agreement, see “**Description of the transaction documents – Funding 1 bank account agreement**” below.

**mortgages trustee account bank:**

On or before the initial closing date, Alliance & Leicester was appointed to act as account bank to the mortgages trustee pursuant to the terms of the original mortgages trustee bank account agreement.

On 23 November 2009, Alliance & Leicester's role as account bank to the mortgages trustee was terminated and it was replaced by Santander UK pursuant to the terms of a new mortgages trustee bank account agreement.

For a more detailed description of the mortgages trustee bank account agreement, see “**Description of the transaction documents – mortgages trustee bank account agreement**” below.

- issuer account bank:** On or before the initial closing date, Alliance & Leicester was appointed to act as account bank to the issuer pursuant to the terms of the original issuer bank account agreement.
- On 23 November 2009, Alliance & Leicester's role as account bank to the issuer was terminated and it was replaced by Santander UK pursuant to the terms of a new issuer bank account agreement.
- For a more detailed description of the issuer bank account agreement, see "**Description of the transaction documents – issuer bank account agreement**" below.
- Funding 1 start-up loan provider:** Santander UK (in such capacity, the **Funding 1 start-up loan provider**) acts as Funding 1 start-up loan provider to Funding 1 pursuant to the terms of the Funding 1 start-up loan agreements. Funding 1 may (in the future) enter into Funding 1 start-up loan agreements with parties other than Santander UK.
- For a more detailed description of Santander UK, see "**Santander UK**" below.
- For a more detailed description of the Funding 1 start-up loan agreements, see "**Description of the transaction documents – Funding 1 start-up loan agreements**" below and for information relating to the credit support they provide, see "**Credit structure – Funding 1 start-up loans**" below.
- Holdings:** Fosse (Master Issuer) Holdings Limited (**Holdings**) is a private limited company incorporated under the laws of England and Wales with registered number 5925689. For a more detailed description of Holdings, see "**Holdings**" below. The entire issued share capital of Holdings is held beneficially on trust by the UK share trustee under the terms of a discretionary trust for charitable purposes.
- UK share trustee:** SFM Corporate Services Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP, is a private limited company incorporated under the laws of England and Wales with registered number 03920255 and (in such capacity, the **UK share trustee**) holds the entire share capital of Holdings under the terms of a discretionary trust for charitable purposes.
- Jersey share trustee:** Sanne Trustee Services Limited of, having its registered office at 13 Castle Street, St. Helier, Jersey JE4 5UT, Channel Islands, is a private limited company incorporated under the laws of Jersey, Channel Islands with registered number 112368 and (in such capacity, the **Jersey share trustee**) holds the entire share capital of the mortgages trustee under the terms of a discretionary trust for charitable purposes (a role previously performed by Pavilion Trustees Limited).
- corporate services provider:** Structured Finance Management Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP, is a private limited company incorporated in England and Wales with registered number 03853947 and (in such capacity, the **corporate services provider**) acts as corporate services provider to Holdings, Funding 1 and any further Funding company established from time to time.
- issuer corporate services provider:** Structured Finance Management Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP, is a private limited company incorporated in England and Wales with registered number 03853947 and (in such capacity, the **issuer corporate services provider**) acts as corporate services provider to the issuer.

**mortgages trustee corporate services provider:**

Sanne Corporate Services Limited, having its registered office at 13 Castle Street, St. Helier, Jersey JE4 5UT, Channel Islands, is a private limited company with registered number 72643 and (in such capacity, the **mortgages trustee corporate services provider**) acts as corporate services provider to the mortgages trustee.

**remarketing agent:**

If a remarketing agent is specified in the accompanying final terms with respect to any remarketable notes, the remarketing agent will agree with the issuer pursuant to a remarketing agreement to use reasonable efforts to identify third party purchasers for such remarketable notes on each mandatory transfer date prior to the occurrence of a mandatory transfer termination event.

For a more detailed description of the remarketing arrangements, see **“Description of the notes – Money market notes”** below and **“Description of the transaction documents – The remarketing agreement”** below.

**conditional purchaser:**

If a conditional purchaser is specified in a drawdown prospectus with respect to any remarketable notes, the conditional purchaser will agree pursuant to a conditional purchase agreement to purchase all remarketable notes that are not sold to third party purchasers by the remarketing agent.

For a more detailed description of the conditional purchase agreement, see **“Description of the notes – Money market notes”** below.

## RISK FACTORS

*The following is a summary of certain risk factors of which prospective noteholders should be aware. This section describes the principal risks associated with an investment in the notes. Prospective noteholders should also read the detailed information set out elsewhere in this document prior to making an investment decision in relation to the notes.*

### **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 Alliance & Leicester, Santander UK or any of its affiliates, the dealers and/or the managers, the mortgages trustee, the note trustee, the issuer security trustee, the Funding 1 security trustee, any further Funding companies and/or any new issuers and/or any other party to the transaction other than the issuer.

### **The issuer has limited resources available to it 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 payments being received by it under the intercompany loan agreement. In addition, the issuer will rely on the issuer swaps to make payments on the notes which are not denominated in sterling (or notes, if any, which carry a fixed rate of interest).

The issuer will not have any other significant sources of funds available to meet its obligations under the notes and/or any other payments 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 incur a loss of interest and/or principal which would otherwise be due and payable on your notes.

### **Funding 1 is not obliged to make payments on the loan tranches if it does not have enough money to do so, which could adversely affect payments on your notes**

Funding 1's ability to pay amounts payable on the loan tranches will depend upon:

- Funding 1 receiving enough funds from its share in the trust property on or before each Funding 1 interest payment date;
- Funding 1 receiving the required funds from the Funding 1 swap provider;
- Funding 1 receiving the required funds from the Funding 1 liquidity facility provider under the Funding 1 liquidity facility (if established);
- the amount of funds credited to the general reserve fund (as described below in "**Credit structure – General reserve fund**");
- any amount of funds credited to the liquidity reserve fund, if any (as described below in "**Credit structure – Liquidity reserve fund**"); and
- the allocation of funds under any new intercompany loans provided by any new issuers to Funding 1 (as described below in "**Cashflows**").

According to the terms of the mortgages trust deed, the mortgages trustee is obliged to pay to Funding 1 the Funding 1 share percentage of revenue receipts by crediting those amounts to the Funding 1 GIC account on each distribution date. The mortgages trustee is obliged to pay to Funding 1 the Funding 1 share percentage of principal receipts on the loans by crediting those amounts to the Funding 1 GIC account as and when required pursuant to the terms of the mortgages trust deed.

The obligations of Funding 1 are limited recourse. Funding 1 will be obliged to pay amounts due and payable to the issuer under each loan tranche only to the extent that it has funds available to it after making payments ranking in priority to such loan tranche, such as payments of certain fees and expenses of Funding 1 and payments on loan tranches of a more senior ranking, and taking into account payments ranking equally with such loan tranche (such as loan tranches of the same ranking). See "**Cashflows – Distribution of Funding 1 available revenue receipts before intercompany loan acceleration**" and "**Cashflows – Distribution of Funding 1 available principal receipts**" below.

If Funding 1 does not pay amounts to the issuer in respect of a loan tranche under the intercompany loan agreement because it does not have sufficient funds available, those amounts will be due but not payable until funds are available to pay those amounts in accordance with the relevant Funding 1 priority of payments. Funding 1's failure to pay those amounts to the issuer when due in such circumstances will not

constitute an event of default under the intercompany loan agreement until the latest occurring final repayment date of any loan tranche under the intercompany loan agreement. Following enforcement of the Funding 1 security and application of the proceeds of enforcement, any remaining shortfall under the intercompany loan will be extinguished.

If there is a shortfall between the amounts payable by Funding 1 to the issuer under the intercompany loan agreement and the amounts payable by the issuer on the notes, you may not, depending on what other sources of funds are available to the issuer and to Funding 1, receive the full amount of interest and/or principal and/or other amounts which would otherwise be payable on your notes.

**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 issuer security. The issuer does not have any recourse to the assets of Funding 1 unless Funding 1 has also defaulted on its obligations under the intercompany loan and the Funding 1 security has been enforced.

If the issuer security created as required by the issuer 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.

In relation to notes issued on or after 21 April 2011 and all class Z notes, such notes will be subject to the limited recourse provisions set out in condition 10.2 whereby all obligations of the issuer to such noteholders are limited in recourse to the property, assets and undertakings of the issuer which are the subject of any security created by the issuer deed of charge. If there are no such assets remaining which are capable of being realised or otherwise converted into cash and following application of such amounts in accordance with the issuer deed of charge there are insufficient amounts available to pay in full amounts outstanding under such notes, then noteholders in respect of such notes shall have no further claim against the issuer in respect of any amounts owing to them under such notes which remain unpaid and such unpaid amounts shall be deemed to be discharged in full and any relevant payment rights shall be deemed to cease.

**Subordination of other note classes may not protect noteholders from all risk of loss**

The class B notes, the class M notes, the class C notes, the class D notes and the class Z notes of any series are subordinated in right of payment of interest to the class A notes of any series. The class M notes, the class C notes, the class D notes and the class Z notes of any series are subordinated in right of payment of interest to the class B notes of any series. The class C notes, the class D notes and the class Z notes of any series are subordinated in right of payment of interest to the class M notes of any series. The class D notes and the class Z notes of any series are subordinated in right of payment of interest to the class C notes of any series. The class Z notes of any series are subordinated in right of payment of interest to the class D notes of any series.

The class B notes, the class M notes, the class C notes, the class D notes and the class Z notes of any series are subordinated in right of payment of principal to the class A notes of any series. The class M notes, the class C notes, the class D notes and the class Z notes of any series are subordinated in right of payment of principal to the class B notes of any series. The class C notes, the class D notes and the class Z notes of any series are subordinated in right of payment of principal to the class M notes of any series. The class D notes and the class Z notes of any series are subordinated in right of payment of principal to the class C notes of any series. The class Z notes of any series are subordinated in right of payment of principal to the class D notes of any series.

You should be aware however that not all classes of notes are scheduled to receive payments of principal on the same interest payment dates. The interest payment dates for the payment of interest and principal in respect of each series and class of notes will be specified in the applicable final terms or drawdown prospectus, as applicable. Each series and class of notes may have interest payment dates in respect of interest and/or principal that are different from other notes of the same class (but of different series) or of the same series (but of different class). Despite the principal priority of payments described above, subject to no trigger event having occurred and satisfaction of the repayment tests, lower ranking classes of notes may nevertheless be repaid principal before higher ranking classes of notes and a series and class of notes may be repaid principal before other series of notes of the same class. Payments of principal are expected to be made to each class of notes in amounts up to the amounts set forth below under “**Cashflows – Distribution of issuer principal receipts before note acceleration**” and “**Cashflows – Distribution of issuer principal receipts and issuer revenue receipts following intercompany loan acceleration**”.



However, there is no assurance that these subordination rules will protect the class A noteholders from all risks of loss, the class B noteholders from all risks of loss, the class M noteholders from all risks of loss, the class C noteholders from all risks of loss or the class D noteholders from all risk of loss. If the losses borne by the class Z notes, the class D notes, the class C notes, the class M notes and the class B notes are in an amount equal to the aggregate outstanding principal balances of the class Z notes, the class D notes, the class C notes, the class M notes and the class B notes, then losses on the loans will thereafter be borne by the class A notes at which point there will be an asset trigger event. Similarly, if the losses borne by the class Z notes, the class D notes, the class C notes and the class M notes are in an amount equal to the aggregate outstanding principal balances of the class Z notes, the class D notes, the class C notes and the class M notes, then losses on the loans will thereafter be borne by the class B notes. Similarly, if the losses borne by the class Z notes, the class D notes and the class C notes are in an amount equal to the aggregate outstanding principal balances of the class Z notes, the class D notes and the class C notes, then losses on the loans will thereafter be borne by the class M notes. Similarly, if the losses borne by the class Z notes and the class D notes are in an amount equal to the aggregate outstanding principal balances of the class Z notes and the class D notes, then losses on the loans will thereafter be borne by the class C notes. Finally, if the losses borne by the class Z notes are in an amount equal to the aggregate outstanding principal balances of the class Z notes, then losses on the loans will thereafter be borne by the class D notes.

### **Payments of class B notes, class M notes, class C notes, class D notes and class Z notes may be deferred or reduced in certain circumstances**

If, on any interest payment date on which a repayment of principal is due on any series of class B notes, class M notes, class C notes, class D notes or class Z notes at a time when, if the repayment was made, the principal amount outstanding of the remaining subordinate classes of notes is not sufficient to provide the level of credit enhancement required to support the ratings on the more senior classes of notes then outstanding and the issuer is unable to issue additional notes of such class B notes, class M notes, class C notes, class D notes or class Z notes or obtain acceptable alternative forms of credit enhancement, such subordinated class of notes will not be entitled to receive payments of principal until all more senior classes of notes outstanding have their required level of subordination. See “**Cashflows**” below.

On any interest payment date on which a payment of principal is due on any series of class B notes, class M notes, class C notes, class D notes and class Z notes, the issuer’s obligation to make such principal payments will be subject to the satisfaction of the repayment tests described under “**Cashflows – Distribution of Funding 1 available principal receipts**”, including an arrears test, a general reserve requirement and a principal deficiency sub-ledger test to the extent that any class A notes of any series or any other senior ranking notes of any series are outstanding on that date.

### **The required subordination for a class of notes may be changed**

The issuer may change the required subordinated amount for any class of rated notes, or the method of calculating the required subordinated amount for such rated class, at any time without the consent of any noteholders if certain conditions are met, including confirmation from each rating agency that such change will not cause a reduction, qualification or withdrawal of its then current rating of any outstanding rated notes that will be affected by such change (subject to the provisions regarding non-responsive rating agencies described below under “**Ratings confirmation in respect of notes**”).

### **In certain circumstances some of the conditions for issuance of notes may be waived**

If the issuer obtains confirmation from each rating agency that the issuance of a new series and class of notes will not cause a reduction, qualification or withdrawal of the then current rating of any outstanding rated notes rated by that rating agency, then some of the other conditions to issuance of notes (e.g. the absence of a note event of default in respect of a series and/or class of notes) may be waived. For a description of the conditions to issuance and the waiver of such conditions see “**The issuance of notes**” above.

### **The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests**

Pursuant to the terms of the Funding 1 deed of charge, the issuer deed of charge and the note trust deed, the Funding 1 security trustee, the issuer security trustee and/or the note trustee respectively may, without the consent or sanction of the Funding 1 secured creditors (except where they are a party to the relevant transaction document the subject of such modification, where the consent of such party will be required), the issuer secured creditors (except where they are a party to the relevant transaction document

the subject of such modification, where the consent of such party will be required) and/or the noteholders, concur with any person in making or sanctioning any modifications to the transaction documents (other than a basic terms modification):

- which in the case of the Funding 1 security trustee it has been directed to do so by the issuer security trustee and which the issuer security trustee has in turn been directed to do so by the note trustee in the circumstances described below;
- which in the case of the issuer security trustee it has been directed to do so by the note trustee in the circumstances described below; and
- which in the opinion of the note trustee (a) will not be materially prejudicial to the interests of the noteholders or, if it is not of that opinion, the noteholders have sanctioned such modification by way of an extraordinary resolution or (b) is made to correct a manifest error or an error which, in the opinion of the note trustee is proven or is of a formal, minor or technical nature.

In the exercise of any of its powers, trusts, authorities, rights or discretions under any of the transaction documents (including the Funding 1 deed of charge) the Funding 1 security trustee shall act as directed by the issuer security trustee which shall in turn act as directed by the note trustee. In the exercise of any of its powers, trusts, authorities and discretions under any transaction document (including the issuer deed of charge), the issuer security trustee shall act as directed by the note trustee. In the exercise of any of its powers, trusts, authorities and discretions under the note trust deed or any other transaction document, the note trustee shall have regard to the interests of the noteholders (subject to the provisions of the next paragraph) but in the event of a conflict of interest it shall have regard to the interests of the noteholders of the class of notes with the highest rating, subject to the provisions of the note trust deed.

In determining whether a modification to a transaction document is materially prejudicial to the interests of the noteholders, the note trustee will have regard to confirmations from each of the rating agencies that the then current ratings of the rated notes would not be downgraded, withdrawn or qualified and any other confirmation which it considers, in its sole and absolute discretion, is necessary and/or appropriate (subject to the provisions regarding non-responsive rating agencies described below under “**Ratings confirmation in respect of notes**”).

In addition, the note trustee will give its consent to any modifications to the transaction documents that are requested by Funding 1, the cash manager, the issuer and/or the issuer cash manager (other than a basic terms modification), provided that Funding 1, the cash manager, the issuer and/or the issuer cash manager certifies to the note trustee in writing that such modifications are required in order to accommodate:

- (i) any loan tranches to be advanced to Funding 1 under the intercompany loan and/or the issue of any notes by the issuer;
- (ii) new intercompany loan agreements of Funding 1 or any further Funding companies and/or the issue of new notes by any new issuer;
- (iii) the addition of other relevant secured creditors of the issuer, Funding 1, any new issuer or any further Funding company;
- (iv) the accession of further Funding companies as beneficiaries to the mortgages trust deed;
- (v) the issue (directly or indirectly) of debt by Funding 1 and/or any further Funding company (other than as referred to in paragraphs (i) and (ii) above);
- (vi) the sale of new types of loans to the mortgages trustee;
- (vii) changes to the general reserve required amount and/or any additional amounts for the purposes of an arrears or step-up trigger event and/or the liquidity reserve fund required amount and/or the manner in which each of such amounts are funded;
- (viii) any EMIR amendment (as defined below);
- (ix) the establishment of the Funding 1 liquidity facility; and/or
- (x) changes to the asset trigger events and non-asset trigger events,

and provided further that:

- in respect of the matters listed in paragraphs (i), (iv) and (vi) above, Funding 1, the cash manager, the issuer and/or the issuer cash manager certify to the note trustee in writing that the relevant conditions precedent have been satisfied; and
- in respect of the matters listed in paragraphs (i) to (x) above, the note trustee has received written confirmation from each of the rating agencies that as a result of the relevant modifications the then current ratings of the rated notes will not be downgraded, withdrawn or qualified.

The note trustee, or as the case may be, the Funding 1 security trustee, shall, without the consent of the noteholders or the other secured creditors, subject to the terms of the note trust deed and the Funding 1 deed of charge, as applicable, concur with the issuer or Funding 1 in making any modifications to the transaction documents and/or the terms and conditions that are requested in writing by the issuer or Funding 1, as applicable, or the cash manager, provided that the issuer or Funding 1, as the case may be, has certified to the note trustee or the Funding 1 security trustee, as applicable, in writing that such modifications are required in order to comply with any requirements which apply to it under European Regulation 648/2012 of 4 July 2012, known as the European Market Infrastructure Regulation (**EMIR**) and which accordingly are mandatory under EMIR other than in respect of basic terms modification (any such modification, an **EMIR amendment**), 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 note trustee and the Funding 1 security trustee shall not be obliged to agree to any modification pursuant to this paragraph which (in the sole opinion of the note trustee or the Funding 1 security trustee, as applicable) would have the effect of (a) exposing the note trustee or the Funding 1 security trustee, as applicable, to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction; and (b) increasing the obligations or duties, or decreasing the protections of the note trustee or the Funding 1 security trustee in the transaction documents and/or the conditions. The noteholders and the other secured creditors shall be deemed to have instructed the note trustee or the Funding 1 security trustee, as applicable, to concur with such EMIR Amendments and shall be bound by them regardless of whether or not they are materially prejudicial to the interests of the noteholders or the other secured creditors.

The modifications required to give effect to the matters listed in paragraphs (i) to (x) above may include, among other matters, amendments to the provisions of the mortgages trust deed and the Funding 1 deed of charge relating to the allocation of and entitlement to monies. There can be no assurance that the effect of the modifications to the transaction documents will not ultimately adversely affect your interests. Any modifications to the documents described above will require the actual consent of each of the issuer swap providers (in respect only of amendments to any document to which they are a party), as applicable, such consent not to be unreasonably withheld and to be deemed given if no written response (affirmative or negative) is given within ten business days after the written request for consent is sent to each such party.

**There may be a conflict of interests between the issuer and new issuers, and the interests of the new issuers may prevail over the interests of the issuer**

The issuer and any new issuers that enter into new loan agreements with Funding 1 will share in the Funding 1 security. In the exercise of its rights, powers or discretions under any of the transaction documents and subject as provided below, the Funding 1 security trustee shall act on the directions of the issuer security trustees and the issuer security trustees will in turn act on the directions of the respective note trustees. In the event of a conflict between the directions of the note trustees and the corresponding directions of the issuer security trustees, the Funding 1 security trustee will act only on the directions of the issuer security trustees acting as directed by the respective note trustees for the holders of notes of the highest ranking outstanding class at that time (unless expressly provided otherwise) and provided that the Funding 1 security trustee is indemnified and/or secured to its satisfaction. If the Funding 1 security trustee receives conflicting directions from two or more such issuer security trustees because such issuer security trustees receive conflicting directions from the respective note trustees, it will follow the directions given by one or (if in agreement) more of the issuer security trustees directed by one or (if in agreement) more of note trustees acting for the holders of notes and new notes (as applicable) of the highest ranking outstanding class at that time the aggregate principal amount outstanding of which exceeds the aggregate principal amount outstanding of notes and new notes (as applicable) of the highest ranking outstanding class at that time for the holders of notes and new notes (as applicable) which the note trustee(s) have given directions to the respective issuer security trustee(s) which conflict with such directions. If the note trustee(s) whose directions prevail does not act as trustee for holders of notes issued by the issuer, then the interests of the holders of the notes will not prevail. This could ultimately cause a reduction in the payments you receive on your notes.

## **Holdings may establish further Funding companies, which will be additional beneficiaries under the mortgages trust**

Holdings may in the future establish new funding entities (each a **further Funding company** and together with Funding 1, the **Funding companies**), which may raise debt from time to time and use the proceeds thereof to acquire or increase their shares in the trust property. However, any such increase will be subject to obtaining prior written confirmation from each of the rating agencies that the then current ratings of the rated notes then outstanding (and any new rated notes, where applicable) will not be withdrawn, downgraded or qualified as a result of the relevant Funding company acquiring or increasing its share of trust property.

As beneficiaries, the seller, Funding 1 and any further Funding companies will have a joint and undivided interest in the trust property but their entitlement to the proceeds from the trust property will be in proportion to their respective shares of the trust property. However, if any Funding company besides Funding 1 has a cash accumulation requirement at a time when Funding 1 has no cash accumulation requirement, then such further Funding company will receive principal receipts from the mortgages trustee in priority to Funding 1. In addition, if any Funding company besides Funding 1 is in a cash accumulation period, this will affect the amount of principal receipts payable to Funding 1 and the ability of Funding 1 to repay the pass-through loan tranches.

On each distribution date, the mortgages trustee will distribute revenue receipts and principal receipts to the beneficiaries, subject to the terms of the mortgages trust deed.

Amendments would be made to a number of the transaction documents as a result of the inclusion of a further Funding company as a beneficiary of the mortgages trust. In particular (but without limitation), amendments would be made to:

- the mortgage sale agreement to enable (among other things) the purchase by the further Funding company of interests in the trust property by paying the purchase price for new loans and their related security sold by the seller from time to time and to give the further Funding company the benefit of the covenants in the mortgage sale agreement;
- the mortgages trust deed (i) to establish the further Funding company as a beneficiary of the mortgages trust, (ii) to enable the acquisition by the further Funding company of an interest in the trust property from time to time and (iii) to regulate the distribution of revenue receipts and principal receipts in the trust property to the further Funding company and the other beneficiaries of the trust property;
- the cash management agreement to regulate the application of monies to the further Funding company;
- the servicing agreement, to ensure that the further Funding company receives the benefit of the servicer's duties under that agreement;
- the master definitions and construction schedule; and
- the Funding 1 deed of charge.

There may be conflicts of interest between Funding 1 and any further Funding companies, in which case it is expected that the mortgages trustee will follow the directions given by the relevant beneficiary (excluding the seller) that has the highest ranking class of notes then outstanding and, if each relevant beneficiary represents one or more issuers (as applicable) with the same class as their highest ranking class of notes then outstanding, then the mortgages trustee will follow the directions given by the beneficiary representing the issuer with the greatest outstanding principal balance of the highest ranking class of notes. The interests of Funding 1 may not prevail, which may adversely affect your interests.

Where it is provided in the transaction documents that, following any further Funding company becoming a beneficiary of the mortgages trust, both Funding 1 and the further Funding company, acting together, or the Funding 1 security trustee and the further Funding security trustee, acting together, may provide or exercise, as applicable, directions, rights, powers, benefits and/or discretions (or any equivalent thereof) (including, without limitation, agreeing to any amendment or waiver of any provision thereof and/or giving its consent, approval or authorisation of any event, matter or thing requested thereunder), then (irrespective of whether or not Funding 1 and the further Funding company or, as the case may be, the Funding 1 security trustee and the further Funding security trustee shall so act together with any other parties to the transaction documents) such directions, rights, powers, benefits and/or discretions (or their equivalent) shall be provided and/or exercised by Funding 1 and the further Funding company or, as the

case may be, the Funding 1 security trustee and the further Funding security trustee in accordance with the controlling beneficiary deed. Therefore, in circumstances, following any further Funding company becoming a beneficiary of the mortgages trust, where there is a conflict of interest, the directions of Funding 1 or the Funding 1 security trustee (acting on behalf of the Funding 1 secured creditors) may not prevail over the directions of the further Funding company or the further Funding security trustee (acting on behalf of the relevant secured creditors of the further Funding company), which may adversely affect your interests.

**If Funding 1 enters into new intercompany loan agreements, such new intercompany loans and accompanying new notes may be repaid prior to the intercompany loan and the notes**

Subject to satisfaction of certain conditions, Holdings may, in the future, establish additional wholly-owned subsidiary companies that will issue new notes to investors. The proceeds of each such issue of new notes may be advanced by way of a new intercompany loan to Funding 1 and/or any further Funding company. Where such proceeds are advanced to Funding 1, Funding 1 may use the proceeds of such new intercompany loan to, amongst other things, pay the seller the consideration for new loans and their related security to be sold to the mortgages trustee or pay the seller for a portion of the seller share of the trust property, each of which will result in an increase in the Funding 1 share of the trust property, and/or to refinance all or part of an existing Funding 1 intercompany loan outstanding at that time. If the intercompany loan (or any part thereof) is refinanced, you could be repaid early.

The issuer expects that the payment of the amounts owing by Funding 1 under any new intercompany loan to Funding 1 will be funded from amounts received by Funding 1 from the trust property. You should note that the obligation to make such payments may rank equally or in priority with payments made by Funding 1 to the issuer under the intercompany loan. The terms of the new notes issued by such new issuer and of the new intercompany loan entered into by Funding 1 may result in such new notes and such new intercompany loan being repaid prior to the repayment of the notes issued by the issuer under this base prospectus and the accompanying final terms or drawdown prospectus and such new intercompany loan being repaid prior to the repayment of the intercompany loan.

You will not have any right of prior review or consent before Funding 1 enters into any new intercompany loans or the corresponding issuance of new notes by the new issuer. Similarly, the terms of the transaction documents (including, but not limited to, the mortgage sale agreement, the mortgages trust deed, the Funding 1 deed of charge and the intercompany loan agreement), the definitions of the trigger events and the criteria for the sale of new loans to the mortgages trustee may be amended to reflect the issuance of such new notes. Your consent to these changes will not be required. There can be no assurance that these changes will not affect the cashflow available to pay amounts due on your notes. See “– **The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests**” above.

Before issuing any new notes, however, such new issuer will be required to satisfy a number of conditions, including that the then current ratings of your notes will not be reduced, withdrawn or qualified at the time of the issuance of such new notes by such new issuer.

**Other creditors may share in the same security granted by Funding 1 to the Funding 1 security trustee, and this may adversely affect payments on the notes**

Any new issuer that enters into a new intercompany loan with Funding 1 may become party to the Funding 1 deed of charge and, if so, will be entitled to share in the security granted by Funding 1 for the benefit of the issuer (and the benefit of the other Funding 1 secured creditors) under the Funding 1 deed of charge. If the Funding 1 security is enforced and there are insufficient funds to make the payments that are due to all new issuers that are Funding 1 secured creditors, the issuer expects that each new issuer will only be entitled to its proportionate share of those limited funds. This could ultimately cause a reduction in the payments you receive on your notes.

If Funding 1 borrows other loan tranches from the issuer, it may also be required to enter into a new Funding 1 start-up loan agreement with the Funding 1 start-up loan provider or a new Funding 1 start-up loan provider and the Funding 1 security trustee.

If required by the rating agencies in order to support the rating of the rated notes, Funding 1 will use part of the proceeds of the new Funding 1 start-up loan to further fund the general reserve fund. Similarly, if necessary, Funding 1 may also enter into a new swap with either the Funding 1 swap provider or a new Funding 1 swap provider and the Funding 1 security trustee and/or amend the Funding 1 swap(s).

Any new Funding 1 start-up loan provider and any new Funding 1 swap provider will become party to the Funding 1 deed of charge pursuant to a deed of accession and will be entitled to share in the security granted by Funding 1 for the issuer's benefit (and the benefit of the other Funding 1 secured creditors) under

the Funding 1 deed of charge. In addition, the liabilities owed by Funding 1 to the Funding 1 swap provider which are secured by the Funding 1 deed of charge may increase each time that Funding 1 borrows other loan tranches. These factors could ultimately cause a reduction in the payments you receive on your notes. Your consent to the requisite changes to the transaction documents will not be sought. See “– **The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests**” above.

#### **Issuance of further series of notes may affect the timing and amounts of payments to you**

The issuer expects to issue further series of notes from time to time. Further series of notes may be issued without notice to existing noteholders and without their consent, and may have different terms from outstanding notes. For a description of the conditions that must be satisfied before the issuer can issue further series of notes, see “**The issuance of notes**” below.

The issuance of further series of notes could adversely affect the timing and amount of payments on outstanding notes. For example, if notes of the same class as your notes issued after your notes have a higher interest rate than your notes, this could result in a reduction in the available funds used to pay interest on your notes. Also, when further series of notes are issued, the voting rights of your notes will be diluted.

#### **The yield to maturity of your notes may be adversely affected by prepayments or redemptions on the loans**

The yield to maturity of the notes of each class will be affected by the amount and timing of payment of principal on the loans and 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 loans. The factors affecting the rate of prepayment on the loans are described in “– **The issuer's ability to redeem the notes on their scheduled redemption dates or final maturity dates may be affected by the rate of prepayment on the loans**” below.

In addition, the yield to maturity of the notes of each class may be affected by the seller having elected to send the mortgages trustee an excluded further advance notice and/or an excluded product switch notice which entitles the seller thereafter to repurchase all loans that are the subject of a further advance and/or product switch, respectively, from that date forward until such notice is revoked (as further described in “**Description of the transaction documents – the mortgage sale agreement**” below). The seller delivered such an excluded product switch notice to the mortgages trustee on 7 March 2011 and an excluded further advance notice to the mortgages trustee on 14 August 2013 which means that loans subject to product switches and further advances are subject to repurchases until the excluded product switch notice and/or excluded further advance notice is revoked.

No assurance can be given that Funding 1 will accumulate sufficient funds during the cash accumulation periods relating to each bullet loan tranche and/or each scheduled amortisation instalment to enable it to repay the relevant loan tranches to the issuer so that the corresponding classes of notes will be redeemed on their scheduled redemption dates. The extent to which sufficient funds are saved by Funding 1 during a cash accumulation period or received by it from its share in the mortgages trust for application on a scheduled repayment date will depend on whether the actual principal prepayment rate of the loans is the same as the assumed principal prepayment rate.

If Funding 1 is not able to save enough money during a cash accumulation period or does not receive enough money from its share in the mortgages trust to pay the full amount scheduled to be repaid on a bullet loan tranche or scheduled amortisation instalment and the issuer is therefore unable to redeem the corresponding series and class of notes on their scheduled redemption dates, then Funding 1 will be required to pay to the issuer on those scheduled redemption dates only the amount that it has actually saved or received. Accordingly, the issuer will only be obliged to pay the amount of funds received from Funding 1 to holders of the corresponding series and classes of notes. Any shortfall will be deferred and paid on subsequent Funding 1 interest payment dates when Funding 1 has money available to make the payment. In these circumstances, there will be a variation in the yield to maturity of the relevant class of notes.

During the cash accumulation period for a bullet loan tranche, payments of principal in respect of a scheduled amortisation instalment will be restricted and may not be made if certain CPR tests and other repayment tests are not met as set out below in “**Cashflows – Distribution of Funding 1 available principal receipts**”. Additionally, during the cash accumulation period for a bullet loan tranche and/or a scheduled amortisation instalment, payments of principal on pass-through loan tranches will be restricted and may not be made if certain CPR, cash accumulation shortfall and other repayment tests are not met as set out below in the repayment tests under “**Cashflows – Distribution of Funding 1 available principal receipts**”.

## Risks related to money market notes

Notes designated in the relevant final terms as money market notes will be “Eligible Securities” within the meaning of Rule 2a-7 under the Investment Company Act. However, under Rule 2a-7, a money market fund may be required to dispose of the money market notes upon the occurrence of any of the following events:

- the rating currently assigned to the money market notes is lowered or withdrawn;
- a material default occurs with respect to the money market notes;
- the money market fund determines that the money market notes no longer present minimal credit risk;
- upon certain events of insolvency with respect to the issuer; or
- the money market notes otherwise cease to meet the eligibility criteria under Rule 2a-7.

Where the issuer has entered into a money market note purchase agreement or remarketing agreement in respect of a series and class of money market notes, the eligibility of the notes for investment by money market funds will be dependent upon timely receipt of proceeds from the money market note purchaser, remarketing agent or conditional purchaser.

If any money market notes are designated in the applicable final terms as remarketable notes, the ability of the issuer to procure payment of the mandatory transfer price with respect to such notes will be dependent upon the remarketing agent, as agent for the issuer, either (a) agreeing terms for the sale of such remarketable notes to third party purchasers on or prior to the relevant mandatory transfer date and obtaining the required part of the mandatory transfer price from those third party investors or (b) exercising the issuer's rights under the conditional purchase agreement to require the conditional purchaser to acquire the remarketable notes. After the occurrence of a mandatory transfer termination event, the remarketable notes will no longer be subject to any mandatory transfer.

There can be no assurance that the remarketing agent will be able to identify purchasers interested in acquiring the remarketable notes on the relevant mandatory transfer date. The conditional purchaser may not have sufficient funds on or before the relevant mandatory transfer date to satisfy its obligations to purchase the remarketable notes under the conditional purchase agreement. If the conditional purchaser defaults upon its obligation to pay the amounts otherwise due under the conditional purchase agreement on the relevant mandatory transfer date, the issuer may not be able to procure the purchase of all or any of the remarketable notes on any mandatory transfer date.

### **If the intercompany loan (or any part thereof) is refinanced your notes could be repaid early**

Funding 1 may refinance some or all of the loan tranches through proceeds received from the issuer under loan tranches. The issuer would fund such loans through the issuance of a new series and classes of notes. For example, an existing loan tranche might be refinanced in order to provide the issuer with funds to redeem a class of notes after their step-up date. If the proceeds of a refinanced loan tranche were used by the issuer to exercise an optional redemption of notes prior to their final maturity, your notes (if they correspond to such refinanced loan tranche) could be repaid early.

In light of the ability of the issuer to finance the optional redemption of notes in this way, the fact that the issuer has exercised an optional redemption of notes should not necessarily imply anything about the general rate of prepayment of the loans comprising the portfolio.

### **Refinancing contributions and distributions made may mean that your notes could be repaid early**

Funding 1 may agree to accept a refinancing distribution from the mortgages trustee which will be funded by a refinancing contribution made by the seller or a further Funding company, provided that Funding 1 agrees to apply the proceeds of that refinancing contribution to repay (in whole or in part) a loan tranche made to it. The proceeds of such repaid loan tranche must be used by the issuer to redeem your notes (if they correspond to such repaid loan tranche). If such refinancing contribution is made prior to the final maturity of your notes, this could have an adverse effect on the yield on your notes.

In light of the requirement for the issuer to redeem notes in this way, the fact that the issuer has redeemed notes using the proceeds of the repayment of a loan tranche should not necessarily imply anything about the general rate of prepayment of the loans comprising the portfolio.

If a further Funding company enters into new issuer loan tranches that would have the effect of extending the Funding 1 cash accumulation period in respect of any cash accumulation loan tranche of Funding 1 that is, as at the date such new issuer loan tranche is entered into, in a cash accumulation period or which would, as a result of the issue of such new issuer loan tranche, be in a cash accumulation period (each an **affected cash accumulation loan tranche**), then the proceeds of such new issuer loan tranche must be applied to make a refinancing contribution to the mortgages trustee. The mortgages trustee shall apply the proceeds of such refinancing contribution to make a refinancing distribution to Funding 1 in an amount equal to the aggregate cash accumulation requirement of Funding 1 in respect of each affected cash accumulation loan tranche. If such refinancing contribution is made prior to the final maturity of your notes, your notes could be repaid early (if they correspond to such refinanced loan tranche).

**The issuer's ability to redeem the notes on their scheduled redemption dates or their final maturity dates may be affected by the rate of prepayment on the loans**

Prepayments on the loans may result from refinancings, sales of properties by borrowers voluntarily or as a result of enforcement proceedings under the relevant mortgages, as well as the receipt of proceeds under the insurance policies. Repurchases of loans by the seller under the terms of the mortgage sale agreement will have the same effect as a prepayment of such loans by the borrowers. The yield to maturity of the notes of any class may be adversely affected by, amongst other things, a higher or lower than anticipated rate of prepayments on the loans.

The rate of prepayment of loans by borrowers is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing programs, local and regional economic conditions and homeowner mobility. For instance, prepayments on the loans may be due to borrowers refinancing their loans and sales of mortgaged properties by borrowers (either voluntarily or as a result of enforcement action taken). In addition, if the seller is required to repurchase a loan or loans and the related security under a mortgage account because, for example, one of the loans does not materially comply with the representations and warranties in the mortgage sale agreement or there is a transfer of a portable loan, then the payment received by the mortgages trustee will have the same effect as a prepayment of these loans under the mortgage account. Because these factors are not within the issuer's control or the control of Funding 1 or the mortgages trustee, the issuer cannot give any assurances as to the level of prepayments that the portfolio may experience.

Variation in the rate of prepayments of principal on the loans or loans being subject to a repurchase under the terms of the mortgage sale agreement may affect each series and class of notes differently depending upon amounts already repaid by Funding 1 to the issuer under the intercompany loan and whether a trigger event has occurred, or the security granted by the issuer under the issuer deed of charge or by Funding 1 under the Funding 1 deed of charge has been enforced. If prepayments on the loans occur less frequently than anticipated, there may be insufficient funds available to the issuer to redeem notes in full on their respective scheduled redemption dates or final maturity dates.

**Your notes may not be redeemed on their optional redemption date or any step-up date**

There is no assurance that your notes will be redeemed on their step-up date (if applicable). If a step-up date is specified in respect of a series and class of notes and if such notes are not redeemed on such step-up date, unless otherwise indicated in the applicable final terms in respect of such notes, such notes will become due and payable on such step-up date.

**As new loans are sold to the mortgages trustee or existing loans are repaid or repurchased from the portfolio, the characteristics of the trust property may change from those existing at the applicable closing date, and those changes may adversely affect payments on your notes**

There is no guarantee that any new loans sold to the mortgages trustee will have the same characteristics as the loans in the portfolio as at the applicable closing date. In particular, new loans may have different payment characteristics to the loans in the portfolio as at the applicable closing date. The ultimate effect of this could be to delay or reduce the payments you receive on your notes. However, any new loans will be required to meet the conditions described below in "**Description of the transaction documents – The mortgage sale agreement – Conditions for sale of initial loans and new loans**". Such conditions may be modified from time to time after the closing date and your consent to such modifications will not be obtained provided that the then current ratings of the outstanding notes will not be adversely affected by the proposed modifications. See further "**– The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests**" above.



After the applicable closing date, existing loans may, or will be required to be, repurchased, as applicable in the limited circumstances established in the mortgage sale agreement, which include the repurchase of loans as a result of a material breach of a representation or warranty, repurchase of loans following the delivery of an excluded product switch notice and/or an excluded further advance notice and repurchase of portable loans or repurchase of loans which are two or more monthly payments in arrears. For further details, see “**Description of the transaction documents –The mortgage sale agreement – Repurchase of loans under a mortgage account**”, “**Description of the transaction documents –The mortgage sale agreement – Excluded further advances and excluded product switches**” and “**Description of the transaction documents – The mortgage sale agreement – Repurchase of arrears mortgage loans**”.

**The seller may change the lending criteria relating to loans that are subsequently sold to the mortgages trustee, which could affect the characteristics of the trust property and which may adversely affect payments on your notes**

Each of the loans sold to the mortgages trustee by the seller will have been originated in accordance with the lending criteria of the seller at the time of origination. The current lending criteria of Santander UK as originator are set out in the section “**The loans – Lending criteria – Santander UK loans**” below. These lending criteria consider a variety of factors such as a potential borrower's credit history, employment history and status and repayment ability, as well as the value of the mortgaged property to be mortgaged. In the event of the sale of any new loans and their related security to the mortgages trustee, the seller will warrant that such new loans and their related security were originated in accordance with the seller's lending criteria applicable at the time of their origination. However, the seller retains the right to revise its lending criteria from time to time, so the lending criteria applicable to any loan at the time of its origination may not be or have been the same as those set out below in the section “**The loans – Lending criteria – Santander UK loans**”.

If new loans that have been originated under revised lending criteria are sold to the mortgages trustee, the characteristics of the trust property could change. This could lead to a delay or reduction in the making of payments on your notes.

On and from the Part VII effective date, Santander UK is the seller under the programme and may sell loans and their related security to the mortgages trustee which it originates itself following the Part VII effective date (in addition to loans and their related security that have been originated by Alliance & Leicester prior to the Part VII effective date and which transfer to, and vest in, Santander UK under the Part VII scheme). See “**The loans – Santander UK loans**”.

**The seller has adopted procedures relating to investigations and searches for remortgages which could affect the characteristics of the trust property and which may adversely affect payments on your notes**

The seller does not require a solicitor or licensed conveyancer or (in Scotland) a qualified conveyancer to conduct a full investigation of the title to a mortgaged property in all cases. Where the borrower is remortgaging, there may be a more limited investigation to carry out some but not all of the searches and investigations which would normally be carried out by a solicitor conducting a full investigation of the title to a mortgaged property. Mortgaged 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 mortgaged properties not being accepted as security for a loan had such matters been revealed. However, to mitigate against this risk, title insurance was obtained by the previous seller in respect of such mortgaged properties, although it should be noted that, with respect to any loans originated by Santander UK on and from the Part VII effective date which are sold to the mortgages trustee, Santander UK's current practice is not to obtain title insurance in such circumstances. The introduction of loans secured by such mortgaged properties into the trust property could result in a change of the characteristics of the trust property. This could lead to a delay or reduction in the payments received on your notes.

**The timing and amount of payments on the loans could be affected by various factors which may adversely affect payments on your notes**

The loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in borrowers' individual, personal or financial circumstances may affect the ability of such borrowers to repay 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 loans. See in

particular **"Declining property values could have an adverse effect on the payments on the notes"** below.

Prepayments may also be affected by the characteristics of the loans. The seller offers mortgages which incorporate a flexible payment option allowing borrowers to make overpayments, underpayments, take payment holidays or make cash withdrawals. Any overpayment will be applied against the loan to reduce the current balance of the loan. Any cash withdrawal, underpayment or payment holiday will increase the current balance of the loan. The relevant final terms will provide information on the distribution of the loan-to-value ratios at origination of the loans sold to the mortgages trustee, see **"Statistical information on the portfolio"** in the relevant final terms.

In addition, the ability of a borrower to sell a mortgaged property given as security for a loan at a price sufficient to repay the amounts outstanding under the loan will depend upon a number of factors, including the availability of buyers for that mortgaged property, the value of that mortgaged property and property values in general at the time.

Further, the mortgage loan industry in the United Kingdom is highly competitive. This competitive environment may affect the rate at which the seller originates new loans and may also affect the repayment rate of the seller's existing borrowers.

The principal source of income for repayment of the notes by the issuer is the intercompany loan. The principal source of income for repayment by Funding 1 of the intercompany loan is its interest in the loans held on trust by the mortgages trustee for Funding 1, the seller and any further Funding company. If the timing and payment of the loans is adversely affected by any of the risks described in this section, then the payments on the notes could be reduced or delayed.

### **Declining property values could have an adverse effect on the payments on the notes**

The security granted by Funding 1 in respect of its obligations under the intercompany loan agreement, which is the principal source of income for repayment of the notes by the issuer, consists, among other things, of Funding 1's interest in the mortgages trust. The value of the portfolio held by the mortgages trustee, and therefore the value of the security granted by Funding 1, will decrease if there is a general decline in property values.

The issuer cannot give any assurance that the value of a mortgaged property will remain at the same level as at the date of origination of the related loan. If the residential property market in the United Kingdom experiences a decline in property values, the value of the security created by the mortgage could be significantly reduced and, ultimately, may materially adversely affect the ability of the issuer to make payments on the notes.

The principal source of income for repayment of the notes by the issuer is the intercompany loan agreement. The principal source of income for repayment by Funding 1 of each loan tranche under the issuer intercompany loan agreement is its interest in the loans held on trust by the mortgages trustee for Funding 1 and the seller. If the timing of and the repayment of the loans is adversely affected by any of the risks described in this section, then the payments on the notes could be reduced and/or delayed.

### **Competition in the United Kingdom mortgage loan industry could increase the risk of an early redemption of the notes**

The mortgage loan industry in the United Kingdom is highly competitive. Both traditional and new lenders use heavy advertising, targeted marketing, aggressive pricing competition and loyalty schemes in an effort to expand their presence in or to facilitate their entry into the market and compete for customers. Also the UK Financial Conduct Authority (the **FCA**) has the statutory operational objective, amongst others, of promoting effective competition in the interests of consumers in the markets for regulated financial services. In addition, a mechanism has been established under the Financial Services Act 2012 by which the FCA can be alerted to competition issues, or matters adversely affecting the interests of consumers, and then be held accountable for its response. This is known as the super-complaints regime and allows designated consumer bodies to make a reference where a feature of a market appears to be significantly harming the interests of consumers.

This competitive environment may affect the rate at which the seller originates new mortgage loans and may also affect the level of loss of the seller's existing borrowers as customers. If the rate at which new mortgage loans are originated declines significantly or if existing borrowers refinance their mortgage loans with lenders other than the seller, then the risk of a non-asset trigger event occurring increases, which could result in an early redemption of the notes.

## The portfolio may 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 loans in such a region may be expected to exacerbate the risks relating to the loans described in these risk factors. The economy of each geographic region within the United Kingdom is dependent on different mixtures of industries and other factors. 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 loans and ultimately result in losses on the notes. The geographic distribution of the properties securing the loans comprising the portfolio will be set forth under “**Statistical Information on the Expected Portfolio – Geographical distribution**” in the applicable final terms.

## No new loans may be sold to the mortgages trustee if the step-up date in respect of any notes issued by any of the issuers has occurred and the relevant issuer has not exercised its option to redeem the relevant notes

No sale of new loans may occur if, at the relevant sale date, the step-up date in respect of any series of notes has occurred and the relevant issuer has not exercised its option to redeem each relevant class of notes of such series at that date. If the minimum seller share is not maintained then this could result in the occurrence of a non-asset trigger event. See “**Description of the transaction documents – The mortgage sale agreement – Conditions for sale of initial loans and new loans**” below for further details of the conditions new loans are required to meet.

## The occurrence of an asset trigger event or enforcement of the issuer security or the Funding 1 security may accelerate the repayment of certain notes and/or delay the repayment of other notes

If an asset trigger event has occurred or the issuer security and/or the Funding 1 security has been enforced, the mortgages trustee will distribute principal receipts on the loans to Funding 1, any further Funding company and the seller proportionally based on their percentage shares of the trust property. Funding 1 will, on each Funding 1 interest payment date (which, if not already the case, shall be a monthly payment date) following the occurrence of an asset trigger event or the service of a note acceleration notice on the issuer or the service of an intercompany loan acceleration notice on Funding 1 and any other date following enforcement of the Funding 1 security, apply those principal receipts received by it from the mortgages trustee, after making higher ranking payments (including in making any requisite repayments under the Funding 1 liquidity facility (if established)), to repay:

- *first*, in no order of priority among them but in proportion to the amounts due, the AAA loan tranches until each of those AAA loan tranches is fully repaid;
- *then*, in no order of priority among them but in proportion to the amounts due, the AA loan tranches until each of those AA loan tranches is fully repaid;
- *then*, in no order of priority among them but in proportion to the amounts due, the A loan tranches until each of those A loan tranches is fully repaid;
- *then*, in no order of priority among them but in proportion to the amounts due, the BBB loan tranches until each of those BBB loan tranches is fully repaid;
- *then*, in no order of priority among them but in proportion to the amounts due, the BB loan tranches until each of those BB loan tranches is fully repaid; and
- *then*, in no order of priority among them but in proportion to the respective amounts due, the NR loan tranches and any Funding 1 loan until each of those NR loan tranches and the Funding 1 loan is fully repaid.

The above priority of payments may cause certain series and classes of notes to be repaid more rapidly than expected and other series and classes of notes to be repaid more slowly than expected and there is a risk that such notes may not be repaid by their final maturity date.

**The occurrence of a non-asset trigger event may accelerate the repayment of certain notes and/or delay the repayment of other notes**

If a non-asset trigger event has occurred and until the occurrence of an asset trigger event, the mortgages trustee will distribute all principal receipts to Funding 1 and any further Funding company until the Funding 1 share percentage and the share percentage attributable to each such further Funding company of the trust property are each zero and will thereafter distribute all principal receipts to the seller. Funding 1 will, on each Funding 1 interest payment date (which shall, if not already the case, be a monthly payment date) following the occurrence of a non-asset trigger event, apply these principal receipts received by it from the mortgages trustee, after making higher ranking payments (including in making any requisite repayments under the Funding 1 liquidity facility (if established)), to repay:

- *firstly*, the AAA loan tranches in order of final repayment date, beginning with the earliest final repayment date, until each of those AAA loan tranches is fully repaid;
- *then*, in no order of priority among them, the AA loan tranches until each of those AA loan tranches is fully repaid;
- *then*, in no order of priority among them, the A loan tranches until each of those A loan tranches is fully repaid;
- *then*, in no order of priority among them, the BBB loan tranches until each of those BBB loan tranches is fully repaid;
- *then*, in no order of priority among them, the BB loan tranches until each of those BB loan tranches is fully repaid; and
- *then*, in no order of priority among them but in proportion to the respective amounts due, (i) the NR loan tranches, until each of those NR loan tranches is fully repaid, and (ii) the Funding 1 loan until the Funding 1 loan is fully repaid.

The above priority of payments may cause certain series and classes of notes to be repaid more rapidly than expected and other series and classes of notes to be repaid more slowly than expected and there is a risk that such notes may not be repaid by their final maturity date.

**The enforcement of the issuer security may accelerate the repayment of certain notes and/or delay the repayment of other notes**

If the issuer security is enforced, then the mortgages trustee will distribute funds in the manner described below in **"Cashflows"**. As a consequence, certain series and classes of notes may be repaid more rapidly than expected and other series and classes of notes may be repaid more slowly than expected and there is a risk that such notes may not be repaid by their final maturity date.

**In certain circumstances, loans subject to product switches and further advances will be repurchased by the seller from the mortgages trustee, which will affect the prepayment rate of the loans and this may affect the yield to maturity of your notes**

Following the delivery of any excluded further advance notice and/or excluded product switch notice, the seller will be obliged to repurchase all loans subject to product switches and further advances until the date on which the relevant further advance notice or excluded product switch notice is revoked (see further **"Description of the transaction documents – The mortgage sale agreement – Excluded further advances and excluded product switches"** below). If any excluded further advance notice or excluded product switch notice is revoked, the loans subject to product switches or further advances (as applicable) will only be repurchased if: (i) as at the date of such product switch or further advance, the relevant loan does not materially comply with the representations and warranties set out in the mortgage sale agreement; and/or (ii) as of the next following trust calculation date, the relevant loan does not comply with the conditions precedent applicable to such loan, as described below in **"Description of the transaction documents – The mortgage sale agreement – Conditions for product switches and further advances"**.

If the seller repurchases any such loans and their related security from the mortgages trustee, the repurchase price will be equal to the current balance of those loans on the trust calculation date immediately following the date of such product switch or further advance on which such loans and their related security are repurchased. Other than as described above the seller is entitled but not obliged to remove any loans that are subject to further advances. If the seller repurchases any such loans and their related security from the mortgages trustee, the repurchase price will be equal to the current balance of those loans at the date of such further advance (including the amount of the further advance).

See further “**Description of the transaction documents – The mortgage sale agreement – Product switches and further advances**” below as to the circumstances in which a loan will be subject to a product switch or further advance.

The yield to maturity of your notes may be affected by the repurchase of loans subject to product switches or further advances.

**Portable loans will be repurchased by the seller from the mortgages trustee, which will affect the prepayment rate of the loans and this may affect the yield to maturity of your notes**

Portable loans will be repurchased if the borrower transfers the loan balance at the same interest rate and subject to all the existing terms and conditions to a new property during any applicable discount rate period, fixed rate period or premium rate period, as described in “**Description of the transaction documents – The mortgage sale agreement – Repurchase of loans under a mortgage account**”. If the seller is required to repurchase any such portable loans and their related security from the mortgages trustee, the repurchase price will be equal to the current balance of those loans on the London business day immediately following the date that such portable loan is transferred to the new property.

The yield to maturity of your notes may be affected by the repurchase of portable loans.

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

The ratings assigned by Standard & Poor's and Fitch to each series and 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 series and class of rated notes in accordance with the terms of the transaction documents and the conditions of the notes. The ratings also address the likelihood of “ultimate” payment of principal by the final maturity date of each series and class of rated notes. The ratings assigned by Moody's to each series and class of rated notes address the expected loss in proportion to the initial class principal amount of such series and 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 final maturity date. The expected ratings of each series and class of rated notes on the applicable closing date are set out in the accompanying final terms or drawdown prospectus, as applicable.

A credit rating is not a recommendation to buy, sell or hold securities and any rating agency may lower, qualify or withdraw its rating if, in the sole judgment of the rating agency, the credit quality of such series and class has declined or is in question. If any rating assigned to any series and class of the rated notes then outstanding is lowered, qualified or withdrawn, the market value of such series and class of notes may be reduced and, in the case of money market notes, such money market notes may no longer be eligible for investment by money market funds. A change to the ratings assigned to any series and class of rated notes will not affect the relevant loan tranche ratings assigned to each relevant loan tranche under the intercompany loan.

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). 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). 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 notes will be disclosed in the applicable final terms or drawdown prospectus.

The CRA Regulation was amended by European Regulation 462/2013 of 21 May 2013 (known as **CRA III**) and, as such, entered into force on 20 June 2013. Its provisions increase the regulation and supervision of credit rating agencies by ESMA but also impose new obligations on issuers of securities which have an EU element. Under Article 8b of the CRA Regulation, the issuer, originator and sponsor of structured finance instruments (**SFI**) established in the European Union (a definition which the notes issued by the issuer under the programme fulfil) must jointly publish certain information about those SFI on a specified website set up by ESMA. This includes information on: the credit quality and performance of the underlying assets of the SFI; the structure of the securitisation transaction; the cashflows and any collateral supporting a securitisation exposure; and any information that is necessary to conduct comprehensive and well-informed stress tests on the cashflows and collateral values supporting the underlying exposures. On 30

September 2014, the European Commission adopted a delegated regulation containing regulatory technical standards (**RTS**) which set out in detail the information on SFI which must be published and rules on the presentation and updating of such information. The Regulation will apply from 1 January 2017, in order to provide issuers, originators and sponsors with reasonable time to prepare for compliance with the new disclosure obligations. ESMA has not yet launched the website on which information about SFI must be published or published certain technical reporting instructions concerning, amongst other things, the transmission of the relevant information to ESMA. Therefore, there remains some uncertainty surrounding the precise nature of the issuer's and originator's/sponsor's obligations under the revised CRA Regulation and how the submission of information will work in practice.

### **Ratings confirmation in respect of notes**

The terms of certain transaction documents require the rating agencies to confirm that any action proposed to be taken by the mortgages trustee, the Funding 1 security trustee, the issuer security trustee, the note trustee, a Funding company or any issuer, will not have an adverse effect on the then current rating of the rated notes (a **ratings confirmation**).

By acquiring the notes, you acknowledge and agree that notwithstanding the foregoing, a credit rating is an assessment of credit risk and does not address other matters that may be of relevance to you. The transaction documents provide that none of the Funding 1 secured creditors, the issuer secured creditors (including the noteholders), the mortgages trustee, the Funding 1 security trustee, the issuer security trustee, the note trustee or any other person whether by way of contract or otherwise shall acquire any actual or contingent rights against any rating agency (nor shall any rating agency assume any actual or contingent liability to any of the Funding 1 secured creditors, the issuer secured creditors (including the noteholders), the mortgages trustee, the Funding 1 security trustee, the issuer security trustee or the note trustee), notwithstanding the fact that any of the Funding 1 security trustee, the issuer security trustee and note trustee may be entitled to assume that any matter or event is not materially prejudicial to the interests of any class of noteholders if any rating agency has confirmed that the then current rating of a relevant class of rated notes would not be adversely affected by such matter or event.

Any such ratings confirmation may or may not be given at the sole discretion of each rating agency. It should be noted that, depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that a rating agency cannot provide a ratings confirmation in the time available or at all, and the rating agency should not be responsible for the consequences thereof. A ratings confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the transaction of which the securities form part since the applicable closing date. A ratings confirmation represents only a restatement of the opinions given, and cannot be construed as advice for the benefit of any parties to the transaction.

If a ratings confirmation is a condition to any action or step under any transaction document and a written request for such confirmation or response is delivered to each rating agency by or on behalf of the issuer and one or more of the rating agencies (each, a **non-responsive rating agency**) indicates that it does not consider such confirmation or response necessary in the circumstances, or within 30 days of delivery of such request, such request elicits no confirmation or response and/or such request elicits no statement by one or more of the rating agencies that such confirmation or response could not be given, and at least one of Moody's, Fitch or Standard & Poor's gives such a confirmation or response based on the same facts, then such condition shall be deemed to be modified with respect to the facts set out in the request so that there shall be no requirement for the confirmation or response from any such non-responsive rating agency.

### **Principal payments on pass-through loan tranches and scheduled amortisation instalments are subject to certain rules**

There will be certain circumstances in which payment of principal on the notes will be deferred, including upon the occurrence of the following events on a Funding 1 interest payment date: (a) a debit balance on the BB principal deficiency sub-ledger, the BBB principal deficiency sub-ledger, the A principal deficiency sub-ledger or the AA principal deficiency sub-ledger, after application of the Funding 1 available revenue receipts on such Funding 1 interest payment date; or (b) the adjusted general reserve fund level is less than the general reserve required amount; or (c) the aggregate outstanding principal balance of loans in the mortgages trust, in respect of which the aggregate amount in arrears is more than three times the monthly payment then due, is more than 4 per cent. of the aggregate outstanding principal balance of loans in the mortgages trust.

For more details of such circumstances, please see the rules described below in "**Cashflows – Distribution of Funding 1 available principal receipts**".

### **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 mortgage 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.

If there is a lack of liquidity in the secondary market, an investor in the notes may not be able to sell or acquire credit protection on its notes readily, and market values of the notes 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.

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

The Bank of England base rate is currently the lowest in the Bank's history. Notwithstanding this, there has been a pattern of mortgage interest rates generally increasing, which may increase further if the base rate is increased. Increases in mortgage interest rates 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' required monthly payments, which (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, ultimately may result in higher delinquency rates and losses in the future.

Borrowers seeking to avoid these increased monthly payments 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.

### **General volatility in the wholesale funding markets**

In the past six years, financial systems worldwide have experienced difficult credit and liquidity conditions and disruptions leading to less liquidity, greater volatility, general widening of spreads and, in some cases, lack of price transparency on interbank lending rates. Global economic conditions deteriorated significantly between 2007 and 2009 and many countries, including the United Kingdom, went through a prolonged recession. Many major financial institutions, including some of the world's largest global commercial banks, investment banks, mortgage lenders, mortgage guarantors and insurance companies, experienced significant difficulties. Around the world, there were runs on deposits at several financial institutions, numerous institutions sought additional capital or were assisted by central banks and governments providing liquidity, whilst many lenders and institutional investors reduced or ceased providing funding to borrowers (including to other financial institutions).

Eurozone markets and economies continue to show signs of fragility and volatility, with recession in several economies and only sporadic access to capital markets in others. Interest rate differentials among eurozone countries indicate continued doubts about some governments' ability to fund themselves and affect borrowing rates in those economies. Further, the possibility remains that one or more eurozone countries could depart from the euro or that the euro could be abandoned as a currency altogether. A wide-scale break-up of the eurozone would most likely be associated with a deterioration in the economic and financial environment in the United Kingdom and could have a material adverse impact on the whole financial sector, creating new challenges in sovereign and corporate lending and resulting in significant disruptions in financial activities at both the market and retail levels. The European Central Bank (**ECB**) and European Council took actions in 2012 and 2013 with the aim of reducing the risk of contagion in the eurozone and beyond. These included the creation of the "Open Market Transaction" facility of the ECB and the decision by eurozone governments to progress towards the creation of a banking union. Nonetheless, a significant number of financial institutions throughout Europe have substantial exposures to sovereign debt issued by eurozone nations which are under severe financial stress. Should any of those nations default on their debt, or experience a significant widening of credit spreads, major financial institutions and banking systems throughout Europe could be destabilised, resulting in the further spread of the on-going economic crisis. The continued high cost of capital for some European governments has been felt in the wholesale markets in the

United Kingdom. In the absence of a permanent resolution of the eurozone crisis, conditions could deteriorate.

Whilst evidence of recovery has emerged in relation to the UK economy, the possibility of a renewed economic downturn remains a real risk. Uncertainty surrounding the future of the eurozone is less acute than before, but slow growth increase may pose a risk of a further slowdown in the UK's principal export markets which would have an adverse effect on the broader UK economy.

Despite recent improvements in certain segments of the global economy, uncertainties remain concerning the future economic environment. There can be no assurance that economic conditions in these segments will continue to improve or that the global economic condition as a whole will improve significantly. Additionally, there can be no assurance that the market for mortgage-backed securities, on which Santander UK relies for a proportion of its funding requirements, will continue to recover or recover to the same degree as other recovering global credit market sectors.

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 existence of a secondary market for the notes and/or the ability of the issuer to satisfy its obligations under the notes.

**If certain parties to the transaction documents cease to satisfy various criteria then the rights and obligations of such party pursuant to the relevant transaction document may have to be transferred to a replacement entity under terms that may not be as favourable as those currently offered under the relevant transaction document.**

Those parties to the transaction documents who receive and hold monies pursuant to the terms of such documents are required to satisfy certain criteria in order that they can continue to receive and hold monies.

These criteria include requirements as to such parties being authorised and regulated under the FSMA, their on-going compliance with rules and guidance under the FSMA as well as requirements in relation to the ratings ascribed to each such party by Standard & Poor's, Fitch and Moody's. The table beginning at page 61 sets out more particularly such rating criteria. If the party concerned ceases to satisfy the applicable criteria, including the rating requirements detailed in the table beginning at page 61, then the rights and obligations of that party (including the right and/or obligation to receive monies) may need to be transferred to another entity which does satisfy the applicable criteria. In these circumstances, the terms agreed with the replacement entity may not be as favourable as those provided by the original party pursuant to the relevant transaction document.

In addition, you should also be aware that, should the applicable criteria cease to be satisfied as detailed above, the parties to the relevant transaction document may agree to amend or waive certain of the terms of such documents and the applicable criteria in order to avoid the need for a replacement entity to be appointed. Your consent may not be required in relation to such amendments and/or waivers.

### **General impact of regulatory changes on the Santander UK in its various roles under the programme**

As noted above, Santander UK performs various roles in the programme, including as seller of loans to the mortgages trust, servicer of such loans, cash manager to Funding 1 and the mortgages trustee, cash manager to the issuer, the issuer account bank, the mortgages trustee account bank, account bank B in respect of the Funding 1 GIC account, the Funding 1 swap provider and the issuer swap provider.

As a financial institution, Santander UK, together with its subsidiaries (the **Santander UK Group**), are subject to extensive financial services laws, regulations, administrative actions and policies in the United Kingdom, the European Union and each other location in which the Santander UK Group operates. Statutes, regulations and policies to which the Santander UK Group is subject, in particular those relating to the banking sector and financial institutions, may be changed at any time, and the interpretation and the application of those laws and regulations by regulators is also subject to change.

During the recent market turmoil, there have been unprecedented levels of government and regulatory intervention and scrutiny, and changes to the regulations governing financial institutions and the conduct of business. In addition, in light of the financial crisis, regulatory and governmental authorities are considering, or may consider, further enhanced or new legal or regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision. This intensive approach to supervision has been maintained by the UK Prudential Regulation Authority (the **PRA**) and the FCA.



Recent proposals and measures taken by governmental, tax and regulatory authorities and further future changes in law, regulation and supervisory policy, in particular in the United Kingdom, which are beyond the Santander UK Group's control, could materially affect the Santander UK Group's business, value of assets and operations. Products and services offered by the Santander UK Group could also be affected. Changes in United Kingdom legislation and regulation to address the stability of the financial sector may also affect the competitive position of the United Kingdom banks, including Santander UK, particularly if such changes are implemented before international consensus is reached on key issues affecting the industry, for instance in relation to the FCA and PRA's rules on capital and liquidity risk management and also the UK Government's introduction of the bank levy. Although the Santander UK Group works closely with its regulators and continually monitors the situation, future changes in law, regulation, fiscal or other policies can be unpredictable and are beyond the Santander UK Group's control.

On 16 June 2010, the Chancellor of the Exchequer announced the creation of the Independent Commission on Banking (ICB), which was asked to consider potential reforms to the UK banking sector to promote financial stability and to make recommendations to the UK Government in this regard. The ICB's principal recommendations were: (i) implementation of a ring-fence between banks' core retail banking activities and more risky wholesale and investment banking services; (ii) increased capital requirements; and (iii) improvement of competition. The ICB's recommendations were broadly endorsed by the UK Government and on 4 February 2013, the Financial Services (Banking Reform) Bill (the **Banking Reform Bill**) was introduced to Parliament to implement certain aspects of the ICB's recommendations. Various amendments were made to the Banking Reform Bill during the legislative review process, including to implement the June 2013 recommendations of the Parliamentary Commission on Banking Standards, such as the creation of a new banking standards regime covering the conduct of bank staff and a criminal offence of reckless misconduct in the management of a bank.

On 18 December 2013, the Banking Reform Bill received Royal Assent in the House of Lords as the Financial Services (Banking Reform) Act 2013 (the **Banking Reform Act**). Among other things, the Banking Reform Act:

- provides HM Treasury and the PRA with powers to implement some of the recommendations of the ICB. In particular, the Banking Reform Act includes the power to implement the ring fencing reforms which would separate retail banking activities from the wholesale and investment banking activities carried on by large banking groups operating in the UK.;
- introduces a senior persons regime, replacing the approved persons regime established under FSMA (as amended by the Financial Services Act 2012);
- establishes a new criminal offence for reckless misconduct in the management of a bank;
- introduces a preference for certain depositors on insolvency of the deposit-taking bank;
- provides for a new payment systems regulator which was established by the FCA on 1 April 2014 and is expected to become fully operational in April 2015; and
- amends the Banking Act 2009 to include a bail-in stabilisation option forming part of the special resolution regime (not yet fully in force) (see "**Risk Factors - The UK Banking Act 2009 and similar European legislation may affect the effectiveness of obligations of certain entities under the transaction documents and result in modifications to such documents**").

The Banking Reform Act created a framework to effect these reforms, with detailed provisions to be implemented through secondary legislation. The Banking Reform Act is not yet fully in force and although some secondary legislation has been made to date, much is still to come, including commencement orders to bring the remaining parts of the Banking Reform Act into force. The UK Government expects to have the secondary legislation in place by 2015 and for the provisions of the Banking Reform Act to take effect by 2019. As such, the final form of the Banking Reform Act and any ancillary secondary legislation which may come into force remains unclear. Santander UK is expected to need to make changes to its structure in order to comply with these requirements. Such structural changes may impact Santander UK's ability to comply with or perform its on-going obligations under the transactions described in this base prospectus.

At a European level, in January 2014, the European Commission published a legislative proposal for a regulation on structural measures improving the resilience of EU credit institutions, including ring-fencing requirements for the banking sector. Under these reforms, EU banks within the scope of the regulation will be prohibited from conducting proprietary trading and may be required to separate risky trading activities from their retail deposit and payment activities at the discretion of their supervisors. It is not yet clear whether the current Banking Reform Act, and any relevant secondary legislation, will be deemed equivalent

and so there remains a risk that the EU legislation implementing the recommendations in the report may impose requirements which are more onerous than those in the Banking Reform Act or which may not be completely consistent with those in the Banking Reform Act. In any event it is expected that the seller's Spanish parent will be required to comply with the European requirements. It is not yet known what impact this may have on Santander UK or its group.

In December 2012, the Financial Services Act 2012 received royal assent. The Financial Services Act 2012 contained provisions enabling the transfer of consumer credit regulation (which includes new and existing second charge residential mortgages) from the Office of Fair Trading (the **OFT**) to the FCA. Consumer credit regulation was transferred to the FCA on 1 April 2014. Under the new regime, carrying on certain credit-related regulated activities (including in relation to servicing) otherwise than in accordance with permission from the FCA will render the credit agreement unenforceable without FCA approval. The FCA also has the power to make rules to render unenforceable contracts made in contravention of its rules on cost and duration of credit agreements or in contravention of its product intervention rules (see “- **If the seller's interpretation of certain technical rules under the consumer credit regime were held to be incorrect by a court, the FCA or the Ombudsman or was challenged by a significant number of borrowers, or borrowers were to exercise rights of set-off, to the extent available under the consumer credit regime, there could be material disruption to the income flow from the mortgages trust**” for further details of the changes to the consumer credit regime). Given the uncertainties still surrounding the transition of the consumer credit regime from the OFT to the FCA, it is not clear what the impact on Santander UK in its role as seller of loans to the mortgages trust and servicer of such loans will be. The Financial Services Act 2012 also provides for formalised cooperation to exist between the FCA and the Financial Ombudsman Service (the **Ombudsman**) (which determines complaints by eligible complainants in relation to authorised firms, including consumer credit firms and certain other businesses), particularly where issues identified potentially have wider implications, with a view to the FCA requiring firms to operate consumer redress schemes.

As noted, in the United Kingdom and elsewhere, there is continuing political and regulatory scrutiny of the banking industry and, in particular, retail banking. Political involvement in the regulatory process, in the behaviour and governance of the UK banking sector and in the major financial institutions in which the UK Government has a direct financial interest is likely to continue. The FCA, the Competition and Markets Authority (**CMA**) and, previously, the Competition Commission, the OFT and the FSA have recently carried out, or are currently conducting, various enquiries into issues affecting the financial services market.

In December 2011, the FSA published a consultation paper that consolidates proposals arising out of its wide-ranging mortgage market review, which was launched in October 2009, to strengthen rules and guidance on, among other things, 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 recovers. In October 2012, the FSA published a feedback statement and final rules that came into force on 26 April 2014. These rules require, among other things, an assessment of affordability in accordance with detailed requirements, with transitional arrangements where the borrower does not take on additional borrowing except for essential repairs or maintenance work, and ban self-certified loans. These rules permit interest-only loans only where there is a clearly understood and credible strategy for repaying the capital (evidence of which the lender must obtain before making the loan and check at least once during the term of the loan) and the cost of the repayment strategy must be part of the affordability assessment for the loan. The impact of the changes is now clear and the reforms have presaged a period of significant change for the Santander UK Group's mortgage lending business which will mean reforms to the Santander UK Group's mortgage sales delivery systems, changes to the Santander UK Group's mortgage documentation and significant reform of the Santander UK Group's approach to risk assessment of prospective mortgage customers.

Following the onset of the recent financial crisis, the FSA (and now the PRA and the FCA) have generally adopted a more intrusive and direct style of regulation which it termed “intensive supervision”. The PRA and the FCA now have a more outcome focused regulatory approach, more proactive enforcement and more punitive penalties for infringements which means that PRA and/or FCA authorised firms, such as Santander UK, are facing increasing supervisory intrusion and scrutiny (resulting in increasing internal compliance costs and supervision fees) and in the event of a breach of their regulatory obligations are likely to face more stringent penalties. In particular, the FCA has a strong focus on consumer protection and is taking a more interventionist approach in its increasing scrutiny of product terms and conditions. The FSMA (as amended by the Financial Services Act 2012) gives the FCA the power to make temporary product intervention rules, among other things, in order to address issues identified with products which may potentially cause significant detriment to consumers because of certain product features or firms' flawed

governance and distribution strategies. Such rules may prevent firms from entering into product agreements with consumers until such issues have been rectified.

As part of this interventionist approach, the FCA continues to maintain its focus on the fair treatment of customers in the mortgage sector and in July 2014 published a discussion paper on Fairness of Changes to Mortgage Contracts. This discussion paper sets out how the FCA applies the Principles for Businesses and the other factors it considers when assessing the fairness of changes to mortgage terms and conditions. Although the discussion paper states that the FCA does not have any current plans for new rules in this area, it leaves open the question of whether new guidance on the application of MCOB and other relevant Handbook Rules may be published and/or whether new rules may be introduced in the future to improve the fair treatment of customers by firms seeking to change their mortgage terms and conditions.

On 31 March 2011, the European Commission published a proposal for a Directive on credit agreements relating to residential immovable property for consumers (the **Mortgage Credit Directive**). The proposed directive was adopted by the European Parliament on 10 December 2013 and by the Council of the European Union on 28 January 2014. The Mortgage Credit Directive (2014/17/EU) was published in the Official Journal on 28 February 2014 and must be implemented by Member States by 21 March 2016. The Mortgage Credit Directive applies to: (a) credit agreements secured by a mortgage or comparable security commonly used in a Member State on residential immovable property, or secured by a right relating to residential immovable property; 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. The Mortgage Credit Directive does not apply to certain types of equity release credit agreements, 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. Although much of the subject matter of the Mortgage Credit Directive is covered by existing UK regulation, some amendments will be required.

On 5 September 2014, the UK government published a consultation paper, together with draft legislation, setting out its intentions with respect to implementation of the Mortgage Credit Directive. In line with the government's existing policy objective, regulation of second charge mortgages is to be brought within the FCA's regulated mortgage contract regime, rather than the FCA consumer credit regime, by amending the definition of regulated mortgage contract. This new regime is intended to apply from March 2016. This change will result in the loss of certain consumer protection provisions in the CCA (such as the unfair relationships) for new second charge mortgages going forward. The government intends to move regulation of existing second charge mortgages (as well as the origination of new loans) to the FCA regulated mortgage contract regime, which will affect, for example, the permission required to administer such products. However, the government plans to introduce transitional provisions to ensure that borrowers under existing second charge mortgages do not lose some of the existing CCA protections, including, for example, with respect to pre-contractual disclosures, form and content of regulated credit agreements and unfair relationships. The FCA has also published a consultation paper outlining its approach to implementation and setting out proposed changes to the FCA Handbook. Subject to the transitional provisions mentioned above for back book loans, second charge mortgages will become subject to MCOB from March 2016, including in relation to matters such as advising and selling standards, post-sale disclosure of information and contract variations. Until the implementing legislation and FCA rules are finalised, however, the precise effect of the Mortgage Credit Directive on the Santander UK Group's mortgage business is not entirely certain.

Any further changes in the legislative or regulatory framework for mortgage regulation, including, as a result of implementation of the Mortgage Credit Directive into UK law, or any future review carried out by the FCA, or any changes to the FCA Handbook Rules, may adversely affect the loans or the manner in which they are serviced and accordingly the ability of the issuer to make payments to noteholders. Please see **"Risk factors - If a significant number of borrowers attempt to set off claims for damages based on contravention of a rule made under the FSMA against the amount owing by the borrower under a loan, there could be a material decrease in receipts from the mortgages trust"** for further details.

Finally, the approach taken by the Ombudsman to the determination of any complaints in relation to a mortgage may change, in particular in light of the changes in regulatory approach and supervisory practice highlighted above.

No assurance can be given as to the nature or timing of future changes to the regulatory regime, uncertainties surrounding the implementation of the current regulatory regime or potential investigations or reviews in relation to the mortgage market in the United Kingdom generally, Santander UK's particular sector in that market or specifically in relation to the Santander UK Group. Any such action or developments may have a material adverse effect on Santander UK (in all of its various roles under the programme and in particular as seller of loans to the mortgages trust and servicer of such loans), the issuer, the mortgages trustee and/or Funding 1 and their respective businesses and operations. This may adversely affect the issuer's ability to make payments in full when due on the notes. Additionally, Santander UK, as seller of loans to the mortgages trust, is obliged under certain circumstances to repurchase loans from the mortgages trustee. Should Santander UK be unable to repurchase loans when required or perform its other on-going obligations under the transactions described in this base prospectus, the performance on the notes may be adversely affected.

**Santander UK in its capacities as account bank B or mortgages trustee account bank may cease to satisfy certain criteria, which may adversely affect the rate of interest receivable on the Funding 1 GIC account or the mortgages trustee GIC account**

Santander UK, in its capacities as account bank B and as mortgages trustee account bank, is required to satisfy certain criteria (including certain credit rating levels and/or permissions set by or required under the FSMA from time to time) in order to continue to receive deposits in the Funding 1 GIC account and the mortgages trustee GIC account, respectively. If Santander UK, in either of its capacities as account bank B or mortgages trustee account bank, ceases to satisfy the criteria applicable to it in each such capacity, the relevant account may need to be transferred to another entity which does satisfy those criteria. However, in these circumstances, the new account bank provider may not offer an interest rate on deposits in the Funding 1 GIC account and/or the mortgages trustee GIC account on terms as favourable as those provided by Santander UK.

**Risks associated with the Funding 1 swap(s)**

Certain of the loans in the portfolio may pay a variable rate of interest for a period of time that may be linked to the seller variable rate for that particular type of loan or linked to the base rate. Other loans pay a fixed rate of interest for a period of time. Funding 1 will receive interest on the variable rate loans based on the seller variable rates.

To provide a hedge against the rates of interest payable on the loans in the portfolio and the rate of interest payable by Funding 1 on the loan tranches, Funding 1 entered into the Funding 1 swap agreement on the initial closing date. If Funding 1 fails to make timely payments under the Funding 1 swap(s), it will have defaulted under the Funding 1 swap agreement.

The Funding 1 swap provider is obliged only to make payments under the Funding 1 swap(s) if and for so long as Funding 1 makes payments under the same. Funding 1 is only obliged to make payments under the Funding 1 swap(s) if there are sufficient available revenue receipts. If the Funding 1 swap provider is not obliged to make payments, or defaults in its obligation to make payments under the Funding 1 swap(s), Funding 1 will be exposed to the variance between the rates of interest payable on the loans and the rate of interest payable by it under the loan tranches unless replacement Funding 1 swap(s) are entered into. If the Funding 1 swap(s) terminate, Funding 1 may as a result be obliged to make a termination payment to the Funding 1 swap provider. Any variance between the rates of interest payable on the loans and the rate of interest payable by Funding 1 under the intercompany loan and any termination payment payable by it to the Funding 1 swap provider may adversely affect the ability of Funding 1 to meet its obligations under the intercompany loan.

**The issuer relies on third parties to provide services in relation to the notes, and you may be adversely affected if they fail to perform their obligations**

The issuer is a party to contracts with a number of third parties that have agreed to provide services in relation to its notes. For example, the issuer swap providers have agreed to provide their respective issuer swaps, the issuer corporate services provider has agreed to provide corporate services and the paying agents and the agent bank have agreed to provide payment and calculation services in connection with the notes. In the event that any of these parties were to fail to perform their obligations under the respective agreements to which they are a party, you may be adversely affected.

To the extent that there are principal amounts outstanding on remarketable notes on any mandatory transfer date, the ability of the issuer to procure payment of the mandatory transfer price will be dependent upon the remarketing agent, as agent for the issuer, agreeing terms for the sale of the remarketable notes to third party purchasers on or prior to the relevant mandatory transfer date or exercising the issuer's rights

under the conditional purchase agreement to require the conditional purchaser to acquire the remarketable notes. (See “– **Risks related to money market notes**”.)

**The issuer may be unable to pay, in full or at all, interest due on its notes if there is a revenue or principal deficiency**

If, on any Funding 1 interest payment date, there is a **Funding 1 revenue deficit amount** (i.e. revenue receipts available to Funding 1 (including the general reserve fund and liquidity reserve fund (if any)) and the Funding 1 liquidity facility (if established) are insufficient to pay interest on certain loan tranches and other senior expenses of Funding 1), then Funding 1 may use principal receipts on the loans received by it in the mortgages trust to make up the Funding 1 revenue deficit amount.

Funding 1 may only apply Funding 1 principal receipts towards covering a revenue shortfall on any loan tranche if and to the extent that such application (and, for the avoidance of doubt, the recording of such losses) would not result in a debit balance being recorded, or an existing debit balance being increased, on a principal deficiency sub-ledger relating to a loan tranche with a higher rating designation.

Funding 1 will also be obliged to record on the same principal deficiency ledger any losses on the loans which cause a principal deficiency. Losses and Funding 1 principal receipts used to cover a Funding 1 revenue deficit amount will be debited to the principal deficiency sub-ledger of the loan tranches with the lowest loan tranche rating until the principal deficiency ledger balance is equal to the outstanding principal amount of those loan tranches. Losses and Funding 1 principal receipts used to meet Funding 1 revenue deficit amounts will thereafter be debited to the principal deficiency sub-ledger of the loan tranche with the next lowest loan tranche rating. Losses and Funding 1 principal receipts used to meet Funding 1 revenue deficit amounts will continue to be allocated in this manner until an amount is debited to the class A principal deficiency sub-ledger, at which point an asset trigger event will occur.

If Funding 1 uses Funding 1 principal receipts to help reduce a Funding 1 revenue deficit amount or if losses occur on the loans, this will reduce the amount of Funding 1 principal receipts available to repay the loan tranches.

However, it is expected that any principal deficiencies of this sort will be recouped from subsequent excess revenue receipts. The excess revenue receipts will be applied first to cover any principal deficiency in respect of the loan tranches with the highest loan tranche rating (at the date of this base prospectus, being the AAA loan tranches), and then the loan tranches with the next highest-ranking loan tranche rating and so on down to the loan tranches with the lowest loan tranche rating.

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

- the interest and other net income of Funding 1 may not be sufficient, after making the payments to be made in priority, to pay, in full or at all, interest due on the loan tranches;
- there may be insufficient funds to repay the principal due and payable on any of the loan tranches prior to their final repayment dates unless the other net income of Funding 1 is sufficient, after making other prior ranking payments, to reduce any principal deficiency in respect of the loan tranche;
- if the amount of principal deficiencies exceeds the outstanding principal amount of any of the relevant loan tranches (and the principal deficiencies cannot be covered by the other income of Funding 1), then the issuer may not receive the full principal amount of any or all of the relevant loan tranches and, accordingly, you may not receive the full principal amount due or payable on the relevant class of notes; and/or
- the issuer may be unable to pay, in full or at all, interest due on the notes.

For more information on income and principal deficiencies, see “**Credit structure – Principal deficiency ledger**” below.

**The seller share does not provide credit enhancement for your notes**

Any losses from loans included in the trust property will be allocated to the Funding companies and the seller proportionally on each distribution date in accordance with the Funding 1 share percentage, the share percentage of any further Funding companies and the seller share percentage of the trust property. Therefore, neither the seller share nor the share of any further Funding company provide credit enhancement for the notes.

**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 enforcement of the Funding 1 security as a result of delivery of an intercompany loan acceleration notice under any of the intercompany loans (as described below in “**Description of Transaction Documents – Funding 1 deed of charge**”), the Funding 1 security trustee may, but shall not be obliged to, sell the Funding 1 share of the trust property. 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 intercompany loan agreements.

None of the issuer, Funding 1 or the mortgages trustee will have recourse to the seller, other than in respect of a breach of warranty under the mortgage sale agreement.

The issuer, the mortgages trustee, Funding 1, the note trustee, the issuer security trustee and the Funding 1 security trustee will not undertake any investigations, searches or other actions on any loan or its related security and each of them will rely instead on the representations and warranties given in the mortgage sale agreement by the seller.

If any of the representations and warranties made by the seller (a) in the case of each loan in the portfolio, was materially untrue on the date that loan was sold to the mortgages trustee or (b) in the case of each new loan, is materially untrue on the date that new loan is sold to the mortgages trustee, then the seller will be required to remedy the breach within 20 London business days of the seller becoming aware of the same or of receipt by it of a notice from the mortgages trustee.

If the seller fails to remedy the breach within 20 London business days, then the seller will be required to repurchase the loan or loans under the relevant mortgage account and their related security on the immediately following trust calculation date at their current balance as of the date of repurchase. There can be no assurance that the seller will have the financial resources to repurchase the loan or loans under the relevant mortgage account and their related security. However, if the seller does not repurchase those loans and their related security when required, then the seller share of the trust property will be deemed to be reduced by an amount equal to the outstanding principal balance of those loans.

Other than as described here, neither you nor the issuer will have any recourse to the assets of the seller.

**There can be no assurance that a borrower will repay principal at the end of the term on an interest-only loan, which may adversely affect repayments on your notes**

Each loan in the portfolio is repayable either on a principal repayment basis or an interest-only basis or on a combination repayment and interest-only basis. For interest-only loans, because the principal is repaid in a lump sum at the maturity of the loan, the borrower is required to put in place and maintain a suitable repayment mechanism, such as a savings policy plan or any appropriate or suitable investment plan to help ensure that funds will be available to repay the principal at the end of the term. The seller has recently introduced more stringent processes for verifying such repayment mechanisms for new loans but still does not take security over these repayment mechanisms. The borrower is also recommended to take out a life insurance policy in relation to the loan but, as with repayment mechanism, 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 at maturity depends on the borrower ensuring that sufficient funds are available from a repayment mechanism or another source, such as ISAs, personal equity plans or endowment policies, or the proceeds of the sale of the underlying property 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 repayment mechanism or the proceeds of the sale of the underlying property may be insufficient to cover the repayment of principal of the loan. There can be no assurance that a borrower will have the funds required to repay the principal at the end of the term. If a borrower cannot repay the loan and a loss occurs on the loan, then this may affect repayments of principal on the notes if that loss cannot be cured by application of excess Funding 1 available revenue receipts. In respect of loans sold to the mortgages trustee, the relevant final terms or drawdown prospectus will state the amount of the loans in the expected portfolio that are interest only loans. See “**Statistical information on the portfolio**” in the relevant final terms or drawdown prospectus.

**There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on your notes**

The sale by the seller to the mortgages trustee of the English loans and the Northern Irish loans and their related security on each sale date will take effect in equity only. The sale by the seller to the mortgages trustee of the Scottish loans and their related security on the first sale date was given effect by a Scottish declaration of trust by the seller in favour of the mortgages trustee (and any sale of Scottish loans and their related security on each subsequent sale date has been or will be given effect by further Scottish declarations of trust) by which the beneficial interest in the relevant Scottish loans and their related security has been or will be transferred to the mortgages trustee. In each case this means that legal title to the loans in the trust property remains with the seller, but the mortgages trustee has all the other rights and benefits relating to ownership of each loan and its related security (which rights and benefits are subject to the mortgages trust in favour of the beneficiaries).

On the Part VII effective date, legal title to the loans and the related security transferred to, and vested in, Santander UK pursuant to the terms of the Part VII scheme. In relation to English mortgages or Northern Irish mortgages, legal title will only be perfected on registration of the Part VII order with the Land Registry of England and Wales (in the case of English mortgages) or the Registry of Deeds or the Land Registry of Northern Ireland (in the case of Northern Irish mortgages). Santander UK has registered the transfer of legal title to such English mortgages with effect from the Part VII effective date. However, Santander UK is not currently intending to register the transfer of legal title to such Northern Irish mortgages (the **Northern Irish registered charges**) until such time as the servicer is required to enforce the relevant Northern Irish registered charge (or such earlier date as the seller may determine to register the relevant Northern Irish registered charge or all Northern Irish registered charges in the name of Santander UK) (see further "**There may be delays in enforcing certain Northern Irish registered charges where legal title remains registered in the name of Alliance & Leicester**" below). It is not possible for the Part VII order itself to be registered or recorded in the Registers of Scotland in relation to Scottish mortgages, and a fully registered or recorded legal title to any Scottish mortgage transferred pursuant to the Part VII scheme could only be completed on an individual basis, which Santander UK does not currently intend to undertake. However, the effect of the Part VII order was to vest such Scottish mortgages in Santander UK on the Part VII effective date, pursuant to which Santander UK holds the unregistered (or, as applicable, unrecorded) legal title to such Scottish mortgages. Each Scottish declaration of trust will, in relation to Scottish mortgages transferred pursuant to the Part VII scheme, accordingly, be granted by Santander UK as holder of such unregistered (or, as applicable, unrecorded) title.

The mortgages trustee has the right to demand that the seller give it legal title to the loans and the related security in the circumstances described below in "**Description of the transaction documents – The mortgage sale agreement – Transfer of legal title to the mortgages trustee**". Until then no notice of the sale of the English loans and their related security, or the Northern Irish loans and their related security or the Scottish loans and their related security, will be given to any borrower or application made to the Land Registry of England and Wales or the Central Land Charges Registry of England and Wales to register or record its equitable interest in the English loans and their related security or to the Land Registry or the Registry of Deeds of Northern Ireland to register or record its equitable interest in the Northern Irish loans and their related security or steps taken to complete or perfect its title to the Scottish loans and their related security. For more information on the Scottish loans and their related security, see "**Material legal aspects of the loans and their related security – Scottish loans**" below.

Because the mortgages trustee has not obtained legal title to the loans or their related security, there are the following risks to the trust property:

- firstly, if the seller wrongly sold a loan to another person which has already been sold to the mortgages trustee, and that person acted in good faith and did not have notice of the interests of the mortgages trustee or the beneficiaries in the loan, then she or he might obtain good title to the loan, free from the interests of the mortgages trustee and the beneficiaries. If this occurred, then the mortgages trustee would not have good title to the affected loan and its related security and it would not be entitled to payments by a borrower in respect of that loan. This may affect the ability of the issuer to make payments on the notes; and
- secondly, the rights of the mortgages trustee and the beneficiaries may be subject to the rights of the borrowers against the seller, such as the rights of set-off (see in particular "**Set-off risks in relation to flexible loans may adversely affect the funds available to the issuer to repay your notes**" below) which occur in relation to transactions or deposits made between some borrowers and the seller, and the rights of borrowers to redeem their mortgage loans by repaying the loans directly to the seller. If these rights are exercised, the mortgages trustee may

receive less money than anticipated from the loans, which may affect the ability of the issuer to make payments on the notes.

However, if a borrower exercises any set-off rights, then an amount equal to the amount set off will reduce the total amount of the seller share of the trust property only, and the minimum seller share has been sized in an amount expected to cover this risk (including, on and from the Part VII effective date, where Santander UK is the seller with a potentially larger exposure to borrowers exercising set-off rights, by virtue of the increased deposit base), although there can be no assurance that it will. If the minimum seller share is exhausted, then the amount of any set-offs would be applied to reduce the share of the trust property of each Funding company in accordance with its funding proportion.

Once notice has been given to borrowers of the transfer of the loans and their related security to the mortgages trustee, 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 loan) will not be affected by that notice.

### **There may be delays in enforcing certain Northern Irish registered charges where legal title remains registered in the name of Alliance & Leicester**

Legal title to the Northern Irish registered charges created before the Part VII effective date will remain registered in the name of Alliance & Leicester (rather than Santander UK) until the servicer is required to enforce the relevant Northern Irish registered charge (or such earlier date as the seller may determine to register the relevant Northern Irish registered charge or all Northern Irish registered charges in the name of Santander UK), whereupon legal title to the relevant Northern Irish registered charge will be registered in the name of Santander UK. No further involvement from Alliance & Leicester should be required in order for Santander UK to register the Northern Irish registered charges in the name of Santander UK. In any case, Alliance & Leicester has also granted an irrevocable power of attorney (the **original seller power of attorney**) to Santander UK, the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee (the transfer of which was excluded under the Part VII scheme) to further facilitate the registration of the Northern Irish registered charges that remain registered in the name of Alliance & Leicester at a subsequent time in the name of Santander UK or the mortgages trustee (as applicable).

It is expected that the Northern Irish Land Registry may take between two and six weeks (or even a significantly longer period in complex or bulk cases) to process the registration of any Northern Irish registered charge that remains registered in the name of Alliance & Leicester at a subsequent time in the name of Santander UK or the mortgages trustee (as applicable) and, accordingly, there may be a delay in Santander UK or the mortgages trustee (as applicable) enforcing such Northern Irish registered charge. Prior to registration of the Northern Irish registered charge in the name of Santander UK, the servicer or the mortgages trustee (as applicable) should be able to use such power of attorney to enforce any Northern Irish registered charge that remains registered in the name of Alliance & Leicester.

If Santander UK elects to dissolve Alliance & Leicester by way of a member's dissolution and any of the Northern Irish registered charges remain registered in the name of Alliance & Leicester at such time, legal title to such Northern Irish registered charges will pass *bona vacantia* to the Crown. This should not disentitle Santander UK or the mortgages trustee (as applicable) from having legal title perfected following registration of the Part VII order with the Northern Irish Land Registry in respect of the relevant Northern Irish registered charge (although it is not certain what the Land Registry of Northern Ireland may require to effect registration of the Northern Irish registered charge in the name of Santander UK). However, again, there may be delays associated with this. None of the Funding 1 security trustee, the issuer security trustee or the note trustee shall have any responsibility or liability to any person in respect of such delay.

### **Set-off risks in relation to flexible loans may adversely affect the funds available to the issuer to repay your notes**

As described in “– **There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on your notes**” above, the seller has made, and in the future may make, an equitable assignment of loans and their related security or in the case of Scottish loans, a transfer of the beneficial interest in loans and their related security, to the mortgages trustee, with legal title being retained by the seller. Therefore, the rights of the mortgages trustee may be subject to the direct rights of the borrowers against the seller, including rights of set-off existing prior to notification to the borrowers of the sale of the loans. Set-off rights (including analogous rights in Scotland and Northern Ireland) may occur if, for example, the seller fails to advance to a borrower a drawing under a flexible loan when the borrower is entitled to draw additional amounts under a flexible loan.



If the seller fails to advance the drawing, then the relevant borrower may set off any damages claim (or analogous rights in Scotland and Northern Ireland) arising from the seller's breach of contract against the seller's (and, as assignee or holder of the beneficial interest in the loans and their related security, the mortgages trustee's) claim for payment of principal and/or interest under the loan as and when it becomes due. These set-off claims will constitute transaction set-off as described in “-**There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on your notes**” above.

The amount of the claim in respect of a drawing will, in many cases, be the cost to the borrower of finding an alternative source of finance (although in the case of flexible loans which are governed by Scots law, it is possible, though regarded as unlikely, that the borrower's rights of set-off could extend to the full amount of the additional drawing). The borrower may obtain a loan elsewhere, in which case the damages would be equal to any difference in the borrowing costs together with any consequential losses, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees). If the borrower is unable to obtain an alternative loan, he or she may have a claim in respect of other losses arising from the seller's breach of contract where there are special circumstances communicated by the borrower to the seller at the time the mortgage was taken out or which otherwise were reasonably foreseeable.

A borrower is entitled to set off the full amount of any failed drawing. A borrower may also attempt to set off against his or her mortgage payments an amount greater than the amount of his or her damages claim (or analogous rights in Scotland and Northern Ireland). In that case, the servicer will be entitled to take enforcement proceedings against the borrower, although the period of non-payment by the borrower is likely to continue until a judgment is obtained.

The exercise of set-off rights by borrowers would reduce the incoming cashflow to the mortgages trustee during the exercise. However, the amounts set-off will be applied to reduce the seller share of the trust property only.

Further, there may be circumstances in which:

- a borrower might seek to argue that any loan or further advance is wholly or partly unenforceable by virtue of non-compliance with the Consumer Credit Act 1974 as amended (CCA); or
- security for certain drawings may rank behind security created by a borrower after the date upon which the borrower entered into its mortgage with the seller.

**If the servicer is removed, there is no guarantee that a substitute servicer would be found, which could delay collection of payments on the loans and ultimately could adversely affect payments on your notes**

If the servicer breaches the terms of the servicing agreement, then the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding company and/or any further Funding security trustee, will be entitled to terminate the appointment of the servicer and appoint a new servicer in its place.

None of the Funding 1 security trustee, the issuer security trustee or the note trustee is obliged to or will act as servicer.

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 loans on the terms of the servicing agreement. In addition, as described below, any substitute servicer would be required to be authorised 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 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.

**Funding 1 may not receive the benefit of any claims made on the buildings insurance, which could adversely affect payments on your notes**

The practice of Alliance & Leicester and Santander UK, as originator, in relation to buildings insurance is described below under “**The loans – Insurance policies**”. As described in that section, no assurance can be given that Funding 1 will always receive the benefit of any claims made under any applicable insurance

contracts. This could reduce the principal receipts allocated to Funding 1 according to the Funding 1 share percentage and could adversely affect the issuer's ability to redeem the notes.

## Certain regulatory considerations

### ***Classification of the mortgages trust***

The mortgages trust under the programme is structured as a bare trust. Funding 1 and the seller have day-to-day control of the portfolio and the mortgages trustee acts on their instructions. Therefore, as currently structured, the issuer does not expect that UK regulatory authorities will deem the mortgages trust to be a collective investment scheme. However, the law surrounding the classification of the mortgages trust is uncertain and, if the mortgages trust were deemed to be a collective investment scheme by the UK regulatory authorities, this could result in changes to its tax and/or regulatory treatment.

***If the seller's interpretation of certain technical rules under the consumer credit regime were held to be incorrect by a court, the FCA or the Ombudsman or was challenged by a significant number of borrowers, or borrowers were to exercise rights of set-off, to the extent available under the consumer credit regime, there could be material disruption to the income flow from the mortgages trust***

Since 1 April 2014, the FCA has been responsible for the supervision of consumer credit activities in the United Kingdom. Firms carrying out consumer credit activities must apply for authorisation under FSMA (including second and subsequent charge mortgages). Firms may apply for either full permission where they carry out higher risk consumer credit activities or limited permission for lower risk activities. Firms that held an OFT licence and had registered with the FCA by 31 March 2014 have been granted interim permission and must apply to the FCA for authorisation during an application period notified by the FCA to each firm in order to continue to perform those activities. Firms which hold an interim permission and make an application to the FCA for authorisation within the period notified to them by the FCA will keep their interim permission until such time as a determination is made on their application for authorisation. In other cases, the interim permission will expire at the end of the application period notified by the FCA if no application is made or, in any other case, 1 April 2016. Authorised firms and interim permission holders must comply with the relevant provisions of FSMA and related secondary legislation, the FCA's rules in the Consumer Credit Sourcebook of the FCA Handbook (**CONC**) and the provisions of the CCA and related secondary legislation which have been retained following the transfer of consumer credit regulatory functions from the OFT to the FCA. Although the scope of consumer credit regulation under the new regime remains broadly the same (subject to certain specific exceptions), various changes have been made both in scope and in the drafting of specific provisions. As a result of these changes, and given the novelty of the new regime under the FCA, there is some uncertainty as to how the consumer credit rules will be applied and enforced going forward.

A consumer credit agreement is regulated under the new regime where: (a) the borrower is an individual or other relevant recipient of credit (as defined in the Financial Services and Markets Act (Regulated Activities) Order 2001); and (b) the credit agreement is not an exempt agreement. Exempt agreements include regulated mortgage contracts under the FSMA and credit agreements where the amount of credit exceeds £25,000 and the agreement is entered into by the borrower wholly or predominantly for the purposes of a business carried on, or intended to be carried on, by the borrower.

Credit agreements entered into before 1 April 2014, with persons who are not authorised to enter into a regulated consumer credit agreement as lender will be unenforceable against the borrower: (a) unless the OFT has, prior to 1 April 2014, made an order in favour of enforcement; or (b) the FCA, upon being satisfied that it is just and equitable to do so, by written notice allows the agreement to be enforced or the money paid or the property transferred under the agreement to be retained. An improperly executed agreement is only enforceable with a court order and, in exercising its discretion whether to make the order, the court would take into account any prejudice suffered by the borrower and any culpability by the lender. However, if the regulated consumer agreement was made before 6 April 2007 and the form of credit agreement was not signed by the borrower personally or omits or misstates a "prescribed term", then that agreement will be totally unenforceable against the borrower and the court will have no discretion to make an enforcement order.

The seller will provide no representation and warranty under the mortgage sale agreement as to the enforceability in relation to any loan which relates to any cash withdrawals and any other further advances made pursuant to an agreement regulated under the consumer credit regime which is not enforceable by virtue of the CCA or other relevant consumer credit rules. However, the minimum seller share will be calculated to include an amount referable to the aggregate current balance of all cash withdrawals made by borrowers under flexible loans in the trust property and all further advances under the loans in the trust property, that are regulated under the consumer credit regime, to mitigate the risks relating to such

withdrawals and other further advances being unenforceable against the borrower without an order of the court or FCA, or order being totally enforceable under the consumer credit regime.

There is a risk that any credit agreement intended to be a regulated mortgage contract under the FSMA, or unregulated, might instead be wholly or partly regulated under the consumer credit regime or treated as such, and any credit agreement intended to be regulated under the consumer credit regime or treated as such, or unregulated, might instead be a regulated mortgage contract under the FSMA, because of technical rules on: (a) determining whether any credit under the consumer credit regime arises, or whether any applicable financial limit under the consumer credit regime is exceeded; (b) determining whether the credit agreement is an exempt agreement under the consumer credit regime; or (c) changes to regulated credit agreements. A court order under section 126 of the CCA is necessary to enforce a land mortgage (including, in Scotland, a standard security) securing a regulated credit agreement or a regulated mortgage contract under FSMA. In dealing with such application, the court has the power, if it appears just to do so, to amend a regulated credit agreement or to impose conditions upon its performance or to make a time order (for example, giving extra time for arrears to be cleared).

Under sections 75 and 75A of the CCA in certain circumstances the lender is liable to the borrower in relation to misrepresentation and breach of contract by a supplier in a transaction financed by a regulated credit agreement. The borrower may set off the amount of the claim against the amount owing by the borrower under the loan or under any other loan that the borrower has taken with the lender (or exercise analogous rights in Scotland and Northern Ireland). Any such set off in relation to loans in the portfolio may adversely affect the issuer's ability to make payments in full on the notes when due.

The Consumer Credit Act 2006 (the **CCA 2006**), which amended the CCA, introduced the unfair relationship test which applies to all regulated credit agreements except regulated mortgage contracts under the FSMA. 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 mortgages trustee) to repay amounts received from the borrower. In applying the unfair relationship test, the courts can consider a wide range of circumstances surrounding the transaction, including the creditor's conduct before and after making the agreement. There is no statutory definition of the word "unfair" as the intention is for the test to be flexible and subject to judicial discretion. However, the word "unfair" is not an unfamiliar term in United Kingdom legislation, due to the UTCCR (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, as of 1 April 2013, the FCA) on that principle and by the OFT on the unfair relationship test may also be relevant. Once the debtor alleges that an unfair relationship exists, the burden of proof is on the creditor to prove the contrary. In recent cases concerning the scope of the "unfair relationship" test the courts have generally adopted an interpretation which is favourable to borrowers.

To the extent that a credit agreement is regulated under the consumer credit regime or treated as such, it is unenforceable for any period when the lender fails to comply with requirements as to default notices. From 1 October 2008, (a) a credit agreement is also unenforceable for any period when the lender fails to comply with further requirements as to annual statements and arrears notices, (b) the borrower is not liable to pay interest or, in certain cases, default fees for any period when the lender fails to comply with further requirements as to post contract disclosure and (c) interest upon default fees is restricted to nil until the 29th day after the day on which a prescribed notice is given and then to simple interest. In particular, there have been publicised breaches by other institutions of section 77A of the CCA which sets out certain requirements in connection with the statements provided during the term of a regulated credit agreement. In the case of such a breach, the agreement would be unenforceable by the lender during the period of non-compliance with the CCA requirements and the borrower is not required to pay interest arising during the period of non-compliance. To the extent that the borrower had already made interest payments during such a period of non-compliance, the lender is required to repay those interest payments to the borrower.

The changes to the consumer credit regime, as described above, may result in adverse effects on the issuer's ability to make payment in full on the notes when due.

Each originator has interpreted certain technical rules under the consumer credit regime in a way common with many other lenders in the mortgage market. If such interpretation were held to be incorrect by a court or any dispute resolution authority, then a loan, to the extent that it is regulated under the consumer credit regime or treated as such, would be unenforceable as described above. If such interpretation were challenged by a significant number of borrowers, then this could lead to significant disruption and shortfall in the income of the mortgages trustee. Court decisions have been made on technical rules under the consumer credit regime against certain mortgage lenders, but such decisions are very few and are generally county court decisions which are not binding on other courts.

The seller has given or, as applicable, will give warranties to the mortgages trustee in the mortgage sale agreement that, among other things, each loan and its related security is enforceable (subject to certain exceptions). If a loan or its related security does not materially comply with these warranties, and if the default cannot be or is not cured within 20 London business days, then the seller will, upon receipt of notice from the mortgages trustee, be required to repurchase the loans under the relevant mortgage account and their related security from the mortgages trustee.

***Failure by the seller or the servicer to hold relevant authorisation and permissions under the FSMA in relation to regulated mortgage contracts and regulated consumer credit agreements may have an adverse effect on enforcement of mortgage contracts***

In the United Kingdom, regulation of residential mortgage business under the FSMA came into force on 31 October 2004, the date known as N(M). 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 these things, are (subject to certain exemptions) regulated activities under the FSMA requiring authorisation and permission from the FCA.

A credit agreement is a regulated mortgage contract under the FSMA if, at the time it is originated on or after N(M), or where it is originated before N(M) but varied on or after N(M) such that a new contract is entered into: (a) the borrower is an individual or trustee; (b) the contract provides for the obligation of the borrower to repay to be secured by (in England and Wales) a first ranking legal mortgage (or, in Scotland, a first-ranking standard security or, in Northern Ireland, a first ranking legal charge or first ranking legal mortgage) on land (other than timeshare accommodation) in the United Kingdom; and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust or by a related person (broadly, the person's spouse, near relative or a person with whom the borrower has a relationship which is characteristic of a spouse).

The main effects are that, on or after N(M), unless an exclusion or exemption applies (a) each entity carrying on a regulated mortgage activity by way of business has to hold authorisation and permission under the FSMA to carry on that activity and (b) each financial promotion in respect of an agreement relating to qualifying credit has to be issued or approved by a person holding authorisation under the FSMA. It should be noted that the definition of "qualifying credit" is broader than that of "regulated mortgage contract" and may include mortgage loans that are regulated under the consumer credit regime or treated as such or are unregulated and under which the lender is a person (such as the seller) who carries on the regulated activity of entering into a regulated mortgage contract. 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 (or, in the case of a failure to comply with the financial promotions requirements, the relevant mortgage loan that is "qualifying credit") will be unenforceable against the borrower except with the approval of a court. An unauthorised person who administers a regulated mortgage contract entered into on or after N(M) may commit a criminal offence, but this will not render the contract unenforceable against the borrower. Failure to comply with the financial promotion regime (as regards by whom promotions can be issued or approved) is a criminal offence and will render the regulated mortgage contract or other secured credit agreement in question unenforceable against the borrower except with the approval of a court.

Any credit agreement intended to be a regulated mortgage contract under the FSMA might instead be wholly or partly regulated under the consumer credit regime or treated as such, or unregulated, and any credit agreement intended to be regulated under the consumer credit regime or treated as such, or unregulated, might instead be a regulated mortgage contract, because of technical rules on (a) determining whether the credit agreement or any part of it falls within the definition of "regulated mortgage contract" and (b) changes to credit agreements.

The seller is required to hold, and holds, 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 are required to hold authorisation and permission to arrange and, where applicable, to advise in respect of regulated mortgage contracts. The seller is also required to hold, and holds, interim permission to enter into regulated credit agreements as lender and to exercise, or have the right to exercise, the lender's rights and duties under a regulated credit agreement.

The mortgages trustee is not and does not propose to be an authorised person under the FSMA with respect to regulated mortgage contracts and related activities. The mortgages trustee does not require authorisation in order to acquire legal or beneficial title to a regulated mortgage contract or a regulated credit agreement. The mortgages trustee does not carry on the regulated activity of administering regulated mortgage contracts, by having them administered pursuant to an administration agreement by an entity having the required authorisation and permission under the FSMA. If such administration agreement terminates, however, the mortgages trustee will have a period of not more than one month in which to

arrange for mortgage administration to be carried out by a replacement administrator having the required FCA authorisation and permission under the FSMA. There is a similar exemption available in respect of regulated credit agreements which means that the mortgage trustee does not carry on the regulated activity of exercising, or having the right to exercise, the lender's rights and duties under such an agreement, if it has a servicing agreement in place in respect of those agreements and has arranged for the servicer (who is authorised to carry on the relevant regulated activities) to comply with certain specific provisions under the CCA and other relevant consumer credit regulation. If such servicing arrangement terminates, the mortgages trustee will have a period of not more than thirty days in which to arrange for such servicing to be carried out by a replacement servicer. During that period, the mortgage trustee will also be exempt from the authorisation requirement in respect of any debt-counselling or debt-collecting activities it carries out. In addition, no variations may be made to the loans and no drawings under flexible loans or other further advances or product switches may be made in relation to a loan where this would result in the mortgages trustee arranging or advising in respect of, administering or entering into, a regulated mortgage contract or debt-counselling or debt-collecting or performing debt administration in respect of, or entering into as lender (or exercising or having the right to exercise the lender's rights and duties under) a regulated credit agreement or agreeing to carry on any of these activities, if the mortgages trustee would be required to be authorised under the FSMA to do so. Pursuant to the servicing agreement, the servicer administers the loans and the servicer has the requisite FSMA authorisation and permission and consumer credit interim permission to enable it to undertake such activities.

***If a significant number of borrowers attempt to set off claims for damages based on contravention of a rule made under the FSMA against the amount owing by the borrower under a loan, there could be a material decrease in receipts from the mortgages trust***

The Mortgages and Home Finance: Conduct of Business sourcebook (**MCOB**) sets out the rules and guidance under the FSMA for regulated mortgage activities. These rules cover, among 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. The rules for prudential and authorisation requirements for mortgage firms, and for extending the appointed representatives regime to mortgages, came into force on 31 October 2004.

Since 1 April 2014, when responsibility for consumer credit regulation transferred from the OFT to the FCA, consumer credit activities have become subject to the FSMA authorisation regime and to rules made under the FSMA contained in the CONC. The CONC rules set out certain conduct of business standards contained previously in the CCA and also replicate certain OFT guidance (including in relation to second charge lending specifically), as well as setting out rules on, among other things, financial promotions and total charge for credit in relation to regulated credit agreements.

A borrower who is a private person may be entitled to claim damages for loss suffered as a result of any contravention by an authorised person of a rule made under the FSMA, and may set off the amount of the claim against the amount owing by the borrower under a loan or any other loan that the borrower has taken with that authorised person (or exercise analogous rights in Scotland or Northern Ireland). Any such set-off in relation to loans in the portfolio may adversely affect the issuer's ability to make payments on the notes.

So as to avoid dual regulation, it is intended that regulated mortgage contracts are not regulated under the consumer credit regime. Regulations made in 2005, 2008 and 2013 under the FSMA are designed to clarify the position in this regard. This exemption only affects credit agreements made on or after N(M), and credit agreements made before N(M) but subsequently changed such that a new contract is entered into on or after N(M) which constitutes a regulated mortgage contract. A court order under Section 126 of the CCA is, however, necessary to enforce a land mortgage (including, in Scotland, a standard security) securing a regulated mortgage contract to the extent that the credit agreement would, apart from this exemption, be treated as a regulated consumer credit agreement.

The seller has given or, as applicable, will give warranties to the mortgages trustee and others in the mortgage sale agreement that, *inter alia*, each loan and its related security is enforceable (subject to certain exceptions). If a loan does not materially comply with these warranties, and if the default is not cured, then the seller will, upon receipt of notice from the mortgages trustee, be required to repurchase the loans under the relevant mortgage account and their related security.

It should be noted that, prior to 31 October 2004, self-regulation of mortgage business existed under the Mortgage Code (the **CML Code**) issued by the Council of Mortgage Lenders (the **CML**). The CML Code set out a minimum standard of good mortgage business practice, from marketing to lending procedures and dealing with borrowers experiencing financial difficulties. From 30 April 1998 until 31 October 2004, lender-subscribers to the CML Code could not accept mortgage business introduced by intermediaries who were not registered with the Mortgage Code Register of Intermediaries and, subsequently, the Mortgage Code

Compliance Board. Complaints relating to breach of the CML Code were dealt with by the relevant scheme, namely the Banking Ombudsman Scheme, the Mortgage Code Arbitration Scheme and the Ombudsman, as applicable. The CML Code ceased to have effect on 31 October 2004 when the FSA (now known as the FCA) assumed responsibility for the regulation of regulated mortgage contracts.

In June 2010, the FSA (now known as the FCA) made changes to MCOB which effectively convert previous guidance on the policies and procedures to be applied by authorised firms (such as Santander UK) with respect to forbearance in the context of regulated mortgage contracts into formal mandatory rules. Under these rules, a firm is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed and, in complying with such restriction, a firm is required to consider whether, given the borrower's circumstances, it is appropriate to take certain actions. Such actions refer to (amongst other things) the extension of the term of the mortgage, product type changes and deferral of interest payments. While the FSA (now known as the FCA) has indicated that it does not expect each forbearance option referred to in the rules to be explored at every stage of interaction with the borrower, it is clear that these rules impose mandatory obligations on firms without regard to any relevant contractual obligations or restrictions. As a result, these rules may operate in certain circumstances to require the servicer to take certain forbearance-related actions which do not comply with the transaction documents (and, in particular, the asset servicing arrangements contemplated by such documents) in respect of one or more loans. There can be no assurance that any such actions will not reduce the amounts available to meet the payments due in respect of the notes, although the impact of this will depend on the number of loans which involve a borrower who experiences payment difficulties.

***Under distance marketing regulations, some of the loans may be cancellable, which may have an adverse effect on the issuer's ability to make payments on the notes***

In the United Kingdom, the Financial Services (Distance Marketing) Regulations 2004 (the **DM Regulations**) apply, *inter alia*, to credit agreements entered into on or after 31 October 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator and the borrower).

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 United Kingdom lender from an establishment in the United Kingdom, will not be cancellable under the DM Regulations but is 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 (interdict in Scotland), 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 originator to the borrower under or in relation to the cancelled agreement within 30 days beginning with the day of the borrower sending notice of cancellation or, if later, the originator receiving notice of cancellation; (b) the borrower is liable to pay interest or any early repayment charge or other charge for credit under the cancelled agreement, only if the borrower received certain prescribed information at the prescribed time and if other conditions are met; and (c) any security is to be treated as never having had effect in respect of the cancelled agreement.

If a significant portion of the loans are characterised as being cancellable under the DM Regulations, then there could be an adverse effect on the ability of the issuer to make payments on the notes.

## Regulations in the United Kingdom could lead to some terms of the loans being unenforceable, which may adversely affect payments on your notes

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

- a consumer may challenge a standard term in an agreement on the basis that it is an “**unfair**” term within the UTCCR and therefore not binding on the consumer (although the rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term); and
- the CMA, the FCA and any other “**qualifying body**” (as defined in the 1999 Regulations) may seek to enjoin (or, in Scotland, interdict) a business from using or recommending the use of unfair terms.

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

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 mortgages trustee, to claim repayment of the extra interest amounts paid or to set off the amount of the claim against the amount owing by the borrower under the loan or under any other loan that the borrower has taken with the lender (or exercise analogous rights in Scotland or Northern Ireland). Any such non-recovery, claim or set-off in respect of loans in the portfolio may adversely affect the realisable value of the loans and accordingly may adversely affect the issuer's ability to make payments on the notes.

The responsibility for enforcing the UTCCR was divided between the OFT and the FCA. On 1 April 2014, the responsibilities of the OFT were transferred to the CMA. In March 2014, the CMA published guidance on its approach to the use of its consumer powers. The CMA has adopted a number of consumer guidance publications issued by the OFT. The guidance has been adopted un-amended and does not reflect developments in case law, legislation or practice since the date of the publication. Generally, the FCA is responsible for enforcement of the UTCCR in relation to regulated mortgage contracts and regulated consumer credit agreements under the FSMA originated by lenders authorised by the FCA, and the CMA is responsible for enforcement of the UTCCR in relation to other contracts.

In February 2000, the OFT issued a guidance note on what the OFT considers to be fair terms and unfair terms for interest variation in mortgage loan contracts. An interest variation term which provides for precise and immediate tracking of an external rate outside the lender's control (such as external bank base rates or LIBOR) is likely to be regarded as “fair”. Other interest variation terms (in circumstances where, for example, the borrower is locked in by an early repayment charge that is considered to be a penalty) are likely to be regarded as unfair under the UTCCR unless the lender (a) notifies the affected borrower in writing at least 30 days before the rate change and (b) permits the affected borrower to repay the whole loan during the next three months after the rate change without paying an early repayment charge. The seller has reviewed the guidance note and has concluded that its compliance with it will have no material adverse effect on the relevant loans or its business. The guidance note was subsequently withdrawn from the OFT website, but may remain in effect as a factor that the FCA and/or the CMA may take into account.

In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts, which is relevant to firms authorised and regulated by the FCA in relation to products and services within the FCA's regulatory scope. This statement provides that, for locked-in borrowers (i.e. where the borrower is required to give advance notice or to pay a cost or give up a benefit in order to withdraw from the contract), a firm may consider drafting the contract to permit a change in the contract to be made only where any lock-in clause is not exercised. In the context of the OFT's investigation into credit card default charges, the OFT on 5 April 2006 publicly announced that the principles the OFT considered should be applied in assessing the fairness of credit card default charges should also apply (or are likely to apply) to analogous default charges in other agreements, including those for mortgages.

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

In March 2007, the FSA published a statement to the effect that, in its opinion, early repayment charges are likely to form part of the price paid by the borrower in exchange for services provided and, as such, may not be reviewable for fairness under the UTCCR. The FSA did, however, stress that this is ultimately a decision for the court and that a consumer would be entitled to bring an action in court to test this point. The FSA further noted that such charges could be subject to review on other grounds, for example, on the basis that the contractual terms upon which they are based are not drafted in plain and intelligible language.

In January 2012, the FSA published finalised guidance entitled "Unfair contract terms: improving standards in consumer contracts", which largely reiterated and clarified its previous guidance. This guidance sets out the FCA's interpretation of Schedule 2 to the 1999 Regulations (which gives an indicative and non-exhaustive list of terms which may be regarded as unfair), explaining that terms which allow a firm to unilaterally vary the terms of its contract are less likely to be unfair if, *inter alia*, (i) there is a valid reason which is specified in the contract, or (ii) in relation to variations to interest rates and other charges specifically, the term provides that the variation will be for a "valid reason" (which may not be specified in the contract) and the contract provides for the firm to give the consumer notice at the earliest opportunity thereafter and the consumer is free to dissolve the contract immediately. The guidance states that FCA might consider a valid reason for changing an interest rate to be one which allows the lender: (a) to respond proportionately to changes in general law or decisions of the Financial Ombudsman Service; (b) to meet new regulatory requirements; (c) to reflect new industry guidance and codes of practice which raise standards of consumer protection; (d) to respond proportionately to changes in the Bank of England base rate, other specified market rates or indices or tax rates; or (e) to reflect other legitimate cost increases or reductions associated with providing a particular product or service.

In March 2013, the Law Commission and the Scottish Law Commission published advice to the UK Government on reforming the law on unfair contract terms. The Commissions recommend, among other things, that no assessment of fairness shall be made of a term which specifies the main subject matter of the contract, or of a price term, provided that the term in question is transparent and prominent. The Commissions also recommend that the UTCCR should expressly provide that, in proceedings brought by a consumer, the court is required to consider the fairness of a 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 Draft Consumer Rights Bill which was formally introduced into Parliament on 23 January 2014.

The broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any loans which have been made or may be made to borrowers covered by the UTCCR may contain unfair terms, which may result in the possible unenforceability of the terms of such loans.

The guidance issued by the FSA, OFT, the Law Commission and the Scottish Law Commission has changed 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 changes to guidance on the 1999 Regulations will not have a material adverse effect on the issuer's ability to make payments on the notes.

**Decisions of the Ombudsman could lead to some terms of the loans being varied, which may adversely affect payments on your notes**

Under the FSMA, the Ombudsman is required to make decisions on, *inter alia*, complaints relating to the activities and transactions under its jurisdiction, including the loans, 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 CML Code occurring before N(M) 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 when due on the notes when due.

### **Unfair Commercial Practices Directive 2005**

On 11 May 2005, the European Parliament and the Council adopted a Directive (2005/29/EC) on unfair business-to-consumer commercial practices (the **Unfair Practices Directive**). Generally, the Unfair Practices Directive applies full harmonisation, which means that member states may not impose more stringent provisions in the fields to which full harmonisation applies. By way of exception, the Unfair Practices 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. This Directive is intended to protect only collective interests of consumers, and so is not intended to give any claim, defence or right of set-off to an individual consumer.

The Unfair Practices Directive has been implemented in the United Kingdom by the Consumer Protection from Unfair Trading Regulations 2008 (the **CPR**), which came into force on 26 May 2008. The CPR prohibit certain practices which are deemed to be "unfair". Breach of the CPR 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.

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: (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 a product switch, and (b) automatically capitalising a payment shortfall.

No assurance can be given that the United Kingdom's implementation of the Unfair Practices Directive will not have a material adverse effect on the loans or the manner in which they are serviced and accordingly on the ability of the issuer to make payments to noteholders.

### **Protocol on repossessions, protection of tenants on repossessions**

The pre-action protocol for mortgage repossession based on mortgage or home purchase plan arrears in respect of residential property in England and Wales came into force on 19 November 2008 and a revised protocol for mortgage repossession cases in Northern Ireland came into force on 5 September 2011. Both protocols set out the steps that judges will expect any lender to take before starting a claim. A number of mortgage lenders, including the seller, have confirmed that they will delay the initiation of repossession action for at least six months after a borrower, who is an owner-occupier, is in arrears. The application of such a moratorium may be subject to the wishes of the relevant borrower and may not apply in cases of fraud. In addition, the Mortgage Repossessions (Protection of Tenants etc.) Act 2010 came into force on 1 October 2010. The Act gives courts in England and Wales the same power to postpone and suspend repossession for up to two months on application by an unauthorised tenant (i.e. a tenant in possession without the lender's consent) as generally exists on application by an authorised tenant. In addition, under the protocol the lender must consider whether to postpone the start of a possession claim where the borrower has made a genuine complaint to the Ombudsman about the potential possession claim.

This protocol and the Mortgage Repossessions (Protection of Tenants etc.) Act 2010 may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the loans may result in lower recoveries and may adversely affect the ability of the issuer to make payments in full on the notes when due.

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

The Scottish Parliament has enacted the Home Owner and Debtor Protection (Scotland) Act 2010 (the **2010 Act**), Part 1 of which came into effect on 30 September 2010 and contains provisions imposing additional requirements on heritable creditors (the Scottish equivalent to mortgagees) in relation to the

enforcement of standard securities over residential property in Scotland. The 2010 Act amends the provisions of the Conveyancing and Feudal Reform (Scotland) Act 1970, which permitted a heritable creditor to proceed to sell the secured property where the formal notice calling up the standard security had expired without challenge (or where a challenge had been made but not upheld). In terms of the 2010 Act, the heritable creditor is required to obtain a court order to exercise its power of sale, unless the borrower and any other occupiers have surrendered the property voluntarily. In addition, the 2010 Act requires the heritable creditor in applying for a court order to demonstrate that it has taken various preliminary steps to attempt to resolve the borrower's position, as well as imposing further procedural requirements. This may restrict the ability of the seller as heritable creditor of the Scottish mortgages to exercise its power of sale and this may adversely affect the issuer's ability to make payments in full when due on the notes.

**Tax payable by Funding 1 or the issuer may adversely affect the issuer's ability to make payments on your notes**

The Taxation of Securitisation Companies Regulations 2006 have established a permanent regime for the taxation of "securitisation companies" (the **securitisation tax regime**). For accounting periods beginning on or after 1 January 2007, companies to which these regulations apply are taxed broadly by reference to their "retained profit" rather than by reference to their accounts. Both Funding 1 and the issuer have been advised that they should fall within the securitisation tax regime, but if either of them does not (or subsequently ceases to fall into the securitisation tax regime), then profits or losses could arise in Funding 1 and/or the issuer which could have tax effects not contemplated in the cash-flows for the transactions described in this base prospectus and, as such, could adversely affect the tax treatment of Funding 1 and/or the issuer and consequently payments on the notes.

**EC Council Directive 2003/48/EC on the Taxation of Savings Income may adversely affect your interests**

Under EC Council Directive 2003/48/EC on the taxation of savings income (the **EU Savings Directive**), each member state is required to provide to the tax authorities of another member state details of certain payments of interest (or similar income) paid or secured by a person within its jurisdiction to or for the benefit of an individual resident in that other member state or to certain limited types of entities established in that other member state.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The changes referred to above will broaden the types of payments subject to withholding in those member states which still operate a withholding system when they are implemented. However it should be noted that, in April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the EU Savings Directive.

A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a member state (or a non-European Union country or territory which has adopted similar measures) which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any note as a result of the imposition of such withholding tax. However, pursuant to the paying agent and agent bank agreement, the issuer is required to maintain a paying agent in a member state that will not be obliged to withhold or deduct tax pursuant to such measures.

The EU Savings Directive does not preclude member states from levying other types of withholding tax.

The European Commission has proposed certain amendments to the EU Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above. For additional disclosure in relation to the EU Savings Directive in relation to Jersey, see “**Material Jersey (Channel Islands) Tax Considerations**” below.

### **The proposed EU financial transaction tax**

On 14 February 2013, the European Commission published a proposal for a Directive for a common financial transaction tax (**FTT**) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating member states**). If the proposal is 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 proposal, the FTT would apply to persons both within and outside 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.

If the FTT is adopted based on the proposal, then 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. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are exempt.

Furthermore, the FTT may operate in a manner giving 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 proposal. Any such 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 of the issuer.

A joint statement issued in May 2014 by ten of the eleven participating member states indicated an intention to implement the FTT progressively, such that it would initially extend to transactions involving shares and certain derivatives, with this initial implementation occurring by 1 January 2016. However, full details are not available and further changes could be made prior to adoption.

The FTT proposal remains subject to negotiation between the participating member states and may be the subject of a future legal challenge. 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**

In the event that amounts due under the notes are subject to withholding or deduction for or on account of any tax, neither the issuer nor any other person will be obliged to pay additional amounts in relation thereto. The issuer may, in certain circumstances, redeem the notes (as described in **condition 5.5 (Optional Redemption for Tax and other Reasons)** of the notes). The applicability of any UK withholding tax under current English law is discussed under “**United Kingdom Taxation**” below.

Under current law, payments of interest and principal on the Funding 1 intercompany loan may be made by Funding 1 to the issuer free from UK withholding tax. However, if for example as a result of a change in law, such payments were required to be made subject to a withholding or deduction for or on account of any tax, Funding 1 would not be required, pursuant to the terms of the Funding 1 intercompany loan, to pay any additional amounts to the issuer with the result that the issuer’s ability to make payments on the notes may be adversely affected. In such circumstances, the issuer may be entitled to redeem the notes (as described in **condition 5.5 (Optional Redemption for Tax and other Reasons)** of the notes).

### **Your interests may be adversely affected if the United Kingdom joins the European Monetary Union**

If the United Kingdom joins the European Monetary Union prior to the maturity of the notes, the issuer cannot assure you that this would not adversely affect payments on the notes.

It is possible that, prior to the maturity of the notes, the United Kingdom may become a participating member state in the European economic and monetary union and the euro may become the lawful currency of the United Kingdom. In that event: (a) all amounts payable in respect of the sterling notes may become payable in euro; (b) applicable provisions of law may allow or require the issuer to re-denominate the sterling notes into euro and take additional measures in respect of the sterling notes; and (c) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in pounds sterling used to determine the rates of interest on the notes or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect a borrower's ability to repay its loan as well as adversely affect you. It cannot be said what effect, if any, adoption of the euro by the United Kingdom will have in relation to the notes.

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

The structure of the master trust and the ratings of the rated notes are based on English law, (in relation to the Scottish loans) Scots law and (in relation to the Northern Irish loans) Northern Irish law in effect as at the date of this document. The issuer cannot provide assurance as to the impact of any possible change to English law, Scots law or Northern Irish law (including any change in regulation, guidance or regulatory approach which may occur without a change in primary legislation) or administrative practice or tax treatment after the date of this document nor can the issuer provide any assurance as to whether any such change would adversely affect the ability of the issuer to make payments under the notes.

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

Significant changes to the insolvency regime in England and Wales and Scotland have been enacted in past years, including the Insolvency Act 2000. The Insolvency Act 2000 allows certain “**small**” companies to seek protection from their creditors for a period of 28 days, for the purposes of putting together a company voluntary arrangement, with the option for creditors to extend the moratorium for a further two months. A “**small**” company is defined as one which satisfies, with respect to the calendar year ending with the date on which such company's annual accounts are filed with the Registrar of Companies and such company's previous financial year, two or more of the following criteria: (i) its turnover is not more than £6.5 million; (ii) its balance sheet total is not more than £3.26 million; and (iii) the number of employees is not more than 50. Whether or not a company is a “**small**” company may change from period to period and consequently no assurance can be given that the issuer, the mortgages trustee or Funding 1 will not, at any given time, be determined to be a “**small**” company. The Secretary of State for Business, Innovation and Skills may by regulation modify the eligibility requirements for “small” companies and has the power to make different provisions for different cases. No assurance can be given that any such modification or different provisions will not be detrimental to the interests of noteholders.

Secondary legislation has now been enacted which excludes certain special purpose companies in relation to capital markets transactions from the optional moratorium provisions. Such exceptions include (amongst other matters): (i) a company which is a party to an agreement which is or forms part of a capital market arrangement (as defined in the secondary legislation) under which (a) a party has incurred or when the agreement was entered into was expected to incur a debt of at least £10 million under the arrangement and (b) the arrangement involves the issue of a capital market investment (also defined, but generally, a rated, listed or traded bond); and (ii) a company which, at the time of filing for a moratorium, has incurred a liability (including a present, future or contingent liability) of at least £10 million. While the issuer, Funding 1 and the mortgages trustee should fall within the exceptions, there is no guidance as to how the legislation will be interpreted by a court, and the Secretary of State for Business, Innovation and Skills may by regulation modify the exception. No assurance may be given that any modification of the exceptions and/or the eligibility requirements for “small” companies will not be detrimental to the interests of noteholders.

Correspondingly if any of the issuer and/or Funding 1 and/or the mortgages trustee is determined to be a “**small**” company and is determined not to fall within one of the exceptions (by reason of modification of the exceptions or otherwise), then the enforcement of the issuer security by the issuer security trustee or the enforcement of the Funding 1 security by the Funding 1 security trustee may, for a period, be prohibited by the imposition of a moratorium.

### ***Enterprise Act 2002***

On 15 September 2003, the corporate insolvency provisions of the Enterprise Act 2002 (the **Enterprise Act**) came into force, amending certain provisions of the Insolvency Act 1986, as amended (the **Insolvency Act**). These provisions introduced significant reforms to corporate insolvency law. In particular the reforms restrict the right of the holder of certain types of floating charge created after 15 September 2003 to appoint an administrative receiver (unless an exception applies) and instead gives primacy to collective insolvency procedures (in particular, administration).

As mentioned above, the amendments to the Insolvency Act 1986 introduced by the Enterprise Act 2002 include an exception allowing for the appointment of an administrative receiver in relation to a floating charge created on or after 15 September 2003 in respect of certain transactions in the capital markets. The right to appoint an administrative receiver is retained for certain types of security (such as the issuer security or the Funding 1 security) that form part of a capital market arrangement (as defined in the Insolvency Act) that involves (i) indebtedness of at least £50,000,000 (or, when the relevant security document was entered into (being in respect of the transactions described in this document, the issuer deed of charge and the Funding 1 deed of charge), a party to the relevant transaction (such as the issuer) was expected to incur a debt of at least £50,000,000) and (ii) the issue of a capital market investment (also defined, but generally a rated, listed or traded bond). The Secretary of State for Business, Innovation and Skills may, by secondary legislation, modify this exception and/or provide that the exception shall cease to have effect. No assurance can be given that any such modification or provision in respect of the capital markets exception, or its ceasing to be applicable to the transactions described in this base prospectus, will not adversely affect payments on the notes. While the issuer security and Funding 1 security should fall within the relevant exception, as the provisions of the Enterprise Act in relation to the capital market arrangement exception have never been considered judicially, no assurance can be given as to whether the Enterprise Act could have a detrimental effect on the transactions described in this base prospectus or on the interests of noteholders.

The Insolvency Act also contains an out-of-court route into administration for a qualifying floating charge holder, the directors or the company itself. The relevant provisions provide for a notice period during which the holder of the floating charge can either agree to the administrator proposed by the directors of the company or appoint an alternative administrator, although the moratorium on enforcement of the relevant security will take effect immediately after notice is given. If the qualifying floating charge holder does not respond to the directors' or company's notice of intention to appoint, the directors', or (as the case may be) the company's appointee will automatically take office after the notice period has elapsed. Where the holder of a qualifying floating charge within the context of a capital market transaction retains the power to appoint an administrative receiver, such holder may prevent the appointment of an administrator (either by the new out-of-court route or by the court-based procedure), by appointing an administrative receiver prior to the appointment of the administrator being completed.

The new provisions of the Insolvency Act give primary emphasis to the rescue of the company as a going concern. The purpose of realising property to make a distribution to one or more secured creditors is subordinated to the primary purposes of rescuing the company as a going concern or achieving a better result for the creditors as a whole than would be likely if the company were wound up. No assurance can be given that the primary purposes of the new provisions will not conflict with the interests of noteholders were the issuer or Funding 1 ever subject to administration.

In addition to the introduction of restrictions on the appointment of an administrative receiver as set out above, Section 176A of the Insolvency Act provides that, in relation to floating charges created from and including 15 September 2003, any receiver (including an administrative receiver), liquidator or administrator of a company is required to make a "**prescribed part**" of the company's "**net property**" available for the satisfaction of unsecured debts in priority to the claims of the floating charge holder. The company's "**net property**" is defined as the amount of the chargor's property which would be available for satisfaction of debts due to the holder(s) of any debentures secured by a floating charge and so refers to any floating charge realisations less any amounts payable to the preferential creditors or in respect of the fees or expenses of the liquidation or administration. The "**prescribed part**" is defined in The Insolvency Act 1986 (Prescribed Part) Order 2003 (SI 2003/2097) to be an amount equal to 50 per cent. of the first £10,000 of floating charge realisations plus 20 per cent. of the floating charge realisations thereafter, provided that such amount may not exceed £600,000.

This obligation does not apply if the net property is less than a prescribed minimum and the relevant officeholder is of the view that the cost of making a distribution to unsecured creditors would be disproportionate to the benefits. In such a case, the relevant officeholder may apply to court for an order that the provisions of Section 176A of the Insolvency Act should not apply.

Floating charge realisations upon the enforcement of the issuer security and/or the Funding 1 security may be reduced by the operation of the "**ring fencing**" provisions described above.

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

As a result of the changes described above, which bring the position in a liquidation into line with the position in an administration, upon the enforcement of the floating charge security granted by the issuer and/or by Funding 1, floating charge realisations which would otherwise be available to satisfy the claims of the issuer secured creditors under the issuer deed of charge and/or the Funding 1 secured creditors under the Funding 1 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 issuer secured creditors and/or the Funding 1 secured creditors will not be adversely affected by such a reduction in floating charge realisations.

### ***Insolvency Legislation in Northern Ireland***

The Insolvency Act 2000 and the corporate insolvency provisions of the Enterprise Act 2002 do not apply in Northern Ireland. The current law is contained in the Insolvency (Northern Ireland) Order 1989 (the **1989 Order**) as amended by the Insolvency (Northern Ireland) Order 2002. The 1989 Order is further amended by the provisions of the Insolvency (Northern Ireland) Order 2005 (the **2005 Order**) which came into force on 27 March 2006. The 2005 Order implemented in Northern Ireland corporate insolvency provisions which are identical to those introduced by the provisions of the Enterprise Act 2002 in England, Wales and Scotland. The changes introduced in England, Wales and Scotland by the Insolvency Act 2000 in relation to small companies are mirrored in the Insolvency (Northern Ireland) Order 2002.

### ***The UK Banking Act 2009 and similar European legislation may affect the effectiveness of obligations of certain entities under the transaction documents and result in modifications to such documents***

The Banking Act 2009 (the **Banking Act**) came into effect on 21 February 2009. The special resolution regime (the **SRR**) set out in the Banking Act (as amended) provides HM Treasury, the Bank of England, the PRA and the FCA (and their successor bodies) with a variety of powers to deal with the failure (or likely failure) of a UK bank or building society. The relevant transaction entities for these purposes include the seller, the servicer, the cash manager, the issuer cash manager, account bank B, the mortgages trustee account bank, the issuer account bank, the Funding 1 swap provider and certain of the issuer swap providers and, in certain circumstances, their holding companies. These powers include (i) taking a bank or holding company into temporary public ownership; (ii) transferring all or part of the business of a bank to a private sector purchaser; or (iii) transferring all or part of the business of a bank to a "bridge bank". The stabilisation powers are supplemented by share and property transfer powers (including powers for partial property transfers), certain ancillary powers (including powers to modify certain contractual arrangements in certain circumstances) and special insolvency procedures which may be commenced by the UK authorities. It is possible that these tools could be used prior to the point at which an application for insolvency proceedings with respect to a relevant entity could be made.

In addition, pursuant to recent amendments made to the Banking Act, provision has been made for certain special resolution tools to be used in respect of certain UK investment firms, central counterparties and certain affiliates of UK banks, investment firms and central counterparties (referred to as **banking group companies**). The Banking Act 2009 (Banking Group Companies) Order 2014, which specifies the definition of such affiliates, was made by HM Treasury on 9 July 2014 and entered into force on 1 August 2014. If any of the issuer or Funding 1 were regarded to be a banking group company and no exclusion applied, it would be possible for the relevant authorities to exercise certain stabilisation tools (including certain property transfer powers) in respect of those transaction entities, which could result in reduced amounts being available to make payments in respect of the notes. However, in this regard, it should be noted that the UK specified authorities have provided an exclusion for certain securitisation companies, which exclusion is expected to extend to the issuer and Funding 1.

In accordance with the Banking Reform Act, the Banking Act is to be further amended by secondary legislation in order, among other things, to introduce a national "bail-in" power, as part of the SRR, which will enable resolution authorities to impose losses on shareholders and, subject to limited exceptions, unsecured creditors of a failing bank, building society, investment firm or banking group company. The bail-in tool will permit the Bank of England in certain circumstances, amongst other things, to cancel or modify contracts for the purposes of reducing or deferring liabilities of UK banks, building societies, investment firms and banking group companies and/or to convert such liabilities into different forms. As discussed below, the UK Government is presently consulting on changes to the bail-in power proposed under the Banking Reform Act so as to transpose requirements of the EU Bank Recovery and Resolution Directive and, given the early stage of the consultation process, the precise changes which will be made are not yet known.

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

Where part only of the property, rights and liabilities of a UK bank or building society are transferred, the interests of pre-transfer creditors of the relevant UK bank or building society whose liabilities are not transferred can effectively be subordinated to the primary objective of the special bank administration (the supply to the purchaser of such services and facilities as are required to enable it to operate effectively) or the primary objective of the bank insolvency procedure (to work with the Financial Services Compensation Scheme (the **FSCS**) so as to ensure that as soon as reasonably practicable each eligible depositor (a) has the relevant account transferred to another financial institution or (b) receives payment from the FSCS).

If an instrument or order were to be made under the provisions of the Banking Act currently in force in respect of the seller, the servicer, the cash manager, the issuer cash manager, account bank B, the mortgages trustee account bank, the issuer account bank, the Funding 1 swap provider or an issuer swap provider, such instrument or order may (amongst other things) affect the ability of such entities to satisfy their obligations under the transaction documents and/or result in modifications to such documents without your consent. In particular, modifications may be made pursuant to powers permitting certain trust arrangements to be removed or modified and/or via powers which permit provision to be included in an instrument or order such that the relevant instrument or order (and certain related events) is required to be disregarded in determining whether certain widely defined "default events" have occurred (which events would include certain trigger events included in the transaction documents in respect of the relevant entity, including termination events and (in the case of the seller) trigger events in respect of perfection of legal title to the loans). Moreover, other than in the context of certain partial property transfers, nullification or modifications may be made to contractual arrangements between certain group companies for the purposes of continuity of service. If an instrument or order were to be made under the Banking Act, such action may affect various other aspects of the transaction, including resulting in modifications to default event provisions included in the transaction documents as described above and, more generally, the ability of such parties to perform their obligations under the transaction documents. As a result, the making of an instrument or order in respect of the seller, the servicer, the cash manager, the issuer cash manager, account bank B, the mortgages trustee account bank, the issuer account bank, the Funding 1 swap provider or an issuer swap provider may affect the ability of the issuer to meet its obligations in respect of the notes. While there is provision for compensation in certain circumstances under the Banking Act, there can be no assurance that noteholders would recover compensation promptly and equal to any loss actually incurred.

At present, the UK authorities have not made an instrument or order under the Banking Act in respect of the entities referred to above and there has been no indication that they will make any such instrument or order, but there can be no assurance that this will not change and/or that noteholders will not be adversely affected by any such instrument or order if made.

Lastly, on 15 May 2014, the European Parliament and Council adopted a legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the **Banking Recovery and Resolution Directive or BRRD**). The BRRD came into force on 2 July 2014. Amongst other things, the BRRD provides for a package of minimum early intervention and resolution-related tools and powers for relevant authorities and provides for special rules for cross-border groups. The BRRD contains similar resolution tools and powers to the Banking Act, including a "bail-in" power which allows resolution authorities to bail-in eligible liabilities of relevant institutions giving such authorities the power to write down or write off the claims of certain unsecured creditors and/or to convert certain debt claims to equity.

Many of the provisions contained in the BRRD are similar in effect to provisions in the Banking Act. However, the provisions of the Banking Act will need to be amended to reflect the final provisions of the BRRD. The UK Government published a consultation paper in July 2014 outlining its plans for and seeking views on transposition of the BRRD. The paper notes that many key aspects of the BRRD are dealt with in the existing provisions of the Banking Act, or the recent Banking Reform Act legislation amending the Banking Act (for example, the changes introduced by the Banking Act 2009 (Banking Group Companies) Order 2014, referred to above, bring within scope of the SRR those group entities which are within scope of the BRRD) but sets out various specific changes that are required to conform fully with the BRRD provisions. The further changes required to the existing legislation include, for example, the introduction of a new stabilisation option, the asset separation tool, which will enable the Bank of England to use property transfer

powers to transfer assets, rights and liabilities of a failing bank to an asset management vehicle owned, wholly or partially, by one or more public authorities. The asset separation tool will be exercisable only in conjunction with another stabilisation tool, such as the bail-in power. The UK Government will also introduce amendments to transpose the BRRD requirements in relation to the mandatory write-down and conversion of capital instruments before any resolution tool is used. The PRA and the FCA are also currently consulting on changes to their regulatory rules which will be required to transpose aspects of the BRRD. Given the early stage of the consultation process, the precise changes which will be made are not yet known. Accordingly, it is not yet possible to assess the full impact of the BRRD on the Santander UK Group and there can be no assurance that, once it is implemented, the fact of its implementation or the taking of any actions provided in it would not materially and adversely affect the Santander UK Group's operating results, financial condition and prospects.

The BRRD must be implemented in Member States by 1 January 2015, except for the provisions relating to the bail-in tool, which shall apply from 1 January 2016 at the latest. However, the UK Government has announced recently, in a consultation paper on transposition of the BRRD, that it will not exercise the option to delay the application of the bail-in power and will commence the domestic bail-in legislation (following any amendments required to conform fully with the BRRD) upon transposition of the directive on 1 January 2015.

### ***European Market Infrastructure Regulation***

European Regulation 648/2012 of 4 July 2012, known as the European Market Infrastructure Regulation (**EMIR**) entered into force on 16 August 2012. EMIR provides for certain OTC derivative contracts to be submitted to central clearing and imposes, amongst other things, margin posting and other risk mitigation techniques, reporting and record keeping requirements. Some (but not all) of the secondary rules required to be made under EMIR are now in effect. However, these do not include the clearing or margin posting obligations which will only apply in respect of new swap arrangements entered into from the relevant future effective dates. The first clearing obligations are likely to come into force in 2015.

Aspects of EMIR and its application to securitisation vehicles remain unclear. However, it is likely that the currency and/or interest rate swaps entered into under the swap agreements could give rise to risk mitigation and reporting obligations for the issuer and/or Funding 1 under EMIR (see further "**The Swap Agreements**"). This in turn could give rise to additional costs and expenses for the issuer and/or Funding 1, which may in turn reduce the amounts available to make payments with respect to the notes.

Additionally, with respect to notes issued on or after the date of this base prospectus only, EMIR amendments may be made to the transaction documents and/or the terms and conditions applying to notes of any one or more series without the consent of the noteholders of any series and without the consent of the other issuer secured creditors. Furthermore, EMIR amendments may be made to the transaction documents by the Funding 1 security trustee without the consent of the Funding 1 secured creditors. In each case, EMIR 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 noteholders and the other secured creditors shall be deemed to have instructed the note trustee or the Funding 1 security trustee, as applicable, to concur with such modifications and shall be bound by such modifications regardless of whether or not such modifications are materially prejudicial to the interests of the noteholders or the other secured creditors.

### ***The Dodd-Frank Wall Street Reform and Consumer Protection Act***

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the **Dodd-Frank Act**), which was signed into law on 21 July 2010, imposes a new regulatory framework over the U.S. financial services industry and the U.S. consumer credit markets in general. Among other things, regulations proposed by the U.S. Securities and Exchange Commission under the Dodd-Frank Act would, if enacted, significantly alter the manner in which asset-backed securities, including securities similar to the notes, are issued and structured and would increase the reporting obligations of the issuers of such securities. Given the broad scope and sweeping nature of these changes and the fact that final implementing rules and regulations have not yet been enacted, the potential impact of these actions on the issuer, any of the notes or any owners of interests in the notes is unknown, and no assurance can be made that the impact of such changes would not have a material adverse effect on the prospects of the issuer or the value or marketability of the notes. In particular, if existing transactions are not exempted from any such new rules or regulations, the costs of compliance with such rules and regulations could have a material adverse effect on the issuer and the noteholders.



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

There is uncertainty as to the validity and/or enforceability of a provision which (based on contractual and/or trust principles) subordinates certain payment rights of a creditor to the payment rights of other creditors of its counterparty upon the occurrence of insolvency proceedings relating to that creditor. In particular, recent cases have focused on provisions involving the subordination of a swap counterparty's payment rights in respect of certain termination payments upon the occurrence of insolvency proceedings or other default on the part of such counterparty (so called "flip clauses"). Such provisions are similar in effect to the terms which will be included in the transaction documents relating to the subordination of swap excluded termination amounts.

The UK Supreme Court has held that a flip clause (as described above) will in certain circumstances be valid under English law. Contrary to this, however, a U.S. Bankruptcy Court has held in two separate cases that such a subordination provision is unenforceable under U.S. bankruptcy law and that any action to enforce such provision would violate the automatic stay which applies under such law in the case of a U.S. bankruptcy of the counterparty. The implications of these conflicting judgments are not yet known, particularly as same U.S. Bankruptcy Court approved, in December 2010, the settlement of one of the cases to which the judgment relates and, subsequently, the appeal was dismissed. However, there remain several stayed actions in the U.S. commenced by the Lehman Brothers Chapter 11 debtors concerning the enforceability of flip clauses and, in addition, in February 2012, a complaint was filed by certain parties seeking recognition and enforcement of the decision in *Belmont Park Investments Pty Limited v BNY Corporate Trustee Services Ltd and Lehman Brothers Special Financing Inc.* [2011] UKSC 38 (and corresponding lower court decisions) and other declaratory relief with respect to the flip clause in question in the case described above. At the same time as filing the complaint, the relevant parties also filed a motion seeking the withdrawal of the reference from the U.S. Bankruptcy Court, requesting that the complaint be heard instead by the U.S. District Court. The bankruptcy proceeding was closed by the U.S. Bankruptcy Court in June 2013 and there has been no further action on the district court proceeding since October 2012.

If a creditor of the issuer (such as an issuer swap provider) or a related entity of such creditor becomes subject to insolvency proceedings in any jurisdiction outside England and Wales (including, but not limited to, the U.S.), and it is owed a payment by the issuer, a question arises as to whether the insolvent creditor or any insolvency official appointed in respect of that creditor could successfully challenge the validity and/or enforceability of subordination provisions included in the English law governed transaction documents (such as a provision of the priorities of payments which refers to the ranking of the swap counterparty's payment rights in respect of swap excluded termination amounts). In particular, based on the decision of the U.S. Bankruptcy Court referred to above, there is a risk that such subordination provisions would not be upheld under U.S. bankruptcy laws. Such laws may be relevant in certain circumstances with respect to the swap counterparty (and/or with respect to any replacement counterparty, depending on certain matters in respect of that entity). In general, if a subordination provision included in the transaction documents were successfully challenged under the insolvency laws of any relevant jurisdiction outside England and Wales and any relevant foreign judgment or order was recognised by the English courts, there can be no assurance that such actions would not adversely affect the rights of the noteholders, the market value of the notes and/or the ability of the issuer to satisfy its obligations under the notes.

Lastly, given the general relevance of the issues under discussion in the judgments referred to above and that the transaction documents include terms providing for the subordination of swap excluded termination amounts, there is a risk that the final outcome of the dispute in such judgments (including any recognition action by the English courts) may result in negative rating pressure in respect of the rated notes. If any rating assigned to the rated notes is lowered, the market value of such notes may be reduced.

### **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 will only be recorded in book-entry form with DTC, Euroclear or Clearstream, Luxembourg. The global notes will not be exchanged for definitive notes except in limited circumstances as described below under "**Form of the notes – Definitive notes**". The lack of notes in physical form could, among other things:

- result in payment delays on the notes because the issuer will be sending distributions on the notes to DTC, Euroclear or Clearstream, Luxembourg instead of directly to you;
- make it difficult for investors to pledge the notes if notes in physical form are required by the party demanding the pledge; and
- hinder your ability to resell the notes because some investors may be unwilling to buy notes that are not in physical form.

**If you have a claim against the issuer it may be necessary for you to bring a suit against the issuer in England to enforce your rights**

The issuer has agreed to submit to the non-exclusive jurisdiction of the courts of England, and it may be necessary for you to bring a suit in England to enforce your rights against the issuer.

**Implementation of and/or changes to the Basel II risk-weighted asset framework and the Basel III capital and liquidity reforms may result in changes to the risk-weighting of the notes and affect the capital requirements and/or the liquidity associated with a holding of the notes for certain investors**

In 1988, the Basel Committee on Banking Supervision (the **Basel Committee**) adopted capital guidelines that explicitly link the relationship between a bank's capital and its credit risks (known as **Basel I**). In June 2006, the Basel Committee finalised and published new risk-adjusted capital guidelines (**Basel II**). The Basel Committee has approved significant changes to the so called Basel II regulatory capital and liquidity framework (such changes being commonly referred to as **Basel III**). 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**).

Member countries were required to implement the new capital standards from 1 January 2014 and will be required to implement the new Liquidity Coverage Ratio from 1 January 2015 (with a transitional period until 1 January 2019 during which the minimum level of liquidity coverage will gradually rise from 60 per cent. of the minimum standard to the full 100 per cent. at increments of 10 per cent. per year, although the European implementation framework has accelerated this timetable so that by 2018 the full 100 per cent. requirements will apply), and the Net Stable Funding Ratio from 1 January 2018. The Basel Committee has also introduced additional capital requirements for systemically important institutions to be phased in from 2016. The changes approved by the Basel Committee may have an impact on the capital requirements in respect of the notes and/or on incentives to hold the notes for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the notes. The Basel Committee has also published certain proposed revisions to the securitisation framework, including changes to the approaches to calculating risk weights and a new risk weight floor of 15 per cent..

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 portfolio develop internal ratings for that 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. In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the notes and as to the consequences for and effect on them of the Basel III framework, CRD IV and the relevant implementing measures. No predictions can be made as to the precise effects of potential changes to the notes or any investor.

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

In Europe, the U.S. and elsewhere there is increased political and regulatory scrutiny of the asset-backed securities industry. This has resulted in a raft of measures for increased regulation which are currently at various stages of implementation and which may have an adverse impact on the regulatory capital charge to certain investors in securitisation exposures and/or the incentives for certain investors to

hold asset-backed securities, and may thereby affect the liquidity of such securities. Investors in the notes are responsible for analysing their own regulatory position and none of the issuer, the arranger, the managers or the seller or any of their affiliates makes any representation to any prospective investor or purchaser of the notes regarding the regulatory capital treatment of their investment on the closing date or at any time in the future.

In particular, investors should be aware of 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 per cent. in respect of certain specified credit risk tranches or asset exposures. Failure to comply with one or more of the requirements may result in various penalties including, in the case of those investors subject to regulatory capital requirements, the imposition of a penal capital charge on the notes acquired by the relevant investor. Aspects of the requirements and what is or will be required to demonstrate compliance to national regulators remain unclear.

As Santander UK may, from time to time (including after 31 December 2014), sell residential mortgage loans and their related security to the mortgages trustee pursuant to the terms of the mortgage sale agreement, the risk retention and due diligence requirements described above apply, or are expected to apply, in respect of the notes. Prospective investors should therefore make themselves aware of such requirements (and any corresponding implementing rules of their regulator), where applicable to them, in addition to any other regulatory requirements applicable to them with respect to their investment in the notes. Santander UK's current policy is to retain, on an on-going basis, a net economic interest in the securitisation and to use reasonable endeavours to provide investors with the data and information which they may reasonably require for the purposes of compliance by investors with the EU risk retention and due diligence requirements.

The EU risk retention and due diligence requirements 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.

**There may be a conflict between the interests of the holders of class A notes, the holders of class B notes, the holders of class M notes, the holders of class C notes, the holders of class D notes and the holders of class Z notes, and the interests of other classes of noteholders may prevail over your interests**

The note trust deed and the conditions of the notes will provide that in connection with the exercise of its trusts, authorities, powers and discretions under the note trust deed the note trustee is to have regard to the interests of the holders of all the classes of notes. There may be circumstances, however, where the interests of one class of the noteholders conflicts with the interests of another class or classes of the noteholders. The note trust deed will provide that where, in the sole opinion of the note trustee, there is such a conflict, then:

- the note trustee is to have regard only to the interests of the class A noteholders in the event of a conflict between the interests of the class A noteholders on the one hand and the class B noteholders and/or the class M noteholders and/or the class C noteholders and/or the class D noteholders and/or the class Z noteholders on the other hand;
- subject to the preceding paragraph, the note trustee is to have regard only to the interests of the class B noteholders in the event of a conflict between the interests of the class B noteholders on the one hand and the class M noteholders and/or the class C noteholders and/or the class D noteholders and/or the class Z noteholders on the other hand;
- subject to the preceding paragraphs, the note trustee is to have regard only to the interests of the class M noteholders in the event of a conflict between the interests of the class M noteholders on the one hand and the class C noteholders and/or the class D noteholders and/or the class Z noteholders on the other hand;

- subject to the preceding paragraphs, the note trustee is to have regard only to the interests of the class C noteholders in the event of a conflict between the interests of the class C noteholders on the one hand and/or the class D noteholders and/or the class Z noteholders on the other hand; and
- subject to the preceding paragraphs, the note trustee is to have regard only to the interests of the class D noteholders in the event of a conflict between the interests of the class D noteholders on the one hand and the class Z noteholders on the other hand.

**There may be a conflict between the interests of the holders of each class of the class A notes, the holders of each class of the class B notes, the holders of each class of the class M notes, the holders of each class of the class C notes, the holders of each class of the class D notes and the holders of each class of the class Z notes, and the interests of other classes of noteholders may prevail over your interests**

There may also be circumstances where the interests of a class of the class A noteholders conflict with the interests of another class of the class A noteholders. Similarly, there may be circumstances where the interests of a class of the class B noteholders conflict with the interests of another class of the class B noteholders, the interests of a class of the class M noteholders conflict with the interests of another class of the class M noteholders, the interests of a class of the class C noteholders conflict with the interests of another class of the class C noteholders, the interests of a class of the class D noteholders conflict with the interests of another class of the class D noteholders or the interests of a class of the class Z noteholders conflict with the interests of another class of the class Z noteholders.

Unless expressly provided otherwise, the note trust deed and the terms of the notes 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 class of the class A notes, each such class of the class B notes, each such class of the class M notes, each such class of the class C notes, each such class of the class D notes or, as applicable, each such class of the class Z notes. A resolution may only be passed at a single meeting of the noteholders of each class if the note trustee is, in its absolute discretion, satisfied that there is no conflict between them.

Similar provisions will apply in relation to requests in writing from holders of a specified percentage of the principal amount outstanding of the notes of each class (the principal amount outstanding being converted into sterling for the purposes of making the calculation). You should note that, as a result of repayments of principal to any series of the notes, the principal amount outstanding of each series of the notes of the issuer will change after the applicable closing date.

**You may be subject to exchange rate risks on any series of notes that are not denominated in sterling**

Investors will pay for the dollar notes in U.S. dollars, the euro notes in euro and for notes denominated in any other currency, in the specified currency, but the loan tranches to be lent by the issuer to Funding 1 and repayments of principal and payments of interest by Funding 1 under the intercompany loan will be in sterling.

To hedge the issuer's currency exchange rate exposure, including the interest rate exposure connected with that currency exposure, the issuer will enter into the issuer dollar currency swaps, the issuer euro currency swaps and currency swaps relating to any other currency that the notes may be denominated in for the applicable series of notes. See “**Description of the transaction documents – Swap agreements – Issuer swap agreements**” below.

If the issuer fails to make timely payments of amounts due under an issuer swap, then the issuer will have defaulted under that issuer swap. Each issuer swap provider is obliged only to make payments under an issuer swap if and for so long as the issuer makes payments under the same. If an issuer swap provider is not obliged to make payments, or if it defaults in its obligations to make payments of amounts in U.S. dollars, euro or any other specified currency, as applicable, equal to the full amount to be paid by it on the payment dates under the relevant issuer swap (which are the same dates as the interest payment dates in respect of the notes), the issuer will be exposed to changes in U.S. dollar/sterling, euro/sterling currency exchange rates or such other currency exchange rates, in the associated interest rates on these currencies and in fixed versus floating interest rates. Unless a replacement issuer swap is entered into, the issuer may have insufficient funds to make payments due on the notes of any class and any series that are then outstanding.

**Termination payments on the issuer swaps may adversely affect the funds available to make payments on your notes**

If any of the issuer swaps terminates, the issuer may as a result be obliged to make a termination payment to the relevant issuer swap provider. The amount of the termination payment will be based on the cost of entering into a replacement currency swap. Under the intercompany loan agreement, Funding 1 will be required to pay the issuer an amount equal to any termination payment due by the issuer to the relevant issuer swap provider. Funding 1 will also be obliged to pay the issuer any extra amounts which the issuer may be required to pay to enter into a replacement swap.

There is no assurance that Funding 1 will have the funds available to make that payment or that the issuer will have sufficient funds available to make any termination payment under any of the relevant issuer swaps or to make subsequent payments to you in respect of the relevant series and class of notes. Nor can the issuer give you any assurance that it will be able to enter into a replacement currency swap or, if one is entered into, that the credit rating of the replacement issuer swap provider will be sufficiently high to prevent a downgrading of the then current ratings of the rated notes by the rating agencies.

Except where an issuer swap provider has caused the relevant issuer swap to terminate by its own default or downgrade, any termination payment due by the issuer will rank equally not only with payments due to the holders of the series and class of notes to which the relevant issuer swap relates but also with payments due to the holders of any other series and class of notes which rank equally with the series and class of notes to which the relevant issuer swap relates. Any additional amounts required to be paid by the issuer following termination of an issuer swap (including any extra costs incurred (for example, from entering into "spot" currency transactions or interest rate swaps) if the issuer cannot immediately enter into a replacement currency swap) will also rank equally not only with payments due to the holders of the series and class of notes to which the relevant issuer swap relates but also with payments due to the holder of any other series and class of notes which rank equally with the series and class of notes to which the relevant issuer swap relates. Furthermore, any termination payment or additional payment or additional amounts required to be paid by the issuer following termination of an issuer swap will rank ahead of payments due to the holders of any series and class of notes which ranks below the series and class of notes to which the relevant issuer swap relates. Therefore, if the issuer is obliged to make a termination payment to the relevant issuer swap provider or to pay any other additional amount as a result of the termination of the relevant issuer swap, this may affect the funds which the issuer has available to make payments on the notes of any class and any series.

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

For so long as the notes are represented by global notes, and DTC, Euroclear and Clearstream, Luxembourg so permit, the Rule 144A notes will be tradable in minimum nominal amounts of \$200,000 and in integral multiples of \$1,000 in excess thereof (or its equivalent in any other currency as at the date of the issue of the notes) and the Reg S notes will be tradable in minimum nominal amounts of £100,000 and in integral multiples of £1,000 in excess thereof if denominated in sterling or €100,000 and in integral multiples of €1,000 in excess thereof if denominated in euro (or its equivalent in any other currency as at the date of the issue of the 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 \$200,000, £100,000 or €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, if definitive notes are required to be issued in respect of such notes, a noteholder holding notes having a nominal amount which cannot be represented by a definitive note in the denomination of \$200,000, £100,000 or €100,000 (or the equivalent in any other currency as at the date of the issue of the notes), as the case may be, will not be able to receive a definitive note in respect of such notes and will not be able to receive interest or principal in respect of such notes.

**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, Funding 1 and/or the mortgages trustee may be treated as connected to Santander UK.

A contribution notice could be served on the issuer, Funding 1 and/or the mortgages trustee if connected to Santander UK 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, Funding 1 and/or the mortgages trustee if connected to Santander UK 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, Funding 1 and/or the mortgages trustee this could adversely affect the interests of the noteholders.

*The issuer believes that the risks described above are the principal risks inherent in the transaction for the noteholders of a series, but the inability of the borrowers to pay interest, principal or other amounts on the loans and their related security and consequently the inability of the issuer to pay interest, principal or other amounts on or in connection with the notes of a series and class may occur for other reasons, and the issuer does not represent that the above statements regarding the risk of holding the notes of a series and class are exhaustive. Although the issuer believes that the various structural elements described in this base prospectus lessen some of the risks for the noteholders, there can be no assurance that these measures will be sufficient to ensure payment to the noteholders of interest, principal or any other amounts on or in connection with the notes of a series and class on a timely basis or at all.*

## TRIGGERS TABLES

## Rating Triggers Table

<u>Transaction Party</u>	<u>Required Ratings/Triggers</u>	<u>Possible effects of Trigger being breached include the following</u>
<b>Seller</b>	<p>The short-term, unsecured, unguaranteed and unsubordinated debt obligations of the seller are not rated at least P-1 (without conditions) or P-2 (with conditions) by Moody's and A-3 by S&amp;P and that the short-term issuer default rating (IDR) of the seller are not at least F2 by Fitch at the time of, and immediately following, the assignment of new loans to the mortgages trustee.</p> <p>Seller ceases to be assigned a long-term unsecured, unsubordinated and unguaranteed debt obligations rating from S&amp;P of at least BBB- or ceases to have a long-term IDR from Fitch of at least BBB-.</p> <p>Its long-term unsecured, unsubordinated and unguaranteed debt obligations cease to be assigned a rating of at least Baa3 from Moody's or its short-term unsecured unsubordinated and unguaranteed obligations cease to be assigned a rating of at least A-2 from S&amp;P or if the seller ceases to have an IDR of at least BBB- from Fitch.</p> <p>Its long-term unsecured, unsubordinated and unguaranteed debt obligations cease to be rated at least A3 by Moody's or A- by Fitch (unless Moody's or Fitch, as applicable, confirms that the then current ratings of the outstanding notes will not be adversely affected by the ratings downgrade).</p> <p>Its short-term, unsecured, unguaranteed and unsubordinated debt obligations are not rated at least P-2 by Moody's and A-3 by S&amp;P and the short-term IDR are not at least F2 by Fitch at the time of, and immediately following a proposed</p>	<p>New loans may not be assigned to the mortgages trustee unless otherwise agreed by Moody's, S&amp;P or Fitch, as the case may be.</p> <p>The legal assignment of loans to the mortgages trustee shall be completed on the twentieth London business day after the occurrence of the trigger.</p> <p>Within 25 London business days following such completion, the seller will do such acts or things as are required to perfect transfer of the related security.</p> <p>The seller will be obliged to give notice only of the transfer of the equitable and beneficial interest in the loans to the borrowers but will not be required to complete any other steps necessary to perfect legal title to the loans in favour of the mortgages trustee except in the case of the seller ceasing to have a long-term IDR by Fitch of at least BBB- where it shall be required to take steps to perfect legal title.</p> <p>Where the seller ceases to have a long-term IDR of at least BBB- from Fitch only, it shall be required to take steps to perfect legal title for the transfer of the loans and their related security.</p> <p>Funding 1 required to establish a liquidity reserve fund.</p> <p>An offer by Funding 1 to make a payment to the seller to acquire an interest in the trust property with the effect of increasing the Funding 1 share and to cause a corresponding decrease in the seller share shall not be valid unless otherwise agreed by</p>

<u>Transaction Party</u>	<u>Required Ratings/Triggers</u>	<u>Possible effects of Trigger being breached include the following</u>
	acquisition.	Moody's, S&P or Fitch, as the case may be.
	Its long-term, unsecured, unguaranteed and unsubordinated debt obligations fall below A3 by Moody's.	The beneficiaries shall appoint a firm of independent auditors to determine, based on a random selection of a representative sample of loans and their related security constituting part of the trust property, whether such loans and their related security complied with the representations and warranties set out in Schedule 1 to the mortgage sale agreement as at the date such loans were assigned to the mortgages trustee.
	Its unsecured, unsubordinated and unguaranteed debt obligations cease to be rated at least A-2 short-term and BBB long-term by S&P or P-2 short-term by Moody's or its short-term or long-term IDR cease to be rated at least F2 or BBB+, respectively, by Fitch.	All further instructions by the servicer to debit the accounts of the borrowers that are subject to direct debit bank mandates commencing not less than 30 calendar days therefrom shall be made to another bank whose unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-2 short-term and BBB long-term by S&P and P-2 short-term by Moody's, and whose short-term and long-term IDR are at least F2 and BBB+, respectively, by Fitch, or otherwise such instructions shall be made directly to the mortgages trustee GIC account.
<b>Servicer</b>	Receipt by the servicer of notice that the short-term, unsecured, unsubordinated and unguaranteed, debt of the servicer is rated less than A-2 by S&P and P-2 by Moody's and that the servicer's short term IDR is lower than F2 by Fitch.	The servicer shall use reasonable endeavours to ensure that the title deeds (and the customer files) relating to the assigned loans and their related security are located separately from the title deeds and customer files of other properties and mortgages which do not form part of the portfolio
<b>Funding 1 swap provider or Guarantor of the Funding 1 swap provider</b>	<p><b>Initial Required Ratings:</b></p> <p><b>S&amp;P:</b> (1) the short term, unsecured and unsubordinated debt obligations are rated at least as high as A-1 by S&amp;P and the long-term, unsecured and unsubordinated debt obligations are rated at least as high as A by S&amp;P or (2) the long-term, unsecured and unsubordinated debt obligations are rated at least as high as A+ by S&amp;P.</p>	<p><b>Initial Required Ratings:</b></p> <p><b>S&amp;P:</b> if neither the Funding 1 swap provider nor any guarantor in respect of the Funding 1 swap provider has the initial required rating, the Funding 1 swap provider must, if required, post collateral within 10 business days and may either: (a) transfer its rights and obligations under the Funding 1 swap agreement to an appropriately rated replacement third party, (b) procure an appropriately rated third party to guarantee its rights and obligations, or (c) take such action as is required to maintain, or restore, the rating of the relevant notes by S&amp;P.</p>



<u>Transaction Party</u>	<u>Required Ratings/Triggers</u>	<u>Possible effects of Trigger being breached include the following</u>
	<p><b>Moody's:</b> (1) if subject to a Moody's short-term rating, a Moody's short-term rating of P-1 and a long-term, unsecured and unsubordinated debt or counterparty obligations rating of A2 or above by Moody's or (2) if not subject to a Moody's short-term rating, a long-term, unsecured and unsubordinated debt or counterparty obligations rating of A1 or above by Moody's; or</p>	<p><b>Moody's:</b> if neither the Funding 1 swap provider nor any guarantor in respect of the Funding 1 swap provider has the initial required rating, the Funding 1 swap provider is required to post collateral within 30 business days.</p>
	<p><b>Fitch:</b> the short-term IDR is at least as high as F1 and the long-term IDR is at least as high as A; or</p>	<p><b>Fitch:</b> if neither the Funding 1 swap provider nor any guarantor in respect of the Funding 1 swap provider has the initial required rating, the Funding 1 swap provider must either:</p> <ul style="list-style-type: none"> <li>(a) if required, post collateral within 14 calendar days; or</li> <li>(b) within 30 calendar days either <ul style="list-style-type: none"> <li>(i) transfer its rights and obligations under the Funding 1 swap agreement to an appropriately rated replacement third party, or</li> <li>(ii) procure a co-obligation or guarantee from an appropriately rated third party; provided that pending the taking of any of the actions in (b)(i) to (ii), it posts collateral within 14 calendar days as required under (a) above.</li> </ul> </li> </ul>
	<p><b>First Subsequent Required Ratings:</b></p>	
	<p><b>S&amp;P:</b> (A) for so long as Replacement Option 1 (as described below) applies, the long-term, unsecured and unsubordinated debt obligations are rated at least as high as BBB+ (or its equivalent) by S&amp;P and (B) for so long as Replacement Option 2 (as described below) applies, the long-term, secured and unsubordinated debt obligations are rated at least as high as A- (or its equivalent) by S&amp;P;</p>	<p><b>S&amp;P:</b> if neither the Funding 1 swap provider nor any guarantor in respect of the Funding 1 swap provider has the first subsequent required rating, the Funding 1 swap provider must, if required, post collateral within 10 business days and must, within 60 calendar days, either (a) transfer its rights and obligations under the Funding 1 swap agreement to an appropriately rated replacement third party, (b) procure an appropriately rated third party to guarantee its rights and obligations, or (c) take such action as is required to maintain, or restore, the rating of the relevant notes by S&amp;P.</p>
	<p>Replacement Option 1 will apply on and from the date of the Funding 1 swap agreement, except that the Funding 1 swap provider may at any time elect for Replacement Option 2 to apply (or for Replacement Option 1 to apply if Replacement Option 2 applies at such time) on and from a particular date, provided certain conditions, as set out in the Funding 1 swap agreement, have been met;</p>	

<u>Transaction Party</u>	<u>Required Ratings/Triggers</u>	<u>Possible effects of Trigger being breached include the following</u>
	<p><b>Moody's:</b> either (1) if subject to a Moody's short-term rating, a Moody's short-term rating of P-2 or above and a long-term, unsecured and unsubordinated debt or counterparty obligations rating of A3 or above by Moody's or (2) if not subject to a Moody's short-term rating, a long-term, unsecured and unsubordinated debt or counterparty obligations rating of A3 by Moody's; or</p>	<p><b>Moody's:</b> if neither the Funding 1 swap provider nor any guarantor in respect of the Funding 1 swap provider has the first subsequent required rating, the Funding 1 swap provider is required to post collateral within 30 business days and, as soon as reasonably practicable, to either (a) transfer its rights and obligations under the Funding 1 swap agreement to an appropriately rated replacement third party or (b) procure an appropriately rated third party to guarantee its rights and obligations.</p>
	<p><b>Fitch:</b> the short-term IDR is at least as high as F2 by Fitch and the long-term IDR is at least as high as BBB+ by Fitch.</p>	<p><b>Fitch:</b> if neither the Funding 1 swap provider nor any guarantor in respect of the Funding 1 swap provider has the first subsequent required rating, the Funding 1 swap provider must either (a) if required, post collateral within 14 calendar days, or (b) within 30 calendar days, to either (i) transfer its rights and obligations under the Funding 1 swap agreement to an appropriately rated replacement third party, or (ii) procure a guarantee from an appropriately rated third party,</p> <p>provided that pending the taking of any of the actions in (i) to (ii), if required, it posts collateral within 14 calendar days.</p>
	<p><b>Second Subsequent Required Ratings:</b></p>	<p>If neither the Funding 1 swap provider nor any guarantor in respect of the Funding 1 swap provider has the second subsequent required ratings, within 30 calendar days the Funding 1 swap provider must either (i) transfer its rights and obligations under the Funding 1 swap agreement to an appropriately rated replacement third party, or (ii) procure a guarantee from an appropriately rated third party,</p> <p>provided that pending the taking of any of the actions in (i) to (ii), if required, it posts collateral within 10 calendar days.</p>
		<p>A failure by the Funding 1 swap provider to take such steps will, in certain circumstances, allow Funding 1 to terminate the Funding 1 swap(s).</p>
<p><b>Issuer swap provider or Guarantor of the issuer swap provider</b></p>	<p>Under each of the issuer swap agreements, in the event that the relevant rating(s) of an issuer swap provider, or its respective guarantor or co-obligor, as applicable, is or are, as applicable, downgraded by a rating agency below the ratings specified in the relevant issuer swap agreement (in accordance with the requirements of the rating agencies) for such issuer swap provider, and, where applicable, as a result</p>	

<u>Transaction Party</u>	<u>Required Ratings/Triggers</u>	<u>Possible effects of Trigger being breached include the following</u>
<b>Account bank A under the Funding 1 bank account agreement</b>	<p>of the downgrade, the then current ratings of the notes corresponding to the relevant issuer swap, would or may, as applicable, be adversely affected, the relevant issuer swap provider will, if required in accordance with the relevant issuer swap, be required to take certain remedial measures which may include providing collateral for its obligations under the relevant issuer swap, arranging for its obligations under the relevant issuer swap to be transferred to an entity with the rating(s) required by the relevant rating agency as specified in the relevant issuer swap agreement (in accordance with the requirements of the relevant rating agency), procuring another entity with the rating(s) required by the relevant rating agency as specified in the relevant issuer swap agreement (in accordance with the requirements of the relevant rating agency), to become co-obligor or guarantor in respect of its obligations under the relevant swap, or taking such other action as it may agree with the relevant rating agency.</p> <p>Please see the relevant issuer swap agreement for further details on the required ratings and triggers in respect of a particular issuer swap.</p> <p>A failure by the relevant issuer swap provider to take such steps will, in certain circumstances, allow the issuer to terminate the relevant issuer swap.</p> <p>(i) The short-term, unsubordinated, unguaranteed and unsecured debt obligation ratings of account bank A fall below P-1 by Moody's, or (ii) the short-term and long-term IDR of account bank A fall below F1 and A respectively by Fitch, or (iii) account bank A ceases to have unsubordinated, unguaranteed and unsecured debt obligation ratings of at least A-1 short-term and A long-term (or, if the relevant account bank has no short-term rating from S&amp;P, at least A+ long-term) by S&amp;P;</p>	<p>Closure of the Funding 1 transaction account unless within 30 calendar days of the downgrade, the cash manager or Funding 1:</p> <p>(a) procures a guarantee of the obligations of account bank A in respect of the provision of the Funding 1 transaction account from a financial institution (other than from, for the avoidance of doubt, the existing account bank A) whose (i) short-term, unsubordinated, unguaranteed and unsecured debt obligations are rated at least P-1 by Moody's, (ii) unsubordinated, unguaranteed and unsecured debt obligations are rated at least A-1 short-term and A long-term (or, if such institution has no short-term rating from S&amp;P, at least A+ long-term) by S&amp;P, and (iii) whose short-term and long-term IDR are at least F-1 and A, respectively, by Fitch (such ratings as set out in (i) to (iii) being the <b>minimum required ratings</b> for the Funding 1 bank account agreement); or</p> <p>(b) takes such other actions as are required by the rating agencies to ensure that the ratings assigned to the rated notes are not adversely affected by the ratings downgrade,</p> <p>in each case provided that the then current ratings of the outstanding rated notes shall not be adversely affected by each or any of the above actions.</p>

<u>Transaction Party</u>	<u>Required Ratings/Triggers</u>	<u>Possible effects of Trigger being breached include the following</u>
<b>Account bank B under the Funding 1 bank account agreement</b>	<p>In the event that the Funding 1 transaction account is closed as set forth above, Funding 1 and/or the cash manager shall procure the transfer of all of the rights and obligations of account bank A under the Funding 1 bank account agreement, in respect of the provision of the Funding 1 transaction account and procure the transfer of all amounts standing to the credit of the Funding 1 transaction account (if any and to the extent not placed with eligible banks in accordance with instructions from the cash manager) to account(s) held with an authorised institution under FSMA with the minimum required ratings and which enters into an agreement in respect of the provision of the Funding 1 transaction account in form and substance similar to the Funding 1 bank account agreement, provided that the rating agencies then rating the rated notes also confirm that the rated notes would not be adversely affected thereby.</p> <p>(i) The short-term, unsubordinated, unguaranteed and unsecured debt obligation ratings of account bank B fall below P-1 by Moody's, or (ii) the short-term and long-term IDR of account bank B fall below F1 and A respectively by Fitch, or (iii) account bank B ceases to have unsubordinated, unguaranteed and unsecured debt obligation ratings of at least A-1 short-term and A long-term (or, if account bank B has no short-term rating from S&amp;P, at least A+ long-term) by S&amp;P.</p>	<p>Closure of the Funding 1 GIC account and any Funding 1 collateral account unless within 30 calendar days of the downgrade, Funding 1 and/or the cash manager:</p> <p>(a) procures a guarantee of the obligations of account bank B in respect of the provision of the Funding 1 GIC account and any Funding 1 collateral account from a financial institution with the minimum required ratings (other than from, for the avoidance of doubt, the existing account bank B); or</p> <p>(b) takes such other actions as are required by the rating agencies to ensure that the ratings assigned to the rated notes are not adversely affected by the ratings downgrade,</p> <p>in each case provided that the then current ratings of the outstanding rated notes shall not be adversely affected by each or any of the above actions.</p>
<b>Mortgages trustee account bank under the mortgages trustee bank account agreement</b>	<p>In the event that the Funding 1 GIC account and any Funding 1 collateral account is closed as set forth above, Funding 1 and/or the cash manager shall procure the transfer all of the rights and obligations of account bank B under the Funding 1 bank account agreement, in respect of the provision of the Funding 1 GIC account and any Funding 1 collateral account and procure the transfer of any amounts standing to the credit of the Funding 1 GIC account and any Funding 1 collateral account to account(s) held with an authorised institution under FSMA with the minimum required ratings and which enters into an agreement in respect of the provision of the Funding 1 GIC account and any Funding 1 collateral account in form and substance similar to the Funding 1 bank account agreement, provided that the rating agencies then rating the rated notes also confirm that the rated notes would not be adversely affected thereby.</p> <p>(i) The short-term, unsubordinated, unguaranteed and unsecured debt obligation ratings of the mortgages trustee account bank fall below P-2 by Moody's, or (ii) the short-term and long-</p>	<p>The cash manager or the mortgages trustee may (if directed by the Funding companies and with the prior consent of the Funding 1 security trustee) terminate the mortgages trustee bank</p>

<u>Transaction Party</u>	<u>Required Ratings/Triggers</u>	<u>Possible effects of Trigger being breached include the following</u>
	<p>term IDR of the mortgages trustee account bank fall below F1 and A respectively by Fitch, or (iii) the mortgages trustee account bank ceases to have unsubordinated, unguaranteed and unsecured debt obligation ratings of at least A-2 short-term and BBB+ long-term by S&amp;P.</p>	<p>account agreement and close the mortgages trustee GIC account unless within 30 calendar days of the downgrade, the mortgages trustee account bank procures a guarantee of the obligations of the mortgages trustee account bank in respect of the provision of the mortgages trustee GIC account from a financial institution (other than from, for the avoidance of doubt, the existing mortgages trustee account bank) with (i) short-term, unsubordinated, unguaranteed and unsecured debt obligation ratings at least P-1 by Moody's, and (ii) short-term and long-term IDR at least F1 and A respectively by Fitch, and (iii) unsubordinated, unguaranteed and unsecured debt obligation ratings at least A-1 short-term and A long-term (or at least A+ long-term if there are no short-term ratings) by S&amp;P; provided that the then current ratings of the outstanding rated notes shall not be adversely affected by each or any of the above actions.</p>
	<p>(i) The short-term, unsubordinated, unguaranteed and unsecured debt obligation ratings of the mortgages trustee account bank fall below P-1 by Moody's, or (ii) the mortgages trustee account bank ceases to have unsubordinated, unguaranteed and unsecured debt obligation ratings of at least A-1 short-term and A long-term (or, if the mortgages trustee account bank has no short-term rating from S&amp;P, at least A+ long-term) by S&amp;P.</p>	<p>The cash manager or the mortgages trustee shall terminate the mortgages trustee bank account agreement and close the mortgages trustee GIC account unless within 60 calendar days of the downgrade, the mortgages trustee account bank opens an account with a stand-by account bank, in respect of the mortgages trustee GIC account, under an agreement in form and substance similar to the mortgages bank account agreement) and has (i) short-term, unsubordinated, unguaranteed and unsecured debt obligation ratings at least P-1 by Moody's, and (ii) short-term and long-term IDR at least F1 and A respectively by Fitch, and (iii) unsubordinated, unguaranteed and unsecured debt obligation ratings at least A-1 short-term and A long-term (or at least A+ long-term if there are no short-term ratings) by S&amp;P.</p>
	<p>If the mortgages trustee bank account agreement terminates as set forth above, amounts standing to the credit of the mortgages trustee GIC account shall, within 30 calendar days or 60 calendar days, as applicable, be transferred to an account held with an institution (A) (i) whose unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1 short-term and A long-term (or at least A+ long-term if there are no short-term ratings) by S&amp;P, (ii) whose short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least P-1 by Moody's, and (iii) whose short-term and long-term IDR are at least F1 and A (respectively) by Fitch; (B) which is an authorised person under the FSMA; and (C) with whom the cash manager, the mortgages trustee, Funding 1 and the Funding 1 security trustee have entered into an agreement in form and substance</p>	

<u>Transaction Party</u>	<u>Required Ratings/Triggers</u>	<u>Possible effects of Trigger being breached include the following</u>
<b>Issuer account bank under the issuer bank account agreement</b>	<p>similar to the mortgages trustee bank account agreement, unless each rating agency confirms that its then current rating of the rated notes or any debt instruments of a Funding company (if applicable) then outstanding would not be downgraded, withheld or qualified as a result of such transfer or failure to make such transfer.</p> <p>(i) The short-term, unsubordinated, unguaranteed and unsecured debt obligation ratings of the issuer account bank fall below P-1 by Moody's, or (ii) the short-term and long-term IDR of the issuer account bank fall below F1 and A respectively by Fitch, or (iii) the issuer account bank ceases to have unsubordinated, unguaranteed and unsecured debt obligation ratings of at least A-1 short-term and A long-term (or, if such financial institution has no short-term rating from S&amp;P, at least A+ long-term) by S&amp;P.</p>	<p>Termination of the issuer bank account agreement unless within 30 calendar days of the downgrade, the issuer account bank procures a guarantee of the obligations of the issuer account bank in respect of the provision of the issuer account from a financial institution with (i) short-term, unsubordinated, unguaranteed and unsecured debt obligation ratings at least P-1 by Moody's, and (ii) short-term and long-term IDR at least F1 and A respectively by Fitch, and (iii) unsubordinated, unguaranteed and unsecured debt obligation ratings at least A-1 short-term and A long-term (or at least A+ long-term if there are no short-term ratings) by S&amp;P; provided that the then current ratings of the outstanding rated notes shall not be adversely affected by each or any of the above actions.</p>
<b>Eligible banks</b>	<p>If the issuer bank account agreement terminates as set forth above, amounts standing to the credit of the issuer account shall, within 30 calendar days, be transferred to an account held with an institution (A) whose (i) short-term, unsubordinated, unguaranteed and unsecured debt obligation ratings at least P-1 by Moody's, (ii) short-term and long-term IDR at least F1 and A respectively by Fitch, and (iii) unsubordinated, unguaranteed and unsecured debt obligation ratings at least A-1 short-term and A long-term (or at least A+ long-term if there are no short-term ratings) by S&amp;P; (B) which is an authorised person under the FSMA; and (C) with whom the issuer cash manager, the issuer and the issuer security trustee have entered into an agreement in form and substance similar to the issuer bank account agreement, unless each rating agency confirms that its then current rating of the rated notes then outstanding would not be downgraded, withheld or qualified as a result of such transfer.</p> <p>In order to qualify as an "eligible bank" for the purposes of accepting deposits in accordance with the panel bank guidelines (upon the instructions of the cash manager to account bank A on behalf of Funding 1), a bank is required to be an authorised institution under FSMA whose (1) short-term, unsubordinated, unguaranteed and unsecured debt obligations are rated at least P-1 and its long-term unsubordinated unguaranteed and unsecured debt obligations are rated at least A2 by Moody's, (2) unsubordinated, unguaranteed and unsecured debt obligations are rated at least A-1 short-term and A long-term by S&amp;P and (3) short-term and long-term IDR are at least F1 and A (respectively) by Fitch (together, the <b>eligible bank minimum ratings</b>) and not subject to any reduction, qualification or withdrawal of such ratings. In the event that any eligible bank is downgraded by a rating agency to below the eligible bank minimum ratings, it will cease to qualify as an eligible bank for accepting further deposits and any monies placed with such eligible bank at that time will be returned to the Funding 1 transaction account (or will be transferred to another eligible bank having the eligible bank minimum ratings) at the end for the applicable deposit period.</p> <p>Under the panel bank guidelines, monies can be placed from the Funding 1 transaction account with eligible banks (upon the instructions of the cash manager</p>	

<u>Transaction Party</u>	<u>Required Ratings/Triggers</u>	<u>Possible effects of Trigger being breached include the following</u>
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to account bank A on behalf of Funding 1) for periods of 30, 60 or 90 calendar days, depending on the credit rating of the relevant eligible banks. The credit ratings governing the length of the deposit term, amounts that can be placed with an eligible bank and whether any additional conditions apply are set out in the panel bank guidelines applicable from time to time. Such rating levels are set at various levels equal to or above the eligible bank minimum ratings for the purpose of determining concentration limits and deposit periods. In the event that an eligible bank is downgraded by a rating agency below those ratings, the deposit period and amounts of deposit that such eligible bank can accept going forward may be altered.

In the event that Santander UK as an eligible bank is downgraded to below the eligible bank minimum ratings but its (1) short-term, unsubordinated, unguaranteed and unsecured debt obligations are rated at least P-2 by Moody's, (2) unsubordinated, unguaranteed and unsecured debt obligations are rated at least A-2 short-term and BBB+ long-term by S&P and (3) short-term and long-term IDRs are at least F2 and BBB+ (respectively) by Fitch, amounts may continue to be deposited in such Santander A-2/P-2/F2 account subject to the satisfaction of certain conditions in the panel bank guidelines. See further: "**Description of the Transaction Documents – Cash Management Agreement – Deposits with eligible banks in accordance with panel bank guidelines**".

### Non-Rating Triggers Table

There are two forms of trigger events: (i) an asset trigger event and (ii) a non-asset trigger event. Following the occurrence of a trigger event, the principal priority of payments in respect of the mortgages trustee will change.

A trigger event means an asset trigger event or a non-asset trigger event.

### Non-Asset Trigger Events

Non-asset trigger events relate primarily (but not exclusively) to events associated with the seller/servicer (please see "**The mortgages trust – Mortgages trust allocation and distribution of principal receipts and retained principal receipts after the occurrence of a trigger event**" for more details) and impact on the repayment of loan tranches (please see "**The intercompany loan agreement - Repayment of principal on the loan tranches**" for more details).

<u>Nature of Trigger</u>	<u>Description of Trigger</u>	<u>Consequence of Trigger</u>
Insolvency Event	An insolvency event (as defined in the glossary) occurs in relation to the seller.	After the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event, all principal receipts plus any current retained principal receipts will be allocated and paid to Funding 1 until the Funding 1 share is zero.
Substitution of servicer	The appointment of Santander UK is terminated as servicer and a new servicer is not appointed within 60 days.	After the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event, all principal receipts plus any current retained principal receipts will be allocated and paid to Funding 1 until the Funding 1 share is zero.
Current Seller share is equal to or less than the minimum seller share	On the distribution date immediately succeeding a seller share event distribution date, the current seller share is equal to or less than the minimum seller	After the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event, all principal receipts plus any current retained principal

share (as defined in the glossary). receipts (if any) will be allocated and paid to Funding 1 until the Funding 1 share is zero.

Outstanding principal balance of loans comprising trust property is less than required loan balance amount

As at the distribution date immediately preceding the relevant distribution date, the aggregate outstanding principal balance of loans comprising the trust property is less than the required loan balance amount specified in the most recent final terms.

After the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event, all principal receipts plus any current retained principal receipts (if any) will be allocated and paid to Funding 1 until the Funding 1 share is zero.

**Asset Trigger Events**

Asset Trigger Events relate to the performance of the underlying loan portfolio and will be activated as described below. Please see "**The mortgages trust – Cash management and allocation of trust property – principal receipts**".

<b><u>Nature of Trigger</u></b>	<b><u>Description of Trigger</u></b>	<b><u>Consequence of Trigger</u></b>
Principal deficiencies	When an amount is debited to the AAA principal deficiency sub-ledger of Funding 1 unless certain criteria are met.	<p>After the occurrence of an asset trigger event, all principal receipts plus any current retained principal receipts (if any) will be allocated and distributed as follows:</p> <ul style="list-style-type: none"> <li>(a) if the immediately preceding distribution date was a seller share event distribution date, an amount equal to the retained principal receipts to Funding 1 until the Funding 1 share is zero; and</li> <li>(b) if the immediately preceding distribution date was not a seller share event distribution date, with no order of priority between them but in proportion to the respective amounts due, to Funding 1 and the seller according to the Funding 1 share percentage of the trust property and the seller share percentage of the trust property respectively, until the Funding 1 share is zero.</li> </ul> <p>When the Funding 1 share is zero, the remaining principal receipts (if any) will be allocated to the seller.</p>



## RISK RETENTION REQUIREMENTS

### Retention statement

If it sells one or more new loans and their related security to the mortgages trustee on or after 1 January 2015, the seller, in its capacity as originator, (i) on or immediately following the relevant sale date, will retain, on an on-going basis, a material net economic interest of not less than 5 per cent. in the nominal value of the securitised exposures in accordance with the text of Article 405 of Regulation (EU) No 575/2013 (the **CRR**) and Article 51 of Regulation (EU) No 231/2013 (the **AIFM Regulation**), and (ii) will disclose via an RNS announcement (or in such other manner as the seller may determine) such retained interest and the manner in which it is held. Any change to the manner in which such interest is held will be notified to noteholders in accordance with the conditions. If required to retain a material net economic interest pursuant to the prior paragraph, the seller will provide on a timely basis all information required to be made available by Santander UK pursuant to Article 409 of the CRR, subject always to any requirement of law applicable to Santander UK and in accordance with any guidance in relation to it that is then current, and provided that Santander UK will not be in breach of such undertaking if it fails to so comply due to events, actions or circumstances beyond Santander UK's control. In each case set forth in this paragraph, the seller will only be required to take such actions to the extent that the retention and disclosure requirements are applicable to Santander UK and remain in effect as at the relevant sale date.

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 base prospectus and, after the relevant sale date, to the investor monthly reports. In such monthly reports, relevant information with regard to the mortgage loans will be disclosed publicly together with an overview of the retention and/or any changes in the method of retention of the material net economic interest by the seller. See "**Listing and general information – Monthly investor reports**".

### Investors to assess compliance

Each prospective investor is required independently to assess and determine the sufficiency of the information described above and in this base prospectus generally for the purposes of complying with each of Part Five of the CRR (including Article 405) and Section Five of Chapter III of the AIFM Regulation (including Article 51) and any corresponding national measures which may be relevant and none of the issuer, Funding 1, the mortgages trustee, Alliance & Leicester, Santander UK, the arranger, the dealers, the managers, the note trustee, the Funding 1 security trustee, the issuer security trustee, the corporate services provider, the issuer corporate services provider, the issuer swap providers, any swap guarantors (if applicable), the paying agents, the registrar, the transfer agent, the exchange rate agent (if applicable), the agent bank, any remarketing agent (if applicable), any conditional purchaser (if applicable), any company in the same group of companies as Santander UK or the dealers, the managers or any other party to the transaction documents (as each such party is defined herein) makes any representation that the information described above or in this base prospectus is sufficient in all circumstances for such purposes.

Please refer to paragraph entitled "**Risk Factors – Regulatory initiatives may result in increased regulatory capital requirements and/or decreased liquidity in respect of the notes**" for further information on the implications of the CRR risk retention requirements for investors.

Information regarding the policies and procedures of the seller

The seller has internal policies and procedures in relation to mortgage origination, the administration of loans and risk mitigation. The policies and procedures of the seller broadly include:

- (a) criteria for the granting of offers of mortgages that consider a variety of factors, such as a potential borrower's credit history, employment history and status and repayment ability, as well as the value of the property to be mortgaged, as to which please see "**The loans – Lending criteria**"; and
- (b) systems in place to administer and monitor the loans, including the management of loans in arrears, as to which please see the sections "**Characteristics of Santander UK loans – Servicing of the loans**", "**The loans – Arrears and default procedures**" and "**Description of the transaction documents - The servicing agreement**".

## DESCRIPTION OF THE NOTES

### Series

The issuer may from time to time issue class A notes, class B notes, class M notes, class C notes, class D notes and class Z notes in one or more series. Each series will consist of one or more classes of notes. One or more series or classes or sub-classes of notes may be issued at one time. Each series and class of notes will be secured over the same assets. The notes issued from time to time by the issuer will constitute direct, secured and unconditional obligations of the issuer.

The notes of a particular class in different series (and the notes of the same class and series) will not necessarily have all the same terms. Differences may include issue price, principal amount, interest rates and interest rate calculations, currency, permitted redemption dates and final maturity dates. The terms of each series and class of notes will be set out in the accompanying final terms.

### Payment

Some series of notes will be paid ahead of others, regardless of the class designation of the notes. In particular, some payments on some series of class B notes, class M notes, class C notes, class D notes and class Z notes will be paid before some series of class A notes, as described in “– **Payment and ranking of the notes**” and “– **Diagram of the priority of payments by the issuer and subordination relationships**” below. See also “**Cashflows**” below.

In addition, the occurrence of an asset trigger event or non-asset trigger event (which are described below under “– **Trigger events**”) will alter the payments on the notes.

### Issuance

Notes may only be issued on the satisfaction of certain issuance tests, as described below under “**The issuance of notes**”. In particular, a note may be issued only if there is sufficient credit enhancement on that date in the form of outstanding subordinated loan tranches and reserves or other forms of credit enhancement, equal to or greater than the required subordinated amount for each outstanding class of notes. The required subordinated percentage for each class of notes will be specified in the applicable final terms. The required subordination for a class of notes may, subject to certain conditions, be increased or decreased without your consent. The issuer may issue notes at any time without notice to or the consent of existing noteholders. There are no restrictions on the issuance of any notes so long as the issuance tests are satisfied.

It is a condition to the issuance of class A notes, class B notes, class M notes, class C notes and class D notes (together the **rated notes**) that each series and class of such rated notes be assigned the following ratings (the **required note issuance ratings**) by at least one of Standard & Poor's, Moody's or Fitch:

	<u>Class A</u>	<u>Class B</u>	<u>Class M</u>	<u>Class C</u>	<u>Class D</u>
Standard & Poor's .....	AAA (sf)	AA (sf)	A (sf)	BBB (sf)	BB (sf)
Moody's .....	Aaa(sf)	Aa3(sf)	A2(sf)	Baa2(sf)	Ba2(sf)
Fitch .....	AAA sf	AA sf	A sf	BBB sf	BB sf

It is a condition of the issuance of any series and class of notes which are designated as money market notes that they will be assigned a rating of A-1+ (sf), P-1(sf) or F1+ sf by at least one of Standard & Poor's, Moody's or Fitch, respectively. With respect to any money market notes that are designated as remarketable notes, the short-term rating is in respect of the issuer's timely payment obligation of interest and principal up to (and including) the first mandatory transfer date and the procurement of the payment of the mandatory transfer price on the first mandatory transfer date. The issuer anticipates seeking a short-term rating affirmation for remarketable notes on an annual basis in respect of the period from (and excluding) a mandatory transfer date to (and including) the next following mandatory transfer date to the extent a remarketing termination event has not occurred.

The ratings assigned to each class of rated notes and whether each credit rating applied for in relation to each relevant series of notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be specified in the accompanying final terms.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation if, in its judgement, circumstances in the future so warrant.

Standard & Poor's, Moody's and Fitch together comprise the rating agencies referred to in this base prospectus. The term **rating agencies** also includes any further or replacement rating agency appointed by the issuer with the approval of the note trustee to give a credit rating to the rated notes of any series and/or class.

The issuer (or Funding 1, if the issuer is unable to pay) has agreed to pay on-going surveillance fees to the rating agencies, in exchange for which each rating agency will monitor the ratings it has assigned to each series and class of rated notes while they are outstanding.

## **Listing**

Application will be made to the Irish Stock Exchange for the notes issued under the programme (other than any notes which are to be unlisted or non-ISE listed notes) during the period of 12 months from the date of this base prospectus to be admitted to the Official List. Application will also be made to the Irish Stock Exchange for such notes to be admitted to trading on the Main Securities Market.

Application may also be made to list notes on another stock exchange. The issue terms for any non-ISE listed notes will specify the relevant other exchange, whether such non-ISE listed notes are foreign law notes and whether the terms of the non-ISE listed notes differ from the terms and conditions of the notes described in this base prospectus.

## **Form and denominations of the notes**

The notes (in either global or definitive form) (other than any non-ISE listed notes or the Rule 144A notes) will be issued in such denominations as specified in the accompanying final terms, save that the minimum denomination of each such note will be such as may be allowed or required from time to time by the relevant central bank or regulatory authority (or equivalent body) or any laws or regulations applicable to the relevant currency and save that the minimum denomination of each note (other than any non-ISE listed notes or the Rule 144A notes) will be £100,000 and in integral multiples of £1,000 in excess thereof if denominated in sterling or €100,000 and in integral multiples of €1,000 in excess thereof if denominated in euro (or its equivalent in any other currency as at the date of issue of such notes). The Rule 144A notes will be issued in minimum denominations of \$200,000 and in integral multiples of \$1,000 in excess thereof (or its equivalent in any other currency as at the date of the issue of such notes). The denomination and integral multiples of Reg S notes issued in U.S. dollars are or will be as set out in the accompanying final terms. U.S. dollar Reg S notes which have been issued prior to the date of this base prospectus have been issued in denominations of \$100,000 (in respect of issuances prior to 25 May 2011) and \$200,000 (in respect of issuances on and after 25 May 2011), and integral multiples of \$1,000. The denomination and integral multiples of any non-ISE listed notes will be set out in the accompanying issue terms.

The notes issued by the issuer (excluding any non-ISE listed notes as specified in the accompanying final terms) will be constituted by the note trust deed.

The notes of any class sold to non-U.S. persons in reliance on Regulation S (excluding any non-ISE listed notes as specified in the accompanying issue terms) will be represented by one or more Reg S global notes, which will be deposited with a common depositary or common safe keeper, as the case may be, for Euroclear and Clearstream, Luxembourg. Beneficial interests in a Reg S global note may only be held through, and transfers thereof will only be effected through, records maintained by Euroclear or Clearstream, Luxembourg or their participants (as applicable) at any time.

The notes of any class (excluding any non-ISE listed notes) sold in reliance on Rule 144A to persons who are QIBs acting for their own accounts or the accounts of other persons that are QIBs will be represented by one or more Rule 144A global notes, which will be deposited with the custodian for, and registered in the name of Cede & Co. as nominee of, DTC. Beneficial interests in a Rule 144A global note may only be held through, and transfers thereof will only be effected through, records maintained by DTC or their participants (as applicable) at any time. See "**Book-entry clearance procedures**" and "**Transfer restrictions and investor representations**". A beneficial interest in a Rule 144A global note of one class may be transferred to a person that takes delivery in the form of a beneficial interest in a Reg S global note of the same class and a beneficial interest in a Reg S global note of one class may be transferred to a person who takes delivery in the form of a beneficial interest in a Rule 144A global note of the same class only upon receipt by the issuer of a written certification from the transferor and in accordance with the procedures as further described under "**Form of the notes – Transfer of interests**" and "**Transfer restrictions and investor representations**" below.

## **Maturities**

Notes will be issued in such maturities as may be specified in the relevant final terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

## **Currencies**

Subject to compliance with all applicable legal, regulatory and central bank requirements, a series and class of notes may be denominated in such currency or currencies as may be agreed between the relevant dealers and/or managers and the issuer as specified in the applicable final terms.

## **Issue price**

Each series and class of notes may be issued on a fully paid or partly paid basis and at an issue price which is at par, or at discount from, or premium over, par.

## **Selling restrictions**

For a description of certain restrictions on offers, sales and deliveries of notes and on the distribution of offering material in the United States of America, the United Kingdom and certain other jurisdictions, see **"Subscription and sale"** below.

## **Relationship between the notes and the intercompany loan**

The intercompany loan will comprise multiple loan tranches. The gross proceeds of each issue of a series and class of notes will fund a single loan tranche. The repayment terms of each loan tranche (for example, dates for payment of principal and the type of amortisation or redemption) will reflect the terms of the related series and class of notes. Subject to any swap agreements as described under **"Transaction overview – Swap agreements"** below and the Funding 1 priority of payments and the issuer priority of payments, the issuer will repay the series and class of notes from payments received by it from Funding 1 under the corresponding loan tranche except that where the relevant class of notes is denominated in a currency other than sterling, the issuer will, pursuant to the relevant issuer swap, swap the amount received from Funding 1 under the corresponding loan tranche for an amount corresponding to the amount payable by it under the notes and then repay the relevant class of notes using the payments received by it from the relevant issuer swap provider or, if no such issuer swap exists, at the spot rate of exchange. For more information on the intercompany loan, see **"Transaction overview – The intercompany loan"** below.

The ability of Funding 1 to make payments on the intercompany loan will depend to a large extent on Funding 1 receiving its share of collections on the trust property, which will in turn depend principally on the collections the mortgages trustee receives on the loans and the related security and the allocation of monies to Funding 1. See **"Risk factors – Funding 1 is not obliged to make payments on the loan tranches if it does not have enough money to do so, which could adversely affect payments on your notes"** below.

## **Payment and ranking of the notes**

Payments of interest and principal on the class A notes of any series due and payable on an interest payment date will rank ahead of payments of interest and principal on the class B notes of any series, the class M notes of any series, the class C notes of any series, the class D notes of any series and the class Z notes of any series (in each case due and payable on such interest payment date). Payments of interest and principal on the class B notes of any series due and payable on an interest payment date will rank ahead of payments of interest and principal on the class M notes of any series, the class C notes of any series, the class D notes of any series and the class Z notes of any series (in each case due and payable on such interest payment date). Payments of interest and principal on the class M notes of any series due and payable on an interest payment date will rank ahead of payments of interest and principal on the class C notes of any series, the class D notes of any series and the class Z notes of any series (in each case due and payable on such interest payment date). Payments of interest and principal on the class C notes of any series due and payable on an interest payment date will rank ahead of payments of interest and principal on the class D notes of any series and the class Z notes of any series (in each case due and payable on such interest payment date). Payments of interest and principal on the class D notes of any series due and payable on an interest payment date will rank ahead of payments of interest and principal on the class Z notes of any series (in each case due and payable on such interest payment date). For more information on the priority of payments, see **"Cashflows"** and see also **"Risk factors – Subordination of other note classes may not protect noteholders from all risk of loss"** below.

Payments of interest and principal on the class A notes of each series rank equally (but subject to the interest payment dates, scheduled redemption dates and permitted redemption dates of each series of class A notes). Payments of interest and principal on the class B notes of each series rank equally (but subject to the interest payment dates, scheduled redemption dates and permitted redemption dates of each series of class B notes). Payments of interest and principal on the class M notes of each series rank equally (but subject to the interest payment dates, scheduled redemption dates and permitted redemption dates of each series of class M notes). Payments of interest and principal on the class C notes of each series rank equally (but subject to the interest payment dates, scheduled redemption dates and permitted redemption dates of each series of class C notes). Payments of interest and principal on the class D notes of each series rank equally (but subject to the interest payment dates, scheduled redemption dates and permitted redemption dates of each series of class D notes). Payments of interest and principal on the class Z notes of each series rank equally (but subject to the interest payment dates, scheduled redemption dates and permitted redemption dates of each series of class Z notes). The interest payment dates, scheduled redemption dates and permitted redemption dates for a series and class of notes will be specified in the accompanying final terms.

Investors should note that subject to the further description below under the heading “**Cashflows**”:

- Notes of different series and classes are intended to receive payment of interest and principal at different times, therefore lower ranking classes of notes of one series may be paid interest and principal before higher ranking classes of notes of a different series.
- No loan tranche other than the AAA loan tranches and, consequently, no notes of any class other than the class A notes may be repaid principal if, following such repayment, the amount of subordination available from all outstanding subordinated loan tranches, reserves and other forms of credit enhancement is less than the required subordinated amount for the class of notes. The repayment tests which determine whether any loan tranche and, consequently any series and class of notes, may be repaid principal are set out in “**Cashflows**” below. The failure to repay principal in respect of a loan tranche (other than the AAA loan tranches) and the related notes on the applicable interest payment dates due to the repayment tests not being met will not constitute an event of default in respect of such loan tranche or in respect of the related notes.
- If there is a debit balance on a subordinate ranking principal deficiency sub-ledger (other than the NR principal deficiency sub-ledger) or the adjusted general reserve fund is less than the general reserve required amount or arrears in respect of loans in the mortgages trust exceeds a specified amount (each as described below under “**Cashflows**”) and there is a more senior loan tranche and related series and class of notes outstanding, no amount of principal will be repayable in respect of a loan tranche and related series and class of notes until such situation is cured. The failure to repay principal in respect of such loan tranche (other than an AAA loan tranche) and the related notes on the applicable redemption dates for such reason will not constitute an event of default in respect of such loan tranche or in respect of the related notes.
- To the extent required, but subject to certain limits and conditions, Funding 1 may apply amounts standing to the credit of the general reserve fund and the liquidity reserve fund (if any) and amounts available under the Funding 1 liquidity facility (if established) in payment of, among other things, amounts due to the issuer in respect of the loan tranches (other than the NR loan tranches).
- Prior to service of a note acceleration notice, a series and class of notes will be redeemed on a permitted redemption date only to the extent of the amount (if any) repaid on the related loan tranche in respect of such date.
- If not redeemed earlier, each series and class of notes will be redeemed by the issuer on the final maturity date specified in the accompanying final terms. The failure to redeem a series and class of notes on its final maturity date will constitute a note event of default in respect of such notes.
- Following service of a note acceleration notice and/or an intercompany loan acceleration notice and/or enforcement of the Funding 1 security and/or the issuer security, the priority of payments will change and payments of interest and principal will be made in accordance with and subject to the relevant priority of payments as described below under “**Cashflows**”.

**Interest**

Interest will accrue on each series and class of notes from its date of issuance at the applicable interest rate specified for that series and class of notes, which may be fixed or floating rate or have a combination of these characteristics and will be specified in the accompanying final terms. Interest on each series and class of notes will be due and payable on interest payment dates as specified in the accompanying final terms.

Any shortfall in payments of interest due on any series of the class B notes (to the extent that any class A notes are outstanding), the class M notes (to the extent that any class A notes and/or class B notes are outstanding), the class C notes (to the extent that any class A notes and/or class B notes and/or class M notes are outstanding), the class D notes (to the extent that any class A notes and/or class B notes and/or class M notes and/or class C notes are outstanding) and the class Z notes (to the extent that any class A notes and/or class B notes and/or class M notes and/or class C notes and/or class D notes are outstanding) on any interest payment date in respect of such notes will be deferred until the immediately succeeding interest payment date in respect of such notes. On that immediately succeeding interest payment date, the amount of interest due on the relevant class of notes will be increased to take account of any deferred interest and interest on that deferred interest. If on that interest payment date there is still a shortfall, that shortfall will be deferred again. This deferral process will continue until the final maturity date of the notes, at which point all amounts will become due and payable. However, if on the final maturity date of the notes there is insufficient money available to the issuer to pay interest on the class B notes, the class M notes, the class C notes, the class D notes or the class Z notes, then noteholders may not receive all interest amounts payable on those classes of notes. Payments of interest due on any interest payment date in respect of the most senior class of notes then outstanding may not be deferred and the failure to pay interest on such notes will be a note event of default.

**Fixed rate notes**

For a series and class of fixed rate notes, interest will be payable at a fixed rate on such interest payment dates and on redemption as specified in the applicable final terms and will be calculated on the basis of such day count fraction as specified in the applicable final terms.

**Floating rate notes**

A series and class of floating rate notes will bear interest in each case at a rate specified in the applicable final terms. The margin, if any, relating to such series and class of notes will be specified in the applicable final terms. Interest on floating rate notes in respect of each interest period will be payable on such interest payment dates and will be calculated on the basis of such day count fraction as specified in the applicable final terms.

**Scheduled redemption notes**

A series and class of scheduled redemption notes will be redeemable on scheduled redemption dates (which may be in addition, and occurring prior, to the final maturity date) in one or more scheduled amortisation instalments, the dates and amounts of which will be specified in the applicable final terms. Funding 1 will seek to accumulate funds relating to scheduled amortisation instalments over its cash accumulation period in order to repay such funds as a lump sum payment to the issuer so that the issuer can redeem the corresponding scheduled redemption notes on the relevant scheduled redemption date or on any interest payment date thereafter. A cash accumulation period in respect of scheduled amortisation instalments is the period of 3 months prior to the relevant scheduled repayment date. If there are insufficient funds on a scheduled redemption date to repay the relevant scheduled amortisation instalment in respect of a series and class of scheduled redemption notes, then the issuer will be required to pay the shortfall, to the extent it receives funds therefor, on subsequent interest payment dates in respect of such notes. No assurance can be given that Funding 1 will accumulate sufficient funds during the cash accumulation period relating to any scheduled amortisation instalments to enable it to repay the relevant loan tranche to the issuer so that the issuer is able to repay principal of the related series of scheduled redemption notes on their scheduled redemption dates (or on any interest payment date thereafter).

Following the earlier to occur of a pass-through trigger event and (unless otherwise indicated in the applicable final terms) the step-up date (if any) in relation to a series and class of scheduled redemption notes, such notes will become due and payable and the issuer will repay such notes to the extent that funds are available and subject to the conditions regarding repayment on applicable interest payment dates.

The loan tranche which corresponds to a scheduled redemption note that remains outstanding after its final scheduled redemption date or its step-up date (if any) is not to be regarded as a pass-through loan

tranche for the purposes of the repayment rules in "**Cashflows – Distribution of Funding 1 available principal receipts**".

### **Bullet redemption notes**

A series and class of bullet redemption notes will be redeemable in full on the bullet redemption date specified in the applicable final terms. Funding 1 will seek to accumulate funds relating to principal payments on each bullet loan tranche over its cash accumulation period in order to repay such funds as a lump sum payment to the issuer so that the issuer can redeem the corresponding bullet redemption notes in full on the relevant bullet redemption date. A cash accumulation period in respect of a bullet loan tranche is the period of time estimated to be the number of months prior to the relevant bullet repayment date necessary for Funding 1 to accumulate enough principal receipts derived from its share of the trust property to repay that bullet loan tranche to the issuer so that the issuer will be able to redeem the corresponding notes in full on the relevant bullet redemption date. The cash accumulation period will be determined according to a formula described under "**The mortgages trust**" below. To the extent that there are insufficient funds to redeem a series and class of bullet redemption notes on the relevant bullet redemption date, then the issuer will be required to pay the shortfall, to the extent it receives funds therefor, on subsequent interest payment dates in respect of such notes. No assurance can be given that Funding 1 will accumulate sufficient funds during the cash accumulation period relating to any bullet loan tranche to enable it to repay the relevant loan tranche to the issuer so that the issuer is able to repay principal of the related series of bullet redemption notes on their bullet redemption date.

Following the earlier to occur of a pass-through trigger event and (unless otherwise indicated in the applicable final terms) the step-up date (if any) in relation to a series and class of bullet redemption notes, such notes will become due and payable and the issuer will repay such notes to the extent that funds are available and subject to the conditions regarding repayment on applicable interest payment dates.

The bullet loan tranche which corresponds to a bullet redemption note that remains outstanding after its bullet redemption date or its step-up date (if any) is not to be regarded as a pass-through loan tranche for the purposes of the repayment rules in "**Cashflows – Distribution of Funding 1 available principal receipts**".

### **Pass-through notes**

A series and class of pass-through notes will be redeemable in full on the final maturity date specified in the applicable final terms. On permitted payment dates, Funding 1 may make payments in respect of pass-through loan tranches to the issuer so that the issuer may, on the applicable interest payment date, repay all or part of the pass-through notes prior to their final maturity dates.

Following the earlier to occur of a pass-through trigger event and (unless otherwise indicated in the applicable final terms) the step-up date (if any) in relation to a series and class of notes, any such notes which are scheduled redemption notes and bullet redemption notes shall become due and payable and the issuer will repay such notes *pari passu* and *pro rata* with any original pass-through notes of that series and class to the extent that funds are available and subject to the conditions for repayment on subsequent interest payment dates.

### **Money market notes**

From time to time, the issuer may issue a series and class of Rule 144A notes designated as money market notes in the applicable final terms (**money market notes**). Rule 144A notes designated as money market notes in the relevant final terms will be "Eligible Securities" within the meaning of Rule 2a-7 under the United States Investment Company Act of 1940, as amended (the **Investment Company Act**).

However, any determination as to qualification and compliance with other aspects of Rule 2a-7 is solely the responsibility of each money market fund and its investment adviser, and no representation as to such compliance is made by any of the issuer, Funding 1, the mortgages trustee, Santander UK, the dealers, the managers, the note trustee, the Funding 1 security trustee, the issuer security trustee, the corporate services provider, the issuer corporate services provider, the issuer swap providers, any swap guarantors (as applicable), the paying agents, the registrar, the transfer agent, the exchange rate agent (if applicable), the agent bank, any remarketing agent (if applicable), any conditional purchaser (if applicable), any company in the same group of companies as Santander UK or the dealers, the managers or any other party to the transaction documents, and no assurance can be given in this regard.

Money market notes will generally be bullet redemption notes or scheduled redemption notes, the final maturity date of which will be less than 397 days from the closing date on which such notes were issued.

The issuer may also redeem certain series and classes of money market notes prior to their final maturity dates, but less than 397 days following issuance, using amounts received from a third party that has agreed to purchase those notes pursuant to the terms of a money market note purchase agreement. If such arrangements apply to any money market notes, the applicable final terms will, in addition to providing information regarding a series and class of money market notes, identify any money market note purchaser in respect of such money market notes and the terms of the applicable money market note purchase agreement.

Money market notes designated as remarketable notes in the relevant final terms will be issued subject to the mandatory transfer arrangements referred to in **condition 5.8**, the remarketing agreement (as defined below) and the note trust deed (the **mandatory transfer**). Under the terms of the mandatory transfer, the issuer will procure the purchase of the remarketable notes on the interest payment date specified in the relevant final terms as the initial mandatory transfer date and on each anniversary thereafter (subject to adjustment for non-business days and subject to the mandatory transfer termination event (as defined below) not having occurred) (each such date being a **mandatory transfer date**) until the final maturity or earlier redemption in full of such remarketable notes. Upon payment of the principal amount outstanding on such remarketable notes on the relevant mandatory transfer date (following the application of note principal payments on that date) (the **mandatory transfer price**), all rights in respect of such remarketable notes will be transferred to or for the account of the remarketing agent (as defined below) or as designated by the remarketing agent.

Under the terms of the relevant remarketing agreement (see “**Description of the transaction documents – The remarketing agreement**” below), the issuer will appoint the remarketing agent specified in the applicable final terms (the **remarketing agent**) to act as its agent to use reasonable efforts to identify third party purchasers for the relevant remarketable notes on each mandatory transfer date prior to the occurrence of a mandatory transfer termination event. If the remarketing agent is unable to identify third party purchasers for all such remarketable notes then outstanding, then the remarketing agent on behalf of the issuer will give notice to the conditional purchaser specified in the relevant final terms (the **conditional purchaser**) under an agreement (the **conditional purchase agreement**) to purchase all such remarketable notes. The obligation of the conditional purchaser to purchase such remarketable notes may be subject to limitations on the conditional purchaser's ability to fund its obligations (see “**Risk factors – Risks related to money market notes**” below). If a remarketing termination event (as defined below), other than a note event of default, occurs on or before the relevant mandatory transfer date, the conditional purchaser will be obliged to purchase all the relevant remarketable notes on such mandatory transfer date.

The remarketing agent will have the ability to increase or decrease the margin on the remarketable notes from that payable as at the closing date of the relevant remarketable notes on each mandatory transfer date in accordance with the remarketing agreement. Any increase in margin on the remarketable notes may not exceed an amount specified in the relevant final terms as the maximum reset margin. As from the occurrence of a remarketing termination event, the margin applicable to such remarketable notes will equal the maximum reset margin.

Certain risks relating to the remarketable notes are described below under “**Risk factors – Risks related to money market notes**” below.

### **Optional redemption or repurchase of the notes**

The issuer may redeem all, but not a portion, of a series and class of notes at their principal amount outstanding, together with any accrued interest and unpaid interest in respect thereof by giving notice in accordance with the terms and conditions of the notes, subject to the notes not having been accelerated and the availability of sufficient funds, as described in detail in **condition 5** under “**Terms and conditions of the notes**” in the following circumstances, subject to certain conditions set out in the referenced conditions:

- if at any time it would become unlawful for the issuer to make, fund or to allow to remain outstanding a loan tranche made by it under the intercompany loan agreement and the issuer requires Funding 1 to repay the loan tranche (see **condition 5.5** under “**Terms and conditions of the notes**” below); or
- if on any interest payment date in the event of particular tax changes that affect the issuer, the notes or the corresponding loan tranche under the intercompany loan (see **condition 5.5** under “**Terms and conditions of the notes**” below).

In addition, the issuer may redeem a series and class of notes outstanding in accordance with the terms and conditions of such notes:



- on the step-up date relating to such series and class of notes (as specified in the applicable final terms) and on any interest payment date thereafter (see **condition 5.4** under “**Terms and conditions of the notes**” below);
- on any interest payment date on which the aggregate principal amount of such series and class of notes is less than 10 per cent. of the aggregate principal amount outstanding of such series and class of notes as at the applicable closing date (see **condition 5.4** under “**Terms and conditions of the notes**” below); or
- on the date specified as the “**optional redemption date**” for such notes in the applicable final terms and on each interest payment date thereafter (see **condition 5.4** under “**Terms and conditions of the notes**” below).

### **Limited recourse**

In relation to notes issued on or after 21 April 2011 and all class Z notes, such notes will be subject to the limited recourse provisions set out in condition 10.2 whereby all obligations of the issuer to such noteholders are limited in recourse to the property, assets and undertakings of the issuer which are the subject of any security created by the issuer deed of charge. If there are no such assets remaining which are capable of being realised or otherwise converted into cash and following application of such amounts in accordance with the issuer deed of charge there are insufficient amounts available to pay in full amounts outstanding under such notes, then noteholders in respect of such notes shall have no further claim against the issuer in respect of any amounts owing to them under such notes which remain unpaid and such unpaid amounts shall be deemed to be discharged in full and any relevant payment rights shall be deemed to cease.

It should be noted that notes issued prior to 21 April 2011 (other than class Z Notes) are not subject to limited recourse provisions. Instead, the note trustee is required at the request of the post-enforcement call option holder, for a nominal consideration, to transfer or procure the transfer of all of the notes of any series issued prior to 21 April 2011 (other than class Z Notes) to the post-enforcement call option holder pursuant to the option granted to it by the note trustee (as agent for the noteholders) under the terms of the post-enforcement call option agreement. The post-enforcement call option agreement may only be exercised following the final maturity date of the latest maturing notes or the service of a note acceleration notice and following the application of the proceeds of enforcement of the issuer security. The post-enforcement call option does not apply in respect of any notes issued on or after 21 April 2011 or to any class Z notes.

### **Withholding tax**

Payments of interest and principal with respect to the notes will be subject to any applicable withholding or deduction for or on account of any taxes and neither the issuer nor any other person will be obliged to pay additional amounts in relation thereto. The applicability of any UK withholding tax is discussed under “**United Kingdom taxation**” below.

### **Credit enhancement**

Subject to the detailed description and limitations set out in “**Credit structure**” below, the notes of each series will have the benefit of the following credit enhancement or support:

- availability of excess portions of **Funding 1 available revenue receipts** (which consist of revenue receipts on the loans paid by the mortgages trustee to Funding 1 and other amounts set out in “**Cashflows – Definition of Funding 1 available revenue receipts**” below) and of **Funding 1 principal receipts** (which are principal receipts on the loans paid by the mortgages trustee to Funding 1);
- a reserve fund called the **general reserve fund** to be used in certain circumstances by Funding 1 to meet any deficit in revenue or to repay amounts of principal;
- a reserve fund called the **liquidity reserve fund**, which will be established following a seller rating downgrade to meet interest and principal shortfalls in limited circumstances on the notes;
- the Funding 1 liquidity facility (if established); and
- subordination of junior classes of notes.

The notes will also have the benefit of derivatives instruments, namely the Funding 1 swap(s) provided by Santander UK and any issuer currency and interest rate swaps in respect of the relevant series and class

of notes as specified in the relevant final terms. For a more detailed description of Santander UK, see “**Santander UK**” below. See “**Swap agreements**” below.

### **Principal deficiency ledger**

A principal deficiency ledger has been established to record (i) principal losses on the loans allocated to Funding 1 and (ii) the application of Funding 1 principal receipts to meet any deficiency in Funding 1 available revenue receipts or to fund the liquidity reserve fund (if any) up to the Funding liquidity reserve required amount.

The principal deficiency ledger has seven sub-ledgers which will correspond to each of the AAA loan tranches, the AA loan tranches, the A loan tranches, the BBB loan tranches, the BB loan tranches, the NR loan tranches and the Funding 1 loan, respectively. See “**Credit structure – Principal deficiency ledger**” below.

### **Trigger events**

If an asset trigger event or non-asset trigger event should occur, then distributions on the notes may be altered, as described in “**Cashflows**” below.

An **asset trigger event** will occur when an amount is debited to the AAA principal deficiency sub-ledger of Funding 1 or any further Funding company, unless such debit is made when the sum of the amount standing to the credit of the general reserve ledger, liquidity reserve ledger (if any) and the Funding 1 revenue ledger together with amounts determined and due to be credited to the Funding 1 revenue ledger prior to the immediately following Funding 1 interest payment date after such debit is made is greater than the amount necessary to pay items (a) to (f) of the Funding 1 pre-acceleration revenue priority of payments on the immediately following Funding 1 interest payment date after such debit is made.

A **non-asset trigger event** means on a trust calculation date (a) the occurrence of an insolvency event in relation to the seller on or before that trust calculation date, (b) the seller's role as servicer is terminated and a new servicer is not appointed within 60 days, (c) the current seller share of the trust property is less than the minimum seller share on two consecutive trust calculation dates (in each case by reference to the most recent trust calculation date) or (d) as at the trust calculation date immediately preceding the relevant trust calculation date, the aggregate outstanding principal balance of loans comprising the trust property is less than the required loan balance amount specified in the most recent final terms and this has not been remedied by the relevant trust calculation date. See “**The mortgages trust – Cash management of trust property – Principal receipts**” below.

A **trigger event** means an asset trigger event or a non-asset trigger event.

### **Acceleration**

All notes will become immediately due and payable and the issuer security will become enforceable on the service on the issuer by the note trustee of a note acceleration notice. The note trustee becomes entitled to serve a note acceleration notice at any time after the occurrence of a note event of default in respect of a series and class of notes (and it may do so using its own discretion or on the instructions of the noteholders of the applicable class of notes across all series (holding in aggregate at least one quarter in principal amount outstanding of such class of notes) or pursuant to an extraordinary resolution of noteholders of the applicable class of notes across all series provided that, at such time, all notes ranking in priority to such class of notes have been repaid in full or such notes are also accelerated).

### **New issuers**

The programme is structured to allow for new issuers, each of which will be a wholly-owned subsidiary of Holdings, to issue new notes and on-lend all or part of the equivalent gross issue proceeds by way of new intercompany loans to Funding 1 and/or any further Funding company (where applicable). Noteholders and the note trustee will be informed of any new issuers and new intercompany loans in the next investor report available after the date of such issue. Funding 1's obligations under any relevant new intercompany loans are or will be secured by the same security that secures the intercompany loan of the issuer. If new issuers are established to issue new notes, one of the conditions precedent to that issue is that the ratings of the rated notes then outstanding will not be downgraded, withdrawn or qualified by the rating agencies as a result of that issue; however, your consent will not be required for the establishment of new issuers and the related transactions, nor will you have any right of review in respect thereof. Funding 1 will use the proceeds of new intercompany loans for the purposes more fully described in “**Description of the transaction documents – The intercompany loan agreement – New Funding 1 intercompany loan agreements**” below. All new notes issued from time to time by new issuers, the proceeds of which are on-lent to Funding 1

will be secured ultimately over the Funding 1 share of the trust property and will be subject to the ranking described in the following paragraphs.

Funding 1 will apply amounts it receives from its share in the trust property to pay amounts it owes under the loan tranches and/or any new loan tranches (where applicable) without distinguishing when the interest in the trust property was acquired or when the loan tranches and/or any new loan tranches (where applicable) were made. Funding 1's obligations to pay interest and principal to the new issuers on their new loan tranches will rank either equally with, ahead of or after each other, primarily depending on the relative loan tranche rating of each new loan tranche.

If Funding 1 enters into new intercompany loan agreements, it will also, if required, enter into new Funding 1 swap(s) with either the Funding 1 swap provider or a different swap provider in order to address the potential mismatch between the variable rates or fixed rates paid by borrowers on the loans and the LIBOR-based rate of interest paid by Funding 1 on the new intercompany loans. Each new Funding 1 swap and the Funding 1 swap(s) will rank without any order of priority between themselves, but in proportion to the amounts due and, in each case, ahead of payments on the AAA loan tranches, as described further in **"Description of the transaction documents – Swap agreements – Funding 1 swap agreement"** below.

If Funding 1 enters into new intercompany loan agreements, it will, if required, simultaneously enter into new Funding 1 start-up loan agreements with the Funding 1 start-up loan provider or new Funding 1 start-up loan providers, which will provide for the costs and expenses of the issue of the new notes and, if required by the rating agencies in order to support the rating of the rated notes, for extra amounts to be credited to the general reserve fund. Each new Funding 1 start-up loan agreement and the Funding 1 start-up loan agreements will rank without any order of priority between them but in proportion to the amounts due. Pursuant to its obligations under the prospectus rules, if a new issuer is established to issue new notes, then the issuer will notify or procure that notice is given of that new issuer to you.

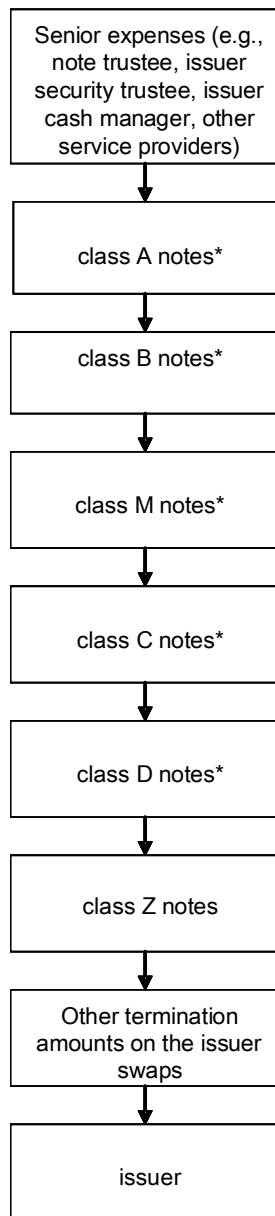
#### **Operative documents relating to the notes**

The issuer will issue each series of notes under the note trust deed. The notes will also be subject to the paying agent and agent bank agreement. The security for the notes is provided for under the issuer deed of charge between the issuer, the issuer security trustee and the issuer's other secured creditors. Operative legal provisions relating to the notes will be included in the note trust deed, the paying agent and agent bank agreement, the issuer deed of charge, the issuer cash management agreement and the notes themselves, each of which will be governed by English law.

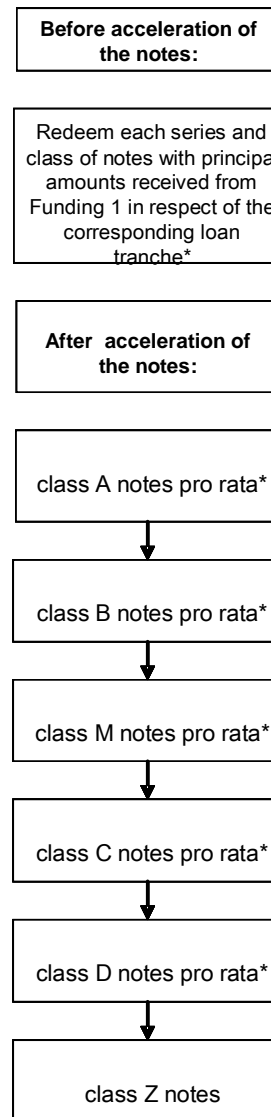
#### **Diagram of the priority of payments by the issuer and subordination relationships**

The following diagram illustrates in a general way the payment priorities for revenue receipts and principal receipts by the issuer before acceleration of the notes and also indicates the subordination relationship among the notes. This diagram does not indicate the priority of payments by Funding 1, nor does it reflect the payment priorities by the issuer after acceleration of the notes. For the sake of simplicity, this diagram omits material details relating to the priority of payments. You should refer to **"Cashflows"** below for a complete understanding of the priorities of payments by Funding 1 and the issuer in all circumstances.

**Revenue receipts**



**Principal receipts**



\* Includes interest and certain termination amounts, or principal amounts, as applicable, payable to the issuer swap providers for the swaps entered into by the issuer corresponding to the relevant series and class of notes. Amounts received by the issuer from such swap providers under the relevant swap will be used to make payments of interest and principal on the corresponding series and class of notes.

## Foreign law notes

The programme is currently structured so that the issuer will issue each series of notes under the note trust deed. The note trust deed, the notes and any non-contractual obligations arising out of or in connection with them are governed by, and are to be construed in accordance with, English law.

However, the issuer may choose to issue non-ISE listed notes or unlisted notes which are governed by, and are to be construed in accordance with, a law other than English law (**foreign law notes**). In order to issue foreign law notes under the programme, certain amendments to the existing transaction documents and the execution of further transaction documents may be required. Your consent to those amendments and the execution of those further transaction documents may not be required (see **“Risk factors – The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests”**).

It is expected that if the issuer does issue foreign law notes, application will not be made for those notes to be admitted to the Official List and will not be made for those notes to be admitted to trading on the Main Securities Market. Rather, it is expected that the issuer would apply for the foreign law notes to be admitted to listing and/or trading on a foreign stock exchange and/or listing authority and that those notes would be offered pursuant to an offering document other than this base prospectus.

## The loans

The loans comprising the portfolio from time to time have been, until the Part VII effective date, originated by Alliance & Leicester and on and from the Part VII effective date have been and will be originated by Santander UK. Each loan in the portfolio (and any drawings under flexible loans and any further advance) is secured by either first legal charges over freehold, leasehold or commonhold properties located in England or Wales, first ranking legal charges or mortgages over freehold or leasehold properties located in Northern Ireland or first ranking standard securities over heritable or long lease properties located in Scotland. The loans included in the portfolio consist of several different types with a variety of characteristics relating to, among other things, calculation of interest and repayment of principal. Some of the loans in the portfolio carry variable rates of interest based on a variable rate, some of the loans pay interest at a fixed rate or rates of interest and some of the loans pay interest at a rate of interest which tracks the base rate (the base rate-linked rate is currently set at a margin above and/or equal to and/or below a rate set by the Bank of England).

See **“The loans – Characteristics of the A&L loans”** below for a more detailed description of the loans offered by the seller and see the accompanying final terms for statistical information on the portfolio.

All loans were or will be originated in accordance with the lending criteria of Alliance & Leicester or Santander UK (as applicable) for loans applicable at the time of origination. Santander UK may from time to time change its lending criteria and any other terms applicable to new loans or their related security assigned to the mortgages trust after the initial closing date so that all new loans originated after the date of that change will be subject to the new lending criteria. Notwithstanding any change to the lending criteria or other terms applicable to the loans, the loans and their related security may only be assigned to the mortgages trust if those new loans comply with the seller's representations and warranties in the mortgage sale agreement. If a loan or its related security does not materially comply with these representations and warranties, then the seller will have 20 London business days in which to cure the default, failing which it will be required to repurchase the loan or loans under the relevant mortgage account and their related security from the mortgages trustee. See **“Description of the transaction documents – The mortgage sale agreement – Sale of loans and their related security”** and **“Description of the transaction documents – The mortgage sale agreement – Repurchase of loans under a mortgage account”** below. The seller's current lending criteria are described further in **“The loans – Lending criteria”** below.

## Sale of the loans

The seller sold the initial portfolio to the mortgages trustee on the initial closing date. After the initial closing date, the seller may sell new loans and their related security to the mortgages trustee in order to increase or maintain the size of the trust property. The seller may increase the size of the trust property from time to time in relation to an issue of any notes by the issuer or any new notes by any new issuer, the proceeds of which may be applied to fund the sale of the new loans and their related security to the mortgages trustee, or to comply with the seller's obligations under the mortgage sale agreement as described under **“Description of the transaction documents – The mortgage sale agreement – Sale of loans and their related security”** and **“Description of the transaction documents – The mortgage sale agreement – Sale of new loans and their related security”** below.

When new loans are sold to the mortgages trustee, the amount of the trust property will increase. Depending on the circumstances, the increase in the trust property may result in an increase in the seller's share of the trust property, Funding 1's share of the trust property and/or a further Funding company's share of the trust property. For a description of how adjustments are made to the seller's share, Funding 1's share and any further Funding company's share of the trust property, see "**The mortgages trust**" below.

### **The mortgages trust**

The mortgages trustee holds the trust property for both Funding 1 and the seller as beneficiaries of the trust. Funding 1 and the seller each have a joint and undivided beneficial interest in the trust property. Payments of interest and principal arising from the loans in the portfolio will be allocated to Funding 1 and the seller according to their share of the trust property, calculated periodically as described later in this section. Other Funding companies may acquire interests in the trust property and thereby become beneficiaries of the trust. Such further Funding companies will receive allocations of payments of interest and principal arising from the loans according to their respective shares in the trust property.

The trust property consists of the loans in the portfolio and their related security and any income generated by the loans or their related security. The trust property also includes any money in the mortgages trustee guaranteed investment contract or GIC account. The **mortgages trustee GIC account** is the bank account in which the mortgages trustee holds any cash that is part of the trust property until it is distributed to the beneficiaries.

Payments by borrowers and any recoveries made in respect of the loans in the portfolio will be paid initially into accounts called the **collection accounts** in the name of the seller and swept into the mortgages trustee GIC account on a regular basis but in any event in the case of direct debits no later than the next London business day after they are deposited in the collection accounts. If the ratings of the unsecured, unsubordinated and unguaranteed debt obligations of the seller are not rated at least A-2 short-term and BBB long-term by Standard & Poor's or P-2 (short term) by Moody's or the short-term or long-term IDR of the seller falls below either F2 or BBB+ (respectively) by Fitch, then all further instructions by the servicer to debit the accounts of borrowers that are subject to direct debit bank mandates commencing not less than 30 calendar days therefrom shall be made to another bank whose unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-2 short-term and BBB long-term by Standard & Poor's, and at least P-2 (short-term) by Moody's and whose short-term and long-term issuer default ratings are at least F2 and BBB+ (respectively) by Fitch (or such other rating as may be required to ensure that the rating attributed to any rated notes then outstanding will not be reduced, qualified or withdrawn at such time), or directly to the mortgages trustee GIC account.

In addition, drawings under flexible loans and any further advances and any new loans and their related security that the seller sells to the mortgages trustee after the initial closing date will be part of the trust property, unless they are repurchased by the seller. The seller will be solely responsible for funding drawings under any flexible loans and further advances. The composition of the trust property will fluctuate as drawings under any flexible loans and further advances and new loans are added and as the loans that are already part of the trust property are repaid or mature or default or are repurchased by the seller.

The accompanying final terms will set out the approximate amounts of Funding 1's share, any further Funding company's share (if applicable) and the seller's share of the trust property as at the relevant closing date.

Income from the trust property is distributed at least monthly to Funding 1, any further Funding company and the seller on each distribution date. A **distribution date** is the date which is four London business days after each **trust calculation date** (being the initial closing date, the London business day following the last day of each calendar month and the day on which the mortgages trust is terminated) other than the trust calculation date occurring on the initial closing date in respect of which no distribution will be made. On each trust calculation date, Funding 1's share, any further Funding company's share and the seller's share of the trust property are recalculated based on the aggregate outstanding principal balance of the loans constituting the trust property on the last day of the immediately preceding trust calculation period. See "**The mortgages trust**" below for details of this recalculation.

On each distribution date, income (but not principal) from the trust property is allocated to Funding 1 in an amount equal to Funding 1's percentage share of the revenue receipts, any further Funding company in an amount equal to such further Funding company's percentage share of the revenue receipts and to the seller in an amount equal to the seller's percentage share of the revenue receipts.

Losses on the loans are allocated to Funding 1, any further Funding companies and the seller based on their respective percentage shares in the trust property.

Whether the mortgages trustee allocates principal received on the loans to Funding 1 and any further Funding company depends on a number of factors. In general, each of Funding 1 and any further Funding company receives payment of principal in the following circumstances:

- when, in relation to any loan tranche or new loan tranche (where applicable), Funding 1 or each other further Funding company, as the case may be, is either accumulating principal during a cash accumulation period (as described below under “**The intercompany loan**”) or is scheduled to make principal repayments on those loan tranches or new loan tranches (where applicable) (in which case principal receipts will be paid to Funding 1 and other further Funding companies based on their cash accumulation requirements or repayment requirements in relation to those loan tranches or new loan tranches (where applicable));
- when a non-asset trigger event has occurred (in which case all principal receipts on the loans will be paid to Funding 1 and each other further Funding company pro rata according to Funding 1's share of the trust property and each other further Funding company's share of the trust property until the Funding 1 share of the trust property and the share of the trust property attributable to each other further Funding company has been reduced to zero. When the Funding 1 share of the trust property and the share of the trust property of each other further Funding company is zero, the remaining mortgages trust available principal receipts (if any) will be allocated to the seller); and
- when an asset trigger event has occurred (in which case principal receipts on the loans will be paid to Funding 1, each other further Funding company and the seller pro rata according to the Funding 1 share of the trust property, the share of the trust property attributable to each other further Funding company and the seller share of the trust property, until the Funding 1 share of the trust property and the share of the trust property attributable to each such further Funding company is zero. When the Funding 1 share of the trust property and each other further Funding company's share of the trust property is zero, the remaining mortgages trust available principal receipts (if any) will be allocated to the seller).

Neither Funding 1 nor any other further Funding company will be entitled to receive in aggregate an amount of mortgages trust available principal receipts on a distribution date which is in excess of, as applicable, the Funding 1 share of the trust property or such other further Funding company's share of the trust property on the relevant distribution date.

For more information on the distribution of principal receipts on the loans, including a description of when a non-asset trigger event or an asset trigger event will occur, see “**The mortgages trust**” below.

Under the terms of the controlling beneficiary deed, Funding 1 and the seller agree to, amongst other things, arrangements amongst themselves in respect of certain commercial decisions (relating to directions, rights, powers, benefits and/or discretions (or any equivalent thereof) under the transaction documents) to be made from time to time in respect of the mortgages trust deed and other transaction documents. In the event of any further Funding company becoming a beneficiary of the mortgages trust, such further Funding company will accede to the controlling beneficiary deed and agree to such arrangements.

### **The intercompany loan**

The issuer has entered into the intercompany loan agreement with Funding 1. As described above under “**Description of the notes – Relationship between the notes and the intercompany loan**”, the intercompany loan will consist of separate loan tranches, each corresponding to a particular series and class of notes. The loan tranches will comprise AAA tranches, AA tranches, A tranches, BBB tranches and BB tranches (reflecting the designated credit rating assigned to each loan tranche) and NR tranches (which will not be assigned a designated credit rating). The loan tranche related to a series and class of notes will be specified for such series and class of notes in the applicable final terms. The terms of each loan tranche will be set forth in the related final terms and the intercompany loan agreement.

From time to time and subject to certain conditions, the issuer will lend amounts to Funding 1 as separate loan tranches using the sterling equivalent proceeds of each issuance of a series and class of notes. Funding 1 will use the funds advanced under each such loan tranche to:

- pay to the mortgages trustee a contribution, either as an initial contribution to be paid to the seller in consideration for the sale of loans to the mortgages trustee or a further contribution to acquire and/or increase its beneficial interest in the trust property pursuant to the mortgages trust deed;
- to fund or replenish the general reserve fund; and/or
- to refinance an existing loan tranche or a new loan tranche (if any) made available to Funding 1.

Subject to the provisions of the relevant Funding 1 priority of payments (see “**Cashflows**” below), Funding 1 will repay the intercompany loan from payments received from the mortgages trustee, as described under “**The mortgages trust**” below. To the extent required, but subject to certain limits and conditions, Funding 1 may also apply amounts standing to the credit of the general reserve fund and the liquidity reserve fund (if any) and amounts available under the Funding 1 liquidity facility (if established) to make payments of interest and principal due under the intercompany loan. The issuer will make payments of interest on and principal of the notes from payments of interest and principal made by Funding 1 to it under the intercompany loan agreement.

A loan tranche may be a bullet loan tranche, a scheduled amortisation loan tranche or a pass-through loan tranche. A **bullet loan tranche** is a loan tranche that is scheduled to be repaid in full on one Funding 1 interest payment date. A **scheduled amortisation loan tranche** is a loan tranche so designated that is scheduled to be repaid in instalments on one or more Funding 1 interest payment dates (which may be in addition to the final repayment date). Such instalment amounts and repayment dates are referred to as **scheduled amortisation instalments**. A **pass-through loan tranche** is a loan tranche that has no scheduled repayment date other than its final repayment date. Loan tranches with pass-through repayment will be repaid on or after the Funding 1 interest payment date on which the loan tranches with the same series designation and a higher rating designation in respect of the series have been fully repaid. Bullet loan tranches and scheduled amortisation loan tranches will become pass-through loan tranches if a pass-through trigger event occurs. The designation and type of loan tranche and the repayment schedule, if any, for the loan tranche advanced in connection with a particular series and class of notes will be set out in the accompanying final terms.

During a cash accumulation period for any bullet loan tranche, Funding 1 will continue to make principal repayments on any other loan tranches that are then due and scheduled to be paid, subject to having sufficient funds therefor after meeting its obligations with a higher priority. Such principal repayments may only be made to the extent that (following such principal repayments and the principal repayments on the related series and class of notes) the amount of subordination available from all outstanding subordinate classes of notes (and other forms of credit enhancement) and reserves (as applicable) is at least equal to the required credit enhancement for each of the class A notes, the class B notes, the class M notes, the class C notes and the class D notes then outstanding. In certain circumstances, payment on the scheduled amortisation loan tranches and pass-through loan tranches will be deferred. See “**Cashflows – Distribution of Funding 1 available principal receipts**” below. No assurance can be given that Funding 1 will accumulate sufficient funds during the cash accumulation period relating to any bullet loan tranche or any scheduled amortisation loan tranche to enable it to repay the relevant loan tranche to the issuer so that the corresponding notes will be redeemed in their scheduled amounts and on their scheduled redemption dates.

Funding 1 is generally required to repay principal on the loan tranches based on their respective loan tranche ratings. This means that the AAA loan tranches are repaid before the AA loan tranches, which in turn are repaid before the A loan tranches, which in turn are repaid before the BBB loan tranches, which in turn are repaid before the BB loan tranches, which in turn are repaid before the NR loan tranches and the Funding 1 loan. Prior to the occurrence of a trigger event or the acceleration of the intercompany loan or the acceleration of all notes of each series, there are a number of exceptions to this priority of payments. For further information on such exceptions you should read the “**Cashflows**” section of this base prospectus below.

The circumstances under which the issuer can take action against Funding 1 if it does not make a repayment under the intercompany loan are limited. In particular, it will not be an event of default in respect of the intercompany loan if Funding 1 does not repay amounts due in respect of the intercompany loan where Funding 1 does not have the money to make the relevant repayment or where the repayment tests are not satisfied. For more information on the intercompany loan, see “**Description of the transaction documents – The intercompany loan agreement**” below.

If the notes of each series are or have been accelerated, then the outstanding loan tranches will be immediately due and payable, but the Funding 1 security will not become enforceable unless Funding 1 is also in default under the intercompany loan agreement, and Funding 1 will allocate its principal receipts to repay the loan tranches in order of rating designation, from highest to lowest.

### **Security granted by Funding 1 and the issuer**

On the initial closing date, Funding 1 entered into a Funding 1 deed of charge to secure its obligations to its secured creditors at such time and, in connection with the issuance of future series of notes, new secured creditors of Funding 1 may accede to the Funding 1 deed of charge.



Besides the issuer, Funding 1's secured creditors on the initial closing date were, among others, the Funding 1 swap provider, the original Funding 1 account bank, the cash manager, the corporate services provider, the Funding 1 security trustee, the Funding 1 start-up loan provider and the seller.

Pursuant to the terms of the Funding 1 deed of charge, Funding 1 has granted security over all of its assets in favour of the Funding 1 security trustee. The Funding 1 security trustee holds that security for the benefit of the Funding 1 secured creditors from time to time. New Funding 1 secured creditors (including account bank A, account bank B, the Funding 1 loan provider and the mortgages trust account bank) have acceded and may accede to the Funding 1 deed of charge. Except in very limited circumstances, only the Funding 1 security trustee will be entitled to enforce the security granted by Funding 1. For more information on the security granted by Funding 1, see "**Description of the transaction documents – Funding 1 deed of charge**" below. For details of the Funding 1 post-acceleration priority of payments, see "**Cashflows**" below.

To secure the issuer's obligations to the noteholders and to the issuer's other secured creditors, the issuer has granted security over all of its assets in favour of the issuer security trustee pursuant to the issuer deed of charge. The issuer security trustee holds that security for the benefit of the issuer's secured creditors, which on the initial closing date were, among others, the noteholders of each series, the issuer security trustee, the note trustee, the agent bank, the exchange rate agent, the paying agents, the transfer agent, the issuer cash manager, the original issuer account bank, the paying agents, the issuer swap providers and the issuer corporate services provider. New issuer secured creditors (including the issuer account bank and further issuer swap providers) have acceded and may accede to the issuer deed of charge. Except in very limited circumstances, only the issuer security trustee will be entitled to enforce the security granted by the issuer. For more information on the security granted by the issuer, see "**Description of the transaction documents – Issuer deed of charge**" below. For details of the relevant issuer priority of payments following enforcement of the issuer security, see "**Cashflows**" below.

### **Swap agreements**

Some of the loans in the portfolio carry variable rates of interest based on a variable rate, some of the loans pay interest at a fixed rate or rates of interest and some of the loans pay interest at a rate of interest which tracks the base rate. These interest rates do not necessarily match the floating rate of interest payable on the loan tranches under the intercompany loan, which is linked to LIBOR for three month sterling deposits, or, for some loan tranches, such other sterling LIBOR rate as may be specified in the applicable loan tranche supplement (other than, in each case, in respect of the first interest period), although in certain circumstances, and only with effect from the date of the transfer of legal title to the portfolio (or a part thereof), the servicer may reset the variable rate to a rate that is linked to a LIBOR-based rate for three month sterling deposits (see "**Description of the transaction documents – Servicing agreement**" below). Funding 1 will enter into swaps documented under the Funding 1 swap agreement to hedge against these potential interest rate mismatches.

The interest payable by Funding 1 to the issuer under the loan tranches under the intercompany loan agreement is calculated as a margin over LIBOR as described above and as specified in the applicable loan tranche supplement. However, some of the sterling notes will accrue interest at a fixed rate. Therefore, to address this potential interest rate mismatch, the issuer may enter into issuer interest rate swaps from time to time under the issuer interest rate swap agreements.

Borrowers will make payments under the loans in sterling. Payments made by the mortgages trustee to Funding 1 under the mortgages trust deed and payments made by Funding 1 to the issuer under the intercompany loan will be made in sterling. To enable the issuer to make payments on the notes of a series denominated in dollars, euro or any other currency other than sterling in their respective currencies, the issuer will enter into issuer dollar currency swap agreements, issuer euro currency swap agreements and, in relation to notes denominated in any other currency, issuer currency swap agreements in relation to any other applicable currency.

### **United Kingdom tax status**

You are referred to "**United Kingdom taxation**" below for a discussion of certain UK tax matters, including UK withholding tax on interest payments to noteholders.

### **United States tax status**

A discussion of the material U.S. federal income tax consequences of the purchase, ownership and disposition of the Rule 144A notes is set out in "**United States federal income taxation**" below. As set forth in that discussion, unless otherwise indicated in the applicable final terms, it is anticipated that upon issuance of the Rule 144A notes Cleary Gottlieb Steen & Hamilton LLP, the issuer's U.S. tax adviser, will deliver their

opinion that, although there is no authority on the treatment of instruments substantially similar to the Rule 144A notes, the class A, class B and class M Rule 144A notes, when issued, will be treated as debt (or, if indicated in the relevant final terms, should be treated as debt) for U.S. federal income tax purposes (either of the issuer or Funding 1) and the class C Rule 144A notes, when issued, should be treated as debt for U.S. federal income tax purposes (either of the issuer or Funding 1). The treatment of the class D Rule 144A notes for U.S. federal income tax purposes will be set forth in the applicable final terms. Also, as discussed in “**United States federal income taxation**” below, it is anticipated that upon issuance of the Rule 144A notes the issuer’s U.S. tax adviser will deliver their opinion that, assuming compliance with the transaction documents, the mortgages trustee acting in its capacity as trustee of the mortgages trust, Funding 1 and the issuer will not be subject to U.S. federal income tax.

### **Jersey (Channel Islands) tax status**

It is the opinion of Mourant Ozannes, our Jersey (Channel Islands) tax counsel, that the mortgages trustee is resident in Jersey for taxation purposes and will be liable to income tax in Jersey at a rate of 0 per cent. in respect of the profits it makes from acting as trustee of the mortgages trust. The mortgages trustee will not be liable for any income tax in Jersey in respect of any income it receives in its capacity as mortgages trustee on behalf of the beneficiaries of the mortgages trust. See “**Material Jersey (Channel Islands) tax considerations**” below.

### **ERISA considerations for investors**

The eligibility of the Rule 144A notes for purchase by employee benefit and other plans subject to Section 406 of ERISA or Section 4975 of the Code and by governmental, church or foreign plans that are subject to any state, local or other federal law of the United States or foreign law that is substantially similar to Section 406 of ERISA or Section 4975 of the Code will be set forth in the applicable final terms for such notes, subject to consideration of the issues described below under “**ERISA considerations**”. See “**ERISA considerations**” below.

### **Withholding tax on loans**

Under current law and as the transaction is currently structured, it is not expected that amounts due under the loans are subject to withholding or deduction for or on account of any tax in their jurisdiction of origination.

## FEES

The following table sets out the on-going fees to be paid by the issuer, Funding 1 and the mortgages trustee to transaction parties. Each of these fees is subject to change at any time without your notification or approval, including upon the appointment of any successor service provider or any other successor transaction party pursuant to the applicable transaction document.

<b>Type of fee</b>	<b>Amount of fee</b>	<b>Priority in cashflow</b>	<b>Frequency of Payment</b>
Servicing fee	Estimated 0.08 per cent. per year of the aggregate outstanding principal amount of the trust property	Ahead of all revenue amounts payable to Funding 1 by the mortgages trustee	Payable by mortgages trustee on each distribution date
Mortgages trustee fee	Estimated £1,000 each year	Ahead of all revenue amounts payable to Funding 1 by the mortgages trustee	Payable annually by mortgages trustee on the distribution date occurring in January
Cash management fee	Estimated 0.01 per cent. per year of principal amount outstanding of the intercompany loan	Ahead of all loan tranches	Payable quarterly by Funding 1 on each Funding 1 interest payment date occurring in January, April, July and October of each year
Issuer cash management fee	Estimated 0.01 per cent. per year of the principal amount outstanding of the notes	Ahead of all outstanding notes	Payable quarterly by issuer on each interest payment date occurring in January, April, July and October of each year
Corporate expenses of mortgages trustee	Estimated £5,500 each year	Ahead of all revenue amounts payable to Funding 1 by the mortgages trustee	Payable annually by mortgages trustee on each distribution date occurring in January
Corporate expenses of Funding 1	Estimated £2,500 each year	Ahead of all loan tranches	Payable semi-annually by Funding 1 on each Funding 1 interest payment date occurring in January and July of each year
Corporate expenses of issuer	Estimated £6,250 each year	Ahead of all outstanding notes	Payable semi-annually by issuer on each interest payment date occurring in January and July of each year
Funding 1 security trustee and issuer security trustee fee (including paying agents)	Estimated £3,000 each year	Ahead of all outstanding notes	Payable annually by Funding 1 on each Funding 1 interest payment date occurring in January of each year

Subject to the following, the servicing fee, the cash management fee and the issuer cash management fee set out in the preceding table are inclusive of value added tax (**VAT**) (if any), which is currently assessed at 20 per cent., and the aggregate amount payable in respect of such services will not be adjusted in the event of any change in the rate of VAT.

## THE ISSUANCE OF NOTES

The notes will be issued pursuant to the note trust deed. The following summary and the information set out in the note trust deed, “**Form of the notes**” and “**Terms and conditions of the notes**” below summarise the material terms of the notes and the note trust deed. These summaries do not purport to be complete and are subject to the detailed provisions of the note trust deed and the terms and conditions of the notes.

### Issuance

The notes will be issued in series. Each series will comprise one or more class A notes, class B notes, class M notes, class C notes, class D notes or class Z notes issued on a single closing date. A class designation determines the relative seniority for receipt of cashflows. The notes of a particular class in different series (and the notes of the same class and series) will not necessarily have the same terms. Differences may include principal amount, interest rates, interest rate calculations, currency, dates, final maturity dates and ratings. Each series and class of notes will be secured over the same property as the notes offered by this base prospectus together with the final terms. The terms of each series of notes will be set forth in the related final terms.

The issuer may issue new series and classes of notes and advance loan tranches to Funding 1 from time to time without obtaining the consent of existing noteholders or providing notice of such issuance. As a general matter the issuer may only issue a new series and class of notes if sufficient subordination is provided for that new series and class of notes by one or more subordinate classes of notes and/or the general reserve fund. The required subordinated percentage, which is used to calculate the required subordination for each class of notes other than the class Z notes, will be set forth in the applicable final terms for each series of that class of notes. Similarly, the general reserve required amount will be specified in each final terms. The conditions and tests (including the required levels of subordination) necessary to issue a series and class of notes, or the **issuance tests**, include the following:

### **All classes of notes**

On the closing date of any series and class of notes:

- there shall be no debit balance on the principal deficiency ledger (other than the NR principal deficiency ledger) which is not cured on the next Funding 1 interest payment date;
- no note event of default shall have occurred which is continuing or will occur as a consequence of such issuance;
- no acceleration notice has been served on the issuer;
- no intercompany loan enforcement notice has been served on Funding 1;
- the general reserve fund is fully funded up to the general reserve required amount;
- the liquidity reserve fund is fully funded up to the liquidity reserve fund required amount;
- each of the applicable transaction documents has been executed by the relevant parties to those documents;
- the issuer has delivered a solvency certificate to the note trustee in form and substance satisfactory to the note trustee; and
- the rating agencies have provided written confirmation that (i) in relation to rated notes only, such series of rated notes have been assigned the required note issuance ratings and (ii) their ratings of the rated notes then outstanding will not be reduced, qualified or withdrawn as a consequence of such issuance,

and,

### **for the class A notes of any series**

On the closing date for that series of notes and after giving effect to the issuance of that series of notes, the class A available subordinated amount must be equal to or greater than the class A required subordinated amount.

The **class A required subordinated amount** is calculated, on any date, as the product of:

A x B

where:

- A = the class A required subordinated percentage as specified in the most recent final terms for class A notes of any series; and
- B = the principal amount outstanding of all notes on such date (after giving effect to any payments of principal to be made on the notes on such date) less the amounts standing to the credit of the cash accumulation ledger and the principal ledger available on such date for the repayment of principal on the loan tranches (after giving effect to any repayments of principal to be made on the loan tranches on such date).

The **class A available subordinated amount** is calculated, on any date, as:

- (a) the sum of (i) the aggregate of the principal amounts outstanding of the class B notes of all series, the class M notes of all series, the class C notes of all series, the class D notes of all series and the class Z notes of all series (after giving effect to repayments of principal to be made on the notes on such date), (ii) the aggregate amount of the general reserve fund on such date and (iii) rating agency excess spread;

less:

- (b) the amounts standing to the credit of the principal ledger available on such date for the payment of principal on AA loan tranches, A loan tranches, BBB loan tranches, BB loan tranches and NR loan tranches (after giving effect to any payments of principal to be made on the loan tranches on such date).

**for the class B notes of any series**

On the closing date for that series of notes and after giving effect to the issuance of that series of notes, the class B available subordinated amount must be equal to or greater than the class B required subordinated amount.

The **class B required subordinated amount** is calculated, on any date, as the product of:

A x B

where:

- A = the class B required subordinated percentage as specified in the most recent final terms for class B notes of any series; and
- B = the principal amount outstanding of all notes on such date (after giving effect to any payments of principal to be made on the notes on such date) less the amounts standing to the credit of the cash accumulation ledger and the principal ledger available on such date for the repayment of principal on the loan tranches (after giving effect to any repayments of principal to be made on the loan tranches on such date).

The **class B available subordinated amount** is calculated, on any date, as:

- (a) the sum of (i) the aggregate of the principal amounts outstanding of the class M notes of all series, the class C notes of all series, the class D notes of all series and the class Z notes of all series (after giving effect to repayments of principal to be made on the notes on such date), (ii) the aggregate amount of the general reserve fund on such date and (iii) rating agency excess spread;

less:

- (b) the amounts standing to the credit of the principal ledger available on such date for the payment of principal on A loan tranches, BBB loan tranches, BB loan tranches and NR loan tranches (after giving effect to any payments of principal to be made on the loan tranches on such date).

**for the class M notes of any series**

On the closing date for that series of notes and after giving effect to the issuance of that series of notes, the class M available subordinated amount must be equal to or greater than the class M required subordinated amount.

The **class M required subordinated amount** is calculated, on any date, as the product of:

A x B

where:

A = the class M required subordinated percentage as specified in the most recent final terms for class M notes of any series; and

B = the principal amount outstanding of all notes on such date (after giving effect to any payments of principal to be made on the notes on such date) less the amounts standing to the credit of the cash accumulation ledger and the principal ledger available on such date for the repayment of principal on the loan tranches (after giving effect to any repayments of principal to be made on the loan tranches on such date).

The **class M available subordinated amount** is calculated, on any date, as:

- (a) the sum of (i) the aggregate of the principal amounts outstanding of the class C notes of all series, the class D notes of all series and the class Z notes of all series (after giving effect to repayments of principal to be made on the notes on such date), (ii) the aggregate amount of the general reserve fund on such date and (iii) rating agency excess spread;

less:

- (b) the amounts standing to the credit of the principal ledger available on such date for the payment of principal on BBB loan tranches, BB loan tranches and NR loan tranches (after giving effect to any payments of principal to be made on the loan tranches on such date).

**for the class C notes of any series**

On the closing date for that series of notes and after giving effect to the issuance of that series of notes, the class C available subordinated amount must be equal to or greater than the class C required subordinated amount.

The **class C required subordinated amount** is calculated, on any date, as the product of:

A x B

where:

A = the class C required subordinated percentage as specified in the most recent final terms for class C notes of any series; and

B = the principal amount outstanding of all notes on such date (after giving effect to any payments of principal to be made on the notes on such date) less the amounts standing to the credit of the cash accumulation ledger and the principal ledger available on such date for the repayment of principal on the loan tranches (after giving effect to any repayments of principal to be made on the loan tranches on such date).

The **class C available subordinated amount** is calculated, on any date, as:

- (a) the sum of (i) the aggregate of the principal amounts outstanding of the class D notes of all series and the class Z notes of all series (after giving effect to repayments of principal to be made on the notes on such date), (ii) the aggregate amount of the general reserve fund on such date and (iii) rating agency excess spread;

less:

- (b) the amounts standing to the credit of the principal ledger available on such date for the payment of principal on BB loan tranches and NR loan tranches (after giving effect to any payments of principal to be made on the loan tranches on such date).

**for the class D notes of any series**

On the closing date for that series of notes and after giving effect to the issuance of that series of notes, the class D available subordinated amount must be equal to or greater than the class D required subordinated amount.

The **class D required subordinated amount** is calculated, on any date, as the product of:

A x B

where:

A = the class D required subordinated percentage as specified in the most recent final terms for class D notes of any series; and

B = the principal amount outstanding of all notes on such date (after giving effect to any payments of principal to be made on the notes on such date) less the amounts standing to the credit of the cash accumulation ledger and the principal ledger available on such date for the repayment of principal on the loan tranches (after giving effect to any repayments of principal to be made on the loan tranches on such date).

The **class D available subordinated amount** is calculated, on any date, as:

- (a) the sum of (i) the aggregate of the principal amounts outstanding of the class Z notes of all series (after giving effect to repayments of principal to be made on the notes on such date), (ii) the aggregate amount of the general reserve fund on such date and (iii) rating agency excess spread;

less:

- (b) the amounts standing to the credit of the principal ledger available on such date for the payment of principal on NR loan tranches (after giving effect to any payments of principal to be made on the loan tranches on such date).

In relation to the above, the amounts available on any date for the payment of principal on any loan tranche shall be calculated in accordance with the Funding 1 pre-acceleration principal priority of payments (as set out in “**Cashflows – Distribution of Funding 1 available principal receipts**” below) and shall be calculated without reference to the rules for the application of Funding 1 available principal receipts (as set out in “**Cashflows – Distribution of Funding 1 available principal receipts**” below).

The **rating agency excess spread** is calculated, on any date, as:

- (a) the product of:

$\frac{X + Y}{2}$

2

and the aggregate outstanding principal balance of the loan tranches outstanding under the intercompany loan less the amount debited to the principal deficiency ledger at such date;

less:

- (b) the product of the weighted average interest rate of the outstanding notes at such date, including any notes issued on such date (subject to adjustment where the step-up date occurs for any series and class of notes and taking into account the margins on the issuer swaps as at such date and the expenses of the issuer ranking in priority to payments on such notes) and the aggregate principal amount outstanding of such notes at such date.

where:

X = the weighted average yield on the loans in the portfolio at such date, together with new loans (if any) to be assigned to the mortgages trustee on such date (taking into account the margins on the Funding 1 swap(s) as at such date); and

Y = LIBOR for 3 month sterling deposits plus 1.00 per cent (or any higher percentage specified in the most recent final terms).

The required subordinated amount for any class of notes or the method of computing the required subordinated amount may be changed at any time without the consent of any noteholders provided confirmation has been obtained from each rating agency that has rated any outstanding rated notes that the change will not result in the reduction, qualification or withdrawal of its then current rating of any outstanding rated notes.

If confirmation is obtained from each rating agency that has rated any outstanding rated notes that the issuance of a new series and class of notes will not cause a reduction, qualification or withdrawal of the ratings of any outstanding rated notes rated by that rating agency, then some of the other conditions to issuance described above may be waived without the consent of the noteholders.

The issuer shall prior to the issue of any notes certify in writing to the note trustee that all the conditions to issue of notes described above are satisfied and, where the issuer has waived one or more such conditions in accordance with the foregoing paragraph, specifying the same in such certificate, which certificate shall be conclusive and binding on all parties.



## DESCRIPTION OF THE TRANSACTION DOCUMENTS

The following section contains a description of the material terms of the transaction documents. The description is subject to the more detailed provisions of the relevant transaction documents.

### The mortgage sale agreement

On the initial closing date, the seller, Funding 1, the mortgages trustee and the Funding 1 security trustee entered into the mortgage sale agreement.

The rights of Funding 1 in respect of the mortgage sale agreement were assigned by way of security (and, to the extent not assignable, charged) to the Funding 1 security trustee under the Funding 1 deed of charge.

The mortgage sale agreement sets out and provides for, *inter alia*, the following:

- the sale and assignment of initial loans and their related security by the seller to the mortgages trustee on the initial closing date;
- the sale and assignment of new loans and their related security by the seller to the mortgages trustee after the initial closing date;
- the representations and warranties to be given by the seller in relation to the initial loans, new loans and their related security;
- the repurchase by the seller of loans in the portfolio and their related security where the seller has materially breached any of its representations and warranties in respect of such loans or their related security or, in certain circumstances, where such loan is the subject of a product switch or a further advance;
- the making of future drawings and the making of further advances to borrowers, with respect to loans in the trust property; and
- the circumstances for the transfer of legal title to the loans to the mortgages trustee.

In relation to Scottish loans, the mortgage sale agreement provides for the transfer of the beneficial interest in such loans and their related security sold on the initial closing date to be effected by a Scottish declaration of trust by the seller in favour of the mortgages trustee and for the transfer of the beneficial interest in any other Scottish loans and their related security to be effected by further Scottish declarations of trust (and, in relation to the Scottish loans and their related security, references in this base prospectus to the **assignment** of such loans and their related security are to be read as references to the transfer of the beneficial interest therein by the making of such declarations of trust and the terms **assigned** and **assign** shall in that context be construed accordingly) (see “– **Transfer of legal title to the mortgages trustee**” below).

The terms of the mortgage sale agreement may be amended after the initial closing date, for instance as and when new issuers (if any) are established or **new loan types** (being, on any date, a type of loan which is materially different from the types of loans comprised in the portfolio) are added to the mortgages trust or further Funding companies accede and adhere to the mortgage sale agreement. The prior consent of the noteholders will not be sought in relation to any of the proposed amendments to the mortgage sale agreement, provided that (among other things) the rating agencies confirm that the ratings of the rated notes (and new rated notes, where applicable) then outstanding will not be downgraded, withdrawn or qualified as a result of such amendments. There can be no assurance, however, that the effect of any such amendments will not ultimately adversely affect your interests as a noteholder (see “**Risk factors – The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests**”).

Pursuant to the amendment provisions mentioned above, the mortgage sale agreement has been amended to allow for the sale of new loan types into the portfolio on and from the Part VII effective date which are loans that have been originated by Santander UK (see “**The loans – Santander UK loans**”).

### **Sale of loans and their related security**

On the initial closing date, the seller sold the initial loans and their related security comprising the portfolio to the mortgages trustee. From time to time after the initial closing date, the seller has sold and will

sell new loans and their related security to the mortgages trustee which will be included in the portfolio. The sale of the English loans and the Northern Irish loans and their respective related security have taken, and will take effect, in equity only (until transfer of legal title). The seller has transferred and will transfer the beneficial interest only in the Scottish loans and their related security by way of a Scottish declaration of trust or Scottish declarations of trust executed on the relevant sale date (until transfer of legal title). The transfer of legal title to loans and their related security may not occur or, if it does occur, will not occur until a later date (see “– **Transfer of legal title to the mortgages trustee**” below). Any references to a sale of loans and their related security in this base prospectus will include references to the sale by the seller of new loans and their related security to the mortgages trustee pursuant to the mortgage sale agreement.

Each portfolio of loans and their related security so sold will form part of the trust property to be held on trust by the mortgages trustee for, as applicable, Funding 1 (as to the Funding 1 share) and the seller (as to the seller share) in accordance with the terms of the mortgages trust deed. In the future, further Funding companies and further Funding security trustees may adhere and accede to the mortgage sale agreement, although there is no certainty that such an event or events will occur. Your consent will not be sought when any further Funding companies and further Funding security trustees accede to the mortgage sale agreement provided that the rating agencies confirm that the then current rating of the rated notes (and new rated notes, where applicable) then outstanding will not be downgraded, withdrawn or qualified as a result (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time).

The consideration for the sale of loans and their related security will consist of:

- the initial purchase price, representing a cash payment payable on the relevant sale date by the mortgages trustee to the seller for the sale and assignment to the mortgages trustee of the relevant loans and their related security;
- to the extent that the initial purchase price is less than the aggregate outstanding principal balance of the loans to be transferred on any sale date, the consideration payable for the shortfall shall give rise to a corresponding increase in the seller share of the trust property; and
- the deferred purchase price, representing a cash payment payable after the relevant sale date by the mortgages trustee to the seller as further consideration for the sale of the relevant loans and their related security in accordance with the provisions of the mortgage sale agreement and the mortgages trust deed (see further “– **Payment of purchase price**” below).

### ***Payment of purchase price***

Payment of the initial purchase price was made to the seller by the mortgages trustee out of funds received by the mortgages trustee from an initial contribution contributed by Funding 1 or any further Funding company pursuant to the terms of the mortgages trust deed.

Payments of the deferred purchase price will be made by the mortgages trustee out of funds received by way of deferred contributions contributed by Funding 1 or any further Funding company from time to time pursuant to the terms of the mortgages trust deed. Upon receipt of such a deferred contribution, the mortgages trustee will pay an amount equal to such deferred contribution to the seller as deferred purchase price for the sale of the loans to the mortgages trustee. Funding 1 is only required to make deferred contributions out of excess income to which it is entitled in accordance with and subject to the relevant Funding 1 priority of payments, as set out in “**The mortgages trust – Cash management of trust property – revenue receipts**” below. Any seller accrued interest amounts in respect of the loans sold on the initial closing date to the mortgages trustee will form part of the trust property and to the extent allocated and distributed to Funding 1 and excess to its revenue requirements will be paid in accordance with the relevant Funding 1 priority of payments, as deferred contributions to the mortgages trustee. The mortgages trustee will in turn pay an equivalent amount to the seller as part of the deferred purchase price due to the seller under the mortgage sale agreement.

### ***Conditions for sale of initial loans and new loans***

The sale of initial loans, new loans and their related security to the mortgages trustee on the relevant sale date was (in the case of initial loans) and will be (in the case of any new loans) subject to certain conditions being satisfied (which may be varied or waived by the mortgages trustee (subject to the prior notification by the rating agencies that the then current ratings of the rated notes (or any new rated notes, where applicable) then outstanding will not be downgraded, withdrawn or qualified as a result of such variation or waiver (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time))), which include the following:

- (a) no event of default under the transaction documents (or event of default under the transaction documents of any further Funding company, where applicable) shall have occurred which is continuing as at the relevant sale date;
- (b) the principal deficiency ledger (other than the NR principal deficiency sub-ledger and/or the Funding 1 loan principal deficiency sub-ledger, as the case may be) does not have a debit balance as at the most recent Funding 1 interest payment date after applying all Funding 1 available revenue receipts on that Funding 1 interest payment date (and the equivalent condition is met in relation to each further Funding company, where applicable);
- (c) the rating agencies have confirmed that any proposed increase in the Funding 1 share of the trust property (or the share of the relevant Funding company of the trust property, where applicable) as a result of making the further contribution would not cause the then current ratings by the rating agencies of any rated notes (or any new rated notes, where applicable) then outstanding to be downgraded, withdrawn or qualified (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time);
- (d) as at the relevant sale date, the seller has not received any notice that the short-term, unsecured, unguaranteed and unsubordinated debt obligations of the seller are not rated at least P-2 by Moody's and A-3 by Standard & Poor's and that the short-term IDR of the seller is not at least F2 by Fitch at the time of, and immediately following, the sale of new loans to the mortgages trustee;
- (e) in the case of a new loan, the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller are, at the time of, and immediately following the sale of the new loans to the mortgages trustee, either:
  - rated no lower than P-1 by Moody's; or
  - in the event that the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller are rated lower than P-1 by Moody's but are rated no lower than P-2 by Moody's then:
    - (A) the seller has, on such sale date, delivered a solvency certificate to, *inter alios*, the mortgages trustee in form and substance satisfactory to Moody's; and
    - (B) where:
      - (I) the aggregate current balance of new loans sold to the mortgages trustee following the later of:
        - (1) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller falling lower than P-1 by Moody's; or
        - (2) any previous audit of new loans pursuant to this paragraph, exceeds 20 per cent. of the current balance of all loans in the mortgages trust at such time; or
      - (II) 12 months has passed since:
        - (1) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller falling lower than P-1 by Moody's; or
        - (2) any previous audit of new loans pursuant to this paragraph, an audit has been performed on both (x) any new loans to be sold to the mortgages trust on such sale date and (y) all new loans which have been sold to the mortgages trust subsequent to the audit referred to in (B)(II)(2) above;
- (f) as at the relevant sale date, the aggregate current balance of loans comprising the trust property, in respect of which the aggregate amount in arrears is more than 3 times the monthly payment then due, is less than 4 per cent. of the aggregate current balance of the loans comprising the trust property at that date (or such other percentage as the rating agencies confirm is sufficient in order that the then current ratings of the rated notes (and any new rated notes, where applicable) then outstanding are not downgraded, withdrawn or qualified (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time));

- (g) the aggregate of amounts in arrears in respect of the loans, as a percentage of the gross interest due on all loans comprising the trust property during the immediately preceding 12 months, does not at the relevant sale date exceed 2 per cent. (or such other percentage as the rating agencies confirm is sufficient in order that the then current ratings of the rated notes (and any new rated notes, where applicable) then outstanding are not downgraded, withdrawn or qualified (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time));
- (h) except where Funding 1 makes an initial contribution to the mortgages trustee, the proceeds of which will be applied by the mortgages trustee to purchase new loans, the aggregate current balance (excluding accrued interest and amounts in arrears) of new loans transferred in any Funding 1 interest period must not exceed 15 per cent. of the aggregate current balance of loans (excluding accrued interest and amounts in arrears) comprising the trust property as at the beginning of that Funding 1 interest period (or such other percentage as the rating agencies confirm is sufficient in order that the then current ratings of the rated notes (and any new rated notes, where applicable) then outstanding are not downgraded, withdrawn or qualified (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time));
- (i) the product of the weighted average foreclosure frequency (**WAFF**) and weighted average loss severity (**WALS**), each as calculated in accordance with Standard & Poor's methodology, for the loans comprising the trust property calculated on the relevant sale date in the same way as for the initial loans comprising the mortgages trust after such purchase (or as agreed by the servicer and the rating agencies from time to time)) does not exceed the product of the WAFF and WALS for the loans constituting the trust property calculated on the most recent closing date, plus 0.25 per cent.;
- (j) the sale and assignment of new loans does not result in the Moody's portfolio variation test value of the loans comprising the trust property after such sale and assignment (calculated by applying the Moody's portfolio variation test to such loans on such sale date) exceeding the most recently determined Moody's portfolio variation test threshold value as calculated in relation to the loans in the portfolio as at the most recent date on which Moody's performed a full pool analysis on the portfolio, plus 0.30 per cent.;
- (k) the yield of the loans comprising the trust property together with the yield of the new loans to be sold to the mortgages trustee on the relevant sale date is at least equal to the minimum yield as at the relevant sale date, after taking into account the average yield on the loans which are variable rate loans, base rate loans and fixed rate loans and the margins on the Funding 1 swap(s) (and the relevant swaps of any further Funding companies, where applicable), in each case as at the relevant sale date;
- (l) no sale of new loans may occur, if, as at the relevant sale date, the step-up date in respect of any class of rated notes (or any new rated notes where applicable) has been reached and the issuer (or any new issuer, where applicable) has not exercised its option to redeem the relevant class of rated notes (or new rated notes, where applicable) as at that sale date, in accordance with the conditions of that class of rated notes (or new rated notes, where applicable). For the avoidance of doubt, this prohibition on the sale of new loans to the mortgages trustee shall remain in effect only for so long as any such class of rated notes (or new rated notes, where applicable) remains outstanding and, upon its redemption, the sale of new loans to the mortgages trustee may be resumed in accordance with the terms of the mortgage sale agreement;
- (m) as at the sale date, the adjusted general reserve fund level is equal to or greater than the general reserve required amount (and the equivalent condition is met in relation to each further Funding company, where applicable);
- (n) if the sale of new loans would include the sale of new loan types to the mortgages trustee, the Funding 1 security trustee (and any further Funding security trustee, where applicable) has received written confirmation from each of the rating agencies that the then current ratings of the rated notes (and any new rated notes, where applicable) will not be downgraded, withdrawn or qualified as a result of such sale of new loan types (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time);
- (o) each new loan and its related security complies in all material respects at the relevant sale date with the representations and warranties set out in the mortgage sale agreement, which are summarised below in “– **Representations and warranties**”;

- (p) the Funding 1 swap agreement (and the relevant swap agreements of each further Funding company, where applicable) has each been modified if and as required (or, if appropriate, Funding 1 has entered into a new Funding 1 swap agreement (or each further Funding company has entered into any new swap agreement, where applicable)) to hedge against the interest rates payable in respect of such new loans and the floating rate of interest payable on the intercompany loan (and any new intercompany loans, where applicable);
- (q) no trigger event has occurred on or before the relevant sale date; and
- (r) the sale and assignment of loans to the mortgages trust will not result in a breach of any of the Fitch conditions (as the same may be amended from time to time) as calculated on the relevant sale date.

The **Fitch conditions** are collectively that:

- (i) the **original weighted average LTV** (calculated in the manner agreed with Fitch from time to time) of the loans in the trust property, including the loans to be sold to the mortgages trustee on the relevant sale date, cannot be more than the original weighted average LTV at the most recent closing date plus the "**original weighted average LTV margin**", as specified in the most recent final terms. The outstanding principal balance (for flexible loans, the maximum drawable amount) and the property valuation at the relevant origination date, in each case, in respect of each loan, shall be used in the calculation of original weighted average LTV;
- (ii) the **current weighted average LTV** (calculated in the manner agreed with Fitch from time to time) of the loans in the trust property, including the loans to be sold to the mortgages trustee on the relevant sale date, not taking into account any indexation, cannot be more than the current weighted average LTV at the most recent closing date plus the "**current weighted average LTV margin**", as specified in the most recent final terms. The outstanding principal balance (for flexible loans, the maximum drawable amount) and the most recent property valuation as at the relevant sale date, in each case, in respect of each loan, shall be used in the calculation of current weighted average LTV;
- (iii) the **weighted average income multiple** (calculated in the manner agreed with Fitch from time to time) of the loans in the trust property, including the loans to be sold to the mortgages trustee on the relevant sale date, cannot be more than the "**current weighted average income multiple threshold**", as specified in the most recent final terms; and
- (iv) the proportion of loans with an **original LTV** (calculated in the manner agreed with Fitch from time to time) higher than 80 per cent. in the trust property, including the loans to be sold to the mortgages trustee on the relevant sale date, cannot be more than the proportion of loans with an original LTV higher than 80 per cent. at the most recent closing date plus the "**original LTV margin**", as specified in the most recent final terms,

as the same may be amended by Fitch from time to time.

If the above conditions were not or are not satisfied on the relevant sale date of loans and their related security to the mortgages trustee (except to the extent varied or waived by the Funding 1 security trustee where it has received written confirmation from the rating agencies that such variation or waiver will not cause the ratings of the outstanding rated notes to be reduced, withdrawn or qualified), the transaction documents provide that such loans and their related security shall not be assigned to the mortgages trustee.

In the mortgage sale agreement, the seller promises to use all reasonable endeavours to offer to sell to the mortgages trustee, and the mortgages trustee promises to use all reasonable endeavours to acquire from the seller and hold in accordance with the terms of the mortgages trust deed, until the earlier of the latest step-up date stated in the applicable final terms (or such later date as may be notified by Funding 1 and any further Funding companies to the seller) and the occurrence of a trigger event, sufficient new loans and their related security so that the seller's share in the trust property does not fall below the minimum seller share. Funding 1 may notify the seller to increase the size of the trust property in order to ensure that the seller's share in the trust property does not fall below the minimum seller share. However, the seller is not obliged to sell to the mortgages trustee, and the mortgages trustee is not obliged to acquire, new loans and their related security if, in the opinion of the seller, such sale would adversely affect the business of the seller.

If and when any further Funding company acquires more than a nominal interest in the trust property in accordance with the terms of the mortgages trust deed, such further Funding company may at any time, with the prior written consent of the relevant further Funding security trustee, notify the seller of any increase

or decrease in the minimum seller share or any amendment to the period in which the covenant of the seller shall apply, subject to written confirmation from the rating agencies that the then current ratings of rated notes (and any new rated notes, where applicable) then outstanding will not be downgraded, withdrawn or qualified as a result of such increase or decrease (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time).

### **Representations and warranties**

The mortgage sale agreement contains representations and warranties given by the seller to the mortgages trustee, Funding 1 and the Funding 1 security trustee in relation to each loan and its related security sold to the mortgages trustee pursuant to the terms of the mortgage sale agreement. None of the mortgages trustee, Funding 1, the Funding 1 security trustee, the issuer security trustee, the note trustee or the issuer will make or will cause to be made on its behalf any enquiries, searches or investigations of a type which a prudent purchaser or mortgagee would normally be expected to carry out in respect of the loans and their related security. Instead, each is relying entirely on the representations and warranties by the seller contained in the mortgage sale agreement. The representations and warranties in relation to each loan and its related security are made on the sale date that the relevant loan (including each new loan), together with its related security, is sold to the mortgages trustee. The parties to the mortgage sale agreement may, with the prior written consent of the Funding 1 security trustee (which consent will be given if directed to do so by the issuer security trustee, which direction will be given if directed to do so by the note trustee, which direction will be given if the rating agencies confirm that the then current ratings of the rated notes (and any new rated notes, where applicable) then outstanding will not be downgraded, withdrawn or qualified as a result of such waiver or amendment (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time)) or of any further Funding security trustee (where applicable), waive or amend the representations and warranties in the mortgage sale agreement. The material representations and warranties include:

1. the particulars of the loans set out in the exhibit to the mortgage sale agreement (or, as the case may be, the relevant new portfolio notice and each Scottish declaration of trust) are true, complete and accurate in all material respects;
2. each loan was originated by Alliance & Leicester or (on and from the Part VII effective date) Santander UK, in pounds sterling and is denominated in pounds sterling (or was originated and is denominated in euro if the euro has been adopted as the lawful currency for the time being of the United Kingdom);
3. each loan in the portfolio was made not earlier than 1 October 1994;
4. the final maturity date of each loan is no later than October 2052;
5. no loan has a current balance of more than £750,000;
6. the lending criteria are the lending criteria applicable to the loans and their related security;
7. prior to the making of each advance under a loan, the lending criteria and all preconditions to the making of that advance were satisfied in all material respects subject only to exceptions made on a case-by-case basis as would be acceptable to a reasonable, prudent mortgage lender;
8. (a) each loan was made and its related security taken or received substantially on the terms of the standard documentation without any material variation thereto and nothing has been done subsequently to add to, lessen, modify or otherwise vary the express provisions of any of the same in any material respect; and  
(b) the brochures, application forms, offers, offer conditions and marketing material distributed by the seller to the borrower when offering a loan to a borrower:
  - (A) do not conflict in any material respect with the terms applicable to the relevant loan and its related security at the time that the loan was entered into;
  - (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 and assignation of the loans and their related security to the mortgages trustee; and

- (ii) the administration of the loans and their related security by the seller or a delegate of the seller or the appointment of a new servicer following the occurrence of an insolvency event in relation to the seller;
9. at least one monthly payment has been made in respect of each loan;
  10. no loan is guaranteed by a third party;
  11. interest on each loan is charged in accordance with the standard documentation;
  12. all of the borrowers are natural legal persons and were aged 18 years or older at the date of execution of the mortgage;
  13. other than with respect to monthly payments within the scope of paragraph 14 below, no borrower is or has, since the date of the execution of the relevant mortgage, been in material breach or material default of any obligation owed in respect of the relevant loan or its related security and accordingly no steps have been taken by the seller to enforce any related security;
  14. the total amount of interest or principal in arrears, together with any fees, commissions and premiums payable at the same time as that interest payment or principal repayment, on any loan is not on the relevant sale date in respect of any loan, nor has been during the 12 months immediately preceding the relevant sale date, more than the amount of the monthly payment then due;
  15. interest on the loan is paid by the borrower and not by the Department of Work and Pensions on behalf of the borrower;
  16. no loan is made to an employee of the seller;
  17. no loan is made to a borrower who has more than one loan with the seller;
  18. no loan is made to a borrower in connection with the purchase by such borrower of properties under a right-to-buy scheme governed by the Housing Act 1985 (as amended by the Housing Act 2004) or, as applicable, the Housing (Scotland) Act 1987 (as amended by the Housing (Scotland) Act 2001), or, as applicable, pursuant to the Northern Ireland Housing Executive right to buy scheme or the House Sales Scheme operated by housing associations in Northern Ireland;
  19. no loan is made to a borrower for the purpose of financing construction of the relevant property;
  20. the whole of the current balance on each loan is secured by the relevant mortgage;
  21. 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;
  22. each mortgage constitutes a valid and subsisting first charge by way of legal mortgage, or (in Northern Ireland) a first ranking legal charge or mortgage, or (in Scotland) a first ranking standard security over the relevant mortgaged property, and subject only in certain appropriate cases to applications for registrations or recordings at the Land Registry of England and Wales or in the Registers of Scotland or the Registry of Deeds or Land Registry of Northern Ireland, which, where required, have been made and are pending and in relation to such cases the seller is not aware of any notice or any other matter that would prevent such registration or recording;
  23. each mortgage has first priority for the whole of the current balance on the related loan and all future interest, fees, costs and expenses payable under or in respect of such mortgage;
  24. save in relation to (i) any loan and related security which is, in each case, not binding by virtue of the Unfair Terms in Consumer Contracts Regulations 1994 or (as the case may be) the Unfair Terms in Consumer Contracts Regulations 1999, and (ii) any amount advanced under a flexible loan and any other further advance, in each case which is not enforceable by virtue of the CCA, each loan and its related security is valid and binding and enforceable in accordance with its terms, is non-cancellable and complies in all respects with the laws of the jurisdiction governing it, to the extent that failure to comply would have a material adverse effect on its enforceability or collectability. To the best of the seller's knowledge, none of the terms in any loan or its related security is unfair within the meaning of the Unfair Terms in Consumer Contracts Regulations 1994 or (as the case may be) the Unfair Terms in Consumer Contracts Regulations 1999. In this warranty, reference to any legislation shall be construed as a reference to that legislation as amended, extended or re-enacted from time to time;

25. all approvals, consents and other steps necessary to permit a legal or equitable or beneficial transfer, or a transfer of servicing or other disposal as and in the manner contemplated by the transaction documents away from the seller have been obtained or taken and there is no requirement in order for the transfer to be effective to obtain the consent of the borrower before, on or after any equitable or beneficial transfer or before any legal transfer of the loans and their related mortgages and such transfer or disposal shall not give rise to any claim by the borrower against the mortgages trustee, the Funding security trustees or any of their successors in title, assigns or assignees;
26. the outstanding principal balance, all accrued interest and all arrears of interest on each loan and its related security constitute a valid debt due to the seller from the relevant borrower and the terms of each loan and its related security constitute valid and binding obligations of the borrower;
27. all of the mortgaged properties are located in England, Wales, Scotland or Northern Ireland;
28. each property constitutes a separate dwelling unit and is either freehold (or in Scotland heritable title), leasehold or commonhold;
29. subject to paragraph 30 below, save for children of borrowers and lessees and children of someone living with the borrower and lessees and save for where the mortgage has been completed as part of the seller's mortgage transfer service, every person who, at the date upon which a mortgage over property situated in England and Wales or Northern Ireland 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. In respect of a Scottish mortgage, all necessary MH/CP Documentation has been obtained so as to ensure that neither the relevant Scottish mortgage nor the property secured thereby is subject to any right of occupancy;
30. No property has been let or sub-let otherwise than by way of:
  - (a) an assured shorthold tenancy which meets the requirements of Section 19A or Section 20 of the Housing Act 1988 (or such other agreement as may be authorised by the seller acting as a reasonable, prudent mortgage lender); or
  - (b) an assured tenancy; or
  - (c) a tenancy which is not controlled by the Rent (Northern Ireland) Order 1978 or the Private Tenancies (Northern Ireland) Order 2006; or
  - (d) in Scotland, a short assured tenancy which meets the requirements of Section 32 of the Housing (Scotland) Act 1988,in each case which meets the seller's policy in connection with lettings to non-owners;
31. not more than 12 months prior to the execution of each mortgage (or such longer period as may be acceptable to a reasonable, prudent mortgage lender), the seller received a valuation report on the relevant mortgaged property (or another form of report concerning the valuation of the relevant mortgaged 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 or such other form of valuation of the relevant property the acceptance of which the rating agencies have confirmed would not affect the then current ratings of the rated notes or any debt instruments of a Funding company (if applicable) then outstanding (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time and that, pursuant to Condition 16 of the terms and conditions, the confirmation of one of the rating agencies may be sufficient for such purpose);
32. prior to the taking of each mortgage (other than in the case of a remortgage where a more limited form of investigation of title may be followed (including, in the case of registered land, confirming that the borrower is the registered proprietor of the property and that the description of property corresponds with the entries on the relevant register at the relevant land registry) or where the mortgage transfer service has been used), the seller, (a) instructed its solicitor or licensed conveyancer or (in Scotland) qualified conveyancer to carry out an investigation of title to the relevant mortgaged property and to undertake such other searches, investigations, enquiries and other actions on its behalf in accordance with the instructions which the seller issued to the relevant solicitor or licensed conveyancer or (in Scotland) qualified conveyancer as are set out in the CML



Lenders' Handbook or such other comparable, predecessor or successor instructions and/or guidelines as may for the time being be in place, subject only to such variations made (i) in circumstances where a mortgage is provided by the seller on a "fees free" basis in connection with the re-mortgage of the property and provided that the relevant property is conveyed in accordance with a service agreement entered into between the seller and its solicitor or (ii) on a case-by-case basis as would be acceptable to a reasonable, prudent mortgage lender and (b) received a certificate of title from such solicitor or licensed conveyancer or (in Scotland) qualified conveyancer referred to in clause (a) relating to such mortgaged property, the contents of which would have been acceptable to a reasonable, prudent mortgage lender at that time;

33. the benefit of all valuation reports and certificates of title which were provided to the seller not more than two years prior to the date of the mortgage sale agreement can be validly assigned to the mortgages trustee without obtaining the consent of the relevant valuer, solicitor or licensed conveyancer or (in Scotland) qualified conveyancer;
34. buildings insurance cover for each mortgaged property is available under a policy arranged by the borrower in accordance with the relevant mortgage conditions, by the seller or by the relevant landlord or the properties in possession cover;
35. no act, event or circumstance has occurred which would adversely affect the properties in possession cover or entitle the insurers to refuse to make payment thereunder or to reduce the amount payable in respect of any claim thereunder;
36. all claims under the properties in possession cover have been paid in full within a reasonable time of the date of submission of the claim and, save in respect of minor claims, there are no claims outstanding;
37. the seller (or, in the case of a Northern Irish mortgage transferred to the seller under the Part VII scheme, Alliance & Leicester but only as the legal owner) has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits in relation to the loans agreed to be sold by the seller to the mortgages trustee under the mortgage sale agreement free and clear of all security interests, claims and equities (including, without limitation, rights of set-off or counterclaim and unregistered dispositions which override first registration and unregistered interests which override registered dispositions (as listed in Schedule 1 and Schedule 3, respectively, of the Land Registration Act 2002) in the case of any property, interests or rights governed by English law, or any overriding interest as defined in Section 28(1) of the Land Registration (Scotland) Act 1979 in the case of any property, interests or rights governed by Scots law, or, in the case of any property, interests or rights governed by Northern Irish law as provided for in the Land Registration Act (Northern Ireland) 1970) and the seller is not in breach of any covenant or undertaking implied by reason of its selling the relevant portfolio with full title guarantee or with absolute warrandice or as beneficial owner, as the case may be;
38. all steps necessary to perfect the seller's title to the loans and the related security were duly taken at the appropriate time or are in the process of being taken, in each case (where relevant) within any applicable priority periods or time limits for registration with all due diligence and without undue delay;
39. save for title deeds held at the Land Registry or the Registers of Scotland, the Land Registry of Northern Ireland or the Registry of Deeds, as the case may be, and save in relation to loans which are dematerialised loans, the title deeds and the customer files relating to each of the loans and their related security are held by, or are under the control of:
  - (a) the seller of the loan;
  - (b) the servicer or the sub-servicer; or
  - (c) the seller's solicitors or licensed conveyancers or (in Scotland) qualified conveyancers to the order of the seller,

and the title deeds held at the Land Registry or the Registers of Scotland, the Land Registry of Northern Ireland or the Registry of Deeds, as the case may be, have been sent to it with a request that any such title deeds will be returned to the seller or its solicitors or licensed conveyancer or (in Scotland) qualified conveyancer or the servicer on its behalf;

40. 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 adversely affects or

will adversely affect any of the loans and their related security (including, without limitation, the insurance policies) 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;

41. the seller has not knowingly waived or acquiesced in any breach of any of its rights in respect of a loan or its related security, other than waivers and acquiescence such as a reasonable, prudent mortgage lender might make on a case-by-case basis;
42. the seller has, since the making of each loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all variations in the relevant financial terms and conditions, transactions, payments, payment holidays, receipts, proceedings and notices relating to such loan;
43. the seller has not and as far as the seller is aware any of its agents have not received written notice of any litigation, claim, dispute or complaint (in each case, subsisting, threatened or pending) in respect of any borrower, property, loan, mortgage, related security, relevant policy or properties in possession cover which (if adversely determined) might have a material adverse effect on the portfolio or any part of it;
44. there are no authorisations, approvals, licences or consents required, which have not been obtained, for the seller to enter into or to perform its obligations under the mortgage sale agreement or to make the mortgage sale agreement legal, valid, binding, enforceable and admissible in evidence;
45. to the extent that any loan constitutes a regulated mortgage contract for the purposes of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, the seller has materially complied with its obligations under the FSMA (including, without limitation, MCOB) in connection with the origination and administration of such loan and has not received written notice of any allegation or claim that any of its obligations under the FSMA in connection with the origination and administration of any loan have not been made in full;
46. the seller and servicer have and will maintain all necessary consents, authorisations, approvals, licences and orders, including without limitation all necessary licences under the CCA and authorisations under the FSMA to originate and administer the loans; and
47. in respect of each loan and its related security, (i) where there is any restriction on the assignment or transfer of any loan or related security relating to the advance of monies other than the loan or any further advance secured by the related security, no such monies have been advanced to the borrower since the date of completion of such loan save for where such monies have been advanced under an agreement regulated by the CCA or Chapter 14A of Part 2 of the Regulated Activities Order, as applicable which does not include as one of its terms that the money payable under it is secured by the relevant mortgage and (ii) to the extent that any agreement for that loan or any part of it is or has ever been a regulated agreement or treated as such under the CCA or Chapter 14A of Part 2 of the Regulated Activities Order, as applicable, or is or has ever been a linked transaction under the CCA all requirements of the CCA and, as applicable, the Consumer Credit Sourcebook of the Financial Conduct Authority Handbook have been met in full.

If new loan types are to be sold to the mortgages trustee, then the representations and warranties in the mortgage sale agreement will be modified as required to accommodate these new loan types. Your prior consent to the requisite amendments will not be sought, provided that the conditions for the sale of new loan types to the mortgages trustee have been satisfied.

#### ***Repurchase of loans under a mortgage account***

Save with respect to product switches and further advances (as to which see “– **Product switches and further advances**” below), under the mortgage sale agreement, if a loan does not materially comply on the sale date with the representations and warranties made under the mortgage sale agreement:

- (i) the seller will be required to remedy the breach within 20 London business days of the mortgages trustee (acting on the directions of Funding 1 and any further Funding company and/or the Funding 1 securing trustee and any further Funding security trustee) giving written notice of the breach to the seller; or
- (ii) if the breach is not remedied within the 20 London business day period then, at the direction of Funding 1 and any further Funding companies (with the prior written consent of the Funding 1

security trustee and any further Funding security trustees), the mortgages trustee will require the seller to purchase the loan under the relevant mortgage account and its related security from the mortgages trustee on the trust calculation date immediately following the date of such notice at a price equal to its current balance as of the immediately following trust calculation date.

For so long as the seller is the servicer, it must notify the mortgages trustee, Funding 1, any further Funding companies, the Funding 1 security trustee and any further Funding security trustees in writing of any material breach of a warranty as soon as its board of directors become aware of such breach.

The seller will also be required to repurchase the loan under any mortgage account and its related security if a court or other competent authority or any ombudsman makes any determination in respect of that loan and its related security that:

- (a) any term which relates to the recovery of interest under the standard documentation applicable to that loan and its related security is unfair; or
- (b) the interest payable under that loan is to be set by reference to the seller variable rate for that particular type of loan; or
- (c) the variable margin above the base rate under that loan must be set by the seller; or
- (d) the interest payable under that loan is to be set by reference to an interest rate other than that set or purported to be set by either the servicer or the mortgages trustee as a result of the seller having more than one variable mortgage rate.

The seller will also be required to repurchase a loan under any mortgage account that is a portable loan and its related security on the London business day following the date that the borrower transfers the loan balance at the same interest rate and subject to all the existing terms and conditions to a new property during any applicable discount rate period, fixed rate period or premium rate period. The seller will repurchase the portable loan under the relevant mortgage account and its related security from the mortgages trustee at a price equal to its current balance as of the London business day immediately following the date that such portable loan is transferred to the new property.

If the seller fails to pay the consideration due for the repurchase (or otherwise fails to complete the repurchase), then (under the terms of the mortgages trust deed) the seller share of the trust property shall be deemed to be reduced by an amount equal to that consideration.

### ***Product switches and further advances***

A loan will be subject to a **product switch** if the borrower and the seller agree or the servicer (on behalf of the seller) offers a variation in the financial terms and conditions applicable to the relevant loan other than any variation:

- agreed with a borrower to control or manage arrears on the loan;
- of the maturity date of the loan unless, while the intercompany loan is outstanding, it is extended beyond October 2052;
- imposed by statute (excluding any variation or arrangement agreed with a borrower made pursuant to the Homeowner Mortgage Support Scheme or a comparable scheme operated by the seller);
- of the rate of interest payable in respect of the loan where that rate is offered to the borrowers of more than 10 per cent. by current balance of loans in the trust property as calculated on the next trust calculation date as at the end of the immediately preceding trust calculation period (except where such variation would cause the yield of the loans comprising the trust property to be less than the minimum yield (after taking into account the average yield on the loans which are variable rate loans, base rate loans and fixed rate loans and the margins on the Funding 1 swap(s) (and the relevant swaps of any further Funding companies, where applicable))); and/or
- in the frequency with which the interest payable in respect of the loan is charged.

A **permitted product switch** is a variation in the financial terms and conditions of a loan in which a borrower exchanges its then current loan product for a different loan product offered by the seller, provided that:

- the relevant borrower has made at least one monthly payment on its then current loan product;
- the new loan for which the prior loan is to be exchanged is a permitted replacement loan;
- each of the conditions for the assignment of new loans and their related security (other than conditions (e) and (h)) as set forth under “– **Conditions for sale of initial loans and new loans**” above are satisfied, provided that conditions (i), (j) and (l) in that section will only be required to have been satisfied on the date of the most recent assignment of loans to the mortgages trustee;
- the interest-only mortgages level test is satisfied if, as calculated on the most recent trust calculation date:  $A/B \times 100 \leq C$

where

A = the current balance of all interest-only loans (which, for the avoidance of doubt includes interest-only components of combination repayment and interest-only loans) comprised in the trust property as at the relevant trust calculation date; B = the current balance of all loans comprised in the trust property as at the relevant trust calculation date; and C = the number specified in the most recent final terms; and

the product switch is not a variation or arrangement agreed with a borrower made pursuant to the Homeowner Mortgage Support Scheme as set out by HM Treasury in a press notice on 10 December 2008 and as set out in further detail by the Department for Communities and Local Government in a press notice on 21 April 2009 (or a comparable scheme operated by the seller).

A **permitted replacement loan** is a loan:

- that is subject to either a fixed rate, a variable rate or a base rate-linked rate of interest;
- that has a maturity date prior to October 2052; and
- to which the purchase obligations of the seller set forth under “– **Repurchase of loans under a mortgage account**” above shall not apply.

A mortgage will be subject to a further advance if, following a request from the borrower and the servicer (on behalf of the seller) agreeing to it, a further amount is lent to the borrower under the mortgage.

If the servicer (on behalf of the seller) agrees to any request regarding a product switch or further advance and if the loan which is the subject of the product switch or further advance is in the portfolio at such time, the seller pursuant to the terms of the mortgage sale agreement will agree that the loan will:

- as at the date of such product switch or further advance, materially comply with the representations and warranties set out in the mortgage sale agreement which are described earlier in this section under “– **Representations and warranties**”; and
- as of the next following trust calculation date, comply with each of the relevant conditions set forth below under “– **Conditions for product switches and further advances**”.

If the loan, following such product switch or further advance, does not comply as required above, the seller will be required to repurchase such loan under the relevant mortgage account and its related security from the mortgages trustee at a price equal to its current balance on the date of such product switch or further advance being made.

In addition, the seller is entitled to (but is not obliged to) repurchase loans that are the subject of further advances and their related security from the mortgages trustee at a price equal to their current balance on the date of such further advances being made.

It should be noted that, whilst the obligation on the seller to repurchase (a) loans which do not comply with the relevant eligibility criteria or materially with the representations and warranties or (b) loans that are subject of further advances that the seller has decided to repurchase is daily, reconciliation of the transfer of the related security will not occur until the next following trust calculation date. The mortgages trustee covenants in the mortgage sale agreement that it shall not deal with the related security corresponding to such loans other than on the instructions of the seller (acting through the servicer) during the period between such loan being repurchased by the seller and the legal requirements for the retransfer of the beneficial interest in its related security being completed on the next following trust calculation date.

The seller will be solely responsible for funding a further advance and the seller share of the trust property will increase by an amount equal to the advance made to the borrower. Neither the mortgages trustee nor Funding 1, nor any further Funding company if established, may themselves advance funds to the seller and/or the borrower for the purposes of funding a further advance in any circumstances.

**Conditions for product switches and further advances**

In order for any loan which has been the subject of a product switch or a further advance to remain in the mortgages trust, the following conditions (which may be varied or waived by the mortgages trustee (subject to the prior notification by the rating agencies that the then current ratings of any rated notes (and any new rated notes, where applicable) will not be downgraded, withdrawn or qualified as a result of such variation or waiver (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time))) must be complied with as of the trust calculation date immediately following the product switch or the making of the further advance:

- (a) no event of default under the transaction documents (or event of default under the transaction documents of any further Funding company, where applicable) shall have occurred which is continuing or unwaived as at the relevant trust calculation date;
- (b) as at the relevant trust calculation date, the aggregate current balance of loans comprising the trust property, in respect of which the aggregate amount in arrears is more than 3 times the monthly payment then due, is less than 4 per cent. of the aggregate current balance of the loans comprising the trust property at that date or such other percentage as the rating agencies confirm is sufficient in order that the then current ratings of the rated notes (and any new rated notes, where applicable) then outstanding are not downgraded, withdrawn or qualified (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time);
- (c) the aggregate of amounts in arrears in respect of the loans comprised in the mortgages trust, as a percentage of the gross interest due on all loans comprised in the mortgages trust during the immediately preceding 12 months, does not exceed 2 per cent. (or such other percentage that the rating agencies confirm is sufficient in order that the then current ratings of the rated notes (and any new rated notes, where applicable) then outstanding are not downgraded, withdrawn or qualified (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time));
- (d) as at the relevant trust calculation date, the adjusted general reserve fund level is equal to or greater than the general reserve required amount (and the equivalent condition is met in relation to each further Funding company, where applicable);
- (e) the mortgages trustee is not aware that the then current ratings of the rated notes (and any new rated notes, where applicable) then outstanding would be downgraded, withdrawn or qualified as a result of the relevant product switch and/or further advance remaining in the mortgages trust;
- (f) each loan and its related security which is the subject of a product switch and/or a further advance materially complies at the date of such product switch and/or further advance with the representations and warranties set out in the mortgage sale agreement, which are described earlier in this section in “– **Representations and warranties**”;
- (g) as a result of the relevant product switch and/or further advance remaining in the mortgages trust, on the relevant trust calculation date, the product of the WAFF and WALs, each as calculated in accordance with Standard & Poor’s methodology, for the loans comprising the trust property after such product switch and/or further advance calculated on such trust calculation date (in the same way as for the initial loans comprising the mortgages trust as at the initial closing date (or as agreed by the servicer and the rating agencies from time to time)) will not exceed the product of the WAFF and WALs for the loans comprising the trust property calculated on the most recent closing date, plus 0.25 per cent.;
- (h) the yield of the loans in the trust property on the relevant trust calculation date is at least equal to the minimum yield, after taking into account the average yield on the loans which are variable rate loans, base rate loans and fixed rate loans and the margins on the Funding 1 swap(s) (and any relevant swap agreements of each further Funding company, where applicable), in each case as at the relevant trust calculation date;
- (i) if the making of a product switch and/or further advance would result in a new loan type being included in the mortgages trust, then the Funding 1 security trustee (and any further Funding security trustee, where applicable) has previously received written confirmation from the rating

agencies that the then current ratings of the rated notes (and any new rated notes, where applicable) then outstanding will not be downgraded, withdrawn or qualified as a result of the loans which were subject to a product switch and/or further advance remaining in the trust property (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time);

- (j) the Funding 1 swap agreement (and any swap agreement of each further Funding company, where applicable) has been modified if and as required (and, if appropriate, Funding 1 has entered into a new Funding 1 swap agreement or each further Funding company has entered into any new swap agreements) to hedge against the interest rates payable in respect of such product switches and/or further advances and the floating rate of interest payable on the intercompany loan;
- (k) no trigger event has occurred on or before the relevant trust calculation date; and
- (l) the product switch or further advance will not result in a breach of any of the Fitch conditions (as the same may be amended from time to time as calculated on the most recent trust calculation date).

The Fitch conditions are described earlier in this section in "**– Representations and warranties**", except that such conditions will be required to be satisfied as at the most recent trust calculation date, without reference to the particular product switch or further advance.

### ***Excluded further advances and excluded product switches***

Notwithstanding the above, if the seller delivers an excluded further advance notice and/or an excluded product switch notice to the mortgages trustee in accordance with the mortgage sale agreement, then the seller will repurchase all loans that are the subject of further advances and/or product switches, respectively, made from the date of that notice until the date on which the relevant notice is revoked in accordance with the terms of the mortgage sale agreement. Previously, the seller delivered an excluded product switch notice to the mortgages trustee on 7 March 2011 and an excluded further advance notice on 14 August 2013, following which loans subject to product switches and further advances, as applicable, are subject to repurchase until the excluded product switch notice and/or excluded further advance notice is revoked.

### ***Repurchase of arrears mortgage loans***

The seller may from time to time request the mortgages trustee to sell to it a loan comprised in the trust property and its related security if such loan is in arrears by delivering a written notice to the mortgages trustee, Funding 1, the servicer and the Funding 1 security trustee identifying the loans to be repurchased pursuant to the terms of the mortgage sale agreement. Within two business days of receipt of such notice, the mortgages trustee 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 Funding 1 deed of charge and any supplement thereto, each relevant loan and their related security. On completion of such repurchase the seller shall pay to the mortgages trustee GIC account (or as the mortgages trustee shall direct) an amount equal to the aggregate current balance of such loan or loans. The amount of loans in arrears repurchased pursuant to the terms of the mortgage sale agreement shall be notified to the servicer for inclusion in the monthly investor report.

The expression "in arrears" for the purposes of the repurchase of arrears mortgage loans means, in respect of a loan, on any date that two or more monthly payments in respect of such loan have become due and remain unpaid by the relevant borrower.

### ***Transfer of legal title to the mortgages trustee***

Each sale of English loans and the Northern Irish loans and their respective related security to the mortgages trustee has been or will be made by way of equitable assignment. Each sale of Scottish loans and their related security to the mortgages trustee has been or will be made by way of Scottish declarations of trust under which the beneficial interest in such Scottish loans has been or will be transferred to the mortgages trustee. Legal assignment or assignation of the loans and their related security (including, where appropriate, their registration or recording in the relevant property register) to the mortgages trustee will be deferred and will only take place, if at all, in the limited circumstances described below. See also "**Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on your notes**" above.

Legal assignment or assignation of the loans and their related security to the mortgages trustee will be completed within 20 London business days of receipt of written notice from the mortgages trustee (as directed by Funding 1 and any further Funding companies and/or the Funding 1 security trustee and any further Funding security trustee) requesting that the seller take such actions. The mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee will each undertake that they will not make such a request unless any of the following events occur:

- (a) the service of an intercompany loan acceleration notice in relation to the intercompany loan or a note acceleration notice in relation to the notes (or equivalent events in relation to any new intercompany loans or new notes, where applicable);
- (b) the seller being required to perfect the mortgages trustee's legal title to the mortgages, by an order of a court of competent jurisdiction, or by a regulatory authority to which the seller is subject or any organisation whose members comprise, but are not necessarily limited to, mortgage lenders with whose instructions it is customary for the seller to comply;
- (c) it becoming necessary by law to take actions to perfect legal title to the mortgages;
- (d) the Funding 1 security (or the security granted to any further Funding security trustee, where applicable) or any material part of such security being, in the reasonable opinion of the Funding 1 security trustee (or such further Funding security trustee, where applicable) in jeopardy and the Funding 1 security trustee (or such further Funding security trustee, where applicable) deciding to take action to reduce materially that jeopardy;
- (e) the termination of the seller's role as servicer under the servicing agreement unless the rating agencies provide confirmation that the then current ratings of the rated notes (and any new rated notes, where applicable) then outstanding will not be downgraded, withdrawn or qualified as a result of such termination (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time);
- (f) the seller requesting perfection by serving notice on the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding companies and any further Funding security trustees;
- (g) the occurrence of an insolvency event in relation to the seller;
- (h) the latest final repayment date of the outstanding loan tranches under the intercompany loan (and any outstanding new loan tranches under any new intercompany loans, where applicable); and
- (i) the seller ceasing to have a long-term, unsecured, unsubordinated and unguaranteed credit rating by Standard & Poor's of at least BBB- or a long-term IDR by Fitch of at least BBB-.

Pending completion of the transfer, the right of the mortgages trustee to exercise the powers of the legal owner of the mortgages is secured and supported by (in the case of all loans and their related security) an irrevocable power of attorney granted by the seller in favour of the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee and (in the case of any Northern Irish registered charges originated by and remaining registered in the name of Alliance & Leicester from the Part VII effective date) a further irrevocable power of attorney granted by Alliance & Leicester to Santander UK, the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee.

If the seller ceases to have a long-term, unsecured, unsubordinated and unguaranteed credit rating by Moody's of at least Baa3, or ceases to have a short-term, unsecured, unsubordinated and unguaranteed credit rating by Standard & Poor's of at least A-2 or ceases to have a long-term IDR by Fitch of at least BBB- (or such other ratings as may be acceptable to the rating agencies from time to time), the seller will be obliged to give notice only of the transfer of the equitable and beneficial interest in the loans to the borrowers but will not be required to complete any other steps necessary to perfect legal title to the loans in favour of the mortgages trustee, except in the case of the seller ceasing to have a long-term IDR by Fitch of at least BBB- as provided above.

The title deeds (to the extent retained by the seller) and customer files relating to the loans are currently held by or to the order of the seller or by solicitors or licensed conveyancers or (in Scotland) qualified conveyancers acting for the seller in connection with the creation of the loans and their related security. The seller has undertaken that as of the initial closing date, all the title deeds (to the extent retained by the seller) and customer files relating to the loans in the portfolio which are at any time in its possession or under its control or held to its order will be held to the order of the mortgages trustee.

### **Reasonable, prudent mortgage lender**

Reference in the documents to the seller and/or the servicer acting to the standard of a **reasonable, prudent mortgage lender** means the seller and/or the servicer, as applicable, acting in accordance with the standards of a reasonably prudent residential mortgage lender lending to borrowers in England, Wales, Northern Ireland and Scotland who generally satisfy the lending criteria of traditional sources of residential mortgage capital.

### **Governing law**

The mortgage sale agreement and any non-contractual obligations arising out of or in connection with it is principally governed by English law, but contains certain Scots law and Northern Irish law provisions which, in the case of Scots law provisions and any non-contractual obligations arising out of or in connection therewith, are construed in accordance with Scots law and, in the case of Northern Irish law provisions and any non-contractual obligations arising out of or in connection therewith, are construed in accordance with Northern Irish law. The Scottish declarations of trust are and will be governed by Scots law.

### **The intercompany loan agreement**

On or about the initial closing date, the issuer, Funding 1, the issuer security trustee, the Funding 1 security trustee and the agent bank entered into an intercompany loan agreement. The rights of Funding 1 in respect of the intercompany loan agreement were assigned by way of security (and, to the extent not assignable, charged) to the Funding 1 security trustee under the Funding 1 deed of charge. The rights of the issuer in respect of the intercompany loan agreement were assigned by way of security (and, to the extent not assignable, charged) to the issuer security trustee under the issuer deed of charge.

### **The facility**

Pursuant to the terms of the intercompany loan agreement, the issuer will lend to Funding 1 from time to time on the relevant closing date for each series and class of notes an aggregate amount in sterling equal to the proceeds of issue of such notes. Each such advance of funds will be a separate loan tranche under the intercompany loan agreement. Each loan tranche will relate to a particular series and class of notes. The loan tranche supplement to the intercompany loan agreement will contain the terms of each loan tranche. Funding 1 will use the proceeds of each loan tranche to:

- make an initial contribution to the mortgages trustee (which the mortgages trustee will use to pay the seller part of the consideration for loans (together with their related security) sold to the mortgages trustee in connection with the issuance of notes by the issuer, which will result in a corresponding increase in Funding 1's share of the trust property); or
- make a further contribution to the mortgages trustee (which the mortgages trustee will pay to a further Funding company (a **refinancing distribution**) or the seller (a **special distribution**), as the case may be, which will result in a corresponding decrease of such further Funding company's or the seller's share of the trust property, as the case may be, and a corresponding increase in Funding 1's share of the trust property); or
- fund or replenish the general reserve fund; or
- refinance an existing loan tranche or a new loan tranche (if any) made available to Funding 1.

### **Ratings designations of the loan tranches**

The designated loan tranche ratings of the loan tranches will be set out in the applicable loan tranche supplement. The designated loan tranche ratings of the AAA loan tranches will reflect the ratings expected to be assigned to any corresponding class A notes by the rating agencies on the relevant closing date except that money market notes will have different short-term ratings. The designated loan tranche ratings of the AA loan tranches will reflect the ratings expected to be assigned to any corresponding class B notes by the rating agencies on the relevant closing date. The designated loan tranche ratings of the A loan tranches will reflect the ratings expected to be assigned to any corresponding class M notes by the rating agencies on the relevant closing date. The designated loan tranche ratings of the BBB loan tranches will reflect the ratings expected to be assigned to any corresponding class C notes by the rating agencies on the relevant closing date. The designated loan tranche ratings of the BB loan tranches will reflect the ratings expected to be assigned to any corresponding class D notes by the rating agencies on the relevant closing date. The designated loan tranche ratings of the NR loan tranches reflect the fact that no ratings will be assigned to any corresponding class Z notes by the rating agencies on the relevant closing date. The foregoing ratings assigned to a loan tranche are collectively referred to as the **loan tranche ratings**. If, after any closing date, the rating agencies change the rating assigned to a series and class of rated notes, this will not affect the loan tranche ratings of the related loan tranche under the intercompany loan agreement.



### **Issuance of loan tranches**

The issuer may advance loan tranches to Funding 1 and issue corresponding series and classes of notes from time to time without obtaining the consent of existing noteholders. The issuer will not be obliged to advance loan tranches to Funding 1 unless on the applicable closing date certain conditions have been met, including:

- that the related series and class of notes have been issued and the proceeds received by or on behalf of the issuer;
- that Funding 1 has delivered a certificate to the issuer and the issuer security trustee certifying that it is solvent;
- that each of the applicable transaction documents has been duly executed by the relevant parties to it;
- one or more deeds of accession relating to the Funding 1 deed of charge have been executed by or on behalf of the parties to the Funding 1 deed of charge; and
- one or more deeds of accession relating to the issuer deed of charge have been executed by or on behalf of the parties to the issuer deed of charge.

### **Representations and covenants**

Funding 1 makes several representations to the issuer in the intercompany loan agreement including representations that Funding 1 has been duly incorporated and that it has the requisite corporate power and authority to enter into the transaction documents to which it is a party.

In addition, Funding 1 agrees that:

- it will not create or permit to subsist any encumbrance, unless arising by operation of law, or other security interest over any of its assets other than pursuant to the transaction documents;
- it will not carry on any business or 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 Funding 1 will engage;
- it will not have any subsidiaries, any subsidiary undertakings, both as defined in the Companies Act 2006 as amended, or any employees or premises;
- it will not transfer, sell, lend, part with or otherwise dispose of all or any of its assets, properties or undertakings or any interest, estate, right, title or benefit therein other than as contemplated in the transaction documents;
- it will not pay any dividend or make any other distribution to its shareholders, other than in accordance with the Funding 1 deed of charge, and it will not issue any new shares;
- it will not incur any indebtedness in respect of any borrowed money or give any guarantee in respect of any indebtedness or of any obligation of any person whatsoever other than indebtedness contemplated by the transaction documents; and
- it will not enter into any amalgamation, demerger, merger or reconstruction, nor acquire any assets or business nor make any investments other than as contemplated in the transaction documents.

### **Payments of interest**

Payment of interest and fees on each loan tranche will be made only from and to the extent of distributions by the mortgages trustee of amounts constituted from revenue receipts to Funding 1 in respect of the Funding 1 share of the trust property. Such payments of interest and fees will be made on Funding 1 interest payment dates in the priorities set forth in “**Cashflows**” below.

The interest rates applicable to the loan tranches from time to time will be determined by reference to LIBOR for three-month sterling deposits or, for some loan tranches, such other sterling LIBOR rate as may be specified in the applicable loan tranche supplement (other than, in each case, in respect of the first interest period) plus or minus, in each case, a margin which may differ for each separate loan tranche. The Funding 1 interest payment dates and the corresponding interest periods applicable to loan tranches will be

quarterly for so long as the notes (other than the monthly payment notes) issued by the issuer have quarterly interest payment dates corresponding to the quarterly interest payment dates of the notes (other than the monthly payment notes) issued on the initial closing date. Thereafter, the Funding 1 interest payment dates and the corresponding interest periods will be monthly, although the interest rates applicable to the loan tranches will only be re-set quarterly on the Funding 1 interest payment date corresponding with the interest payment date on the corresponding series and class of the notes. The issuer will be required to hold any such monthly interest payments in the issuer GIC account to be held with the issuer account bank to be established by the issuer in such circumstances until the next interest payment date in respect of the corresponding class of notes. The loan tranche supplement for each loan tranche and the accompanying final terms sets out details relating to the Funding 1 interest payment dates and payment of interest on the loan tranches related to the corresponding series and class of notes issued.

Notwithstanding the foregoing, following the occurrence of a pass-through trigger event the interest rate applicable to the relevant loan tranche will be determined by reference to LIBOR for one-month sterling deposits plus or minus the applicable margin.

In addition, prior to enforcement of the Funding 1 security, Funding 1 will agree to pay an additional fee to the issuer on each Funding 1 interest payment date or otherwise when required. The fee on each Funding 1 interest payment date will be equal to the amount needed by the issuer to pay or provide for other amounts falling due, if any, to be paid to its creditors (other than amounts of interest and principal due on the notes and tax that can be met out of the issuer's profits) and a sum (in an amount equal to £1,250) to be retained by the issuer as profit. The fee will be paid by Funding 1 out of the Funding 1 available revenue receipts.

### **Repayment of principal on the loan tranches**

Repayment of a loan tranche may be by way of bullet repayment, scheduled amortisation or on a pass-through basis. A loan tranche with a bullet repayment date is a loan tranche that is scheduled to be repaid in full on one Funding 1 interest payment date (a **bullet loan tranche**). A loan tranche with scheduled amortisation is a loan tranche that is scheduled to be repaid in instalments (the latest of which may be repaid prior to the final repayment date) (each a **scheduled amortisation instalment**) on one or more Funding 1 interest payment dates (a **scheduled amortisation loan tranche**). A loan tranche with pass-through repayment is a loan tranche that has no scheduled repayment date other than its final repayment date (a **pass-through loan tranche**). Loan tranches with pass-through repayment will be repaid on or after the Funding 1 interest payment date on which the loan tranches with the same series designation and a higher rating designation in respect of the series have been fully repaid.

Repayment of principal on the loan tranches will only be made from and to the extent of distributions by the mortgages trustee of amounts constituted from principal receipts to Funding 1 in respect of the Funding 1 share of the trust property.

The loan tranche supplement for each loan tranche and the accompanying final terms will set forth (i) the bullet repayment dates, (ii) the scheduled repayment dates or (iii) the final repayment date on which a pass-through loan tranche is scheduled to be paid, as applicable. Each such date will be the same as the equivalent dates for the corresponding series and class of notes.

A loan tranche (or part thereof) will become due on the earliest to occur of:

- any date specified in relation to such loan tranche in the applicable loan tranche supplement and accompanying final terms;
- the date upon which a trigger event occurs;
- the date upon which a note acceleration notice is served on the issuer under the notes;
- the date upon which an intercompany loan acceleration notice is served on Funding 1 under the Funding 1 deed of charge; and
- (unless otherwise indicated in the applicable final terms) the date upon which a step-up date, if any, occurs in relation to the relevant loan tranche as specified in the applicable loan tranche supplement and accompanying final terms,

in each case subject to the applicable Funding 1 principal priority of payments.

In each case, when a loan tranche becomes due, it shall continue to be due until it is fully repaid. If there are insufficient funds available to repay a loan tranche on a Funding 1 interest payment date upon

which that loan tranche has become or remains due, then the shortfall will be repaid on subsequent Funding 1 interest payment dates from Funding 1 available principal receipts until that loan tranche is fully repaid. You should note that in certain other circumstances payments on the AA loan tranches, the A loan tranches, the BBB loan tranches, the BB loan tranches, the NR loan tranches and the Funding 1 loan will be deferred. See “**Cashflows – Distribution of Funding 1 available principal receipts**” below.

Funding 1 may, as a general matter, make a repayment of principal on a loan tranche if, following such repayment, each tier of loan tranches then outstanding retains its required amount of subordination. This general requirement is expressed in the repayment tests set out below in “**Cashflows – Distribution of Funding 1 available principal receipts**” which must be satisfied in respect of any repayment of principal on a loan tranche.

### ***Limited recourse***

Funding 1 will only be obliged to pay amounts to the issuer in respect of any loan tranche to the extent that it has funds to do so after making payments ranking in priority to amounts due on such loan tranches (including amounts due on loan tranches of a more senior ranking).

If, on or prior to the final repayment date of a loan tranche outstanding under the intercompany loan agreement, there is a shortfall between the amount of interest and/or principal due on that loan tranche and the amount available to Funding 1 to make that payment, then that shortfall shall not be due and payable to the issuer until the time (if ever) when Funding 1 has enough money available to pay the shortfall on that loan tranche (after making any other payments due that rank higher in priority to that loan tranche).

Following enforcement of the Funding 1 security and distribution of all proceeds of such enforcement in accordance with the terms of the Funding 1 deed of charge, all outstanding claims of the issuer and the Funding 1 security trustee against Funding 1 in respect of the intercompany loan will be extinguished.

### ***Funding 1 intercompany loan events of default***

The intercompany loan agreement will contain events of default (each a **Funding 1 intercompany loan event of default**), which will include, among other things, the following events:

- a default by Funding 1 for a period of five London business days in the payment of any amount payable under the intercompany loan agreement (but subject to the limited recourse provisions described in this section);
- Funding 1 does not comply in any material respect with its obligations under any of the transaction documents (other than non-payment as set out in the preceding paragraph) and that non-compliance, if capable of remedy, is not remedied promptly and in any event within 20 London business days of Funding 1 becoming aware of its non-compliance or of receipt of written notice from the Funding 1 security trustee requiring Funding 1's non-compliance to be remedied; or
- an insolvency event occurs in relation to Funding 1 or it is, or becomes, unlawful for Funding 1 to perform its obligations under any of the transaction documents.

Investors should note that, as described in “– **Repayment of principal on the loan tranches**” and “– **Limited recourse**” above, it will not be an event of default under the intercompany loan agreement if default is made by Funding 1 in paying amounts due under the intercompany loan agreement where Funding 1 does not have the money available to make the relevant payment or where the repayment tests are not satisfied. The ability of the issuer to repay each series and class of notes will depend, among other things, upon payments received by the issuer from Funding 1 under the related loan tranches pursuant to the intercompany loan agreement. See “**Risk factors – Funding 1 is not obliged to make payments on the loan tranches if it does not have enough money to do so, which could adversely affect payments on your notes**” above.

If a Funding 1 intercompany loan event of default occurs and is continuing under the intercompany loan agreement, then the Funding 1 security trustee (subject to the terms of the Funding 1 deed of charge and to the Funding 1 security trustee being indemnified and/or secured to its satisfaction) will be entitled to deliver an acceleration notice to Funding 1 stating that the Funding 1 intercompany loan event of default has occurred and directing that all loan tranches outstanding under the intercompany loan agreement become immediately due and payable and/or that all loan tranches outstanding under the intercompany loan agreement become due and payable on the demand of the Funding 1 security trustee. Upon the service of an acceleration notice the Funding 1 security trustee may enforce the security created under the Funding 1 deed of charge (subject to the terms of the Funding 1 deed of charge).

## **New intercompany loan agreements**

New issuers may be established by Holdings for the purpose of issuing new notes to investors and using the proceeds thereof to make new intercompany loans to Funding 1 and/or further Funding companies. The issuance of such notes by any such new issuers and the making of the related new intercompany loans will only be permitted if certain conditions precedent are satisfied, including, among other things, that the ratings of the rated notes then outstanding issued by the issuer will not be reduced, withdrawn or qualified at the time of the issuance of such new notes by the new issuer. See “**Risk factors – If Funding 1 enters into new intercompany loan agreements, such new intercompany loans and accompanying notes may be repaid prior to the intercompany loan and the notes**” and “**Risk factors – Other creditors may share in the same security granted by Funding 1 to the Funding 1 security trustee, and this may adversely affect payments on the notes**” above.

### **Governing law**

The intercompany loan agreement and any non-contractual obligations arising out of or in connection with it is governed by English law.

### **Servicing agreement**

On the initial closing date, the servicer was appointed by the mortgages trustee (on the direction of the seller and Funding 1) pursuant to the terms of the servicing agreement to administer the loans and their related security in the portfolio. The rights of Funding 1 in respect of the servicing agreement were assigned by way of security (and, to the extent not assignable, charged) to the Funding 1 security trustee under the Funding 1 deed of charge.

In the future, further Funding companies and relevant Funding security trustees may adhere and accede to the servicing agreement, although there is no certainty that such an event or events will occur. Your consent will not be sought when any further Funding companies and relevant further Funding security trustees accede to the servicing agreement provided that the rating agencies confirm that the current ratings of the rated notes (and any new rated notes, where applicable) then outstanding will not be downgraded, withdrawn or qualified as a result (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time).

The servicer has undertaken that in its role as servicer it will comply with any proper directions and instructions that the mortgages trustee or the beneficiaries may from time to time give to it in accordance with the provisions of the servicing agreement. The servicer is required to administer the loans and their related security in the following manner:

- in accordance with the servicing agreement; and
- as if the loans and mortgages had not been sold to the mortgages trustee but remained with the seller and in accordance with the seller's procedures and administration and enforcement policies as they apply to those loans from time to time.

The servicer's actions in servicing the loans in accordance with its procedures are binding on the mortgages trustee, Funding 1, the issuer, the Funding 1 secured creditors and the issuer secured creditors. Changes to the provisions of the terms under which the loans and their related security are administered or managed shall only be undertaken with appropriate agreement and direction from the beneficiaries.

### **Powers**

Subject to the guidelines for servicing set forth in the preceding section, the servicer has the power, *inter alia*:

- to exercise the rights, powers and discretions of the mortgages trustee, the seller and Funding 1 in relation to the loans and their related security and to perform their duties in relation to the administration of the loans and their related security; and
- to do or cause to be done any and all other things which it reasonably considers necessary or convenient or incidental to the administration of the loans and their related security or the exercise of such rights, powers and discretions.

### **Undertakings by the servicer**

The servicer has undertaken, *inter alia*, the following:

- (a) to maintain approvals, authorisations, permissions, consents, notifications and licences required in order properly to service the loans and their related security and to perform or comply with its obligations under the servicing agreement, and to prepare and submit all necessary applications

and requests for any further approvals, authorisations, permissions, consents, notifications and licences required in connection with the provision of services under the servicing agreement, and in particular any necessary registrations under the Data Protection Act 1998 and permissions under the FSMA;

- (b) to determine and set the variable rates, differential rates and any discretionary rates or margins applicable in relation to any loan in relation to the loans comprising the trust property except in the limited circumstances described in this paragraph (b) when the mortgages trustee will be entitled to do so. It will not at any time, without the prior consent of the mortgages trustee, Funding 1 and any further Funding companies, set or maintain:
- (i) the variable rate at a rate which is higher than (although it may be lower than or equal to) the seller variable rate in relation to loans of a particular type beneficially owned by the seller outside the portfolio;
  - (ii) the differential rate at a rate which is higher than (although it may be lower than or equal to) the seller differential rate in relation to loans of a particular type beneficially owned by the seller outside the portfolio; and
  - (iii) any other discretionary rate or margin in respect of any other loan which is higher than (although it may be lower or equal to) the rate or margin which would then be set in accordance with the seller's policy from time to time in relation to that type of loan beneficially owned by the seller outside the portfolio except in certain circumstances.

In particular, the servicer shall also determine on each trust calculation date immediately preceding each Funding 1 interest payment date, having regard to the aggregate of:

- (A) the revenue which Funding 1 would expect to receive during the next succeeding Funding 1 interest period;
- (B) the variable rates, differential rates and any other discretionary rates or margins applicable in respect of the loans which the servicer proposes to set under the servicing agreement; and
- (C) the other resources available to Funding 1 (including the Funding 1 swap agreement, the general reserve fund, the liquidity reserve fund (if applicable) and the Funding 1 liquidity facility (if established)),

whether Funding 1 would receive an amount of revenue during the related Funding 1 interest period which when aggregated with the funds otherwise available to Funding 1 is less than the amount which is the aggregate of the amount of interest which will be payable by Funding 1 in respect of all AAA loan tranches and all amounts ranking higher in priority to such amounts on the Funding 1 interest payment date falling at the end of the related Funding 1 interest period.

If the servicer determines that there will be a shortfall in the foregoing amounts, it will give written notice to the mortgages trustee, the Funding 1 security trustee, any Funding companies and any further Funding security trustee, within two London business days of such determination, of the amount of the shortfall and the variable rates and/or the differential rates and/or any other discretionary rates or margins which would, 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 rates, the differential rates and any discretionary rates or margins would take effect and at all times acting in accordance with the standards of a reasonable, prudent mortgage lender as regards the competing interests of borrowers with variable rate loans, discount rate loans, base rate loans and other relevant loans. If the mortgages trustee and/or Funding 1 and/or the Funding 1 security trustee notify the servicer that, having regard to the obligations of Funding 1, the variable rates and/or the differential rates and/or any discretionary rates or margins should be increased, the servicer will take all steps which are necessary to increase the variable rates and/or the differential rates and/or any discretionary rates or margins including publishing any notice which is required in accordance with the mortgage terms. In these circumstances, the servicer will have the right to set the variable rates and/or the differential rates and/or any discretionary rates or margins.

Without prejudice to the above sub-paragraphs, at any time prior to the transfer of legal title to the portfolio (or any part thereof) in accordance with the terms of the mortgage sale agreement,

Funding 1 may serve written notice on the servicer instructing the servicer to set the variable rate but only with effect from the date on which such transfer of legal title is effected (including publishing any notice which is required in accordance with the mortgage conditions to effect such change in the variable rate), to a rate equal to LIBOR for three-month sterling deposits determined as at the Funding 1 interest payment date immediately preceding such transfer of legal title plus the post-perfection SVR-LIBOR margin and thereafter the servicer shall set the variable rate on a quarterly basis as at each Funding 1 interest payment date (including publishing any notice which is required in accordance with the mortgage conditions to effect such change in the variable rate) at a rate equal to LIBOR for three-month sterling deposits determined as at that Funding 1 interest payment date plus the post-perfection SVR-LIBOR margin.

The mortgages trustee, Funding 1 and any further Funding company and/or the Funding 1 security trustee and any further Funding security trustee, may terminate the authority of the servicer to determine and set the variable rates, the differential rates and any discretionary rates or margins on or after the occurrence of a servicer termination event, as described below in “– **Termination of appointment of the servicer**”, in which case the mortgages trustee will set the variable rates, the differential rates and any discretionary rates or margins itself in accordance with this paragraph (b);

- (c) to the extent so required by the relevant mortgage terms and applicable law, to notify borrowers of any change in interest rates, whether due to a change in the variable rate, the differential rate and any discretionary rate or margin applicable to any other relevant loan or as a consequence of any provisions of the mortgage conditions or the offer conditions. It will also notify the mortgages trustee, the seller, Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee and of any change in the variable rates and/or the differential rates and/or any discretionary rates or margins;
- (d) to act as collection agent for the mortgages trustee and the beneficiaries for the purpose of collecting amounts due from borrowers under the loans and their related security. It will deliver to the bankers automated clearing system or to the mortgages trustee account bank such instructions as may be necessary for the debit of the account of each borrower in respect of which there is a direct debit mandate with the monthly payment due from such borrower and for the amount of such monthly payment to be credited to the mortgages trustee GIC account. Under certain circumstances, alternative payment arrangements that ensure timely payment of monthly payments due from the borrower to the mortgages trustee may be agreed between the servicer and the borrower;
- (e) to execute all documents on behalf of the mortgages trustee, the seller, Funding 1 and any further Funding companies which are necessary or desirable for the efficient provision of services under the servicing agreement, including (but not limited to) documents relating to the discharge of mortgages comprised in the trust property;
- (f) to keep records and accounts on behalf of the mortgages trustee in relation to the loans and their related security;
- (g) to keep the customer files and title deeds (to the extent they are retained by the seller) in safe custody and maintain records necessary to enforce each mortgage. It will ensure that each title deed is capable of identification and retrieval and that each title deed is distinguishable from information held by the servicer for other persons. If the servicer's short-term, unsecured, unsubordinated and unguaranteed debt is rated lower than A-2 by Standard & Poor's and P-2 by Moody's and the servicer's short-term IDR is lower than F2 by Fitch, it will use reasonable endeavours to ensure the customer files and title deeds are identified as distinct from customer files and title deeds which relate to loans held outside the trust property;
- (h) to provide the mortgages trustee, Funding 1 and any further Funding companies (and their auditors) and (if requested) the Funding 1 security trustee and any further Funding security trustee and any other person nominated by the beneficiaries with access to the title deeds and other records relating to the administration of the loans and mortgages;
- (i) to assist the cash manager in the preparation of a quarterly report substantially in the form set out in the cash management agreement which will include, *inter alia*, information on the loans and payments in arrears;

- (j) to take all reasonable steps, in accordance with the usual procedures undertaken by a reasonable, prudent mortgage lender, to recover all sums due to the mortgages trustee, in respect of the loans;
- (k) to enforce any loan which is in default in accordance with its enforcement procedures or, to the extent that the enforcement procedures are not applicable having regard to the nature of the default in question, with the usual procedures undertaken by a reasonable, prudent mortgage lender on behalf of the mortgages trustee;
- (l) to provide such other information to the Funding 1 security trustee, any further Funding security trustee and the mortgages trustee as reasonably requested by the Funding 1 security trustee, any further Funding security trustee or the mortgages trustee; and
- (m) not knowingly to fail to comply with any legal requirements in the performance of its obligations under the servicing agreement.

The requirement for any action to be taken according to the standards of a reasonable, prudent mortgage lender is as defined below in the “**Glossary**”. For the avoidance of doubt, any action taken by the servicer to set variable rates, the differential rates and any applicable discretionary rates or margins which are the same or lower than that of the competitors of the seller will be deemed to be in accordance with the standards of a reasonable, prudent mortgage lender.

### ***Compensation of the servicer***

The mortgages trustee will pay to the servicer an administration fee of 0.08 per cent. per annum (inclusive of any amounts in respect of VAT) on the aggregate amount of the trust property as determined on the trust calculation date in respect of the immediately preceding trust calculation period. The fee will be payable in arrear on each distribution date. Any unpaid balance will be carried forward until the next distribution date and, if not paid earlier, will be payable on the latest occurring final repayment date of a loan tranche outstanding under the intercompany loan or any latest occurring final repayment date of any new loan tranche under any new intercompany loan.

### ***Resignation of the servicer***

Subject to the fulfilment of a number of conditions (including the appointment of a substitute servicer), the servicer may voluntarily resign by giving not less than 12 months' notice to the Funding 1 security trustee, any further Funding security trustee, the mortgages trustee and the beneficiaries. The substitute servicer is required to have experience in administering mortgages in the United Kingdom and must hold all approvals, authorisations, permissions, consents and licences required in connection with the provision of services under the servicing agreement and, in particular, any necessary registrations under the Data Protection Act 1998 and permissions under the FSMA. The substitute servicer must enter into a servicing agreement with the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding companies and any further Funding security trustee substantially on the same terms as the relevant provisions of the servicing agreement (which shall, without limitation, include providing the same services as those provided by the servicer under the servicing agreement at the same (or a lesser) level of fees, costs and expenses as set out in the servicing agreement and any modifications to comply with applicable laws or regulations at the relevant time). It will be a further condition precedent to the resignation of the servicer that the then current ratings of the rated notes (and any new rated notes, where applicable) then outstanding will not be downgraded, withdrawn or qualified as a result of the resignation, unless the noteholders (and any new noteholders, where applicable) otherwise agree by an extraordinary resolution.

Neither the Funding 1 security trustee nor (where applicable) any further Funding security trustee, although party to the servicing agreement, will be obliged to or will act as servicer.

### ***Termination of appointment of the servicer***

The mortgages trustee, Funding 1 and/or any further Funding company (in respect of Funding 1, with the consent of the Funding 1 security trustee and, in respect of any further Funding company, with the consent of the relevant further Funding security trustee) may, upon written notice to the servicer, terminate the servicer's rights and obligations immediately if any of the following events, each a **servicer termination event**, occurs:

- the servicer defaults in the payment of any amount due under the servicing agreement and fails to remedy that default for a period of five London business days after the earlier of becoming aware of the default and receipt of written notice from the mortgages trustee and/or Funding 1 and any further Funding company and/or the Funding 1 security trustee and any further Funding security trustee requiring the default to be remedied;

- the servicer fails in the performance or observance of any of its other covenants or obligations under the servicing agreement which the Funding 1 security trustee and any further Funding security trustees have been directed by the respective issuer security trustees and the issuer security trustees have been directed by the respective note trustees is, in the reasonable opinion of the note trustees, materially prejudicial to the noteholders and new noteholders and does not remedy that failure within 20 London business days after becoming aware of the failure or of receipt of written notice from the mortgages trustee and/or Funding 1 and any further Funding companies and/or the Funding 1 security trustee and further Funding security trustees requiring the servicer's non-compliance to be remedied; or
- an insolvency event occurs in relation to the servicer.

Under the terms of the servicing agreement, following a servicer termination event the mortgages trustee and the beneficiaries shall use reasonable endeavours to appoint a substitute servicer that has experience of administering mortgages of residential property in the United Kingdom and is willing to enter into an agreement substantially on the same terms as the relevant provisions of the servicing agreement.

If the appointment of the servicer is terminated or the servicer resigns, the servicer must deliver the title deeds (to the extent retained by the seller) and customer files relating to the loans to, or at the direction of, the mortgages trustee. The servicing agreement will terminate when Funding 1 and each further Funding company has no interest in the trust property and the intercompany loan and/or any new intercompany loans made to Funding 1 and/or any new intercompany loans made to further Funding companies have been repaid in full.

#### ***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 it meets certain conditions as set out in the servicing agreement (including the prior written consent of Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee) and provided that the servicer is not released or discharged from any liability therefor and remains liable for the performance or non-performance or breach by any sub-contractor or delegate of the duties so sub-contracted or delegated under the servicing agreement.

The consent of Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee referred to in this base prospectus will not be required in respect of any delegation to a wholly-owned subsidiary of Santander UK from time to time or to persons such as receivers, lawyers or other relevant professionals. None of the note trustee, the issuer security trustee, the Funding 1 security trustee, the mortgages trustee or Funding 1 will be obliged to act as servicer in any circumstances.

#### ***Actual delegation by the servicer***

The consent of the Funding 1 security trustee was obtained on 3 June 2010, under the terms of the servicing agreement, to the delegation of the performance of certain of Santander UK's servicing obligations under the servicing agreement to Geoban UK Limited (**Geoban**). Geoban is a wholly owned subsidiary of Banco Santander.

The delegated services that Geoban performs include mortgage administration and processing services and this arrangement does not affect the underwriting procedure described in "**The Loans – Characteristics of the Santander UK loans – Underwriting**" nor do the delegated services include managing of arrears or enforcement and handling of relevant insurance claims, both of which remain with the servicer.

As Geoban is a wholly owned subsidiary of Banco Santander (Santander UK's parent company), there is no sub-delegation and full operational and management responsibility for Geoban is with Santander UK.

Notwithstanding any sub-contracting or delegation of the performance of its obligations under the servicing agreement, the servicer shall not thereby be released or discharged from any liability under the servicing agreement and shall remain responsible for the performance of all of its obligations and the performance or non-performance or the manner of performance of any sub-contractor or delegate of any of the services shall not affect the servicer's obligations under the servicing agreement and any breach in the performance of the services by such sub-contractor or delegate shall, subject to the servicer being entitled for a period of twenty (20) business days from receipt of any notice of the breach to remedy such breach by any sub-contractor or delegate, be treated as a breach of the servicing agreement by the servicer. It is not expected that any delegation of administration and processing services to Geoban will materially and adversely impact on the provision of the loan administration services under the servicing agreement.



### **Liability of the servicer**

The servicer will indemnify the mortgages trustee and the beneficiaries against all losses, liabilities, claims, expenses or damages incurred as a result of fraud, negligence or wilful default by the servicer or any of its subcontractors 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. If the servicer does breach the terms of the servicing agreement and thereby causes loss to the beneficiaries, then, for so long as the servicer is also the seller, the seller share of the trust property will be reduced by an amount equal to the loss.

### **Governing law**

The servicing agreement and any non-contractual obligations arising out of or in connection with it is governed by English law.

### **Cash management agreement**

On the initial closing date, the cash manager, the mortgages trustee, the seller, Funding 1 and the Funding 1 security trustee entered into the cash management agreement. The rights of Funding 1 in respect of the cash management agreement were assigned by way of security (and, to the extent not assignable, charged) to the Funding 1 security trustee under the Funding 1 deed of charge.

The cash management agreement makes provision for the accession and adherence of any further Funding companies and the relevant further Funding security trustees, although there is no guarantee that any such event may occur. Your consent will not be sought when any further Funding company and the relevant further Funding security trustee accede to the cash management agreement provided that the rating agencies confirm that the then current ratings of the rated notes (and any new rated notes, where applicable) then outstanding will not be downgraded, qualified or withdrawn (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time).

### **Cash management services provided in relation to the mortgages trust**

The cash manager's duties in relation to the mortgages trust include but are not limited to:

- (a) determining the current shares of Funding 1, each further Funding company and the seller in the trust property (including the weighted average Funding 1 share percentage, each further Funding company weighted average share percentage and the seller weighted average share percentage) in accordance with the terms of the mortgages trust deed;
- (b) maintaining the following ledgers on behalf of the mortgages trustee:
  - the Funding 1 share ledger, each further Funding company share ledger and the seller share ledger, which record the current shares of, Funding 1, each further Funding company and the seller, respectively, in the trust property;
  - the losses ledger, which records losses on the loans;
  - the principal ledger, which records principal receipts on the loans received by the mortgages trustee and payments of principal from the mortgages trustee GIC account to Funding 1, each further Funding company and the seller;
  - the revenue ledger, which records revenue receipts on the loans received by the mortgages trustee and payments of revenue receipts from the mortgages trustee GIC account to Funding 1, each further Funding company and the seller; and
  - a ledger which will record any further contribution made by a beneficiary to the mortgages trustee, whether or not such further contribution is in whole or part a refinancing contribution, and any special distribution or refinancing distribution made by the mortgages trustee following receipt of such further contribution or refinancing contribution;
- (c) calculating and distributing the mortgages trust available revenue receipts and the mortgages trust available principal receipts to Funding 1, each further Funding company and the seller in accordance with the terms of the mortgages trust deed;
- (d) arranging for payment of all sums (including costs and expenses) required or permitted to be paid by the mortgages trustee under any of the transaction documents;

- (e) providing the mortgages trustee, Funding 1, each further Funding company, the seller, the rating agencies and (if requested) the Funding 1 security trustee and each further Funding security trustee with a quarterly report in relation to the mortgages trustee; and
- (f) investing amounts standing to the credit of the mortgages trustee GIC account and any other mortgages trustee account in authorised investments.

**Cash management services provided to Funding 1**

The cash manager's duties in relation to Funding 1 include but are not limited to:

- (a) notifying the Funding 1 swap provider of the notional amount of the Funding 1 swap(s) for the immediately previous trust calculation period no later than the trust calculation date;
- (b) four London business days before each Funding 1 interest payment date, determining:
  - the amount of Funding 1 available revenue receipts to be applied on the following Funding 1 interest payment date in accordance with the Funding 1 pre-acceleration revenue priority of payments;
  - the amount of Funding 1 available principal receipts to be applied on the following Funding 1 interest payment date in accordance with the Funding 1 pre-acceleration principal priority of payments;
  - the amount of any Funding 1 revenue deficit amount; and
  - the Funding 1 anticipated cash accumulation period;
- (c) if required, directing Funding 1 to make drawings under the liquidity reserve fund (if established) and/or the Funding 1 liquidity facility (if established);
- (d) maintaining the following ledgers on behalf of Funding 1:
  - the Funding 1 principal ledger, which records the amount of Funding 1 principal receipts received by Funding 1 on each distribution date;
  - the Funding 1 revenue ledger, which records all other amounts received by Funding 1 on each distribution date;
  - the general reserve ledger, which records the amount credited to the general reserve fund from a portion of the proceeds of: (i) a Funding 1 start-up loan on a closing date; (ii) other amounts standing to the credit of the general reserve fund (but not exceeding the general reserve required amount); and (iii) all deposits and other credits in respect of the general reserve fund;
  - the eligible bank ledger, which records amounts deposited by account bank A with eligible banks pursuant to instructions from the cash manager from time to time;
  - the principal deficiency ledger, which records principal deficiencies arising from losses on the loans which have been allocated to the Funding 1 share of the trust property or the use of Funding 1's principal receipts to cover any Funding 1 revenue deficit amount;
  - the intercompany loan ledger, which records payments of interest and repayments of principal made on each of the loan tranches under the intercompany loan;
  - the cash accumulation ledger, which records the amount accumulated by Funding 1 from time to time to pay the amounts due on bullet loan tranches and scheduled amortisation instalments;
  - the liquidity reserve ledger, which will record the amounts credited to the liquidity reserve fund from Funding 1 available revenue receipts and from Funding 1 available principal receipts up to the liquidity reserve fund required amount and drawings made under the liquidity reserve fund; and
  - a ledger in respect of the Funding 1 liquidity facility agreement (if established), which will record payments in accordance with the terms agreed in the Funding 1 liquidity facility agreement;

- (e) arranging for the payment of all sums (including costs and expenses) required or permitted to be paid by Funding 1 under any of the transaction documents;
- (f) investing amounts standing to the credit of the Funding 1 GIC account in authorised investments as determined by Funding 1, the cash manager and the Funding 1 security trustee;
- (g) providing instructions to account bank A to deposit all or part of the amounts standing to the credit of the Funding 1 transaction account from time to time with eligible banks in accordance with the panel bank guidelines or to transfer all or part of such amounts to the Funding 1 GIC account;
- (h) making withdrawals from the general reserve fund as and when required;
- (i) applying the Funding 1 available revenue receipts and Funding 1 available principal receipts in accordance with the relevant Funding 1 priority of payments contained in the Funding 1 deed of charge; and
- (j) providing Funding 1, the mortgages trustee, the issuer, the issuer security trustee, the rating agencies and (if requested) the Funding 1 security trustee and each further Funding Security trustee with a quarterly report in relation to Funding 1.

***Deposits with eligible banks in accordance with panel bank guidelines***

Pursuant to the cash management agreement, the cash manager is obliged to procure that the following amounts are, in the first instance, paid into the Funding 1 transaction account held with account bank A:

- all Funding 1 revenue receipts;
- all Funding 1 principal receipts;
- all amounts standing to the credit of the general reserve fund and (if established) the liquidity reserve fund;
- all amounts received by Funding 1 under the Funding 1 swap agreement; and
- any other amounts whatsoever received by or on behalf of Funding 1.

All or part of such amounts which are paid initially into the Funding 1 transaction account may then, upon instructions provided by the cash manager to account bank A, be deposited (a) with one or more eligible bank(s) in accordance with the panel bank guidelines (as defined below), and/or (b) into the Funding 1 GIC account held with account bank B.

Account bank A acts as agent of Funding 1 and at the instruction of the cash manager when placing deposits with eligible banks pursuant to the Funding 1 bank account agreement and the eligible bank terms and conditions. The eligible bank account agreements govern the terms upon which the eligible banks accept and hold deposits received through The Bank of New York Mellon, acting through its London branch.

When providing instructions to account bank A to deposit all or a part of amounts standing to the credit of the Funding 1 transaction account with an eligible bank, the cash manager is required to act in accordance with the panel bank guidelines.

The guidelines governing the deposit of amounts from the Funding 1 transaction account with eligible banks (the **panel bank guidelines**) are set out in the cash management agreement in full. These guidelines may be modified from time to time by the cash manager provided that (i) any modifications to such guidelines are notified in advance to the rating agencies, account bank A and the Funding 1 security trustee; (ii) the rating agencies have confirmed in writing that the then current ratings of the rated notes would not be adversely affected by such modification; and (iii) such modification does not have any adverse effect on the security in respect of the notes.

As at the date of this base prospectus, the panel bank guidelines include, among other things, combinations of:

- credit rating requirements in respect of eligible banks;
- concentration limits in respect of the percentage of amounts which may be deposited with any one eligible bank and its affiliates; and

- maturity requirements in respect of deposits to be made with eligible banks linked to, amongst other things, the credit ratings of the eligible banks.

Under the panel bank guidelines, deposits may be made with eligible banks for periods of 30, 60 or 90 days (depending mainly on the rating of the relevant eligible bank and concentration limits referred to above) but, in any event, any such deposit period is required to mature on or prior to the immediately following Funding 1 interest payment date. On such Funding 1 interest payment date, the monies are returned to the Funding 1 transaction account for application in accordance with the relevant priority of payments.

A further qualification in the cash management agreement for the placing of deposits with eligible banks is that amounts can only be deposited with eligible banks so long as the interest or other rate of return on those deposits is equal to or higher than the Funding 1 GIC rate or such other rate of interest applicable to any account used in place of the Funding 1 GIC account provided that the rating agencies have confirmed that such other rate of interest shall not cause the then current rating of the rated notes to be downgraded, withdrawn or qualified. Under the cash management agreement, the cash manager is in any event permitted to instruct account bank A to place all or a part of the amounts standing to the credit of the Funding 1 transaction account into the Funding 1 GIC account (which account pays out the Funding 1 GIC rate on amounts deposited into it), instead of, or in addition to, the placing of a part or all of such amounts with eligible banks.

A further feature of the panel bank guidelines is the option given to the cash manager to instruct account bank A to deposit up to 50 per cent. (or such other percentage determined from time to time, as part of a review of the panel bank guidelines in accordance with the cash management agreement) of non bullet Funding 1 principal amounts into an account held with Santander UK as an eligible bank in the event that Santander UK's (1) short-term, unsubordinated, unguaranteed and unsecured debt obligations are rated P-2 by Moody's, (2) unsubordinated, unguaranteed and unsecured debt obligations are rated A-2 short-term and BBB+ long-term by S&P and (3) short-term and long-term IDRs are F2 and BBB+ (respectively) by Fitch, and for so long as Santander UK maintains such rating levels and its current FSMA authorisations to accept deposits (such account with Santander UK is referred to as the **Santander A-2/P-2/F2 account**).

The placement of up to 50 per cent. of non bullet Funding 1 principal amounts (accumulated with respect to a Funding 1 interest period) in the Santander A-2/P-2/F2 account is subject to the following conditions which are included in the current version of the panel bank guidelines:

- Santander UK is required to have advanced a subordinated and limited recourse loan (the **Funding 1 loan**) to Funding 1 equal to such deposit on the Santander A-2/P-2/F2 account. The advance under the Funding 1 loan will be applied to increase the Funding 1 share by acquiring an increased interest in the mortgages trust. The Funding 1 loan ranks *pro rata* and *pari passu* with term NR advances. The aggregate amount of non bullet Funding 1 principal amounts deposited in the Santander A-2/P-2/F2 account is required to match the outstanding amount of the Funding 1 loan and the increase in the Funding 1 share;
- non bullet Funding 1 principal amounts can only be deposited in the Santander A-2/P-2/F2 account for a period not exceeding 15 days;
- to the extent that monies standing to the credit of the general reserve fund have been applied in accordance with the Funding 1 priorities of payment, the general reserve fund is required to have been replenished by a corresponding amount, or, if lower, by an amount equal to the general reserve required amount;
- each note is required to have been redeemed on or prior to its step-up date;
- a non asset trigger event (which is continuing on the distribution date on which such amounts are to be deposited in the Santander A-2/P-2/F2 account) shall not have occurred;
- principal amounts due and payable in respect of the class Z notes have been repaid in full; and
- there has not been any debit on the NR principal deficiency sub-ledger which has not been cured.

For so long as Santander UK's (1) short-term, unsubordinated, unguaranteed and unsecured debt obligations are rated higher than P-2 by Moody's, (2) unsubordinated, unguaranteed and unsecured debt obligations are rated higher than A-2 short-term and BBB+ long-term by S&P and (3) short-term and long-term IDRs are higher than F2 and BBB+ (respectively) by Fitch, the criteria relating to deposits placed in the Santander A-2/P-2/F2 account do not apply and Santander UK is subject to the same panel bank guidelines as other equally rated eligible banks.

### **Compensation of cash manager**

The cash manager will be paid a fee for its services as agreed from time to time with the mortgages trustee, the Funding 1 security trustee and Funding 1, which at the date of the cash management agreement shall be equal to 0.01 per cent. per annum of the aggregate outstanding principal amount of the intercompany loan (prior to any repayment of principal on its due date) and will be paid by Funding 1 and/or the mortgages trustee in four instalments quarterly in arrears on each Funding 1 interest payment date occurring in January, April, July and October in each year in accordance with the Funding 1 deed of charge. The fee will be inclusive of any amounts in respect of VAT, and the aggregate amount payable in respect of such service will not be adjusted in the event of any change in the rate of VAT.

In addition, the cash manager will be entitled to be reimbursed for any expenses or other amounts properly incurred by it in carrying out its duties. The cash manager will be paid by the mortgages trustee prior to distributions to Funding 1 and by Funding 1 prior to amounts due under the intercompany loan.

### **Resignation of cash manager**

The cash manager may only resign on giving 12 months' written notice to Funding 1, the Funding 1 security trustee, any further Funding company, any further Funding security trustee and the mortgages trustee and provided that:

- a substitute cash manager has been appointed and a new cash management agreement is entered into on substantially the same terms as the cash management agreement and satisfactory to the Funding 1 security trustee;
- such substitute cash manager has management experience and is approved by Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee; and
- the then current ratings of the rated notes (and any new rated notes, where applicable) would not be downgraded, withdrawn or qualified as a result of that replacement (unless the relevant classes of noteholders (and any new noteholders, where applicable) otherwise agree by an extraordinary resolution).

### **Termination of appointment of cash manager**

Funding 1 and any further Funding company and/or the seller (with the prior written consent of the Funding 1 security trustee and any further Funding security trustee) may, upon written notice to the cash manager, terminate the cash manager's rights and obligations immediately if any of the following events occurs:

- the cash manager defaults in the payment of any amount due and fails to remedy the default for a period of five London business days after the earlier of becoming aware of the default or receipt of written notice from the mortgages trustee and/or Funding 1 and any further Funding company and/or the Funding 1 security trustee and any further Funding security trustee requiring the default to be remedied;
- the cash manager fails to comply with any of its other obligations under the cash management agreement which, in the reasonable opinion of the note trustees, is materially prejudicial to the noteholders and any new noteholders and (if capable of remedy) does not remedy that failure within 20 London business days after the earlier of becoming aware of the failure or receiving a written notice from the mortgages trustee and/or Funding 1 and any further Funding company and/or the Funding 1 security trustee and any further Funding security trustee requiring the cash manager's non-compliance to be remedied; or
- the cash manager suffers an insolvency event.

Upon termination of the appointment of the cash manager, Funding 1, any further Funding companies and/or the seller (with the prior written consent of the Funding 1 security trustee and any further Funding security trustees) will agree to use their reasonable endeavours to appoint a substitute cash manager. Any such substitute cash manager will be required to enter into a cash management agreement on substantially the same terms as the cash management agreement and the appointment of such substitute cash manager and all other documentation is conditional upon the rating agencies having previously confirmed that the then current ratings of the rated notes (and any new rated notes, where applicable) will not be downgraded, withdrawn or qualified as a result of the appointment (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time) (unless the noteholders (and any new noteholders, where applicable) otherwise agree by an extraordinary resolution).

If the appointment of the cash manager is terminated or it resigns, the cash manager must deliver its books of account (and any other information reasonably requested by the Funding 1 security trustee or any further Funding security trustee) relating to the loans and/or any monies held on behalf of the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding companies or any further Funding security trustees to or at the direction of the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding company or any further Funding security trustee, as the case may be. The cash management agreement will terminate automatically when Funding 1 and/or any further Funding company have no further interest in the trust property and the intercompany loan and any new intercompany loans have been repaid or otherwise discharged.

### **Governing law**

The cash management agreement and any non-contractual obligations arising out of or in connection with it is governed by English law.

### **Issuer cash management agreement**

The issuer cash manager was appointed on the initial closing date by the issuer and the issuer security trustee to provide cash management services to the issuer pursuant to the issuer cash management agreement. The rights of the issuer in respect of the issuer cash management agreement were assigned by way of security (and, to the extent not assignable, charged) to the issuer security trustee pursuant to the issuer deed of charge.

### **Cash management services to be provided to the issuer**

The issuer cash manager's duties include but are not limited to:

- (a) four London business days before each interest payment date, determining:
  - the amount of issuer revenue receipts to be applied to pay interest on the notes on the following interest payment date and to pay amounts due to other issuer secured creditors;
  - the amount of issuer principal receipts to be applied to repay the notes on the following interest payment date; and
  - such other amounts as are expressed to be calculations and determinations made by the issuer cash manager in accordance with the conditions of the notes;
- (b) applying issuer revenue receipts and issuer principal receipts in accordance with the relevant issuer priority of payments set out in the issuer cash management agreement or, as applicable, the issuer deed of charge;
- (c) providing the issuer, the issuer security trustee and the rating agencies with quarterly reports in relation to the issuer;
- (d) arranging payment of all fees to the Irish Stock Exchange or, as applicable, the Central Bank;
- (e) if necessary, performing all currency and interest rate conversions (whether it be a conversion from sterling to dollars or vice versa, sterling to euro or vice versa or sterling to another specified currency or vice versa or from floating rates of interest to fixed rates of interest or vice versa) free of charge, cost or expense at the relevant exchange rate; and
- (f) investing amounts standing to the credit of the issuer transaction account and the issuer share capital account and (if established) the issuer GIC account in authorised investments.

### **Compensation of issuer cash manager**

The issuer cash manager will be paid a fee of 0.01 per cent. per annum of the sterling principal amount outstanding of the notes for its services which will be paid in four instalments quarterly in arrear on each interest payment date occurring in January, April, July and October in each year. The fee is inclusive of any amounts in respect of VAT, and the aggregate amount payable in respect of such service will not be adjusted in the event of any change in the rate of VAT.

In addition, the issuer cash manager will be entitled to be reimbursed for any expenses or other amounts properly incurred by it in carrying out its duties. The issuer cash manager will be paid by the issuer prior to amounts due on the notes.

### **Resignation of issuer cash manager**

The issuer cash manager may resign only on giving 12 months' written notice to the issuer security trustee and the issuer and provided the following conditions, *inter alia*, are met:

- the issuer and the issuer security trustee consent in writing to such termination;
- a substitute issuer cash manager has been appointed and a new issuer cash management agreement is entered into on substantially the same terms as the issuer cash management agreement and satisfactory to the issuer security trustee; and
- the ratings of the rated notes then outstanding would not be downgraded, withdrawn or qualified as a result of that replacement.

### **Termination of appointment of issuer cash manager**

The issuer or the issuer security trustee may, upon written notice to the issuer cash manager, terminate the issuer cash manager's rights and obligations immediately if any of the following events occurs:

- the issuer cash manager defaults in the payment of any amount due and fails to remedy the default for a period of five London business days after the earlier of the issuer cash manager becoming aware of the default or receipt by the issuer cash manager of written notice from the issuer and/or the issuer security trustee requiring the default to be remedied;
- the issuer cash manager fails to comply with any of its other obligations under the issuer cash management agreement which in the reasonable opinion of the note trustee, is materially prejudicial to the noteholders and does not remedy that failure within 20 London business days after the earlier of becoming aware of the failure or receiving a written notice from the issuer and/or the issuer security trustee requiring the issuer cash manager's non-compliance to be remedied; or
- the issuer cash manager suffers an insolvency event.

Upon termination of the appointment of the issuer cash manager, the issuer will agree to use its reasonable endeavours to appoint a substitute issuer cash manager. Any such substitute issuer cash manager will be required to enter into an issuer cash management agreement on substantially the same terms as the provisions of the issuer cash management agreement and the appointment of such substitute issuer cash manager and all other documentation is conditional upon the rating agencies having previously confirmed that the then current ratings of the rated notes then outstanding will not be downgraded, withdrawn or qualified (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time).

If the appointment of the issuer cash manager is terminated or it resigns, the issuer cash manager must deliver its books of account relating to the notes to or at the direction of the issuer security trustee. The issuer cash management agreement will terminate automatically when the notes have been fully redeemed.

### **Governing law**

The issuer cash management agreement and any non-contractual obligations arising out of or in connection with it is governed by English law.

### **Funding 1 bank account agreement**

Pursuant to the terms of the Funding 1 bank account agreement, Funding 1 agreed to maintain the following two bank accounts in England in its name:

- (a) the Funding 1 transaction account (held with account bank A): the general reserve fund is credited to this account and on each distribution date the Funding 1 share of the mortgages trust available revenue receipts, any distribution of Funding 1 principal receipts to Funding 1 under the mortgages trust and any balance remaining in the Funding 1 cash accumulation ledger are initially deposited in this account. The cash manager will provide instructions to account bank A to deposit all or part of such amounts standing to the credit of the Funding 1 transaction account (1) with one or more eligible bank(s) in accordance with the panel bank guidelines, and/or (2) into the Funding 1 GIC account. On each Funding 1 interest payment date, monies on deposit with eligible bank(s) or standing to the credit of the Funding 1 GIC account are transferred to the Funding 1 transaction account and applied by the cash manager in accordance with the relevant order for priority of payments of Funding 1; and

- (b) the Funding 1 GIC account (held with account bank B): upon instruction from the cash manager, monies standing to the credit of the Funding 1 transaction account may be deposited into this account. On each Funding 1 interest payment date upon which payment is due, amounts required to meet Funding 1's obligations to its various creditors (including the issuer) are transferred to the Funding 1 transaction account.

The accounts referred to above are currently maintained with account bank A and account bank B, as applicable, but may be required to be transferred to alternative banks upon the occurrence of specified events, including if the related account bank fails to maintain the minimum applicable ratings described above under "**Triggers Tables - Rating Triggers Table**" or if an insolvency-type event occurs in relation to the relevant account bank. In such circumstances Funding 1 and/or the cash manager shall procure the transfer of the rights and obligations of the relevant account bank under the account bank agreement and procure the transfer of all amounts standing to the credit of the relevant bank account to account(s) held with an authorised institution under FSMA with the minimum required ratings which enters into an agreement in form and substance similar to the existing Funding 1 bank account agreement. Upon a breach by the relevant account bank of its obligations under the Funding 1 bank account agreement, Funding 1 may only terminate the appointment of such account bank if a replacement financial institution or financial institutions with the minimum required ratings have entered into an agreement in form and substance similar to the existing bank account agreement. For further information in relation to required ratings and triggers, please see "**Triggers Tables - Rating Triggers Table**".

The rights, benefit and interest of Funding 1 in respect of the Funding 1 bank account agreement will be assigned by way of security (and, to the extent not assignable, charged) to the Funding 1 security trustee under the Funding 1 deed of charge.

Under the terms of the Funding 1 bank account agreement, account bank B has agreed to pay interest on the monies standing to the credit of the Funding 1 GIC account at a variable rate of interest of 0.10 per cent. per annum below LIBOR for three-month sterling deposits. Eligible banks with whom deposits may be placed pursuant to the panel bank guidelines must pay at least (i) the rate of interest provided by Santander UK as the bank with whom the Funding 1 GIC account is held or any successor to Santander UK in such role, or (ii) such other rate of interest applicable to the Funding 1 GIC account or a successor to such account provided that the rating agencies have confirmed that such other rate of interest shall not cause the then current rating of the rated notes to be downgraded, withdrawn or qualified.

### **Governing law**

The Funding 1 bank account agreement and any non-contractual obligations arising out of or in connection with it is governed by English law.

### **Mortgages trustee bank account agreement**

The mortgages trustee entered into the mortgages trustee bank account agreement on 23 November 2009 with the mortgages trustee account bank, the cash manager, Funding 1 and the Funding 1 security trustee (which replaced the original mortgages trustee bank account agreement entered into on the closing date pursuant to which Alliance & Leicester was originally appointed the account bank to the mortgages trustee) on substantially the same terms as the Funding 1 bank account agreement in relation to the mortgages trustee GIC account. All amounts held by the mortgages trustee will be deposited in the mortgages trustee GIC account with the mortgages trustee account bank. The mortgages trustee account bank has agreed to pay a variable rate of interest on funds in the mortgages trustee GIC account of 0.10 per cent. per annum below LIBOR for three-month sterling deposits. See "**Mortgages Trustee GIC Account/Funding 1 GIC Account**".

### **Issuer bank account agreement**

On 23 November 2009, the issuer entered into a new issuer bank account agreement with the issuer account bank, the issuer cash manager and the issuer security trustee (which replaced the original issuer bank account agreement entered into on the closing date pursuant to which Alliance & Leicester was originally appointed the account bank to the issuer) on substantially the same terms as the Funding 1 bank account agreement in relation to the issuer transaction account and the issuer share capital account. The issuer established the issuer GIC account as a condition precedent to the issue of any notes with quarterly interest payment dates which do not correspond to the quarterly interest payment dates of the notes (other than the monthly payment notes) issued on the initial closing date, which is subject to the issuer bank account agreement and is on similar terms to the Funding 1 GIC account. The rights, benefits and interests of the issuer under the issuer bank account agreement were be assigned by way of security (and, to the extent not assignable, charged) to the issuer security trustee under the issuer deed of charge. The issuer may, with the prior written consent of the issuer security trustee, open additional or replacement bank accounts.



The issuer account referred to above (and any collateral account maintained by the issuer as described in "**Description of the transaction documents – Swap agreements - Ratings downgrade of swap providers**") may be required to be transferred to an alternative bank upon the occurrence of specified events, including if the issuer account bank fails to maintain the minimum applicable ratings described above under "**Triggers Tables – Ratings Triggers Table**" or if an insolvency-type event occurs in relation to the issuer account bank or if the issuer account bank fails to perform its obligations under the issuer bank account agreement. In such circumstances the issuer and/or the issuer cash manager shall procure the transfer of the rights and obligations of the issuer account bank under the issuer bank account agreement and procure the transfer of all amounts standing to the credit of the issuer bank account to account(s) held with an authorised institution under FSMA with the minimum required ratings which enters into an agreement in form and substance similar to the existing issuer bank account agreement. For further information in relation to required ratings and triggers, please see "**Triggers Tables – Rating Triggers Table**".

In the event that any collateral is posted by an issuer swap provider pursuant to an issuer swap agreement, the issuer shall instruct the issuer cash manager to open a bank account with Santander UK for the purposes of holding such collateral (any such account, an **issuer swap collateral account**). An issuer swap collateral account shall be opened in respect of each issuer swap provider that is required to post collateral pursuant to an issuer swap agreement. In the event that any such issuer swap account is opened with a bank other than Santander UK, the parties to the issuer bank account agreement (not including Santander UK as the issuer account bank), will enter into an agreement on terms which are identical to the terms of the issuer bank account agreement (except amendments of a minor or technical nature to reflect the identities of the new parties thereto) in respect of such issuer swap collateral account.

### **Funding 1 start-up loan agreements**

On the initial closing date, Alliance & Leicester as the Funding 1 start-up loan provider made available a Funding 1 start-up loan to Funding 1 under a Funding 1 start-up loan agreement. This was a subordinated loan facility available in tranches in the amount set out in the applicable final terms accompanying the base prospectus, which was used for: (i) crediting the general reserve fund on the initial closing date by an amount specified in the applicable final terms accompanying this base prospectus; (ii) meeting the costs and expenses incurred by Funding 1 in connection with its payment to the mortgages trustee in respect of the Funding 1 share of the trust property on the initial closing date; and (iii) paying the fees under the intercompany loan agreement which relate to the costs of issue in respect of the establishment of the programme and the issue of the notes on the initial closing date. The Funding 1 start-up loan provider agreed to be bound by any calculations and determinations made by the cash manager, the Funding 1 security trustee or the mortgages trustee, respectively.

Since the Part VII effective date, the Funding 1 start-up loan provider has been Santander UK. At any time after the initial closing date, additional Funding 1 start-up loan agreements have been and may be entered into (including in circumstances where further Funding companies are established) comprising some or all of the following tranches (labelled as tranche A, tranche B and/or tranche C, depending on each particular Funding 1 start-up loan agreement) to be used for: (i) increasing the general reserve fund on the applicable closing date by an amount specified in the applicable final terms; (ii) for the purposes of providing funding for fees, costs and expenses incurred by or on behalf of Funding 1 in respect of increasing the Funding 1 share of the trust property and in respect of amounts payable by Funding 1 under the intercompany loan agreement in relation to the costs of the issue of notes as specified in the applicable final terms; (iii) for the purpose of making the payments due under the Funding 1 swap agreement on the applicable closing date payable to the Funding 1 start-up loan provider in its capacity as the Funding 1 swap provider, as described in the applicable final terms. The rights, benefit and interest of Funding 1 in respect of the Funding 1 start-up loan agreements were assigned by way of security (and, to the extent not assignable, charged) to the Funding 1 security trustee under the Funding 1 deed of charge.

### **Interest on the Funding 1 start-up loans**

Each Funding 1 start-up loan will bear interest at the variable rates of interest specified in the applicable final terms accompanying this base prospectus. Any unpaid interest will be added to the principal amount owed on the Funding 1 start-up loan and will bear interest. Interest is payable by Funding 1 on each Funding 1 interest payment date.

### **Repayment of the Funding 1 start-up loans**

Funding 1 will repay the Funding 1 start-up loans, but only to the extent that it has Funding 1 available revenue receipts after making higher ranking payments in the relevant Funding 1 priorities of payments (see further "**– Funding 1 deed of charge – Funding 1 pre-acceleration priority of payments**" and "**– Funding 1 deed of charge – Funding 1 post-acceleration priority of payments**" below). Amounts due to the Funding 1 start-up loan provider are payable after amounts due on the loan tranches are repaid to the issuer. All Funding 1 start-up loan providers will rank *pari passu* and *pro rata* to the respective amounts due to them.

However, in respect of each individual Funding 1 start-up loan (and to the extent that such Funding 1 start-up loan is divided into tranches A, B and/or C), Funding 1 will repay tranche C until tranche C is fully repaid and thereafter tranche B until tranche B is fully repaid and thereafter tranche A until tranche A is fully repaid as applicable. After Funding 1 has repaid the Funding 1 start-up loans, it will have no further recourse to the Funding 1 start-up loan provider.

### **Event of default**

It will be an event of default under the Funding 1 start-up loan agreements if Funding 1 has Funding 1 available revenue receipts to pay amounts due to the Funding 1 start-up loan provider and it does not pay them.

The occurrence of an event of default under the Funding 1 start-up loan agreements may constitute an intercompany loan event of default as set out above in “– **The Intercompany loan agreement – Funding 1 intercompany loan events of default**”.

### **Acceleration**

If any intercompany loan acceleration notice is served or if notice is given that the security granted by Funding 1 under the Funding 1 deed of charge is to be enforced, then the Funding 1 start-up loans will become immediately due and payable.

### **Governing law**

The Funding 1 start-up loan agreements and any non-contractual obligations arising out of or in connection with any Funding 1 start-up loan agreement entered into after the date of this base prospectus are or will be governed by English law.

### **Funding 1 loan agreement**

The Funding 1 loan provider has agreed to grant to Funding 1 an uncommitted sterling loan facility in an aggregate maximum amount of up to £1,000,000,000 under the Funding 1 loan agreement. Either the Funding 1 security trustee or the cash manager may place an irrevocable request for an advance under the Funding 1 loan upon satisfaction of certain conditions set forth in the Funding 1 loan agreement. Funds advanced under the Funding 1 loan must be used by Funding 1 to make a contribution to the mortgages trust thereby increasing the Funding 1 share. It is a condition for making a deposit in the Santander A-2/P-2/F2 account under the panel bank guidelines that the Funding 1 loan has been drawn in an amount at least equal to the amount deposited in such account.

Interest will accrue on the outstanding balance of the Funding 1 loan at a rate set forth in the Funding 1 loan agreement. The repayment of the Funding 1 loan is subordinated to all other payments or provisions ranking in priority to payments to be made to the Funding 1 loan provider in accordance with the terms of the Funding 1 loan agreement and the Funding 1 deed of charge. Payments of both principal and interest on the Funding 1 loan will be payable, without priority among them but in proportion to the respective amounts due, with amounts due under the NR loan tranche as set forth in the relevant Funding 1 priority of payments.

The final repayment date for any Funding 1 loan outstanding will be the date of repayment of the last maturing loan tranche. The Funding 1 loan is prepayable in an amount equal to the lower of (i) the Funding 1 loan prepayable amount and (ii) the higher of (x) the potential seller principal distribution amount and (y) any contribution made by the seller for the purposes of making such prepayment. The cash manager is not required to prepay the Funding 1 loan if it considers based on reasonable grounds that amounts may be deposited in the future into the Santander A-2/P-2/F2 account.

The Funding 1 loan is a limited recourse loan. Therefore, if, when amounts in respect of the Funding 1 loan become due and payable under the Funding 1 loan agreement, Funding 1 has insufficient funds available to meet its obligations in full, the obligation of Funding 1 to pay the shortfall under the Funding 1 loan agreement (together with any amounts falling due and payable thereafter) shall be limited to the available funds acquired subsequently by Funding 1 together with the proceeds of the enforcement of the Funding 1 security (as the case may be) in accordance with the terms of the Funding 1 loan agreement and the Funding 1 deed of charge.

The Funding 1 loan principal deficiency sub-ledger has been opened, and is maintained, by the cash manager in respect of the Funding 1 loan. The Funding 1 loan principal deficiency sub-ledger records losses allocated to Funding 1 (which reduce the Funding 1 share of the trust property) against the Funding 1 loan.

## **Governing law**

The Funding 1 loan agreement and any non-contractual obligations arising out of or in connection with the Funding 1 loan agreement are governed by English law.

## **Funding 1 deed of charge**

Funding 1 has granted security for its obligations under the intercompany loan agreement, the Funding 1 start-up loan agreements, the Funding 1 swap agreement and the other transaction documents to which it is a party by entering into the Funding 1 deed of charge with the Funding 1 secured creditors on the initial closing date.

The Funding 1 deed of charge has seven primary functions:

- it sets out the covenants of Funding 1;
- it creates security interests in favour of the Funding 1 security trustee which the Funding 1 security trustee then holds on trust for each of the Funding 1 secured creditors (including Funding 1 secured creditors that accede to the Funding 1 deed of charge in connection with further loan tranches under the intercompany loan or new loan tranches under new intercompany loans);
- it sets out the order in which the cash manager applies money received by Funding 1 prior to enforcement of the security;
- it sets out the enforcement procedures relating to a default by Funding 1 on its covenants under the transaction documents (including provisions relating to the appointment of a receiver);
- it sets out the order in which the Funding 1 security trustee applies money received by Funding 1 after the service of an intercompany loan acceleration notice on Funding 1;
- it sets out the appointment of the Funding 1 security trustee, its powers and responsibilities and the limitations on those responsibilities; and
- it sets out how new creditors of Funding 1 can accede to the terms of the Funding 1 deed of charge.

If Funding 1 enters into new intercompany loan agreements with new issuers, then the new issuers (together with any new Funding 1 start-up loan providers and any new Funding 1 swap providers) will enter into deeds of accession in relation to the Funding 1 deed of charge which may, depending on the type of notes to be issued, require amendments, amongst other things, to any of the Funding 1 pre-acceleration revenue priority of payments, the Funding 1 pre-acceleration principal priority of payments and the Funding 1 post-acceleration priority of payments. Any such new issuers who accede to the Funding 1 deed of charge will share in the security granted by Funding 1. This means that any other applicable creditors of Funding 1 will share in the security granted by Funding 1 under the Funding 1 deed of charge with the Funding 1 secured creditors existing as at the initial closing date. Consent of existing Funding 1 secured creditors and issuer secured creditors will not be sought in relation to the accession of any new issuer and/or other applicable creditors of Funding 1.

## **Covenants of Funding 1**

The Funding 1 deed of charge contains covenants made by Funding 1 in favour of the Funding 1 security trustee on trust for the benefit of itself, any receiver of Funding 1 and the Funding 1 secured creditors.

## **Funding 1 security**

Under the Funding 1 deed of charge, Funding 1 has created the following security interests in favour of the Funding 1 security trustee for and on behalf of the Funding 1 secured creditors (the **Funding 1 security**) in respect of its obligations under the intercompany loan agreement, the start-up loan agreements, the Funding 1 swap agreement and the other transaction documents to which it is a party:

- an assignment by way of security of or, to the extent not assignable, a charge over (which is likely to take effect as a floating charge) the Funding 1 share of the trust property;

- an assignment by way of security of or, to the extent not assignable, a charge over (which is likely to take effect as a floating charge) all of its rights in the transaction documents to which Funding 1 is a party from time to time;
- a first ranking fixed charge (which is likely to take effect as a floating charge) over all of its rights in respect of any amount standing to the credit of the Funding 1 accounts and all interest paid or payable in respect of those amounts and all debts represented by those amounts;
- a first ranking fixed charge (which is likely to take effect as a floating charge) over all of its rights in respect of all authorised investments made by or on behalf of Funding 1 using monies standing to the credit of the Funding 1 accounts and all interest, monies and proceeds paid or payable in relation to those authorised investments; and
- a first ranking floating charge over all of Funding 1's undertaking and all its property and assets (including, without limitation, its uncalled capital) not otherwise effectively charged or assigned (but extending over any property, assets and undertaking of Funding 1 situated in Scotland or the rights to which are governed by Scots law).

### ***Nature of security – fixed charge***

Whether a fixed security interest expressed to be created by the Funding 1 deed of charge will be upheld under English law and Northern Irish law as a fixed security interest rather than floating security will depend, among other things, on whether the Funding 1 security trustee has the requisite degree of control 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 Funding 1 security trustee in practice. However, it is likely that the Funding 1 security trustee does not exert sufficient control over the accounts of Funding 1 for the charges over those accounts to take effect as fixed charges. In addition, any assignment, charge or security granted over an asset which is expressed to be a fixed charge may be characterised as a floating charge if the proceeds thereof are paid into a bank account over which the Funding 1 security trustee is not deemed to have sufficient control. Such is likely to be the case in respect of the security (other than the floating charge) referred to in this section. Under Scots law there is no equivalent concept of fixed charges taking effect as floating charges.

### ***Nature of security – floating charge***

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 Funding 1 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 Funding 1's business. Any of Funding 1's assets acquired after the initial closing date (including assets acquired as a result of the disposition of any other asset of Funding 1), which are not subject to the fixed charges mentioned in this section will be subject to the floating charge.

The existence of the floating charge will allow the Funding 1 security trustee to appoint an administrative receiver of Funding 1 as long as the capital markets exemption is available. The main advantage of the Funding 1 security trustee being able to appoint an administrative receiver is that a person entitled to appoint an administrative receiver can prevent the appointment of an administrator of Funding 1 by one of Funding 1's other creditors which allows the Funding 1 security trustee to control proceedings in the event Funding 1's other creditors seek such action.

The interest of the Funding 1 secured creditors in property and assets over which there is a floating charge only will rank behind the expenses of any liquidation or any administration and the claims of certain preferential creditors on enforcement of the Funding 1 security. This means that the expenses of any liquidation or any administration and preferential creditors will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to the issuer under the intercompany loan agreement. Section 250 of the Enterprise Act and Section 6 of the Insolvency (Northern Ireland) Order 2005 abolishes crown preference in relation to all insolvencies (and thus reduces the categories of preferential debts that are to be paid in priority to the debts due to the holder of a floating charge). For a description of the nature of floating charges created after 15 September 2003, in particular the ranking of creditors see “– **Issuer deed of charge – Nature of security – floating charge**” below.

The floating charge created by the Funding 1 deed of charge may “crystallise” and become a fixed charge over the relevant class of assets owned by Funding 1 at the time of crystallisation. Crystallisation will occur automatically following the occurrence of specific events set out in the Funding 1 deed of charge, including, among other events, notice to Funding 1 from the Funding 1 security trustee following an intercompany loan event of default, except in relation to Funding 1's Scottish assets where crystallisation will

occur only on the appointment of an administrative receiver or on the commencement of the winding-up of Funding 1. A crystallised floating charge will rank ahead of the claims of unsecured creditors but will continue to rank behind the expenses of any liquidation or any administration and the claims of preferential creditors (as referred to in this section) on enforcement of the Funding 1 security.

### **Funding 1 pre-acceleration priority of payments**

The Funding 1 deed of charge sets out the priority of distribution by the cash manager, as at the initial closing date and prior to the service of an intercompany loan acceleration notice on Funding 1, of amounts standing to the credit of the Funding 1 transaction account on each Funding 1 interest payment date. This priority is described below in “**Cashflows – distribution of Funding 1 available revenue receipts**” and “**Cashflows – distribution of Funding 1 available principal receipts**”.

### **Following the creation of new intercompany loan agreements**

Where new issuers make new loan tranches available to Funding 1, those new issuers (together with any new Funding 1 start-up loan providers and any new Funding 1 swap providers) will enter into deeds of accession in relation to the Funding 1 deed of charge which will amend the Funding 1 pre-acceleration revenue priority of payments, the Funding 1 pre-acceleration principal priority of payments (including those priorities of payments applying if a trigger event occurs or if a note acceleration notice is served on one or more of the issuers) and the Funding 1 post-acceleration priority of payments to reflect the amounts due to the new issuer, any new Funding 1 start-up loan provider and any new Funding 1 swap provider. The ranking of those new amounts due will be as follows:

- subject to the rules regarding the application of Funding 1 principal receipts by Funding 1 (see “**Cashflows – Distribution of Funding 1 available principal receipts – The rules**” below), all amounts due and payable to the issuer and any new issuers will be paid, subject to their relevant repayment dates, in descending order of the respective ratings of the loan tranches and new loan tranches with the highest loan tranche rating will be paid first and the loan tranches and new loan tranches with the lowest loan tranche rating will be paid last;
- all Funding 1 swap providers will rank *pari passu* and *pro rata* to the respective amounts due to them; and
- all Funding 1 start-up loan providers will rank *pari passu* and *pro rata* to the respective amounts due to them.

Other creditors of Funding 1 may from time to time become Funding 1 secured creditors by signing a deed of accession. The prior consent of the noteholders, Funding 1 secured creditors existing at that time and the other issuer secured creditors will not be sought in relation to the accession of a new issuer or other relevant creditor to the Funding 1 deed of charge. The Funding 1 deed of charge directs the Funding 1 security trustee to execute any deed of accession for and on behalf of the Funding 1 secured creditors, provided that the new issuer shall have certified in writing to the Funding 1 security trustee that the conditions precedent to the creation of a new intercompany loan have been satisfied.

### **Enforcement**

The Funding 1 deed of charge sets out the general procedures by which the Funding 1 security trustee may take steps to enforce the Funding 1 security so that the Funding 1 security trustee can protect the interests of each of the Funding 1 secured creditors.

The Funding 1 deed of charge provides that, when exercising its powers, trusts, authorities, duties and discretions (including acceleration of the intercompany loan and/or enforcement of the security), the Funding 1 security trustee shall act only at the request or direction of the issuer security trustee and if it is indemnified or secured to its satisfaction. The issuer security trustee will only act at the request or direction of the note trustee and if it is indemnified and/or secured to its satisfaction.

The Funding 1 security will become enforceable upon the service of an intercompany loan acceleration notice under the intercompany loan, provided that, if the Funding 1 security has become enforceable otherwise than by reason of a default in payment of any amount due in respect of the AAA loan tranches, the Funding 1 security trustee will not be entitled to dispose of all or part of the assets comprised in the Funding 1 security unless either:

- it is advised by an investment bank that a sufficient amount would be realised to allow a full and immediate discharge of all amounts owing in respect of all AAA loan tranches and all prior ranking amounts due by Funding 1; or

- the Funding 1 security trustee is of the sole opinion that the cashflow expected to be received by Funding 1 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 Funding 1, to discharge in full over time all amounts owing in respect of all AAA loan tranches and all prior ranking amounts due by Funding 1.

Each of the Funding 1 secured creditors have agreed under the Funding 1 deed of charge that they will not take steps directly against Funding 1 for any amounts owing to them, unless the Funding 1 security trustee has become bound to enforce the Funding 1 security but has failed to do so within 30 days of becoming so bound.

### ***Funding 1 post-acceleration priority of payments***

The Funding 1 deed of charge sets out the priority of distribution as at the initial closing date by the cash manager, following service of an intercompany loan acceleration notice, of amounts standing to the credit of the Funding 1 transaction account on any interest payment date and by the Funding 1 security trustee, following enforcement of the Funding 1 security, of amounts received or recovered by the Funding 1 security trustee or a receiver appointed on its behalf on any date. This priority is described in “**Cashflows – distribution of Funding 1 principal receipts and Funding 1 revenue receipts following intercompany loan acceleration**” below.

### ***Appointment, powers, responsibilities and liabilities of the Funding 1 security trustee***

The Funding 1 security trustee was appointed to act as security trustee on behalf of the Funding 1 secured creditors on the terms and conditions of the Funding 1 deed of charge. It holds the benefit of the Funding 1 security on trust for each of the Funding 1 secured creditors in accordance with the terms and conditions of the Funding 1 deed of charge.

The Funding 1 security trustee may, without the consent or sanction of the other Funding 1 secured creditors (save where they are party to the transaction document which is the subject of such modification where their actual consent shall be required), concur with any person in making or sanctioning any modifications to the transaction documents if directed or requested by the issuer security trustee, which in turn is directed or requested by the note trustee, provided that

- the note trustee is of the opinion acting reasonably that such modification will not be materially prejudicial to the interests of the noteholders or, if it is not of that opinion in relation to any class of the noteholders or the modification is a basic terms modification, it has been directed or requested by an extraordinary resolution of such class of the noteholders; or
- the note trustee is of the opinion that such modification is made to correct a manifest or proven error or an error established as such to the satisfaction of the note trustee or is of a formal, minor or technical nature.

The note trustee is entitled to assume that the exercise of its discretions will not be materially prejudicial to the interests of the noteholders if each of the rating agencies has confirmed that the then current rating by it of the rated notes then outstanding would not be downgraded, withdrawn or qualified by such exercise (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time).

In addition, the note trustee will give its consent to any modifications to any transaction document, that are requested by Funding 1 (or the cash manager, on its behalf) or the issuer (or the issuer cash manager on its behalf) (other than a basic terms modification) provided that Funding 1 (or the cash manager on its behalf) or the issuer (or the issuer cash manager on its behalf) certifies to the note trustee in writing that such modifications are required in order to accommodate (among other things):

- (i) any loan tranches to be advanced to Funding 1 under the intercompany loan and/or the issue of any notes by the issuer;
- (ii) new intercompany loan agreements of Funding 1 or any further Funding companies and/or the issue of new notes by the issuer or any new issuer;
- (iii) the addition of other relevant secured creditors of the issuer, Funding 1, any new issuer or any further Funding company;
- (iv) the accession of further Funding companies as beneficiaries to the mortgages trust deed;
- (v) the issue (directly or indirectly) of debt by Funding 1 and/or any further Funding company (other than as referred to in paragraphs (i) and (ii) above);

- (vi) the sale of new types of loans to the mortgages trustee;
- (vii) changes to the general reserve required amount and/or any additional amounts for the purposes of an arrears or step-up trigger event and/or the liquidity reserve fund required amount and/or the manner in which each of such amounts are funded;
- (viii) the establishment of the Funding 1 liquidity facility; and/or
- (ix) changes to the asset trigger events and non-asset trigger events, and

provided further that:

- in respect of the matters listed in paragraphs (i), (iv) and (vi) above, Funding 1, the cash manager, the issuer and/or the issuer cash manager certify to the note trustee in writing that the relevant conditions precedent have been satisfied; and
- in respect of the matters listed in paragraphs (i) to (x) above, the note trustee has received written confirmation from each of the rating agencies that as a result of the relevant modifications the then current ratings of the rated notes then outstanding will not be downgraded, withdrawn or qualified (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time). Where a written request for such confirmation is delivered to each rating agency by or on behalf of the issuer and one or more of the rating agencies indicates that it does not consider such confirmation or response necessary in the circumstances, or within 30 days of delivery of such request, such request elicits no confirmation or response and/or such request elicits no statement by one or more of the rating agencies that such confirmation or response could not be given, and at least one of the rating agencies gives such a confirmation or response based on the same facts, then such condition shall be deemed to be modified with respect to the facts set out in the request so that there shall be no requirement for the confirmation or response from any such non-responsive rating agency.

Furthermore, the Funding 1 security trustee shall, without the consent of any Funding 1 secured creditor, be required to give its consent to any modifications to the transaction documents that are requested by Funding 1 or the cash manager, provided that Funding 1 has certified to the Funding 1 security trustee in writing that such modifications are required in order to comply with any requirements which apply to it under EMIR, irrespective of whether such modifications are materially prejudicial to the interests of any Funding 1 secured creditor and provided such modifications do not relate to a basic terms modification. The Funding 1 security trustee shall not be obliged to agree to any modification pursuant to this paragraph which (in the sole opinion of the Funding 1 security trustee) would have the effect of (a) exposing the Funding 1 security trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction; and (b) increasing the obligations or duties, or decreasing the protections of the Funding 1 security trustee in the transaction documents and/or the terms and conditions of the notes.

#### ***Funding 1 security trustee's fees and expenses***

Funding 1 shall reimburse the Funding 1 security trustee for all its costs and expenses properly incurred in acting as security trustee pursuant to the Funding 1 deed of charge. The Funding 1 security trustee shall be entitled to a fee payable annually in the amount agreed from time to time by the Funding 1 security trustee and Funding 1. Funding 1 will agree to indemnify the Funding 1 security trustee and each of its officers, employees and advisers from and against all claims, actions, proceedings, demands, liabilities, losses, damages, costs and expenses arising out of or in connection with:

- the transaction documents; or
- the Funding 1 security trustee's engagement as security trustee pursuant to the Funding 1 deed of charge,

which it or any of its officers, employees or advisers may suffer as a result of Funding 1 failing to perform any of its obligations.

Funding 1 will not be responsible under the Funding 1 deed of charge for any liabilities, losses, damages, costs or expenses resulting from fraud, negligence or wilful default by the Funding 1 security trustee or any of its officers, employees or advisers or breach by them of the terms of the Funding 1 deed of charge.

## **Retirement and removal**

Subject to the appointment of a successor security trustee, the Funding 1 security trustee may retire after giving three months' notice in writing to Funding 1. In order to be eligible to act as Funding 1 security trustee, such successor security trustee must agree to be bound by the terms of the Funding 1 deed of charge and must meet the applicable eligibility requirements under the Funding 1 deed of charge, including the requirement that it satisfies the minimum capitalisation and other applicable conditions in regards to trustee eligibility set forth in the Investment Company Act. If within 60 days of having given notice of its intention to retire, Funding 1 has failed to appoint a replacement security trustee, the outgoing Funding 1 security trustee will be entitled to appoint its successor (provided that such successor is acceptable to the rating agencies and agrees to be bound by the terms of the Funding 1 deed of charge, and further provided that the rating agencies confirm that the then current ratings of the rated notes then outstanding shall not be downgraded, withdrawn or qualified as a result of such appointment (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time)).

Funding 1 may remove the Funding 1 security trustee at any time provided that it has the consent of the issuer security trustee which in turn has the consent of the note trustee, which must not be unreasonably withheld or delayed, to the removal.

In addition, the Funding 1 security trustee may, subject to conditions specified in the Funding 1 deed of charge, appoint a co-trustee to act jointly with it.

## **Additional provisions of the Funding 1 deed of charge**

The Funding 1 deed of charge contains a range of provisions regulating the scope of the Funding 1 security trustee's duties and liabilities. These will include the following:

- the Funding 1 security trustee is not responsible for the adequacy or enforceability of the Funding 1 deed of charge or the security interests created thereby or any other transaction document;
- the Funding 1 security trustee is not required to exercise its powers under the Funding 1 deed of charge without being directed to do so by the issuer security trustee;
- the Funding 1 security trustee may rely (without investigation or further inquiry) on documents provided by the mortgages trustee, Funding 1 and the cash manager, the ratings agencies and the advice of consultants and advisers and shall not be liable for any loss or damage arising as a result of such reference;
- the Funding 1 security trustee is not required to monitor compliance by Funding 1 with the transaction documents or whether an intercompany loan event of default under the intercompany loan has occurred;
- the Funding 1 security trustee will be taken not to have knowledge of the occurrence of an intercompany loan event of default under the intercompany loan unless the Funding 1 security trustee has received written notice from a Funding 1 secured creditor stating that an intercompany loan event of default has occurred and describing that intercompany loan event of default;
- any action taken by the Funding 1 security trustee under the Funding 1 deed of charge or any transaction document binds all of the Funding 1 secured creditors;
- each Funding 1 secured creditor must make its own independent investigations, without reliance on the Funding 1 security trustee, as to the affairs of Funding 1;
- the Funding 1 security trustee generally has no liability under or in connection with the Funding 1 deed of charge or any other transaction document, whether to a Funding 1 secured creditor or otherwise, other than to the extent to which (1) the liability is able to be satisfied in accordance with the Funding 1 deed of charge out of the property held by it on trust under the Funding 1 deed of charge and (2) it is actually indemnified for the liability, unless the liability has arisen due to the Funding 1 security trustee's or any of its officers', employees' or advisers' fraud, negligence or wilful misconduct or breach of the terms of the Funding 1 deed of charge; and
- the Funding 1 security trustee is not responsible for any deficiency which may arise because it is liable to tax in respect of the proceeds of Funding 1 security.



The Funding 1 security trustee has had no involvement in the preparation of any part of this base prospectus, other than any particular reference to the Funding 1 security trustee. The Funding 1 security trustee expressly disclaims and takes no responsibility for any other part of this base prospectus. The Funding 1 security trustee makes no statement or representation in this base prospectus, has not authorised or caused the issue of any part of it and takes no responsibility for any part of it. The Funding 1 security trustee does not guarantee the performance of the notes or the payment of principal or interest on the notes.

### **Governing law**

The Funding 1 deed of charge and any non-contractual obligations arising out of or in connection with it is principally governed by English law, but contains certain Scots law and Northern Irish law provisions which, in the case of Scots law provisions and any non-contractual obligations arising out of or in connection therewith, are construed in accordance with Scots law and, in the case of Northern Irish law provisions and any non-contractual obligations arising out of or in connection therewith, are construed in accordance with Northern Irish law.

### **Issuer deed of charge**

The issuer has provided security for its obligations by entering into the issuer deed of charge with the issuer secured creditors.

The issuer deed of charge has five primary functions:

- it sets out covenants of the issuer;
- it creates security interests in favour of the issuer security trustee which the issuer security trustee then holds on trust for each of the issuer secured creditors;
- it sets out the enforcement procedures relating to a default by the issuer of its covenants under the transaction documents (including the appointment of a receiver);
- it sets out the order in which the issuer security trustee applies monies standing to the credit of the issuer accounts following the service of a note acceleration notice on the issuer; and
- it sets out the appointment of the issuer security trustee, its powers and responsibilities and the limitations on those responsibilities.

### **Covenants of the issuer**

The issuer deed of charge contains covenants made by the issuer in favour of the issuer security trustee on trust for the benefit of itself, any receiver of the issuer and the issuer secured creditors.

### **Issuer security**

Under the issuer deed of charge, the issuer created the following security interests in favour of the issuer security trustee for and on behalf of the issuer secured creditors in respect of its obligations:

- an assignment by way of security of or, to the extent not assignable, a charge over (which is likely to take effect as a floating charge) all of the issuer's rights under the transaction documents to which it is a party, including the intercompany loan agreement, the Funding 1 deed of charge, the issuer swap agreements, any issuer swap guarantees, the paying agent and agent bank agreement, the programme agreement, any subscription agreement(s), the issuer corporate services agreement, the issuer bank account agreement, the issuer cash management agreement and the note trust deed;
- a first ranking fixed charge (which is likely to take effect as a floating charge) over all of issuer's rights in respect of any amount standing to the credit of the issuer accounts and all interest paid or payable in respect of those amounts and all debts represented by those amounts;
- a first ranking fixed charge (which is likely to take effect as a floating charge) over all of the issuer's rights in respect of all authorised investments made by or on behalf of the issuer using monies standing to the credit of the issuer accounts and all interest, monies and proceeds paid or payable in relation to those authorised investments; and
- a first ranking floating charge over all of the issuer's undertaking and all its property and assets (including, without limitation, its uncalled capital) not otherwise effectively charged or assigned

(but extending over all of the issuer's property, assets and undertaking situated in Scotland or the rights to which are governed by Scots law).

### ***Nature of security – fixed charge***

Whether a fixed security interest expressed to be created by the issuer deed of charge will be upheld under English law and Northern Irish law as a fixed security interest rather than floating security will depend, among other things, on whether the issuer security trustee has the requisite degree of control 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 issuer security trustee in practice. However, it is likely that the issuer security trustee does not exert sufficient control over the accounts of the issuer for the charges over those accounts to take effect as fixed charges. In addition, any assignment, charge or security granted over an asset which is expressed to be a fixed charge may be characterised a floating charge if the proceeds thereof are paid into a bank account over which the issuer security trustee is not deemed to have sufficient control. Such may be the case in respect of the security (other than the floating charge) referred to in this section. Under Scots law there is no equivalent concept of fixed charges taking effect as floating charges.

### ***Nature of security – floating charge***

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 initial closing date (including assets acquired as a result of the disposition of any other assets of the issuer) which are not subject to fixed charges mentioned in this section (including all of the issuer's Scottish assets) will be subject to the floating charge.

The existence of the floating charge will allow the issuer security trustee to appoint an administrative receiver of the issuer as long as the capital markets exemption is available. The main advantage of the issuer security trustee being able to appoint an administrative receiver is that a person entitled to appoint an administrative receiver can prevent the appointment of an administrator of the issuer by one of the issuer's other creditors which allows the issuer security trustee to control proceedings in the event the issuer's other creditors seek such action. However, see “**Risk factors – Changes of law may adversely affect your interests**” above relating to the appointment of administrative receivers.

The interest of the issuer secured creditors in property and assets over which there is a floating charge will rank behind the expenses of any liquidation or administration and the claims of certain preferential creditors on enforcement of the issuer security. This means that the expenses of any liquidation or any administration and the claims of preferential creditors will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to the noteholders. Section 250 of the Enterprise Act (and the equivalent Section 6 of the Insolvency (Northern Ireland) Order 2005) 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 new Section 176A of the Insolvency Act (as inserted by Section 251 of the Enterprise Act and the equivalent Section 7 of the Insolvency (Northern Ireland) Order 2005) 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 liquidation or 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 issuer 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. Except in relation to the issuer's Scottish assets, crystallisation will occur automatically following the occurrence of specific events set out in the issuer deed of charge, including, among other events, service of a note acceleration notice. In relation to the issuer's Scottish assets, crystallisation will occur only on the appointment of an administrative receiver or on the commencement of the winding-up of the issuer. A crystallised floating charge will rank ahead of the claims of unsecured creditors which are in excess of the prescribed part, but will rank behind the expenses of any liquidation or administration, the claims of preferential creditors (as referred to in this section) and the beneficiaries of the prescribed part on enforcement of the issuer security.

### ***Enforcement***

If at any time the issuer security becomes enforceable, the note trustee may (for so long as any notes remain outstanding) instruct the issuer security trustee to take such steps as it may think fit to enforce the

issuer security. The issuer security trustee is not bound to take such steps unless it is so directed by the note trustee (for so long as any notes remain outstanding) and indemnified and/or secured to its satisfaction.

The issuer security will become enforceable at any time following the service of a note acceleration notice on the issuer or, if there are no notes outstanding, following a default in payment of any other secured obligation of the issuer, provided that, if a note acceleration notice is served on the issuer other than due to a default in payment of any amount due on the notes, the issuer security trustee will not be entitled to dispose of all or part of the assets comprised in the issuer security unless either:

- a sufficient amount would be realised to allow a full and immediate discharge of all amounts owing in respect of the class A notes or, if the class A notes have been fully repaid, the class B notes or, if the class B notes have been fully repaid, the class M notes or, if the class M notes have been fully repaid, the class C notes or, if the class C notes have been fully repaid, the class D notes; or
- the issuer security trustee is of the sole 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 over time all amounts owing in respect of the class A notes or, if the class A notes have been fully repaid, the class B notes or, if the class B notes have been fully repaid, the class M notes or, if the class M notes have been fully repaid, the class C notes or, if the class C notes have been fully repaid, the class D notes and all prior ranking amounts due by the issuer.

Each of the issuer secured creditors (other than the noteholders, the note trustee acting on behalf of the noteholders and the issuer security trustee) will agree under the issuer deed of charge that they will not take steps directly against the issuer (other than in accordance with the transaction documents) for any amounts owing to them, unless the issuer security trustee has become bound to enforce the issuer security but has failed to do so within 30 business days of becoming so bound.

***Issuer post-acceleration principal priority of payments and issuer priority of payments following an intercompany loan acceleration notice***

The issuer deed of charge sets out the priority of distribution by the issuer cash manager, following service of a note acceleration notice and/or an intercompany loan acceleration notice, of amounts standing to the credit of the issuer transaction account and (if established) the issuer GIC account or, as the case may be, by the issuer security trustee, following enforcement of the issuer security, of amounts received or recovered by the issuer security trustee (or a receiver appointed on its behalf). These orders of priority are described in “**Cashflows**” below.

***Appointment, powers, responsibilities and liabilities of the issuer security trustee***

The issuer security trustee was appointed to act as security trustee on behalf of the issuer secured creditors on the terms and conditions of the issuer deed of charge. It holds the benefit of the security created by the issuer deed of charge on trust for each of the issuer secured creditors in accordance with the terms and conditions of the issuer deed of charge.

The issuer security trustee may concur or direct the Funding 1 security trustee to concur with any person in making any modifications to the transaction documents only if so directed or requested by the note trustee, provided that:

- the note trustee is of the opinion that such modification will not be materially prejudicial to the interests of the noteholders or, if it is not of that opinion in relation to any class of the noteholders or the modification is a basic terms modification, it has been directed or requested by an extraordinary resolution of such class of the noteholders; or
- the note trustee is of the opinion that such modification is being made to correct a manifest or proven error established as such to the satisfaction of the note trustee or is of a formal, minor or technical nature.

The note trustee is entitled to assume that the exercise of its rights, powers, duties and discretions will not be materially prejudicial to the interests of the noteholders if each of the rating agencies has confirmed that the then current rating by it of the rated notes then outstanding would not be downgraded, withdrawn or qualified by such exercise (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time).

In addition, the note trustee will give its consent to any modifications to any transaction document, that are requested by Funding 1 (or the cash manager, on its behalf) or the issuer (or the issuer cash manager on its behalf) (other than a basic terms modification) provided that Funding 1 (or the cash manager on its behalf) or the issuer (or the issuer cash manager on its behalf) certifies to the note trustee in writing that such modifications are required in order to accommodate (among other things):

- (i) any loan tranches to be advanced to Funding 1 under the intercompany loan and/or the issue of any notes by the issuer;
- (ii) new intercompany loan agreements of Funding 1 or any further Funding companies and/or the issue of new notes by the issuer or any new issuer;
- (iii) the addition of other relevant secured creditors of the issuer, Funding 1, any new issuer or any further Funding company;
- (iv) the accession of further Funding companies as beneficiaries to the mortgages trust deed;
- (v) the issue (directly or indirectly) of debt by Funding 1 and/or any further Funding company (other than as referred to in paragraphs (i) and (ii) above);
- (vi) the sale of new types of loans to the mortgages trustee;
- (vii) changes to the general reserve required amount and/or any additional amounts for the purposes of an arrears or step-up trigger event and/or the liquidity reserve fund required amount and/or the manner in which each of such amounts are funded;
- (viii) the establishment of the Funding 1 liquidity facility; and/or
- (ix) changes to the asset trigger events and non-asset trigger events,

and provided further that:

- in respect of the matters listed in paragraphs (i), (iv) and (vi) above, Funding 1, the cash manager, the issuer and/or the issuer cash manager certify to the note trustee in writing that the relevant conditions precedent have been satisfied; and
- in respect of the matters listed in paragraphs (i) to (x) above, the note trustee has received written confirmation from each of the rating agencies that as a result of the relevant modifications the then current ratings of the rated notes then outstanding will not be downgraded, withdrawn or qualified (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time). Where a written request for such confirmation is delivered to each rating agency by or on behalf of the issuer and one or more of the rating agencies indicates that it does not consider such confirmation or response necessary in the circumstances, or within 30 days of delivery of such request, such request elicits no confirmation or response and/or such request elicits no statement by one or more of the rating agencies that such confirmation or response could not be given, and at least one of the rating agencies gives such a confirmation or response based on the same facts, then such condition shall be deemed to be modified with respect to the facts set out in the request so that there shall be no requirement for the confirmation or response from any such non-responsive rating agency.

Furthermore, the note trustee may consent to an EMIR amendment as set forth in condition 11.5 of the terms and conditions of the notes.

#### ***Issuer security trustee's fees and expenses***

The issuer will reimburse the issuer security trustee for all its costs and expenses properly incurred in acting as issuer security trustee. The issuer security trustee shall be entitled to a fee payable on such dates and in the amount agreed from time to time by the issuer security trustee and the issuer. The issuer has agreed to indemnify the issuer security trustee and each of its officers, employees and advisers from and against all claims, actions, proceedings, demands, liabilities, losses, damages, costs and expenses arising out of or in connection with:

- the transaction documents; or
- the issuer security trustee's engagement as security trustee pursuant to the issuer deed of charge,

which it or any of its officers, employees or advisers may suffer as a result of the issuer failing to perform any of its obligations.

The issuer is not responsible under the issuer deed of charge for any liabilities, losses, damages, costs or expenses resulting from the fraud, negligence or wilful default on the part of the issuer security trustee or any of its officers, employees and advisers or breach by them of the terms of the issuer deed of charge.

### ***Retirement and removal***

Subject to the appointment of a successor security trustee, the issuer security trustee may retire after giving three months' notice in writing to the issuer. In order to be eligible to act as issuer security trustee, such successor security trustee must agree to be bound by the terms of the issuer deed of charge and must meet the applicable eligibility requirements under the issuer deed of charge, including the requirement that it satisfies the minimum capitalisation and other applicable conditions in regards to trustee eligibility set out in the Investment Company Act. If, within 60 days of having given notice of its intention to retire, the issuer has failed to appoint a replacement security trustee, the outgoing issuer security trustee will be entitled to appoint its successor (provided that such successor is acceptable to the rating agencies and agrees to be bound by the terms of the issuer deed of charge, and further provided that the rating agencies confirm that the then current ratings of the rated notes then outstanding shall not be either downgraded, withdrawn or qualified as a result of such appointment (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time)).

The issuer may remove the issuer security trustee at any time providing that it has the consent, which must not be unreasonably withheld or delayed, of the note trustee to the removal.

In addition, the issuer security trustee may, subject to the conditions specified in the issuer deed of charge, appoint a co-trustee to act jointly with it.

### ***Additional provisions of the issuer deed of charge***

The issuer deed of charge contains a range of provisions regulating the scope of the issuer security trustee's duties and liability. These include the following:

- the issuer security trustee will, if reasonably practicable, give prior written notification to the seller of the issuer security trustee's intention to enforce the issuer security (although any failure to so notify will not prejudice the ability of the issuer security trustee to enforce the issuer security);
- the issuer security trustee is not responsible for the adequacy or enforceability of the issuer deed of charge or the security interests created thereby or any other transaction document;
- the issuer security trustee is not required to exercise its powers under the issuer deed of charge or the transaction documents unless:
  - (i) whilst the notes are outstanding, it has been directed or requested to do so by the note trustee in accordance with **condition 10** (see "**Terms and conditions of the notes**" below); or
  - (ii) following the redemption of the notes, it has been directed to do so by any other issuer secured creditor;

provided that, in each case, it is indemnified and/or secured to its satisfaction;

- the issuer security trustee may rely (without investigation or further inquiry) on documents provided by the issuer, the issuer cash manager, the issuer swap providers, the agent bank, the paying agents, the registrar, the exchange rate agent, the transfer agent, the issuer account bank, the issuer corporate services provider, the rating agencies and the advice of consultants and advisers and shall not be liable for any loss or damage arising as a result of such reliance;
- the issuer security trustee is not required to monitor whether a note event of default has occurred or compliance by the issuer with the transaction documents;
- the issuer security trustee will be taken not to have knowledge of the occurrence of a note event of default unless the issuer security trustee has received written notice stating that a note event of default has occurred;
- the issuer security trustee may rely (without investigation or further inquiry) on any instructions or directions given to it by the note trustee as being given on behalf of the relevant class of

noteholders without inquiry about compliance with the note trust deed and shall not be liable for any loss or damage arising as a result of such reliance;

- the issuer security trustee has no duties or responsibilities except those expressly set out in the issuer deed of charge or the transaction documents;
- any action taken by the issuer security trustee under the issuer deed of charge or any of the transaction documents binds all of the issuer secured creditors;
- each issuer secured creditor must make its own independent investigations, without reliance on the issuer security trustee, as to the affairs of the issuer and whether or not to request that the issuer security trustee take any particular course of action under any transaction document;
- the issuer security trustee in a capacity other than as issuer security trustee can exercise its rights and powers as such as if it were not acting as the issuer security trustee;
- the issuer security trustee and its affiliates may engage in any kind of business with the issuer or any of the issuer secured creditors as if it were not the issuer security trustee and may receive consideration for services in connection with any transaction document or otherwise without having to account to the issuer secured creditors;
- the issuer security trustee has no liability under or in connection with the issuer deed of charge or any other transaction document, whether to an issuer secured creditor or otherwise, (1) other than to the extent to which the liability is able to be satisfied in accordance with the issuer deed of charge out of the property held by it on trust under the issuer deed of charge and (2) it is actually indemnified for the liability, unless such liability has arisen due to its or any of its officers', employees' or advisers' fraud, negligence, wilful misconduct or breach of the terms of the issuer deed of charge; and
- the issuer security trustee is not responsible for any deficiency which may arise because it is liable to tax in respect of the proceeds of issuer security.

The issuer security trustee has had no involvement in the preparation of any part of this base prospectus, other than any particular reference to the issuer security trustee. The issuer security trustee expressly disclaims and takes no responsibility for any other part of this base prospectus. The issuer security trustee makes no statement or representation in this base prospectus, has not authorised or caused the issue of any part of it and takes no responsibility for any part of it. The issuer security trustee does not guarantee the success of the notes or the payment of principal or interest on the notes.

### **Governing law**

The issuer deed of charge and any non-contractual obligations arising out of or in connection with it is principally governed by English law, but contains certain Scots law and Northern Irish law provisions which, in the case of Scots law provisions and any non-contractual obligations arising out of or in connection therewith, are construed in accordance with Scots law and, in the case of Northern Irish law provisions and any non-contractual obligations arising out of or in connection therewith, are construed in accordance with Northern Irish law.

### **Swap agreements**

Funding 1, on the initial closing date, entered into the Funding 1 swap agreement with Alliance & Leicester (as the Funding 1 swap provider). Since the Part VII effective date, the Funding 1 swap provider has been Santander UK. The issuer will enter into issuer swaps with ANTS, as issuer swap provider, unless another issuer swap provider is specified in an applicable drawdown prospectus or supplemental prospectus. In general, the swaps are designed to do the following:

- Funding 1 swap(s): to hedge against the possible variance between the mortgages trustee variable rate in respect of the variable rate loans, the base rate in respect of the base rate loans and the fixed rates of interest payable on the fixed rate loans on the one hand and a LIBOR-based rate for three-month sterling deposits on the other hand;
- issuer dollar currency swaps: to protect the issuer against changes in the sterling to U.S. dollar exchange rate following the relevant closing date and the possible variance between a LIBOR-based rate for three-month sterling deposits and either (i) a LIBOR-based rate for one-month dollar deposits applicable to the relevant class of notes, (ii) a LIBOR-based rate for three-month dollar deposits applicable to the relevant class of notes or (iii) a LIBOR-based rate for such other period of dollar deposits applicable to the relevant class of notes, in each case as specified in the accompanying final terms, and to address the difference in timing between the

interest payment dates in respect of loan tranches under the intercompany loan, which may occur monthly or quarterly, and the interest payment dates in respect of a particular class of notes which may occur monthly, quarterly or otherwise, in each case as specified in the accompanying final terms;

- issuer euro currency swaps: to protect the issuer against changes in the sterling to euro exchange rate following the relevant closing date and the possible variance between a LIBOR-based rate for three-month sterling deposits and either (i) a EURIBOR-based rate for one-month euro deposits applicable to the relevant class of notes, (ii) a EURIBOR-based rate for three-month euro deposits applicable to a class of notes or (iii) a EURIBOR-based rate for such other period of euro deposits applicable to the relevant class of notes, in each case as specified in the accompanying final terms, and to address the difference in timing between the interest payment dates in respect of loan tranches under the intercompany loan which may occur monthly or quarterly, and the interest payment dates in respect of the relevant class of notes which may occur monthly, quarterly or otherwise, in each case as specified in the accompanying final terms;
- other issuer currency swaps: to protect the issuer following the relevant closing date against changes in the sterling to the specified currency exchange rate (if not euro or dollars) and the possible variance between a LIBOR-based rate for three-month sterling deposits and the rate specified in the accompanying final terms, and to address the difference in timing between the interest payment dates in respect of loan tranches under the intercompany loan, which may occur monthly or quarterly, and the interest payment dates in respect of a particular class of notes which may occur monthly, quarterly or otherwise, in each case as specified in the accompanying final terms; and
- issuer interest rate swap agreements: in addition to the issuer currency swaps outlined in the bullet points above, if the issuer issues sterling notes which are fixed rate notes from time to time, it will enter into issuer interest rate swap transactions in order to hedge its exposure to potential mismatches between the floating rate of interest payable under the Funding 1 intercompany loan and the fixed rates of interest payable by the issuer under those notes.

### **Funding 1 swap agreement**

Some of the loans in the portfolio pay a variable rate of interest for a period of time which may be linked to the mortgages trustee variable rate or a variable interest rate other than the mortgages trustee variable rate such as a rate set by reference to the base rate. Other loans pay a fixed rate of interest for a period of time and may pay a differential rate. However, the interest rate payable by Funding 1 with respect to the loan tranches under the intercompany loan agreement is calculated as a margin over LIBOR for three-month sterling deposits.

Funding 1 and the Funding 1 swap provider entered into the Funding 1 swap(s) pursuant to the Funding 1 swap agreement on the initial closing date (and may amend and restate such Funding 1 swap agreement on each subsequent closing date) to provide hedging against the possible variances between:

- (a) (i) the mortgages trustee variable rate in respect of the variable rate loans (including discount loans and stepped discount loans) and (ii) a LIBOR-based rate for three-month sterling deposits;
- (b) (i) the base rate in respect of the base rate loans and (ii) a LIBOR-based rate for three-month sterling deposits; and
- (c) (i) the fixed rate of interest payable on the fixed rate loans and (ii) a LIBOR rate for three-month sterling deposits.

There is one Funding 1 swap (the **original Funding 1 swap**) which is split into fifteen Funding 1 swaps, consisting of five swaps relating to variable rate loans (the **variable rate loans Funding 1 swap(s)**), five swaps relating to base rate loans (the **base rate loans Funding 1 swap(s)**) and five swaps relating to fixed rate loans (the **fixed rate loans Funding 1 swap(s)**).

The variable rate loans Funding 1 swaps provide hedging in respect of five groups of variable rate loans from time to time which have been grouped together by reference to the maturities of the variable rate loans in those groups. The variable rate loans Funding 1 swaps do not provide a hedge against the actual rates on the variable rate loans, but rather they provide a hedge against a rate of interest equal to the average of the standard variable rate or its equivalent charged to existing borrowers on residential mortgage loans as published from time to time of the reference lenders (as defined below) as more fully described below on the one hand, and a LIBOR based rate for three-months sterling deposits on the other hand.

Funding 1 remains exposed to the level of any discount applied to the variable rate loans because, in hedging against the possible variance between the underlying basis of calculation of the variable rate loans on the one hand and a LIBOR-based rate for three-months sterling deposits on the other hand, the variable rate loans Funding 1 swaps do not take into account any discounts applied to such basis of calculation.

The base rate loans Funding 1 swaps provide hedging in respect of five groups of base rate loans from time to time which have been grouped together by reference to (in respect of base rate loans with reset dates which predate the maturity dates applicable to those base rate loans) the relevant reset dates, or (in the case of all other base rate loans) the maturity dates, of the base rate loans in those groups.

The fixed rate loans Funding 1 swaps provide hedging in respect of five groups of fixed rate loans from time to time which have been grouped together by reference to the reset dates of the fixed rate loans in those groups.

The Funding 1 swaps each:

- have a notional amount that is proportionally sized to hedge against any potential interest rate mismatches in relation to the notes which remain outstanding; and
- provide for the notional amount to be increased as appropriate to hedge against similar potential interest rate mismatches in relation to any new series and class of notes.

Under each Funding 1 swap, on each trust calculation date the following amounts will be calculated:

- the amount produced by applying LIBOR for three-month sterling deposits (as determined in respect of the corresponding interest period under the loan tranches) plus (in the case of the fixed rate loans Funding 1 swaps) a fixed rate spread or (in the case of the variable rate loans Funding 1 swaps) a variable rate spread or (in the case of the base rate loans Funding 1 swaps) a base rate spread for the immediately preceding trust calculation period to the relevant notional amount of each Funding 1 swap (known as the **trust calculation period swap provider amount**) (such fixed rate spread being the applicable spread to the relevant fixed rate loans, such variable rate spread being the applicable spread to the relevant variable rate loans and such base rate spread being applicable spread to the relevant base rate loans and in all three cases including certain upfront fees that have been paid by the borrowers to the originator when the mortgages were first originated); and
- the amount produced by applying a rate equal to the weighted average of either:
  - (i) in the case of the variable rate loans Funding 1 swaps: the average of the standard variable mortgage rates or their equivalent charged to existing borrowers on residential mortgage loans as published from time to time, after excluding the highest and the lowest rate, of Barclays Bank PLC (Woolwich), Halifax plc/HBOS, Lloyds TSB Bank plc (C&G), National Westminster Bank Plc, Nationwide Building Society and Northern Rock plc (or their respective successors) and such additional or replacement residential mortgage lenders as shall be determined by the Calculation Agent (together, the **reference lenders** and each, a **reference lender**) (and where those reference lenders have more than one standard variable rate, the highest of those rates); or
  - (ii) in the case of the base rate loans Funding 1 swaps: the rates of interest payable on the relevant base rate loans; or
  - (iii) in the case of the fixed rate loans Funding 1 swaps: the rates of interest payable on the relevant fixed rate loans;

for the immediately preceding trust calculation period to the relevant notional amount of each Funding 1 swap (known as the **trust calculation period Funding 1 amount**).

On each Funding 1 interest payment date the following amounts will be calculated:

- the sum of each of the trust calculation period Funding 1 amounts calculated during the preceding interest period, subject to the maximum amount available to Funding 1 to make payment under the Funding 1 swaps in accordance with the Funding 1 pre-acceleration revenue priority of payments (with the amount of any downward adjustment being determined by reference to (i) the proportion that the loans in the group to which the relevant Funding 1 swap relates bears to the total loans in the portfolio, in each case by reference to the aggregate outstanding principal balance and (ii) the revenue receipts received by Funding 1 in respect of



the relevant fixed loans, relevant base rate loans or relevant variable rate loans (as the case may be)) (the **interest period Funding 1 amount**); and

- the sum of each of the trust calculation period swap provider amounts calculated during the preceding interest period, reduced proportionately if the interest period Funding 1 amount is reduced pursuant to the maximum amount described above.

After these two amounts are calculated in relation to a Funding 1 interest payment date, the following payments will be made on that Funding 1 interest payment date:

- if the first amount is greater than the second amount, then Funding 1 will pay the difference to the Funding 1 swap provider;
- if the second amount is greater than the first amount, then the Funding 1 swap provider will pay the difference to Funding 1; and
- if the two amounts are equal, neither party will make a payment to the other.

If a payment is to be made by the Funding 1 swap provider, that payment will be included in the Funding 1 available revenue receipts and will be applied on the relevant Funding 1 interest payment date according to the relevant priority of payments of Funding 1. If a payment is to be made by Funding 1, it will be made according to the relevant priority of payments of Funding 1.

The **notional amount of the Funding 1 swap(s)** in respect of a trust calculation period will be an amount in sterling equal to the relevant proportion (equal to the proportion that the loans in the group to which the relevant Funding 1 swap relates bears to the total loans in the portfolio, in each case by reference to the aggregate outstanding principal balance at such time) of the following amount:

- the aggregate principal amount outstanding of all loan tranches under the intercompany loan agreement on the first day of the relevant trust calculation period, less
- the balance of the Funding 1 principal deficiency ledger attributable to all loan tranches on the first day of the relevant trust calculation period, less
- the amount of the Funding 1 principal receipts in the Funding 1 GIC account attributable to all loan tranches on the first day of the relevant trust calculation period.

In the event that any Funding 1 swap is terminated prior to the service of an intercompany loan acceleration notice or the latest occurring final repayment date of any loan tranche advanced under the intercompany loan, Funding 1 shall enter into replacement Funding 1 swap(s) on terms acceptable to the rating agencies, with a swap provider whom the rating agencies have previously confirmed will not cause the then current ratings of the rated notes then outstanding to be downgraded, withdrawn or qualified (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time). If Funding 1 is unable to enter into replacement Funding 1 swap(s) on terms acceptable to the rating agencies, this may affect amounts available to pay interest on the loan tranches under the intercompany loan agreement.

### ***Issuer swap agreements***

#### *Issuer currency swap agreements*

The loan tranches under the intercompany loan agreement will be denominated in sterling and interest payable by Funding 1 to the issuer under the loan tranches is calculated as a margin over LIBOR for three-month sterling deposits. However, some of the notes will be denominated in U.S. dollars and will accrue interest at either a USD LIBOR-based rate for one-month U.S. dollar deposits, a USD LIBOR-based rate for three-month U.S. dollar deposits or such other rate specified in the accompanying final terms. Other notes will be denominated in euro and will accrue interest at either a EURIBOR-based rate for one-month euro deposits, a EURIBOR-based rate for three-month euro deposits or such other rate specified in the accompanying final terms. Other notes will be denominated in another currency (other than sterling, U.S. dollars or euro) as specified in the accompanying final terms and will accrue interest at such rate specified in the accompanying final terms. To deal with the potential currency mismatch between (i) its receipts and liabilities in respect of the loan tranches and (ii) its receipts and liabilities under the notes, the issuer will, pursuant to the terms of the issuer swap agreements in respect of each series, swap its receipts and liabilities in respect of the relevant loan tranches on terms that match the issuer's obligations under the relevant series of notes.

On the closing date of any series of notes, the issuer will pay to the relevant issuer swap provider the issue proceeds of any U.S. dollar notes, euro notes or notes denominated in any other specified currency (other than sterling) and the relevant issuer swap provider will pay to the issuer the equivalent amount in sterling, converted by reference to the dollar currency exchange rate or euro current exchange rate or such other currency exchange rate, as applicable.

The currency amount of each issuer swap will be the principal amount outstanding under the series of notes to which the relevant issuer swap relates. Subject, in the case of the issuer's obligations under certain classes of notes, to certain deferral of interest provisions that will apply when payment of interest under the corresponding notes is deferred in accordance with the terms and conditions of such notes, the issuer swap providers will pay to the issuer amounts in U.S. dollars, euro or such other relevant specified currency, as applicable, that are equal to the amounts of interest to be paid on each of the classes of the notes of the relevant series and the issuer will pay to the issuer swap providers the sterling interest amounts received on the loan tranches corresponding to the classes of notes of the relevant series. In order to allow for the effective currency amount of each issuer swap to amortise at the same rate as the relevant series and class of notes, each issuer swap agreement will provide that, as and when the notes amortise, a corresponding portion of the currency amount of the relevant issuer swap will amortise. Pursuant to each issuer swap agreement, any portion of issuer swap so amortised will be swapped from sterling into U.S. dollars at the relevant U.S. dollar currency exchange rate, into euro at the euro currency exchange rate or into such other relevant specified currency at the relevant specified currency exchange rate, as applicable.

On the final maturity date of each class of notes or, if earlier, the date on which such notes are redeemed in full (other than pursuant to **condition 5.5** under "**Terms and conditions of the notes**" below), the relevant issuer swap provider will pay to the issuer an amount in U.S. dollars, euro or such other relevant specified currency, as applicable, equal to the principal amount outstanding under the relevant notes and the issuer will pay to the relevant issuer swap provider an equivalent amount in sterling, converted by reference to the dollar currency exchange rate, euro currency exchange rate or such other relevant specified currency exchange rate, as applicable.

If the issuer does not have sufficient principal available pursuant to the issuer cash management agreement to pay in full any amount required to be paid by it on any date under the issuer swap agreement and accordingly pays only a part of such amount to the relevant issuer swap provider, then the issuer swap agreement may provide that the relevant issuer swap provider will not be obliged on such date to pay the equivalent of the full amount but will be obliged on such date to pay only the equivalent of such partial amount in U.S. dollars, euro or such other relevant specified currency, as applicable, in each case converted by reference to the dollar currency exchange rate, euro currency exchange rate or such other relevant specified currency exchange rate, as applicable. The relevant issuer swap agreement will set out to which, if any, payments the proportionate reduction of the issuer swap provider's payment applies.

In the event that any issuer currency swap is terminated prior to the service of a note acceleration notice or the final redemption of the relevant series of U.S. dollar denominated, euro denominated notes or such other specified currency denominated notes, as applicable, the issuer cash manager (on behalf of the issuer or, if the issuer security trustee requests the issuer cash manager to act as its agent, on behalf of the issuer security trustee) shall purchase a replacement currency swap in respect of that class and series of notes. Any replacement currency swap must be on terms acceptable to the rating agencies, the issuer and the issuer security trustee and with a replacement issuer swap provider whom the rating agencies have previously confirmed will not cause the then current ratings of the rated notes then outstanding of the relevant series to be downgraded, withdrawn or qualified (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time).

If an issuer swap agreement is terminated and the issuer cash manager is unable to purchase (on behalf of the issuer or the issuer security trustee as applicable) a replacement swap as described above, then any payments received by the issuer from Funding 1 on each Funding 1 interest payment date shall be deposited in the issuer bank account (or such other account opened for this purpose) and applied by the issuer to repay the notes on each interest payment date after exchanging at the "spot" rate the relevant proceeds from sterling into U.S. dollars, euros or such other relevant specified currency as required.

#### *Issuer interest rate swap agreements*

Interest payable by Funding 1 to the issuer under the loan tranches under the intercompany loan agreement is calculated as a margin over LIBOR for three-month sterling deposits. However, some of the sterling notes will accrue interest at a fixed rate of interest. To deal with the potential interest rate mismatch between (i) its receipts and liabilities in respect of the loan tranches and (ii) its receipts and liabilities under the sterling fixed rate notes, the issuer will, pursuant to the terms of the issuer swap agreements in respect of

each series of sterling fixed rate notes, swap its receipts and liabilities in respect of the relevant loan tranches on terms that match the issuer's obligations under the relevant series of notes.

The notional amount of each issuer interest rate swap will be the principal amount outstanding under the series of notes to which the relevant issuer interest rate swap relates. Subject, in the case of the issuer's obligations under certain classes of notes, to certain deferral of interest provisions that will apply when payment of interest under the corresponding notes is deferred in accordance with the terms and conditions of such notes, on each interest payment date in respect of the notes the following amounts will be calculated:

- (a) the amount produced by applying LIBOR for three-month sterling deposits to the notional amount; and
- (b) the amount produced by applying the fixed rate payable in respect of the sterling fixed rate notes to the notional amount.

After these amounts are calculated in respect of each interest rate swap and an interest payment date, the following payments will be made on that interest payment date:

- (i) if the amount determined under paragraph (a) above is greater than the amount determined under paragraph (b), then the issuer will pay the difference to the relevant issuer interest rate swap provider;
- (ii) if the amount determined under paragraph (b) above is greater than the amount determined under paragraph (a), then the relevant issuer interest rate swap provider will pay the difference to the issuer; or
- (iii) if the amount determined under paragraph (a) above is equal to the amount determined under paragraph (b), then neither party will make a payment to the other.

In the event that any issuer interest rate swap is terminated prior to the service of a note acceleration notice or the final redemption of the relevant series of notes, the issuer cash manager (on behalf of the issuer or, if the issuer security trustee requests the issuer cash manager to act as its agent, on behalf of the issuer security trustee) shall purchase a replacement interest rate swap in respect of that class and series of notes. Any replacement interest rate swap must be on terms acceptable to the rating agencies, the issuer and the issuer security trustee and with a replacement issuer swap provider whom the rating agencies have previously confirmed will not cause the then current ratings of the rated notes then outstanding of the relevant series to be downgraded, withdrawn or qualified (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time).

### ***Ratings downgrade of swap providers***

Under each of the swap agreements, in the event that the relevant rating(s) of a swap provider, or its respective guarantor, as applicable, is or are, as applicable, downgraded by a rating agency below the rating(s) specified in the relevant swap agreement (in accordance with the requirements of the rating agencies) for such swap provider, and, if applicable, as a result of the downgrade, the then current ratings of the rated notes, in respect of the relevant Funding 1 swap, or the rated notes corresponding to the relevant issuer swap, in respect of the relevant issuer swap, would or may, as applicable, be adversely affected, the relevant swap provider will, if required in accordance with the relevant Funding 1 swap or the relevant issuer swap, as applicable, be required to take certain remedial measures which may include providing collateral for its obligations under the relevant swap, arranging for its obligations under the relevant swap to be transferred to an entity with rating(s) required by the relevant rating agency as specified in the relevant swap agreement (in accordance with the requirements of the relevant rating agency), procuring another entity with rating(s) required by the relevant rating agency as specified in the relevant swap agreement (in accordance with the requirements of the relevant rating agency) to become co-obligor or guarantor, as applicable, in respect of its obligations under the relevant swap or taking such other action as it may agree with the relevant rating agency. For more information on the ratings requirements for swap providers, see "**Triggers Tables – Rating Triggers Table – Funding 1 swap provider or Guarantor of the Funding 1 swap provider**" and "**– Issuer swap provider or Guarantor of the issuer swap provider**".

### ***Termination of the swaps***

Any swap agreement may also be terminated in certain other circumstances, including the following, each referred to as a **swap early termination event**:

- at the option of one party to the swap agreement, if there is a failure by the other party to pay any amounts due under that swap agreement and any applicable grace period has expired;

- in respect of the issuer swaps, at the option of the relevant issuer swap provider, if an event of default under the notes occurs and the note trustee serves a note acceleration notice;
- in respect of the Funding 1 swaps, at the option of the Funding 1 swap provider, if an event of default under the intercompany loan occurs and the Funding 1 security trustee serves an intercompany loan acceleration notice;
- in respect of the issuer swaps, at the option of either party, if a redemption of the relevant series and class of notes occurs pursuant to **condition 5.5** under “**Terms and conditions of the notes**” below;
- at the option of the issuer (in the case of an issuer swap), if certain tax representations by the relevant issuer swap provider respectively prove to have been incorrect or misleading in any material respect;
- at the option of the Funding 1 swap provider or relevant issuer swap provider, if certain insolvency events occur with respect to the issuer (in the case of an issuer swap) or Funding 1 (in the case of the Funding 1 swaps);
- at the option of the issuer (in the case of an issuer swap) or Funding 1 (in the case of the Funding 1 swaps), upon the occurrence of an insolvency of the Funding 1 swap provider or the relevant issuer swap provider (or, where the relevant issuer swap provider is located in a jurisdiction in which counsel recommend that the swap terminates automatically, without the option of the issuer to elect for termination), or its guarantor, or the merger of the Funding 1 swap provider or the relevant issuer swap provider without an assumption of its obligations under the relevant swap agreement, or if a material misrepresentation is made by the Funding 1 swap provider or the relevant issuer swap provider under the relevant swap agreement, or if the Funding 1 swap provider or relevant issuer swap provider defaults under an over-the-counter derivatives transaction under another agreement between Funding 1 and the Funding 1 swap provider or the issuer and such relevant issuer swap provider, or if a breach of a provision of the relevant swap agreement by the Funding 1 swap provider or the relevant issuer swap provider is not remedied within the applicable grace period, or, if applicable, if the guarantor of the Funding 1 swap provider or the relevant issuer swap provider fails to comply with its obligations under the guarantee;
- if a change in law results in the obligations of one of the parties becoming illegal;
- in respect of the issuer swaps, subject to certain conditions, if withholding taxes are imposed on payments under an issuer swap due to a change in law or a merger of a party with another entity with the effect that the relevant issuer swap provider is required to pay an additional amount or will receive an amount from which tax has been deducted; and
- if the Funding 1 swap provider or the relevant issuer swap provider or its guarantor, as applicable, is downgraded and fails to comply with the requirements of the ratings downgrade provision contained in the relevant swap agreement and described above under “– **Ratings downgrade of swap providers**”.

Upon the occurrence of a swap early termination event, the issuer or the relevant issuer swap provider may be liable to make a termination payment to the other (in the case of an issuer swap) and/or Funding 1 or the Funding 1 swap provider may be liable to make a termination payment to the other (in the case of the Funding 1 swaps). The amount of any termination payment will be based on the market value of the terminated swap as determined on the basis of quotations sought from leading dealers and managers as to the cost of entering into a swap with the same terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (or based upon a good faith determination of total losses and costs (or gains) if an insufficient number of quotations can be obtained or if basing the valuation on quotations would not produce a commercially reasonable result) and will include any unpaid amounts that became due and payable prior to the date of termination. Any such termination payment could be substantial.

If any issuer swap is terminated early and a termination payment is due by the issuer to an issuer swap provider, then, pursuant to its obligations under the intercompany loan, Funding 1 shall pay to the issuer an amount equal to the termination payment due to the relevant issuer swap provider less any amount received by the issuer under any replacement issuer swap agreement. These payments will be made by Funding 1 only after paying interest amounts due on the loan tranches and after providing for any debit balance on the principal deficiency ledger. The issuer shall apply amounts received from Funding 1 under the intercompany loan in accordance with the issuer pre-acceleration revenue priority of payments or, as the case may be, the issuer post-acceleration principal priority of payments. The application by the issuer of termination payments due to an issuer swap provider may affect the funds available to pay amounts due to

the noteholders (see further “**Risk factors – You may be subject to exchange rate risks on any series of notes that are not denominated in sterling**” above).

If the issuer receives a termination payment from an issuer swap provider, then the issuer shall use those funds towards meeting its costs in effecting currency exchanges at the applicable spot rate of exchange until a replacement issuer swap is entered into and/or a replacement issuer swap is acquired.

Noteholders will not receive extra amounts (over and above interest and principal payable on the notes) as a result of the issuer receiving a termination payment.

In the event that any issuer swap is terminated prior to the earlier to occur of the service of a note enforcement notice and the final redemption of the relevant series of notes, the issuer cash manager (on behalf of the issuer and the issuer security trustee) shall procure the purchase of a replacement issuer swap in respect of that series and class (or sub-class) of notes. Any replacement issuer swap must be entered into on terms acceptable to the rating agencies, the issuer and the issuer security trustee and with a replacement swap provider whom the rating agencies have previously confirmed in writing to the issuer and the issuer security trustee 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 issuer swap on terms acceptable to the rating agencies, the issuer and the issuer security trustee, this may adversely affect amounts available to pay amounts due under the notes.

### ***Transfer of the swaps***

Each swap provider may, subject to certain conditions specified in the relevant swap agreement, including (without limitation) the satisfaction of certain requirements of the rating agencies, transfer its obligations under any of the swaps to another entity.

### ***Taxation***

Neither Funding 1 nor the issuer is obliged under any of the swaps to gross up payments made by them if a withholding or deduction for or on account of tax is imposed on payments made under the Funding 1 swaps or the issuer swaps.

Each swap provider will generally be obliged to gross up payments made by it to Funding 1 or the issuer, as appropriate, if a withholding or deduction for or on account of tax is imposed on payments made under the Funding 1 swaps or the issuer swaps. However, if an issuer swap provider is required to gross up a payment under an issuer swap due to a change in law, the relevant issuer swap provider may terminate the relevant issuer swaps.

### ***Governing law***

The Funding 1 swap agreement and the issuer swap agreements and any non-contractual obligations arising out of or in connection with the Funding 1 swap agreement or with any issuer swap agreement entered into on or after the date of this base prospectus are or will be governed by English law.

### ***Corporate services agreements***

Each of Funding 1, any further Funding company, the mortgages trustee and Holdings has entered into corporate services agreements with the relevant corporate services provider on the initial closing date (or will enter into corporate services agreements with the relevant corporate services provider on the relevant closing date in respect of each further Funding company). The issuer has entered into a corporate services agreement with the issuer corporate services provider. The mortgages trustee has entered into a corporate services agreement with the mortgages trustee corporate services provider. Funding 1 and Holdings have entered into a corporate services agreement with the corporate services provider. Pursuant to each corporate services agreement, the relevant corporate services provider has agreed or will agree to provide corporate services to each of the entities.

The corporate services agreements are or will be governed by either English or (in the case of the mortgages trustee corporate services agreement) Jersey law.

### ***The remarketing agreement***

If money market notes are designated as remarketable notes in the relevant final terms, the issuer will enter into an agreement (the **remarketing agreement**) pursuant to which it will appoint the remarketing agent specified in the final terms to act as its agent and to use its reasonable efforts to identify third party purchasers for such remarketable notes on each mandatory transfer date prior to the occurrence of a

mandatory transfer termination event. Any amounts paid to the remarketing agent by any third party or the conditional purchaser for the remarketable notes as part of the mandatory transfer will be held by the remarketing agent as fiduciary for the relevant purchaser.

To facilitate the transfer of interests in the remarketable notes as part of the mandatory transfer, the remarketing agent may appoint a tender agent (the **tender agent**) specified in the final terms for the purpose of arranging delivery and payment by and to holders of the remarketable notes on the relevant mandatory transfer date. No further action will be required by such noteholders for the transfer of the remarketable notes to or for the account of the remarketing agent.

Prior to each mandatory transfer date prior to the occurrence of a mandatory transfer termination event, subject to the occurrence of a remarketing termination event (as defined below) then outstanding, the remarketing agent will approach potential investors with a view to procuring purchasers for the remarketable notes on the relevant mandatory transfer date. The remarketing agent will seek bids from investors for the margin to apply to the remarketable notes from the relevant mandatory transfer date. If there is one or more third parties willing to purchase in aggregate all the outstanding remarketable notes of the relevant series and class, the margin on all the remarketable notes of that series and class will be reset to an amount (not greater than the maximum reset margin) (the **reset margin**) being the lowest margin at which all such remarketable notes will be purchased by third parties as determined by the remarketing agent. If all of such remarketable notes cannot be placed with third parties, the margin will be reset to the maximum reset margin. The conditional purchaser will be obliged to purchase any such remarketable notes not otherwise purchased by third parties. If a remarketing termination event occurs, the reset margin will equal the maximum reset margin.

The issuer may terminate the remarketing agreement in certain circumstances, including where the remarketing agent becomes insolvent, no longer has the requisite authority or ability to act in accordance with the terms of the remarketing agreement or a material breach of warranty or covenant remains outstanding under the remarketing agreement.

The remarketing agent will have the right to terminate the remarketing agreement and will have no further obligations thereunder in certain circumstances, including where a note event of default has occurred and is continuing, there has been an event beyond the control of the remarketing agent or the issuer as a result of which the remarketing agent is unable to perform its obligations under the remarketing agreement or which in the reasonable opinion of the remarketing agent represents a material market change affecting the relevant remarketable note, the issuer is in material breach of any representations and warranties given by it in the conditional purchase agreement as at the closing date of the relevant remarketable notes, the requirements of Rule 2a-7 under the Investment Company Act in respect of the eligibility of such remarketable notes have changed since the closing date of such notes or a mandatory transfer termination event occurs. The occurrence of any of these events or a termination by the issuer pursuant to the previous paragraph where an alternative remarketing agent has not yet been appointed upon delivery of a notice from the remarketing agent to the issuer and the principal paying agent giving notice of termination is a **remarketing termination event**. The occurrence of a remarketing termination event does not affect the obligations of the conditional purchaser under the conditional purchase agreement (unless there has been a mandatory transfer termination event or a note event of default that is continuing).

A **mandatory transfer termination event** will occur if the conditional purchaser has purchased all the relevant remarketable notes under the terms of a mandatory transfer and the remarketing agent has confirmed such purchase or the tender agent has confirmed the interest in such remarketable notes has been transferred to the name or account of, or on behalf of, the conditional purchaser (either being a **conditional purchaser confirmation**), the confirmation in either case being given in writing to the issuer and the principal paying agent. If a conditional purchaser confirmation has been given with respect to any remarketable notes, the issuer will not be obliged to procure any subsequent purchasers of such remarketable notes and the remarketing agent will not be obliged to further remarket such notes.

## THE MORTGAGES TRUST

The following section contains a summary of the material terms of the mortgages trust deed. This summary is subject to the more detailed provisions of the mortgages trust deed.

### General legal structure

This section describes the material terms of the mortgages trust, including how money is distributed from the mortgages trust to Funding 1, each further Funding company (if any) and the seller.

The mortgages trust is a bare trust constituted under English law, with the mortgages trustee as trustee, for the benefit of the seller, Funding 1 and each further Funding company (if any) as beneficiaries. The mortgages trust was constituted for the programme described in this base prospectus and for the possibility of future financings (directly or indirectly) by any further Funding companies.

The terms of the mortgages trust deed may be amended as and when new issuers are established or new loan types are added to the mortgages trust or when further Funding companies acquire an interest in the trust property. Such amendments may affect the timing of payments on the notes. The prior consent of noteholders will not be sought in relation to any of the proposed amendments to the mortgages trust deed, provided (*inter alia*) that the rating agencies confirm that the ratings of the rated notes (and any new rated notes, where applicable) then outstanding will not be downgraded, withdrawn or qualified as a result of such amendments (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time). There can be no assurance, however, that the effect of any such amendments will not ultimately adversely affect your interests as a noteholder (see “**Risk factors – The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests**” above).

### The trust property

Under the terms of the mortgages trust deed, the mortgages trustee holds all of the trust property on trust absolutely for the benefit of Funding 1 (as to the Funding 1 share), for each further Funding company (as to its respective further Funding company share) and for the seller (as to the seller share). The **trust property** consists of:

- the sum of £100 settled by the Jersey share trustee on trust on the date of the mortgages trust deed;
- the portfolio of loans and their related security sold to the mortgages trustee by the seller on the initial closing date;
- any new loans and their related security sold to the mortgages trustee by the seller after the initial closing date;
- any increase in the current balance of a loan due to a borrower making underpayments or taking payment holidays or making cash withdrawals under a flexible loan or the seller making a further advance under a loan (for the avoidance of doubt, in the case of excluded further advances or further advances otherwise repurchased pursuant to the terms of the mortgage sale agreement, until so repurchased) or due to the capitalisation of arrears or accrued interest and other amounts in arrears in respect of any loan;
- any revenue receipts and principal receipts on the loans in the portfolio;
- any contribution paid by Funding 1, any further Funding company or the seller to the mortgages trustee, for application in accordance with the terms of the mortgages trust deed, but only until such contributions have ceased to be trust property having been applied by the mortgages trustee in accordance with the terms of the mortgages trust deed;
- any Funding 1 loan;
- any other amounts received under or in respect of the loans and their related security on or after the relevant sale date (excluding third party amounts), including the proceeds of any sale of the loans and their related security and any other proceeds of sale of any other trust property;
- any authorised investments made by or on behalf of the mortgages trustee;

- rights under the insurance policies that are assigned to the mortgages trustee or which the mortgages trustee has the benefit of; and
- amounts on deposit (and interest earned on those amounts) in the mortgages trustee GIC account,

less

- any actual losses in relation to the loans and any actual reductions occurring in respect of the loans as described in paragraph (a) of “– **Adjustments to trust property**” below;
- distributions of revenue receipts and principal receipts made from time to time to the beneficiaries of the mortgages trust; and
- refinancing distributions and/or special distributions made from time to time to the beneficiaries of the mortgages trust.

No beneficiary is entitled to particular loans and their related security separately from any other beneficiary. Instead each of the beneficiaries has an undivided interest in all of the loans and their related security forming part of the trust property. The beneficial interest of Funding 1, any further Funding company and the seller represent *pro rata* interests in the trust property.

The accompanying final terms will set out the approximate Funding 1 share, seller share and each further Funding company share (if any) of the trust property as at the relevant closing date.

### **Fluctuation of share in the trust property**

The shares of Funding 1, each further Funding company (if any) and the seller in the trust property will fluctuate depending on a number of factors, including:

- (a) the allocation of principal receipts and revenue receipts on the loans to Funding 1, each further Funding company and/or the seller;
- (b) losses arising on the loans;
- (c) if new loans and their related security are sold to the mortgages trustee;
- (d) any of the beneficiaries increasing its beneficial interest in, and hence its share of, the trust property by making contributions (excluding, in respect of the Funding companies, deferred contributions) to the mortgages trustee in accordance with the mortgages trust deed;
- (e) the mortgages trustee making a special distribution or a refinancing distribution to any beneficiary on a distribution date;
- (f) if a borrower makes underpayments or takes payment holidays under a flexible loan;
- (g) if a borrower makes a drawing under a flexible loan;
- (h) if the seller makes a further advance to a borrower under a loan (for the avoidance of doubt, in the case of excluded further advances or further advances otherwise repurchased pursuant to the terms of the mortgage sale agreement, until so repurchased); and
- (i) the capitalisation of arrears or accrued interest and other amounts in arrears in respect of any loan.

Neither the Funding 1 share nor any further Funding company share of the trust property may be reduced below zero. The seller will not be entitled to receive principal receipts which would reduce the seller share of the trust property to an amount less than the minimum seller share unless and until the Funding 1 share and any further Funding company share of the trust property have been reduced to zero or following the occurrence of an asset trigger event.

### **Contributions to the mortgages trust**

Pursuant to the terms of the mortgages trust deed, each of the beneficiaries may from time to time contribute certain assets to the mortgages trust (each a **contribution**). A contribution may be made to the mortgages trust by way of an initial contribution, a refinancing contribution, a seller contribution, a deferred contribution or a further contribution.



An **initial contribution** is a contribution by way of cash payable, pursuant to the terms of the mortgages trust deed, by Funding 1 or any further Funding company in respect of any trust property sold to the mortgages trustee at the time of such contribution for the purposes of enabling the mortgages trustee to fund the payment of the initial purchase price owed by the mortgages trustee to the seller, pursuant to the terms of the mortgage sale agreement, in respect of any loans and their related security sold by the seller to the mortgages trustee at such time.

A **refinancing contribution** is a contribution by way of cash payable, pursuant to the terms of the mortgages trust deed, by a beneficiary to the mortgages trustee. A refinancing contribution made by a beneficiary will increase the share of that beneficiary in the trust property by a corresponding amount. The mortgages trustee will allocate and pay amounts received as a refinancing contribution on a further contribution date to make a refinancing distribution to Funding 1 or any further Funding company (as applicable) specified by the beneficiary that made the refinancing contribution on such further contribution date. The recipient's share in the trust property will be reduced accordingly (see further “– **Refinancing distributions**” below). A refinancing contribution can be made by any one of the beneficiaries while any indebtedness of any of Funding 1 or the further Funding companies is outstanding where such beneficiary elects, in its sole discretion, to designate all or part of that contribution as a refinancing contribution in relation to the recipient Funding company. The amount of any refinancing contribution cannot exceed the aggregate principal amount of all debt obligations of the Funding companies then outstanding.

A **seller contribution** is a contribution by way of cash payable, pursuant to the terms of the mortgages trust deed, by the seller to the mortgages trustee to increase the share of the seller in the trust property. A seller contribution will be in an amount equal to the unpaid interest element otherwise due under any flexible loan which is subject to an authorised underpayment or payment holiday.

A **deferred contribution** is a contribution by way of cash payable, pursuant to the terms of the mortgages trust deed, by Funding 1 or any further Funding company and in respect of the share of that Funding company in the trust property for the purposes of enabling the mortgages trustee to fund the payment of the deferred purchase price owed by the mortgages trustee, pursuant to the terms of the mortgage sale agreement, to the seller in respect of the portfolio.

A **further contribution** is a contribution (excluding any initial contribution or deferred contribution, but including a refinancing contribution and a seller contribution) by way of cash payable pursuant to the terms of the mortgages trust deed by a beneficiary to the mortgages trustee to increase the share of that beneficiary in the trust property. Upon receipt of a further contribution (other than in respect of a further contribution which is also a refinancing contribution or a seller contribution) made by Funding 1 or any further Funding company on a further contribution date, the mortgages trustee will pay an amount equal to such further contribution to the seller on such further contribution date (whether or not such date is a distribution date) by way of a special distribution (and the payment of such special distribution will decrease the seller share of the trust property by an equal amount).

In the case of a further contribution due to a borrowing by Funding 1 under the Funding 1 loan, such further contribution shall increase Funding 1's share and correspondingly decrease the seller's share.

#### **Dates for recalculation of the share of each beneficiary**

The cash manager will calculate the then current share of each of the beneficiaries on the following dates based on the aggregate current balance of the loans constituting the trust property (as adjusted from time to time) as at the close of business on the last day of the immediately preceding trust calculation period or, as the case may be, interim trust calculation period:

- (a) the initial closing date, the London business day following the last day of each calendar month and the day on which the mortgages trust is terminated (each such date, a **trust calculation date**). The period from (and including) the first day of each calendar month (or, as applicable, the initial closing date) to (and including) the last day of that calendar month or, as applicable, the date of termination of the mortgages trust shall be a **trust calculation period**;
- (b) the day on which there is a sale of any new loans to the mortgages trustee (each such date, a **sale date**); and
- (c) the day on which any of the beneficiaries makes a further contribution to the mortgages trust (each such date, a **further contribution date**).

The reason for the recalculation of the share of each beneficiary on a sale date or further contribution date is so as to determine the percentage share of each beneficiary which will reflect the addition of new loans and their related security or a further contribution (as the case may be) to the trust property. When the

cash manager recalculates the relevant shares and share percentages of each beneficiary on a trust calculation date, that recalculation will apply for the then current trust calculation period (commencing on the first day of the calendar month in which such trust calculation date occurs). However, if during such trust calculation period the seller sells new loans to the mortgages trustee or a further contribution (excluding a seller contribution) is made, the recalculation made by the cash manager on that sale date or further contribution date (as applicable) (each an **interim trust calculation date**) will only apply from (and including) that sale date or further contribution date to (and including in the case of (a) and excluding in the case of (b)) the earlier to occur of (a) the end of that then current trust calculation period and (b) the next occurring sale date or further contribution date (which shall be (a), in the case that (a) and (b) occur on the same date). The portion of a trust calculation period that is less than a full trust calculation period is called an **interim trust calculation period**.

The percentage share that each beneficiary has will determine that beneficiary's entitlement to revenue receipts and principal receipts from the loans in the trust property and also the allocation of losses or capitalised arrears arising on the loans for the then current trust calculation period or interim trust calculation period, as applicable. The method of determining those percentage shares is as set out below.

**Distribution date** means the day falling four London business days after the immediately preceding trust calculation date, being the date that the mortgages trustee will distribute principal receipts and revenue receipts to the beneficiaries.

### Funding 1 share – trust calculation date recalculation

On each trust calculation date (also referred to in this section as the **relevant trust calculation date**), the interest of Funding 1 (the **Funding 1 share**) is recalculated to take effect for the then current trust calculation period (commencing on the first day of the calendar month in which such trust calculation date occurs) or the relevant interim trust calculation period (as applicable) in accordance with the following formulae:

- The Funding 1 share will be an amount equal to:

$$A - B - C + D + E + F$$

- The percentage share of Funding 1 (the **Funding 1 share percentage**) will be an amount equal to:

$$\frac{A - B - C + D + E + F \times 100}{G}$$

in the latter case, expressed as a percentage and rounded upwards to five decimal places,

where:

- A = the amount of the Funding 1 share as determined on the immediately preceding trust calculation date or, as the case may be, the initial closing date;
- B = the sum of (i) the amount of any principal receipts on the loans to be distributed to Funding 1 on the distribution date immediately following the relevant trust calculation date and (ii) any refinancing distribution made to Funding 1 in the immediately preceding trust calculation period;
- C = the amount of losses sustained on the loans in the immediately preceding trust calculation period and the amount of any reductions occurring in respect of the loans as described in paragraph (a) to (d) in “– **Adjustments to trust property**” below, in each case allocated to Funding 1 in the immediately preceding trust calculation period;
- D = the amount of any initial contribution paid by Funding 1 to the mortgages trustee during the immediately preceding trust calculation period in respect of the Funding 1 share of any new loans sold by the seller to the mortgages trustee during such trust calculation period (the **new trust property**);
- E = the amount of any further contribution paid by Funding 1 to the mortgages trustee during the immediately preceding trust calculation period to increase the Funding 1 share;

- F = the aggregate amount of any interest which is overdue in respect of the loans which the seller has agreed to capitalise and which has been capitalised and added in the accounts of the seller to the outstanding principal balance of a loan (**capitalised arrears**) which have been allocated to Funding 1 in the immediately preceding trust calculation period;
- G = the aggregate current balance of all the loans in the trust property as at the last day of the immediately preceding trust calculation period after making or provisioning for the distributions, allocations and additions referred to in B, C, D, E and F above and after taking account of (without double counting any amounts referred to in B, C, D, E and F above):
- the sale, if any, of new trust property during the immediately preceding trust calculation period;
  - any distribution of principal receipts and revenue receipts to any of the beneficiaries on the distribution date immediately following the relevant trust calculation date;
  - any contributions by any beneficiaries in the immediately preceding trust calculation period;
  - any distributions to any beneficiaries in the immediately preceding trust calculation period;
  - the amount of any losses or capitalised arrears to be allocated to the beneficiaries in the immediately preceding trust calculation period;
  - the amount of any increase in the current balances due to capitalisation of insurance premiums due by borrowers during the immediately preceding trust calculation period;
  - the adjustments referred to in paragraphs (a) to (d) in “– **Adjustments to trust property**” below; and
  - the amount of any other additions to or subtractions from the outstanding principal balance of loans comprising the trust property (including any subtractions made from the outstanding principal balance resulting from overpayments made by borrowers and/or any additions to the outstanding principal balance resulting from borrowers making cash withdrawals or underpayments or taking payment holidays under a flexible loan or the seller making further advances to a borrower (for the avoidance of doubt, in the case of excluded further advances or further advances otherwise repurchased pursuant to the terms of the mortgage sale agreement, until so repurchased) or a borrower making further drawdowns under a loan during the immediately preceding trust calculation period, as described below in “– **additions to and reductions in the trust property**”).

### Further Funding company's share

The share of each further Funding company (a **further Funding company share**) and the percentage share of each further Funding company (the **further Funding company share percentage**) will be recalculated on each trust calculation date in the same way that the Funding 1 share and the Funding 1 share percentage are recalculated in the above section (“– **Funding 1 share – trust calculation date recalculation**”), except that references to Funding 1 are to be read as references to the relevant Funding company.

### Funding 1 share – sale date and further contribution date recalculations

On each interim trust calculation date, the Funding 1 share will be recalculated for the related interim trust calculation period, for the sole purpose of calculating the distributions to be made from the trust property on the immediately succeeding distribution date, in accordance with the following formula:

- (a) the then current Funding 1 share will be an amount equal to:

$$A - B + D$$

- (b) the current Funding 1 share percentage will be an amount equal to:

$$\frac{A - B + D \times 100}{G}$$

expressed as a percentage and rounded upwards to five decimal places, where:

- A = the size of the Funding 1 share as determined on the later of the trust calculation date, or interim trust calculation date (as applicable) immediately preceding the relevant trust calculation date, or interim trust calculation date (as applicable);
- B = the actual amount of any refinancing distribution paid to Funding 1 on such interim trust calculation date;
- D = (a) the amount of any initial contribution paid by Funding 1 to the mortgages trustee on such interim trust calculation date which is a sale date in respect of the Funding 1 share of any new loans sold by the seller to the mortgages trustee or, as the case may be, (b) an amount equal to the further contribution paid by Funding 1 to the mortgages trustee on such interim trust calculation date which is a further contribution date; and
- G = the sum of:
- (i) the aggregate current balance of all of the loans in the trust property as at the immediately preceding trust calculation date or the interim trust calculation date (as applicable); and
  - (ii) the aggregate current balance of the new loans sold to the mortgages trustee after the immediately preceding trust calculation date or the interim trust calculation date (as applicable), including the new trust property sold to the mortgages trustee on such interim trust calculation date which is a sale date.

### Each further Funding company

Each further Funding company share and each further Funding company share percentage will be recalculated on each trust calculation date and, if applicable, each interim trust calculation date occurring during the then current trust calculation period in the same way that the Funding 1 share and the Funding 1 share percentage are recalculated in the above section (“**Funding 1 share – Sale date and further contribution date recalculations**”), except that references to Funding 1 are to be read as references to the relevant further Funding company.

### Adjustments to trust property

If any of the following events occurs during a trust calculation period or, as applicable, interim trust period immediately preceding the relevant trust calculation date, or as applicable, relevant interim trust calculation date, then the aggregate current balance of the loans in the trust property will be reduced or deemed to be reduced for the purposes of the calculation of **G** above:

- (a) any borrower exercises a right of set-off so that the amount of principal and interest owing under a loan is reduced but no corresponding payment is received by the mortgages trustee. In this event, the aggregate current balance of the loans constituting the trust property will be reduced by an amount equal to the amount of that set-off; and/or
- (b) (i) a loan or its related security does not materially comply with the representations and warranties contained in the mortgage sale agreement, or (ii) a loan or its related security is the subject of a product switch or a further advance (other than an excluded further advance), which does not comply with the relevant conditions for remaining in the trust property (and, in each case, the seller fails to repurchase the loan or loans under the relevant mortgage account and their related security to the extent required by the terms of the mortgage sale agreement) or the seller makes an excluded further advance and does not repurchase the loan under the relevant mortgage account and its related security as required under the terms of the mortgage sale agreement or (iii) if the seller accepts an application from a borrower to transfer a portable loan to a new property. In any of these events, the aggregate current balance of the loans constituting the trust property will be deemed to be reduced for the purposes of the calculation of **G** by an amount equal to the current balance of the relevant loan or loans under the relevant mortgage account; and/or
- (c) the seller would be required to repurchase a loan and its related security as required by the terms of the mortgage sale agreement, but the loan and its related security is not capable of being repurchased. In this event, the aggregate outstanding principal balance of the loans constituting the trust property will be deemed to be reduced for the purposes of the calculation of **G** by an amount equal to the current balance of the relevant loan or loans under the relevant mortgage account; and/or

- (d) the seller breaches any other material warranty under the mortgage sale agreement and/or (for so long as the seller is the servicer) the servicing agreement, which will also be grounds for terminating the appointment of the servicer. In this event, the aggregate current balance of the loans constituting the trust property will be deemed to be reduced for the purposes of the calculation of **G** by an amount equal to the resulting loss (if any) incurred by the beneficiaries.

The reductions or deemed reductions set out in paragraphs (a) to (d) above will be made on each London business day, but only aggregated and accounted for on the next following relevant trust calculation date, sale date or further contribution date (as applicable), first to the seller's share (including the minimum seller share) and, thereafter will be made to each Funding 1 share and any further Funding company share, *pro rata* according to the then current Funding 1 share and the then current further Funding company share thereof.

Any sums that are subsequently recovered by the mortgages trustee in connection with a reduction or deemed reduction of the trust property under paragraphs (a) to (d) above will constitute a revenue receipt under the relevant loan. Such revenue receipt will be allocated to Funding 1 and any further Funding companies according to the then current Funding 1 share and the current further Funding company share (but only if and to the extent that the related reductions were applied against the Funding 1 share and the further Funding company's share) and thereafter will belong to the seller.

### The weighted average share percentages

On any trust calculation date where the seller has sold new loans to the mortgages trustee (the date on which such sale occurs being a **sale date**) or a beneficiary has made a further contribution (the date on which such further contribution is made being a **further contribution date**) during the immediately preceding trust calculation period, the cash manager will calculate (for the sole purpose of making the distributions to be made on the immediately succeeding distribution date) the weighted average of the current Funding 1 share percentage, each further Funding company share percentage and seller share percentage in respect of each interim trust calculation period occurring in that immediately preceding trust calculation period. The calculation will be based on the amount of the revenue receipts and principal receipts received and the losses sustained during each of the preceding interim trust calculation periods.

### The weighted average Funding 1 share percentage

The **weighted average Funding 1 share percentage** for any such trust calculation date will be equal to:

- (a) in respect of the distribution of revenue receipts to be made on the immediately succeeding distribution date (the **weighted average Funding 1 share (revenue) percentage**), the sum, in respect of all interim trust calculation periods during the trust calculation period immediately preceding the relevant trust calculation date, of:
  - (i) for each interim trust calculation period during that trust calculation period, the product of:
    - (A) the related Funding 1 share percentage for that interim trust calculation period; and
    - (B) the amount of all revenue receipts received by the mortgages trustee during that interim trust calculation period;divided by:
  - (ii) the aggregate of all revenue receipts received by the mortgages trustee during the trust calculation period immediately preceding that trust calculation date;
- (b) in respect of the distribution of principal receipts to be made on the immediately succeeding distribution date (the **weighted average Funding 1 share (principal) percentage**), the sum, in respect of all interim trust calculation periods during the trust calculation period immediately preceding the relevant trust calculation date, of:
  - (i) for each interim trust calculation period during that trust calculation period, the product of:
    - (A) the related Funding 1 share percentage for that interim trust calculation period; and
    - (B) the amount of all principal receipts received by the mortgages trustee during that interim trust calculation period;divided by:
  - (ii) the aggregate of all principal receipts received by the mortgages trustee during the trust calculation period immediately preceding that trust calculation date; and

- (c) in respect of the allocation of losses to be made on the immediately succeeding distribution date (the **weighted average Funding 1 share (losses) percentage**), the sum, in respect of all interim trust calculation periods during the trust calculation period immediately preceding the relevant trust calculation date, of:
- (i) for each interim trust calculation period during that trust calculation period, the product of:
    - (A) the related Funding 1 share percentage for that interim trust calculation period; and
    - (B) the amount of all losses sustained on the loans during that interim trust calculation period;divided by:
  - (ii) the aggregate of all losses sustained on the loans during the trust calculation period immediately preceding that trust calculation date.

#### **The weighted average share percentage of each further Funding company and the weighted average Funding 1 share percentage**

The **weighted average further Funding company share percentage** of each further Funding company will be calculated in the same way as the weighted average Funding 1 share percentage, except that references to Funding 1 are to be read as references to the relevant further Funding company.

The **weighted average further Funding company share (revenue) percentage** of each further Funding company will be calculated in the same way as the weighted average Funding 1 share (revenue) percentage, except that references to Funding 1 are to be read as references to the relevant further Funding company.

The **weighted average further Funding company share (principal) percentage** of each further Funding company will be calculated in the same way as the weighted average Funding 1 share (principal) percentage, except that references to Funding 1 are to be read as references to the relevant further Funding company.

The **weighted average further Funding company share (losses) percentage** of each further Funding company will be calculated in the same way as the weighted average Funding 1 share (losses) percentage, except that references to Funding 1 are to be read as references to the relevant further Funding company.

#### **Seller share – trust calculation date recalculation**

On each trust calculation date, the interest of the seller will be recalculated for the relevant trust calculation period or related interim trust calculation period in accordance with the following formulae:

The **seller share** will be an amount equal to:

- the aggregate current balance of the loans constituting the trust property as at the last day of the trust calculation period immediately preceding the relevant trust calculation date (as adjusted in accordance with the calculation of "G" as set out above) *minus* the Funding 1 share and each further Funding company share as calculated on the relevant trust calculation date.

The percentage share of the seller will be an amount equal to:

- 100 per cent. *minus* the Funding 1 share percentage and each further Funding company share percentage as calculated on the relevant trust calculation date.

None of the Funding 1 share, each further Funding company share or the seller share may be reduced to or below zero, regardless of the requirements in relation to the minimum seller share.

#### **The weighted average seller share percentage**

On any trust calculation date in respect of which the seller has sold new loans to the mortgages trustee or a beneficiary has made a further contribution during the immediately preceding trust calculation period, the cash manager will calculate (for the sole purpose of making the distributions to be made on the immediately succeeding distribution date) the weighted average of the current seller share percentages that were calculated previously in respect of each interim trust calculation period occurring in that immediately preceding trust calculation period. The calculation will be based on the amount of the revenue receipts and the principal receipts received and the losses sustained during each of the preceding interim trust calculation periods.

The **weighted average seller share percentage** for any such trust calculation date will be equal to:

- (a) in respect of the distribution of revenue receipts to be made on the immediately succeeding distribution date (the **weighted average seller share (revenue) percentage**), the sum based on the following formula:

100 per cent. *minus* (the then current weighted average Funding 1 share (revenue) percentage *plus* the then current weighted average further Funding company share (revenue) percentage);

- (b) in respect of the distribution of principal receipts to be made on the immediately succeeding distribution date (the **weighted average seller share (principal) percentage**), the sum based on the following formula:

100 per cent. *minus* (the then current weighted average Funding 1 share (principal) percentage *plus* the then current weighted average further Funding company share (principal) percentage);

- (c) in respect of the allocation of losses to be made on the immediately succeeding distribution date (the **weighted average seller share (losses) percentage**), the sum based on the following formula:

100 per cent. *minus* (the then current weighted average Funding 1 share (losses) percentage *plus* the then current weighted average further Funding company share (losses) percentage).

### Minimum seller share

The seller share includes an amount known as the **minimum seller share**. As at any closing date, the applicable final terms will set out the approximate minimum seller share as at such date. The amount of the minimum seller share will fluctuate depending on changes to the characteristics of the loans in the trust property. The seller will not be entitled to receive principal receipts which would reduce the seller share to an amount less than the minimum seller share unless and until:

- each of the Funding 1 share and any further Funding company share is in an amount equal to zero; or
- an asset trigger event occurs.

The minimum seller share will be the amount determined on each trust calculation date (after any sale of loans to the mortgages trustee on that trust calculation date) in accordance with the following formula:

$$X + Y + Z$$

where:

X = 3.4 per cent. (or such other percentage determined by the seller and notified to the mortgages trustee following its annual review or, if the short term IDR of the seller falls below F1 by Fitch, its quarterly review) of the aggregate current balance of loans in the trust property, as calculated on the relevant trust calculation date (as at the end of the immediately preceding trust calculation period) or, if the long-term, unguaranteed, unsecured and unsubordinated rating of Santander UK is less than Baa3 by Moody's or BBB- by Standard & Poor's or the long-term IDR of the seller falls below BBB- by Fitch, the amount of deposits held by Santander UK as at the date of notification to the borrowers of the sale of the loans to the mortgages trustee if greater than such amount, provided that such percentage shall not, in any case, be less than 3 per cent.;

Y = the product of:  $p \times q \times r$

where:

p = 8 per cent.;

q = the **flexible draw capacity**, being an amount equal to the maximum amount of cash withdrawal that borrowers may draw under flexible loans included in the trust property as at the end of the immediately preceding trust calculation period; and

r = 3; and

Z = the aggregate current balance of all cash withdrawals made by borrowers under flexible loans in the trust property and the aggregate current balance of all further advances under the loans in the trust property, in each case as at the end of the immediately preceding trust calculation period pursuant to loans that are regulated by the CCA that are not represented to be enforceable (excluding excluded further advances or further advances pursuant to loans otherwise repurchased pursuant to the terms of the mortgage sale agreement).

The purpose of X is to mitigate the risks relating to certain set-off risks relating to the loans. The amount of X may be reduced from time to time at the request of any of the beneficiaries (acting reasonably) provided that the Funding 1 security trustee and any further Funding security trustee has previously received written confirmation from the rating agencies that the then current ratings of the rated notes (and any new rated notes, where applicable) then outstanding as a result thereof will not be downgraded, withdrawn or qualified (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time).

The purpose of the calculation in Y is to mitigate the risk of the seller failing to fund cash withdrawals (which borrowers are entitled to draw) under flexible loans in the portfolio (excluding for these purposes further advances that the seller has a discretion to advance).

The purpose of Z is to mitigate enforceability risks relating to cash withdrawals and further advances under loans in the portfolio that are regulated by the CCA that are not represented to be enforceable.

### **Adjustments to distributions**

In calculating on each trust calculation date and making the distributions on each distribution date, the mortgages trustee, or the cash manager on its behalf, will take account of and make adjustments for such calculations and distributions in order that:

- (a) any increase in the Funding 1 share or any further Funding company share as a result of the payment by Funding 1 or any further Funding company of any contribution (excluding a deferred contribution) during the trust calculation period immediately preceding such distribution date (or during any interim trust calculation period during that trust calculation period) is deemed to have taken effect as an increase in Funding 1 or that further Funding company's share from the date on which such contribution was paid to the mortgages trustee; and
- (b) any decrease in the seller share as a result of the payment of a special distribution to the seller will be deemed to have taken effect as a decrease in the seller share from the date on which such special distribution was paid to the seller.

### **Cash management of trust property – revenue receipts**

Under the cash management agreement, the cash manager is responsible for distributing revenue receipts on behalf of the mortgages trustee on each distribution date in accordance with the order of priority described in the following section. For further information on the role of the cash manager, see “**Description of the transaction documents – cash management agreement**” above.

### **Mortgages trust calculation of revenue receipts**

**Mortgages trust available revenue receipts** will be calculated by the cash manager on each trust calculation date and is an amount equal to the sum of:

- revenue receipts on the loans (for the avoidance of doubt, excluding principal receipts);
  - interest received or payable to the mortgages trustee on the mortgages trustee GIC account; and
  - the amount of any seller contribution received by the mortgages trustee;
- less:
- amounts due to third parties (also known as **third party amounts**), including:
    - (a) amounts under a direct debit which are repaid to the bank making the payment if that bank is unable to recoup that amount itself from its customer's account;



- (b) payments by borrowers to the seller of any fees and other charges which are due to the seller (including payments of insurance premiums, if any, due to the seller in respect of any seller arranged insurance policy to the extent not paid or payable by the seller (or to the extent such insurance premiums have been paid by the seller in respect of any loan, which is not repurchased by the seller, to reimburse the seller)); and
- (c) recoveries in respect of amounts deducted from loans as described in paragraphs (a) to (d) in “– **Adjustments to trust property**” above, which will belong to and be paid to Funding 1, any further Funding companies and/or the seller as described therein,

which amounts may be paid daily from monies on deposit in the mortgages trustee GIC account.

In the mortgages trust revenue priority of payments below, references to the term **relevant trust calculation date** means the trust calculation date occurring on the first London business day of the immediately preceding trust calculation period.

On each distribution date (or in respect of amounts due to third parties under paragraph (a) below, when due), the cash manager will apply mortgages trust available revenue receipts in accordance with the following **mortgages trust revenue priority of payments**:

- (a) first, *pari passu* and *pro rata*, to pay:
  - amounts due and payable to the mortgages trustee under the provisions of the mortgages trust deed or to become due and payable to the mortgages trustee during the then current trust calculation period; and
  - amounts due and payable to third parties or to become due and payable to third parties during the then current trust calculation period from the mortgages trustee in respect of the mortgages trust, but only if:
    - (i) payment is not due as a result of a breach by the mortgages trustee of the documents to which it is a party; and/or
    - (ii) payment has not already been provided for elsewhere;
- (b) then, *pari passu* and *pro rata*, to pay:
  - amounts due and payable to the servicer or to become due and payable to the servicer during the then current trust calculation period, in each case by the mortgages trustee under the provisions of the servicing agreement;
  - amounts due and payable to the cash manager or to become due and payable to the cash manager during the then current trust calculation period, in each case by the mortgages trustee under the provisions of the cash management agreement;
  - amounts due and payable to the mortgages trustee corporate services provider or to become due and payable to the mortgages trustee corporate services provider during the then current trust calculation period, in each case by the mortgages trustee under the provisions of the mortgages trustee corporate services agreement; and
  - amounts due and payable to the mortgages trustee account bank or to become due and payable to the mortgages trustee account bank during the then current trust calculation period, in each case by the mortgages trustee under the provisions of the mortgages trustee bank account agreement; and
- (c) finally, *pari passu* but subject to the proviso below, to allocate and pay the remaining mortgages trust available revenue receipts to:
  - Funding 1 in an amount determined by multiplying the total amount of the remaining mortgages trust available revenue receipts by the Funding 1 share percentage as calculated on the trust calculation date falling in the immediately preceding trust calculation period (or, in the case of the first distribution date, as of the initial closing date);

- each further Funding company in an amount determined by multiplying the total amount of the remaining mortgages trust available revenue receipts by each further Funding company share percentage as calculated on the trust calculation date falling in the immediately preceding trust calculation period (or, in the case of the first distribution date, as of the initial closing date); and
- the seller in an amount determined by multiplying the total amount of the remaining mortgages trust available revenue receipts by the seller share percentage as calculated on the trust calculation date falling in the immediately preceding trust calculation period (or, in the case of the first distribution date, as of the initial closing date),

**PROVIDED THAT**, if a sale date or further contribution date has occurred during the trust calculation period immediately preceding the relevant distribution date, then the cash manager will use:

- (a) the weighted average Funding 1 share (revenue) percentage (instead of the Funding 1 share percentage) in respect of such trust calculation period in determining the amount of mortgages trust available revenue receipts to distribute to Funding 1;
- (b) the weighted average further Funding company share (revenue) percentage of each further Funding company (instead of each further Funding company share percentage) in respect of such trust calculation period in determining the amount of mortgages trust available revenue receipts to distribute to each further Funding company;
- (c) the weighted average seller share (revenue) percentage (instead of the seller share percentage) in respect of such trust calculation period in determining the amount of mortgages trust available revenue receipts to distribute to the seller.

Amounts due to the mortgages trustee, the servicer, the cash manager, the mortgages trustee corporate services provider and the mortgages trustee account bank by the mortgages trustee include amounts payable in respect of VAT as provided in the relevant transaction documents, if any.

#### **Cash management of trust property – principal receipts**

Under the cash management agreement, the cash manager is also responsible for distributing principal receipts on behalf of the mortgages trustee on each distribution date. To understand how the cash manager distributes principal receipts on the loans on each distribution date, you need to understand the definitions set out below. The definitions may change as new trust property is acquired. You will not have any right of prior review or consent to such changes, provided that (among other things) the rating agencies confirm that the ratings of the rated notes (and any new rated notes, where applicable) then outstanding will not be downgraded, withdrawn or qualified as a result of such changes (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time).

On each trust calculation date, the cash manager will ascertain whether the following distribution date is within a cash accumulation period relating to a cash accumulation loan tranche for Funding 1 or any further Funding company and will ascertain Funding 1's and any further Funding company's cash accumulation requirement and repayment requirement.

The cash accumulation period will be calculated separately for each cash accumulation loan tranche.

#### **Definitions**

An **asset trigger event** will occur when an amount is debited to the AAA principal deficiency sub-ledger of Funding 1 or any new further Funding company, unless such debit is made when the sum of the amount standing to the credit of the general reserve ledger, liquidity reserve ledger (if any) and the Funding 1 revenue ledger together with amounts determined and due to be credited to the Funding 1 revenue ledger prior to the immediately following Funding 1 interest payment date after such debit is made, is greater than the amount necessary to pay items (a) to (f) of the Funding 1 pre-acceleration revenue priority of payments on the immediately following Funding 1 interest payment date after such debit is made. For more information on the principal deficiency ledger, see "**Credit structure**" below. The definition of **asset trigger event** may change as new loan types are sold to the mortgages trustee or when any further Funding company acquires an interest in the trust property, subject to satisfaction of the relevant conditions precedent and confirmation from the rating agencies that the then current ratings of the rated notes (and any new rated notes, where applicable) then outstanding will not be downgraded, withdrawn or qualified as a result (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time) (see "**Funding 1 deed of charge – Appointment, powers, responsibilities and liabilities of the Funding 1 security trustee**" and "**Issuer deed of charge – Appointment, powers, responsibilities and liabilities of the issuer security trustee**" above).

A **bullet loan tranche** means any loan tranche or any new loan tranche where the full amount of principal is scheduled to be repaid in full on one date (being the bullet repayment date). In respect of any bullet loan tranches made to Funding 1, such bullet loan tranches will be deemed to be pass-through loan tranches if:

- a trigger event occurs;
- in respect of the bullet loan tranches made by the issuer, the issuer security is enforced; or
- the Funding 1 security is enforced.

The bullet loan tranches to be made by the issuer to Funding 1 on any closing date will be set out in the applicable final terms accompanying this base prospectus. Any bullet loan tranches made to Funding 1 will be notified to noteholders in the first investor report published after the date such bullet loan tranches are made and will include details of the amount and bullet repayment date of such bullet loan tranche.

If a bullet loan tranche is made to any further Funding company the amount and bullet repayment date of that bullet loan tranche will be notified to noteholders in the first investor report published after the date such bullet loan tranche is made.

There may be circumstances when the bullet loan tranches made to a further Funding company will be deemed to be a pass-through loan tranche. Noteholders will not be notified of these.

A **cash accumulation loan tranche** means a bullet loan tranche and/or scheduled amortisation loan tranche.

A **cash accumulation ledger** means a ledger maintained by the cash manager to record the amount accumulated by Funding 1 or any further Funding company from time to time to pay relevant accumulation amounts. There will be a separate cash accumulation ledger for each Funding company.

A **cash accumulation period** means, as applicable, a Funding 1 cash accumulation period and/or a further Funding company cash accumulation period.

A **cash accumulation requirement** means, on a trust calculation date, in relation to Funding 1 or any further Funding company:

- the principal amount remaining to be repaid in relation to each relevant accumulation amount due to that Funding company;
- plus, on a trust calculation date falling immediately prior to a Funding company interest payment date, amounts due and payable by that Funding company on the following Funding company interest payment date (or which will become due and payable in the current Funding company interest period) in priority to principal amounts due by that Funding company on the relevant accumulation amount under the pre-acceleration principal priority(s) of payments relevant to that Funding company (e.g. in relation to Funding 1, see items (a) to (c) (inclusive) of the Funding 1 pre-acceleration principal priority of payments);
- plus, on a trust calculation date falling immediately prior to a Funding company interest payment date, the amount of principal that will be required on the following Funding company interest payment date to meet the Funding company revenue deficit amount (if any) in respect of that Funding company;
- less the amount standing to the credit of the cash accumulation ledger of the relevant Funding company at the last Funding company interest payment date (which amount was not distributed on that Funding company interest payment date and which is available to reduce the relevant cash accumulation requirement);
- less the sum of each relevant cash accumulation requirement amount paid to the relevant Funding company on a previous distribution date during the relevant Funding company interest period.

**Funding company loan tranche** means any loan tranche made to a Funding company.

**Funding 1 cash accumulation period** means in, a scheduled amortisation loan tranche, 3 months and, in respect of a bullet loan tranche, the period of time beginning on the earlier of the following two dates:

- (a) the date determined after counting back in time from the relevant scheduled repayment date of the relevant accumulation amount, the number of months calculated under the definition of the Funding 1 anticipated cash accumulation period; and
- (b) the date determined after counting back in time from the relevant scheduled repayment date of the relevant accumulation amount, the number of months specified in the relevant final terms accompanying this base prospectus,

provided that, if the beginning of a Funding 1 cash accumulation period as determined above would fall on a date which is not a distribution date, then the Funding 1 cash accumulation period shall commence on the distribution date falling immediately before that date. A Funding 1 cash accumulation period shall end in respect of a relevant accumulation amount when Funding 1 has accumulated an amount equal to that particular relevant accumulation amount.

**Funding 1 anticipated cash accumulation period** means, on any trust calculation date, the anticipated number of months required by Funding 1 to accumulate sufficient principal receipts to pay the relevant accumulation amount of Funding 1 in relation to the relevant cash accumulation loan tranche made to Funding 1, which will be equal to (a) 3 months in respect of scheduled amortisation instalments and (b) the following in respect of bullet loan tranches:

$$\frac{J + K - L}{M \times N \times O}$$

calculated in months and rounded up to the nearest whole number, where:

- J = the relevant accumulation amount;
- K = the aggregate outstanding principal amount on that trust calculation date of:
- each cash accumulation loan tranche made to Funding 1 that was not fully repaid on its scheduled repayment date; and
  - each other cash accumulation loan tranche made to Funding 1, the scheduled repayment date of which falls on or before the scheduled repayment date of the relevant accumulation amount;
- L = the amount of any available cash already standing to the credit of the cash accumulation ledger of Funding 1 at the start of that Funding 1 interest period (which is available to pay the relevant accumulation amount) plus the aggregate amount of cash accumulation requirement paid to Funding 1 since the previous Funding 1 interest payment date;
- M = means the sum of each monthly CPR on the 12 most recent trust calculation dates which have occurred prior to that date divided by 12;
- N = 0.85; and
- O = the aggregate current balance of the loans comprised in the trust property as calculated on the previous trust calculation date in respect of the previous trust calculation period (or, if applicable, the initial closing date).

A **further Funding company cash accumulation period** means the anticipated period required by that further Funding company to accumulate sufficient funds to repay a cash accumulation loan tranche made to a further Funding company (ending when that further Funding company has accumulated an amount equal to that cash accumulation loan tranche, taking into account its obligation to accumulate for any other cash accumulation loan tranche before, or at the same time as, the relevant cash accumulation loan tranche).

The **monthly CPR** means, on any trust calculation date, the total principal receipts received during the immediately preceding trust calculation period divided by the aggregate current balance of the loans comprised in the trust property calculated on the previous trust calculation date in respect of the previous trust calculation period.

A **non-asset trigger** event will occur on a trust calculation date if:

- (a) an insolvency event occurs in relation to the seller on or before that trust calculation date;
- (b) the seller's role as servicer is terminated and a new servicer is not appointed within 60 days;
- (c) the current seller share is less than the minimum seller share on two consecutive trust calculation dates (in each case by reference to the most recent trust calculation date); or
- (d) as at the trust calculation date immediately preceding the relevant trust calculation date, the aggregate outstanding principal balance of loans comprised in the trust property is less than the required loan balance amount specified in the most recent final terms and this has not been remedied by the relevant trust calculation date.

The definition of non-asset trigger event may change as new loan types are sold to the mortgages trustee or when a further Funding company acquires an interest in the trust property, subject to satisfaction of the relevant conditions precedent and confirmation from the rating agencies that the then current ratings of the rated notes (and any new rated notes, where applicable) then outstanding will not be downgraded, withdrawn or qualified as a result (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time) (see "**Funding 1 deed of charge – Appointment, powers, responsibilities and liabilities of the Funding 1 security trustee**" and "**Issuer deed of charge – Appointment, powers, responsibilities and liabilities of the issuer security trustee**" above).

An **original bullet loan tranche** means any Funding company loan tranche which at any time has been a bullet loan tranche (even if such Funding company loan tranche has subsequently become a pass-through loan tranche).

An **original scheduled amortisation instalment** means that part of a Funding company loan tranche which at any time has been a scheduled amortisation loan tranche (even if such Funding company loan tranche has subsequently become a pass-through loan tranche).

A **pass-through loan tranche** means a loan tranche which has no scheduled repayment date other than the final repayment date. The loan tranches of Funding 1 from time to time will be all the loan tranches other than the cash accumulation loan tranches of Funding 1. If a pass-through trigger event occurs or the Funding 1 security or the issuer security is enforced, then the bullet loan tranches and the scheduled amortisation loan tranches (other than those in relation to money market notes) will be deemed to be pass-through loan tranches.

The **relevant accumulation amount** means the amount of funds to be accumulated over a cash accumulation period in order to repay a bullet loan tranche or make a scheduled amortisation instalment in respect of a scheduled amortisation loan tranche, in each case on its scheduled repayment date (whether or not actually repaid on that scheduled repayment date).

The **repayment requirement** means, on a trust calculation date, the amount (if any) by which:

the aggregate of all principal amounts that will be due and payable by a Funding company on the next Funding company interest payment date in respect of the Funding company loan tranches made to that Funding company on the basis:

- (a) that there would be no deferral of those Funding company loan tranches due to the operation of applicable deferral rules (e.g. in respect of Funding 1 (separate rules may apply to further Funding companies), pursuant to Rule (1) as described below in "**Cashflows – Distribution of Funding 1 available principal receipts – The rules**");
- (b) in respect of Funding 1 only (separate rules may apply to further Funding companies), where Rule (2) set out in that section applies to an intercompany loan, that the amount so payable by Funding 1 in respect of loan tranches and new loan tranches (where applicable) (other than bullet loan tranches and scheduled amortisation instalments) under that intercompany loan shall be treated as the lesser of:
  - (A) the amount due and payable in respect of those loan tranches and new loan tranches (where applicable);
  - (B) the aggregate amount that may be repaid by Funding 1 on a Funding 1 interest payment date in respect of those loan tranches and new loan tranches (where applicable) if Rule (2) applies;

and

- (C) the remaining mortgages trust available principal receipts after paying or providing for amounts set out in items (a) to (c) (inclusive) of the mortgages trust principal priority of payments;
- (c) that Funding company loan tranche will be treated as due and payable if they are already due and payable, or would become due and payable on or before the next Funding company interest payment date in accordance with the terms of the relevant Funding 1 pre-acceleration principal priorities of payment or, in respect of each further Funding company, the relevant principal priorities of payment for that further Funding company; and
- (d) that amounts due and payable to that Funding company in respect of bullet loan tranches and scheduled amortisation instalments are excluded,

exceeds the sum of:

- (i) the amounts standing to the credit of the principal ledger of that Funding company as at the last Funding company interest payment date (which amount was not distributed on that Funding company interest payment date); and
- (ii) the sum of each repayment requirement amount paid to the relevant Funding company on a previous distribution date during the relevant Funding company interest period.

A **scheduled amortisation instalment** means that part of a scheduled amortisation loan tranche which is payable on each of the scheduled repayment dates of that Funding company loan tranche specified in the relevant final terms and, following the last such specified scheduled repayment date, on each Funding 1 interest payment date thereafter, the outstanding principal amount of that loan tranche.

A **scheduled amortisation loan tranche** means any Funding company loan tranche which is scheduled to be repaid in multiple instalments (being scheduled amortisation instalments) on scheduled repayment dates in accordance with the terms of the relevant debt instruments of the Funding companies. In respect of any scheduled amortisation loan tranches made to Funding 1 under the intercompany loan agreement, such scheduled amortisation loan tranches will be deemed to be pass-through loan tranches if:

- a trigger event occurs;
- in respect of the scheduled amortisation loan tranches made by the issuer, the security granted by the issuer is enforced; or
- the security granted by Funding 1 is enforced.

The scheduled amortisation loan tranches made by the issuer to Funding 1 on the initial closing date are set out in the final terms for each issue of notes together with their scheduled amortisation instalments. Any scheduled amortisation loan tranches made to Funding 1 after the initial closing date will be notified to noteholders in the first investor report available after the date such scheduled amortisation loan tranche is made.

If a scheduled amortisation loan tranche is made to any further Funding company, the amount and scheduled repayment dates of each scheduled amortisation instalment will be notified to noteholders in the first investor report available after the date such scheduled amortisation loan tranche is made.

There may be circumstances when the scheduled amortisation loan tranches made to a further Funding company will be deemed to be pass-through loan tranches.

A **scheduled repayment date** means the Funding company interest payment date when a Funding company is required to repay a bullet loan tranche or make a scheduled amortisation instalment in respect of a scheduled amortisation loan tranche. If bullet loan tranches or scheduled amortisation loan tranches are made to a further Funding company, the scheduled repayment date of those loan tranches will be notified to noteholders in the first investor report published after the date such bullet loan tranches or scheduled amortisation loan tranches are made.

A **trigger event** means an asset trigger event and/or a non-asset trigger event.

## Mortgages trust calculation of principal receipts

**Mortgages trust available principal receipts** are calculated by the cash manager on each trust calculation date and will be equal to the amount that is standing to the credit of the principal ledger on that trust calculation date.

The cash manager will calculate the repayment requirement and the cash accumulation requirement on each trust calculation date and the relevant amounts will be notified to the mortgages trustee (who will be entitled to rely on such notifications).

### **Mortgages trust allocation and distribution of principal receipts prior to the occurrence of a trigger event**

On each distribution date (the **relevant distribution date**) where no trigger event has occurred on or before the immediately preceding trust calculation date, the cash manager will apply mortgages trust available principal receipts, seller contributions and refinancing contributions as follows (the **mortgages trust principal priority of payments**):

- (a) first, *pari passu* and *pro rata* if any of Funding 1 and/or any further Funding company has a cash accumulation requirement on that distribution date:
  - (i) to allocate and pay to Funding 1 an amount equal to the lesser of (1) all mortgages trust available principal receipts multiplied by the Funding 1 share percentage and (2) an amount up to but not exceeding the sum of Funding 1's cash accumulation requirement (if any) on that distribution date; and
  - (ii) to allocate and pay to each further Funding company an amount equal to the lesser of (1) all mortgages trust available principal receipts multiplied by the relevant Funding company share percentage and (2) an amount up to but not exceeding the sum of such further Funding company's cash accumulation requirement (if any) on that distribution date;
- (b) then, *pari passu* and *pro rata*:
  - (i) to allocate and pay to Funding 1 an amount up to but not exceeding Funding 1's cash accumulation requirement (if any) on that distribution date after taking into account any amounts received by Funding 1 in accordance with item (a)(i) above; and
  - (ii) to allocate and pay to each further Funding company an amount up to but not exceeding that further Funding company's cash accumulation requirement (if any) on that distribution date after taking into account any amounts received by such further Funding company in accordance with item (a)(ii) above;
- (c) then, *pari passu* and *pro rata*, if any of Funding 1 and/or any further Funding companies has a repayment requirement on that distribution date:
  - (i) to allocate and pay to Funding 1 an amount equal to the lesser of (1) all remaining mortgages trust available principal receipts multiplied by the Funding 1 share percentage and (2) an amount up to but not exceeding the sum of Funding 1's repayment requirement (if any) on that distribution date; and
  - (ii) to allocate and pay to each further Funding company an amount equal to the lesser of (1) all remaining mortgages trust available principal receipts multiplied by that further Funding company's Funding company share percentage and (2) an amount up to but not exceeding the sum of such further Funding company's repayment requirement (if any) on that distribution date;
- (d) then, *pari passu* and *pro rata*:
  - (i) to allocate and pay to Funding 1 an amount up to but not exceeding Funding 1's repayment requirement (if any) on that distribution date after taking into account any amounts received by Funding 1 in accordance with item (c)(i) above; and
  - (ii) to allocate and pay to each further Funding company an amount up to but not exceeding such further Funding company's repayment requirement (if any) on that distribution date after taking into account any amounts received by such further Funding company in accordance with item (c)(ii) above; and

- (e) finally, provided that the seller share on the immediately preceding trust calculation date is not less than the minimum seller share, to allocate and pay all remaining mortgages trust available principal receipts to the seller,

provided that, in relation to items (a) to (e) above, the following rules shall apply:

- (a) the amount of mortgages trust available principal receipts to be allocated and paid:
  - (i) to Funding 1 on a distribution date will be reduced by an amount equal to the aggregate of Funding 1 available revenue receipts which are to be applied on the immediately succeeding Funding 1 interest payment date in reduction of deficiencies on the principal deficiency ledger of Funding 1; and
  - (ii) to such further Funding company on a distribution date will be reduced by an amount equal to the aggregate of available revenue receipts of such further Funding company which are to be applied on the immediately succeeding relevant Funding company interest payment date in reduction of deficiencies on the principal deficiency ledger(s) of the relevant Funding company,

but in each case only to the extent that (following any such reduction) amounts falling due under items (a), (b), (c) and (d) above are still able to be paid in full;

- (b) the amount of mortgages trust available principal receipts to be allocated and paid to Funding 1 on a distribution date immediately preceding a Funding 1 interest payment date will be increased by an amount (and will reduce the seller share of such mortgages trust available principal receipts by a corresponding amount) equal to the lesser of (A) the deficit that would otherwise arise on the immediately succeeding Funding 1 interest payment date in Funding 1 available revenue receipts to pay items (a) to (e) inclusive, (g), (j), (l) and (n) of the Funding 1 pre-acceleration revenue priority of payments after the application of Funding 1 principal available receipts (plus any part of the balance of the cash accumulation ledger which is not comprised in Funding 1 available principal receipts) and (B) the aggregate principal amount outstanding of all NR loan tranches less the balance of the NR principal deficiency sub-ledger (such amount, the **Funding 1 revenue deficit cure amount**);
- (c) a Funding company will not be entitled to have allocated to it (nor will it have allocated to it or receive) in aggregate an amount of mortgages trust available principal receipts from the mortgages trustee on a distribution date which is in excess of:
  - (i) in respect of Funding 1, the Funding 1 share on such distribution date;
  - (ii) in respect of each further Funding company, such further Funding company share on such distribution date; and
- (d) if on any trust calculation date prior to the occurrence of a non-asset trigger event the seller share is less than the minimum seller share:
  - (i) the mortgages trustee will make provision in an amount which would have been payable to the seller if the seller share had been greater than the minimum seller share; and
  - (ii) the seller will not receive nor have allocated to it any amount so provided for by the mortgages trustee in item (e) above until such time as the seller share is greater than the minimum seller share and provided that (i) the seller will not receive nor will have allocated to it any such amount if a non-asset trigger event occurs and is occurring and (ii) if an asset trigger event occurs and is occurring, the seller will have allocated to it and will be paid such amount but only to the extent permitted by the rules governing distribution of principal receipts after the occurrence of an asset trigger event.

***Mortgages trust allocation and distribution of principal receipts on or after the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event***

On each distribution date after the occurrence of a non-asset trigger event and until the occurrence of an asset trigger event, the cash manager will apply all mortgages trust available principal receipts by way of allocation and payment to the Funding companies *pari passu* and *pro rata* according to the Funding 1 share and the applicable Funding company share, respectively, until each of the Funding 1 share and the Funding company share (as calculated on the trust calculation date falling in the immediately preceding trust calculation period) is zero. The remainder, if any, of such receipts will be allocated and paid to the seller.



Following the occurrence of a non-asset trigger event, the notes will be subject to prepayment risk (that is, they may be repaid earlier than expected). See above “**Risk factors – The occurrence of a non-asset trigger event may accelerate the repayment of certain notes and/or delay the repayment of other notes**”.

**Mortgages trust allocation and distribution of principal receipts on or after the occurrence of an asset trigger event**

On each distribution date after the occurrence of an asset trigger event, the cash manager will allocate and pay all mortgages trust available principal receipts, *pari passu* and *pro rata*, to Funding 1, each further Funding company and the seller according to the Funding 1 share percentage, the relevant further Funding company percentage and the seller share percentage, respectively (in each case as calculated on the trust calculation date falling in the immediately preceding trust calculation period), until each of the Funding 1 share and each further Funding company share is zero. Following the occurrence of an asset trigger event, the making of allocations and payments to the seller may reduce the seller share below the minimum seller share.

Notwithstanding the foregoing, if a sale date has occurred during the trust calculation period immediately preceding such distribution date, the cash manager on behalf of the mortgages trustee will apply all principal receipts by way of allocation and payment between and to Funding 1, each further Funding company and the seller according to the weighted average Funding 1 share (principal) percentage, the relevant weighted average further Funding company share (principal) percentage and the weighted average seller share (principal) percentage, for that distribution date, until each of the Funding 1 share and each further Funding company share is zero.

Following the occurrence of an asset trigger event, it is possible that the notes of any series may not be repaid in full by their respective final maturity dates. See above “**Risk factors – The occurrence of an asset trigger event or enforcement of the issuer security or the Funding 1 security may accelerate the repayment of certain notes and/or delay the repayment of other notes**”.

**Losses**

All losses arising on the loans will be applied in reducing each beneficiary's share.

Save as otherwise provided, each beneficiary's share of the losses will be determined on any date by multiplying the amount of losses by:

- in relation to Funding 1, the Funding 1 share percentage;
- in relation to each further Funding company, the relevant further Funding company share percentage; and
- in relation to the seller, the seller share percentage,

in each case as calculated on the trust calculation date in the immediately preceding trust calculation period, until the share of each beneficiary is zero, regardless of the requirements in relation to the minimum seller share.

However, if, during the trust calculation period immediately preceding a trust calculation date, the seller has sold new loans to the mortgages trustee or a further contribution (excluding a seller contribution) is made by a beneficiary, then the amount of losses shall be multiplied by, as applicable, the weighted average Funding 1 share (losses) percentage, the relevant weighted average further Funding company share (losses) percentage of each further Funding company and the weighted average seller share (losses) percentage, in each case as calculated for the immediately preceding trust calculation period on that trust calculation date, rather than the then current Funding 1 share percentage, the then current further Funding company share percentage and the then current seller share percentage, respectively.

**Disposal of trust property**

The trust property is held on bare trust for the benefit of Funding 1, any further Funding companies and the seller absolutely. Subject as provided otherwise in the mortgages trust deed and the other transaction documents, the mortgages trustee is not entitled to dispose of the trust property or create any security interests over the trust property.

If an event of default occurs under the intercompany loan agreement relating to Funding 1 and (following the service on Funding 1 of an intercompany loan acceleration notice) the Funding 1 security

trustee enforces the Funding 1 security, then the Funding 1 security trustee will be entitled, among other things, to sell the Funding 1 share (see “**Description of the transaction documents – Funding 1 deed of charge**” above).

### **Additions to and reductions in the trust property**

An overpayment made by a borrower under a flexible loan will constitute a principal receipt in respect of the relevant loan and shall be distributed to the beneficiaries in accordance with the mortgages trust principal priority of payments, and this will result in a reduction of the current balance of the relevant loan by the amount of such overpayment on the following day.

If a borrower makes a cash withdrawal under a flexible loan, then pursuant to the terms of the mortgage sale agreement, the seller will be solely responsible for funding that cash withdrawal. Similarly, pursuant to the terms of the mortgage sale agreement, the seller will be solely responsible for funding any further advance made to a borrower. Any cash withdrawal or further advance made to a borrower where the loan remains in the mortgages trust will increase the current balance of the relevant loan with effect from the following day and will increase the seller share, in each case by the amount of that cash withdrawal or further advance as calculated on the next trust calculation date. Any flexible loan pursuant to which a further advance is made may be purchased by the seller and if purchased by the seller will decrease the seller share, in each case by the current balance of that flexible loan immediately prior to the further advance being made by the seller as calculated on the next trust calculation date.

If a borrower exercises a right to make an underpayment or take a payment holiday under a flexible loan, then that will increase the current balance of the loan with effect from the following day by an amount equal to the amount of interest not paid on the relevant loan in the month during which such underpayment or payment holiday option is exercised. Prior to an insolvency event in respect of the seller, the seller shall make a seller contribution to the mortgages trustee in an amount equal to the unpaid interest element otherwise payable under any loan which is subject to an underpayment or payment holiday. If the seller makes such a seller contribution, then it will be deemed to be a revenue receipt, and only the seller share shall increase by a corresponding amount. The seller may cease making such contributions if it is subject to an insolvency event.

### **Increasing the shares of the Funding companies by way of further contributions and additional initial contributions**

If Funding 1 or any further Funding company enters into a new intercompany loan, then any such Funding company may apply the proceeds of that new intercompany loan as either a further contribution on a further contribution date or an additional initial contribution to the mortgages trust on a sale date to increase its beneficial interest in, and the Funding 1 share or the relevant further Funding company share (as applicable) on a distribution date. A Funding company will be permitted to do this only if certain conditions are met, including *inter alia*:

- (a) no event of default under the transaction documents or the transaction documents relating to any further Funding company has occurred and is continuing or unwaived as at the relevant further contribution date or sale date (as applicable);
- (b) no deficiency was recorded on the principal deficiency ledger or any further Funding company principal deficiency ledger (as applicable) as at the relevant further contribution date or sale date (as applicable);
- (c) the rating agencies have confirmed that the proposed increase in the Funding 1 or the relevant further Funding company share (as applicable) would not cause the then current ratings of the rated notes (or any new rated notes, where applicable) then outstanding to be downgraded, withdrawn or qualified (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time); and
- (d) as of the last day of the immediately preceding trust calculation period, the aggregate current balance of the loans in the trust property, in respect of which the aggregate amount in arrears is more than 3 times the monthly payment then due, is less than 4 per cent. of the aggregate current balance of the loans in the trust property as of such date, unless the rating agencies have confirmed that the then current ratings of the rated notes (or any new rated notes, where applicable) then outstanding will not be downgraded, withdrawn or qualified as a result of any increase in, as applicable, the Funding 1 share or the Funding company share.

## Special distributions

Pursuant to the terms of the mortgages trust deed, the Funding companies and the seller will agree that amounts held by the mortgages trustee on any date in respect of any further contribution (other than a refinancing contribution) paid by any Funding company to the mortgages trustee (therefore excluding, for the avoidance of doubt, seller contributions) will be allocated and paid by the mortgages trustee to the seller as a distribution (a **special distribution**) from the mortgages trust on such date whether or not such date is a distribution date. The payment of any such special distribution will reduce the seller share with a corresponding increase to the relevant Funding company's share.

## Refinancing distributions

Each of the beneficiaries may make a refinancing contribution (being a contribution designated as such by the beneficiary) to the mortgages trustee from time to time. A refinancing contribution is a cash payment made by a beneficiary to the mortgages trustee, which the relevant beneficiary directs the mortgages trustee to apply to reduce the share of another beneficiary (other than the seller). A beneficiary may only give such a direction to the mortgages trustee with the prior consent of the relevant Funding company whose share will be reduced. In respect of Funding 1, the consent of the Funding 1 security trustee will also be required. Similarly, in the case of each further Funding company, the relevant further Funding security trustee's consent will be required.

Pursuant to the terms of the mortgages trust deed, the beneficiaries will agree that amounts held by the mortgages trustee on any date in respect of any refinancing contribution paid by a beneficiary to the mortgages trustee on that date will be allocated and paid by the mortgages trustee to the relevant Funding company as a refinancing distribution (a **refinancing distribution**) from the mortgages trust on such date whether or not such date is a distribution date. The payment of any such refinancing distribution will reduce the share of the receiving Funding company with a corresponding increase to the contributing beneficiary's share.

If a further Funding company enters into new loan tranches that would have the effect of extending the Funding 1 cash accumulation period in respect of any cash accumulation loan tranche that is, as at the date that such new loan tranche is entered into, in a cash accumulation period or which would, as a result of the issue of that such new loan tranche, be in a cash accumulation period (each an **affected cash accumulation loan tranche**), then the proceeds of such new loan tranche must be applied to make a refinancing contribution to the mortgages trustee. The mortgages trustee shall apply the proceeds of such refinancing contribution to make a refinancing distribution to Funding 1 in an amount equal to the aggregate cash accumulation requirement of Funding 1 in respect of each affected cash accumulation loan tranche.

Certain conditions will apply to the right of the seller to make refinancing contributions and hence increase the seller share with a corresponding decrease in the relevant Funding company share. In respect of a refinancing contribution to be made by the seller to Funding 1, these include that Funding 1 agrees to apply the proceeds of the refinancing contribution to repay (in whole or in part) a loan tranche made to it or the Funding 1 loan, as the case may be.

## Termination of the mortgages trust

The mortgages trust will terminate on the date on which there is no remaining trust property or, if earlier, the date on which:

- (a) all of the loan tranches and all new loan tranches have been repaid in full;
- (b) the Funding 1 share and each Funding company share has been reduced to zero; or
- (c) the beneficiaries collectively agree to terminate the mortgages trust,

so long as all amounts due from the Funding companies to their respective secured creditors have been repaid in full.

Subject to applicable law, the beneficiaries are not entitled to remove or replace the mortgages trustee as the trustee of the mortgages trust. The mortgages trustee is not entitled to retire as the trustee of the mortgages trust or appoint any additional trustee of the mortgages trust.

## Governing law

The mortgages trust deed and any non-contractual obligations arising out of or in connection with it is governed by English law.

## CASHFLOWS

### Definition of Funding 1 available revenue receipts

**Funding 1 available revenue receipts** for each Funding 1 interest payment date will be calculated by the cash manager on the day falling four business days prior to such Funding 1 interest payment date and will be an amount equal to the sum of:

- all mortgages trust available revenue receipts distributed or to be distributed to Funding 1 during the then current interest period;
- other net income of Funding 1 including all amounts of interest received on the Funding 1 GIC account, the Funding 1 transaction account and/or in respect of authorised investments and amounts received by Funding 1 under the Funding 1 swap agreement (other than any early termination amount received by Funding 1 under the Funding 1 swap agreement), in each case to be received during the then current interest period;
- any amounts standing to the credit of the general reserve ledger in excess of the general reserve required amount as a result of a reduction in the general reserve required amount;
- without double counting with the excess amounts referred to in paragraph above, the amounts then standing to the credit of the general reserve ledger, subject to any limits or conditions on the purposes for which the general reserve fund may be utilised (including, without limitation, that the general reserve fund may not be used to fund shortfalls on the class Z notes);
- if a liquidity reserve fund rating event has occurred and is continuing, and there are no amounts standing to the credit of the general reserve ledger, the amounts then standing to the credit of the liquidity reserve ledger and available to be drawn to the extent necessary to pay items (a) to (g) in the Funding 1 pre-acceleration revenue priority of payments;
- if a liquidity reserve fund rating event has occurred but is no longer continuing due to an increase in the seller's rating since the preceding Funding 1 interest payment date, and Funding 1 elects to terminate the liquidity reserve fund, all amounts standing to the credit of the liquidity reserve ledger;
- any amounts standing to the credit of the liquidity reserve ledger in excess of the liquidity reserve fund required amount as a result of a reduction in the liquidity reserve fund required amount;
- any amount available to be drawn by Funding 1 under the Funding 1 liquidity facility (if established) for payment of any amounts other than Funding 1 liquidity facility principal payments or Funding 1 liquidity facility subordinated payments (as agreed under the terms of the Funding 1 liquidity facility agreement) and subject to any limits or conditions on the purposes for which the Funding 1 liquidity facility may be used; and
- (only to the extent required after making the calculation set out below) the aggregate of all Funding 1 principal receipts (if any) which are applied on the relevant Funding 1 interest payment date to pay up to the applicable limits items (a) to (e) inclusive, (g), (j), (l) and (n) of the Funding 1 pre-acceleration revenue priority of payments.

Funding 1 available revenue receipts does not include:

- any refinancing contribution which is applied to reduce the Funding 1 share of the trust property during the Funding 1 interest period ending on the relevant Funding 1 interest payment date as described above in "**The mortgages trust**"; or
- any proceeds of a new intercompany loan received by Funding 1 during the Funding 1 interest period ending on the relevant Funding 1 interest payment date as described above in "**Description of the transaction documents – The intercompany loan– New intercompany loan agreements**".

Amounts of interest accrued in respect of non bullet Funding 1 principal amounts which cannot be withdrawn from the Santander A-2/P-2/F2 account (including, without limitation, in the event of a moratorium on insolvency, bank insolvency, administration or bank administration of Santander UK, or Santander UK being unable to pay these amounts) shall cease to constitute Funding 1 available revenue receipts and shall not be available to be applied in accordance with the relevant priority of payments (see "**Description of the Transaction Documents – Cash management agreement – Deposits with eligible banks in**

**accordance with panel bank guidelines**” for a description of the circumstances when monies will be deposited in the Santander A-2/P-2/F2 account).

Four business days prior to each Funding 1 interest payment date, the cash manager will calculate whether Funding 1 available revenue receipts (as calculated above) will be sufficient to pay items (a) to (e) inclusive, (g), (j), (l) and (n) of the Funding 1 pre-acceleration revenue priority of payments.

If the cash manager determines that there is an insufficiency, then Funding 1 shall pay or provide for that insufficiency by applying amounts then standing to the credit of (a) first, the Funding 1 principal ledger (if any) and (b) second, any amounts standing to the credit of the cash accumulation ledger after deducting the amounts standing to the credit of the Funding 1 principal ledger (if any) from such ledger, and the cash manager shall make a corresponding entry in the relevant principal deficiency ledger, as described below in **“Credit structure – Principal deficiency ledger”**. Funding 1 principal receipts thus applied may not be used to pay interest on any loan tranche if and to the extent that would result in a deficiency being recorded, or an existing deficiency being increased, on a principal deficiency sub-ledger relating to a loan tranche with a higher rating designation. If there are no (or insufficient) amounts standing to the credit of the Funding 1 principal ledger and the cash accumulation ledger to cure such insufficiency, then the cash manager will direct Funding 1 to request a drawing under the liquidity reserve fund to apply towards the revenue shortfall in accordance with the Funding 1 pre-acceleration revenue priority of payments. See **“Credit structure – Liquidity reserve fund”** and **“Credit structure – Funding 1 liquidity facility”** below.

If the cash manager determines that there is an excess of Funding 1 available revenue receipts over the amount required to pay the specified items in the Funding 1 pre-acceleration revenue priority of payments, then Funding 1 shall apply such excess to extinguish any balance on the principal deficiency ledger, as described below in **“Credit structure – Principal deficiency ledger”**.

#### **Distribution of Funding 1 available revenue receipts before intercompany loan acceleration**

This section sets out the priority of payments of Funding 1 available revenue receipts as at the date of this base prospectus.

Except for amounts due to third parties (other than parties to the transaction documents) by the issuer and/or Funding 1 under item (a) or amounts due to account bank A, account bank B and/or the issuer account bank, which will be paid when due, on each Funding 1 interest payment date prior to the service of an intercompany loan acceleration notice on Funding 1, the cash manager will apply (i) the Funding 1 available revenue receipts for such date and (ii) if Funding 1 available revenue receipts for such date are insufficient to pay items (a) to (e) inclusive, (g), (j), (l) and (n) below, amounts standing to the credit of the Funding 1 principal ledger and the cash accumulation ledger (in the manner described above) in the following priority (the **Funding 1 pre-acceleration revenue priority of payments**):

- (a) without priority among them but in proportion to the respective amounts due, to pay amounts due to:
  - the Funding 1 security trustee (together with interest and any amount in respect of VAT thereon) and to provide for any amounts due or to become due in the immediately following interest period to the Funding 1 security trustee under the Funding 1 deed of charge;
  - to pay amounts due to the issuer by way of payment of the fee under the intercompany loan agreement in respect of the issuer's obligations specified in items (a) to (c) inclusive of the issuer pre-acceleration revenue priority of payments or, as the case may be, items (a) and (b) of the issuer post-enforcement priority of payments, as described in **“– Distribution of issuer revenue receipts before note acceleration”** and **“– Distribution of issuer revenue receipts after note acceleration but before intercompany loan acceleration”** below; and
  - any third party creditors of Funding 1 (other than those referred to later in this priority of payments), which amounts have been incurred without breach by Funding 1 of the transaction documents to which it is a party (and for which payment has not been provided for elsewhere) and to provide for any of these amounts expected to become due and payable in the immediately following interest period by Funding 1 and to pay or discharge any liability of Funding 1 for corporation tax on any chargeable income or gain of Funding 1;
- (b) without priority among them but in proportion to the respective amounts due, towards payment of amounts, if any, due and payable (in each case together with any VAT thereon) to the cash

manager under the terms of the cash management agreement, to the account banks under the terms of the Funding 1 bank account agreement, to the Funding 1 corporate services provider under the corporate services agreement in relation to Funding 1 and Holdings, to the PECO corporate services provider under the corporate services agreement in relation to the post-enforcement call option holder and to Santander UK under the terms of the secretarial services agreement;

- (c) to pay amounts due to the Funding 1 liquidity facility provider under the Funding 1 liquidity facility agreement (if established) (except for amounts drawn thereunder to make Funding 1 liquidity facility principal payments and any Funding 1 liquidity facility subordinated amounts);
- (d) towards payment of all amounts (if any) due and payable to the Funding 1 swap provider under the Funding 1 swap agreement (including termination payments, but excluding any Funding 1 swap excluded termination amount (as defined later in this section));
- (e) without priority among them, but in proportion to the respective amounts due, towards payment of interest due and payable on the AAA loan tranches;
- (f) towards a credit to the AAA principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;
- (g) without priority among them, but in proportion to the respective amounts due, towards payment of interest due and payable on the AA loan tranches;
- (h) if a liquidity reserve fund rating event has occurred and is continuing, towards a credit to the liquidity reserve ledger to the extent the amount standing to the credit thereof is less than the liquidity reserve fund required amount, taking into account any net replenishment of the liquidity reserve fund on that Funding 1 interest payment date from Funding 1 available principal receipts (see item (c) of the relevant Funding 1 pre-acceleration principal priority of payments);
- (i) towards a credit to the AA principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;
- (j) without priority among them, but in proportion to the respective amounts due, towards payment of interest due and payable on the A loan tranches;
- (k) towards a credit to the A principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;
- (l) without priority among them, but in proportion to the respective amounts due, towards payment of interest due and payable on the BBB loan tranches;
- (m) towards a credit to the BBB principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;
- (n) without priority among them, but in proportion to the respective amounts due, towards payment of interest due and payable on the BB loan tranches;
- (o) towards a credit to the BB principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;
- (p) towards payment of any amounts due to the issuer in respect of its obligations (if any) to make a termination payment to an issuer swap provider (but excluding any issuer swap excluded termination amount);
- (q) (to the extent any rated notes are outstanding) towards a credit to the general reserve ledger to the extent the amount standing to the credit thereof is less than the general reserve required amount, taking into account any net replenishment of the general reserve fund on that Funding 1 interest payment date from Funding 1 available principal receipts (see item (b) of the relevant Funding 1 pre-acceleration principal priority of payments);
- (r) towards a credit to, without priority among them but in proportion to the respective amounts due (i) the NR principal deficiency sub-ledger and (ii) the Funding 1 loan principal deficiency sub-ledger, in an amount sufficient to eliminate any debit thereon;
- (s) without priority among them but in proportion to the respective amounts due, towards payment of interest due and payable on the NR loan tranches and the Funding 1 loan;

- (t) without priority among them but in proportion to the respective amounts due, to pay (without double counting):
- to the issuer in respect of its obligations (if any) to pay any issuer swap excluded termination amount;
  - any other amounts due to the issuer under the intercompany loan agreement and not otherwise provided for in this priority of payments (which amounts may include, without limitation, an amount to be paid by the issuer in consideration of it entering into any replacement issuer swap agreement to the extent not already paid using an early termination amount received or receivable by the issuer pursuant to the original issuer swap agreement);
  - any Funding 1 swap excluded termination amount due and payable by Funding 1 under the Funding 1 swap agreement; and
  - to the Funding 1 liquidity facility provider under the Funding 1 liquidity facility (if established) of Funding 1 liquidity subordinated amounts (as agreed under the terms of the Funding 1 liquidity facility agreement);
- (u) towards payment to Funding 1 of an amount equal to the sum of (1) £1,250 and (2) an amount equal to the aggregate of £1,250 in respect of each previously occurring Funding 1 interest payment date to the extent that such amount was not paid in accordance with this paragraph (u) on such Funding 1 interest payment date or any subsequently occurring Funding 1 interest payment date;
- (v) without priority among them but in proportion to the respective amounts due, towards payment of amounts due to the Funding 1 start-up loan provider under the Funding 1 start-up loan agreements; and
- (w) toward payment of any deferred contribution due to the mortgages trustee pursuant to the terms of the mortgages trust deed.

### Definition of issuer revenue receipts

**Issuer revenue receipts** will be calculated by the issuer cash manager four business days prior to each interest payment date and will be an amount equal to the sum of:

- interest to be paid by Funding 1 on the relevant Funding 1 interest payment date in respect of the loan tranches under the intercompany loan which correspond to notes with interest payment dates corresponding to such Funding 1 interest payment date;
- interest previously paid by Funding 1 on a previous Funding 1 interest payment date and required to be held in the issuer GIC account until such interest payment date;
- fees to be paid to the issuer by Funding 1 on the relevant Funding 1 interest payment date under the terms of the intercompany loan;
- interest payable on the issuer transaction account and (if established) the issuer GIC account and any income from authorised investments which will be received on or before the relevant interest payment date;
- other net income of the issuer including amounts received or to be received under the issuer swap agreements on or before the relevant interest payment date (other than any early termination amount received by the issuer under any issuer swap agreement to the extent used to purchase any replacement issuer swap) and including any amount received by the issuer in consideration of it entering into a replacement issuer swap agreement (which amounts shall be deemed to be received by the issuer in respect of the loan tranche corresponding to the series and class of notes to which the replaced issuer swap agreement relates) but excluding (i) the return or transfer of any excess swap collateral as set out under any of the issuer swap agreements and (ii) in respect of each issuer swap provider, prior to the designation of an early termination date under the relevant issuer swap agreement and the resulting application of the collateral by way of netting or set-off, an amount equal to the value of all collateral (other than excess swap collateral) provided by such issuer swap provider to the issuer pursuant to the relevant issuer swap agreement (and any interest or distributions in respect thereof); and

- any additional amount the issuer receives from any taxing authority on account of amounts paid to that taxing authority for and on account of tax by an issuer swap provider under an issuer swap agreement.

On each Funding 1 interest payment date, all Funding 1 available revenue receipts received by the issuer in respect of interest paid on a loan tranche will be credited to a sub-ledger (in respect of the related series and class of notes) to the ledger on which the issuer cash manager records issuer revenue receipts received and paid out of the issuer revenue ledger (the **issuer revenue ledger**).

#### **Distribution of issuer revenue receipts before note acceleration**

The issuer cash management agreement sets out the priority of distribution by the issuer cash manager, prior to the service of a note acceleration notice on the issuer, of issuer revenue receipts and issuer principal receipts on each interest payment date. The order of priority will be as described in this section as supplemented by the final terms related to each series.

Except for amounts due to third parties by the issuer under item (b) below or amounts due to the issuer account bank under item (c) below, which will be paid when due, on each interest payment date the issuer cash manager will apply issuer revenue receipts in the following manner (the **issuer pre-acceleration revenue priority of payments**):

- (a) without priority among them but in proportion to the respective amounts due, to pay amounts due to:
  - the issuer security trustee, together with interest and any amount in respect of VAT thereon, and to provide for any amounts due or to become due during the following interest period to the issuer security trustee under the issuer deed of charge;
  - the note trustee, together with interest and any amount in respect of VAT thereon, and to provide for any amounts due or to become due during the following interest period to the note trustee under the note trust deed; and
  - the agent bank, the paying agents, the registrar, the exchange rate agent (if applicable) and the transfer agent (if any), together with interest and any amount in respect of VAT thereon, and any costs, charges, liabilities and expenses then due or to become due during the following interest period to the agent bank, the registrar, the transfer agent, the exchange rate agent (if applicable) and the paying agents under the paying agent and agent bank agreement;
- (b) to pay amounts due to any third party creditors of the issuer (other than those referred to later in this priority of payments), which amounts have been 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 to provide for any of those amounts expected to become due and payable during the following interest period by the issuer and to pay or discharge any liability of the issuer for corporation tax on any chargeable income or gain of the issuer;
- (c) without priority among them but in proportion to the respective amounts due, to pay amounts due, together with any amount in respect of VAT thereon as provided therein, and to provide for any amounts due, or to become due, in the immediately following interest period, to the issuer cash manager under the issuer cash management agreement, to the issuer corporate services provider under the issuer corporate services agreement and to the issuer account bank under the issuer bank account agreement;
- (d) from amounts (excluding principal) received by the issuer from Funding 1 in respect of each AAA loan tranche or by way of fee in respect of any termination payment other than as excluded in respect of (i) below (and, in respect of (ii) below, the amounts (if any), excluding principal, received from the issuer swap provider(s) under the issuer swap agreement(s) in respect of the related series and class of notes):
  - (i) to pay the amounts due and payable to the relevant issuer swap provider(s) (if any) in respect of the related series and class of class A notes (including any termination payment, but excluding any issuer swap excluded termination amount) on such interest payment date in accordance with the terms of the relevant issuer swap agreement;
  - (ii) to pay interest due and payable (if any) on the related series and class of class A notes on such interest payment date;
- (e) from amounts (excluding principal) received by the issuer from Funding 1 in respect of each AA loan tranche or by way of fee in respect of any termination payment other than as excluded in



respect of (i) below (and, in respect of (ii) below, the amounts (if any), excluding principal, received from the issuer swap provider(s) under the issuer swap agreement(s) in respect of the related series and class of notes):

- (i) to pay the amounts due and payable to the relevant issuer swap provider(s) (if any) in respect of the related series and class of class B notes (including any termination payment, but excluding any issuer swap excluded termination amount) on such interest payment date in accordance with the terms of the relevant issuer swap agreement;
  - (ii) to pay interest due and payable (if any) on the related series and class of class B notes on such interest payment date;
- (f) from amounts (excluding principal) received by the issuer from Funding 1 in respect of each A loan tranche or by way of fee in respect of any termination payment other than as excluded in respect of (i) below (and, in respect of (ii) below, the amounts (if any), excluding principal, received from the issuer swap provider(s) under the issuer swap agreement(s) in respect of the related series and class of notes):
- (i) to pay the amounts due and payable to the relevant issuer swap provider(s) (if any) in respect of the related series and class of class M notes (including any termination payment, but excluding any issuer swap excluded termination amount) on such interest payment date in accordance with the terms of the relevant issuer swap agreement;
  - (ii) to pay interest due and payable (if any) on the related series and class of class M notes on such interest payment date;
- (g) from amounts (excluding principal) received by the issuer from Funding 1 in respect of each BBB loan tranche or by way of fee in respect of any termination payment other than as excluded in respect of (i) below (and, in respect of (ii) below, the amounts (if any), excluding principal, received from the issuer swap provider(s) under the issuer swap agreement(s) in respect of the related series and class of notes):
- (i) to pay the amounts due and payable to the relevant issuer swap provider(s) (if any) in respect of the related series and class of class C notes (including any termination payment, but excluding any issuer swap excluded termination amount) on such interest payment date in accordance with the terms of the relevant issuer swap agreement;
  - (ii) to pay interest due and payable (if any) on the related series and class of class C notes on such interest payment date;
- (h) from amounts (excluding principal) received by the issuer from Funding 1 in respect of each BB loan tranche or by way of fee in respect of any termination payment other than as excluded in respect of (i) below (and, in respect of (ii) below, the amounts (if any), excluding principal, received from the issuer swap provider(s) under the issuer swap agreement(s) in respect of the related series and class of notes):
- (i) to pay the amounts due and payable to the relevant issuer swap provider(s) (if any) in respect of the related series and class of class D notes (including any termination payment, but excluding any issuer swap excluded termination amount) on such interest payment date in accordance with the terms of the relevant issuer swap agreement;
  - (ii) to pay interest due and payable (if any) on the related series and class of class D notes on such interest payment date;
- (i) from amounts (excluding principal) received by the issuer from Funding 1 in respect of each NR loan tranche, to pay interest due and payable (if any) on the related series and class of class Z notes on such interest payment date;
- (j) without priority among them but in proportion to their respective amounts due, any issuer swap excluded termination amount due and payable by the issuer to an issuer swap provider;
- (k) to the issuer, £1,250 to be retained by the issuer as profit; and
- (l) the balance to the issuer.

Prior to the service of a note acceleration notice on the issuer, on each interest payment date, the amounts standing to the credit of any sub-ledger of the issuer revenue ledger (in respect of a series and

class of notes) may only be applied by the issuer cash manager to pay the interest and other amounts due in respect of such series and class of notes under the issuer pre-acceleration revenue priority of payments provided that to the extent that on any interest payment date, amounts standing to the credit of the issuer revenue ledger (excluding amounts standing to the credit of the sub-ledgers for each series and class of notes) are insufficient to pay items (a) to (c) of the issuer pre-acceleration revenue priority of payments, then the issuer cash manager will, in no order of priority among them but in proportion to the amount required, apply amounts standing to the credit of the sub-ledgers of the issuer revenue ledger in respect of the class Z notes of each series on such date to meet such shortfall (until the balance of such sub-ledgers is zero), then amounts standing to the credit of the sub-ledgers of the issuer revenue ledger in respect of the class D notes of each series (until the balance of such sub-ledgers is zero), then amounts standing to the credit of the sub-ledgers of the issuer revenue ledger in respect of the class C notes of each series (until the balance of such sub-ledgers is zero), then amounts standing to the credit of the sub-ledgers of the issuer revenue ledger in respect of the class M notes of each series (until the balance of such sub-ledgers is zero), then amounts standing to the credit of the sub-ledgers of the issuer revenue ledger in respect of the class B notes of each series (until the balance of such sub-ledgers is zero) and then amounts standing to the credit of the sub-ledgers of the issuer revenue ledger in respect of the class A notes (until the balance of such sub-ledgers is zero).

### **Distribution of issuer revenue receipts after note acceleration but before intercompany loan acceleration**

Following the service of a note acceleration notice on the issuer, but prior to the service of an intercompany loan acceleration notice on Funding 1 under the Funding 1 deed of charge, the issuer cash manager or, if the issuer security has also been enforced, the issuer security trustee will apply issuer revenue receipts and any other amounts received or recovered by the issuer security trustee (or a receiver appointed on its behalf) in the same priority as set out in the issuer pre-acceleration revenue priority of payments, except that such amounts will be applied on the date of receipt or recovery, and:

- in addition to the amounts due to the issuer security trustee under item (a) of the issuer pre-acceleration revenue priority of payments, issuer revenue receipts will be applied to pay amounts due to any receiver appointed by the issuer security trustee together with interest and any amount in respect of VAT thereon, and to provide for any amounts due or to become due to the receiver during the following interest period; and
- the issuer security trustee will not be required to pay amounts due to any entity which is not an issuer secured creditor.

### **Distribution of Funding 1 available principal receipts**

#### ***Payment of principal receipts to Funding 1 by the mortgages trustee***

On each distribution date, mortgages trust available principal receipts will be paid to Funding 1 in the manner and to the extent provided by the mortgages trust principal priority of payments (see “**The mortgages trust – Mortgages trust calculation of principal receipts**” above) and shall be deposited in the Funding 1 GIC account and credited by the cash manager to the **Funding 1 principal ledger** (being a ledger maintained by the cash manager for Funding 1).

#### ***Definition of Funding 1 available principal receipts***

**Funding 1 available principal receipts** will be calculated by the cash manager on the day falling four business days prior to each Funding 1 interest payment date and will be an amount equal to the sum of:

- all mortgages trust available principal receipts received by Funding 1 during the interest period ending on the relevant Funding 1 interest payment date;
- all other Funding 1 principal receipts standing to the credit of the cash accumulation ledger which are to be applied on the next Funding 1 interest payment date to repay a bullet loan tranche and/or, subject to Rule (1) below, a scheduled amortisation instalment in respect of a scheduled amortisation loan tranche, or to make a payment under items (a) and (b) of the Funding 1 pre-acceleration principal priority of payments and, if such Funding 1 interest payment date occurs on or after a trigger event, the remainder of such receipts standing to the credit of the cash accumulation ledger;
- the amount, if any, to be credited to the principal deficiency ledger pursuant to the terms of the Funding 1 pre-acceleration revenue priority of payments on the relevant Funding 1 interest payment date;

- in so far as available for and needed to make a reserve principal payment (see “**Credit structure – General reserve fund**” below), the amount that would then be standing to the credit of the general reserve ledger, less any amounts applied or to be applied on the relevant date in payment of interest and other revenue expenses as set out in items (a) to (e) inclusive, (g), (j), (l) and (n) of the Funding 1 pre-acceleration revenue priority of payments, plus any amounts which will be credited to the general reserve ledger under item (b) of the relevant Funding 1 pre-acceleration principal priority of payments on the next Funding 1 interest payment date (i.e. occurring at the end of such period of four business days);
- in so far as available for and needed to make a liquidity reserve principal payment (see “**Credit structure – Liquidity reserve fund**” below), the amount that would then be standing to the credit of the liquidity reserve ledger, less any amounts applied or to be applied on the relevant date in payment of interest and other revenue expenses as set out in items (a) to (g) of the Funding 1 pre-acceleration revenue priority of payments, plus any amounts which will be credited to the liquidity reserve ledger under item (c) of the relevant Funding 1 pre-acceleration principal priority of payments on the next Funding 1 interest payment date (i.e. occurring at the end of such period of four business days); and
- any amount available to be drawn under the Funding 1 liquidity facility (if established) to make a Funding 1 liquidity facility principal payment (as agreed under the terms of the Funding 1 liquidity facility agreement),

less amounts to be applied on the relevant Funding 1 interest payment date to pay items (a) to (e) (inclusive), (g), (j), (l) and (n) of the Funding 1 pre-acceleration revenue priority of payments.

Non bullet Funding 1 principal amounts which cannot be withdrawn from the Santander A-2/P-2/F2 account (including, without limitation, in the event of moratorium on insolvency, bank insolvency, administration or bank administration of Santander UK, or Santander UK being unable to pay these amounts) shall cease to constitute Funding 1 available principal receipts and shall not be available to be applied in accordance with the relevant priority of payments (see “**Description of the Transaction Documents – Cash management agreement – Deposits with eligible banks in accordance with panel bank guidelines**” for a description of the circumstances when monies will be deposited in the Santander A-2/P-2/F2 account).

#### ***Due and payable dates of loan tranches***

The repayment of any loan tranche prior to the occurrence of a trigger event, service of a note acceleration notice or service of an intercompany loan acceleration notice will be made in accordance with the terms of the intercompany loan agreement. The accompanying final terms will specify the due and payable dates of the loan tranches related to the series of notes issued.

The following sections set out various priorities of payments for Funding 1 available principal receipts under the following circumstances, and are collectively referred to as the **Funding 1 pre-acceleration principal priority of payments**:

- repayment of loan tranches before a trigger event and before intercompany loan acceleration or acceleration of all notes;
- repayment of loan tranches after a non-asset trigger event but before intercompany loan acceleration or acceleration of all notes;
- repayment of loan tranches after an asset trigger event but before intercompany loan acceleration notice or acceleration of all notes; and
- repayment of loan tranches after acceleration of all notes but before intercompany loan acceleration.

#### ***Repayment of loan tranches before a trigger event and before intercompany loan acceleration or acceleration of all notes***

On each Funding 1 interest payment date prior to the occurrence of a trigger event or the service on Funding 1 of an intercompany loan acceleration notice or the service on the issuer of a note acceleration notice, the cash manager shall apply Funding 1 available principal receipts in the following priority:

- (a) in accordance with the terms of the Funding 1 liquidity facility agreement, towards repayment of amounts outstanding under the Funding 1 liquidity facility (if established) that were drawn in order to make Funding 1 liquidity facility principal payments;
- (b) to the extent only that monies have been drawn from the general reserve fund to make reserve principal payments, towards a credit to the general reserve ledger to the extent the amount standing to the credit thereof is less than the general reserve required amount;
- (c) if a liquidity reserve rating event has occurred and is continuing (i) to initially fund the liquidity reserve fund up to the liquidity reserve fund required amount and (ii) once it has been initially funded, to the extent that Funding 1 available revenue receipts are insufficient to do so, to replenish the liquidity reserve fund up to the liquidity reserve fund required amount;
- (d) in order of their final repayment dates, beginning with the earliest such date (and if two or more AAA loan tranches have the same final repayment date, in proportion to the respective amounts due) to repay the principal amounts due (if any) on such Funding 1 interest payment date on the AAA loan tranches, in each case subject to Rules (1) and (2) below;
- (e) in no order of priority among them, to repay the principal amounts due (if any) on such Funding 1 interest payment date on the AA loan tranches, in each case subject to Rules (1) and (2) below;
- (f) in no order of priority among them, to repay the principal amounts due (if any) on such Funding 1 interest payment date on the A loan tranches, in each case subject to Rules (1) and (2) below;
- (g) in no order of priority among them, to repay the principal amounts due (if any) on such Funding 1 interest payment date on the BBB loan tranches, in each case subject to Rules (1) and (2) below;
- (h) in no order of priority among them, to repay the principal amounts due (if any) on such Funding 1 interest payment date on the BB loan tranches, in each case subject to Rules (1) and (2) below;
- (i) in no order of priority among them but in proportion to the respective amounts due, to repay the principal amounts due (if any) on such Funding 1 interest payment date on (i) the NR loan tranches and (ii) the Funding 1 loan, in each case subject to Rules (1) and (2) below;
- (j) *then*, towards a credit to the cash accumulation ledger until the balance is equal to Funding 1's cash accumulation liability (as calculated after any payments are made at items (d) to (i) of this priority of payments); and
- (k) the remainder to be credited to the Funding 1 principal ledger.

### **The rules**

In the applicable circumstances, the following rules apply in determining the amounts to be paid under items (d), (e), (f), (g), (h) and (i) of the priority of payments set out above and below:

#### **Rule (1) – deferral of repayment of pass-through loan tranches and/or scheduled amortisation instalments in certain circumstances**

1. If on a Funding 1 interest payment date:
  - (a) there is a debit balance on the BB principal deficiency sub-ledger, the BBB principal deficiency sub-ledger, the A principal deficiency sub-ledger or the AA principal deficiency sub-ledger, after application of the Funding 1 available revenue receipts on that Funding 1 interest payment date; or
  - (b) the adjusted general reserve fund level is less than the general reserve required amount; or
  - (c) the aggregate outstanding principal balance of loans in the mortgages trust, in respect of which the aggregate amount in arrears is more than three times the monthly payment then due, is more than 4 per cent. of the aggregate outstanding principal balance of loans in the mortgages trust,

then until the relevant circumstance as described in sub-paragraphs (a), (b) or (c) above has been cured or otherwise ceases to exist, if:

- (a) any AAA loan tranche (whether or not such AAA loan tranche is then due and payable) remains outstanding after making the payments under item (d) of the above priority of payments and/or the balance of the cash accumulation ledger is not equal to the cash accumulation liability of Funding 1 after making payments under item (j) of the above priority of payments, then the AA loan tranches will not be entitled to principal repayments under item (e) of the above priority of payments;
  - (b) any AAA loan tranche or any AA loan tranche (whether or not such AAA loan tranche or AA loan tranche is then due and payable) remains outstanding after making the payments under items (d) and/or (e) of the above priority of payments, and/or the balance of the cash accumulation ledger is not equal to the cash accumulation liability of Funding 1 after making payments under item (j) of the above priority of payments, then the A loan tranches will not be entitled to principal repayments under item (f) of the priority of payments set out above;
  - (c) any AAA loan tranche, any AA loan tranche or any A loan tranche (whether or not such AAA loan tranche, AA loan tranche or A loan tranche is then due and payable) remains outstanding after making the payments under items (d) and/or (e) and/or (f) of the above priority of payments and/or the balance of the cash accumulation ledger is not equal to the cash accumulation liability of Funding 1 after making payments under item (j) of the above priority of payments, then the BBB loan tranches will not be entitled to principal repayments under item (g) of the priority of payments set out above;
  - (d) any AAA loan tranche, any AA loan tranche, any A loan tranche or any BBB loan tranche (whether or not such AAA loan tranche, AA loan tranche, A loan tranche or BBB loan tranche is then due and payable) remains outstanding after making the payments under items (d) and/or (e) and/or (f) and/or (g) of the above priority of payments and/or the balance of the cash accumulation ledger is not equal to the cash accumulation liability of Funding 1 after making payments under item (j) of the above priority of payments, then the BB loan tranches will not be entitled to principal repayments under item (h) of the priority of payments set out above; and/or
  - (e) any AAA loan tranche, any AA loan tranche, any A loan tranche, any BBB loan tranche or any BB loan tranche (whether or not such AAA loan tranche, AA loan tranche, A loan tranche, BBB loan tranche or BB loan tranche is then due and payable) remains outstanding after making the payments under items (d) and/or (e) and/or (f) and/or (g) and/or (h) of the above priority of payments and/or the balance of the cash accumulation ledger is not equal to the cash accumulation liability of Funding 1 after making payments under item (j) of the above priority of payments, then the NR loan tranches and the Funding 1 loan will not be entitled to principal repayments under item (i) of the priority of payments set out above.
2. If on a Funding 1 interest payment date in respect of which principal in respect of any loan tranche is scheduled to be paid:
- (a) for any AA loan tranche, the amount of principal due (or any part thereof) in respect of the AA loan tranche may only be paid if, after giving effect to such payment and the payment to be made on such date in respect of the related series and class of notes, the class A available subordinated amount is at least equal to the class A required subordinated amount;
  - (b) for any A loan tranche, the amount of principal due (or any part thereof) in respect of the A loan tranche may only be paid if, after giving effect to such payment and the payment to be made on such date in respect of the related series and class of notes, the class A available subordinated amount is at least equal to the class A required subordinated amount and the class B available subordinated amount is at least equal to the class B required subordinated amount;
  - (c) for any BBB loan tranche, the amount of principal due (or any part thereof) in respect of the BBB loan tranche may only be paid if, after giving effect to such payment and the payment to be made on such date in respect of the related series and class of notes, the

class A available subordinated amount is at least equal to the class A required subordinated amount, the class B available subordinated amount is at least equal to the class B required subordinated amount and the class M available subordinated amount is at least equal to the class M required subordinated amount;

- (d) for any BB loan tranche, the amount of principal due (or any part thereof) in respect of the BB loan tranche may only be paid if, after giving effect to such payment and the payment to be made on such date in respect of the related series and class of notes, the class A available subordinated amount is at least equal to the class A required subordinated amount, the class B available subordinated amount is at least equal to the class B required subordinated amount, the class M available subordinated amount is at least equal to the class M required subordinated amount and the class C available subordinated amount is at least equal to the class C required subordinated amount;
- (e) for (i) any NR loan tranche and (ii) the Funding 1 loan, the amount of principal due (or any part thereof) in respect of the NR loan tranche and the Funding 1 loan may only be paid if, after giving effect to such payment and the payment to be made on such date in respect of the related series and class of notes, the class A available subordinated amount is at least equal to the class A required subordinated amount, the class B available subordinated amount is at least equal to the class B required subordinated amount, the class M available subordinated amount is at least equal to the class M required subordinated amount, the class C available subordinated amount is at least equal to the class C required subordinated amount and the class D available subordinated amount is at least equal to the class D required subordinated amount,

save that in calculating the class A available subordinated amount, the class B available subordinated amount, the class M available subordinated amount, the class C available subordinated amount and the class D available subordinated amount for the purposes of the above, rating agency excess spread will be deemed to be zero.

See “**The issuance of notes**” above for a description of the various required subordinated amounts and available subordinated amounts.

3. If on a Funding 1 interest payment date:

- (a) one or more bullet loan tranches are within a cash accumulation period at that time (irrespective of whether any scheduled amortisation instalments are then in a cash accumulation period); and
- (b) either:
- (i) the quarterly CPR is less than 10 per cent.; or
- (ii) both:
- (A) the quarterly CPR is equal to or greater than 10 per cent., but less than 15 per cent., and
- (B) the annualised CPR is less than 10 per cent.;

then on or before their step-up dates, the scheduled amortisation loan tranches will be entitled to principal repayments under items (d) and/or (e) and/or (f) and/or (g) and/or (h) and/or (i), of the priority of payments set out above only to the extent permitted under the scheduled amortisation repayment restrictions (as defined below).

For the purposes hereof:

**annualised CPR** means the result of:

$$1 - ((1 - M)^{12})$$

where:

**M** is expressed as a percentage and determined as at the most recent trust calculation date as indicated in the definition of **Funding 1 anticipated cash accumulation period** (see “**The mortgages trust – Definitions**” above);

**bullet accumulation liability** means, on any Funding 1 interest payment date prior to any payment under item (i) of the above priority of payments, the aggregate of each relevant accumulation amount at that time of each bullet loan tranche which is within a cash accumulation period;

**bullet accumulation shortfall** means, at any time, that the cash accumulation ledger amount is less than the bullet accumulation liability;

**cash accumulation ledger amount** means, at any time, the amount standing to the credit of the cash accumulation ledger at that time (immediately prior to any drawing to be applied on that interest payment date and prior to any payment under item (i) of the above priority of payments);

**cash accumulation liability** means, on any Funding 1 interest payment date, prior to any payment under item (i) of the above priority of payments the sum of:

- (1) the bullet accumulation liability at that time; and
- (2) the aggregate of each relevant accumulation amount at that time of each scheduled amortisation instalment which is within a cash accumulation period;

**scheduled amortisation repayment restrictions** means, on a Funding 1 interest payment date:

- (a) where there is no bullet accumulation shortfall at that time, the total amount withdrawn from the cash accumulation ledger on that Funding 1 interest payment date for repayment of the relevant scheduled amortisation instalments shall not exceed the cash accumulation ledger amount less the bullet accumulation liability at that time; and
- (b) where there is a bullet accumulation shortfall at that time:
  - (i) no amount may be withdrawn from the cash accumulation ledger on that Funding 1 interest payment date to be applied in repayment of the relevant scheduled amortisation instalments; and
  - (ii) thereafter, an amount may be applied in repayment of the relevant scheduled amortisation instalments if the sum of the cash accumulation ledger amount and the amount of Funding 1 available principal receipts after the application of items (b) and (c) and before item (d) of the above priority of payments is greater than the bullet accumulation liability of Funding 1 at that time.

**Rule (2) – repayment of payable pass-through loan tranches after a step-up date**

Following the occurrence of the step-up date under a series of loan tranches (**series A loan tranches**) and provided that the Funding 1 share of the trust property is greater than zero, the aggregate amount repaid on a Funding 1 interest payment date in relation to loan tranches (other than bullet loan tranches or scheduled amortisation instalments) comprising those series A loan tranches under items (d), (e), (f), (g), (h) and (i) of the priority of payments set out above shall be limited to an amount calculated as follows:

$$\text{Funding 1 principal funds} \times \frac{\text{outstanding principal amount of series A loan tranches}}{\text{aggregate outstanding principal amount of all loan tranches}}$$

where **Funding 1 principal funds** means, in respect of any Funding 1 interest payment date, the sum of:

- (a) the aggregate of the following amount for each trust calculation period which has ended in the period from the previous Funding 1 interest payment date to the most recent trust calculation date, such amount being the product of:
  - (i) the Funding 1 share percentage or, as applicable, the weighted average Funding 1 share (principal) percentage, as calculated at the start of the relevant trust calculation period; and
  - (ii) the aggregate amount of principal receipts received by the mortgages trustee during the relevant trust calculation period;
- (b) the amount credited to the principal deficiency ledger on the relevant Funding 1 interest payment date; and

- (c) the amount, if any, credited to the Funding 1 principal ledger pursuant to item (k) of the above Funding 1 pre-acceleration principal priority of payments on the immediately preceding Funding 1 interest payment date.

To the extent they remain unpaid, bullet loan tranches and scheduled amortisation instalments will continue to be due and payable on each Funding 1 interest payment date following the relevant step-up date.

### ***Allocations involving Rule (2)***

Where Rule (2) applies at a level of any priority of payments, the funds available for making payments at that level shall first be allocated without reference to Rule (2). However, if the amount so allocated to one or more loan tranches exceeds the amount permitted under Rule (2) to be paid in respect of those loan tranches (the **capped loan tranches**), the excess shall then be reallocated among any other relevant loan tranches at that level using the method of allocation as applies at that level but without reference to the capped loan tranches in calculating such reallocation. If a further such excess arises as a result of the reallocation process, the reallocation process shall be repeated at that level in relation to each such further excess that arises until no further funds can be allocated at that level following which the remaining excess shall then be applied at the next level of that priority of payments.

Rules 1 and 2 above are referred to in this base prospectus as the **repayment tests**.

### ***Repayment of loan tranches after a non-asset trigger event but before intercompany loan acceleration or acceleration of all notes***

Following the occurrence of a non-asset trigger event (where no asset trigger event has occurred) under the mortgages trust deed but prior to the service on Funding 1 of an intercompany loan acceleration notice under the Funding 1 deed of charge or the service on the issuer of a note acceleration notice under the note trust deed, the bullet loan tranches and the scheduled amortisation loan tranches will be deemed to be pass-through loan tranches and on each Funding 1 interest payment date (which shall, if not already the case, be a monthly payment date) Funding 1 will be required to apply Funding 1 available principal receipts in the following priority:

- (a) in accordance with the terms of the Funding 1 liquidity facility agreement, towards repayment of amounts outstanding under the Funding 1 liquidity facility (if established) that were drawn in order to make Funding 1 liquidity facility principal payments;
- (b) to the extent only that monies have been drawn from the general reserve fund to make reserve principal payments, towards a credit to the general reserve ledger to the extent the amount standing to the credit thereof is less than the general reserve required amount;
- (c) if a liquidity reserve rating event has occurred and is continuing (i) to initially fund the liquidity reserve fund up to the liquidity reserve fund required amount and (ii) once it has been initially funded, to the extent that Funding 1 available revenue receipts are insufficient to do so, to replenish the liquidity reserve fund up to the liquidity reserve fund required amount;
- (d) in order of their final repayment dates, beginning with the earliest such date (and if two or more AAA loan tranches have the same final repayment date, in proportion to the respective amounts due) to repay the AAA loan tranches until the AAA loan tranches are fully repaid;
- (e) in no order of priority among them, to repay the AA loan tranches until the AA loan tranches are fully repaid;
- (f) in no order of priority among them, to repay the A loan tranches until the A loan tranches are fully repaid;
- (g) in no order of priority among them, to repay the BBB loan tranches until the BBB loan tranches are fully repaid;
- (h) in no order of priority among them, to repay the BB loan tranches until the BB loan tranches are fully repaid; and
- (i) in no order of priority among them, but in proportion to the respective amounts due, to repay (i) the NR loan tranches until the NR loan tranches are fully repaid, and (ii) the Funding 1 loan until the Funding 1 loan is fully repaid.



***Repayment of loan tranches after an asset trigger event but before intercompany loan acceleration notice or acceleration of all notes***

Following the occurrence of an asset trigger event (whether or not a non-asset trigger event occurs or has occurred) but prior to the service on Funding 1 of an intercompany loan acceleration notice under the Funding 1 deed of charge or the service on the issuer of a note acceleration notice under the note trust deed, the bullet loan tranches and the scheduled amortisation loan tranches will be deemed to be pass-through loan tranches and on each Funding 1 interest payment date (which shall, if not already the case, be a monthly payment date) Funding 1 will be required to apply Funding 1 available principal receipts in the following priority:

- (a) in accordance with the terms of the Funding 1 liquidity facility agreement, towards repayment of amounts outstanding under the Funding 1 liquidity facility (if established) that were drawn in order to make Funding 1 liquidity facility principal payments;
- (b) to the extent only that monies have been drawn from the general reserve fund to make reserve principal payments, towards a credit to the general reserve ledger to the extent the amount standing to the credit thereof is less than the general reserve required amount;
- (c) if a liquidity reserve rating event has occurred and is continuing (i) to initially fund the liquidity reserve fund up to the liquidity reserve fund required amount and (ii) once it has been initially funded, to the extent that Funding 1 available revenue receipts are insufficient to do so, to replenish the liquidity reserve fund up to the liquidity reserve fund required amount;
- (d) without priority among them, but in proportion to the amounts due, to repay the AAA loan tranches until the AAA loan tranches are fully repaid;
- (e) without priority among them, but in proportion to the amounts due, to repay the AA loan tranches until the AA loan tranches are fully repaid;
- (f) without priority among them, but in proportion to the amounts due, to repay the A loan tranches until the A loan tranches are fully repaid;
- (g) without priority among them, but in proportion to the amounts due, to repay the BBB loan tranches until the BBB loan tranches are fully repaid;
- (h) without priority among them, but in proportion to the amounts due, to repay the BB loan tranches until the BB loan tranches are fully repaid; and
- (i) without priority among them, but in proportion to the respective amounts due, to repay (i) the NR loan tranches until the NR loan tranches are fully repaid, and (ii) the Funding 1 loan until the Funding 1 loan is fully repaid.

***Repayment of loan tranches after acceleration of all notes but before intercompany loan acceleration***

If a note acceleration notice is served on the issuer under the note trust deed, then that will not result in automatic enforcement of the Funding 1 security under the Funding 1 deed of charge. In those circumstances, however, the bullet loan tranches and any scheduled amortisation loan tranches will be deemed to be pass-through loan tranches and on each Funding 1 interest payment date (which shall, if not already the case, be a monthly payment date) Funding 1 will be required to apply Funding 1 available principal receipts in the following priority:

- (a) in accordance with the terms of the Funding 1 liquidity facility agreement, towards repayment of amounts outstanding under the Funding 1 liquidity facility (if established) that were drawn in order to make Funding 1 liquidity facility principal payments;
- (b) to the extent only that monies have been drawn from the general reserve fund to make reserve principal payments, towards a credit to the general reserve ledger to the extent the amount standing to the credit thereof is less than the general reserve required amount;
- (c) if a liquidity reserve rating event has occurred and is continuing (i) to initially fund the liquidity reserve fund up to the liquidity reserve fund required amount and (ii) once it has been initially funded, to the extent that Funding 1 available revenue receipts are insufficient to do so, to replenish the liquidity reserve fund up to the liquidity reserve fund required amount;
- (d) without priority among them, but in proportion to the amounts due, to repay the AAA loan tranches until the AAA loan tranches are fully repaid;

- (e) without priority among them, but in proportion to the amounts due, to repay the AA loan tranches until the AA loan tranches are fully repaid;
- (f) without priority among them, but in proportion to the amounts due, to repay the A loan tranches until the A loan tranches are fully repaid;
- (g) without priority among them, but in proportion to the amounts due, to repay the BBB loan tranches until the BBB loan tranches are fully repaid;
- (h) without priority among them, but in proportion to the amounts due, to repay the BB loan tranches until the BB loan tranches are fully repaid; and
- (i) without priority among them, but in proportion to the respective amounts due, to repay (i) the NR loan tranches until the NR loan tranches are fully repaid, and (ii) the Funding 1 loan until the Funding 1 loan is fully repaid.

***Repayment of loan tranches when Funding 1 receives an amount outstanding under the proceeds of a new intercompany loan or a refinancing distribution***

If either:

- (a) the proceeds of a new intercompany loan are to be used to refinance all or part of the loan tranche under the intercompany loan made to Funding 1 as described above in “**Description of the transaction documents – the Intercompany loan– New intercompany loan agreements**”; or
- (b) Funding 1 has received, or will receive during the Funding 1 interest period ending on the relevant Funding 1 interest payment date, a refinancing distribution funded by another beneficiary and either:
  - (i) the issuer has issued, or will issue within the period of 60 days of receipt of that refinancing distribution, an optional redemption notice to noteholders in the circumstances set out in (and in accordance with) the terms and conditions of the notes; or
  - (ii) with the consent of Funding 1 and the Funding 1 security trustee, the contributing beneficiary specifies that the proceeds of the refinancing distribution are to be applied (in whole or in part) by Funding 1 towards repayment of all or part of the loan tranche under the intercompany loan or the Funding 1 loan, as the case may be,

then Funding 1 will not apply the amount received under the new intercompany loan or the relevant refinancing distribution as described above in “– **Distribution of Funding 1 available principal receipts**”. Rather, Funding 1 will apply the amount received under the new intercompany loan or, as applicable, the relevant refinancing distribution to repay the relevant loan tranches under the intercompany loan after repayment of amounts outstanding under the Funding 1 liquidity facility (if established) that were drawn in order to make Funding 1 liquidity principal payments. If (at any time) only one loan tranche is outstanding under the intercompany loan, then Funding 1 shall apply the amount received under the new intercompany loan or, as applicable, the relevant refinancing distribution to repay such loan tranche; provided, that the beneficiary has not specified that the refinancing distribution should be used to repay the Funding 1 loan.

***Distribution of Funding 1 principal receipts and Funding 1 revenue receipts following intercompany loan acceleration***

The Funding 1 deed of charge sets out the priority of distribution of amounts received by the cash manager following the service of an intercompany loan acceleration notice on Funding 1 or, if the Funding 1 security has also been enforced, of amounts received or recovered by the Funding 1 security trustee (or a receiver appointed on its behalf) on the date of receipt or recovery of such amounts.

The cash manager will apply amounts received following the service of an intercompany loan acceleration notice on Funding 1 or, as applicable, the Funding 1 security trustee will apply amounts received or recovered following the enforcement of the Funding 1 security in accordance with the following priority (the **Funding 1 post-acceleration priority of payments**) on the date of receipt or recovery of such amounts:

- (a) without priority among them but in proportion to the respective amounts due, to pay amounts due to:

- (i) the Funding 1 security trustee and any receiver appointed by the Funding 1 security trustee, together with interest and any amount in respect of VAT thereon as provided therein, and to provide for any amounts due or to become due to the Funding 1 security trustee and the receiver in the following interest period under the Funding 1 deed of charge; and
  - (ii) the issuer in respect of the issuer's obligations specified in items (a) and (b) of the issuer post-enforcement priority of payments following an intercompany loan acceleration;
- (b) without priority among them but in proportion to the respective amounts due, towards payment of amounts (if any) due to the cash manager under the terms of the cash management agreement, to the account banks under the terms of the Funding 1 bank account agreement, to the corporate services provider under the corporate services agreements relating to Funding 1, Holdings and the post-enforcement call option holder and to Santander UK under the secretarial services agreement;
  - (c) towards payment of amounts due to the Funding 1 liquidity facility provider under the Funding 1 liquidity facility agreement (if established) (except for any Funding 1 liquidity facility subordinated amounts);
  - (d) towards payment of amounts (if any) due to the Funding 1 swap provider under the Funding 1 swap agreement (including any termination payment, but excluding any Funding 1 swap excluded termination amount);
  - (e) without priority among them, but in proportion to the respective amounts due, towards payments of interest, principal and fees due and payable on the AAA loan tranches;
  - (f) without priority among them, but in proportion to the respective amounts due, towards payments of interest, principal and fees due and payable on the AA loan tranches;
  - (g) without priority among them, but in proportion to the respective amounts due, towards payments of interest, principal and fees due and payable on the A loan tranches;
  - (h) without priority among them, but in proportion to the respective amounts due, towards payments of interest, principal and fees due and payable on the BBB loan tranches;
  - (i) without priority among them, but in proportion to the respective amounts due, towards payments of interest, principal and fees due and payable on the BB loan tranches;
  - (j) without priority among them, but in proportion to the respective amounts due, towards payments of interest, principal and fees due and payable on the (i) the NR loan tranches, and (ii) the Funding 1 loan;
  - (k) towards payment of any amounts due to the issuer in respect of its obligations (if any) to make a termination payment to an issuer swap provider (but excluding any issuer swap excluded termination amount);
  - (l) without priority among them but in proportion to the respective amounts due, to pay (without double counting):
    - (i) amounts due to the issuer in respect of its obligations (if any) to pay any issuer swap excluded termination amount to an issuer swap provider following an issuer swap provider default or an issuer swap provider downgrade termination event (as appropriate);
    - (ii) any other amounts due to the issuer under the intercompany loan agreement and not otherwise provided for earlier in this priority of payments;
    - (iii) any Funding 1 swap excluded termination amounts due to the Funding 1 swap provider; and
    - (iv) the Funding 1 liquidity facility provider under the Funding 1 liquidity facility (if established) any Funding 1 liquidity facility subordinated amounts (as agreed under the terms of the Funding 1 liquidity facility agreement);
  - (m) without priority among them but in proportion to the amounts then due, towards payment of amounts due to the Funding 1 start-up loan provider under the Funding 1 start-up loan agreements.

## Definition of issuer principal receipts

Prior to the service of a note acceleration notice, **issuer principal receipts** will be calculated by the issuer cash manager four business days prior to each Funding 1 interest payment date and will be an amount equal to all principal amounts to be repaid by Funding 1 to the issuer under the intercompany loan during the relevant interest period. Following the service of a note acceleration notice on the issuer, but prior to the service of an intercompany loan acceleration notice on Funding 1, **issuer principal receipts** means the sum calculated by the issuer cash manager or, if the issuer security has also been enforced, by the issuer security trustee four business days prior to each interest payment date as the amount to be repaid by Funding 1 to the issuer under the intercompany loan during the relevant interest period or, as the case may be, the sum recovered by the issuer security trustee (or the receiver appointed on its behalf) on any other business day representing the principal balance of the intercompany loan.

On each interest payment date, all Funding 1 available principal receipts received by the issuer from Funding 1 constituting principal repayments on a loan tranche will be credited to a sub-ledger (in respect of the related series and class of notes) to the issuer principal ledger.

## Distribution of issuer principal receipts before note acceleration

Prior to the service of a note acceleration notice on the issuer, the issuer, or the issuer cash manager on its behalf, will apply any issuer principal receipts on each interest payment date to repay the notes in the following manner (the **issuer pre-acceleration principal priority of payments**):

- the class A notes: from principal amounts received by the issuer from Funding 1 in respect of each AAA loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes):
  - (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuer swap providers in respect of the related series and class of class A notes in accordance with the terms of the relevant issuer swap agreements; and
  - (ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class A notes;
- the class B notes: from principal amounts received by the issuer from Funding 1 in respect of each AA loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes):
  - (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuer swap providers in respect of the related series and class of class B notes in accordance with the terms of the relevant issuer swap agreements; and
  - (ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class B notes;
- the class M notes: from principal amounts received by the issuer from Funding 1 in respect of each A loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes):
  - (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuer swap providers in respect of the related series and class of class M notes in accordance with the terms of the relevant issuer swap agreements; and
  - (ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class M notes;
- the class C notes: from principal amounts received by the issuer from Funding 1 in respect of each BBB loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes):

- (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuer swap providers in respect of the related series and class of class C notes in accordance with the terms of the relevant issuer swap agreements; and
- (ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class C notes;
- the class D notes: from principal amounts received by the issuer from Funding 1 in respect of each BB loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes):
  - (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuer swap providers in respect of the related series and class of class D notes in accordance with the terms of the relevant issuer swap agreements; and
  - (ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class D notes; and
- the class Z notes: from principal amounts received by the issuer from Funding 1 in respect of each NR loan tranche, to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class Z notes.

The amounts standing to the credit of any sub-ledger of the issuer principal ledger (in respect of a series and class of notes) may only be applied by the issuer cash manager to pay the principal amounts due (if any) in respect of such series and class of notes under the issuer pre-acceleration principal priority of payments.

#### **Distribution of issuer principal receipts after note acceleration but before intercompany loan acceleration**

The issuer deed of charge sets out the priority of distribution of issuer principal receipts received by the issuer cash manager on an interest payment date following the service of a note acceleration notice on the issuer or, as the case may be, received or recovered by the issuer security trustee (or a receiver appointed on its behalf) following the enforcement of the issuer security on an interest payment date or any other day but (in each case) prior to the service of an intercompany loan acceleration notice on Funding 1. In these circumstances, the issuer cash manager or the issuer security trustee (as the case may be) will apply issuer principal receipts on each interest payment date or such other day to repay the notes in the following order of priority (the **issuer post-acceleration principal priority of payments**):

- the class A notes: from principal amounts received by the issuer or the issuer security trustee (as the case may be) from Funding 1 in respect of each AAA loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes) or otherwise recovered:
  - (i) to pay amounts due and payable (in respect of principal) to the relevant issuer swap providers in respect of the related series and class of class A notes in accordance with the terms of the relevant issuer swap agreements; and
  - (ii) to pay amounts due and payable in respect of principal (if any) on the related series and class of class A notes;
- the class B notes: from principal amounts received by the issuer or the issuer security trustee (as the case may be) from Funding 1 in respect of each AA loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes) or otherwise recovered:
  - (i) to pay amounts due and payable (in respect of principal) to the relevant issuer swap providers in respect of the related series and class of class B notes in accordance with the terms of the relevant issuer swap agreements; and
  - (ii) to pay amounts due and payable in respect of principal (if any) on the related series and class of class B notes;

- the class M notes: from principal amounts received by the issuer or the issuer security trustee (as the case may be) from Funding 1 in respect of each A loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes) or otherwise recovered:
  - (i) to pay amounts due and payable (in respect of principal) to the relevant issuer swap providers in respect of the related series and class of class M notes in accordance with the terms of the relevant issuer swap agreements; and
  - (ii) to pay amounts due and payable in respect of principal (if any) on the related series and class of class M notes;
- the class C notes: from principal amounts received by the issuer or the issuer security trustee (as the case may be) from Funding 1 in respect of each BBB loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes) or otherwise recovered:
  - (i) to pay amounts due and payable (in respect of principal) to the relevant issuer swap providers in respect of the related series and class of class C notes in accordance with the terms of the relevant issuer swap agreements; and
  - (ii) to pay amounts due and payable in respect of principal (if any) on the related series and class of class C notes;
- the class D notes: from principal amounts received by the issuer or the issuer security trustee (as the case may be) from Funding 1 in respect of each BB loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes) or otherwise recovered:
  - (i) to pay amounts due and payable (in respect of principal) to the relevant issuer swap providers in respect of the related series and class of class D notes in accordance with the terms of the relevant issuer swap agreements; and
  - (ii) to pay amounts due and payable in respect of principal (if any) on the related series and class of class D notes; and
- the class Z notes: from principal amounts received by the issuer or the issuer security trustee (as the case may be) from Funding 1 in respect of each NR loan tranche or otherwise recovered, to pay amounts due and payable in respect of principal (if any) on the related series and class of class Z notes.

The amounts standing to the credit of any sub-ledger of the issuer principal ledger (in respect of a series and class of notes) may only be applied by the issuer cash manager or the issuer security trustee (as applicable) to pay the principal amounts due (if any) in respect of such series and class of notes under the issuer post-acceleration principal priority of payments.

#### **Distribution of issuer principal receipts and issuer revenue receipts following intercompany loan acceleration**

If an intercompany loan acceleration notice is served on Funding 1 under the Funding 1 deed of charge, then the issuer security will become enforceable. The issuer deed of charge sets out the priority of payments following the service on Funding 1 of an intercompany loan acceleration notice, (known as the **issuer post-enforcement priority of payments following an intercompany loan acceleration**) of amounts received by the issuer cash manager or, following the enforcement of the issuer security, of amounts received or recovered by the issuer security trustee (or a receiver appointed on its behalf).

On each date following the service on Funding 1 of an intercompany loan acceleration notice that amounts are received by the issuer cash manager or, following the enforcement of the issuer security, amounts are received or recovered by the issuer security trustee (or a receiver appointed on its behalf), the issuer cash manager or the issuer security trustee, as the case may be, will apply such amounts (other than amounts representing (i) any excess swap collateral which shall be returned directly to the relevant issuer swap provider and (ii) in respect of each issuer swap provider, prior to the designation of an early termination date under the relevant issuer swap agreement and the resulting application of the collateral by way of

netting or set-off, an amount equal to the value of all collateral (other than excess swap collateral) provided by such issuer swap provider to the issuer pursuant to the relevant issuer swap agreement (and any interest or distributions in respect thereof) received or recovered following acceleration of the intercompany loan and/or enforcement of the issuer security as follows (in each case, only to the extent that payments of a higher order of priority have been paid in full):

- (a) without priority among them but in proportion to the respective amounts due, to pay amounts due to:
  - (A) the issuer security trustee and any receiver appointed by the issuer security trustee together with interest and any amount in respect of VAT thereon as provided therein and any amounts then due or to become due to the issuer security trustee and the receiver under the provisions of the issuer deed of charge;
  - (B) the note trustee together with interest and any amount in respect of VAT thereon as provided therein and any amounts then due or to become due and payable to the note trustee under the provisions of the note trust deed; and
  - (C) the agent bank, the paying agents, the registrar, the exchange rate agent (if applicable) and the transfer agent together with interest and any amount in respect of VAT thereon as provided therein and any costs, charges, liabilities and expenses then due or to become due and payable to them under the provisions of the paying agent and agent bank agreement;
- (b) without priority among them but in proportion to the respective amounts due, towards payment of amounts due and payable, together with any amount in respect of VAT thereon as provided therein to the issuer cash manager under the issuer cash management agreement, to the issuer corporate services provider under the issuer corporate services agreement and to the issuer account bank under the issuer bank account agreement;
- (c) subject to item (d) below, without priority among them but in proportion to the respective amounts due, to pay amounts due to the issuer swap providers for each series of class A notes (excluding any termination payment);
- (d) without priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class A notes and to pay any swap termination payment due to the issuer swap provider for each series of class A notes (but excluding any issuer swap excluded termination amount) provided that if the amounts available for distribution under this item (d) (on the assumption that no amounts are due and payable under item (c) and no amounts are received from any issuer swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (d), the shortfall will be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuer to the issuer swap provider in respect of any series of class A notes under item (c) above will be reduced by the amount of the shortfall applicable to that series of class A notes;
- (e) subject to item (f) below, without priority among them but in proportion to the respective amounts due, to pay amounts due to the issuer swap providers for each series of class B notes (excluding any termination payment);
- (f) without priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class B notes and to pay any swap termination payment due to the issuer swap provider for each series of class B notes (but excluding any issuer swap excluded termination amount) provided that if the amounts available for distribution under this item (f) (on the assumption that no amounts are due and payable under item (e) and no amounts are received from any issuer swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (f), the shortfall will be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuer to the issuer swap provider in respect of any series of class B notes under item (e) above will be reduced by the amount of the shortfall applicable to that series of class B notes;
- (g) subject to item (h) below, without priority among them but in proportion to the respective amounts due, to pay amounts due to the issuer swap providers for each series of class M notes (excluding any termination payment);

- (h) without priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class M notes and to pay any swap termination payment due to the issuer swap provider for each series of class M notes (but excluding any issuer swap excluded termination amount) provided that if the amounts available for distribution under this item (h) (on the assumption that no amounts are due and payable under item (g) and no amounts are received from any issuer swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (h), the shortfall will be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuer to the issuer swap provider in respect of any series of class M notes under item (g) above will be reduced by the amount of the shortfall applicable to that series of class M notes;
- (i) subject to item (j) below, without priority among them but in proportion to the respective amounts due, to pay amounts due to the issuer swap providers for each series of class C notes (excluding any termination payment);
- (j) without priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class C notes and to pay any swap termination payment due to the issuer swap provider for each series of class C notes (but excluding any issuer swap excluded termination amount) provided that if the amounts available for distribution under this item (j) (on the assumption that no amounts are due and payable under item (i) and no amounts are received from any issuer swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (j), the shortfall will be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuer to the issuer swap provider in respect of any series of class C notes under item (i) above will be reduced by the amount of the shortfall applicable to that series of class C notes;
- (k) subject to item (l) below, without priority among them but in proportion to the respective amounts due, to pay amounts due to the issuer swap providers for each series of class D notes (excluding any termination payment);
- (l) without priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class D notes and to pay any swap termination payment due to the issuer swap provider for each series of class D notes (but excluding any issuer swap excluded termination amount) provided that if the amounts available for distribution under this item (l) (on the assumption that no amounts are due and payable under item (k) and no amounts are received from any issuer swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (l), the shortfall will be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuer to the issuer swap provider in respect of any series of class D notes under item (k) above will be reduced by the amount of the shortfall applicable to that series of class D notes;
- (m) to pay interest due or overdue on, and to repay principal of, the applicable series of class Z notes;
- (n) without priority among them but in proportion to the respective amounts due, to pay any issuer swap excluded termination amount to the issuer swap providers; and
- (o) the balance to the issuer.

Notwithstanding the above, amounts standing to the credit of any sub-ledger to the issuer revenue ledger and/or the issuer principal ledger (in respect of a series and class of notes) may only be applied by the issuer cash manager and/or the issuer security trustee (as applicable) to pay the interest, principal and other amounts due in respect of such series and class of notes or any shortfall in the amounts available to pay items (a) to (b) under the issuer post-enforcement priority of payments following an intercompany loan acceleration and may not be applied in payment of interest, principal and other amounts due in respect of any other series and class of notes.



## CREDIT STRUCTURE

The notes will be obligations of the issuer only and will not be obligations of, or the responsibility of, or guaranteed by, any other party. However, there are a number of features of the transaction which enhance the likelihood of timely receipt of payments to noteholders, as follows:

- Funding 1 available revenue receipts are expected to exceed interest and fees payable by Funding 1 to the issuer under the intercompany loan;
- a shortfall in Funding 1 available revenue receipts may be met from Funding 1's principal receipts;
- a general reserve fund has been established to help meet shortfalls in principal due on the original bullet term loan tranches and original scheduled amortisation loan tranches (other than with respect to any NR loan tranches) in the circumstances described below;
- the general reserve fund may also be used to help meet any deficit in Funding 1 available revenue receipts available for payment of interest and fees due under the intercompany loan (other than with respect to any NR loan tranches) and to help meet any deficit on the principal deficiency ledger (other than with respect to any deficiency on the NR principal deficiency sub-ledger);
- payments on the class Z notes will be subordinated to payments on the class A notes, the class B notes, the class M notes, the class C notes and the class D notes;
- payments on the class D notes will be subordinated to payments on the class A notes, the class B notes, the class M notes and the class C notes;
- payments on the class C notes will be subordinated to payments on the class A notes, the class B notes and the class M notes;
- payments on the class M notes will be subordinated to payments on the class A notes and the class B notes;
- payments on the class B notes will be subordinated to payments on the class A notes;
- the mortgages trustee GIC account and the Funding 1 GIC account each earn interest at a specified rate; and
- Funding 1 start-up loans will be provided to Funding 1 from time to time to credit the general reserve fund, to meet the costs in connection with the issuance of notes and for the purposes of making the payments due under the Funding 1 swap agreement on the applicable closing date of the issuance in respect of which the Funding 1 start-up loan was made.

Each of these factors is considered more fully in the remainder of this section.

### **Credit support for the notes provided by Funding 1 available revenue receipts**

It is anticipated that, during the life of the notes issued under the programme, the Funding 1 share of the interest received from borrowers on the loans will, assuming that all of the loans are fully performing, be greater than the aggregate amount of interest which the issuer and any new issuer have to pay on all of the notes and any new notes the proceeds of which are advanced to Funding 1 and all other fees, costs and expenses under the programme. In other words, the Funding 1 available revenue receipts will be sufficient to pay the amounts payable under items (a) to (e) inclusive, (g), (j), (l) and (n) of the Funding 1 pre-acceleration revenue priority of payments, assuming all loans are fully performing.

The actual amount of any excess will vary during the life of the notes. Two of the key factors determining the variation are as follows:

- the interest rate on the loans in the portfolio; and
- the level of arrears experienced.

On any Funding 1 interest payment date, any excess will be available to make a deferred contribution.

## Level of arrears experienced

If the level of arrears of interest payments made by the borrowers results in Funding 1 experiencing an income deficit, Funding 1 will be able to use the following amounts to cure that income deficit:

- *first*, amounts standing to the credit of the general reserve fund, as described in “– **General reserve fund**” below; and
- *second*, principal receipts, if any, as described in “– **Use of Funding 1 principal receipts to pay Funding 1 income deficiency**” below.

Any excess of Funding 1 revenue receipts will be applied on each Funding 1 interest payment date to the extent described in the Funding 1 pre-acceleration revenue priority of payments, including to extinguish amounts standing to the debit of any principal deficiency ledger and to replenish the funds.

## Use of Funding 1 principal receipts to pay Funding 1 income deficiency

Four business days prior to each Funding 1 interest payment date, the cash manager will calculate whether there will be an excess or a deficit of Funding 1 available revenue receipts to pay items (a) to (e) inclusive, (g), (j), (l) and (n) of the Funding 1 pre-acceleration revenue priority of payments.

If there is a deficit, then Funding 1 shall pay or provide for that deficit by the application of Funding 1 principal receipts (plus any part of the balance of the cash accumulation ledger which is not comprised in Funding 1 available principal receipts), if any, and the cash manager shall make a corresponding entry in the relevant principal deficiency sub-ledger, as described in “– **Principal deficiency ledger**” below as well as making a debit in the Funding 1 principal ledger. Any such entry and debit shall be made and taken into account (including as to which priority of payments shall apply) prior to the application of Funding 1 available principal receipts on the relevant Funding 1 interest payment date.

Funding 1 principal receipts may not be used to pay interest on any loan tranche if and to the extent that such application (and, for the avoidance of doubt, the recording of losses) would result in a debit balance being recorded, or an existing debit balance being increased, on a principal deficiency sub-ledger relating to a loan tranche with a higher rating designation.

## General reserve fund

A general reserve fund has been established:

- to help meet any deficit in Funding 1 available revenue receipts available for payment of interest and fees due under the intercompany loan agreement (other than with respect to the NR loan tranches) and to help meet any deficit recorded on the principal deficiency ledger (other than with respect to the NR principal deficiency sub-ledger); and
- to help meet any deficit in Funding 1 available principal receipts available for:
  - (a) prior to the occurrence of a trigger event:
    - (i) repayments of principal which are then due and payable in respect of the original bullet loan tranches (other than with respect to the NR loan tranches); and
    - (ii) repayments of principal in respect of original scheduled amortisation loan tranches (other than with respect to the NR loan tranches) on their respective final maturity dates only; and
  - (b) on or after the occurrence of a trigger event, repayments of principal in respect of original bullet loan tranches and original scheduled amortisation loan tranches (in both cases, other than with respect to the NR loan tranches) on their respective final maturity dates only,

(each a **reserve principal payment**)

in each case prior to the service of an intercompany loan acceleration notice on Funding 1.

The general reserve fund will be funded and replenished from:

- Funding 1 available revenue receipts in accordance with item (q) of the Funding 1 pre-acceleration revenue priority of payments up to an amount equal to the general reserve required amount (see “**Cashflows – Distribution of Funding 1 available revenue receipts before intercompany loan acceleration**” above);
- Funding 1 available principal receipts to the extent applied in making reserve principal payments;
- following the occurrence of an arrears or step-up trigger event (as defined below), any Funding 1 available revenue receipts to be paid in accordance with item (q) of the Funding 1 pre-acceleration revenue priority of payments up to (and including) an amount equal to the sum of the general reserve required amount and:
  - (a) if an arrears or step-up trigger event has occurred under item (i) only of that definition, the amount specified in the most recent final terms;
  - (b) if an arrears or step-up trigger event has occurred under item (ii) only of that definition, the amount specified in relation to such event in the most recent final terms;
  - (c) if an arrears or step-up trigger event has occurred under both items (i) and (ii) of that definition, the amount specified in relation to such event in the most recent final terms.

If an arrears or step-up trigger event has occurred under item (i), item (ii) or items (i) and (ii) of that definition and such event(s) have been cured, the general reserve required amount will be reduced by the amounts specified in paragraphs (a), (b) and (c) respectively and the amount of such reduction will constitute Funding 1 available revenue receipts.

An **arrears or step-up trigger event** occurs (i) when the outstanding principal balance of the loans in arrears for more than 3 times the monthly payment then due divided by the outstanding principal balance of all of the loans in the mortgages trust (expressed as a percentage) exceeds 2 per cent. or (ii) if the issuer fails to exercise its option to redeem any of its notes on the relevant step-up date as specified in the relevant final terms.

Funding 1 may adjust the general reserve required amount and/or the additional amounts described in paragraphs (a), (b) and (c) above at any time, without the consent of the noteholders, provided that Funding 1 obtains confirmation from the rating agencies that such adjustments will not result in the reduction, qualification or withdrawal of its then current rating of any notes then outstanding (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time);

- Funding 1 start-up loans provided to Funding 1 from time to time to fund the general reserve fund pursuant to the terms of a Funding 1 start-up loan agreement.

The **general reserve required amount** as at any date and subject to amendment as described below will be the amount specified as such in the most recent final terms.

Funding 1 may adjust, at any time, the general reserve required amount without the consent of noteholders so long as Funding 1 obtains confirmation from the rating agencies that such adjustments will not cause a reduction, qualification or withdrawal of the then current ratings of any outstanding rated notes (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time).

A general reserve ledger is maintained by the cash manager to record the balance from time to time of the general reserve fund.

### **Liquidity reserve fund**

Funding 1 will be required to establish a liquidity reserve fund to the extent of the liquidity reserve fund required amount if, and for as long as, the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller cease to be rated at least A3 by Moody's or A- by Fitch (unless Moody's or Fitch, as applicable, confirms that the then current ratings of the notes (and any new notes, where applicable) will not be adversely affected by the ratings downgrade), and there are class A notes and/or class B notes then outstanding. For such purposes, Fitch has indicated that, as at the date hereof, it no longer employs a liquidity reserve in its ratings methodology such that it would not regard any downgrade of the seller as

warranting the establishment of a liquidity reserve. If following a subsequent increase in the seller's rating or redemption in full of all class A notes and class B notes, Funding 1 would no longer be required to maintain the liquidity reserve fund, then Funding 1 at its option may terminate the liquidity reserve fund, and all amounts standing to the credit of the liquidity reserve ledger will then be treated as Funding 1 available revenue receipts for the next Funding 1 interest payment date. In addition, following a reduction in the liquidity reserve fund required amount, amounts standing to the credit of the liquidity reserve ledger in excess of the liquidity reserve fund required amount will then be treated as Funding 1 available revenue receipts for the next Funding 1 interest payment date.

Prior to enforcement of the Funding 1 security, the liquidity reserve fund may be used:

- to help meet any deficit in Funding 1 available revenue receipts available for payment of interest and fees due under the intercompany loan agreement, but only to the extent that such amounts are necessary to fund the payment by Funding 1 of interest and fees due on a Funding 1 interest payment date in respect of AAA loan tranches and AA loan tranches and to help meet any deficit recorded on the principal deficiency ledger in respect of the AAA loan tranches;
- (provided that there are no AAA loan tranches and AA loan tranches outstanding) to help meet any deficit in Funding 1 available revenue receipts which are allocated to pay interest and fees due on a Funding 1 interest payment date under the intercompany loan agreement;
- to help meet any deficit in Funding 1 principal receipts available for:
  - (a) prior to the occurrence of a trigger event, repayments of principal which are then due and payable in respect of the original bullet loan tranches (which are AAA loan tranches); and
  - (b) on or after the occurrence of a trigger event, repayments of principal due and payable in respect of original bullet loan tranches (which are AAA loan tranches) on their respective final maturity dates only,

(each a **liquidity reserve principal payment**)

in each case prior to the service of an intercompany loan acceleration notice on Funding 1.

The liquidity reserve fund, if required to be funded, will be funded initially from Funding 1 available principal receipts in accordance with the Funding 1 pre-acceleration principal priority of payments. The liquidity reserve fund will be deposited in Funding 1's name in the Funding 1 GIC account into which the general reserve fund is also deposited. All interest or income accrued on the amount of the liquidity reserve fund while on deposit in the Funding 1 GIC account will belong to Funding 1. The cash manager will maintain a separate liquidity reserve ledger to record the balance from time to time of the liquidity reserve fund.

The liquidity reserve fund is replenished up to and including an amount equal to the liquidity reserve fund required amount on Funding 1 interest payment dates from Funding 1 available revenue receipts at item (h) of the Funding 1 pre-acceleration revenue priority of payments and from Funding 1 available principal receipts at item (c) of the relevant Funding 1 pre-acceleration principal priority of payments, as applicable.

**liquidity reserve fund required amount** is an amount as of any interest payment date equal to the excess (if any) of 3 per cent. of the aggregate outstanding balance of the notes on that interest payment date over the aggregate of amounts standing to the credit of the general reserve fund on that Funding 1 interest payment date.

Following enforcement of the Funding 1 security, amounts standing to the credit of the liquidity reserve ledger may be applied in making payments of principal due under the loan tranches.

### **Principal deficiency ledger**

A principal deficiency ledger has been established to record:

- on each trust calculation date, any principal losses on the loans allocated to Funding 1; and/or
- on each Funding 1 interest payment date, any application of Funding 1 principal receipts to meet any deficiency in Funding 1 available revenue receipts (as described in “– **Use of Funding 1 principal receipts to pay Funding 1 income deficiency**” above); and/or
- (in the case of the NR principal deficiency sub-ledger only) on each trust calculation date immediately preceding a Funding 1 interest payment date, any increase in the mortgages trust

available principal receipts to be allocated and paid to Funding 1 on the immediately following distribution date in an amount equal to the Funding 1 revenue deficit cure amount; and/or

- the application of Funding 1 available principal receipts which are allocated to fund the liquidity reserve fund up to the liquidity reserve fund required amount.

The principal deficiency ledger is split into seven sub-ledgers which will correspond to each of the AAA loan tranches, the AA loan tranches, the A loan tranches, the BBB loan tranches, the BB loan tranches, the NR loan tranches and the Funding 1 loan, respectively.

Losses on the loans and/or the application of Funding 1 available principal receipts to fund the liquidity reserve fund or to pay interest on the loan tranches will be recorded as follows:

- *first, pro rata and pari passu* (i) on the NR principal deficiency sub-ledger until the balance of the NR principal deficiency sub-ledger is equal to the aggregate principal amount outstanding of all NR loan tranches, and (ii) on the Funding 1 loan principal deficiency sub-ledger until the balance of the Funding 1 loan principal deficiency sub-ledger is equal to the aggregate principal amount outstanding of the Funding 1 loan;
- *second*, on the BB principal deficiency sub-ledger until the balance of the BB principal deficiency sub-ledger is equal to the aggregate principal amount outstanding of all BB loan tranches;
- *third*, on the BBB principal deficiency sub-ledger until the balance of the BBB principal deficiency sub-ledger is equal to the aggregate principal amount outstanding of all BBB loan tranches;
- *fourth*, on the A principal deficiency sub-ledger until the balance of the A principal deficiency sub-ledger is equal to the aggregate principal amount outstanding of all A loan tranches;
- *fifth*, on the AA principal deficiency sub-ledger until the balance of the AA principal deficiency sub-ledger is equal to the aggregate principal amount outstanding of all AA loan tranches; and
- *sixth*, on the AAA principal deficiency sub-ledger, at which point there will be an asset trigger event (unless such losses are recorded when (a) the aggregate principal amount outstanding of all NR loan tranches, BB loan tranches, BBB loan tranches, A loan tranches and AA loan tranches is equal to zero and (b) the sum of (i) the amount standing to the credit of the general reserve ledger and (ii) the amount standing to the credit of the Funding 1 revenue ledger, together with amounts determined and due to be credited to the Funding 1 revenue ledger prior to the immediately following Funding 1 interest payment date after such debit is made, is greater than the amount necessary to pay the items (a) to (f) in the Funding 1 pre-acceleration revenue priority of payments on the immediately following Funding 1 interest payment date after such debit is made).

Losses on the loans and/or the application of Funding 1 available principal receipts to fund the liquidity reserve fund or to pay interest on the loan tranches will not be recorded on the principal deficiency ledger on any day to the extent that the Funding 1 share of the trust property together with amounts standing to the credit of the Funding 1 cash accumulation ledger and the Funding 1 principal ledger in aggregate is greater than or equal to the aggregate outstanding principal balance of the loan tranches on that day, after taking account of such losses or the relevant application of principal receipts.

Prior to the service of an intercompany loan acceleration notice on Funding 1, Funding 1 available revenue receipts will be applied on each Funding 1 interest payment date in the manner and to the extent described in the Funding 1 pre-acceleration revenue priority of payments as follows:

- *first*, provided that interest due on the AAA loan tranches has been paid, in an amount necessary to reduce to zero the balance on the AAA principal deficiency sub-ledger;
- *second*, provided that interest due on the AA loan tranches has been paid, in an amount necessary to reduce to zero the balance on the AA principal deficiency sub-ledger;
- *third*, provided that interest due on the A loan tranches has been paid, in an amount necessary to reduce to zero the balance on the A principal deficiency sub-ledger;
- *fourth*, provided that interest due on the BBB loan tranches has been paid, in an amount necessary to reduce to zero the balance on the BBB principal deficiency sub-ledger;
- *fifth*, provided that interest due on the BB loan tranches has been paid, in an amount necessary to reduce to zero the balance on the BB principal deficiency sub-ledger; and

- *sixth, pro rata and pari passu* (i) in an amount necessary to reduce to zero the balance on the NR principal deficiency sub-ledger and (ii) in an amount necessary to reduce to zero the balance on the Funding 1 loan principal deficiency sub-ledger.

See also “– Use of Funding 1 principal receipts to pay Funding 1 income deficiency” above.

### **Issuer available funds**

On each Funding 1 interest payment date in respect of the intercompany loan, the issuer will receive from Funding 1 an amount equal to or less than the amount which it needs to pay out on the next interest payment date in respect of the notes in accordance with the issuer pre-acceleration principal priority of payments and the issuer pre-acceleration revenue priority of payments. It is not intended that any surplus cash will be accumulated in the issuer.

Please see also the description of the issuer swaps under “**Description of the transaction documents – Swap agreements**” above.

### **Priority of payments among the class A notes, the class B notes, the class M notes, the class C notes, the class D notes and the class Z notes**

Payments of interest on the notes will be prioritised so that interest payments due on the class Z notes on any interest payment date will be subordinated to interest payments on the class D notes, the class C notes, the class M notes, the class B notes and the class A notes due on the same interest payment date, interest payments due on the class D notes on any interest payment date will be subordinated to interest payments on the class C notes, the class M notes, the class B notes and the class A notes due on the same interest payment date, interest payments due on the class C notes on any interest payment date will be subordinated to interest payments on the class M notes, the class B notes and the class A notes due on the same interest payment date, interest payments due on the class M notes on any interest payment date will be subordinated to interest payments on the class B notes and the class A notes due on the same interest payment date and interest payments due on the class B notes on any interest payment date will be subordinated to interest payments on the class A notes on the same interest payment date, in each case in accordance with the issuer priority of payments.

Any shortfall in payments of interest due on any series of class Z notes and/or class D notes and/or class C notes and/or class M notes and/or class B notes on any interest payment date in respect of such notes will be deferred until the next interest payment date in respect of such notes and interest will accrue on such deferred interest. On that next interest payment date, the amount of interest due on the relevant class of notes will be increased to take account of any deferred interest. If on that interest payment date there is still a shortfall, that shortfall will be deferred again. This deferral process will continue until the final maturity date of such series of class Z notes and/or class D notes and/or class C notes and/or class M notes and/or class B notes, at which point all amounts of deferred interest will become due and payable. However, if there is insufficient money available to the issuer to pay interest on the class Z notes and/or class D notes and/or the class C notes and/or the class M notes and/or the class B notes, then you may not receive all interest amounts payable on those classes of notes.

The issuer is not able to defer payments of interest due on any interest payment date in respect of the most senior class of notes then outstanding. The failure to pay interest on such notes will be a note event of default.

The class A notes, the class B notes, the class M notes, the class C notes, the class D notes and the class Z notes will be constituted by the note trust deed and will share the same security. However, upon enforcement of the issuer security or the occurrence of a trigger event: the class A notes of each series will rank in priority to each series of class B notes, each series of class M notes, each series of class C notes, each series of class D notes and each series of class Z notes; the class B notes of each series will rank in priority to each series of class M notes, each series of class C notes, each series of class D notes and each series of class Z notes; the class M notes of each series will rank in priority to each series of class C notes, each series of class D notes and each series of class Z notes; the class C notes of each series will rank in priority to each series of class D notes and each series of class Z notes; and the class D notes of each series will rank in priority to each series of class Z notes.

### **Mortgages trustee GIC account/Funding 1 GIC account**

All amounts held by the mortgages trustee will be deposited in the mortgages trustee GIC account with the mortgages trustee account bank. The mortgages trustee account bank has agreed to pay a variable rate of interest on funds in the mortgages trustee GIC account of 0.10 per cent. per annum below LIBOR for three-month sterling deposits.

Amounts held in the collection accounts will not have the benefit of such an interest rate but following receipt will be transferred into the mortgages trustee GIC 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 accounts.

All amounts distributed to Funding 1 will be deposited in the Funding 1 transaction account in the first instance and then, at the instruction of the cash manager, account bank A shall either (i) deposit all or part of such amounts with an eligible bank (in accordance with the panel bank guidelines) (see “**Description of the Transaction Documents – Cash management agreement – Deposits with eligible banks in accordance with panel bank guidelines**” for further details of the panel bank guidelines), or (ii) credit the Funding 1 GIC account with all or part of such amounts. The Funding 1 GIC account is subject to a guaranteed investment contract such that account bank B agrees to pay a variable rate of interest on funds in the Funding 1 GIC account of 0.10 per cent. per annum below LIBOR for three-month sterling deposits.

Account bank B and the mortgages trustee account bank are required to satisfy certain criteria (including certain criteria and/or permissions set or required by the FSMA from time to time) in order to continue to receive deposits in the Funding 1 GIC account and the mortgages trustee GIC account, respectively. See “**Triggers Tables – Ratings Triggers Table – Account Bank B**” and “**– Mortgages Trustee Account Bank**”, respectively, for the ratings criteria applicable to account bank B and the mortgages trustee account bank.

If any of the mortgages trustee account bank or account bank B or the issuer account bank ceases to satisfy these criteria, then the relevant account may be transferred to another entity which does satisfy these criteria.

### **Funding 1 start-up loans**

The Funding 1 start-up loan provider will enter into Funding 1 start-up loan agreements with Funding 1 on the initial closing date and subsequent closing dates in order to: (i) make a credit to the general reserve fund on the applicable closing date by an amount specified in the applicable final terms; (ii) meet the fees, costs and expenses incurred by Funding 1 in connection with increasing the Funding 1 share of the trust property and in respect of amounts payable by Funding 1 under the intercompany loan agreement in relation to the costs of the issue of notes as specified in the applicable final terms; and (iii) making the payments due under the Funding 1 swap agreement on the applicable closing date payable to the Funding 1 start-up loan provider in its capacity as the Funding 1 swap provider. For further information on the Funding 1 start-up loans, see “**Description of the transaction documents – Funding 1 start-up loan agreement**” above.

### **Funding 1 liquidity facility**

Funding 1 may, at any time after the initial closing date and with the prior written consent of the Funding 1 security trustee, establish the Funding 1 liquidity facility, which may be available to make interest and/or principal payments on certain loan tranches and/or other senior expenses of Funding 1 (the payment of which ranks in priority to interest due on the loan tranches).

The consent of noteholders will not be obtained in relation to the establishment of the Funding 1 liquidity facility.

The terms of the Funding 1 liquidity facility will be agreed with the Funding 1 liquidity facility provider at the time Funding 1 enters into the Funding 1 liquidity facility agreement. It is expected that the terms of the Funding 1 liquidity facility agreement would require the Funding 1 liquidity facility provider to make available to Funding 1, on the satisfaction of certain conditions, but subject to certain restrictions and limitations, a facility to be utilised towards the making of payments of interest and repayments of principal in respect of certain loan tranches.

The obligation to pay interest or fees under the Funding 1 liquidity facility (if established) will be senior to the obligation to pay amounts due to the Funding 1 swap provider under the Funding 1 pre-acceleration revenue priority of payments and under the Funding 1 post-acceleration priority of payments.

Repayment of amounts drawn down under the Funding 1 liquidity facility (if established) will be made by Funding 1 prior to making payments of interest and/or principal on the loan tranches.

Any Funding 1 liquidity facility provider will be a secured creditor of Funding 1 pursuant to the Funding 1 deed of charge. All amounts owing to the Funding 1 liquidity facility provider will, on the service of an intercompany loan enforcement notice on Funding 1, rank in priority to all amounts of interest and principal then outstanding from Funding 1 under the intercompany loan agreement.

## **USE OF PROCEEDS**

The use of proceeds from an issuance of notes will be specified in the accompanying final terms.



## SANTANDER UK PLC AND THE SANTANDER UK GROUP

### Background

Santander UK plc (**Santander UK**) was formed as a building society in 1944 and is now a public limited liability company incorporated and registered in England and Wales under the Companies Act 1985. It was incorporated on 12 September 1988 with registered number 2294747

The registered office of Santander UK is at 2 Triton Square, Regent's Place, London NW1 3AN. The telephone number of Santander UK's registered office is +44 (0) 870 607 6000.

As at the date of this base prospectus, Santander UK is a wholly-owned subsidiary of Santander UK Group Holdings Limited, which is a subsidiary of Banco Santander, S.A. (**Banco Santander**). Banco Santander and its subsidiary Santusa Holding, S.L. together hold the entire issued share capital of Santander UK Group Holdings Limited.

In addition to being the sponsor of the residential mortgage-backed note issuance programme in connection with which the notes will be issued, Santander UK is also the seller, the originator, the servicer, the cash manager, the issuer cash manager, account bank B and the Funding 1 swap provider in the transaction.

Santander UK plc and its subsidiaries (together, the **Santander UK Group**) operate primarily in the United Kingdom, under United Kingdom law and regulation, and are part of the Banco Santander group.

### Business and Support Divisions

Santander UK operates four business divisions as follows:

#### *Retail Banking*

Retail Banking offers a wide range of products and financial services to customers through a network of branches and ATMs, as well as through telephony, e-commerce and intermediary channels. It principally serves personal banking customers, but also services small businesses with a turnover of less than £250,000 per annum. Retail Banking products include residential mortgage loans, savings and current accounts, credit cards and personal loans as well as a range of insurance products.

#### *Commercial Banking (formerly known as Corporate Banking)*

Commercial Banking offers a wide range of products and financial services to customers through a network of regional business centres and through telephony and e-commerce channels. Commercial Banking products and services include loans, bank accounts, deposits, treasury services, invoice discounting, cash transmission and asset finance.

The Large Corporates business offers specialist treasury services in fixed income and foreign exchange, lending, transactional banking services, capital markets and money markets to large multinational corporate customers with an annual turnover of more than £500m. Lending includes syndicated loans and structured finance. Transactional banking includes trade finance and cash management. Money market activities include securities lending/borrowing and repos.

#### *Markets*

Markets offers risk management and other services to financial institutions, as well as other Santander UK divisions. Its main product areas are fixed income and foreign exchange, equity, capital markets and institutional sales.

#### *Corporate Centre*

Corporate Centre includes Financial Management & Investor Relations (**FMIR**) and the non-core corporate and legacy portfolios. FMIR is responsible for managing capital and funding, balance sheet composition, structural market risk and strategic liquidity risk for the rest of the Santander UK Group. The non-core corporate and legacy portfolios include aviation, shipping, infrastructure, commercial mortgages, social housing loans and structured credit assets, all of which are being run-down and/or managed for value. The sale of the co-brand credit card business was completed in 2013.

#### *Mortgage business*

Santander UK has been engaged in the origination and servicing of residential mortgage loans since 1989, when, as the successor company to the Abbey National Building Society, it took a transfer of the latter's business, the core of which had always been the origination and servicing of residential mortgage loans. Santander UK remains one of the largest lenders in the United Kingdom mortgage market with gross mortgage lending in 2013 amounting to £18.4 billion.

#### *Securitisation*

In general, Santander UK is responsible for the selection of the pool of loans to be securitised in the Santander UK's mortgage loan securitisation programmes and for ongoing servicing, reporting and cash management in accordance with the applicable documentation. Santander UK also acts as sponsor of these securitisations and is responsible for structuring of the transaction, cash flow modelling, arranging distribution and marketing of the securities and arranging currency, interest rate and other hedge providers. Santander UK is responsible for liaising with rating agencies, engaging various third party service providers and advisors as well as overall transaction management.

## THE ISSUER

Fosse Master Issuer plc, referred to in this base prospectus as the issuer, was incorporated in England and Wales on 5 September 2006 and is a public limited company (registered number 5925693) under the Companies Act 1985. The registered office of the issuer is at 35 Great St. Helen's, London EC3A 6AP (telephone number +44 (0)20 7398 6300).

The authorised share capital of the issuer comprises 50,000 ordinary shares of £1 each. The issued share capital of the issuer comprises 50,000 ordinary shares of £1 each, 49,999 of which are one quarter paid up and one of which is fully paid up and all of which are beneficially owned by Holdings (see "**Holdings**"). Under the Funding 1 corporate services agreement, Holdings has agreed to comply with all requests of the Funding 1 security trustee in relation to the appointment and/or removal by Holdings of any of the directors of the issuer.

The issuer was established as a special purpose company for the purpose of issuing asset backed securities and making the advances to the Funding companies. The issuer has no subsidiaries. The seller does not own directly or indirectly any of the share capital of Holdings or the issuer.

The activities of the issuer are limited to passively owning or holding the loan tranches, issuing the notes supported by the intercompany loan agreement and other activities reasonably incidental thereto. The principal objects of the issuer are set out in its memorandum of association and include:

- lending money and giving credit, with or without security;
- borrowing or raising money and obtaining credit or finance;
- securing payment or repayment of money, credit or finance by any security over the issuer's property; and
- acquiring or entering into financial instruments, including swaps and options.

Under the Companies Act 2006, the issuer's governing documents, including the principal objects of the issuer, may be altered by a special resolution of the shareholders.

The activities of the issuer will be further restricted by the terms and conditions of the notes and will be limited to the issue of the notes, the making of the loan tranches under the intercompany loan agreement to Funding 1, the exercise of related rights and powers and other activities referred to in this base prospectus or incidental to those activities.

Since its incorporation, the issuer has not engaged in any material activities other than those incidental or ancillary to its incorporation as a public limited company under the Companies Act 2006, to the issue of the notes and to the authorisation of and entry into the other transaction documents referred to in this base prospectus to which it is a party.

There is no intention to accumulate surplus cash in the issuer.

The accounting reference date (i.e. the last day of the fiscal year) of the issuer is 31 December. The first financial period of the issuer ended on 31 December 2007. As at the date hereof, statutory accounts for up to and including the year ended 31 December 2013 have been prepared and delivered to the Registrar of Companies on behalf of the issuer.

The financial statements of the issuer for the year ended 31 December 2012 and for the year ended 31 December 2013, together with the audit reports therein, are incorporated by reference into this base prospectus (see "**Documents Incorporated by Reference**" above). Copies of the financial statements of the issuer for the years ended 31 December 2012 and 31 December 2013 are available at the issuer's registered office.

**Directors and secretary**

The following table sets out the directors of the issuer and their respective business addresses and occupations. Each director has served in office since the incorporation of the issuer.

<b>Name</b>	<b>Business address</b>	<b>Principal activities/business occupation</b>
SFM Directors Limited	35 Great St. Helen's London EC3A 6AP	Director of special purpose companies
SFM Directors (No.2) Limited	35 Great St. Helen's London EC3A 6AP	Director of special purpose companies
Tom Ranger	2 Triton Square Regent's Place London NW1 3AN	Head of Mortgage Backed Funding

The directors of SFM Directors Limited and SFM Directors (No. 2) Limited and their respective business addresses and principal activities or business occupations are:

<b>Name</b>	<b>Business address</b>	<b>Principal activities/business occupation</b>
Robert William Berry	35 Great St. Helen's London EC3A 6AP	Director
Jonathan Eden Keighley	35 Great St. Helen's London EC3A 6AP	Director
John Paul Nowacki	35 Great St. Helen's London EC3A 6AP	Director
Claudia Wallace	35 Great St. Helen's London EC3A 6AP	Director
Helena Whitaker	35 Great St. Helen's London EC3A 6AP	Director
Vinoy Nursiah	35 Great St. Helen's London EC3A 6AP	Director
Debra Parsall	35 Great St. Helen's London EC3A 6AP	Director
Susan Abrahams	35 Great St. Helen's London EC3A 6AP	Director

The company secretary of the issuer is:

<b>Name</b>	<b>Business address</b>
Santander Secretariat Services Limited	2 Triton Square Regent's Place London NW1 3AN

In accordance with the issuer corporate services agreement, the issuer corporate services provider will provide the issuer with directors and a registered office, arrange meetings of directors and shareholders and procure book-keeping services and the preparation of accounts by Santander UK. No other remuneration is paid by the issuer to or in respect of any director or officer of the issuer for acting as such.

**Capitalisation statement**

The following table shows the capitalisation of the issuer as at the date of this base prospectus:

	<u>£</u>
<b>Authorised share capital</b>	
Ordinary shares of £1 each .....	<u>50,000.00</u>
<b>Issued share capital</b>	
49,999 ordinary shares of £1 each one quarter paid and 1 ordinary share of £1 fully paid .....	<u>12,500.75</u>

*The issuer*  
12,500.75

## FUNDING 1

Funding 1 was incorporated in England and Wales on 5 September 2006 as a private limited company (registered number 5925696) under the Companies Act 1985. The authorised share capital of Funding 1 comprises 100 ordinary shares of £1 each. The issued share capital of Funding 1 comprises one ordinary share of £1, which is owned by Holdings (see “**Holdings**”).

Funding 1 has no subsidiaries. The seller does not own directly or indirectly any of the share capital of Holdings or Funding 1.

The principal objects of Funding 1 are set out in its memorandum of association and are, among other things, to:

- carry on business as a general commercial company;
- borrow or raise money by any method and to obtain any form of credit or finance; and
- secure the payment of any monies, the discharge of any liabilities and the observance or performance of any kind of obligations by any charge over the whole or any part of its undertaking or assets.

Since its incorporation, Funding 1 has not engaged in any material activities, other than those incidental to the authorisation of and entry into the transaction documents referred to in this base prospectus to which it is or will be a party, and other matters which are incidental to those activities. Funding 1 has no employees.

The accounting reference date of Funding 1 is 31 December. The first financial period of Funding 1 ended on 31 December 2007. As of the date hereof, statutory accounts for up to and including the year ended 31 December 2013 have been prepared and delivered to the Registrar of Companies on behalf of Funding 1.

The financial statements for Funding 1 for the year ended 31 December 2012 and for the year ended 31 December 2013, together with the audit reports thereon, are incorporated by reference into this base prospectus (see “**Documents Incorporated by Reference**” above). Copies of the financial statements of Funding 1 for the years ended 31 December 2012 and 31 December 2013 are available at Funding 1's registered office.

The registered office of Funding 1 is 35 Great St. Helen's, London EC3A 6AP. The telephone number of Funding 1's registered office is +44 (0) 20 7398 6300.

### Directors and secretary

The following table sets out the directors of Funding 1 and their respective business addresses and occupations.

<b>Name</b>	<b>Business address</b>	<b>Principal activities/business occupation</b>
SFM Directors Limited	35 Great St. Helen's London EC3A 6AP	Director of special purpose companies
SFM Directors (No.2) Limited	35 Great St. Helen's London EC3A 6AP	Director of special purpose companies
Tom Ranger	2 Triton Square Regent's Place London NW1 3AN	Head of Mortgage Backed Funding

The directors of SFM Directors Limited and SFM Directors (No. 2) Limited and their respective business addresses and principal activities or business occupations are set out under “**The issuer**”.

The company secretary of Funding 1 is:

<b>Name</b>	<b>Business address</b>
Santander Secretariat Services Limited	2 Triton Square Regent's Place London NW1 3AN

The directors and secretary of Funding 1 have no potential conflicts of interest between their duties to Funding 1 and their private interests and/or other duties.

In accordance with the corporate services agreement, the corporate services provider will provide Funding 1 with directors and a registered office, arrange meetings of directors and shareholders and procure book-keeping services and preparation of accounts by Santander UK. No other remuneration is paid by Funding 1 to or in respect of any director or officer of Funding 1 for acting as such.

## THE MORTGAGES TRUSTEE

The mortgages trustee was incorporated in Jersey, Channel Islands on 1 September 2006 as a private company (registered number 94410) with limited liability under the Companies (Jersey) Law 1991, for a period of unlimited duration. The authorised share capital of the mortgages trustee is £2 divided into two ordinary shares of £1 each. Two ordinary shares have been issued and fully paid and are held on trust for charitable purposes under a charitable trust governed by Jersey law. The registered office of the mortgages trustee is at 13 Castle Street, St. Helier, Jersey JE4 5UT, Channel Islands.

The mortgages trustee was established as a special purpose company to hold the loans and related mortgages security constituting the trust property as bare trustee for the seller, Funding 1 and any further Funding companies pursuant to the terms of the mortgages trust deed. The mortgages trustee has no subsidiaries. The seller does not own directly or indirectly any of the share capital of the mortgages trustee.

The principal activities of the mortgages trustee are, among other things, to:

- invest and deal in mortgage loans secured on residential or other properties within England, Wales, Northern Ireland and Scotland;
- invest in, buy, sell and otherwise acquire and dispose of mortgage loans, advances, other similar investments and all forms of security;
- carry on business as a moneylender, financier and investor;
- undertake and carry on all kinds of loan, financial and other operations; and
- act as trustee in respect of carrying on any of these activities.

The mortgages trustee has not engaged, since its incorporation, in any material activities other than those incidental to its incorporation, the settlement of the trust property on the mortgages trustee, acting as trustee of the mortgages trust since the initial closing date, the issue of notes by the issuer, the authorisation of and entry into the transaction documents referred to in this base prospectus to which it is or will be a party, filing a notification under the Data Protection Act 1998, registering as a data user under the Data Protection (Jersey) Law 2005, as amended, and other matters which are incidental or ancillary to the foregoing. The mortgages trustee has no employees.

The accounting reference date of the mortgages trustee is 31 December. The first financial period of the mortgages trustee ended on 31 December 2007.

In accordance with the mortgages trustee corporate services agreement, the mortgages trustee corporate services provider will provide to the mortgages trustee directors and a registered and administrative office and the service of a company secretary, arrange meetings of directors and shareholders and procure book-keeping services and the preparation of accounts by Santander UK. No other remuneration is paid by the mortgages trustee to or in respect of any director or officer of the mortgages trustee for acting as such.

The mortgages trustee may, at some point in the future, be replaced as trustee of the mortgages trust by another special purpose company. That replacement trustee need not be incorporated in Jersey, Channel Islands and could, for example, be an English private limited company. For the mortgages trustee to be replaced as trustee of the mortgages trust, certain amendments to the transaction documents would need to be made and your consent to those amendments might not be required (see "**Risk factors – The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests**").



## HOLDINGS

Holdings was incorporated in England and Wales on 5 September 2006 as a private limited company (registered number 5925689) under the Companies Act 1985. The registered office of Holdings is 35 Great St. Helen's, London EC3A 6AP.

Holdings has an authorised share capital of £100 divided into 100 ordinary shares of £1 each, of which one share has been issued and fully paid and is owned by SFM Corporate Services Limited on a discretionary trust for charitable purposes.

Holdings is organised as a special purpose company. The seller does not own directly or indirectly any of the share capital of Holdings.

The principal objects of Holdings are set out in its memorandum of association and are, among other things, to carry on business as a general commercial company, including to (i) acquire and hold, by way of investments or otherwise and/or (ii) deal in or exploit in such manner as may from time to time be considered expedient, all or any part of any securities or other interests of or in any company (including the issuer, any new issuers, the mortgages trustee, Funding 1 and any further Funding companies).

Holdings holds the entire beneficial interest in the issued share capital of the issuer and Funding 1 and has not engaged in any other activities since its incorporation other than those incidental to the authorising of and entry into the transaction documents and other matters which are incidental or ancillary to the foregoing. Holdings has no employees.

The accounting reference date of Holdings is 31 December. The first financial period of Holdings ended on 31 December 2007.

## **THE NOTE TRUSTEE, ISSUER SECURITY TRUSTEE AND FUNDING 1 SECURITY TRUSTEE**

Law Debenture Trust Company of New York acts as initial note trustee, initial issuer security trustee and initial Funding 1 security trustee in this transaction.

Law Debenture Trust Company of New York is primarily a provider of corporate trust and related services for corporate, municipal and sovereign issuers. It generally acts as trustee for new business or may assume the position of trustee from another bank as successor business. Additionally Law Debenture Trust Company of New York acts as administrative, escrow or paying agency in a variety of complex transactions including: project financings, mergers and acquisitions and litigation/liquidation trusts.

Law Debenture Trust Company of New York is a wholly owned subsidiary of Law Debenture Holdings Inc. which is a wholly-owned subsidiary of LDC Trust Management Limited, an entity based in the United Kingdom. Law Debenture Trust Company of New York is incorporated in New York, is licensed by the New York State Banking Department and received its bank charter by the New York State Banking Department in May 2002.

Law Debenture Trust Company of New York is regulated on a state level by the New York State Banking Department and federally by the Securities and Exchange Commission.

## THE SWAP COUNTERPARTY

### Abbey National Treasury Services plc

ANTS is a public limited liability company incorporated and registered in England and Wales under the Companies Act 1985. ANTS was incorporated on 24 January 1989 with registered number 2338548. Its registered office is at 2 Triton Square, Regent's Place, London NW1 3AN. The telephone number for ANTS's registered office is +44 (0) 870 607 6000.

ANTS is a direct wholly-owned subsidiary of Santander UK, which has given a full and unconditional guarantee in respect of the unsubordinated liabilities of ANTS incurred prior to 30 June 2015. ANTS has given a reciprocal guarantee in respect of the unsubordinated liabilities of Santander UK incurred prior to 30 June 2015. Please refer to the description of Santander UK above for further details regarding Santander UK.

ANTS provides treasury, corporate and wholesale banking services. ANTS provides these services to UK clients and also to the wider Santander UK Group, of which ANTS is a significant part. ANTS is also the treasury support function for the Santander UK Group. In this regard, the role of ANTS is to provide access to financial markets and central bank facilities in order to meet the Santander UK Group's liquidity, funding, capital and balance sheet management requirements. As such, ANTS is one of the main debt issuance vehicles in the Santander UK Group.

The management structure of ANTS consists of three main business divisions, organised as follows:

- **Commercial Banking (formerly known as Corporate Banking)** – offers a wide range of products and financial services to UK companies. Commercial Banking products and services include loans, bank accounts, deposits, and treasury services. The Large Corporates business offers specialist treasury services in fixed income and foreign exchange, lending, transactional banking services, capital markets and money markets to large multinational corporate customers. Lending includes syndicated loans and structured finance. Transactional banking includes trade finance and cash management. Money market activities include securities lending/borrowing and repos.
- **Markets** – offers risk management and other services to financial institutions, as well as other Santander UK divisions. Its main product areas are fixed income and foreign exchange, equity, capital markets and institutional sales.
- **Corporate Centre** – consists of FMIR and the non-core portfolios of social housing loans and structured credit assets. FMIR is responsible for managing capital and funding, balance sheet composition, structural market risk and strategic liquidity risk for the rest of the Santander UK group. The non-core portfolios are being run-down and/or managed for value.

The information regarding ANTS in the preceding paragraphs is provided in connection with its role as issuer swap provider unless an alternative issuer swap provider is specified in an applicable drawdown prospectus or a supplemental prospectus.

## THE LOANS

### The portfolio

Each final terms issued in connection with the issuance of a series and class of notes will contain tables summarising information in relation to the relevant expected portfolio. The tables will contain information in relation to various criteria as at the applicable cut-off date. Tables will indicate, amongst other things, composition by type of property, seasoning, geographical distribution, LTV ratios, outstanding balance and repayment terms, as well as other information that may be described from time to time. The expected portfolio as at the cut-off date, for which statistics are presented in the relevant final terms, and the expected portfolio as at the relevant closing date may differ due to, among other things, amortisation of loans in the expected portfolio.

Each final terms relating to the issuance of a series and class of notes also will contain tables summarising certain characteristics of the United Kingdom mortgage market. Tables will provide historical information on, amongst other things, repossession rates, arrears, house price to earnings ratios, as well as other information that may be described from time to time. These tables should be read in conjunction with the additional historical information on certain aspects of the United Kingdom residential mortgage market appearing in “**Characteristics of the United Kingdom residential mortgage market**” in the accompanying final terms.

### Introduction

The UK housing market is primarily one of owner-occupied housing, with the remainder in some form of public, private landlord or social ownership. The mortgage market, whereby loans are provided for the purchase of a property and secured on that property, is the primary source of household borrowings in the UK. At December 2013, mortgage loans outstanding in the UK amounted to £1,276.9 billion. Outstanding mortgage debt grew at an annual average rate of 7.0 per cent. between December 1999 and December 2013. At November 2013, 68.5 per cent. of outstanding mortgage debt was held with banks and 16.9 per cent. with mutual lenders. The statistics in this paragraph have been sourced from The Council of Mortgage Lenders and the Bank of England.

The following is a description of some of the characteristics of the loans currently or previously originated since 1993 by the previous seller, including details of loan types, the underwriting process and lending criteria and selected statistical information along with certain material differences between the characteristics of loans previously originated since 1993 by the previous seller and those currently originated by the seller and certain material differences in the lending criteria applicable to loans previously originated since 1993 by the previous seller and those currently originated by the seller. The loans forming part of the portfolio were originated in the ordinary course of business of the previous seller (prior to the Part VII effective date) and/or in the ordinary course of business of the seller.

The portfolio of loans currently comprised in the trust property, together with their related security, accrued interest and other amounts derived from the loans, on the date of this base prospectus, are called the **current portfolio**. These items as they comprise the trust property at other times are referred to as the **portfolio**.

Unless otherwise indicated, the description that follows relates to types of loans that have been or could be sold to the mortgages trustee, either as part of the current portfolio or as a new loan portfolio, from time to time. New loans and their related security which may be sold to the mortgages trustee may comprise (i) loans and their related security which have been originated by the previous seller prior to the Part VII effective date and which transferred to, and vested in, Santander UK under the Part VII scheme (the **A&L loans**) and (ii) loans and their related security which have been originated by the seller (the **Santander UK loans**) since the Part VII effective date, provided that such loans and their related security comply with the representations and warranties set out in the mortgage sale agreement. Santander UK loans are expected to have similar characteristics to the A&L loans described below.

Some differences in certain characteristics of Santander UK loans compared with A&L loans are noted at “**The loans – Characteristics of the Santander UK loans**” below.

Certain material differences in the lending criteria applicable to Santander UK loans compared with A&L loans are listed at “**The loans – Lending criteria – Santander UK loans**” below.

The seller may sell new loans and their related security to the mortgages trustee from time to time. The seller reserves the right to amend its lending criteria and the right to sell to the mortgages trustee new loans which are based upon mortgage terms different from those upon which the loans currently forming the

portfolio as at any date are based. Those new loans may include loans which have been or are currently being offered to borrowers which may or may not have some of the characteristics described here, but may also include loans with other characteristics that are not currently being offered to borrowers or that have not yet been developed. All new loans will be required to comply with the representations and warranties set out in the mortgage sale agreement and all the material representations and warranties in the mortgage sale agreement are described in this document. See “**Description of the transaction documents – The mortgage sale agreement**” above. The representations and warranties may be amended if new loan types are to be sold to the mortgages trustee. The consent of noteholders will not be obtained in relation thereto if (among other things) the rating agencies have confirmed that the ratings of the rated notes then outstanding will not be downgraded, withdrawn or qualified if those new loan types are sold to the mortgages trustee (it being acknowledged that none of the rating agencies has any obligation to provide such confirmation at any time and that pursuant to condition 16, the confirmation of one of the rating agencies may be sufficient for such purpose).

Each of the English loans is governed by the laws of England and Wales, each of the Scottish loans is governed by the laws of Scotland and each of the Northern Irish loans is governed by the laws of Northern Ireland.

None of the loans in the portfolio are self-certified mortgage loans or equity release mortgage loans. For these purposes, a “self-certified mortgage loan” is a mortgage loan marketed and underwritten on the premise that the applicants and/or intermediaries representing them were made aware prior to the originator’s underwriting assessment commencing that income could be self-certified and “equity release mortgage loans” are residential mortgage loans where the related borrowers have monetised their properties for either a lump sum of cash or regular periodic income (e.g., as a retirement plan).

## Characteristics of the A&L loans

### **Repayment terms**

Loans are typically repayable on one of the following bases:

*Repayment:* the borrower makes monthly payments of both interest and principal so that, when the loan matures, the full amount of the principal of the loan will have been repaid; or

*Interest-only:* the borrower makes monthly payments of interest but not of principal, so that, when the loan matures, the entire principal amount of the loan is still outstanding and is repayable in one lump sum; or

*Combination repayment and interest-only:* the borrower effects a separation of the repayable amounts into two portions, one in respect of which it will only pay interest until the date of the loan’s maturity (the **interest-only portion**) and the other in respect of which the borrower will make payments incorporating both interest and principal components. When the loan matures, the principal amount of the interest-only portion of the loan is still outstanding and is repayable in one lump sum.

In each case, the required monthly payment may alter from month to month for various reasons, including changes in interest rates and the ability to make overpayments of £500 or more, see “– **Flexible payments**” below. The ability to make underpayments and take payment holidays applies to flexible loans only.

For interest-only loans and for the interest-only portion of combination repayment and interest-only loans, because the principal is repaid in a lump sum at the maturity of the loan, the seller requires that the borrower has some repayment mechanism (such as an investment plan or a pension plan) in place to ensure that funds will be available to repay the principal at the end of the term.

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

The seller offers a range of interest rates on each of the following products which may be eligible for inclusion in the portfolio from time to time:

- **variable rate loans:** loans (and, for the avoidance of doubt, any further advance made under an account is to be regarded as a separate loan) subject to the seller’s standard variable rate (the **variable rate**) for that particular type of loan for the life of the loan. The variable rate is set by the seller by reference to the general level of interest rates and competitive rates in the UK mortgage market.

- **discount loans:** loans (and, for the avoidance of doubt, any further advance made under an account is to be regarded as a separate loan) which allow the borrower for a specified period of time (the **discount rate period**), which is usually between one and five years, to pay interest at a specified discount to the variable rate (the **discount rate**). An early repayment charge may be payable in respect of some of these loans (but not all) for a set period of time, which generally corresponds with the term of the discount rate period.
- **fixed rate loans:** loans (and, for the avoidance of doubt, any further advance made under an account is to be regarded as a separate loan) subject to a fixed rate of interest (the **fixed rate**) for a specified period of time (the **fixed rate period**), which is usually for a period of either two, three or five years. At the expiration of the fixed rate period these fixed rate loans generally convert to variable rate loans or base rate loans (as described below). An early repayment charge may be payable in respect of some of these loans (but not all) for a set period of time, which generally corresponds with the term of the fixed rate period.
- **base rate loans:** loans (and, for the avoidance of doubt, any further advance made under an account is to be regarded as a separate loan) subject to a variable rate of interest (the **base rate-linked rate**) that is a margin (expressed as a percentage figure) above and/or equal to and/or below the Bank of England base rate (the **base rate**) for a set period as specified in the offer (the **premium rate period**). During the applicable premium rate period, or for a certain period within the premium rate period, an early repayment charge may be payable in respect of some (but not all) of these loans. At the expiration of any applicable premium rate period, base rate loans will (unless a base rate-linked rate applies for the term of the loan) convert to a variable rate loan. The base rate-linked rate may differ for each product type. The percentage amount of the relevant margin to be charged under or over the base rate is set by the seller at the commencement of the loan and is dependent on the product type and the LTV. This percentage margin, which is fixed, is specified in the borrower's offer of advance.

No capped rate loans will form part of the portfolio as at the date of this base prospectus.

New loan types may be included in the portfolio in the future by the seller.

All interest rates depend on the product type and the LTV ratio. Under the 2002 and 2004 mortgage conditions, interest may be calculated and charged on a daily, monthly or yearly basis depending upon the borrower's mortgage product. Under the 1993 and 1997 mortgage conditions, interest is calculated and charged on a yearly basis. Under the 1998 mortgage conditions, interest is calculated and charged on a monthly basis. Where interest is calculated on a daily basis, in every month interest is charged each day on the capital and on any unpaid interest or expenses outstanding as at the end of the previous day, excluding interest charged in that month. Where interest is calculated on a monthly basis, in every month interest is charged for the month on the capital and on any unpaid interest or expenses outstanding as at the end of the previous month. Where interest is charged on a yearly basis, in every year interest is charged for the year on the capital and on any unpaid interest or expenses outstanding as at the end of the previous year. Payments of interest in respect of all loans are payable either monthly in arrears or in advance or monthly partially in advance and partially in arrears, depending upon a borrower's interest payment date. Monthly payments due by borrowers are paid normally (although not always) by direct debit and are due on the first day of each month unless (under the 2002 and 2004 mortgage conditions only) the borrower has chosen a different monthly instalment date. The seller may give a borrower notice at any time that a different instalment date will apply.

The variable rate for loans originated by Alliance & Leicester as at the date of this base prospectus is 4.99 per cent. (and the variable rate for loans originated by Santander UK, which as noted above may be sold to the mortgages trustee if they were originated after the Part VII effective date, is 4.74 per cent. as at the date of this base prospectus). If the variable rate changes and that change affects the interest rate applicable to a borrower's mortgage, under the 2002 and 2004 mortgage conditions, the seller shall give the borrower written notice of the change. Under the 1993, 1997 and 1998 mortgage conditions and where the borrower is on a fixed rate, a premium rate or a special rate under the 2002 and 2004 mortgage conditions, any change to the variable rate may be made by written notice, by being advertised in two or more national daily newspapers or by being displayed in the previous seller's head office (in the case of the 1993, 1997 and 1998 mortgage conditions), customer services centres (in the case of the 2002 and 2004 mortgage conditions) and branch offices. Under the 1993 mortgage conditions, there is no requirement to notify a reduction in the variable rate. Notice will be given to borrowers prior to any changed monthly instalment becoming due. The actual gross rate of interest that the seller charges for variable rate loans, discount loans linked to the variable rate or fixed rate loans upon conversion from a fixed rate to the variable rate may be changed for various reasons, which include:

- to reflect a change in the rates of interest paid to customers with savings accounts with the seller;
- to reflect a change in the cost of other funds used by the seller in its mortgage lending business;
- to reflect a change in the base rate;
- to make sure the seller's business is run in a prudent manner;
- to allow the seller to raise additional funds to improve its services or facilities, to promote the growth of its business or to invest in new technology;
- to reflect changes in the law or recommendations by a court or by an ombudsman or regulatory requirements or guidance;
- to reflect a merger of its business; and
- to reflect a transfer of its business;

Under the 1997 and 1998 mortgage conditions and under the offers of advance sent out to borrowers with mortgages subject to the 1993 mortgage conditions, the variable rate may also be changed for any "other valid reason".

Under the 1997, 1998, 2002 and 2004 mortgage conditions, if a borrower's interest rate is increased as a result of a change to the variable rate (which, in the case of the 1997 and 1998 mortgage conditions only, is the result of the seller exercising its right to change the variable rate for any "other valid reason"), the borrower may repay the loan without paying interest at the increased rate and without paying any early repayment charge which would otherwise be due under the terms of the loan, if the seller receives notice from the borrower of that borrower's intention to repay within one month after the increase takes effect and the repayment is made within three months after the increase takes effect. Under the 1993 mortgage conditions, if a borrower's interest rate is increased and if that borrower gives notice within one month of the date upon which that increase is to take effect, the borrower can redeem the mortgage without paying the additional interest resulting from the increase (provided such redemption is effected within three months of the increase date).

Except in limited circumstances, as set out above in "**Description of the transaction documents – Servicing agreement – Undertakings by the servicer**", the servicer is responsible for setting the variable rate on the loans in the portfolio as well as on any new loans that are sold to the mortgages trustee. The servicer may vary the variable rate for any of the reasons listed above.

In maintaining, determining or setting the variable rate, the servicer will apply the factors set out here and, except in limited circumstances as set out in "**Description of the transaction documents – Servicing agreement – Undertakings by the servicer**", has undertaken to maintain, determine or set the variable rate at a rate which is not higher than the variable rate from time to time.

Where a borrower's interest rate is set by reference to a margin (a **differential rate**), which will generally be a margin below the variable rate in relation to discount loans, under the 1997, 1998, 2002 and 2004 mortgage conditions the seller may change or disapply the differential rate where this is agreed with the relevant borrower or where this reflects a change in the way the mortgaged property is used or occupied. The differential rate will only be changed without a borrower's agreement if the change in the way in which a mortgaged property is used affects the seller's assessment of how likely the borrower is to carry out its obligations under the mortgage. Under the 1997 and 1998 mortgage conditions, the seller may also change the differential rate (which, in the case of the 1997 and 1998 mortgage conditions only, is the result of the seller exercising its right to change the differential rate for any "other valid reason"). If a borrower's interest rate is increased as a result of a change to the differential rate, the borrower may repay the loan without paying interest at the increased rate and without paying any early repayment charge which would otherwise be due under the terms of the loan, if the seller receives notice from the borrower of that borrower's intention to repay within one month after the increase takes effect and the repayment is made within three months after the increase takes effect. If applicable, the servicer is also responsible for maintaining, determining or setting any differential rates and in doing so the servicer will apply the factors set out here and, except in limited circumstances as set out above in "**Description of the transaction documents – Servicing agreement – Undertakings by the servicer**", has undertaken to maintain, determine or set any differential rate at a level which is not higher than the differential rates set in accordance with the seller's policy from time to time.

Loans may combine one or more of the features listed in this section and these will be specified in the offer of advance in relation to a loan or by the seller from time to time. Other customer incentives may be offered with the product including cashback, free valuations and payment of legal fees. Additional features in relation to a loan may include a flexible payment facility whereby the borrower may make overpayments and then use the accumulated overpayments to make underpayments, take payment holidays and make cash withdrawals (together, the **flexible features**). See “– **Flexible payments**” below. Borrowers who do not have the benefit of the flexible features are also able to make overpayments in addition to their usual monthly payment but early repayment charges may be payable. See “– **Flexible payments**” below.

### **Portability**

Certain mortgage products incorporate a portability facility (and the 2002 and 2004 mortgage conditions provide for this), which allows the borrower to transfer the loan balance at the same interest rate and subject to all the existing terms and conditions to a new property. A loan is only portable during any applicable discount rate period, fixed rate period or premium rate period. Variable rate loans are not portable.

The borrower can have the same or a lower level of funding for the loan for the new property as for the existing loan; however, if additional funding is required, this additional funding will only be available on the terms and conditions being offered by the seller at the time. Where flexible terms and conditions apply to a borrower's existing loan, flexible terms and conditions must also apply to any additional funding to which the seller agrees. Where flexible terms and conditions do not apply to a borrower's existing loan, flexible terms and conditions cannot apply to any additional funding to which the seller agrees. If a customer with a fixed rate loan, discount loan or base rate loan requires a level of funding for the new property which is less than 75 per cent. of the level of funding previously required, the seller will charge any applicable early repayment charge (as set out in the relevant offer of advance) on the difference between the balance of the existing loan and the balance of the new loan.

### **Early repayment**

This term is used to describe instances when a borrower pays back either all or part of the loan (in an amount exceeding its normal monthly payments) before the maturity date of the loan. When a loan is redeemed in full or in part in this way, an early repayment charge may be payable. Early repayment charges are usually (but not exclusively) payable during a fixed rate period or discount rate period or the early years of the premium rate period depending upon the concessionary rate offered. Only the 2002 and 2004 mortgage conditions contain provisions relating to this.

Capital repayments may be made, in whole or in part, at any time during the term of a loan. The borrower is obliged to pay any applicable early repayment charge in relation to such capital repayment, as specified in the relevant offer of advance (other than where the capital repayment is an overpayment being made in relation to a mortgage to which flexible features apply: see “– **Flexible payments**” below). In relation to certain products without flexible features, the seller permits borrowers to repay up to 10 per cent. of the amount outstanding on a mortgage in addition to scheduled repayments in any one year without having to pay any applicable early repayment charge. To benefit from this, the borrower must make the capital repayment during January and the capital repayment must be £500 or more above that borrower's normal monthly payment. A repayment of the entire outstanding balance of all loans secured by a customer's mortgage discharges the mortgage. Any prepayment in full must be made together with all accrued interest, any amounts in arrears, any unpaid expenses and any applicable early repayment charge(s). In addition, a “redemption administration charge” of £295 is currently payable where a borrower prepays in full (except in relation to mortgages which were taken out before August 2004 and not subsequently re-executed or revised, in which case the charge is £195).

If interest is paid at either a fixed rate, a base rate-linked rate or a discount rate, an early repayment charge may be charged on the amount repaid at the rate which applies during the early repayment charge period (which is normally the discount rate period, fixed rate period or premium rate period as the case may be) stated in the conditions of the loan.

### **Flexible payments**

The 2002 and 2004 mortgage conditions incorporate the concept of “flexible mortgage provisions”, which are available for certain products in the portfolio through a running account credit facility (the **flexible facility**). A borrower's offer of advance states whether the flexible mortgage provisions are applicable to a borrower's loan.

In relation to loans subject to the 1998 mortgage conditions, flexible mortgage provisions are incorporated in the “additional special conditions” applicable to the loan.



In relation to customers who have the benefit of flexible mortgage provisions pursuant to the 1998 and 2002 mortgage conditions, each customer will have signed a running account credit agreement regulated under the consumer credit regime.

The flexible facility enables borrowers to make overpayments or underpayments, take payment holidays or make cash withdrawals in certain circumstances. A borrower may make overpayments throughout the life of the loan and may make underpayments, take payment holidays or make cash withdrawals provided that there is credit available on the flexible facility. A borrower accumulates credit on the flexible facility by making overpayments. Where the available credit on the flexible facility is reduced to zero via underpayments, cash withdrawals or payment holidays or because no overpayments have been made, a borrower may not make underpayments, take payment holidays or make cash withdrawals.

There is no limit to the number of times the flexible facility can be exercised provided that there is available credit on the flexible facility.

Flexible features comprise the following:

- **overpayments** – These are paid in addition to scheduled monthly repayments without the borrower having to pay an early repayment charge, except in respect of an overpayment which has the effect of redeeming the borrower's mortgage. There is no minimum or maximum level of overpayment. Borrowers can overpay for as long and as regularly as they like.
- **underpayments** – The borrower may pay less each month by an amount agreed between the borrower and the seller. The borrower must agree in advance how many underpayments the borrower will make and the borrower may not make underpayments when the accrued overpayments have been depleted.
- **payment holidays** – Accrued overpayments can be used to take payment holidays during which the borrower may suspend mortgage payments without penalty for a period agreed between the borrower and the seller. The borrower may not take a payment holiday when the accrued overpayments have been depleted.
- **cash withdrawals** – All or part of the accrued overpayments can be taken out in cash. The minimum cash withdrawal that can be made is £500.

Borrowers are entitled to make overpayments even where the flexible mortgage provisions do not apply to their mortgage loan, although any applicable early repayment charge may be payable in relation to such overpayments; see “– **Early Repayment**”. Only borrowers with the benefit of the flexible mortgage provisions have the ability to make underpayments or cash withdrawals or take payment holidays.

Any overpayments which are less than £500 are deducted from the outstanding principal balance at the end of the month in which the overpayment is made in the case of products for which interest is calculated on a monthly basis or at the end of the year in the case of products for which interest is calculated on a yearly basis. Any overpayments (whether or not the flexible mortgage provisions apply) which are £500 or more are deducted from the outstanding principal balance immediately. Where the flexible mortgage provisions apply and the overpayment is £500 or more, the borrower can opt to reduce the monthly payment or else the term of the relevant loan is reduced accordingly. The change in the monthly payment will be notified to the borrower a reasonable time in advance of when the monthly payment is due. In respect of flexible loans only, underpayments and cash withdrawals can only be made and payment holidays can only be taken to the limit of previous overpayments by the borrower.

The outstanding principal balance is increased following any underpayment, cash withdrawal or payment holiday, and interest is charged on such increased outstanding principal balance in accordance with the mortgage conditions.

The administration of the flexible facility is undertaken by the seller.

See “**Risk factors – Set-off risks in relation to flexible loans may adversely affect the funds available to the issuer to repay your notes**” above.

### **Characteristics of the Santander UK loans**

The following section describes how certain of the characteristics of Santander UK loans differ materially from A&L loans.

As noted above, in addition to loans that have been originated by Alliance & Leicester, loans originated by Santander UK since the Part VII effective date may be sold into the portfolio. Those new loans may include loans which may or may not have some of the characteristics described here, but all new loans will be required to comply with the representations and warranties set out in the mortgage sale agreement.

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

In addition to the loan products described in “**Characteristics of the A&L loans – Interest payments and interest rate setting**” above, Santander UK currently also offers loans with other features, such as:

- **capped rate loans:** loans subject to a maximum rate of interest and which charge interest at the lesser of the variable rate (or, as the case may be, the tracker rate) or the specified capped rate.
- **minimum rate loans:** loans subject to an interest rate that is the greater of the variable rate (or, as the case may be, the tracker rate) or a specified minimum rate.
- **higher variable rate loans:** loans subject to an interest rate that is set at a margin above the variable rate.

Santander UK operates a separate standard variable rate from Alliance & Leicester and, accordingly, Santander UK's standard variable rate may differ from that of Alliance & Leicester. The need to change the Santander UK standard variable rate is considered at least monthly by the asset business committee of Santander UK, which includes a number of senior Santander UK executives, and is additionally considered immediately in the light of all changes to Bank of England rates.

The basic rate of interest set by the seller for loans beneficially owned by the seller outside the mortgages trust is either the variable rate or a rate directly linked to the base rate. The variable rate for the Santander UK originated loans is subject to the variances as set forth below.

Loans may combine one or more of the features listed above. In respect of the interest rates which last for a period of time specified in the offer conditions, after the expiration of that period a loan associated with that interest rate may (a) move to some other interest rate type or (b) become a tracker loan with a variable rate of interest linked to the base rate or (c) revert to, or remain at, the variable rate.

Under the 2010 mortgage conditions, the 2012 mortgage conditions and the 2014 mortgage conditions, interest on each loan is payable monthly in arrear and is computed daily on balances which are recalculated on a daily, monthly or annual basis.

Under the 2010 mortgage conditions, the 2012 mortgage conditions and the 2014 mortgage conditions applicable to variable rate loans, the variable rate may be varied for one or more of the following reasons, which are specified in those mortgage conditions:

- to maintain the competitiveness of Santander UK 's personal banking business, taking account of actual or anticipated changes in the interest rates which other financial institutions charge to personal mortgage borrowers;
- to reflect actual or expected changes in the cost of funds used by Santander UK in making loans to its personal mortgage borrowers;
- to ensure that Santander UK's business is run in a way which complies with the requirements of its regulator or of any central bank or other monetary authority; and
- for any other reason which is valid, provided that in each case not less than 30 days' notice of an increase is given and not less than seven days' notice of a reduction is given.

Under the 2010 mortgage conditions, the 2012 mortgage conditions and, the 2014 mortgage conditions, if the variable rate is increased for any "other valid reason" (other than an increase in the Bank of England's base rate), then an affected borrower will be entitled to repay all the sums due or the part to which the increase relates from that borrower under the mortgage terms within three months from the date on which the increase takes effect without paying any early repayment fee that would otherwise apply.

As in relation to A&L loans, Santander UK loans may combine one or more of the features referred to in this section and customer incentives may be offered.

## **Portability**

Certain Santander UK mortgage products (including variable rate loans) incorporate a portability facility, which allows the borrower to transfer a loan balance to a new property provided that (i) the amount to be lent to the borrower under the new mortgage does not exceed the LTV threshold which was relevant for the existing loan at origination, (ii) the borrower gives Santander UK not less than seven days' notice in writing and (iii) where new borrowing additional to the original loan amount is required, the borrower selects a mortgage product for the new mortgage from the range of mortgages available for loans within the relevant LTV category. If funding in excess of the relevant LTV threshold is required, this additional funding will only be available at Santander UK's discretion on the terms and conditions being offered by Santander UK at the time.

In respect of the loans with the 2012 mortgage conditions, the portability facility described above has been restricted in that (i) the borrower may only transfer a loan balance to a new property which it is purchasing, (ii) the application to transfer the loan balance to the new property must satisfy the lending criteria applied by Santander UK at the time and (iii) the 2012 mortgage conditions do not allow for a transfer of a loan balance where such transfer would result in the relevant LTV threshold being exceeded.

The 2014 mortgage conditions additionally provide that the application to transfer the loan balance to a new property will not be accepted if: (i) in all the circumstances (including the borrower's financial circumstances), the risk of the borrower being unable to meet its commitments under the new mortgage would be significantly greater than the risk of it failing to meet its commitments under the existing mortgage; (ii) the borrower could not afford to repay the loan balance being transferred by the end of the repayment period which would apply under the new mortgage; or (iii) the risk that Santander UK would suffer a loss if it realised its security would be significantly greater under the new mortgage. In addition, under the 2014 mortgage conditions, the loan balance can only be transferred to a new mortgage over one property.

## **Flexible loans**

### *General*

Santander UK currently also offers flexible loans to its borrowers. A flexible loan typically incorporates features that give the borrower options to make further drawings on the loan account and/or to overpay or to underpay principal and interest in a given month. Santander UK may offer flexible loans in the future (that may be assigned to the mortgages trustee) that have different features from those described here.

For flexible loans originated since March 2009, the total amount outstanding at any time as described below (and, if an available funds facility exists, at any time a loan is drawn under such facility) cannot exceed an LTV ratio of 75 per cent., based on an original valuation at the time of the origination of the loan. The loan and, where applicable, the available funds facility are secured by a first legal charge over a property in England and Wales or a first-ranking standard security over a property in Scotland or a first ranking legal charge or mortgage over a property in Northern Ireland.

### *Flexible loans – offer dated on or after 3 July 2002*

In respect of flexible loans originated by Santander UK where the seller's offer to lend is dated on or after 3 July 2002, there is a flexible loan facility with a credit limit. The amount of the credit limit and the "amount available" (that is, the credit limit less the monies owing to the seller) are agreed at origination. Borrowers may, during the life of these flexible loans, draw additional amounts from the flexible loan facility on request to the seller, up to the amount available and subject to the mortgage conditions.

The agreement for the flexible loan facility has been designed by the seller with the intention that it is not regulated under the CCA. Loans included in the portfolio and originated since 31 October 2004 have been regulated under the regulated mortgage contracts regime under the FSMA.

Subject to the provisions for underpayments and payment holidays, borrowers are required to make monthly payments on the flexible loan facility. A borrower may make an overpayment at any time. Any such overpayment will immediately reduce the balance on which interest is payable on the flexible loan facility.

The "amount available" can be used by the borrower to fund an underpayment or a payment holiday or a further drawdown, subject to the mortgage conditions.

In respect of further drawdowns, unless the borrower gives the seller instructions to the contrary (as set out below):

- if the offer conditions specify that the “repayment” basis (as set out in “**Repayment terms**”) applies to the whole of the first drawdown, then the “repayment” basis will also apply to the whole of each further drawdown made under that flexible loan facility;
- if the offer conditions specify that the “interest-only” basis (as set out in “**– Repayment terms**”) applies to the whole of the first drawdown, then the “interest-only” basis will apply to the whole of each further drawdown made under that flexible loan facility; and
- if the offer conditions specify that the “repayment” basis (as set out in “**– Repayment terms**”) applies to part only of the first drawdown, then the “repayment” basis will apply to the equivalent part of each further drawdown made under that flexible loan facility.

A borrower's request to the seller for a further drawdown may include instructions to the seller that, as from the date when the borrower makes the further drawdown:

- the “repayment” basis is to apply to the whole or a specified part of the balance owing in place of the “interest-only” basis; or
- the “interest-only” basis is to apply to the whole or a specified part of the balance owing in place of the “repayment” basis.

The seller may increase the credit limit if:

- the borrower writes to the seller asking the seller to exercise its power to increase the credit limit;
- the borrower pays any credit limit review charge; and
- if requested to do so, the borrower pays for a new valuation report on the property and provides the seller with further information in relation to the borrower's financial position.

The seller may reduce the credit limit:

- to ensure that the monies owing to the seller under the flexible loan facility and the amount available do not together exceed 90 per cent. of the current market value of the property;
- to ensure that the amount available at any time does not exceed the amount available as at the date of completion of the flexible loan facility;
- if the borrower is in breach of the mortgage terms;
- if the seller is reasonably of the opinion that, because of a change in the borrower's financial position, the borrower could not afford to repay present or future drawdowns up to the existing credit limit; or
- to ensure that the seller's business is run in a way that complies with the requirements of the seller's regulator or of any central bank or other monetary authority.

#### *Flexible loans – flexible plus loans*

Flexible loans originated by Santander UK include flexible plus loans, which are documented under the flexible plus mortgage conditions 2010, the flexible offset mortgage conditions 2012 and the flexible offset mortgage conditions 2014. These conditions mirror those for other flexible loans where the seller's offer to lend is dated on or after 3 July 2002, save for the following material differences in relation to the borrower's savings account, overpayments, payment holidays and underpayments, the interest rate tracking differential and further drawdowns:

- Flexible plus loans contain a savings account element. No interest is paid by the seller on the savings. Instead, interest is charged each day on the amount which, at the end of the day, represents the capital owing on the mortgage account, less any savings in the savings account. As a result, when the borrower has savings in the savings account, the amount of interest charged on the mortgage account will be reduced.
- Any savings held in the savings account do not affect the amount of the borrower's monthly payment. As a result, when there are savings, the monthly payment the borrower makes will exceed the amount actually charged to the mortgage account and the seller will treat this excess as an overpayment.

- The seller will use these overpayments to reduce or pay off any part of the mortgage balance which is overdue at that date. The remainder will be credited to the savings account. The borrower may also opt to make a series of regular overpayments with the borrower's monthly payment, and these overpayments will be used by the seller in the same way.
- The borrower may also make one-off overpayments in the form of a deposit. The seller will, on instructions from the borrower, credit this deposit to the mortgage account in order to reduce the mortgage balance. In the absence of such instructions, the deposit will be used to reduce or pay off any part of the mortgage balance which is overdue at that date and the remainder will be credited to the savings account.
- The borrower may withdraw money from the savings account or instruct the seller to use some or all of the money in the savings account to reduce the mortgage balance. The borrower may also instruct the seller to use the savings to fund a payment holiday or make up a shortfall on an underpayment.
- The savings in the savings account must not exceed the mortgage balance.
- The borrower must not overdraw on the savings account. If the savings account becomes overdrawn, the seller will add the amount overdrawn to the mortgage balance.
- The seller may use the savings at any time to pay off any of the following items which the borrower has failed to pay when they have become due: a monthly payment, an administration charge, a credit limit review charge, other items of costs and the mortgage balance (if it becomes immediately payable).
- The borrower may continue to make drawdowns until the end of the mortgage repayment period, even if the mortgage balance has been repaid. The mortgage will remain in force during the repayment period as security for money which may become owing under the borrower's facility to make drawdowns up to the credit limit.
- Under the 2014 flexible offset mortgage conditions, there is an additional condition to the ability of the borrower to make a drawdown that the seller reasonably thinks that the drawdown is affordable by the borrower and that the borrower will be able to repay it with interest by the end of the repayment period.
- Under the 2014 flexible offset mortgage conditions, in respect of further drawdowns, the "repayment" basis (as set out in "**Characteristics of A&L Loans - Repayment terms**") will apply unless in any particular case the borrower's drawdown notice contains a request that the "interest-only" basis (as set out in "**Characteristics of A&L Loans - Repayment terms**") should apply to the drawdown, and the seller agrees to the request because it reasonably thinks that the borrower will be able to repay the drawdown in full at the end of the repayment period and to pay interest in the meantime.
- Under the 2014 flexible offset mortgage conditions, the seller may reduce the credit limit to ensure that the monies owing to the seller under the flexible loan facility and the amount available do not together exceed 75 per cent. (rather than 90 per cent.) of the current market value of the property, and may additionally reduce the credit limit if the borrower has not made a drawdown within the past five years.

### **Product switches**

A product switch is a variation in the financial terms and conditions applicable to the borrower's loan as agreed between the borrower and the seller. If a product switch is made, the mortgage conditions relating to a borrower's loan will be updated to the then current version.

If a borrower wishes to make a product switch, the seller will use the lending criteria applicable to product switches at that time in determining whether to approve the application. None of the loans in the current portfolio oblige the seller to make product switches. However, new loans added to the portfolio in the future may have had product switches made on them prior to the relevant sale date.

If a loan, following a product switch, does not meet certain criteria, then the seller will be required to repurchase the loan or loans under the relevant mortgage account and its or their related security from the mortgages trustee. See "**Description of the transaction documents – The mortgage sale agreement – Product switches and further advances**" and "**Risk factors – In certain circumstances, loans subject to product switches and further advances will be repurchased by the seller from the mortgages**

trustee, which will affect the prepayment rate of the loans and this may affect the yield to maturity of your notes” above.

### **Origination of the loans**

The seller currently derives its mortgage-lending business through its branch network throughout the United Kingdom, through intermediaries, through its internet website and through telephone sales.

Under the seller's policy, it can provide many customers with an agreement in principle to lend almost immediately upon application.

The seller was authorised and regulated by the FSA for mortgages business from 31 October 2004 to 31 March 2013 and, since 1 April 2013, it has been authorised and regulated by the FCA and has therefore, since 31 October 2004, been subject to the Mortgages and Home Finance Conduct of Business sourcebook under the FSMA. The seller is subject to the compulsory jurisdiction of the Financial Ombudsman Service, which is a statutory scheme under the FSMA.

### **Underwriting**

Applicants are credit scored and subjected to automated decision rules to establish which applications can be approved, declined or referred for manual assessment by an underwriter. See “– **Credit scorecard**” below.

Pre-completion processing and certification of data together with an automated credit search is the first stage of the process. Cases that meet specified criteria, for example high value, are also manually underwritten.

To gain the authority to approve loans, each underwriter must first undertake training conducted by the seller. Underwriters then undergo a periodic assessment of their work. The seller has established various levels of authority for its underwriters who approve loan applications. The levels are differentiated by, among other things, the ratio of the loan amount to the value of the mortgaged property and the size of the loan applied for. An underwriter wishing to move to the next level of authority must undertake further training. The seller's lending policy sets out the discretion available to underwriters where a proposal is made to lend outside the seller's standard policy. Requests outside the scope of such discretion are escalated to a senior level according to mandates as delegated by the Chief Risk Officer.

Governance and Control Function carry out a quality check of a portion of the underwriters' decisions on a monthly basis to ensure adherence to the seller's lending policy and procedures. All underwriting decisions are monitored for bad debt and further quality checking where an individual's bad debt performance warrants investigation. All loans underwritten are subject to the seller's underwriting policies, lending criteria and internal procedures for compliance with government regulations, such as those concerning money laundering.

### **Lending criteria**

Each loan in the portfolio was originated according to the seller's or, where relevant, the previous seller's lending criteria applicable at the time the loan was offered, which included some or all of the criteria set out in this section. The geographical location of a mortgaged property (i.e. England, Wales, Scotland or Northern Ireland) has no impact upon the seller's lending criteria and current credit scoring tests. New loans (both A&L loans and Santander UK loans), including loans with product switches, may only be included in the portfolio if they were or are originated in accordance with the lending criteria applicable at the time the loan was or is offered and if the conditions contained above in “**Description of the transaction documents – The mortgage sale agreement – Sale of loans and their related security**” have been satisfied.

The seller may exercise discretion within its lending criteria in applying those factors that are used to determine the maximum amount of the loan(s). The seller may take the following into account when exercising discretion: credit history, LTV ratio, affordability, residency, residential history, employment history and nature of income. However, the seller retains the right, in its sole discretion, to revise its lending criteria from time to time, so the criteria applicable to new loans may not be the same as those currently used.

### **Lending Criteria – A&L loans**

Some of the factors used in making a lending decision in relation to A&L loans are outlined below.

- (a) *Type of property*

Mortgaged properties may be freehold or leasehold in England or Wales, freehold or leasehold in Northern Ireland or heritable or long lease in Scotland. Leases must have an unexpired term of at least 50 years (or, from November 2009, at least 55 years) at the commencement of the loan and at least 30 years (or, from 28 March 2006 until 2 November 2009, at least 35 years) remaining on the maturity of the loan.

The mortgaged property must be used for residential purposes, however, a mortgaged property may be used, in limited circumstances, partially for business purposes provided that no more than 60 per cent. of the mortgaged property is used for such business purposes, that no items are held for storage in connection with the business usage, no structural alterations have been made to accommodate the business and, from 31 October 2004, at least 40 per cent. of the mortgaged property is occupied by the borrower or the borrower's spouse, common-law partner, same sex partner, parent(s), grandparent(s), sibling(s), children or grandchildren. Any business use other than clerical is unlikely to be considered acceptable. A mortgaged property must be marketable, habitable and insurable.

A mortgaged property must be owner-occupied or may be occupied by the borrower's spouse, common-law partner, same sex partner, parent(s), grandparent(s), sibling(s), children or grandchildren. Although the previous seller did and the seller does lend on buy-to-let properties, no such buy-to-let loans will be comprised in the portfolio on the closing date. Mortgaged properties must be situated in England, Wales, Scotland and Northern Ireland.

The following are examples (non-exhaustive) of the types of properties considered by the seller to be unacceptable security: freehold flats, flats in ex-local authority buildings of more than five storeys or mobile homes.

(b) *Term of the loan*

There is no minimum term for loans, although where an early repayment charge applies, the term should not be less than the period during which the early repayment charge is payable. The maximum term for endowment linked mortgages or mortgages repaid on a repayment basis is 40 years and the maximum term for pension backed mortgages is 50 years.

(c) *Age of applicant*

All borrowers must be aged 18 or over. The current maximum age limit is 75 at the maturity of the loan. If the term of the loan extends past an applicant's normal retirement age, the applicant must confirm that he or she will have adequate income to maintain repayments beyond his or her retirement.

(d) *LTV*

The maximum loan available (excluding any high LTV fee) is based on the lower of the current value or purchase price of the mortgaged property. The maximum LTV for loans of up to £550,000 is 90 per cent. The maximum LTV for loans of up to £1,000,000 is 85 per cent. For loans of above £1,000,000 applicants were referred to Alliance & Leicester or are referred to Santander UK. Existing Alliance & Leicester mortgagors are considered for loans of over 95 per cent. LTV where essential repairs are required. The maximum LTV in this situation is 100 per cent. and the loan must be agreed by a senior underwriter. A revaluation must be carried out before the offer is issued to establish that the repairs are essential and will restore the property value after they have been completed. Where the loan is advanced for the purchase of a second/holiday home, or a home for a dependent relative, the maximum LTV is 85 per cent. (or 75 per cent. where the purchase price or valuation is greater than £500,000).

(e) *Mortgage indemnity guarantee (MIG) policies*

Since 1996, the previous seller has not required and the seller does not require cover under MIG policies for any loans.

**Income verifications**

The previous seller accepted the following original documents by way of income verification in relation to "employed" applicants:

- existing borrowers and new borrowers with an LTV less than or equal to 75 per cent.: latest monthly or four weeks' payslips or latest year's accounts where self-employed;

- new borrowers with an LTV greater than 75 per cent.: latest three months' payslips or last two years' accounts if self-employed;
- loans over £500,000: latest three months' payslips or last two years' accounts if self-employed.

The previous seller included in its calculations, in relation to employed applicants, the employee's basic salary, pension or state support benefits (payable by the Department for Work and Pensions or HM Revenue and Customs) where guaranteed for life together with 100 per cent. of the basic salary from a second job in the same line of occupation, contractual employer's allowances (e.g. mortgage subsidy, large town allowance, etc.), child benefit and working/family tax credits. The previous seller accepted 50 per cent. of any income, that whilst not guaranteed or permanent, is nonetheless regular and sustainable, and included: regular overtime, bonuses and commissions; maintenance; taxable tips; rental income; and where the applicant has a track record of the income being received. The figures used as allowable income for self-employed applicants are as follows:

- LTV less than or equal to 75 per cent. and where the loan is less than or equal to £500,000: latest year's net profit attributable to the applicant;
- existing borrowers regardless of LTV or loan amount: latest year's net profit attributable to the applicant; and
- LTV above 75 per cent. or where the loan is greater than £500,000: an average of the last two years' net profit attributable to the applicant. One year's full accounts and a projection verified by a qualified accountant sufficing for the second year may be acceptable where the applicant has been self-employed for less than two years. Draft accounts are acceptable only if verified by a qualified accountant and the applicant has been self-employed for over two years.

A maximum of four applicants may apply for a loan and a maximum of two incomes can be used.

Positive proof of the borrower's identity and address is established in line with money laundering regulations.

Currently, the seller does not accept third party guarantees.

For low risk applications, income is verified at the point of sale and a percentage is audited by a central processing unit for accuracy. Low risk applications are defined as below £500,000 and 75 per cent. LTV and either remortgaging or a next-time buyer.

### ***Credit history***

Applications where an adverse credit history exists (i.e. bankruptcy, county court judgment (or the Scottish equivalent) or outstanding defaults registered with a credit reference agency) are subject to an analysis whereby highest risk cases are declined but some applications will be accepted. The policy for this is that the seller does not accept applications:

- (i) where an applicant has ever been made bankrupt or had an individual voluntary arrangement registered;
- (ii) from applicants who have previously had a property repossessed;
- (iii) from applicants who have CAIS 3 payment arrears in the past 6 months (whether satisfied or not);
- (iv) from any applicant with County Court judgment(s) / default(s) in the past 12 months (whether satisfied or not);
- (v) from any applicant with any mortgage arrears in the last 12 months (whether satisfied or not);
- (vi) from any applicant with County Court judgment(s) / default(s) where the LTV is greater than 90 per cent (whether verified or not); and
- (vii) from any applicant with County Court judgment(s) / default(s) of greater than £500 and where the LTV is greater than 60 per cent. (whether satisfied or not).



## Credit scorecard

The seller uses certain criteria described in this section and various other criteria to produce an overall score for the application that reflects a statistical analysis of the risk of advancing the loan. The lending policies and processes are determined centrally to ensure consistency in the management and monitoring of credit risk exposure. Credit scoring applies statistical analysis to publicly available data and customer-provided data to assess the likelihood of an account going into arrears. All loan applications are subject to credit scoring.

### (a) Eligibility

**UK residents** – British citizens normally resident in the UK are eligible to apply for all loan products. Applicants entitled to claim diplomatic immunity are unacceptable. Applications from non-British citizens are only acceptable where the applicant can prove a right to live and work in the United Kingdom. Applications from foreign nationals without an indefinite right to stay in the United Kingdom are usually unacceptable.

**Non-residents** – Applications from expatriates are unacceptable.

### (b) Employment

**Employed applicants** – Employed applicants must have been in permanent employment for a minimum of three months. The seller will accept contracted staff provided that they have been employed as a contractor for a minimum of three months and have been in employment for the last 12 months. There is no minimum length of time that should be left to run on a temporary contract. Contractors are treated as self-employed for the assessment and verification of income if they are classed as self-employed for tax purposes; otherwise they are treated as employed applicants.

**Self-employed applicants** – See “**Income Verifications**” above. An individual will be deemed to be self-employed when his or her shareholding is more than ten per cent. of the total share capital of the applicant's employer or the applicant is in a partnership. Sole traders will be deemed to be self-employed.

## Insurance policies

### (a) Insurance on the property

A borrower is required to insure the mortgaged property with buildings insurance for the duration of the loan. The insurance may have been purchased through the seller or, alternatively, the borrower or landlord (in the case of a leasehold property) may arrange for the buildings insurance independently. The building must be insured for its full reinstatement value, i.e. the cost to rebuild as new, including site clearance, debris removal, cost to comply with the latest building regulations and architects and surveyors fees. The borrower must ensure that the buildings insurance payments are kept up to date.

Under the previous seller's 1997, 1998, 2002 and 2004 mortgage conditions, if the borrower does not insure the mortgaged property, or insures the mortgaged property but violates a provision of the mortgage terms which relates to insurance, the seller, upon becoming aware of the same, is entitled to insure the mortgaged property itself for its own benefit, 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 (up to the current rebuilding costs) and any excess. Under the previous seller's 1993 mortgage conditions, the seller may itself insure the mortgaged property or, at the seller's option, require the borrower to insure the property. Under each set of mortgage conditions the borrower will be responsible for the payment of insurance premiums and the seller retains the right to settle all insurance claims which concern the mortgaged property without the borrower's consent.

### (b) Alliance & Leicester/Santander UK arranged buildings insurance

Where a borrower has purchased buildings insurance through the previous seller or purchases buildings insurance through the seller, the borrower will be responsible for paying the premiums for that insurance to the insurer by the payment method acceptable to the relevant insurer.

Where the seller has had to insure a mortgaged property as a result of a borrower's inability to do so, the borrower must repay the premium in relation to this insurance as soon as payment of

this premium is requested by the seller. Except for the loans originated under the previous seller's 1997 and 1998 mortgage conditions, interest is chargeable on the premium at the applicable interest rate in relation to the relevant mortgage. Under each of the mortgage conditions the premium may be paid by the borrower in monthly instalments.

(c) *Borrower-arranged buildings insurance*

A borrower is required to arrange for the mortgaged property to be insured by a third party if the borrower did not arrange for the seller to insure the mortgaged property on its behalf. The mortgaged property must be insured under a comprehensive policy and for an amount not less than the full cost of rebuilding the mortgaged property, including all professional fees, debris removal and the cost of meeting planning and local authority requirements.

Under the previous seller's 2004 mortgage conditions for both England & Wales and Northern Ireland, the policy must include the seller's interest noted on the policy or be in the joint names of the borrower and the seller. The 1997, 1998 and 2002 mortgage conditions for both England & Wales and Northern Ireland, require the policy to be in the joint names of the borrower and the seller. Under the previous seller's 1997, 1998, 2002 and 2004 mortgage conditions, if the mortgaged property is leasehold and the lease provides for the landlord to insure, the borrower must arrange for the seller's interest to be noted on the landlord's policy. The previous seller's 1997, 1998, 2002 and 2004 mortgage conditions for Scotland all require that the seller's interest is noted on the policy. The previous seller's 1997, 1998, 2002 and 2004 mortgage conditions require the borrower to inform the seller of any event which might give rise to a claim under the policy.

(d) *Title insurance*

Since 21 October 1999, the previous seller offered and, since the Part VII effective date, the seller offers a service in relation to loans originated by the previous seller (the **mortgage transfer service**) which allows remortgages of properties to be completed under an expedited procedure. The mortgage transfer service takes care of the legal administration involved in a remortgage and, rather than following the traditional conveyancing practice, to protect its interests the seller takes out a policy of title insurance in relation to each relevant property. The process differs from the traditional conveyancing procedures in that there is no in-depth investigation of title or searches carried out. If defects in a title become evident during any later repossession of a property, the seller is able to claim against the title insurance policy. The title insurance used by the seller for the mortgage transfer service is provided by First Title Insurance plc (**first title**), a company which provides this type of title insurance and whose address is London International Press Centre, 76 Shoe Lane, London EC4A 3JB. Amongst other things, the first title policy provides protection (a) that there is good and marketable title to the property; (b) that the property was built, and (if relevant) modified or extended since, in compliance with all necessary planning and building regulation approvals; (c) against adverse information which would be discovered from Local Authority searches; and (d) against costs or legal expenses necessary to defend the title. After an agent of first title, as applicable, checks ownership of the relevant property, first title provides a certificate of insurance to the seller. The agent then arranges execution of the relevant documents, requests the funds from the seller and, upon receipt, disburses such funds under the seller's instructions and completes the transaction. The mortgage transfer service is not available for mortgage applications on unencumbered properties, purchases of second homes where the mortgagor will not reside at the property address, cases where there is any element of shared ownership or right-to-buy cases within 18 months of the original purchase or within the discount period.

Some loans in the portfolio may have the benefit of defective title indemnity insurance, restrictive covenant indemnity insurance or other similar types of indemnity insurance.

### ***Lending criteria – Santander UK loans***

The following section describes how certain of the lending criteria for Santander UK loans differ materially from the lending criteria for A&L loans. As noted above, in addition to loans that have been originated by Alliance & Leicester, loans originated by Santander UK after the Part VII effective date may be sold to the mortgages trustee. Santander UK may, in its sole discretion, revise its lending criteria from time to time and so the criteria applicable to new Santander UK loans originated from time to time after the Part VII effective date may not be the same as those currently used:

- *Terms of the loans*: there is a minimum term of 5 years, although loyal movers borrowing the same or less who have an existing loan term of less than 5 years, but more than 1 year, who

wish to retain the loan for the remaining term only, can be considered for a shorter term loan. The maximum term is 35 years (or 25 years for a pure interest-only or a Help to Buy product).

- *LTV*: the maximum LTV for loans of up to £570,000 is 95 per cent if it is part of the Help to Buy mortgage guarantee scheme and otherwise 90 per cent. The maximum LTV for loans of more than £570,000 and up to £1,000,000 is 85 per cent and for loans of above £1,000,000 is 75 per cent. These maximum LTVs may be reduced by other policies such as those relating to product LTV limits, property type restrictions, the purpose of lending, repayment types (such as interest-only), additional lending and underwriters' requirements.
- *Income verification*: Santander UK requires appropriate income evidence for every application at the time of the risk decision. In relation to employed applicants, Santander UK requires as a minimum by way of income verification: one monthly or two consecutive fortnightly (dated no more than two months before application) or four consecutive weeks' (dated no more than five weeks before application) payslips. In relation to self-employed applicants (other than those applicants who are deemed to be self-employed by virtue of being directors of a limited company with a shareholding of 20 per cent. or more in that company, in relation to which additional income verification is required), the seller requires as a minimum by way of income verification either: (i) for loans with an LTV of up to 90 per cent. either: (a) latest two years' signed accounts (year end no more than 18 months from application) or (b) self assessment tax calculation forms for the latest two years or (c) an accountant's certificate from a suitably qualified accountant; and (ii) for loans with an LTV above 90 per cent., 3 years' income figures from self assessment tax calculation forms and/or full trading accounts.
- *Title insurance*: Santander UK does not currently offer a service which allows remortgages of properties to be completed under an expedited procedure by taking out a policy of title insurance in relation to each relevant property, although there is an alternative fast track process where the number of searches performed is reduced.
- *Method of repayment*.
  - (i) New mortgages: where any loan part is interest-only the maximum LTV is 50 per cent.. Existing borrowers moving home can maintain their existing interest-only loan amount on a new Santander UK mortgage subject to a maximum 75 per cent. LTV for the new mortgage.
  - (ii) Additional loans and Help to Buy loans can only be on a capital and interest repayment method.
- *Interest-only repayment mechanism*: only the following repayment mechanisms are acceptable for new interest-only mortgages:
  - (a) Sale of the mortgaged property – subject to minimum equity of £100,000.
  - (b) Investment vehicles established for at least 12 months e.g. endowment; stocks & shares ISA.

Where an interest-only repayment mechanism does not conform, existing borrowers moving home can use their existing repayment mechanism for the interest-only loan part of a new mortgage subject to a check of the repayment mechanism, remedial action for any shortfall identified, and no increase in their existing interest-only loan amount or other material risk.

- *Underwriting*: applications referred for underwriting undergo full appraisal regardless of the reason for referral.
- *Debt consolidation*: monthly payment commitments for debts to be consolidated are not excluded from the affordability calculation. Applications that include capital-raising to consolidate debt are restricted to a maximum LTV of 75 per cent.. The maximum element of debt consolidation is the lower of £35,000 and (if the LTV exceeds 50 per cent) 35 per cent of the total mortgage amount.
- *Lending past the borrower's retirement age*: applicants who request a mortgage term that would take them beyond their intended retirement age are declined. An intended retirement age of more than 75 years is not accepted. Applicants who have already retired are eligible for a mortgage. Existing borrowers moving home can maintain an existing loan part that extends beyond their retirement age subject to, inter alia, any increased loan amount having a term that

does not extend beyond the existing mortgage term, and the loan being assessed as affordable in the existing mortgage term.

- *Help to Buy applications*: each application relating to a Help to Buy loan (insofar as applicable) must meet the generic criteria for Help to Buy loans published by the Homes and Communities Agency in addition to Santander UK's lending criteria.

### **Servicing of loans**

Servicing procedures include responding to customer enquiries, monitoring compliance with the mortgage terms, servicing the loan features and facilities applicable to the loans and management of amounts in arrears. See “– **Description of the transaction documents – Servicing agreement**” above.

Pursuant to the terms and conditions of the loans, borrowers must pay the monthly payments required under the mortgage terms of the loans on or before each monthly instalment due date within the month they are due. Interest accrues in accordance with the mortgage terms of each loan and is collected from borrowers monthly.

In the case of variable rate loans, Santander UK, acting as servicer, sets the variable rate and the margin applicable to any variable rate loan and any differential rate applicable to any discount loan or any base rate loan on behalf of the mortgages trustee and the beneficiaries, except in the limited circumstances set out in the servicing agreement. In the case of some loans that are not payable at the variable rate, for example fixed rate loans, the borrower will continue to pay interest at the relevant fixed rate until the relevant period ends in accordance with the borrower's offer conditions. After that period ends interest will be payable at the variable rate or a base rate-linked rate.

The servicer will take all steps necessary under the mortgage terms to notify borrowers of any change in the interest rates applicable to the loans, whether due to a change in the variable rate or any variable margin or any differential rate or as a consequence of any provisions of those terms (see “**Description of the transaction documents – Servicing agreement – Undertakings by the servicer**” above).

Payments of interest in respect of all loans are payable either monthly in arrears or in advance, or monthly partially in advance and partially in arrears, depending upon a borrower's interest payment date. The servicer is responsible for ensuring that all payments are made by the relevant borrower into the collection accounts and subsequently transferred into the mortgages trustee GIC account on the next London business day after they are deposited in the seller's accounts. Payments are normally (although not always) made by direct debit. Under the previous seller's 2002 and 2004 mortgage conditions, payments are due on the first day of each month unless the borrower has chosen a different monthly instalment date. Under the previous seller's 1993, 1997 and 1998 mortgage conditions, the instalment date is the first day of the month. The seller may give the borrower notice at any time that a different instalment date will apply.

The servicer initially credits the mortgages trustee GIC account with the full amount of the borrowers' monthly payments. However, direct debits may be returned unpaid up to three London business days after the due date for payment, and a borrower may make a claim at any time to their bank for a refund of direct debit payments. In each case, the servicer is permitted to reclaim from the mortgages trustee GIC account the corresponding amounts previously credited. In these circumstances the usual arrears procedures described below in “– **Arrears and default procedures**” will be taken.

### **Arrears and default procedures**

The servicer will regularly provide the mortgages trustee and the beneficiaries with written details of loans that are in arrears. For operational purposes, a loan is identified as being “in arrears” when the total arrears across all sub-accounts is more than £100 or at least one full payment has been missed. In general, the servicer attempts to collect all payments due under or in connection with the loans, having regard to the circumstances of the borrower in each case. Santander UK uses a case control cycle featuring three stages: collection, negotiation and recovery.

Santander UK's system tracks arrears and advances and calculates when an account is in arrears. When arrears are first reported and are less than three months overdue, the borrower is contacted and asked for payment of the arrears. Until an account reaches three months in arrears, this is largely an automatic process in which the borrower is contacted through a series of letters, telephone calls, automated voice and payment activation (**Adeptr**a) and SMS text messages.

Where considered appropriate, the servicer may enter into arrangements with the borrower regarding the arrears, including:

- arrangements to make each monthly payment as it falls due plus an additional amount to pay the arrears over a period of time; and
- arrangements to pay only a portion of each monthly payment as it falls due.
- restructuring of the debt, such as extension of the mortgage term or a temporary interest-only concession.

Once the arrears are equivalent to more than four months overdue, the collection process progresses towards litigation, unless forbearance rules apply (e.g. accounts with low balances / arrears, where the borrower has a short-term financial difficulty or the property is on the market). The late stage process will also involve contact by letter and telephone and may also include field agents hired to meet with the borrower at the mortgaged property and assess the reason for arrears and discuss arrangements to repay the arrears.

Legal proceedings usually commence when the arrears become three to four months overdue. Once legal proceedings have commenced, the servicer or the servicer's solicitor may send further letters to the borrower encouraging the borrower to enter into discussions to pay the arrears, and may still enter into an arrangement with a borrower at any time prior to a court hearing. If a court order for possession is made for payment and the borrower subsequently defaults in making the payment, then the servicer may take action as it considers appropriate, including entering into a further arrangement with the borrower. If the servicer applies to the court for a warrant for possession, the court has discretion as to whether it will grant the order.

After possession, the servicer may take action as it considers appropriate, including to:

- secure, maintain or protect the mortgaged property and put it into a suitable condition for sale;
- create (other than in Scotland) any estate or interest on the mortgaged property, including a leasehold; and
- dispose of the mortgaged property (in whole or in part) or of any interest in the mortgaged property, by auction, private sale or otherwise, for a price it considers appropriate.

The servicer has discretion as to the timing of any of these actions, including whether to postpone the action for any period of time. The servicer may also carry out works on the property as it considers appropriate to maintain the market value of the mortgaged property.

The servicer has discretion to deviate from these procedures. In particular, the servicer may deviate from these procedures where a borrower suffers from a mental or physical infirmity, is deceased or where the borrower is otherwise prevented from making payment due to causes beyond the borrower's control. This is the case for both sole and joint borrowers.

It should also be noted that the seller's ability to exercise its power of sale in respect of the mortgaged property is dependent upon mandatory legal restrictions as to notice requirements. In addition, there may be factors outside the control of the seller, such as whether the borrower contests the sale and/or the market conditions at the time of sale, which may affect the length of time between the decision of the seller to exercise its power of sale and final completion of the sale.

It should also be noted in relation to Scottish mortgages that prior to 30 September 2010, under the terms of the Mortgage Rights (Scotland) Act 2001 (the **2001 Act**), Scottish courts were permitted a discretion (upon application by a borrower or other specified persons) to suspend the exercise of the lender's statutory enforcement remedies for such period and to such extent as the court considered reasonable, having regard, among other factors, to the nature of the default, the applicant's ability to remedy it and the availability of alternative accommodation. The relevant provisions of the 2001 Act relating to the court's discretion to suspend such enforcement remedies have been repealed with effect from 30 September 2010 under the terms of the Home Owner and Debtor Protection (Scotland) Act 2010 and replaced with a requirement on lenders to obtain a court order (except in very limited circumstances) when pursuing their statutory enforcement remedies, although the court will still have regard to the factors described above in exercising its discretion as to whether to grant the court order. See "**Risk factors – Certain regulatory considerations – Home Owner and Debtor Protection (Scotland) Act 2010**" above. See also "**Material legal aspects of the loans and their related security – Scottish loans**" below.

The net proceeds of sale of the mortgaged property are applied against the sums owed by the borrower to the extent necessary to discharge the mortgage including any accumulated fees, expenses of the servicer and interest. Where the funds arising from application of these default procedures are insufficient to pay all amounts owing in respect of a loan, the funds are applied first in paying interest and

costs, and second in paying principal. The servicer may then institute recovery proceedings against the borrower. If, after the sale of the mortgaged property and redemption of the loan, there are remaining funds, those funds will be distributed by the acting solicitor to the next entitled parties.

These arrears and security enforcement procedures may change over time as a result of a change in Santander UK's or the servicer's business practices or of legislative and regulatory changes.

### **Arrears experience**

Each final terms relating to the issuance of a series of notes will contain tables summarising the then up-to-date information on the seller's experience in administering loans in arrears and its repossession experience for residential mortgage loans originated by the seller. The tables will include information in respect of the seller's experience in administering loans secured by mortgaged properties located in England, Wales, Northern Ireland and Scotland.

If the property market experiences an overall decline in property values so that the value of the properties in the portfolio falls below the principal balances of the loans comprising the overall pool, the actual rates of arrears could be significantly higher than those previously experienced by the seller. In addition, other adverse economic conditions, whether or not they affect property values, may nonetheless affect the timely payment by borrowers of principal and interest and, accordingly, the rates of arrears and losses with respect to the loans in the portfolio. Noteholders should observe that the United Kingdom experienced relatively low and stable interest rates during the periods covered in the above mentioned tables. If interest rates were to rise, it is likely that the rate of arrears would rise.

## FORM OF THE NOTES

### Global notes

The notes of each class offered and sold outside the United States to non-U.S. persons in reliance on Reg S (except for any non-ISE listed notes as otherwise specified in the accompanying issue terms) will be represented on issue by one or more global notes of such class in fully registered form without interest coupons or principal receipts attached (each a **Reg S global note**) which will be deposited with, and registered in the name of, a common depository for Euroclear and Clearstream, Luxembourg or, in the case of Reg S global note to be held under the NSS, will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee of Euroclear or Clearstream, Luxembourg. Beneficial interests in a Reg S global note may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. See “**Book-entry clearance procedures**” below.

The notes of each class offered and sold in the United States to QIBs in reliance on Rule 144A (except for any non-ISE listed notes as otherwise specified in the accompanying issue terms) will be represented on issue by one or more global notes of such class, in fully registered form without interest coupons or principal receipts attached (each a **Rule 144A global note**), which will be deposited with Citibank, N.A., London Branch as custodian for, and registered in the name of Cede & Co. (or such other name as may be requested by an authorised representative of DTC) as nominee of, DTC. Beneficial interests in a Rule 144A global note may only be held through DTC or its participants at any time (see “**Book-entry clearance procedures**” below). Beneficial interests in a Rule 144A global note may only be held by persons who are QIBs holding their interests for their own account or for the account of another QIB. By acquisition of a beneficial interest in a Rule 144A global note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Rule 144A global note (see “**Transfer restrictions and investor representations**” below).

The Reg S global notes and the Rule 144A global notes are referred to herein as **global notes**. Beneficial interests in global notes will be subject to certain restrictions on transfer set out therein and in the note trust deed, and such global notes will bear the applicable legends regarding the restrictions set out under “**Transfer restrictions and investor representations**” below.

Where the global notes are held under the NSS, Euroclear and Clearstream, Luxembourg will be notified whether or not such global notes are intended to be held in a manner that would allow Eurosystem eligibility. Depositing the global notes with the common safekeeper does not necessarily mean that the relevant issuing entity notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any other time during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

### Definitive notes

Owners of beneficial interests in global notes will not be entitled to receive physical delivery of individual certificated notes except in the following limited circumstances (each, an **exchange event**):

- as a result of a change in UK law, the issuer or any paying agent is or will be required to make any deduction or withholding for or on account of tax from any payment on the notes that would not be required if the notes were in definitive form;
- in the case of the Rule 144A global notes, DTC notifies the issuer that it is unwilling or unable to hold the Rule 144A global notes or is unwilling or unable to continue as, or has ceased to be, a clearing agency under the Exchange Act and, in each case, the issuer cannot appoint a successor within 90 days; or
- in the case of the Reg S global notes, Clearstream, Luxembourg and Euroclear are closed for business for a continuous period of 14 days or more (other than by reason of legal holidays) or announce an intention to cease business permanently or do in fact do so and no alternative clearing system satisfactory to the note trustee is available.

In no event will definitive notes in bearer form be issued. Any definitive notes will be issued in registered form in minimum denominations as specified in the related final terms. Any definitive notes will be registered in that name or those names as the registrar shall be instructed by DTC, Clearstream, Luxembourg, Euroclear and any alternative clearing system agreed by the issuer, as applicable. It is expected that these instructions will be based upon directions received by DTC, Clearstream, Luxembourg,

Euroclear and any alternative clearing system agreed by the issuer, from their participants reflecting the ownership of book-entry interests. To the extent permitted by law, the issuer, the note trustee and any paying agent shall be entitled to treat the person in whose name any definitive notes are registered as the absolute owner thereof. The paying agent and agent bank agreement (which applies except in relation to non-ISE listed notes if so specified in the accompanying issue terms) contains provisions relating to the maintenance by a registrar of a register reflecting ownership of the notes and other provisions customary for a registered debt security.

Any person receiving definitive notes will not be obligated to pay or otherwise bear the cost of any tax or governmental charge or any cost or expense relating to insurance, postage, transportation or any similar charge, which will be solely the responsibility of the issuer. No service charge will be made for any registration of transfer or exchange of any definitive notes.

### **Transfer of interests**

A beneficial interest in a Rule 144A global note of one class may be transferred to a person that takes delivery in the form of a beneficial interest in a Reg S global note of the same class, whether before or after the expiration of the distribution compliance period applicable to the notes of such class, only upon receipt by the issuer of a written certification from the transferor to the effect that such transfer is being made in accordance with Rule 903 or 904 of Reg S. A beneficial interest in a Reg S global note of one class may be transferred to a person who takes delivery in the form of a beneficial interest in a Rule 144A global note of the same class only upon receipt by the issuer of written certification from the transferor to the effect that such transfer is being made to a person whom the transferor or any person acting on its behalf reasonably believes is purchasing for its own account or for an account or accounts as to which it exercises sole investment discretion and that such person and such account or accounts is a QIB, in each case, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Any beneficial interest in a Reg S global note of one class that is transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A global note of the same class will, upon transfer, cease to be represented by a beneficial interest in such Reg S global note and will become represented by a beneficial interest in such Rule 144A global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Rule 144A global note for as long as it remains such a beneficial interest. Any beneficial interest in a Rule 144A global note of one class that is transferred to a person who takes delivery in the form of a beneficial interest in the Reg S global note of the same class will, upon transfer, cease to be represented by a beneficial interest in such Rule 144A global note and will become represented by a beneficial interest in such Reg S global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Reg S global note as long as it remains such a beneficial interest.

**Although DTC, Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfers of beneficial interests in a global note among participants of DTC and 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 relevant note trustee, the issuer security trustee or any of their respective agents will have any responsibility or liability for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.**

### **Non-ISE listed notes**

Non-ISE listed notes (including foreign law notes) may be issued in such other form as specified in the applicable issue terms.



## BOOK-ENTRY CLEARANCE PROCEDURES

*The information set out below has been obtained from the clearing systems (as defined herein) and the issuer believes that such sources are reliable, but prospective investors are advised to make their own enquiries as to such procedures. The issuer accepts responsibility for the accurate reproduction of such information from publicly available information. In particular, such information is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream, Luxembourg or DTC (together, the **clearing systems**) currently in effect and investors wishing to use the facilities of any of the clearing systems are therefore advised to confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. None of the managers, the dealers, the sponsor, the seller, the servicer, Funding 1, the mortgages trustee, the issuer security trustee, the Funding 1 security trustee, the note trustee, any paying agent, the agent bank, the issuer swap providers or any issuer account bank (or any affiliate of any of the above, as defined in the Securities Act) will have any responsibility for the performance by the clearing systems or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described below.*

*The information set out below applies to the notes cleared through Euroclear, Clearstream, Luxembourg or DTC. Non-ISE listed notes (including foreign law notes) may be cleared in such other form or such other manner as specified in the applicable issue terms.*

### **Euroclear, Clearstream, Luxembourg and DTC**

Custodial and depositary links have been established between the clearing systems to facilitate the initial issue of the notes and cross-market transfers of the notes associated with secondary market trading see “– **Settlement and transfer of notes**” below.

### ***Euroclear and Clearstream, Luxembourg***

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such global notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (**direct participants**) or indirectly (**indirect participants** and, together with direct participants, **participants**) through organisations which are accountholders therein.

### **DTC**

DTC has advised the issuer as follows: “DTC, the world's largest depositary, is a limited-purpose trust company organised under the New York Banking Law, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act.” DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Investors may hold their interests in a global note directly through DTC, if they are participants (**direct participants**) in the DTC system, or indirectly through organisations which are participants in such system (**indirect participants**, and together with direct participants, **participants**).

DTC has advised the issuer that it will take any action permitted to be taken by a holder of notes only at the direction of one or more participants in whose accounts with DTC interests in global notes are credited and only in respect of such portion of the aggregate principal amount of the relevant global notes as to which such participant or participants has or have given such direction.

## Book-entry ownership

### ***Euroclear and Clearstream, Luxembourg***

Each Reg S global note will have an ISIN and a Common Code and, save for Reg S global notes to be held under the NSS, will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Reg S global notes to be held under the NSS will be deposited with the common safekeeper for and registered in the name of a nominee of Euroclear and Clearstream, Luxembourg. Rule 144A global notes may be held under the NSS and will be deposited with the common safekeeper for, and registered in the name of, a nominee of Euroclear and Clearstream, Luxembourg.

### ***DTC***

Each Rule 144A global note will have an ISIN, a Common Code and a CUSIP number and, save for Rule 114A global notes to be held under the NSS, as described in “**Book-entry ownership – Euroclear and Clearstream, Luxembourg**” above, will be deposited with Citibank, N.A., London Branch as custodian (the **custodian**) for, and registered in the name of Cede & Co. (or such other name as may be requested by an authorised representative of DTC) as nominee of DTC. The custodian and DTC will electronically record the principal amount of the notes held within the DTC system.

## Payments and relationship of participants with clearing systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a note represented by a global note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the issuer to the holder of such global note (save in the case of payments other than U.S. dollars outside DTC, as referred to below) and in relation to all other rights arising under the global note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The issuer expects that, upon receipt of any payment in respect of notes represented by a global note, the common depository by whom such note is held or nominee in whose name it is registered or, in the case of Reg S global notes to be held under NSS, the common safekeeper by whom such note is held or nominee in whose name it is registered, will (save as provided below in respect of Rule 144A global notes) immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant global note as shown on the records of the relevant clearing system or its nominee. The issuer also expects that payments by direct participants in any clearing system to owners of beneficial interests in any global note held through such direct participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the issuer in respect of payments due on the notes for so long as the notes are represented by such global note and the obligations of the issuer will be discharged by payment to the registered holder, as the case may be, of such global note in respect of each amount so paid. None of the managers, the sponsor, the seller, the servicer, Funding 1, the mortgages trustee, the issuer security trustee, the Funding 1 security trustee, the note trustee, any paying agent, the agent bank, the issuer swap providers or any issuer account bank will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, ownership interests in any global note or for maintaining, supervising or reviewing any records relating to such ownership interests.

DTC will only process payments of principal and interest in U.S. dollars. Payments in U.S. dollars of principal and interest in respect of a Rule 144A global note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such note. In the case of any payment in a currency other than U.S. dollars in respect of a Rule 144A global note accepted by DTC, payment will be made by the exchange rate agent and the exchange rate agent will (in accordance with express written instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the global note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable participants' accounts.

## Settlement and transfer of notes

Subject to the rules and procedures of each applicable clearing system, purchases of notes held within a clearing system must be made by or through direct participants, which will receive a credit for such notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the **beneficial owner**) will in turn be recorded on the participant's records. Beneficial owners will not receive written confirmation from any clearing system of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct and indirect participant through which such beneficial owner entered into the transaction. Transfers of ownership interests in notes held within the clearing system will be effected by

entries made on the books of participants acting on behalf of beneficial owners. **Beneficial owners will not receive individual certificates representing their ownership interests in such notes.**

No clearing system has knowledge of the actual beneficial owners of the notes held within such clearing system and their records will reflect only the identity of the direct participants to whose accounts such notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to direct participants, by direct participants to indirect participants and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some states in the United States may require that certain persons take physical delivery in definitive form of securities. Consequently, it may not be possible to transfer interests in a global note to such persons. Because DTC can only act on behalf of direct participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a global note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of a physical certificate in respect of such interest.

#### ***Trading between Euroclear and/or Clearstream, Luxembourg participants***

Secondary market sales of book-entry interests in the notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds, sterling denominated bonds and U.S. dollar denominated bonds.

#### ***Trading between DTC participants***

Secondary market sales of book-entry interests in the dollar notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's same-day funds settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

#### ***Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser***

When book-entry interests in the notes are to be transferred from the account of a DTC participant holding a beneficial interest in a global note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in that global note (subject to the certification procedures provided in the note trust deed), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the global note will instruct the registrar to:

- (i) decrease the amount of notes registered in the name of Cede & Co. (or such other name as may be requested by an authorised representative of DTC), evidenced by the relevant global note; and
- (ii) increase the amount of notes registered in the name of the nominee of the common depository or common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg evidenced by the relevant global note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

#### ***Trading Between Euroclear/Clearstream, Luxembourg seller and DTC purchaser***

When book-entry interests in the notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a global note (subject to the certification procedures provided in the note trust deed), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository or common service provider, as the case may be, for Euroclear and Clearstream, Luxembourg and the registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and

the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depository or common service provider, as the case may be, for Euroclear and Clearstream, Luxembourg will:

- (a) transmit appropriate instructions to the custodian of the global note who will in turn deliver evidence of such book-entry interests in the notes free of payment to the relevant account of the DTC participant; and
- (b) instruct the registrar to:
  - (i) decrease the amount of notes registered in the name of the nominee of the common depository or common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg and evidenced by the relevant global note; and
  - (ii) increase the amount of notes registered in the name of Cede & Co. (or such other name as may be requested by an authorised representative of DTC) and evidenced by the relevant global note.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in global notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear, 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 managers, the servicer, the seller, the sponsor, Funding 1, the mortgages trustee, the issuer security trustee, the Funding 1 security trustee, the note trustee, any paying agent, the registrar, the transfer agent, the exchange rate agent (if applicable), the agent bank, any remarketing agent (if applicable), any conditional purchaser (if applicable), the issuer swap providers or any issuer account bank will have any responsibility for the performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants of their respective obligations under the rules and procedures governing their operations.

#### **Pre-issue trades settlement**

It is expected that delivery of notes will be made against payment therefor on the closing date, which could be more than three business days following the date of pricing. Under Rule 15c6---1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes in the United States on the date of pricing or the next succeeding business days until three days prior to the closing date will be required, by virtue of the fact the notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of notes may be affected by such local settlement practices and purchasers of notes who wish to trade notes between the date of pricing and the closing date should consult their own adviser.

**FORM OF FINAL TERMS**

Final Terms dated [●]

**FOSSE MASTER ISSUER PLC**

*(incorporated with limited liability in England and Wales with registered number 5925693)*

**Residential Mortgage Backed Note Programme**

**Issue of Series [●] Notes**

<b>Class</b>	<b>Interest rate</b>	<b>Initial principal amount</b>	<b>Issue price</b>	<b>Scheduled redemption dates</b>	<b>Final maturity date</b>
[●].....	[●]	[●]	[●]%	[●]	[●]
[●].....	[●]	[●]	[●]%	[●]	[●]
[●].....	[●]	[●]	[●]%	[●]	[●]
[●].....	[●]	[●]	[●]%	[●]	[●]
[●].....	[●]	[●]	[●]%	[●]	[●]
[●].....	[●]	[●]	[●]%	[●]	[●]
[●].....	[●]	[●]	[●]%	[●]	[●]
[●].....	[●]	[●]	[●]%	[●]	[●]
[●].....	[●]	[●]	[●]%	[●]	[●]

[Terms used herein shall be deemed to be defined as such in accordance with the conditions set forth in the prospectus dated [●] 2014 [as supplemented on [●]] (the **base prospectus**) which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). [This document constitutes the final terms (the **final terms**) of the notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the base prospectus.] Full information on the issuer and the offer of the notes is only available on the basis of the combination of these final terms and the base prospectus. The base prospectus and these final terms are available for viewing at 35 Great St. Helen's, London EC3A 6AP and copies may be obtained from the registered office of the issuer at 35 Great St. Helen's, London EC3A 6AP. A copy may also be obtained from the website of the Irish Stock Exchange.]

*[The following alternative language applies if the first tranche of an issue which is being increased was issued under a base prospectus with an earlier date.]*

Terms used herein shall be deemed to be defined as such for the purposes of the conditions (the **Conditions**) set forth in the base prospectus dated [original date] which are incorporated by reference in the base prospectus dated [current date] and are attached hereto. [This document constitutes the final terms (the **final terms**) of the notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the base prospectus dated [current date] which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**).] Full information on the issuer and the offer of the notes is only available on the basis of the combination of these final terms and the base prospectus dated [current date]. The base prospectus and these final terms are available for viewing at 35 Great St. Helen's, London EC3A 6AP and copies may be obtained from the registered office of the issuer at 35 Great St. Helen's, London EC3A 6AP. A copy may also be obtained from the website of the Irish Stock Exchange at [www.ise.ie](http://www.ise.ie).]

[The issue 20[●]-[●] notes have not been and will not be registered under the Securities Act or the state securities laws of any state of the United States and the issue 20[●]-[●] notes may not be offered or sold in the United States or to, or for the account or benefit of, US persons (as defined in Regulation S) except to persons that are QIBs within the meaning of Rule 144A, or in transactions that occur outside the United States to persons other than US persons in accordance with Regulation S or in other transactions exempt from registration under the Securities Act and, in each case, in compliance with applicable securities laws.]

**ARRANGER FOR THE ISSUE**

[●]

**DEALERS AND MANAGERS**

[●]

[●]

[●]

dated [●]

---

\* To be deleted in issue terms related to Non-ISE Listed Notes.

**[A column to be added for each further class of notes of the applicable series on the right hand side of the page]**

1.	Class:	[●]	[●]
2.	Series Number:	[●]	[●]
3.	Issuer:	Fosse Master Issuer plc	Fosse Master Issuer plc
4.	Specified Currency or Currencies:	[●]	[●]
5.	Initial Principal Amount:	[●]	[●]
6.	(a) Issue Price:	[●]% of the Initial Principal Amount [plus accrued interest from [●]]	[●]% of the Initial Principal Amount [plus accrued interest from [●]]
	(b) Net proceeds:	[●]	[●]
7.	Required Subordinated Percentage:	[●]%	[●]%
8.	(a) General Reserve Required Amount:	[●]	[●]
	(b) Arrears or Step-up Trigger Event:		
	• item (i) of General Reserve Fund increased amount:	£[●]	£[●]
	• item (ii) of General Reserve Fund increased amount:	£[●]	£[●]
	• items (i) and (ii) of General Reserve Fund increased amount:	£[●]	£[●]
9.	Interest-only mortgage level test:	“C” for these purposes is [●]	“C” for these purposes is [●]
10.	Ratings (Standard & Poor's Ratings Services, a division of Standard & Poor's Credit Market Services Europe Limited (Standard & Poor's), Moody's Investors Service Limited (Moody's) and Fitch Ratings Ltd. (Fitch)):	[[●]/[●]/[●]][Not Applicable]	[[●]/[●]/[●]][Not Applicable]
11.	Specified Denominations:	[●]	[●]
12.	(a) Closing Date/Issue Date:	[●]	[●]
	(b) Interest Commencement Date:	[●]	[●]
13.	Final Maturity Date:	[●] [Floating rate – Interest Payment Date occurring in or nearest to [●]]	[●] [Floating rate – Interest Payment Date occurring in or nearest to [●]]
14.	Interest Basis:	[[●]% Fixed Rate] [[[●]LIBOR/[●]EURIBOR/[●]USD-LIBOR/[●]AUD-BBR-BBSW/[●]JPY LIBOR/[●] CDOR] +/- [●]% Floating Rate] [Zero Coupon]	[[●]% Fixed Rate] [[[●]LIBOR/[●]EURIBOR/[●]USD-LIBOR/[●]AUD-BBR-BBSW/[●]JPY LIBOR/[●] CDOR] +/- [●]% Floating Rate] [Zero Coupon]
15.	Redemption/Payment Basis:	[Bullet Redemption] [Scheduled Redemption] [Pass-Through]	[Bullet Redemption] [Scheduled Redemption] [Pass-Through]
16.	Change of Interest Basis or Redemption/Payment Basis:	[Not applicable] / [Following the Step-Up Date]	[Not applicable] / [Following the Step-Up Date]

		[●]LIBOR/[●]EURIBOR/[●] USD-LIBOR/[●]AUD- BBR-BBSW/[●]JPY LIBOR/[●] CDOR] +/- [●]% Floating Rate] [and] [Following the occurrence of a Pass-Through Trigger Event [●]LIBOR/[●]EURIBOR/[●] USD-LIBOR/[●]AUD- BBR-BBSW/[●]JPY LIBOR/[●] CDOR] +/- [●]% Floating Rate]]	[●]LIBOR/[●]EURIBOR/[●] USD-LIBOR/[●]AUD- BBR-BBSW/[●]JPY LIBOR/[●] CDOR] +/- [●]% Floating Rate] [and] [Following the occurrence of a Pass-Through Trigger Event [●]LIBOR/[●]EURIBOR/[●] USD-LIBOR/[●]AUD- BBR-BBSW/[●]JPY LIBOR/[●] CDOR] +/- [●]% Floating Rate]]
17.	(a) Listing:	[Irish Stock Exchange's Main Securities Market/Australian Securities Exchange Official List/none]	[Irish Stock Exchange's Main Securities Market/Australian Securities Exchange Official List/none]
	(b) Estimate of total expenses related to admission to trading:	[●]	[●]
18.	Method of distribution:	[Syndicated/Non- syndicated/Retained]	[Syndicated/Non- syndicated/Retained]
19.	Placement disclosure for PCS purposes only:	[Not Applicable/Applicable: [Private/Public/Retained]]	[Not Applicable/Applicable: [Private/Public/Retained]]
<b>PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE</b>			
20.	Fixed Rate Note Provisions:	[Applicable] [Not Applicable] [Applicable until [the earlier to occur of] [the Step-up Date] [and/or] [a Pass-Through Trigger Event]]	[Applicable] [Not Applicable] [Applicable until [the earlier to occur of] [the Step-up Date] [and/or] [a Pass-Through Trigger Event]]
	(a) Rate(s) of Interest:	[●]% per annum [payable [annually/semi annually/quarterly/monthl y] in arrear]	[●]% per annum [payable [annually/semi annually/quarterly/monthl y] in arrear]
	(b) Interest Payment Date(s):	[The [18th] of [each calendar month/[●]] in each year [or, following the occurrence of [the Step-up Date] [and/or] [a Pass-Through Trigger Event] the [18th] of [each calendar month/[●]] in each year]] up to and including the Final Maturity Date commencing on [●]/[●]]	[The [18th] of [each calendar month/[●]] in each year [or, following the occurrence of [the Step-up Date] [and/or] [a Pass-Through Trigger Event] the [18th] of [each calendar month/[●]] in each year]] up to and including the Final Maturity Date commencing on [●]/[●]]
	(c) Fixed Coupon Amount(s):	[[●] per [●] in nominal amount]  [[Prior to the occurrence of the [Step-Up Date] [and/or] [a Pass-Through Trigger Event]] [and] [except in respect of the first Note Payment Date (when the amount payable shall be the Broken Amount specified	[[●] per [●] in nominal amount]  [[Prior to the occurrence of the [Step-Up Date] [and/or] [a Pass-Through Trigger Event]] [and] [except in respect of the first Note Payment Date (when the amount payable shall be the Broken Amount specified

		in 20(d) below),] the Fixed Coupon Amount shall be [●] per [●] in nominal amounts] [and, for the avoidance of doubt, the Fixed Coupon Amount in respect of the final Fixed Interest Period shall be payable on the Interest Payment Date following the Change of Interest Basis or Redemption/Payment Basis in 16 above.]	in 20(d) below),] the Fixed Coupon Amount shall be [●] per [●] in nominal amounts] [and, for the avoidance of doubt, the Fixed Coupon Amount in respect of the final Fixed Interest Period shall be payable on the Interest Payment Date following the Change of Interest Basis or Redemption/Payment Basis in 16 above.]
	(d) Broken Amount(s):	[[●]/[Not Applicable]]	[[●]/[Not Applicable]]
	(e) Day Count Fraction:	[Actual/Actual (ICMA) 30/360]	[Actual/Actual (ICMA) 30/360]
	(f) Determination Date(s):	[[●] in each year/[Not Applicable]]	[[●] in each year/[Not Applicable]]
21.	Floating Rate Note Provisions:	[Applicable] [Not Applicable] [Applicable following [the earlier to occur of] [the Step-up Date] [and/or] [a Pass-Through Trigger Event]]	[Applicable] [Not Applicable] [Applicable following [the earlier to occur of] [the Step-up Date] [and/or] [a Pass-Through Trigger Event]]
	(a) Specified Period(s)/Specified Interest Payment Dates:	[The [18th] of [each calendar month/[●]] in each year [or, following the occurrence of [the Step-Up Date] [and/or] [a Pass-Through Trigger Event], the [18th] of [each calendar month/[●]] in each year] up to and including the Final Maturity Date commencing on [●]/[●]	[The [18th] of [each calendar month/[●]] in each year [or, following the occurrence of [the Step-Up Date] [and/or] [a Pass-Through Trigger Event], the [18th] of [each calendar month/[●]] in each year] up to and including the Final Maturity Date commencing on [●]/[●]
	(b) Business Day Convention:	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]	[Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(c) Additional Business Centre(s):	[[●]/None – [London], [New York], [Sydney], [Tokyo], [Toronto] and TARGET]	[[●]/None – [London], [New York], [Sydney], [Tokyo], [Toronto] and TARGET]
	(d) Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]	[Screen Rate Determination/ISDA Determination]
	(e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent Bank):	[●]	[●]
	(f) Screen Rate Determination	[Applicable/Not Applicable]	[Applicable/Not Applicable]
	• Reference Rate:	[●]LIBOR/[●]EURIBOR/[●] USD-LIBOR/[●]AUD-BBR-BBSW/[●]JPY LIBOR/[●] CDOR] [or, in	[●]LIBOR/[●]EURIBOR/[●] USD-LIBOR/[●]AUD-BBR-BBSW/[●]JPY LIBOR/[●] CDOR] [or, in



	respect of the first interest period,[the linear interpolation of [●] month and [●] month] [●]LIBOR/[●]EURIBOR/[●]USD-LIBOR/[●]AUD-BBR-BBSW/[●]JPY LIBOR/[●] CDOR]] [or, from the Interest Payment Date following the occurrence of [the Step-Up Date] [and/or] [a Pass-Through Trigger Event], [●]LIBOR/[●]EURIBOR/[●]USD-LIBOR/[●]AUD-BBR-BBSW/[●]JPY LIBOR/[●] CDOR]]	respect of the first interest period,[the linear interpolation of [●] month and [●] month] [●]LIBOR/[●]EURIBOR/[●]USD-LIBOR/[●]AUD-BBR-BBSW/[●]JPY LIBOR/[●] CDOR]] [or, from the Interest Payment Date following the occurrence of [the Step-Up Date] [and/or] [a Pass-Through Trigger Event], [●]LIBOR/[●]EURIBOR/[●]USD-LIBOR/[●]AUD-BBR-BBSW/[●]JPY LIBOR/[●] CDOR]]
	• Interest Determination Date(s): [●]	• [●]
	• Relevant Screen Page: [●]	• [●]
(g)	ISDA Determination: [Applicable/Not Applicable]	[Applicable/Not Applicable]
	• Floating Rate Option: [●]	• [●]
	• Designated Maturity: [●]	• [●]
	• Reset Date: [●]	• [●]
(h)	Margin(s): [+/-] [●]% per annum [or, following a Pass-Through Trigger Event, [+/-] [●]% per annum]	[+/-] [●]% per annum [or, following a Pass-Through Trigger Event, [+/-] [●]% per annum]
(i)	Minimum Rate of Interest: [Not Applicable/[●]% per annum]	[Not Applicable/[●]% per annum]
(j)	Maximum Rate of Interest: [Not Applicable/[●]% per annum]	[Not Applicable/[●]% per annum]
(k)	Step-Up Date [Not Applicable/The Interest Payment Date occurring in [●] on which date [each of the Margin, the Minimum Rate of Interest and the Maximum Rate of Interest shall be replaced with the Step-Up Margin, the Step-Up Minimum Rate of Interest and the Step-Up Maximum Rate of Interest, respectively] [the Fixed Rate of Interest shall be replaced with [●]LIBOR/[●]EURIBOR/[●]USD-LIBOR/[●]AUD-BBR-BBSW/[●]JPY LIBOR/[●] CDOR] plus the Step-up Margin]]	[Not Applicable/The Interest Payment Date occurring in [●] on which date [each of the Margin, the Minimum Rate of Interest and the Maximum Rate of Interest shall be replaced with the Step-Up Margin, the Step-Up Minimum Rate of Interest and the Step-Up Maximum Rate of Interest, respectively] [the Fixed Rate of Interest shall be replaced with [●]LIBOR/[●]EURIBOR/[●]USD-LIBOR/[●]AUD-BBR-BBSW/[●]JPY LIBOR/[●] CDOR] plus the Step-up Margin]]
	• Step-Up Margin(s): [+/-] [●]% per annum	• [+/-] [●]% per annum
	• Step-Up Minimum Rate of Interest: [●]% per annum	• [●]% per annum
	• Step-Up Maximum Rate of Interest: [●]% per annum]	• [●]% per annum]

	(l) Day Count Fraction:	[Actual/Actual (ICMA) Actual/365 Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 360/360 30E/360]	[Actual/Actual (ICMA) Actual/365 Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 360/360 30E/360]
22.	Zero Coupon Note Provisions	[Applicable/Not Applicable]	[Applicable/Not Applicable]
	(a) Accrual Yield:	[•]% per annum	[•]% per annum
	(b) Reference Price:	[•]	[•]
	(c) Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Condition 5.7 <i>Redemption and Mandatory Transfer – Redemption Amounts</i> applies/[•]]	[Condition 5.7 <i>Redemption and Mandatory Transfer – Redemption Amounts</i> applies/[•]]
<b>PROVISIONS RELATING TO REDEMPTION</b>			
23.	Details relating to Bullet Redemption Notes:	[Applicable/Not Applicable]	[Applicable/Not Applicable]
	(a) Redemption Amount:	[•]	[•]
	(b) Bullet Redemption Date:	Interest Payment Date occurring in [•]	Interest Payment Date occurring in [•]
	(c) Cash Accumulation Period:	[•] months	[•] months
24.	Details relating to Scheduled Redemption Notes:	[Applicable/Not Applicable]	[Applicable/Not Applicable]
	(a) Scheduled Redemption Dates:	Interest Payment Dates occurring in [•]	Interest Payment Dates occurring in [•]
	(b) Scheduled Amortisation Instalments:	[•]	[•]
25.	Details relating to Pass-Through Notes:	[Applicable/Not Applicable]	[Applicable/Not Applicable]
	(a) Pass-through repayment dates:	To be redeemed in full or in part on each Interest Payment Date falling on or after the Interest Payment Date [in [•]/on which all the [•] Series [•] Class [•] Notes [and the [•] Series [•] Class [•] Notes] have been redeemed in full]	To be redeemed in full or in part on each Interest Payment Date falling on or after the Interest Payment Date [in [•]/on which all the [•] Series [•] Class [•] Notes [and the [•] Series [•] Class [•] Notes] have been redeemed in full]
26(a).	Redemption Amount:	[Condition 5.7 applicable/[•]]	[Condition 5.7 applicable/[•]]
26(b).	Optional Redemption:	[Condition 5.4(c) applicable/[•]]	[Condition 5.4(c) applicable/[•]]
26(c).	Optional Redemption Date:	[Not Applicable/[•]]	[Not Applicable/[•]]

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

27.	(a) New Safekeeping Structure:	[Applicable/Not Applicable]	[Applicable/Not Applicable]
	(b) Form of Notes:	[Rule 144A Global Note registered in the name of a nominee for the Depository Trust Company/Reg S Global Note registered in the name of a nominee for a [common depository/common safekeeper] for Euroclear and Clearstream, Luxembourg]	[Rule 144A Global Note registered in the name of a nominee for the Depository Trust Company/Reg S Global Note registered in the name of a nominee for a [common depository/common safekeeper] for Euroclear and Clearstream, Luxembourg]
28.	Issuer Swap Providers:	[Abbey National Treasury Services plc/ /Not Applicable]	[Abbey National Treasury Services plc/ /Not Applicable]
29.	Specified currency exchange rate:	[Not Applicable £1.00/US\$[•] €1.00/£[•] AUD\$1.00/£[•] ¥1.00/£[•] CAD\$1.00/£[•] [•]]	[Not Applicable £1.00/US\$[•] €1.00/£[•] AUD\$1.00/£[•] ¥1.00/£[•] CAD\$1.00/£[•] [•]]
30.	Redenomination applicable:	Redenomination [not] applicable	Redenomination [not] applicable
31.	ERISA eligibility:	[No]/[Yes, subject to the considerations in “ <i>ERISA considerations</i> ” in the base prospectus.]	[No]/[Yes, subject to the considerations in “ <i>ERISA considerations</i> ” in the base prospectus.]
32.	U.S. Taxation:	[Debt for United States federal income tax purposes, subject to the considerations contained in “ <i>United States federal income taxation</i> ” in the base prospectus]/[Not Applicable]	[Debt for United States federal income tax purposes, subject to the considerations contained in “ <i>United States federal income taxation</i> ” in the base prospectus]/[Not Applicable]
33.	Money Market Notes (2a-7):	[Yes/No]	[Yes/No]
34.	Do the Notes have the benefit of remarketing arrangements:	[Yes/No]	[Yes/No]
	If yes:		
	(a) Name of remarketing agent:	[•]	[•]
	(b) Name of money market note purchaser/conditional purchaser:	[•]	[•]
	(c) Name of the tender agent:	[•]	[•]
	(d) Mandatory transfer date:	[•]	[•]
	(e) Maximum reset margin:	[•]	[•]

**OPERATIONAL INFORMATION**

35.	Any clearing system(s) other than DTC, Euroclear, or Clearstream, Luxembourg and the relevant identification numbers:	[Not Applicable/[•]]	[Not Applicable/[•]]
36.	Delivery:	Delivery [against/free of payment]	Delivery [against/free of payment]

37.	Names and addresses of additional Paying Agent(s) (if any):	[•]	[•]
38.	ISIN Code:	[Rule 144A: [•]/Reg S: [•]]	[Rule 144A: [•]/Reg S: [•]]
39.	Common Code:	[Rule 144A: [•]/Reg S: [•]]	[Rule 144A: [•]/Reg S: [•]]
40.	CUSIP:	[Not Applicable/[•]]	[Not Applicable/[•]]
<b>LOAN TRANCHE INFORMATION</b>			
41.	Borrower:	Fosse Funding (No.1) Limited	Fosse Funding (No.1) Limited
42.	Lender:	Fosse Master Issuer plc	Fosse Master Issuer plc
43.	Tier of Loan Tranche:	[AAA Loan Tranche/AA Loan Tranche/A Loan Tranche/BBB Loan Tranche/BB Loan Tranche/NR Loan Tranche]	[AAA Loan Tranche/AA Loan Tranche/A Loan Tranche/BBB Loan Tranche/BB Loan Tranche/NR Loan Tranche]
44.	Series Number:	Series [•]	Series [•]
45.	Designation of Loan Tranche:	[Bullet Loan Tranche/Scheduled Amortisation Loan Tranche/Pass-Through Loan Tranche]	[Bullet Loan Tranche/Scheduled Amortisation Loan Tranche/Pass-Through Loan Tranche]
46.	Change of Redemption/Payment Basis:	[Not Applicable/[•]]	[Not Applicable/[•]]
47.	Initial Principal Amount:	£[•]	£[•]
	(a) Closing Date:	[•]	[•]
	(b) Loan Tranche Interest Commencement Date:	[•]	[•]
	(c) Loan Tranche Interest Reset Dates:	The Funding 1 Interest Payment Date occurring [quarterly/monthly] commencing with the Funding 1 Interest Payment Date occurring in [•] provided no Pass-Through Trigger Event has occurred and thereafter each Funding 1 Interest Payment Date	The Funding 1 Interest Payment Date occurring [quarterly/monthly] commencing with the Funding 1 Interest Payment Date occurring in [•] provided no Pass-Through Trigger Event has occurred and thereafter each Funding 1 Interest Payment Date
48.	Funding 1 Interest Payment Dates:	The [18th] of [each calendar month/[list applicable months for quarterly pay/[•]] in each year (or, if such day is not a Business Day, the next succeeding Business Day) [or, following the occurrence of [the Step-up Date] [and/or] [a Pass-Through Trigger Event], the [18th] of [each month/[•]] in each year] up to and including the Final Maturity Date commencing on [•]/[•]	The [18th] of [each calendar month/[list applicable months for quarterly pay/[•]] in each year (or, if such day is not a Business Day, the next succeeding Business Day) [or, following the occurrence of [the Step-up Date] [and/or] [a Pass-Through Trigger Event], the [18th] of [each month/[•]] in each year] up to and including the Final Maturity Date commencing on [•]/[•]
49.	Initial Loan Tranche Margin per annum:	[•] [+/-] [•]%	[•] [+/-] [•]%

50.	Step-Up Date (if any):	[The Funding 1 Interest Payment Date occurring in [●]/Not Applicable] on which date the initial interest rate per annum shall be replaced with the stepped-up interest rate per annum	[The Funding 1 Interest Payment Date occurring in [●]/Not Applicable] on which date the initial interest rate per annum shall be replaced with the stepped-up interest rate per annum
51.	Stepped-up interest rate per annum:	[[●]/Not Applicable]	[[●]/Not Applicable]
52.	Details relating to Bullet Loan Tranches:	[Applicable/Not Applicable]	[Applicable/Not Applicable]
	(a) Bullet Repayment Date:	[●]	[●]
	(b) Repayment Amount:	[●]	[●]
	(c) Relevant Accumulation Amount:	[●]	[●]
53.	Details relating to Scheduled Amortisation Loan Tranches:	[Applicable/Not Applicable]	[Applicable/Not Applicable]
	(a) Scheduled Repayment Dates:	[●]	[●]
	(b) Repayment Amounts:	[●]	[●]
	(c) Relevant Accumulation Amounts:	[●]	[●]
54.	Details relating to Pass-Through Loan Tranches:	[Applicable/Not Applicable]	[Applicable/Not Applicable]
55.	Final Repayment Date:	The Funding 1 Interest Payment Date falling in [●]	The Funding 1 Interest Payment Date falling in [●]
56.	Loan Tranche Payment Dates:	[Each Funding 1 Interest Payment Date/[●]]	[Each Funding 1 Interest Payment Date/[●]]

**PROVISIONS RELATING TO NON-ISE LISTED NOTES (INCLUDING FOREIGN LAW NOTES) ONLY**

57.	Governing law:	[●]	[●]
58.	Form of notes:	[●]	[●]
59.	Clearing of notes:	[●]	[●]
60.	[Paying agent]:	[●]	[●]
61.	[Other terms and conditions]:	[●]	[●]

**[CURRENCY PRESENTATION**

[Unless otherwise stated in these final terms, all conversions of pounds sterling into U.S. dollars have been made at the rate of £1.00 = US\$[●] which was the closing buying rate in the City of New York for cable transfers in dollars per £1.00 as certified for customs purposes by the Federal Reserve Bank of New York on [●]. Use of this rate does not mean that pounds sterling amounts actually represent those U.S. dollar amounts or could be converted into U.S. dollars at that rate at any particular time.

**Sterling/U.S. dollar exchange rate history**

	<b>[Period [●] 201[●]/31 December 2013]</b>
Last <sup>(1)</sup> .....	[●]
Average <sup>(2)</sup> .....	[●]
High.....	[●]
Low .....	[●]

Notes:

(1) The closing exchange rate on the last operating business day of each of the periods indicated, years commencing from 1 January or the next operating business day.

(2) Average daily exchange rate during the period.

Source: Bloomberg – Close of Business Mid Price]

[Unless otherwise stated in these final terms, all conversions of pounds sterling into euro have been made at the rate of €1.00 = £[●] which was the closing buying rate in the City of New York for cable transfers in pounds sterling per €1.00 as certified for customs purposes by the Federal Reserve Bank of New York on [●]. Use of this rate does not mean that pound sterling amounts actually represent those euro amounts or could be converted into euro at that rate at any particular time.

**Euro/sterling exchange rate history**

	<b>[Period [●] 201[●]/31 December 2013]</b>
Last <sup>(1)</sup> .....	[●]
Average <sup>(2)</sup> .....	[●]
High.....	[●]
Low .....	[●]

Notes:

(1) The closing exchange rate on the last operating business day of each of the periods indicated, years commencing from 1 January or the next operating business day.

(2) Average daily exchange rate during the period.

Source: Bloomberg – Close of Business Mid Price]

[Unless otherwise stated in these final terms, all conversions of pounds sterling into Australian dollars have been made at the rate of AUD\$1.00 = £[●] which was the closing buying rate in the City of New York for cable transfers in pounds sterling per AUD\$1.00 as certified for customs purposes by the Federal Reserve Bank of New York on [●]. Use of this rate does not mean that pound sterling amounts actually represent those Australian dollar amounts or could be converted into Australian dollars at that rate at any particular time.

**AUD\$/sterling exchange rate history**

	<b>[Period [●] 201[●]/31 December 2013]</b>
Last <sup>(1)</sup> .....	[●]
Average <sup>(2)</sup> .....	[●]
High.....	[●]
Low .....	[●]

Notes:

(1) The closing exchange rate on the last operating business day of each of the periods indicated, years commencing from 1 January or the next operating business day.

(2) Average daily exchange rate during the period.

Source: Bloomberg – Close of Business Mid Price]

[Unless otherwise stated in these final terms, all conversions of pounds sterling into yen have been made at the rate of ¥1.00 = £[●] which was the closing buying rate in the City of New York for cable transfers in pounds sterling per ¥1.00 as certified for customs purposes by the Federal Reserve Bank of New York on [●]. Use of this rate does not mean that pound sterling amounts actually represent those yen amounts or could be converted into yen at that rate at any particular time.

**Yen/sterling exchange rate history**

	[Period [●] 201[●]/31 December 2013]
Last <sup>(1)</sup> .....	[●]
Average <sup>(2)</sup> .....	[●]
High.....	[●]
Low .....	[●]

Notes:

- (1) The closing exchange rate on the last operating business day of each of the periods indicated, years commencing from 1 January or the next operating business day.
  - (2) Average daily exchange rate during the period.
- Source: Bloomberg – Close of Business Mid Price]

[Unless otherwise stated in these final terms, all conversions of pounds sterling into Canadian dollars have been made at the rate of CAD\$1.00 = £[●] which was the closing buying rate in the City of New York for cable transfers in pounds sterling per CAD\$1.00 as certified for customs purposes by the Federal Reserve Bank of New York on [●]. Use of this rate does not mean that pound sterling amounts actually represent those Canadian dollar amounts or could be converted into Canadian dollars at that rate at any particular time.

**CAD\$/sterling exchange rate history**

	[Period [●] 201[●]/31 December 2013]
Last <sup>(1)</sup> .....	[●]
Average <sup>(2)</sup> .....	[●]
High.....	[●]
Low .....	[●]

Notes:

- (1) The closing exchange rate on the last operating business day of each of the periods indicated, years commencing from 1 January or the next operating business day.
  - (2) Average daily exchange rate during the period.
- Source: Bloomberg – Close of Business Mid Price]

**FUNDING 1 START-UP LOAN**

The Funding 1 start-up loan to be made available to Funding 1 on the closing date in connection with series [●] will have the following terms:

**Funding 1 start-up loan provider:** Santander UK  
**Initial outstanding principal balance:** £[●]  
**Interest rate:** [●] per annum

The Funding 1 start-up loans made available to Funding 1 on the previous closing dates had the following terms:

<b>Funding 1 start-up loan provider</b>	<b>Initial outstanding principal balance</b>	<b>Current outstanding principal balance</b>	<b>Interest rate</b>	<b>Date of advance</b>	<b>Relevant series of notes</b>
Santander UK	£46,043,701	£[●]	Three-Month Sterling LIBOR + 0.90% per annum	23 May 2012	2012-1
Santander UK	£4,288,000	£[●]	Three-Month Sterling LIBOR + 0.90% per annum	6 December 2011	2011-2
Santander UK	£14,225,000	£[●]	Three-Month Sterling LIBOR + 0.90% per annum	25 May 2011	2011-1
Santander UK	£430,800,000	£[●]	Three-Month Sterling LIBOR + 0.90% per annum	9 September 2010	2010-4
Santander UK	£89,000,000	£[●]	Three-Month Sterling LIBOR + 0.90% per annum	27 July 2010	2010-3
Santander UK	£63,000,000	£[●]	Three-Month Sterling LIBOR + 0.90% per annum	3 June 2010	2010-2
Originally Alliance & Leicester (now Santander UK)	£9,500,000	£[●]	Three-Month Sterling LIBOR + 0.90% per annum	12 March 2010	2010-1
Originally Alliance & Leicester (now Santander UK)	£4,400,000	£[●]	Three-Month Sterling LIBOR + 0.90% per annum	20 August 2008	2008-1
Originally Alliance & Leicester (now Santander UK)	£45,976,000	£[●]	Three-Month Sterling LIBOR + 0.90% per annum	1 August 2007	2007-1
Originally Alliance & Leicester (now Santander UK)	£53,242,500	£[●]	Three-Month Sterling LIBOR + 0.90% per annum	28 November 2006	2006-1

**Other series issued**

As of the closing date, the aggregate principal amount outstanding of notes issued by the issuer (converted, where applicable, into sterling at the applicable specified currency exchange rate), including the notes described herein, will be:

Class A Notes .....	£[●]
Class B Notes .....	£[●]
Class M Notes .....	£[●]
Class C Notes .....	£[●]
Class D Notes .....	£[●]
Class Z Notes .....	£[●]



**Other loan tranches**

As of the closing date, the aggregate outstanding principal balance of loan tranches advanced by the issuer to Funding 1 under the intercompany loan agreement, including the loan tranches described herein will be:

AAA.....	£[●]
AA.....	£[●]
A.....	£[●]
BBB.....	£[●]
BB.....	£[●]
NR.....	£[●]
Total.....	£[●]

## **MORTGAGES TRUST AND THE PORTFOLIO**

As at the closing date the minimum seller share will be approximately £[●].

For the purposes of paragraph (d) of the definition of **non-asset trigger event**, the aggregate outstanding balance of loans comprising the trust property must be at least £[●]. See “**The mortgages trust – Cash management of trust property – Principal receipts**” in the base prospectus.

## MORTGAGE SALE AGREEMENT

The **Fitch conditions** for the purposes of the mortgage sale agreement are:

- original weighted average LTV margin: [●].
- current weighted average LTV margin: [●].
- current weighted average income multiple threshold: [●].
- original LTV margin: [●].

The **minimum yield** for the purposes of the mortgage sale agreement is: [●].

The definition of 'Y' within the definition of **rating agency excess spread** is: LIBOR for 3 month sterling deposits plus [●] per cent.

## FUNDING 1 SWAPS

### Total Interim exchange amounts

The **total interim exchange amount** payable in respect of (all of) the Funding 1 swap(s) on the closing date is £[●]. Funding 1 shall pay the total interim exchange amount to the Funding 1 swap provider on the closing date (such payment funded via the 20[●]-[●] start-up loan), and the Funding 1 swap provider shall pay an amount equal to such total interim exchange amount back to Funding 1 on the immediately following Funding 1 interest payment date.

[The interim exchange amount applicable to each Funding 1 swap shall be the proportion of the total interim exchange amount applicable to that Funding 1 swap, as calculated in accordance with the relevant Funding 1 swap agreement.]

The purpose of these arrangements is to fund the mismatch in days between the closing date and the first Funding 1 interest payment date on the one hand and the closing date and the first distribution date on the other hand.

### Spread (receive-leg) under the Funding 1 swaps

The terms of the Funding 1 swap(s) allow Funding 1 and the Funding 1 swap provider(s) to adjust from time to time the spread over LIBOR which the relevant Funding 1 swap provider pays to Funding 1 in order to reflect movements in market interest rates and interest rates being charged on the loans subject to the relevant Funding 1 swap(s). The relevant spreads under the Funding 1 swap(s) as at the closing date are:

Funding 1 swap (SVR) 1.....	[●]%
Funding 1 swap (SVR) 2.....	[●]%
Funding 1 swap (SVR) 3.....	[●]%
Funding 1 swap (SVR) 4.....	[●]%
Funding 1 swap (SVR) 5.....	[●]%
Funding 1 swap (BBR) 1.....	[●]%
Funding 1 swap (BBR) 2.....	[●]%
Funding 1 swap (BBR) 3.....	[●]%
Funding 1 swap (BBR) 4.....	[●]%
Funding 1 swap (BBR) 5.....	[●]%
Funding 1 swap (Fixed) 1 .....	[●]%
Funding 1 swap (Fixed) 2 .....	[●]%
Funding 1 swap (Fixed) 3 .....	[●]%
Funding 1 swap (Fixed) 4 .....	[●]%
Funding 1 swap (Fixed) 5 .....	[●]%

### Post-perfection SVR-LIBOR margin

The **post-perfection SVR-LIBOR margin** for the purposes of the servicing agreement is: [●]%

## **USE OF PROCEEDS**

The gross proceeds from the issue of the series [●] notes equal approximately £[●] (after exchanging, where applicable, the proceeds of the notes for sterling, calculated by reference to the applicable specified currency exchange rate) and will be used by the issuer to make available loan tranches to Funding 1 pursuant to the terms of the intercompany loan agreement. Funding 1 will use the gross proceeds of each loan tranche to [make available an initial contribution to the mortgages trustee] [make a further contribution to the mortgages trustee] [to fund or replenish the general reserve fund] [to refinance the existing debt of Funding 1].

## MATURITY AND PREPAYMENT CONSIDERATIONS

The average lives of each class of the series [●] notes cannot be stated, as the actual rate of repayment of the loans and redemption of the mortgages and a number of other relevant factors are unknown. However, calculations of the possible average lives of each class of the series [●] notes can be made based on certain assumptions. For example, based on the assumptions that:

- (1) neither the issuer security nor the Funding 1 security has been enforced;
- (2) each class of series [●] notes is repaid in full by its final maturity date;
- (3) the seller is not in breach of the terms of the mortgage sale agreement;
- (4) the seller does not sell any loans to the mortgages trustee after the closing date (except to the extent set out in assumption (5) below) and the loans are assumed to amortise in accordance with the assumed principal prepayment rate as indicated in the table below;
- (5) the seller sells to the mortgages trustee sufficient new loans and their related security, such that the aggregate principal amount outstanding of the loans in the portfolio will not fall below an amount equal to 1.15 times the Funding 1 share, or such higher amount as may be required to be maintained as a result of the issuer advancing loan tranches to Funding 1 and/or any new issuer advancing new loan tranches to Funding 1 or any further Funding company (as the case may be) which Funding 1 and/or any further Funding company (as the case may be) uses as consideration for an increase in its share of the trust property or for the sale of new loans to the mortgages trustee;
- (6) new loans sold to the mortgages trustee will have the same scheduled principal repayment profile as the portfolio of [●];
- (7) neither an asset trigger event nor a non-asset trigger event occurs;
- (8) no event occurs that would cause payments on any class of series [●] notes to be deferred;
- (9) the principal prepayment rate as at the cut-off date for the [provisional] portfolio is the same as the various assumed rates in the table below;
- (10) the issuer exercises its option to redeem each series of notes on the step-up date relating to such notes;
- (11) the closing date is [●];
- (12) the mortgage loans are not subject to any defaults or losses, and no mortgage loan falls into arrears;
- (13) no interest or fees are paid from principal receipts;
- (14) the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller continue to be rated at least “[●]” by Moody's and “[●]” by Standard & Poor's and the long-term IDR of the seller continues to be at least “[●]” by Fitch; and
- (15) the principal ledger balance at close is assumed to be the cash accumulated after the distribution date on [●], equal to £[●];

the approximate average life in years of each class of the series [●] notes, at various principal prepayment rates would be as follows:

**Estimated average lives of each class of series [●] notes (in years)**

[(Without optional redemption on the interest payment date falling in [●])]

[(With optional redemption on the interest payment date falling in [●])]

	series[(1)] [●] class [●] notes	series[(2)] [●] class [●] notes	series[(3)] [●] class [●] notes	series[(4)] [●] class [●] notes	series[(5)] [●] class [●] notes	series[(6)] [●] class [●] notes	series[(7)] [●] class [●] notes	series[(8)] [●] class [●] notes
Principal prepayment rate (per annum)								
5 per cent. ....	[●]	[●]	[●]	[●]	[●]	[●]	[●]	[●]
10 per cent. ....	[●]	[●]	[●]	[●]	[●]	[●]	[●]	[●]
15 per cent. ....	[●]	[●]	[●]	[●]	[●]	[●]	[●]	[●]
20 per cent. ....	[●]	[●]	[●]	[●]	[●]	[●]	[●]	[●]
25 per cent. ....	[●]	[●]	[●]	[●]	[●]	[●]	[●]	[●]
30 per cent. ....	[●]	[●]	[●]	[●]	[●]	[●]	[●]	[●]
35 per cent. ....	[●]	[●]	[●]	[●]	[●]	[●]	[●]	[●]

[insert in the case of remarketable notes:

(1) This represents the average lives to the first class [●] note mandatory transfer date in [●].

(2) This represents the average lives of all class [●] note remarketed after the first class [●] note mandatory transfer date in [●].

Assumptions (1), (3), (4), (5), (6), (7), (11), (12), (13), (14) and (15) relate to circumstances which are not predictable. Assumptions (2), (8), (9) and (10) reflect the issuer's current expectations, although no assurance can be given that the issuer will be in a position to redeem the notes on the step-up date. If the issuer does not so exercise its option to redeem, then the average lives of the then outstanding notes would be extended.

The average lives of the notes are subject to factors largely outside the control of the issuer and consequently no assurance can be given that these assumptions and estimates will prove in any way to be realistic and they must therefore be viewed with considerable caution. For more information in relation to the risks involved in the use of these estimated average lives, see **“Risk factors – The yield to maturity of your notes may be adversely affected by prepayments or redemptions on the loans”** in the base prospectus above.

## STATISTICAL INFORMATION ON THE EXPECTED PORTFOLIO

The statistical and other information contained in these final terms has been compiled by reference to the loans expected to comprise in the portfolio (the **expected portfolio**) as at [●] (the **cut-off date**). Columns stating percentage amounts may not add up to 100 per cent. due to rounding. Except as otherwise indicated, these tables have been prepared using the current balance as at the cut-off date, which includes all principal and excludes accrued interest for the loans in the expected portfolio.

A loan will be removed from any additional portfolio if, in the period up to (and including) the sale date related to such additional portfolio, the loan is repaid in full or if the loan does not comply with the terms of the mortgage sale agreement on or about the closing date.

The expected portfolio as at the cut-off date consisted of [●] mortgage accounts, comprising mortgage loans originated by Alliance & Leicester and/or, following the Part VII effective date, Santander UK and secured over properties located in England, Wales, Scotland and Northern Ireland, and having an aggregate outstanding principal balance of £[●] as at that date. The loans in the expected portfolio at the cut-off date were originated between [●] and [●].

As at [●], Alliance & Leicester's Standard Variable Rate was [●] and Santander UK's Standard Variable Rate was [●]. As at the closing date:

- Funding 1's share of the trust property will be approximately £[●] representing approximately [●] per cent. of the trust property; and
- the seller's share of the trust property will be approximately £[●] representing approximately [●] per cent. of the trust property.

The actual amounts of the Funding 1 share of the trust property and the seller share of the trust property as at the closing date will not be determined until the day before the closing date which will be after the date of these final terms.

### Outstanding balances as at the cut-off date

The following table shows the range of outstanding mortgage account balances (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the cut-off date.

Range of outstanding balances as at the cut-off date £	Aggregate outstanding balance as at the cut-off date (£)	% of total balance	Number of mortgage accounts	% of total mortgage accounts
0 to <=50,000.....	[●]	[●]	[●]	[●]
>50,000 to <=100,000 .....	[●]	[●]	[●]	[●]
>100,000 to <=150,000 .....	[●]	[●]	[●]	[●]
>150,000 to <=200,000 .....	[●]	[●]	[●]	[●]
>200,000 to <=250,000 .....	[●]	[●]	[●]	[●]
>250,000 to <=300,000 .....	[●]	[●]	[●]	[●]
>300,000 to <=350,000 .....	[●]	[●]	[●]	[●]
>350,000 to <=400,000 .....	[●]	[●]	[●]	[●]
>400,000 to <=450,000 .....	[●]	[●]	[●]	[●]
>450,000 to <=500,000 .....	[●]	[●]	[●]	[●]
>500,000 to <=550,000 .....	[●]	[●]	[●]	[●]
>550,000 to <=600,000 .....	[●]	[●]	[●]	[●]
>600,000 to <=650,000 .....	[●]	[●]	[●]	[●]
>650,000 to <=700,000 .....	[●]	[●]	[●]	[●]
>700,000 to <=750,000 .....	[●]	[●]	[●]	[●]
Totals .....	[●]	100.00	[●]	100.00

The maximum and average outstanding balances of the mortgage accounts as at the cut-off date were £[●] and £[●], respectively.



**Loan-to-value ratios at origination**

The following table shows the range of loan-to-value, or LTV, ratios, which express the outstanding balance of a mortgage loan as at the date of the original initial mortgage loan origination divided by the value of the property securing that mortgage loan at the same date.

<b>Range of LTV ratios at origination</b>	<b>Aggregate outstanding balance at the cut-off date (£)</b>	<b>% of total balance</b>	<b>Number of mortgage accounts</b>	<b>% of total mortgage accounts</b>
0% to <=25% .....	[●]	[●]	[●]	[●]
>25% to <=50% .....	[●]	[●]	[●]	[●]
>50% to <=75% .....	[●]	[●]	[●]	[●]
>75% to <=80% .....	[●]	[●]	[●]	[●]
>80% to <=85% .....	[●]	[●]	[●]	[●]
>85% to <=90% .....	[●]	[●]	[●]	[●]
>90% to <=95% .....	[●]	[●]	[●]	[●]
≥95% .....	[●]	[●]	[●]	[●]
<b>Totals .....</b>	<b>[●]</b>	<b>100.00</b>	<b>[●]</b>	<b>100.00</b>

As at the reference date, the weighted average LTV at origination was [●] per cent.

**Cut-off date LTV ratios**

The following table shows the range of LTV ratios, which express the outstanding balance of the aggregate of loans in a mortgage account (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the cut-off date divided by the value of the property securing the loans in that mortgage account as at the date of the initial loan origination or the most recent valuation thereof. When granting a further advance, the seller may obtain a new valuation, and may in some circumstances, where the relevant loan meets certain criteria, apply movements in the Halifax House Price Index for the relevant region, between the date of the most standard valuation held on file and the date of the further advance application, to the most recent standard valuation to produce an updated indexed valuation. No revaluation of the property securing the loans has been done for the purposes of the issuance of the notes by the issuer.

<b>Range of LTV ratios at the cut-off date</b>	<b>Aggregate outstanding balance at the cut-off date (£)</b>	<b>% of total balance</b>	<b>Number of mortgage accounts</b>	<b>% of total mortgage accounts</b>
0% to <=25% .....	[●]	[●]	[●]	[●]
>25% to <=50% .....	[●]	[●]	[●]	[●]
>50% to <=75% .....	[●]	[●]	[●]	[●]
>75% to <=80% .....	[●]	[●]	[●]	[●]
>80% to <=85% .....	[●]	[●]	[●]	[●]
>85% to <=90% .....	[●]	[●]	[●]	[●]
>90% to <=95% .....	[●]	[●]	[●]	[●]
≥95% .....	[●]	[●]	[●]	[●]
<b>Totals .....</b>	<b>[●]</b>	<b>100.00</b>	<b>[●]</b>	<b>100.00</b>

The weighted average LTV ratio of the mortgage accounts (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) at the cut-off date was [●] per cent.

### Cut-off date indexed LTV ratios

The following table shows the range of LTV ratios, which express the outstanding balance of the aggregate of loans in a mortgage account (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the cut-off date divided by the most recent indexed valuation of the property securing the loans in that mortgage account.

Range of LTV ratios as at the cut-off date	Aggregate outstanding balance as at the cut-off date (£)	% of total balance	Number of mortgage accounts	% of total mortgage accounts
0% to <=25% .....	[●]	[●]	[●]	[●]
>25% to <=50% .....	[●]	[●]	[●]	[●]
>50% to <=75% .....	[●]	[●]	[●]	[●]
>75% to <=80% .....	[●]	[●]	[●]	[●]
>80% to <=85% .....	[●]	[●]	[●]	[●]
>85% to <=90% .....	[●]	[●]	[●]	[●]
>90% to <=95% .....	[●]	[●]	[●]	[●]
≥95% .....	[●]	[●]	[●]	[●]
Totals .....	[●]	100.00	[●]	100.00

The weighted average LTV ratio as at the cut-off date of the mortgage accounts (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) was [●] per cent.

### Geographical distribution

The following table shows the distribution of properties securing the loans throughout England, Wales, Scotland and Northern Ireland as at the cut-off date. No such properties are situated outside England, Wales, Scotland and Northern Ireland.

Regions	Aggregate outstanding balance as at the cut-off date (£)	% of total balance	Number of mortgage accounts	% of total mortgage accounts
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
Unknown* .....	[●]	[●]	[●]	[●]
Totals .....	[●]	100.00	[●]	100.00

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

House prices vary throughout England, Scotland, Wales and Northern Ireland. The table below summarises the average house price in [●] and the average household income over the period from [●] to [●] for each region in order to produce a house price to earnings ratio for each region. The issuer confirms that the information in the table below 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, 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 the information set out in the table below nor made any enquiry with respect to such information. Neither the issuer nor the Office for National Statistics makes any representation as to the accuracy of the information or has any liability whatsoever to you in connection with such information. Anyone relying on the information does so at their own risk.

Regions	Average Price (£)	Average earnings (£ per annum)	Price/earnings ratio
East Anglia.....	[●]	[●]	[●]
East Midlands .....	[●]	[●]	[●]
Greater London.....	[●]	[●]	[●]
Northern Ireland.....	[●]	[●]	[●]
North East.....	[●]	[●]	[●]
North West.....	[●]	[●]	[●]
Scotland.....	[●]	[●]	[●]
South East.....	[●]	[●]	[●]
South West.....	[●]	[●]	[●]
Wales.....	[●]	[●]	[●]
West Midlands.....	[●]	[●]	[●]
Yorkshire & Humberside.....	[●]	[●]	[●]

Source: Department for Communities and Local Government  
Office for National Statistics

### Seasoning of loans

The following table shows the number of months since the date of origination of the initial loan in a mortgage account.

Age of loans in months as at the cut-off date	Aggregate outstanding balance as at the cut-off date (£)	% of total balance	Number of mortgage accounts	% of total mortgage accounts
0 to <6.....	[●]	[●]	[●]	[●]
>=6 to <12.....	[●]	[●]	[●]	[●]
>=12 to <18.....	[●]	[●]	[●]	[●]
>=18 to <24.....	[●]	[●]	[●]	[●]
>=24 to <30.....	[●]	[●]	[●]	[●]
>=30 to <36.....	[●]	[●]	[●]	[●]
>=36 to <42.....	[●]	[●]	[●]	[●]
>=42 to <48.....	[●]	[●]	[●]	[●]
>=48 to <54.....	[●]	[●]	[●]	[●]
>=54 to <60.....	[●]	[●]	[●]	[●]
>=60 to <66.....	[●]	[●]	[●]	[●]
>=66 to <72.....	[●]	[●]	[●]	[●]
>=72 to <78.....	[●]	[●]	[●]	[●]
>=78 to <84.....	[●]	[●]	[●]	[●]
>=84 to <90.....	[●]	[●]	[●]	[●]
>=90 to <96.....	[●]	[●]	[●]	[●]
>=96 to <102.....	[●]	[●]	[●]	[●]
>=102 to <108.....	[●]	[●]	[●]	[●]
>=108 to <114.....	[●]	[●]	[●]	[●]
>=114 to <120.....	[●]	[●]	[●]	[●]
>=120 to <126.....	[●]	[●]	[●]	[●]
>=126 to <132.....	[●]	[●]	[●]	[●]
≥=132 to <150.....	[●]	[●]	[●]	[●]
>=150 to <200.....	[●]	[●]	[●]	[●]
>=200 to <250.....	[●]	[●]	[●]	[●]
>=250.....	[●]	[●]	[●]	[●]
Totals .....	[●]	100.00	[●]	100.00

The maximum and weighted average seasoning of loans in mortgage accounts as at [●] will be [●], [●] and [●] months, respectively.

### 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 cut-off date.

Years to maturity	Aggregate outstanding balance as at the cut-off date (£)	% of total balance	Number of mortgage accounts	% of total mortgage accounts
0 to <5.....	[●]	[●]	[●]	[●]
>=5 to <10.....	[●]	[●]	[●]	[●]
>=10 to <15.....	[●]	[●]	[●]	[●]
>=15 to <20.....	[●]	[●]	[●]	[●]
>=20 to <25.....	[●]	[●]	[●]	[●]
>=25 to <30.....	[●]	[●]	[●]	[●]
>=30 to <35.....	[●]	[●]	[●]	[●]
>=35 to <40.....	[●]	[●]	[●]	[●]
>=40 to <45.....	[●]	[●]	[●]	[●]
Totals .....	[●]	100.00	[●]	100.00

The maximum and weighted average remaining term of the loans in mortgage accounts in the expected portfolio as at the cut-off date was [●] and [●] years, respectively.

### Purpose of loan

The following table shows whether the purpose of the initial loan on origination was to finance the purchase of a new property or to remortgage a property already owned by the borrower. The figures in these tables have been calculated on the basis of loan product holdings rather than mortgage accounts. A mortgage account may have more than one active loan product.

Use of proceeds	Aggregate outstanding balance as at the cut-off date (£)	% of total balance	Number of product holdings	% of total product holdings	Average balance
Purchase.....	[●]	[●]	[●]	[●]	£[●]
Remortgage (existing loan) .....	[●]	[●]	[●]	[●]	£[●]
Remortgage (capital raising) .....	[●]	[●]	[●]	[●]	£[●]
Other .....	[●]	[●]	[●]	[●]	£[●]
Totals .....	[●]	100.00	[●]	100.00	

As at the cut-off date, the average balance of loans used to finance the purchase of a new property was £[●] and the average balance of loans used to remortgage a property already owned by the borrower was £[●].

## Property type

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

Property type	Aggregate outstanding balance as at the cut- off date (£)	% of total balance	Number of mortgage accounts	% of total mortgage accounts	Average balance
[Converted Flat].....	[●]	[●]	[●]	[●]	£[●]
[Council Bungalow] .....	[●]	[●]	[●]	[●]	£[●]
[Council Flat] .....	[●]	[●]	[●]	[●]	£[●]
[Council House].....	[●]	[●]	[●]	[●]	£[●]
[Council Maisonette].....	[●]	[●]	[●]	[●]	£[●]
[Detached Bungalow].....	[●]	[●]	[●]	[●]	£[●]
[Detached House] .....	[●]	[●]	[●]	[●]	£[●]
[Maisonette].....	[●]	[●]	[●]	[●]	£[●]
[Other Residential Property].....	[●]	[●]	[●]	[●]	£[●]
[Purpose-Built Flat].....	[●]	[●]	[●]	[●]	£[●]
[Semi-Detached Bungalow].....	[●]	[●]	[●]	[●]	£[●]
[Semi-Detached House] .....	[●]	[●]	[●]	[●]	£[●]
[Terraced Bungalow].....	[●]	[●]	[●]	[●]	£[●]
[Terraced Bungalow]	[●]	[●]	[●]	[●]	£[●]
Unknown* .....	[●]	[●]	[●]	[●]	£[●]
Totals .....	[●]	100.00	[●]	100.00	

\* [Primarily flats or maisonettes.]

## Repayment terms

The following table shows the repayment terms for the loans in the expected portfolio mortgage accounts as at the cut-off date. The figures in these tables have been calculated on the basis of loan product holdings rather than mortgage accounts. A mortgage account may have more than one active loan product.

Repayment terms	Aggregate outstanding balance as at the cut-off date (£)	% of total balance	Number of product holdings	% of total product holdings
Repayment .....	[●]	[●]	[●]	[●]
Interest-only .....	[●]	[●]	[●]	[●]
Combination repayment and interest- only .....	[●]	[●]	[●]	[●]
Totals .....	[●]	100.00	[●]	100.00

## Rate type

The following table shows the distribution of rate types as at the cut-off date. The figures in these tables have been calculated on the basis of loan product holdings rather than mortgage accounts. A mortgage account may have more than one active loan product.

Type of rate	Aggregate outstanding balance as at the cut-off date (£)	% of total balance	Number of product holdings	% of total product holdings
Base rate loans .....	[●]	[●]	[●]	[●]
Discount loans .....	[●]	[●]	[●]	[●]
Fixed rate loans .....	[●]	[●]	[●]	[●]
Variable rate loans.....	[●]	[●]	[●]	[●]
Totals .....	[●]	100.00	[●]	100.00

**Fixed rate remaining terms**

The following table shows the distribution of reset dates in respect of the fixed rate loans as at the cut-off date.

<b>Years to reversion</b>	<b>Aggregate outstanding balance as at the cut-off date (£)</b>	<b>% of total balance</b>	<b>Number of product holdings</b>	<b>% of total product holdings</b>
0-3.....	[●]	[●]	[●]	[●]
3-5.....	[●]	[●]	[●]	[●]
5-10.....	[●]	[●]	[●]	[●]
10-15.....	[●]	[●]	[●]	[●]
>15.....	[●]	[●]	[●]	[●]
<b>Totals</b> .....	<b>[●]</b>	<b>100.00</b>	<b>[●]</b>	<b>100.00</b>

**Maturities of SVR loans**

The following table shows the distribution of maturities in respect of the variable rate loans as at the cut-off date.

<b>Years to maturity</b>	<b>Aggregate outstanding balance as at the cut-off date (£)</b>	<b>% of total balance</b>	<b>Number of product holdings</b>	<b>% of total product holdings</b>
0-3.....	[●]	[●]	[●]	[●]
3-5.....	[●]	[●]	[●]	[●]
5-10.....	[●]	[●]	[●]	[●]
10-15.....	[●]	[●]	[●]	[●]
>15.....	[●]	[●]	[●]	[●]
<b>Totals</b> .....	<b>[●]</b>	<b>100.00</b>	<b>[●]</b>	<b>100.00</b>

**Tracker loans remaining terms**

The following table shows the distribution of reset dates in respect of the tracker rate loans as at the cut-off date.

<b>Years to maturity</b>	<b>Aggregate outstanding balance as at the cut-off date (£)</b>	<b>% of total balance</b>	<b>Number of product holdings</b>	<b>% of total product holdings</b>
0-3.....	[●]	[●]	[●]	[●]
3-5.....	[●]	[●]	[●]	[●]
5-10.....	[●]	[●]	[●]	[●]
10-15.....	[●]	[●]	[●]	[●]
>15.....	[●]	[●]	[●]	[●]
<b>Totals</b> .....	<b>[●]</b>	<b>100.00</b>	<b>[●]</b>	<b>100.00</b>

**Payment methods**

The following table shows the payment methods for the mortgage accounts as at the cut-off date.

<b>Payment method</b>	<b>Aggregate outstanding balance as at the cut-off date (£)</b>	<b>% of total balance</b>	<b>Number of mortgage accounts</b>	<b>% of total mortgage accounts</b>
Direct debit.....	[●]	[●]	[●]	[●]
Cheque/Cash.....	[●]	[●]	[●]	[●]
<b>Totals</b> .....	<b>[●]</b>	<b>100.00</b>	<b>[●]</b>	<b>100.00</b>

### Distribution of fixed rate loans

As at the cut-off date, approximately [●] per cent. of the loans in the expected portfolio were 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 and instead bear a floating rate of interest. The figures in these tables have been calculated on the basis of loan product holdings rather than mortgage accounts. A mortgage account may have more than one active loan product.

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 rate or some other rate as specified in the offer conditions.

<b>Fixed rate</b>	<b>Aggregate outstanding balance as at the cut-off date (£)</b>	<b>% of total balance</b>	<b>Number of product holdings</b>	<b>% of total product holdings</b>
0% to =<4% .....	[●]	[●]	[●]	[●]
>4% to =<5% .....	[●]	[●]	[●]	[●]
>5% to =<6% .....	[●]	[●]	[●]	[●]
>6% .....	[●]	[●]	[●]	[●]
<b>Totals .....</b>	<b>[●]</b>	<b>100.00</b>	<b>[●]</b>	<b>100.00</b>

<b>Year, month in which current fixed rate period ends</b>	<b>Aggregate outstanding balance as at the cut-off date (£)</b>	<b>% of total balance</b>	<b>Number of fixed rate product holdings</b>	<b>% of total fixed rate product holdings</b>
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
<b>Totals .....</b>	<b>[●]</b>	<b>100.00</b>	<b>[●]</b>	<b>100.00</b>

### Employment status

The following table shows the employment status of the borrowers of the loans in the expected portfolio as at the cut-off date.

<b>Status</b>	<b>Aggregate outstanding balance as at the cut-off date (£)</b>	<b>% of total balance</b>	<b>Number of mortgage accounts</b>	<b>% of total mortgage accounts</b>
Employed .....	[●]	[●]	[●]	[●]
Self employed .....	[●]	[●]	[●]	[●]
<b>Totals .....</b>	<b>[●]</b>	<b>100.00</b>	<b>[●]</b>	<b>100.00</b>

**First time buyer**

The following table shows the split between the borrowers of the loans in the expected portfolio who are first time buyers and non-first time buyers as at the cut-off date.

<b>Status</b>	<b>Aggregate outstanding balance as at the cut-off date (£)</b>	<b>% of total balance</b>	<b>Number of mortgage accounts</b>	<b>% of total mortgage accounts</b>
First time buyer .....	[●]	[●]	[●]	[●]
Non-first time buyer .....	[●]	[●]	[●]	[●]
Totals .....	[●]	100.00	[●]	100.00

**Payment rate analysis**

The following table shows the annualised payment rate for the most recent one-, three- and 12-month period for the loans in the expected portfolio between [●] and [●].

<b>As of month-end</b>	<b>one-month annualised</b>	<b>three-month annualised</b>	<b>12-month annualised</b>
[●]%	[●]%	[●]%	[●]%

Source: Fosse investor report dated [●].

In the table above, 12-month annualised CPR is calculated as the average of the 1-month annualised CPR for the most recent 12 months (calculated as  $1 - ((1 - R) ^ 12)$  where R is (i) total principal receipts received plus the principal balance of loans repurchased by the seller (primarily due to further advances) during the relevant period, divided by (ii) the aggregate outstanding principal balance of the loans in the expected portfolio as at the start of that period.

**Delinquency and loss experience of the portfolio**

As at [●], the total outstanding balance of loans in the expected portfolio that were at least 30 days in arrears was £[●], representing [●] per cent. of the outstanding balance of loans in the expected portfolio as at such date.

**Arrears**

<b>Status</b>	<b>Aggregate outstanding balance as at the cut-off date (£)</b>	<b>Arrears Balance</b>	<b>Number of mortgage accounts</b>	<b>% Arrears by Number</b>	<b>% Arrears by Balance</b>
Less than 1 month .....	[●]	[●]	[●]	[●]	[●]
>=1 to <=3 .....	[●]	[●]	[●]	[●]	[●]
>=3 to <=6 .....	[●]	[●]	[●]	[●]	[●]
>=6 to <=9 .....	[●]	[●]	[●]	[●]	[●]
>=9 to <=12 .....	[●]	[●]	[●]	[●]	[●]
>=12 .....	[●]	[●]	[●]	[●]	[●]
Totals .....	[●]	100.00	[●]	[●]	100.00



**[CHARACTERISTICS OF THE UNITED KINGDOM RESIDENTIAL MORTGAGE MARKET**

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

**Industry CPR rates**

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

<u>Quarter</u>	<u>Industry CPR rate for the quarter (%)</u>	<u>4 quarter Rolling Average (%)</u>
[●] .....	[●]	[●]

\*Source: The Bank of England

**House price index**

UK residential property prices, as measured by the Nationwide House Price Index and Halifax House Price Index (collectively, the **Housing Indices**), have generally followed the UK Retail Price Index over an extended period. Nationwide is a UK building society and Halifax is a trading name of Bank of Scotland plc, a UK bank who publishes the Halifax House Price Index.

<u>Time in Quarters</u>	<u>UK Retail Price Index</u>		<u>Nationwide House Price Index</u>		<u>Halifax House Price Index</u>	
	<u>Index</u>	<u>% annual change</u>	<u>Index</u>	<u>% annual change</u>	<u>Index</u>	<u>% annual change</u>
[●] .....	[●]	[●]	[●]	[●]	[●]	[●]

Source: HBOS plc and Nationwide Building Society

Source: Office for National Statistics

**Notes:**

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

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

The issuer confirms that all of the information contained in the tables above in this section entitled "**Characteristics of the United Kingdom Residential Mortgage Market**" has been accurately reproduced (and their respective sources have been accurately cited) and so far as the issuer is aware and is able to ascertain from information published by third parties, 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 the information in this section entitled "**Characteristics of the United Kingdom residential mortgage market**" nor made any enquiry with respect to such information. Neither the issuer nor Nationwide Building Society nor HBOS plc nor the Bank of England nor the Council of Mortgage Lenders makes any representation as to the accuracy of the information in this section entitled "**Characteristics of the United Kingdom residential mortgage market**" or has any liability whatsoever to you in connection with such information. Anyone relying on such information does so at their own risk.]

**[ARREARS EXPERIENCE]**

The following table summarises loans in arrears and repossession experience for loans in the portfolio as at the dates indicated below. All of the loans shown in the table below were originated by Alliance & Leicester or Santander UK; and the loans shown in the table below were serviced by Alliance & Leicester prior to the Part VII effective date and, since the Part VII effective date, by Santander UK. As at the date of these final terms, Santander UK services all of the loans in the portfolio.

This table should be read together with the tables set forth under “**Arrears Experience**” in the base prospectus.

	<b>31 Dec 20[●]</b>
Outstanding Balance (£ millions)	[●]
Number of loans outstanding (thousands)	[●]
<b>Outstanding balance of loans in arrears (£ millions)</b>	<b>[●]</b>
30-59 days in arrears	[●]
60-89 days in arrears	[●]
90-179 days in arrears	[●]
180-365 days in arrears	[●]
366 or more days in arrears	[●]
Total outstanding balance of loans in arrears	[●]
Total outstanding balance of loans in arrears as % of the outstanding balance	[●]%
Outstanding balance of loans relating to properties in possession	[●]
Net loss on sales of all repossessed properties <sup>(1)</sup>	[●]
Ratio of aggregate net losses to average aggregate outstanding balance of loans <sup>(2)</sup>	[●]%
Average net loss on all properties sold (thousands)	[●]
<b>Number of loans outstanding in arrears (thousands)</b>	
30-59 days in arrears	[●]
60-89 days in arrears	[●]
90-179 days in arrears	[●]
180-365 days in arrears	[●]
366 or more days in arrears	[●]
Total number of loans outstanding in arrears	[●]
Total number of loans outstanding in arrears as % of the number of loans outstanding	[●]%
Number of properties in possession	[●]
Number of properties sold during the year	[●]

(1) Net loss is net of recoveries in the current period on properties sold in prior periods.

(2) Average of opening and closing balances for the period.]

**[STATIC POOL DATA**

The tables below set out static pool information with respect to all the mortgage loans on the Alliance & Leicester system in [●].

Static pool information on prepayments has not been included because changes in prepayment and payment rates historically have not affected repayment of the notes, and are not anticipated to have a significant effect on future payments on the notes for a number of reasons. The mechanics of the mortgage trust require an extended cash accumulation period (for bullet term advances) when prepayment rates fall below certain minima required by the rating agencies, serving to limit the extent to which slow prepayments would cause the average lives of the notes to extend. Furthermore, only a limited amount of note principal in relation to the very large mortgages trust size is actually due to be repaid on any particular interest payment date.

**Origination Characteristics by Year**

	<u>20[●]</u>
Number of accounts opened (thousands) .....	[●]
Aggregate original balance (£) (millions).....	[●]
Average original balance (£) (thousands) .....	[●]
Weighted average original loan-to-value ratio .....	[●]
Weighted average original term (years) .....	[●]

(1) Data are based on all business written in the period 2001-20[●].

(2) Weighted averages are weighed by the original balance.

One of the characteristics of the mortgages trust is that the seller is able to sell more loans to the mortgages trustee over time, whether in connection with an issuance of notes by the issuer or any new notes by a new issuer or in order to maintain the minimum seller share. To aid in understanding changes to the mortgages trust over time, the following table, when taken together with the tables set forth under “**Static pool data**” in the base prospectus, sets out information relating to each sale of loans by the seller to the mortgages trustee pursuant to the mortgage sale agreement.

<u>Date</u>	<u>Balance of loans substituted or sold</u>	<u>Number of loans substituted or sold</u>
[●]	£[●]	[●]

**Listing and admission to trading application**

[These final terms comprise the final terms required for the notes described herein to be admitted to the Official List and admitted to trading on the Main Securities Market pursuant to the residential mortgage backed note programme of Fosse Master Issuer plc.]\*

Signed on behalf of the issuer:

By:.....  
*Duly authorised*

**[END OF FORM OF FINAL TERMS]**

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\* To be deleted in issue terms related to Non-ISE Listed Notes.

## TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions (the **Conditions**, and any reference to a **Condition** shall be construed accordingly) of the Notes issued on or following the date of this base prospectus in the form (subject to amendment) which will be incorporated by reference into each Global Note and each Definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer(s) and/or Manager(s) at the time of issue but, if not so permitted and agreed, such Definitive Note will have endorsed thereon or attached thereto such Conditions. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and each Definitive Note.

In relation to Non-ISE Listed Notes, the Issue Terms in relation to each Series and Class (or Sub-Class) of Non-ISE Listed Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purpose of such notes.

The Notes are constituted by the Note Trust Deed. The security for the Notes is created pursuant to, and on the terms set out in, the Issuer Deed of Charge. By the Paying Agent and Agent Bank Agreement, provision is made for, *inter alia*, the payment of principal and interest in respect of the Notes.

References hereinafter to the **Notes** shall, unless the context otherwise requires, be references to all the Notes issued by the Issuer and constituted by the Note Trust Deed and shall mean:

- (a) in relation to any Notes of a Series and Class represented by a Global Note, units of the lowest Specified Denomination in the Specified Currency in each case of such Series and Class;
- (b) any Global Note; and
- (c) any Definitive Note issued in exchange for a Global Note.

References hereinafter to the **Noteholders** shall, unless the context otherwise requires, be references to all the Noteholders.

Notes constituted by the Note Trust Deed are issued in series (each a **Series**) and each Series comprises one or more classes of Notes. Each Series of Notes is subject to the applicable Final Terms. The Final Terms in relation to each Series and Class of Notes (or the relevant provisions thereof) will be endorsed upon, or attached to, such Notes and will complete these Conditions in respect of such Notes. References to the **applicable Final Terms** are, in relation to a Series and Class of Notes, to the Final Terms (or the relevant provisions thereof) attached to or endorsed on such Notes.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Note Trust Deed, the Issuer Deed of Charge and the Paying Agent and Agent Bank Agreement.

Copies of the Note Trust Deed, the Issuer Deed of Charge, the Paying Agent and Agent Bank Agreement and each of the other Transaction Documents are available for inspection during normal business hours at the registered office of the Note Trustee, being 400 Madison Avenue – 4th Floor, New York, New York 10017 and at the registered office of the Issuer, being at 35 Great St. Helen's, London EC3A 6AP and the specified office for the time being of (a) the Principal Paying Agent, being at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB and (b) the U.S. Paying Agent, being at 14th Floor, 388 Greenwich Street, New York, New York 10013. Copies of the Final Terms of each Series of Notes are obtainable by Noteholders during normal business hours at the registered office of the Issuer and the specified office for the time being of (i) the Principal Paying Agent and (ii) the U.S. Paying Agent and any Noteholder must produce evidence satisfactory to the relevant Paying Agent as to its holding of Notes and identity.

The Holders of any Series and Class of Notes are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of, and definitions contained or incorporated in, the Note Trust Deed, the Issuer Deed of Charge, the Paying Agent and Agent Bank Agreement, each of the other Transaction Documents and the applicable Final Terms and to have notice of each other Final Terms relating to each other Series and Class of Notes.

A glossary of definitions appears in **Condition 19**.

References herein to the Class A Noteholders, the Class B Noteholders, the Class M Noteholders, the Class C Noteholders, the Class D Noteholders and the Class Z Noteholders shall, in each case and unless specified otherwise, be references to the Holders of the Notes of all Series of the applicable Class.

References herein to the Class A Notes, the Class B Notes, the Class M Notes, the Class C Notes, the Class D Notes or the Class Z Notes shall, in each case and unless specified otherwise, be references to the Notes of all Series of the applicable Class.

## **1. FORM, DENOMINATION, REGISTER, TITLE AND TRANSFERS**

### **1.1 Form and Denomination**

Each Series and Class of Notes will be issued in the Specified Currency and in the Specified Denomination. Each Series and Class of Rule 144A Notes will be initially represented by one or more Rule 144A Global Notes, which, in the aggregate, will represent the Principal Amount Outstanding from time to time of such Series and Class of Rule 144A Notes. Each Series and Class of Reg S Notes will be initially represented by one or more Reg S Global Notes which, in the aggregate, will represent the Principal Amount Outstanding from time to time of such Series and Class of the Reg S Notes.

Each Reg S Global Note, save for Global Notes to be held under the NSS, will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg. Reg S Global Notes to be held under the NSS will be deposited with and registered in the name of the common safekeeper for Euroclear and Clearstream, Luxembourg. Each Rule 144A Global Note will be deposited with a custodian for, and registered in the name of Cede & Co. (or such other name as may be requested by an authorised representative of DTC) as nominee of, DTC. Each Global Note will be numbered serially with an identifying number which will be recorded on the relevant Global Note and in the Register.

Each Series and Class of Notes may be Fixed Rate Notes, Floating Rate Notes, Zero Coupon Notes or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

Each Series and Class of Notes may be Bullet Redemption Notes, Scheduled Redemption Notes, Pass-Through Notes or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

Global Notes will be exchanged for Notes in definitive registered form (**Definitive Notes**) only under certain limited circumstances as described in the relevant Global Note. If Definitive Notes are issued, they will be serially numbered and issued in an aggregate principal amount equal to the Principal Amount Outstanding of the relevant Global Note and in registered form only.

The Notes (in either global or definitive form) will be issued in such denominations as specified in the applicable Final Terms, save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank or regulatory authority (or equivalent body) or any laws or regulations applicable to the relevant currency and save that the minimum denomination of each Rule 144A Note will be issued in minimum denominations of \$200,000 or such other amount specified in the applicable Final Terms and in integral multiples of \$1,000 in excess thereof (or its equivalent in any other currency as at the date of issue of such Notes), and each Reg S Note will be issued in minimum denominations of £100,000 or such other amount specified in the applicable Final Terms and in integral multiples of £1,000 in excess thereof if denominated in sterling or €100,000 or such other amount specified in the applicable Final Terms and in integral multiples of €1,000 in excess thereof if denominated in euro (or its equivalent in any other currency as at the date of issue of such Notes).

In the case of a Series and Class of Notes with more than one Specified Denomination, Notes of one Specified Denomination may not be exchanged for Notes of such Series and Class of another Specified Denomination.

### **1.2 Register**

The Registrar will maintain the Register in respect of the Notes in accordance with the provisions of the Paying Agent and Agent Bank Agreement. In these Conditions, the **Holder** of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof). A Note will be issued to each Noteholder in respect of its registered holding. Each Note will be numbered serially with an identifying number which will be recorded in the Register.

### 1.3 Title

The Holder of each Note shall (to the fullest extent permitted by applicable law) be treated by the Issuer, the Note Trustee, the Issuer Security Trustee, the Agent Bank and any Agent as the absolute owner of such Note for all purposes (including the making of any payments) 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).

### 1.4 Transfers

Title to the Notes shall pass by and upon registration in the Register. Subject as provided otherwise in this **Condition 1.4**, a Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may only be transferred in the specified denominations. Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Notes will be issued to the transferor.

Within five Business Days of such surrender of a Note, the Registrar will register the transfer in question and deliver a new Note of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of the Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (and by airmail if the Holder is overseas) to the address specified for such purpose by such relevant Holder.

The transfer of a Note 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 or other governmental charges which may be imposed in relation to it.

Noteholders may not require transfers of Notes to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Paying Agent and Agent Bank Agreement. The regulations may be changed by the Issuer with the prior written approval of the Note Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

## 2. STATUS, PRIORITY AND SECURITY

### 2.1 Status

The Notes of each Series and Class are direct, secured and unconditional obligations of the Issuer.

Subject to the provisions of **Conditions 4** and **5** and subject to the other payment conditions set out in the applicable Final Terms and the other Transaction Documents:

- (a) the Class A Notes of each Series will rank *pari passu* without any preference or priority among themselves and with the Class A Notes of each other Series but in priority to the Class B Notes, the Class M Notes, the Class C Notes, the Class D Notes and the Class Z Notes of any Series;
- (b) the Class B Notes of each Series will rank *pari passu* without any preference or priority among themselves and with the Class B Notes of each other Series but in priority to the Class M Notes, the Class C Notes, the Class D Notes and the Class Z Notes of any Series;
- (c) the Class M Notes of each Series will rank *pari passu* without any preference or priority among themselves and with the Class M Notes of each other Series but in priority to the Class C Notes, the Class D Notes and the Class Z Notes of any Series;
- (d) the Class C Notes of each Series will rank *pari passu* without any preference or priority among themselves and with the Class C Notes of each other Series but in priority to the Class D Notes and the Class Z Notes of any Series;
- (e) the Class D Notes of each Series will rank *pari passu* without any preference or priority among themselves and with the Class D Notes of each other Series but in priority to the Class Z Notes of any Series; and

- (f) the Class Z Notes of each Series will rank *pari passu* without any preference or priority among themselves and with the Class Z Notes of each other Series.

## 2.2 Conflict between the Classes of Notes

The Note Trust Deed contains provisions requiring the Note Trustee to have regard to the interests of the Class A Noteholders, the Class B Noteholders, the Class M Noteholders, the Class C Noteholders, the Class D Noteholders and the Class Z Noteholders equally as regards all powers, trusts, authorities, duties and discretions of the Note Trustee under these Conditions or any of the Transaction Documents (except where expressly provided otherwise), but requiring the Note Trustee to have regard (except as expressly provided otherwise):

- (a) for so long as there are any Class A Notes outstanding (of any Series), only to the interests of the Class A Noteholders if, in the opinion of the Note Trustee, there is or may be a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders and/or the interests of the Class M Noteholders and/or the interests of the Class C Noteholders and/or the interests of the Class D Noteholders and/or the interests of the Class Z Noteholders (of that Series or of any other Series);
- (b) subject to (a) above and for so long as there are any Class B Notes outstanding (of any Series), only to the interests of the Class B Noteholders if, in the opinion of the Note Trustee, there is or may be a conflict between the interests of the Class B Noteholders and the interests of the Class M Noteholders and/or the interests of the Class C Noteholders and/or the interests of the Class D Noteholders and/or the interests of the Class Z Noteholders (of that Series or of any other Series);
- (c) subject to (a) and (b) above and for so long as there are any Class M Notes outstanding (of any Series), only to the interests of the Class M Noteholders if, in the opinion of the Note Trustee, there is or may be a conflict between the interests of the Class M Noteholders and the interests of the Class C Noteholders and/or the interests of the Class D Noteholders and/or the interests of the Class Z Noteholders (of that Series or of any other Series);
- (d) subject to (a), (b) and (c) above and for so long as there are any Class C Notes outstanding (of any Series), only to the interests of the Class C Noteholders if, in the opinion of the Note Trustee, there is or may be a conflict between the interests of the Class C Noteholders and the interests of the Class D Noteholders and/or the interests of the Class Z Noteholders (of that Series or of any other Series); and
- (e) subject to (a), (b), (c) and (d) above and for so long as there are any Class D Notes outstanding (of any Series), only to the interests of the Class D Noteholders if, in the opinion of the Note Trustee, there is or may be a conflict between the interests of the Class D Noteholders and the interests of the Class Z Noteholders (of that Series or of any other Series).

The Note Trust Deed also contains provisions:

- (i) limiting the powers of the Class B Noteholders, the Class M Noteholders, the Class C Noteholders, the Class D Noteholders and the Class Z Noteholders (in each case, of any Series), *inter alia*, to request or direct the Note Trustee to take any action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class A Noteholders (of that Series or of any other Series). Except in certain circumstances described in **Condition 11**, the Note Trust Deed contains no such limitation on the powers of the Class A Noteholders, the exercise of which will be binding on the Class B Noteholders, the Class M Noteholders, the Class C Noteholders, the Class D Noteholders and the Class Z Noteholders respectively, irrespective of the effect thereof on their respective interests;
- (ii) limiting the powers of the Class M Noteholders, the Class C Noteholders, the Class D Noteholders and the Class Z Noteholders (in each case, of any Series), *inter alia*, to request or direct the Note Trustee to take any action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class B Noteholders (of that Series or of any other Series). Except in certain circumstances described above and in **Condition 11**, the Note Trust Deed contains no such limitation on the powers of the Class B Noteholders, the exercise of which will be binding on the Class M Noteholders, the Class C Noteholders, the Class D Noteholders and the Class Z Noteholders, respectively, irrespective of the effect thereof on their respective interests;



- (iii) limiting the powers of the Class C Noteholders, the Class D Noteholders and the Class Z Noteholders (in each case, of any Series), *inter alia*, to request or direct the Note Trustee to take any action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class M Noteholders (of that Series or of any other Series). Except in certain circumstances described above and in **Condition 11**, the Note Trust Deed contains no such limitation on the powers of the Class M Noteholders, the exercise of which will be binding on the Class C Noteholders, the Class D Noteholders and the Class Z Noteholders irrespective of the effect thereof on their respective interests;
- (iv) limiting the powers of the Class D Noteholders and the Class Z Noteholders (in each case, of any Series), *inter alia*, to request or direct the Note Trustee to take any action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class C Noteholders (of that Series or of any other Series). Except in certain circumstances described above and in **Condition 11**, the Note Trust Deed contains no such limitation on the powers of the Class C Noteholders, the exercise of which will be binding on the Class D Noteholders and the Class Z Noteholders irrespective of the effect thereof on their respective interests; and
- (v) limiting the powers of the Class Z Noteholders (of any Series), *inter alia*, to request or direct the Note Trustee to take any action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class D Noteholders (of that Series or of any other Series). Except in certain circumstances described above and in **Condition 11**, the Note Trust Deed contains no such limitation on the powers of the Class D Noteholders, the exercise of which will be binding on the Class Z Noteholders irrespective of the effect thereof on their respective interests.

The Note Trustee and the Issuer Security Trustee shall be entitled to assume, for the purpose of exercising any right, power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Transaction Documents, without further investigation or inquiry, that such exercise will not be materially prejudicial to the interests of the Noteholders (or any Series and Class thereof), if each of the Rating Agencies rating the relevant Series and Class has confirmed in writing that the then current ratings of the applicable Series and Class of Notes would not be reduced, withdrawn or qualified by such exercise.

## **2.3 Security**

As security for, *inter alia*, the payment of all monies payable in respect of the Notes, the Issuer has entered into the Issuer Deed of Charge creating the Issuer Security in favour of the Issuer Security Trustee for itself and on trust for, *inter alios*, the Note Trustee and the Noteholders.

## **3. COVENANTS**

Save with the prior written consent of the Note Trustee or unless provided in or contemplated under these Conditions or any of the Transaction Documents to which the Issuer is a party, the Issuer shall not, so long as any Note remains outstanding:

### **3.1 Negative Pledge**

create or permit to subsist any mortgage, standard security, pledge, lien, charge or other security interest whatsoever (unless arising by operation of law), upon the whole or any part of its assets (including any uncalled capital) or its undertakings, present or future except where the same is given in connection with the issue of a Series;

### **3.2 Disposal of Assets**

sell, assign, transfer, lend, lease or otherwise dispose of, or deal with, or grant any option or present or future right to acquire all or any of its properties, assets, or undertakings or any interest, estate, right, title or benefit therein or thereto or agree or attempt or purport to do any of the foregoing;

### **3.3 Equitable Interest**

permit any person other than itself and the Issuer Security Trustee (as to itself and on behalf of the Issuer Secured Creditors) to have any equitable or beneficial interest in any of its assets or undertakings or any interest, estate, right, title or benefit therein;

### **3.4 Bank Accounts**

have an interest in any bank account, other than the Issuer Bank Accounts, except in connection with the issue of a Series where such bank account is immediately charged in favour of the Issuer Security Trustee pursuant to the Issuer Deed of Charge;

### **3.5 Restrictions on Activities**

carry on any business other than as described in the base prospectus (as revised, supplemented and/or amended from time to time) relating to the issue of the Notes and the related activities described therein or as contemplated in the Transaction Documents relating to the issue of the Notes;

### **3.6 Borrowings**

incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness or obligation of any person, except where the same is incurred or given or the Issuer becomes so obligated in connection with the issue of a Series;

### **3.7 Merger**

consolidate or merge with any other person or convey or transfer substantially all of its properties or assets to any other person;

### **3.8 Waiver or Consent**

permit the validity or effectiveness of any of the Note Trust Deed or the Issuer Deed of Charge or the priority of the security interests created thereby to be amended, terminated, postponed, waived or discharged, or permit any other person whose obligations form part of the Issuer Security to be released from such obligations;

### **3.9 Employees or premises**

have any employees or premises or subsidiaries;

### **3.10 Dividends and Distributions**

pay any dividend or make any other distribution to its shareholders (other than as provided in the Transaction Documents) or issue any further shares or alter any rights attaching to its shares as at the date of the Issuer Deed of Charge;

### **3.11 Purchase Notes**

purchase or otherwise acquire any Note or Notes; or

### **3.12 United States 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.

## **4. INTEREST**

### **4.1 Interest on Fixed Rate Notes**

Each Fixed Rate Note bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable, subject as provided in these Conditions, in arrear on the Interest Payment Date(s) in each year specified for such Note in the applicable Final Terms up to (and including) the Final Maturity Date.

Except as provided in the applicable Final Terms, the amount of interest payable in respect of any Fixed Rate Note on each Interest Payment Date for a Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified for such Note in the applicable Final Terms, amount to the Broken Amount so specified.

As used in these Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or the first) Interest Payment Date.

If interest is required to be calculated in respect of any Fixed Rate Note for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest specified for such Note in the applicable Final Terms to the Principal Amount Outstanding on such Global Note, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention and then apportioning the resulting total between the Noteholders in respect of such Global Note, *pari passu* without preference or priority amongst themselves.

**Day Count Fraction** means, in respect of the calculation of an amount of interest for any Fixed Rate Note in accordance with this **Condition 4.1**:

- (a) if “Actual/Actual (ICMA)” is specified for such Note in the applicable Final Terms:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date for such Notes (or, if none, the Interest Commencement Date) to (but excluding) the relevant Interest Payment Date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
    - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates that would occur in one calendar year; and
- (b) if “30/360” is specified for such Note in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date for such Note (or, if none, the Interest Commencement Date) to (but excluding) the relevant Interest Payment Date (such number of days being calculated on the basis of a year of 360 days with twelve 30-day months) divided by 360.

As used in these Conditions, **Determination Period** means each period from and including a Determination Date (as defined in the applicable Final Terms) to but excluding the next Determination Date (including where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

## 4.2 Interest on Floating Rate Notes

### (a) Interest Payment Dates

Each Floating Rate Note bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date and such interest will be payable in arrear on the Interest Payment Date(s) in each year specified for such Note in the applicable Final Terms. Such interest will be payable in respect of each Floating Interest Period.

As used in these Conditions, **Floating Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or the first) Interest Payment Date.

If a Business Day Convention is specified for a Floating Rate Note in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (i) the “Following Business Day Convention”, the Interest Payment Date for such Note shall be postponed to the next day which is a Business Day; or
- (ii) the “Modified Following Business Day Convention”, the Interest Payment Date for such Note shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (iii) the “Preceding Business Day Convention”, the Interest Payment Date for such Note shall be brought forward to the immediately preceding Business Day.

In these Conditions, **Business Day** means a day which is both:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, New York and any Additional Business Centre specified in the applicable Final Terms; and
- (ii) a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto (the **TARGET System**) is open; and
- (iii) in relation to any sum payable in a Specified Currency other than sterling, dollar or euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London, New York and any Additional Business Centre) and which, if the Specified Currency is Australian or New Zealand dollars, shall be Sydney and Auckland, respectively.

**(b) Rate of Interest**

The Rate of Interest payable from time to time in respect of a Floating Rate Note will be determined in the manner specified for such Note in the applicable Final Terms.

- (i) ISDA Determination for Floating Rate Notes

Where “ISDA Determination” is specified for such Note in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated for such Note in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent Bank or other person specified in the applicable Final Terms under an interest rate swap transaction if the Agent Bank or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (A) the Floating Rate Option is as specified for such Note in the applicable Final Terms;
- (B) the Designated Maturity is the period specified for such Note in the applicable Final Terms; and
- (C) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on LIBOR, USD-LIBOR, EURIBOR, AUD-BBR-BBSW, JPY LIBOR or CDOR for a currency, the first day of that Interest Period, or (ii) in any other case, as specified for such Note in the applicable Final Terms.

For the purposes of this subparagraph (i), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

- (ii) Screen Rate Determination for Floating Rate Notes

Where “Screen Rate Determination” is specified for a Floating Rate Note in the applicable Final Terms as the manner in which the Rate of Interest is to be determined for such Note, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation (if there is only one quotation on the Relevant Screen Page); or

- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. London time (in the case of LIBOR, USD-LIBOR or JPY-LIBOR), 11.00 a.m. Brussels time (in the case of EURIBOR), 10.15 a.m. Toronto time (in the case of CDOR) or 10:10 a.m. Sydney time (in the case of AUD-BBR-BBSW) (the **Specified Time**) on the Interest Determination Date in question plus or minus the Margin (if any), all as determined by the Agent Bank. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent Bank for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of clause (ii)(A), no offered quotation appears or, in the case of clause (ii)(B), fewer than three offered quotations appear, in each case as at the Specified Time, the Agent Bank shall request each of the Reference Banks to provide the Agent Bank with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Agent Bank with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent Bank.

If on any Interest Determination Date one only or none of the Reference Banks provides the Agent Bank with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent Bank determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Agent Bank by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR, USD-LIBOR or JPY-LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) or the Canadian inter-bank market (if the Reference Rate is CDOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Agent Bank with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Agent Bank it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR, USD-LIBOR or JPY-LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) or the Canadian inter-bank market (if the Reference Rate is CDOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest.

**(c) Minimum Rate of Interest and/or Maximum Rate of Interest**

If the applicable Final Terms specifies a Minimum Rate of Interest for a Floating Rate Note for any Interest Period, then, in the event that the Rate of Interest for such Note in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Note for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for such Note for any Interest Period, then, in the event that the Rate of Interest for such Note in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Note for such Interest Period shall be such Maximum Rate of Interest.

**(d) Determination of Rate of Interest and calculation of Interest Amounts**

The Agent Bank will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent Bank will calculate the amount of interest payable on the Floating Rate Notes in respect of each Specified Denomination or in respect of each Global Note (each an **Interest Amount**) for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding of each Global Note, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub unit being rounded upwards or otherwise in accordance with applicable market convention and then apportioning the resulting total between the Noteholders in respect of such Global Note, *pari passu* without preference or priority amongst themselves.

**Day Count Fraction** means, in respect of the calculation of an amount of interest for a Floating Rate Note in accordance with this **Condition 4.2(d)** for any Interest Period:

- (i) if “Actual/365 or Actual/Actual (ISDA)” is specified for such Note in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified for such Note in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified for such Note in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified for such Note in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified for such Note in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if “30E/360” or “Eurobond Basis” is specified for such Note in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Final Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

**(e) Notification of Rate of Interest and Interest Amounts**

The Agent Bank will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Note Trustee, the Issuer Security Trustee, the Issuer Cash Manager, the Paying Agents, the Registrar and to any stock exchange or other relevant competent authority or quotation system on which the relevant Floating Rate Notes are for the time being listed, quoted and/or traded or by which they have been admitted to listing and to be published in accordance with **Condition 14** as soon as possible after their determination but in no event later than the fourth Business Day thereafter. Each Interest Amount and Interest Payment Date so notified 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. Any such amendment or alternative arrangements will be promptly notified to the Note Trustee, the Issuer Security Trustee, the Issuer Cash Manager, the Paying Agents, the Registrar and each stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to listing and to Noteholders in accordance with **Condition 14**.

**(f) Determination or Calculation by Note Trustee**

If for any reason at any relevant time, the Agent Bank defaults in its obligation to determine the Rate of Interest for a Floating Rate Note or the Agent Bank defaults in its obligation to calculate any Interest Amount for such Note in accordance with subparagraph (b)(i) or (ii) above or as otherwise specified for such Note in the applicable Final Terms, as the case may be, and in each case in accordance with paragraph (d) above,

the Note Trustee (or an agent on its behalf) shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified for such Note in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Note Trustee (or an agent on its behalf) shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent Bank or the Calculation Agent, as the case may be.

**(g) Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this **Condition 4.2**, whether by the Agent Bank or the Calculation Agent or the Note Trustee (or an agent on its behalf) shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Issuer Cash Manager, the Principal Paying Agent, the Calculation Agent, the other Paying Agents, the Note Trustee and all Noteholders and (in the absence of wilful default or bad faith) no liability to the Issuer or the Noteholders shall attach to the Agent Bank or the Calculation Agent or the Note Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

**4.3 Accrual of interest**

Interest (if any) will cease to accrue on each Note (or in the case of the redemption of part only of a Note, that part only of such Note) on the due date for redemption thereof, unless payment of principal is improperly withheld or refused in which event, interest will continue to accrue until the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) the seventh day after notice is duly given by the Principal Paying Agent or the U.S. Paying Agent (as the case may be) to the holder thereof that such payment will be made, provided that subsequently, payment is in fact made.

**4.4 Deferred Interest**

To the extent that, subject to and in accordance with the relevant Issuer Priority of Payments, the funds available to the Issuer to pay interest on any Series and Class of Notes (other than the most senior Class of Notes of any Series then outstanding) on an Interest Payment Date (after discharging the Issuer's liabilities of a higher priority) are insufficient to pay the full amount of such interest, payment of the shortfall attributable to such Series and Class of Notes (**Deferred Interest**) will not then fall due but will instead be deferred until the first Interest Payment Date for such Notes thereafter on which sufficient funds are available (after allowing for the Issuer's liabilities of a higher priority and subject to and in accordance with the relevant Issuer Priority of Payments) to fund the payment of such Deferred Interest to the extent of such available funds.

Such Deferred Interest will accrue interest (**Additional Interest**) at the rate of interest applicable from time to time to the applicable Series and Class of Notes and payment of any Additional Interest will also be deferred until the first Interest Payment Date for such Notes thereafter on which funds are available (after allowing for the Issuer's liabilities of a higher priority subject to and in accordance with the relevant Issuer Priority of Payments) to the Issuer to pay such Additional Interest to the extent of such available funds.

Amounts of Deferred Interest and Additional Interest shall not be deferred beyond the Final Maturity Date of the applicable Series and Class of Notes, when such amounts will become due and payable.

Payments of interest due on an Interest Payment Date in respect of the most senior Class of Notes of any Series then outstanding will not be deferred. In the event of the delivery of a Note Acceleration Notice (as described in **Condition 9**), the amount of interest in respect of such Notes that was due but not paid on such Interest Payment Date will itself bear interest at the applicable rate until both the unpaid interest and the interest on that interest are paid as provided in the Note Trust Deed.

**5. REDEMPTION AND MANDATORY TRANSFER**

**5.1 Final Redemption**

Unless previously redeemed in full as provided in this **Condition 5**, the Issuer shall redeem a Series and Class of Notes at their Redemption Amount together with all accrued interest on the Final Maturity Date in respect of such Notes.

The Issuer may not redeem such Notes in whole or in part prior to their Final Maturity Date except as provided in **Conditions 5.2, 5.4 or 5.5** below, but without prejudice to **Condition 9**.

## **5.2 Mandatory Redemption of the Notes in Part**

On each Interest Payment Date, other than an Interest Payment Date on which a Series and Class of Notes are to be redeemed under **Conditions 5.1, 5.4 or 5.5**, the Issuer shall repay principal in respect of such Notes in an amount equal to the amount (if any) repaid on the corresponding Loan Tranche Payment Date in respect of the related Loan Tranche and pursuant to the Intercompany Loan Agreement converted, where the Specified Currency for such Notes is not Sterling, into the Specified Currency at the Specified Currency Exchange Rate for such Notes.

To the extent that there are insufficient funds available to the Issuer to repay the amount due to be paid on such Interest Payment Date, the Issuer will be required to repay the shortfall, to the extent that it receives funds therefor (and subject to the terms of the Issuer Deed of Charge and the Issuer Cash Management Agreement) on subsequent Interest Payment Dates in respect of such Notes.

## **5.3 Note Principal Payments and Principal Amount Outstanding**

The principal amount redeemable (the **Note Principal Payment**) in respect of each Note of a particular Series and Class on any Interest Payment Date under **Condition 5.2** above shall be a proportion of the amount required as at that Interest Payment Date to be applied in redemption of such Series and Class of Notes on such date equal to the proportion that the Principal Amount Outstanding of the relevant Note bears to the aggregate Principal Amount Outstanding of such Series and Class of Notes rounded down to the nearest sub-unit of the Specified Currency; provided always that no such Note Principal Payment may exceed the Principal Amount Outstanding of the relevant Note.

On each Interest Determination Date the Issuer shall determine (or cause the Agent Bank to determine) (a) the amount of any Note Principal Payment payable in respect of each Note of the relevant Series and Class on the immediately following Interest Payment Date and (b) the Principal Amount Outstanding of each such Note which shall be the Specified Denomination less (in each case) the aggregate amount of all Note Principal Payments in respect of such Note that has been paid since the relevant Closing Date and on or prior to that Interest Determination Date (the **Principal Amount Outstanding**) and (c) the fraction expressed as a decimal to the fifth decimal point (the **Pool Factor**), of which the numerator is the Principal Amount Outstanding of that Note (as referred to in (b) above) and the denominator is the Specified Denomination. Each determination by or on behalf of the Issuer of any Note Principal Payment of a Note, the Principal Amount Outstanding of a Note and the Pool Factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

The Issuer will cause each determination of the Note Principal Payment and the Principal Amount Outstanding and the Pool Factor in respect of a Series and Class of Notes to be notified forthwith, and in any event not later than 1.00 p.m. (London time) on the Business Day immediately succeeding the Interest Determination Date, to the Note Trustee, the Issuer Security Trustee, the Paying Agents, the Registrar, the Agent Bank and (for so long as such Notes are listed on one or more stock exchanges) the relevant stock exchanges, and will cause notice of each determination of the Note Principal Payment and the Principal Amount Outstanding to be given to Noteholders in accordance with **Condition 14** by no later than the Business Day after the relevant Interest Payment Date.

If the Issuer does not at any time for any reason determine (or cause the Agent Bank to determine) or if the Agent Bank does not at any time for any reason determine a Note Principal Payment, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this **Condition 5.3**, such Note Principal Payment and/or Principal Amount Outstanding and/or Pool Factor may be determined by the Note Trustee in accordance with this **Condition 5.3** in the manner the Note Trustee in its discretion considers fair and reasonable in the circumstances, having regard to this **Condition 5.3**, and each such determination or calculation shall be deemed to have been made by the Issuer. Any such determination shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent Bank and the Noteholders.

## **5.4 Optional Redemption in Full**

Provided a Note Acceleration Notice has not been served and subject to the provisos below, upon giving not more than 60 nor less than 30 days' prior notice (or, in the case of (c) below, not more than 30 days nor less than 5 days' prior notice) to the Note Trustee and the Noteholders in accordance with **Condition 14**, the Issuer may redeem a Series and Class of Notes at their aggregate Redemption Amount together with any accrued and unpaid interest in respect thereof on the following dates:



- (a) the date specified as the Step-Up Date for such Notes in the applicable Final Terms and on any Interest Payment Date for such Notes thereafter;
- (b) on such Interest Payment Date on which the aggregate Principal Amount Outstanding of such Notes and all other Classes of Notes of the same Series is less than 10 per cent. of the aggregate Principal Amount Outstanding of such Series of Notes as at the Closing Date on which such Series of Notes were issued; or
- (c) the date specified as the Optional Redemption Date for such Notes in the applicable Final Terms and on each Interest Payment Date for such Notes thereafter,

provided that (in any of the cases above), on or prior to giving any such notice, the Issuer shall have provided to the Note Trustee a certificate signed by two directors of the Issuer to the effect that (i) it will have the funds, not subject to any interest of any other person, required to redeem such Notes as aforesaid and any amounts required to be paid in priority to or *pari passu* with such Notes outstanding in accordance with the terms and conditions of the Issuer Deed of Charge and the Issuer Cash Management Agreement, and (ii) the Repayment Tests will be satisfied following the making of such redemptions, and further provided that (in the case of (c) above only) each of the Rating Agencies has confirmed that the then current ratings of each Series and Class of Notes then outstanding for which it provides a rating would not be reduced, withdrawn or qualified by such redemption.

### **5.5 Optional Redemption for Tax and other Reasons**

Provided a Note Acceleration Notice has not been served, if the Issuer at any time satisfies the Note Trustee immediately prior to the giving of the notice referred to below that on the next Interest Payment Date either:

- (a) the Issuer would by virtue of a change in the law or regulations of the United Kingdom or any other jurisdiction (or the application or interpretation thereof) be required to deduct or withhold from any payment of principal or interest or any other amount under a Series and Class of Notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature (other than where the relevant Holder or beneficial owner has some connection with the relevant jurisdiction other than the holding of the Notes); or
- (b) Funding 1 would be required to deduct or withhold from amounts due in respect of the Loan Tranche under the Intercompany Loan Agreement which was funded by such Notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature; and
- (c) in relation to either the events described in (a) and (b) above, such obligation of the Issuer or Funding 1 (as the case may be) cannot be avoided by the Issuer or Funding 1 (as the case may be) taking reasonable measures available to the Issuer or Funding 1 (as the case may be),

then the Issuer shall use its reasonable endeavours to arrange the substitution of a company incorporated in another jurisdiction approved by the Note Trustee as principal debtor under such Notes and/or as lender of such Loan Tranche as the case may be, upon the Note Trustee (1) being satisfied that such substitution will not be materially prejudicial to the interests of Noteholders and (2) receiving a certificate signed by two directors of the Issuer or Funding 1, as the case may be, certifying that such substitution would enable the Issuer or Funding 1, as the case may be, to make payments of principal and interest under the relevant Series or Class of Notes or under the Intercompany Loan, as the case may be, without such deduction or withholding, and upon the Issuer Security Trustee being satisfied that (A) the position of the Issuer Secured Creditors (other than the Noteholders) will not thereby be adversely affected as confirmed in writing by such Issuer Secured Creditors to the Issuer Security Trustee, and (B) such substitution would not require registration of any new security under United States securities laws or materially increase the disclosure requirements under United States law or the costs of issuance as certified by the Issuer to the Issuer Security Trustee in writing. Only if the Issuer is unable to arrange a substitution will the Issuer be entitled to redeem the Notes as described in this **Condition 5.5**.

Subject to the proviso below, if the Issuer is unable to arrange a substitution as described above and, as a result, one or more of the events described in (a) or (b) above (as the case may be) is continuing, then the Issuer may, having given not more than 60 nor less than 30 days' notice to the Note Trustee and the Noteholders in accordance with **Condition 14**, redeem all (but not some only) of such Notes on the immediately succeeding Interest Payment Date for such Notes at their aggregate Redemption Amount together with any accrued and unpaid interest in respect thereof provided that (in either case), prior to giving any such notice, the Issuer shall have provided to the Note Trustee:

- (i) a certificate signed by two directors of the Issuer stating the circumstances referred to in (a) or (b) and (c) above prevail and setting out details of such circumstances; and
- (ii) an opinion in form and substance satisfactory to the Note Trustee of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to deduct or withhold such amounts as a result of such change or amendment.

The Note Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstance set out in (a) or (b) and (c) above, in which event they shall be conclusive and binding on the Noteholders. The Issuer may only redeem such Notes as aforesaid, if on or prior to giving such notice, the Issuer shall have provided to the Note Trustee a certificate signed by two directors of the Issuer to the effect that (A) it will have the funds, not subject to any interest of any other person, required to redeem such Notes as aforesaid and any amounts required to be paid in priority to or *pari passu* with such Notes outstanding in accordance with the terms and conditions of the Issuer Deed of Charge and the Issuer Cash Management Agreement, and (B) the Repayment Tests will be satisfied following the making of such redemptions.

In addition to the foregoing, if at any time the Issuer delivers a certificate to Funding 1, the Note Trustee and the Issuer Security Trustee to the effect that it would be unlawful for the Issuer to make, fund or allow to remain outstanding a Loan Tranche under the Intercompany Loan Agreement, then the Issuer may require Funding 1 to prepay the relevant Loan Tranche on a Loan Tranche Payment Date subject to and in accordance with the provisions of the Intercompany Loan Agreement to the extent necessary to cure such illegality and the Issuer may redeem all (but not some only) of the relevant Notes corresponding to such Loan Tranche at their Redemption Amount together with any accrued interest upon giving not more than 60 nor less than 30 days' (or such shorter period as may be required under any relevant law) prior written notice to the Issuer Security Trustee, the Funding 1 Security Trustee, the Note Trustee, the relevant Issuer Swap Provider(s) and the Noteholders in accordance with **Condition 14**, provided that, prior to giving any notice, the Issuer shall have provided to the Note Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to the interest of any other person, required to redeem the relevant Notes as provided above and any amount to be paid in priority to or *pari passu* with the relevant Notes. Such monies received by the Issuer shall be used to redeem the relevant Notes in full, together with any accrued and unpaid interest, on the equivalent Interest Payment Date.

## 5.6 Reserved

## 5.7 Redemption Amounts

For the purposes of this **Condition 5, Redemption Amount** means, in respect of any Series and Class of Notes, the amount specified in relation to such Notes in the applicable Final Terms or, if not so specified:

- (a) in respect of each Note (other than a Zero Coupon Note), the Principal Amount Outstanding of such Note; and
- (b) in respect of each Zero Coupon Note, an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

RP = the Reference Price;

AY = the Accrual Yield expressed as a decimal; and

y = a fraction, the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the first Closing Date of the applicable Series and Class of Notes to (but excluding) the date fixed for redemption or, as the case may be, the date upon which such Note becomes due and payable and the denominator of which is 360.

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to **Condition 5.1, 5.2, 5.4, 5.5** or **5.6** above or upon its becoming due and repayable as provided in **Condition 9** is improperly withheld or refused, the amount due and repayable in respect of such Note shall be the amount calculated as provided in paragraph (b) above as though the reference therein to the date fixed for the redemption or, as the case may be, the date upon which such Note becomes due and payable were replaced by reference to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Note have been paid; and

- (ii) the date on which the full amount of the monies payable in respect of such Note has been received by the Principal Paying Agent or the Note Trustee or the Registrar and notice to that effect has been given to the Noteholders in accordance with **Condition 14**.

## **5.8 Mandatory Transfer of Remarketable Notes**

- (a) The Remarketable Notes shall be transferred in accordance with paragraph (ii) below on each relevant Mandatory Transfer Date prior to the occurrence of a Mandatory Transfer Termination Event (as confirmed by the Remarketing Agent or Tender Agent by the provision of a Conditional Purchaser Confirmation to the Issuer and the Principal Paying Agent) in exchange for payment of the Mandatory Transfer Price, and the Issuer will procure payment of the Mandatory Transfer Price to the Holders of the Remarketable Notes on the relevant Mandatory Transfer Date, provided that the Issuer shall not be liable for the failure to make payment of the Mandatory Transfer Price to the extent that such failure is a result of the failure of the Remarketing Agent or the Conditional Purchaser to perform its obligations under the relevant agreements.
- (ii) Subject to paragraph (i) above, all the Noteholders' interests in the Remarketable Notes shall be transferred on the relevant Mandatory Transfer Date to the account of the Remarketing Agent on behalf of the relevant purchasers or as otherwise notified by or on behalf of the Remarketing Agent prior to such date or, if Definitive Notes are then issued with respect to the Remarketable Notes, the Remarketable Notes will be registered in the name of the Remarketing Agent or as otherwise notified by or on behalf of the Remarketing Agent by the Registrar and the Register will be amended accordingly with effect from the relevant Mandatory Transfer Date.

## **6. PAYMENTS**

### **6.1 Payment of Interest and Principal**

Payments of principal shall be made by cheque in the Specified Currency, drawn on a Designated Bank, or upon application by a Holder of the relevant Note to the Specified Office of the Principal Paying Agent not later than the fifth Business Day before the Record Date (as defined in **Condition 6.7**), by transfer to a Designated Account maintained by the payee with a Designated Bank and (in the case of final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note at the Specified Office of any Paying Agent.

Payments of interest shall be made by cheque in the Specified Currency drawn on a Designated Bank, or upon application by a Holder of the relevant Note to the Specified Office of the Principal Paying Agent not later than the fifth Business Day before the Record Date, by transfer to a Designated Account maintained by the payee with a Designated Bank and (in the case of interest payable on final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note at the Specified Office of any Paying Agent.

### **6.2 Laws and Regulations**

Payments of principal and interest in respect of the Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto. Noteholders will not be charged commissions or expenses on payments.

### **6.3 Payment of Interest following a failure to pay Principal**

If payment of principal is improperly withheld or refused on or in respect of any Note or part thereof, the interest which continues to accrue in respect of such Note in accordance with **Condition 4** will be paid in accordance with this **Condition 6**.

### **6.4 Change of Agents**

The initial Principal Paying Agent, the Registrar, the Transfer Agent and the U.S. Paying Agents are listed in 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, the Registrar, the Transfer Agent and the U.S. Paying Agent and to appoint additional or other Paying Agents. The Issuer will at all times maintain a Paying Agent with a Specified Office in London and a U.S. Paying Agent with a Specified Office in New York and a Registrar. Except where otherwise provided in the Note Trust Deed, the Issuer will cause at least 30 days' notice of any change in or addition to the Paying Agents, the Transfer Agent or the Registrar or their Specified Offices to be given in accordance with **Condition 14** and will notify the Rating Agencies of such change or addition. For as long as any Note is outstanding, the Issuer will

endeavour to maintain a Paying Agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to such Directive.

#### **6.5 No payment on non-Business Day**

Where payment is to be made by transfer to a Designated Account, payment instructions (for value the due date or, if the due date is not a Business Day, for value the next succeeding Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (a) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and, where applicable, the day on which the relevant Note is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (b) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for a payment not being a Business Day or (ii) a cheque mailed in accordance with this **Condition 6.5** arriving after the due date for payment or being lost in the mail.

#### **6.6 Partial Payment**

If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure and the Registrar will ensure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note, that a statement indicating the amount and date of such payment is endorsed on the relevant Note.

#### **6.7 Record Date**

Each payment in respect of a Note will be made to the persons shown as the Holder in the Register (i) where the Note is in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date; and (ii) where in definitive form, at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the **Record Date**). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

#### **6.8 Payment of Interest**

Subject as provided otherwise in these Conditions, 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) or by reason of non-compliance with **Condition 6.1**, 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 14**.

### **7. PRESCRIPTION**

Claims against the Issuer for payment of interest and principal on redemption shall be prescribed and become void unless claims in respect of principal and/or interest are made within a period of 10 years from the relevant date in respect thereof. After the date on which a payment under a Note becomes void in its entirety, no claim may be made in respect thereof. In this **Condition 7**, the **relevant date**, in respect of a payment under a Note, is the date on which the payment in respect thereof first becomes due or (if the full amount of the monies payable in respect of those payments under all the Notes due on or before that date has not been duly received by the Principal Paying Agent, the U.S. Paying Agent or the Note Trustee (as the case may be) on or prior to such date) the date on which the full amount of such monies having been so received or notice to that effect is duly given to Noteholders in accordance with **Condition 14**.

### **8. TAXATION**

All payments in respect of the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer or any relevant Paying Agent is required by applicable law to make any payment in respect of the Notes subject to any such withholding or deduction. In that event, the Issuer or such Paying Agent shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Issuer nor any Paying Agent will be obliged to make any additional payments to Noteholders in respect of such withholding or deduction.

## 9. EVENTS OF DEFAULT

### 9.1 Class A Noteholders

The Note Trustee in its absolute discretion may (and if so requested in writing by the Holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class A Notes (which for this purpose and the purpose of any Extraordinary Resolution referred to in this **Condition 9.1** means the Class A Notes of all Series constituted by the Note Trust Deed) or if so directed by or pursuant to an Extraordinary Resolution passed at a meeting of the Holders of the Class A Notes shall), subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction, give notice (a **Class A Note Acceleration Notice**) to the Issuer, the Issuer Security Trustee and the Funding 1 Security Trustee of a Note Event of Default (as defined below) declaring (in writing) the Class A Notes and all other Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events which is continuing or unwaived:

- (a) default being made for a period of three Business Days in the payment of any amount of principal of the Class A Notes of any Series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount of interest on the Class A Notes of any Series when and as the same ought to be paid in accordance with these Conditions; or
- (b) the Issuer failing duly to perform or observe any other obligation binding upon it under the Class A Notes of any Series, the Note Trust Deed, the Issuer Deed of Charge or any other Transaction Document and, in any such case (except where the Note Trustee certifies that, in its opinion, such failure is incapable of remedy, in which case no notice will be required), such failure is continuing unremedied for a period of 20 days following the service by the Note Trustee on the Issuer of notice requiring the same to be remedied and the Note Trustee has certified that the failure to perform or observe is materially prejudicial to the interests of the Holders of the Class A Notes of such Series; or
- (c) the Issuer, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in subparagraph (d) below, ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of Section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or otherwise becomes insolvent; or
- (d) an order being made or an effective resolution being passed for the winding-up of the Issuer except a winding-up for the purposes of or pursuant to an amalgamation, restructuring or merger the terms of which have previously been approved by the Note Trustee in writing or by an Extraordinary Resolution of the Holders of the Class A Notes; or
- (e) proceedings being otherwise initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition for an administration order, the filing of documents with the court for an administration or the service of a notice of intention to appoint an administrator) and (except in the case of presentation of a petition for an administration order) such proceedings are not, in the sole opinion of the Note Trustee, being disputed in good faith with a reasonable prospect of success, or an administration order being granted or the appointment of an administrator takes effect or an administrative receiver or other receiver, liquidator or other similar official being appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer, or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the Issuer, or a distress, execution, diligence or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and such possession or process (as the case may be) not being discharged or not otherwise ceasing to apply within 30 days, or the Issuer initiating or consenting to the foregoing proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors generally or a composition or similar arrangement with the creditors or takes steps with a view to obtaining a moratorium in respect of its indebtedness, including without limitation, the filing of documents with the court; or
- (f) if an Intercompany Loan Acceleration Notice is served under the Intercompany Loan Agreement while the Class A Notes of any Series are outstanding.

## 9.2 Class B Noteholders

This **Condition 9.2** shall have no effect if, and for as long as, any Class A Notes of any Series are outstanding. Subject thereto, for so long as any Class B Notes are outstanding, the Note Trustee in its absolute discretion may (and if so requested in writing by the Holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class B Notes (which for this purpose and the purpose of any Extraordinary Resolution referred to in this **Condition 9.2**, means the Class B Notes of all Series constituted by the Note Trust Deed) or if so directed by or pursuant to an Extraordinary Resolution passed at a meeting of the Holders of the Class B Notes shall), subject in each case to it being indemnified and/or secured and/or prefunded to its satisfaction, give notice (a **Class B Note Acceleration Notice**) to the Issuer, the Issuer Security Trustee and the Funding 1 Security Trustee of a Note Event of Default (as defined below) and declaring (in writing) the Class B Notes and all other Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events:

- (a) default being made for a period of three Business Days in the payment of any amount of principal of the Class B Notes of any Series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount of interest on the Class B Notes of any Series when and as the same ought to be paid in accordance with these Conditions; or
- (b) the occurrence of any of the events in **Condition 9.1(b), (c), (d), (e) or (f)** above provided that the references in **Condition 9.1(b), Condition 9.1(d) and Condition 9.1(f)** to Class A Notes shall be read as references to Class B Notes.

## 9.3 Class M Noteholders

This **Condition 9.3** shall have no effect if, and for as long as, any Class A Notes or Class B Notes of any Series are outstanding. Subject thereto, for so long as any Class M Notes are outstanding, the Note Trustee in its absolute discretion may (and if so requested in writing by the Holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class M Notes (which for this purpose and the purpose of any Extraordinary Resolution referred to in this **Condition 9.3**, means the Class M Notes of all Series constituted by the Note Trust Deed) or if so directed by or pursuant to an Extraordinary Resolution passed at a meeting of the Holders of the Class M Notes shall), subject in each case to it being indemnified and/or secured and/or prefunded to its satisfaction, give notice (a **Class M Note Acceleration Notice**) to the Issuer, the Issuer Security Trustee and the Funding 1 Security Trustee of a Note Event of Default (as defined below) and declaring (in writing) the Class M Notes and all other Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events:

- (a) default being made for a period of three Business Days in the payment of any amount of principal of the Class M Notes of any Series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount of interest on the Class M Notes of any Series when and as the same ought to be paid in accordance with these Conditions; or
- (b) the occurrence of any of the events in **Condition 9.1(b), (c), (d), (e) or (f)** above provided that the references in **Condition 9.1(b), Condition 9.1(d) and Condition 9.1(f)** to Class A Notes shall be read as references to Class M Notes.

## 9.4 Class C Noteholders

This **Condition 9.4** shall have no effect if, and for as long as, any Class A Notes, Class B Notes or Class M Notes of any Series are outstanding. Subject thereto, for so long as any Class C Notes are outstanding, the Note Trustee in its absolute discretion may (and if so requested in writing by the Holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class C Notes (which for this purpose and the purpose of any Extraordinary Resolution referred to in this **Condition 9.4**, means the Class C Notes of all Series constituted by the Note Trust Deed) or if so directed by or pursuant to an Extraordinary Resolution passed at a meeting of the Holders of the Class C Notes shall), subject in each case to it being indemnified and/or secured and/or prefunded to its satisfaction, give notice (a **Class C Note Acceleration Notice**) to the Issuer, the Issuer Security Trustee and the Funding 1 Security Trustee of a Note Event of Default (as defined below) and declaring (in writing) the Class C Notes and all other Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events:

- (a) default being made for a period of three Business Days in the payment of any amount of principal of the Class C Notes of any Series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount of interest on the Class C Notes of any Series when and as the same ought to be paid in accordance with these Conditions; or

- (b) the occurrence of any of the events in **Condition 9.1(b), (c), (d), (e) or (f)** above provided that the references in **Condition 9.1(b), Condition 9.1(d) and Condition 9.1(f)** to Class A Notes shall be read as references to Class C Notes.

## **9.5 Class D Noteholders**

This **Condition 9.5** shall have no effect if, and for as long as, any Class A Notes, Class B Notes, Class M Notes or Class C Notes of any Series are outstanding. Subject thereto, for so long as any Class D Notes are outstanding, the Note Trustee in its absolute discretion may (and if so requested in writing by the Holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class D Notes (which for this purpose and the purpose of any Extraordinary Resolution referred to in this **Condition 9.5**, means the Class D Notes of all Series constituted by the Note Trust Deed) or if so directed by or pursuant to an Extraordinary Resolution passed at a meeting of the Holders of the Class D Notes shall), subject in each case to it being indemnified and/or secured and/or prefunded to its satisfaction, give notice (a **Class D Note Acceleration Notice**) to the Issuer, the Issuer Security Trustee and the Funding 1 Security Trustee of a Note Event of Default (as defined below) and declaring (in writing) the Class D Notes and all other Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events:

- (a) default being made for a period of three Business Days in the payment of any amount of principal of the Class D Notes of any Series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount of interest on the Class D Notes of any Series when and as the same ought to be paid in accordance with these Conditions; or
- (b) the occurrence of any of the events in **Condition 9.1(b), (c), (d), (e) or (f)** above provided that the references in **Condition 9.1(b), Condition 9.1(d) and Condition 9.1(f)** to Class A Notes shall be read as references to Class D Notes.

## **9.6 Class Z Noteholders**

This **Condition 9.6** shall have no effect if, and for as long as, any Class A Notes, Class B Notes, Class M Notes, Class C Notes or Class D Notes of any Series are outstanding. Subject thereto, for so long as any Class Z Notes are outstanding, the Note Trustee in its absolute discretion may (and if so requested in writing by the Holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class Z Notes (which for this purpose and the purpose of any Extraordinary Resolution referred to in this **Condition 9.6**, means the Class Z Notes of all Series constituted by the Note Trust Deed) or if so directed by or pursuant to an Extraordinary Resolution passed at a meeting of the Holders of the Class Z Notes shall), subject in each case to it being indemnified and/or secured and/or prefunded to its satisfaction, give notice (a **Class Z Note Acceleration Notice**) to the Issuer, the Issuer Security Trustee and the Funding 1 Security Trustee of a Note Event of Default (as defined below) and declaring (in writing) the Class Z Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events:

- (a) default being made for a period of three Business Days in the payment of any amount of principal of the Class Z Notes of any Series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount of interest on the Class Z Notes of any Series when and as the same ought to be paid in accordance with these Conditions; or
- (b) the occurrence of any of the events in **Condition 9.1(b), (c), (d), (e) or (f)** above provided that the references in **Condition 9.1(b), Condition 9.1(d) and Condition 9.1(f)** to Class A Notes shall be read as references to Class Z Notes.

## **9.7 Following Service of a Note Acceleration Notice**

In these Conditions, a **Note Acceleration Notice** means any of the Class A Note Acceleration Notice, the Class B Note Acceleration Notice, the Class M Note Acceleration Notice, the Class C Note Acceleration Notice, the Class D Note Acceleration Notice and the Class Z Note Acceleration Notice. For the avoidance of doubt, upon any Note Acceleration Notice being given by the Note Trustee in accordance with **Condition 9.1, 9.2, 9.3, 9.4, 9.5 or 9.6** all Notes shall immediately become due, without further action, notice or formality at their Principal Amount Outstanding together with accrued interest (or, in the case of a Zero Coupon Note, at its Redemption Amount, calculated in accordance with **Condition 5.7**).

## 10. ENFORCEMENT OF NOTES

### 10.1 Enforcement

Subject as provided in the Note Trust Deed, the Note Trustee may, at its discretion and without notice at any time and from time to time, take such steps or actions and institute such proceedings against the Issuer or any other person as it may think fit to enforce the provisions of the Notes, the Note Trust Deed (including these Conditions) or any of the other Transaction Documents to which it is a party and the Note Trustee may, at its discretion at any time after the Issuer Security has become enforceable (including after the service of a Note Acceleration Notice in accordance with **Condition 9**), instruct the Issuer Security Trustee to take such steps as it may think fit to enforce the Issuer Security. The Note Trustee shall not be bound to take such steps or institute such proceedings or give such instructions unless:

- (a) (subject in all cases to restrictions contained in the Note Trust Deed to protect the interests of any higher ranking Class of Noteholders) it shall have been so directed by an Extraordinary Resolution of the Class A Noteholders, the Class B Noteholders, the Class M Noteholders, the Class C Noteholders, the Class D Noteholders or the Class Z Noteholders (which for this purpose and the purpose of a request in writing as referred to below in this Condition 10.1, means the Holders of all Series of the Class A Notes, the Class B Notes, the Class M Notes, the Class C Notes, the Class D Notes or the Class Z Notes (as applicable)) or so requested in writing by the Holders of at least one quarter in aggregate Principal Amount Outstanding of the Class A Notes, Class B Notes, Class M Notes, Class C Notes, Class D Notes or Class Z Notes (as applicable) of all Series; and
- (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

The Issuer Security Trustee shall not be bound to and shall not take such steps or take any such other action unless it is so directed by the Note Trustee and indemnified and/or secured to its satisfaction.

Amounts available for distribution after enforcement of the Issuer Security shall be distributed in accordance with the terms of the Issuer Deed of Charge.

No Noteholder may institute any proceedings against the Issuer to enforce its rights under or in respect of the Notes, the Note Trust Deed or the Issuer Deed of Charge unless (i) the Note Trustee or the Issuer Security Trustee, as applicable, has become bound to institute proceedings and has failed to do so within 30 days of becoming so bound and (ii) such failure is continuing; provided that, no Class B Noteholder, Class M Noteholder, Class C Noteholder, Class D Noteholder or Class Z Noteholder will be entitled to commence proceedings for the winding up or administration of the Issuer unless there are no outstanding Notes of a Class with higher priority, or if Notes of a Class with higher priority are outstanding, there is consent of Noteholders of not less than one quarter of the aggregate principal amount of the Notes outstanding (as defined in the Note Trust Deed) of the Class or Classes of Notes with higher priority or pursuant to an Extraordinary Resolution of the Holders of such Class of Notes. Notwithstanding the foregoing and notwithstanding any other provision of the Note Trust Deed, the right of any Noteholder to receive payment of principal and interest on its Notes on or after the due date for such principal or interest, or to institute suit for the enforcement of payment of that principal or interest, may not be impaired or affected without the consent of that Noteholder.

### 10.2 Limited Recourse

Notwithstanding any other Condition or any provision of any Transaction Document, all obligations of the Issuer to the Noteholders are limited in recourse to the property, assets and undertaking of the Issuer the subject of any Issuer Security (the **Issuer Charged Assets**). If:

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



## 11. MEETINGS OF NOTEHOLDERS, MODIFICATIONS AND WAIVER

### 11.1 Meetings of Noteholders

The Note Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any provision of these Conditions or the provisions of any of the Transaction Documents.

#### (a) **Class A Notes**

In respect of the Class A Notes, the Note Trust Deed provides that, subject to **Condition 11.2**:

- (i) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class A Notes of one Class only shall be deemed to have been duly passed if passed at a meeting of the Holders of the Class A Notes of that Class;
- (ii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class A Notes of any two or more Classes but does not give rise to a conflict of interest between the Holders of any such two or more Classes of Class A Notes, shall be deemed to have been duly passed if passed at a single meeting of the Holders of such two or more Classes of Class A Notes; and
- (iii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class A Notes of any two or more Classes and gives or may give rise to a conflict of interest between the Holders of any such Classes of Class A Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Holders of such two or more Classes of Class A Notes, it shall be passed at separate meetings of the Holders of each such Class of Class A Notes.

#### (b) **Class B Notes**

In respect of the Class B Notes, the Note Trust Deed provides that, subject to **Condition 11.2**:

- (i) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class B Notes of one Class only shall be deemed to have been duly passed if passed at a meeting of the Holders of the Class B Notes of that Class;
- (ii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class B Notes of any two or more Classes but does not give rise to a conflict of interest between the Holders of any such two or more Classes of Class B Notes, shall be deemed to have been duly passed if passed at a single meeting of the Holders of such two or more Classes of Class B Notes; and
- (iii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class B Notes of any two or more Classes and gives or may give rise to a conflict of interest between the Holders of any such Classes of Class B Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Holders of such two or more Classes of Class B Notes, it shall be passed at separate meetings of the Holders of each such Class of Class B Notes.

#### (c) **Class M Notes**

In respect of the Class M Notes, the Note Trust Deed provides that, subject to **Condition 11.2**:

- (i) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class M Notes of one Class only shall be deemed to have been duly passed if passed at a meeting of the Holders of the Class M Notes of that Class;
- (ii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class M Notes of any two or more Classes but does not give rise to a conflict of interest between the Holders of any such two or more Classes of Class M Notes, shall be deemed to have been duly passed if passed at a single meeting of the Holders of such two or more Classes of Class M Notes; and
- (iii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class M Notes of any two or more Classes and gives or may give rise to a conflict of interest between the Holders of any such Classes of Class M Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Holders of such two or more Classes of Class M Notes, it shall be passed at separate meetings of the Holders of each such Class of Class M Notes.

**(d) Class C Notes**

In respect of the Class C Notes, the Note Trust Deed provides that, subject to **Condition 11.2**:

- (i) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class C Notes of one Class only shall be deemed to have been duly passed if passed at a meeting of the Holders of the Class C Notes of that Class;
- (ii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class C Notes of any two or more Classes but does not give rise to a conflict of interest between the Holders of any such two or more Classes of Class C Notes, shall be deemed to have been duly passed if passed at a single meeting of the Holders of such two or more Classes of Class C Notes; and
- (iii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class C Notes of any two or more Classes and gives or may give rise to a conflict of interest between the Holders of any such Classes of Class C Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Holders of such two or more Classes of Class C Notes, it shall be passed at separate meetings of the Holders of each such Class of Class C Notes.

**(e) Class D Notes**

In respect of the Class D Notes, the Note Trust Deed provides that, subject to **Condition 11.2**:

- (i) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class D Notes of one Class only shall be deemed to have been duly passed if passed at a meeting of the Holders of the Class D Notes of that Class;
- (ii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class D Notes of any two or more Classes but does not give rise to a conflict of interest between the Holders of any such two or more Classes of Class D Notes, shall be deemed to have been duly passed if passed at a single meeting of the Holders of such two or more Classes of Class D Notes; and
- (iii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class D Notes of any two or more Classes and gives or may give rise to a conflict of interest between the Holders of any such Classes of Class D Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Holders of such two or more Classes of Class D Notes, it shall be passed at separate meetings of the Holders of each such Class of Class D Notes.

**(f) Class Z Notes**

In respect of the Class Z Notes, the Note Trust Deed provides that, subject to **Condition 11.2**:

- (i) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class Z Notes of one Class only shall be deemed to have been duly passed if passed at a meeting of the Holders of the Class Z Notes of that Class;
- (ii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class Z Notes of any two or more Classes but does not give rise to a conflict of interest between the Holders of any such two or more Classes of Class Z Notes, shall be deemed to have been duly passed if passed at a single meeting of the Holders of such two or more Classes of Class Z Notes; and
- (iii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class Z Notes of any two or more Classes and gives or may give rise to a conflict of interest between the Holders of any such Classes of Class Z Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Holders of such two or more Classes of Class Z Notes, it shall be passed at separate meetings of the Holders of each such Class of Class Z Notes.

The quorum for any meeting of the Holders of any Series and Class of Notes or of any Classes of Notes of one or more Series convened to consider a resolution (except for the purpose of passing an Extraordinary Resolution or a Programme Resolution) will be one or more persons holding or representing

not less than one-twentieth of the aggregate Principal Amount Outstanding of such Series and Class of Notes or such Classes of Notes of one or more Series or, at any adjourned meeting, one or more persons being or representing Noteholders of such Series and Class of Notes or such Classes of Notes for the time being outstanding of one or more Series, whatever the aggregate Principal Amount Outstanding of the relevant Notes for the time being outstanding so held or represented. A **resolution** means a resolution (excluding an Extraordinary Resolution or a Programme Resolution) passed at a meeting of Noteholders duly convened and held in accordance with the provisions of the Note Trust Deed by a simple majority of the persons voting thereat upon a show of hands or if a poll is duly demanded by a simple majority of the votes cast on such poll.

Subject as provided in the following paragraph, the quorum at any meeting of the Holders of any Series and Class of Notes or of any Classes of Notes of one or more Series of Notes convened to consider 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 Series and Class of Notes or such Classes of Notes of one or more Series or, at any adjourned meeting, one or more persons being or representing Noteholders of such Series and Class of Notes or such Classes of Notes of one or more Series of Notes, whatever the aggregate Principal Amount Outstanding of the relevant Notes so held or represented.

The quorum at any meeting of the Noteholders for passing an Extraordinary Resolution which includes the sanctioning of a modification which would have the effect of altering the amount or timing of payments of principal on the Notes of such Series and Class or of such Classes of Notes of one or more Series or the rate, the day or the timing of payments of interest thereon or of the currency of payment of the Notes of such Series and Class or of such Classes of Notes of one or more Series or altering the priority of payments or altering the quorum or majority required in relation to any resolution (each a **Basic Terms Modification**, as more fully defined in the Note Trust Deed) shall be one or more persons holding or representing not less than 75 per cent. of the aggregate Principal Amount Outstanding of the Notes of the relevant Series and Class or of the Classes of Notes of one or more Series of Notes or, at any adjourned and reconvened meeting, not less than 25 per cent. of the aggregate Principal Amount Outstanding of the Notes of the relevant Series and Class or of the Classes of Notes of one or more Series.

An Extraordinary Resolution passed at any meeting of Noteholders shall be binding on all of the Noteholders of the relevant Series and Class or of the Classes of Notes of one or more Series whether or not they are present or represented at the meeting.

In connection with any meeting of Noteholders where the relevant Notes (or any of them) are not denominated in Sterling, the Principal Amount Outstanding of any Note not denominated in Sterling shall be converted into Sterling at the relevant Specified Currency Exchange Rate.

A resolution signed by or on behalf of all the Noteholders of the relevant Series and Class or of the relevant Classes of Notes of one or more Series who for the time being are entitled to receive notice of a meeting under the Note Trust Deed shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders of such Series and Class or of the relevant Classes of Notes of one or more Series.

## **11.2 Programme Resolution**

Notwithstanding the provisions of **Condition 11.1**, any Extraordinary Resolution of the Noteholders of any Class to direct the Note Trustee to give a Note Acceleration Notice pursuant to **Condition 9** or take any enforcement action or instruct the Issuer Security Trustee to enforce the Issuer Security pursuant to **Condition 10** (a **Programme Resolution**) shall only be capable of being passed at a single meeting of the Noteholders of all Series of such Class of Notes. The quorum at any such meeting for passing a Programme Resolution shall be one or more persons holding or representing not less than 50 per cent. of the aggregate Principal Amount Outstanding of the Notes of such Class or, at any adjourned and reconvened meeting, one or more persons being or representing Noteholders of such Class of Notes, whatever the aggregate Principal Amount Outstanding of such Class of Notes so held or represented by them.

A Programme Resolution passed at any meeting of all Series of any Class of Notes shall be binding on all Noteholders of all Series of that Class of Notes, whether or not they are present or represented at the meeting.

### 11.3 Limitations on Noteholders

Subject as provided in **Condition 11.4**:

- (a) an Extraordinary Resolution of the Class A Noteholders of any Series shall be binding on all Class B Noteholders, all Class M Noteholders, all Class C Noteholders, all Class D Noteholders and all Class Z Noteholders, in each case, of that Series or of any other Series irrespective of the effect upon them;
- (b) no Extraordinary Resolution of the Class B Noteholders of any Series shall take effect for any purpose while any Class A Notes (of that Series or of any other Series) remain outstanding unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders of each Series or the Note Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders of any Series (as applicable) and, subject hereto and to **Condition 11.4**, an Extraordinary Resolution of the Class B Noteholders of any Series will be binding on all Class M Noteholders, all Class C Noteholders, all Class D Noteholders and all Class Z Noteholders, in each case, of that or of any other Series irrespective of the effect upon them;
- (c) no Extraordinary Resolution of the Class M Noteholders of any Series shall take effect for any purpose while any Class A Notes or Class B Notes (in each case, of that Series or of any other Series) remain outstanding unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders and an Extraordinary Resolution of the Class B Noteholders, in each case of each Series, or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders and/or the Class B Noteholders of any Series (as applicable) and, subject hereto and to **Condition 11.4**, an Extraordinary Resolution of the Class M Noteholders of any Series will be binding on all Class C Noteholders, all Class D Noteholders and all Class Z Noteholders, in each case, of that or of any other Series irrespective of the effect upon them;
- (d) no Extraordinary Resolution of the Class C Noteholders of any Series shall take effect for any purpose while any Class A Notes, Class B Notes or Class M Notes (in each case, of that Series or of any other Series) remain outstanding unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders, an Extraordinary Resolution of the Class B Noteholders and an Extraordinary Resolution of the Class M Noteholders, in each case of each Series, or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders, the Class B Noteholders and/or the Class M Noteholders of any Series (as applicable) and, subject hereto and to **Condition 11.4**, an Extraordinary Resolution of the Class C Noteholders of any Series will be binding on all Class D Noteholders and all Class Z Noteholders of that or of any other Series irrespective of the effect upon them;
- (e) no Extraordinary Resolution of Class D Noteholders of any Series shall take effect for any purpose while any Class A Notes, Class B Notes, Class M Notes or Class C Notes (in each case, of that Series or of any other Series) remain outstanding unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders, an Extraordinary Resolution of the Class B Noteholders, an Extraordinary Resolution of the Class M Noteholders and an Extraordinary Resolution of the Class C Noteholders, in each case of each Series, or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders, the Class B Noteholders, the Class M Noteholders and/or the Class C Noteholders of any Series (as applicable) and, subject hereto and to **Condition 11.4**, an Extraordinary Resolution of the Class D Noteholders of any Series will be binding on all Class Z Noteholders of that or of any other Series irrespective of the effect upon them; and
- (f) no Extraordinary Resolution of Class Z Noteholders of any Series shall take effect for any purpose while any Class A Notes, Class B Notes, Class M Notes, Class C Notes or Class D Notes (in each case, of that Series or of any other Series) remain outstanding unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders, an Extraordinary Resolution of the Class B Noteholders, an Extraordinary Resolution of the Class M Noteholders, an Extraordinary Resolution of the Class C Noteholders and an Extraordinary Resolution of the Class D Noteholders, in each case of each Series, or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders, the Class B Noteholders, the Class M Noteholders, the Class C Noteholders and/or the Class D Noteholders of any Series (as applicable).

#### **11.4 Approval of Modifications and Waivers by Noteholders**

No Extraordinary Resolution of the Noteholders of any one or more Series of Class A Notes to sanction a modification of, or any waiver or authorisation of any breach or proposed breach of, any of the provisions of the Transaction Documents or these Conditions of any Series and Class of Notes shall take effect unless it has been sanctioned by an Extraordinary Resolution of the Class B Noteholders, an Extraordinary Resolution of the Class M Noteholders, an Extraordinary Resolution of the Class C Noteholders, an Extraordinary Resolution of the Class D Noteholders and an Extraordinary Resolution of the Class Z Noteholders, in each case of each Series, or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class B Noteholders, the Class M Noteholders, the Class C Noteholders, the Class D Noteholders and the Class Z Noteholders of any Series.

No Extraordinary Resolution of the Noteholders of any one or more Series of Class B Notes to sanction a modification of, or any waiver or authorisation of any breach or proposed breach of, any of the provisions of the Transaction Documents or these Conditions of any Series and Class of Notes shall take effect unless it has been sanctioned by an Extraordinary Resolution of the Class M Noteholders, an Extraordinary Resolution of the Class C Noteholders, an Extraordinary Resolution of the Class D Noteholders and an Extraordinary Resolution of the Class Z Noteholders, in each case of each Series, or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class M Noteholders, the Class C Noteholders, the Class D Noteholders and the Class Z Noteholders of any Series.

No Extraordinary Resolution of the Noteholders of any one or more Series of Class M Notes to sanction a modification of, or any waiver or authorisation of any breach or proposed breach of, any of the provisions of the Transaction Documents or these Conditions of any Series and Class of Notes shall take effect unless it has been sanctioned by an Extraordinary Resolution of the Class C Noteholders, an Extraordinary Resolution of the Class D Noteholders and an Extraordinary Resolution of the Class Z Noteholders, in each case of each Series, or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class C Noteholders, the Class D Noteholders and the Class Z Noteholders of any Series.

No Extraordinary Resolution of the Noteholders of any one or more Series of Class C Notes to sanction a modification of, or any waiver or authorisation of any breach or proposed breach of, any of the provisions of the Transaction Documents or these Conditions of any Series and Class of Notes shall take effect unless it has been sanctioned by an Extraordinary Resolution of the Class D Noteholders and an Extraordinary Resolution of the Class Z Noteholders, in each case, of each Series, or the Note Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class D Noteholders and the Class Z Noteholders of any Series.

No Extraordinary Resolution of the Noteholders of any one or more Series of Class D Notes to sanction a modification of, or any waiver or authorisation of any breach or proposed breach of, any of the provisions of the Transaction Documents or these Conditions of any Series and Class of Notes shall take effect unless it has been sanctioned by an Extraordinary Resolution of the Class Z Noteholders of each Series, or the Note Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class Z Noteholders of any Series.

#### **11.5 Modifications and Determinations by Note Trustee**

Subject as provided in the Note Trust Deed, the Note Trustee may, without the consent of the Noteholders:

- (a) agree to any modification (other than a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of, these Conditions of any Series and Class of Notes or any of the Transaction Documents which is not in the opinion of the Note Trustee, materially prejudicial to the interests of the Noteholders of any Series and Class of Notes; or
- (b) determine that any Note Event of Default shall not be treated as such provided that it is not in the opinion of the Note Trustee materially prejudicial to the interests of the Holders of the most senior Class of Notes then outstanding; or
- (c) agree to any modification (including a Basic Terms Modification) of these Conditions of any Series and Class of Notes or any of the Transaction Documents which, in the opinion of the Note Trustee, is of a formal, minor or technical nature or is to correct a manifest error or proven error established as such to the satisfaction of the Note Trustee or is to comply with the mandatory provisions of law; or

- (d) agree to any modification of any of these Conditions or any Transaction Documents as expressly provided for in the Transaction Documents.

For the avoidance of doubt, the Note Trustee shall be entitled to assume, without further investigation or inquiry, that such modification, waiver, determination or authorisation will not be materially prejudicial to the interests of the Noteholders or any Class or Series thereof if each of the Rating Agencies rating the relevant Series and/or Class of Notes has confirmed in writing that the then current ratings of the applicable Series and/or Class of Notes for which it provides a rating would not be reduced, withdrawn or qualified by such modification, waiver, determination or authorisation. Any such modification, waiver, authorisation or determination shall be binding on the relevant Noteholders and, unless the Note Trustee agrees otherwise, any such modification shall be notified to the relevant Noteholders and the Rating Agencies in accordance with **Condition 14** as soon as practicable thereafter.

Without prejudice to Clause 21.1 of the Note Trust Deed, the Note Trustee shall, without the consent of any holders of any Series or Class of Notes issued after the date hereof, be required to give its consent to any modifications to these presents or any of the other Transaction Documents that are requested by the Issuer or the Cash Manager, provided that the Issuer has certified to the Note Trustee in writing that such modifications are required in order to comply with any requirements which apply to it under European Regulation 648/2012 of 4 July 2012, known as the European Market Infrastructure Regulation (**EMIR**), irrespective of whether such modifications are materially prejudicial to the interests of the Noteholders of any Series or Class of Notes or any other Issuer Secured Creditor and provided such modifications do not relate to a Basic Terms Modification. The Note Trustee shall not be obliged to agree to any modification pursuant to this paragraph which (in the sole opinion of the Note Trustee and/or the Mortgages Trustee) would have the effect of (a) exposing the Note Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction; and (b) increasing the obligations or duties, or decreasing the protections of the Note Trustee in the Transaction Documents and/or the Conditions of the Notes.

The Noteholders of any Series or Class of Notes and any other Issuer Secured Creditors shall be deemed to have instructed the Note Trustee to concur with such modifications and shall be bound by such modifications regardless of whether or not such modifications are materially prejudicial to the interests of Noteholders and the other Issuer Secured Creditors.

#### **11.6 Redenomination**

The Note Trustee may agree, without the consent of the Holders of the Sterling Notes on or after the Specified Date (as defined below), to such modifications to the Sterling Notes and the Note Trust Deed in respect of redenomination of such Sterling Notes in euro and associated reconventioning, renominalisation and related matters in respect of such Sterling Notes as may be proposed by the Issuer (and confirmed by an independent financial institution approved by the Note Trustee to be in conformity with then applicable market conventions) and to provide for redemption at the euro equivalent of the Sterling principal amount of the Sterling Notes. For these purposes, **Specified Date** means the date on which the United Kingdom participates in the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended, or otherwise participates in European economic and monetary union in a manner with an effect similar to such third stage.

Any such modification shall be binding on the Holders of the Sterling Notes and, unless the Note Trustee agrees otherwise, any such modification shall be notified to such Noteholders in accordance with **Condition 14** as soon as practicable thereafter.

#### **11.7 Exercise of Note Trustee's Functions**

Where the Note Trustee is required, in connection with the exercise of its powers, trusts, authorities, duties and discretions under these Conditions or any Transaction Document, to have regard to the interests of the Noteholders of any Class, it shall have regard to the interests of such Noteholders as a class and, in particular but without prejudice to the generality of the foregoing, the Note Trustee shall not have regard to, or be in any way liable for, the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise, the Note Trustee shall not be entitled to require, and no Noteholder shall be entitled to claim, from the Issuer or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

## **12. INDEMNIFICATION OF THE NOTE TRUSTEE AND THE ISSUER SECURITY TRUSTEE**

The Note Trust Deed, the Issuer Deed of Charge and the Funding 1 Deed of Charge set out certain provisions for the benefit of the Note Trustee, the Issuer Security Trustee and the Funding 1 Security Trustee. The following is a summary of such provisions and is subject to the more detailed provisions of the Note Trust Deed, the Issuer Deed of Charge and the Funding 1 Deed of Charge.

The Transaction Documents contain provisions governing the responsibility (and relief from responsibility) of the Note Trustee, the Issuer Security Trustee and the Funding 1 Security Trustee and providing for their indemnification in certain circumstances, including, among others, provisions relieving the Issuer Security Trustee, the Note Trustee and the Funding 1 Security Trustee from taking enforcement proceedings or enforcing the Issuer Security and/or the Funding 1 Security, as the case may be, unless indemnified to its satisfaction.

The Note Trustee, the Issuer Security Trustee and the Funding 1 Security Trustee and their related companies are entitled to enter into business transactions with the Issuer, any member of the Santander UK's group of companies, the Issuer Cash Manager and/or the related companies of any of them and to act as note trustee or security trustee for the holders of any new notes and/or any other person who is a party to any Transaction Document or whose obligations are comprised in the Issuer Security or the Funding 1 Security and/or any of its subsidiary or associated companies without accounting for any profit resulting therefrom.

Neither the Note Trustee, the Issuer Security Trustee nor the Funding 1 Security Trustee will be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Issuer Security or the Funding 1 Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Note Trustee or the Issuer Security Trustee or the Funding 1 Security Trustee, as applicable.

Furthermore, the Note Trustee, the Issuer Security Trustee and the Funding 1 Security Trustee will be relieved of liability for making searches or other inquiries in relation to the assets comprising the Issuer Security and Funding 1 Security. The Note Trustee, the Issuer Security Trustee and the Funding 1 Security Trustee do not have any responsibility in relation to the legality and the enforceability of the trust arrangements and the related Issuer Security and Funding 1 Security. None of the Note Trustee, the Issuer Security Trustee or the Funding 1 Security Trustee will be obliged to take any action that might result in its incurring personal liabilities. None of the Note Trustee, the Issuer Security Trustee or the Funding 1 Security Trustee is obliged to monitor or investigate the performance of any other person under the Transaction Documents and is entitled to assume, until it has actual knowledge to the contrary, that all such persons are properly performing their duties, unless it receives express notice to the contrary.

None of the Note Trustee, the Issuer Security Trustee or the Funding 1 Security Trustee will be responsible for any deficiency that may arise because it is liable to tax in respect of the proceeds of any Issuer Security or any Funding 1 Security.

Law Debenture Trust Company of New York (the **Initial Trustee**) is acting as Note Trustee under the Note Trust Deed and as Issuer Security Trustee under the Issuer Deed of Charge and as Funding 1 Security Trustee under the Funding 1 Deed of Charge (and while doing so the Initial Trustee and any successor which acts in all such capacities are referred to in this Condition as the **Trustee**). No entity may act as a trustee in any such capacity unless it is also the Trustee or unless the Trustee agrees otherwise or unless the Trustee resigns its office as trustee in one or more of such capacities. In its capacity as Trustee, the Trustee will not be liable to any Noteholder for any loss which he may suffer by reason of any conflict which may arise between the interests of the Noteholders and any other person to whom the Trustee owes duties as a result of the Trustee acting in all such capacities.

Neither the Initial Trustee nor any of its successors has any responsibility to Noteholders, the Issuer Secured Creditors or the Funding 1 Secured Creditors for the validity, sufficiency or enforceability of the Issuer Security and the Funding 1 Security (which the Initial Trustee has not investigated) and shall accept such title and interest as any chargor or mortgagor has without responsibility for investing the same or any defect there may be therein. Neither the Initial Trustee nor any of its successors are responsible for monitoring the performance by any person of its obligations to the Issuer, Funding 1, any Further Funding Companies or any obligor and each may assume until it has actual knowledge to the contrary that such obligations are being duly performed.

### 13. REPLACEMENT OF NOTES

If Definitive Notes are lost, stolen, mutilated, defaced or destroyed, the Noteholder can replace them at the Specified Office of any Paying Agent subject to all applicable laws and stock exchange requirements. The Noteholder will be required both to pay the expenses of producing a replacement and to comply with the Issuer's, the Registrar's and the Paying Agents' reasonable requests for evidence and indemnity.

If a Global Note is lost, stolen, mutilated, defaced or destroyed, the Issuer will deliver a replacement Global Note to the registered holder upon receipt of satisfactory evidence and surrender of any defaced or mutilated Global Note. A replacement will only be made upon payment of the expenses for a replacement and compliance with the Issuer's, Registrar's and Paying Agents' reasonable requests as to evidence and indemnity.

Defaced or mutilated Notes must be surrendered before replacements will be issued.

### 14. NOTICE TO NOTEHOLDERS

#### 14.1 Publication of Notice

Any notice to Noteholders shall be validly given if such notice is:

- (a) published on the Relevant Screen; and
- (b) for so long as the notes are listed on the Official List and traded on the Irish Stock Exchange and the rules of the Irish Stock Exchange so permit, (i) published by delivery to the applicable clearing system, or (ii) filed with the Companies Announcement Office of the Irish Stock Exchange for publication in the Announcements section of the website of the Irish Stock Exchange.

#### 14.2 Date of Publication

Any notices so published shall be deemed to have been given on the fourth day after the date of posting, or as the case may be, on the date of such publication or, if published more than once on different dates, on the first date on which publication shall have been made on the Relevant Screen on which publication is required, or, in the case of notices provided pursuant to 14.1(b)(i) above, on the same day that such notice was delivered.

#### 14.3 Global Notes

While the Notes are represented by Global Notes, any notice to Noteholders will be validly given if such notice is provided in accordance with **Condition 14.1** or (at the option of the Issuer) if delivered to DTC (in the case of the Rule 144A Notes held within the DTC system) or Euroclear and/or Clearstream, Luxembourg (in the case of the Reg S Notes and Rule 144A Notes held under the NSS) or (if specified in the applicable Final Terms) if delivered through any **Alternative Clearing System** specified therein. Any notice delivered to the DTC and/or Euroclear and/or Clearstream, Luxembourg and/or such Alternative Clearing System will be deemed to be given on the day of such delivery.

#### 14.4 Note Trustee's Discretion to Select Alternative Method

The Note Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or any Series or Class or category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchanges on which the Notes are then admitted for trading and provided that notice of such other method is given to the Noteholders in such manner as the Note Trustee shall require.

### 15. NOTES ISSUES

The Issuer shall (subject to satisfaction of the Issuance Tests) be at liberty, without the consent of the Noteholders, to create and issue Notes from time to time.

### 16. RATING AGENCIES

If:

- (a) a confirmation of rating or other response by a Rating Agency is a condition to any action or step under any Transaction Document; and



- (b) a written request for such confirmation or response is delivered to each Rating Agency by or on behalf of the Issuer (copied to the Note Trustee and/or the Issuer Security Trustee and/or the Funding 1 Security Trustee, as applicable) and one or more of the Rating Agencies (each a **Non-Responsive Rating Agency**) indicates that it does not consider such confirmation or response necessary in the circumstances or within 30 days of delivery of such request elicits no confirmation or response and/or such request elicits no statement by such Rating Agency that such confirmation or response could not be given; and
- (c) at least one Rating Agency gives such a confirmation or response based on the same facts,

then such condition shall be deemed to be modified with respect to the facts set out in the request referred to in (b) so that there shall be no requirement for the confirmation or response from the Non-Responsive Rating Agency.

The Note Trustee and/or the Issuer Security Trustee and/or the Funding 1 Security Trustee, as applicable, shall be entitled to treat as conclusive a certificate by any director, officer or employee of the Issuer, Funding 1, the Seller, any investment bank or financial adviser acting in relation to the Notes as to any matter referred to in (b) in the absence of manifest error or the Note Trustee and/or the Issuer Security Trustee and/or the Funding 1 Security Trustee, as applicable, having facts contradicting such certificates specifically drawn to his attention and the Note Trustee and/or the Issuer Security Trustee and/or the Funding 1 Security Trustee, as applicable, shall not be responsible for any loss, liability, costs, damages, expenses or inconvenience that may be caused as a result.

## **17. GOVERNING LAW AND JURISDICTION**

The Transaction Documents and the Notes (and any non-contractual obligations arising out of or in connection with them) are governed by English law unless specifically stated to the contrary. Certain provisions in the Transaction Documents relating to property situated in Scotland are governed by Scots law. Certain provisions in the Transaction Documents relating to property situated in Northern Ireland are governed by Northern Irish law. Unless specifically stated to the contrary:

- (a) the courts of England are to have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes and the Transaction Documents; and
- (b) the Issuer and the other parties to the Transaction Documents irrevocably submit to the non-exclusive jurisdiction of the courts of England.

## **18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this shall not affect any right or remedy of a third party which exists or is available apart from that Act.

## **19. DEFINITIONS**

Unless otherwise defined in these Conditions or unless the context otherwise requires, in these Conditions the following words shall have the following meanings and any other capitalised terms used in these Conditions shall have the meanings ascribed to them or incorporated in the Note Trust Deed or the Master Definitions and Construction Schedule. The provisions of **Clause 2** (Interpretation and Construction) of the Issuer Master Definitions and Construction Schedule are incorporated into and shall apply to these Conditions.

**Account Bank A** means the bank at which the Funding 1 Transaction Account is maintained from time to time (being The Bank of New York Mellon, acting through its London Branch, and, thereafter, such other replacement account banks as Funding 1 may choose with the prior written approval of the Funding 1 Security Trustee in accordance with the Funding 1 Bank Account Agreement);

**Account Bank B** means the bank at which the Funding 1 GIC Account is maintained from time to time (being Santander UK plc acting through its offices at 2 Triton Square, Regent's Place, London NW1 3AN and, thereafter, such other replacement account banks as Funding 1 may choose with the prior written approval of the Funding 1 Security Trustee in accordance with the Funding 1 Bank Account Agreement);

**Additional Business Centre** means, in respect of any Series and Class of Notes, each place specified as such for such Notes in the applicable Final Terms;

**Agents** means the Paying Agents, the Transfer Agent, the Registrar and the Agent Bank;

**Agent Bank** means Citibank, N.A., London Branch in its capacity as agent bank at its Specified Office or such other person for the time being acting as agent bank under the Paying Agent and Agent Bank Agreement;

**Alliance & Leicester** means Alliance & Leicester plc (registered number 03263713), a public limited company incorporated under the laws of England and Wales, whose registered office is at Carlton Park, Narborough, Leicester LE10 0AL;

**AUD-BBR-BBSW** means the average mid rate for Australian dollars of exchange which appears on the Reuters Screen BBSW Page;

**Basel II Framework** means the regulatory capital framework described in the Basel Committee on Banking Supervision's publication, Basel II: The International Convergence of Capital Measurement and Capital Standards: a Revised Framework;

**Broken Amount** means, in respect of any Series and Class of Notes, the amount specified as such (if any) for such Notes in the applicable Final Terms;

**Business Day** means a day that is a London Business Day, a New York Business Day and a TARGET Business Day;

**CDOR** means the Canadian Dealer Offered Rate, the recognised benchmark index for Canadian bankers' acceptances, as further described in the Issuer Master Definitions and Construction Schedule under "**Canadian Bankers Acceptances**";

**Cash Management Agreement** means the cash management agreement entered into on the Initial Closing Date between the Cash Manager, the Mortgages Trustee, Funding 1 and the Funding 1 Security Trustee (as the same may be amended, restated, novated and/or supplemented from time to time);

**Cash Manager** means Alliance & Leicester or (on and after the Part VII Effective Date) Santander UK acting, pursuant to the Cash Management Agreement, as agent for the Mortgages Trustee, Funding 1 and the Funding 1 Security Trustee (amongst others) to, *inter alia*, manage all cash transactions and maintain certain ledgers on behalf of the Mortgages Trustee, Funding 1 and the Funding 1 Security Trustee (which expression shall include such other person as may be appointed from time to time as Cash Manager pursuant to the Cash Management Agreement);

**Class** or **class** means, in relation to the Notes of any Series and the Noteholders, the Class A Notes, the Class B Notes, the Class M Notes, the Class C Notes, the Class D Notes or the Class Z Notes, as the context requires, and the respective holders thereof;

**Class A Noteholders** means the Holders of the Class A Notes;

**Class A Notes** means Notes of any Series designated as such (or a sub-class of such) in the applicable Final Terms;

**Class B Noteholders** means the Holders of the Class B Notes;

**Class B Notes** means Notes of any Series designated as such (or a sub-class of such) in the applicable Final Terms;

**Class C Noteholders** means the Holders of the Class C Notes;

**Class C Notes** means Notes of any Series designated as such (or a sub-class of such) in the applicable Final Terms;

**Class D Noteholders** means the Holders of the Class D Notes;

**Class D Notes** means Notes of any Series designated as such (or a sub-class of such) in the applicable Final Terms;

**Class M Noteholders** means the Holders of the Class M Notes;

**Class M Notes** means Notes of any Series designated as such (or a sub-class of such) in the applicable Final Terms;

**Class Z Noteholders** means the Holders of the Class Z Notes;

**Class Z Notes** means Notes of any Series designated as such (or a sub-class of such) in the applicable Final Terms;

**Clearstream, Luxembourg** means Clearstream Banking, société anonyme;

**Closing Date** has the meaning given to it in the applicable Final Terms;

**Conditional Purchaser** means, in respect of any Series and Class of Remarketable Notes, the Conditional Purchaser specified in the applicable Final Terms;

**Conditional Purchaser Confirmation** means, in respect of any Series and Class of Remarketable Notes, the confirmation given by the Remarketing Agent or the Tender Agent to the Issuer and the Principal Paying Agent that the Conditional Purchaser has purchased an interest in or has had transferred to it or on its behalf an interest in all such Remarketable Notes;

**Corporate Services Agreement** means the agreement dated the Initial Closing Date between (amongst others) the Corporate Services Provider, Funding 1, Holdings, Alliance & Leicester plc (which has been replaced by Santander UK since the Part VII Effective Date) and the Funding 1 Security Trustee for the provision by the Corporate Services Provider of certain corporate services and personnel to Funding 1 and Holdings (as the same may be amended, restated, novated and/or supplemented from time to time);

**Corporate Services Provider** means Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to Funding 1 and Holdings under the Corporate Services Agreement;

**Dealers** means the institutions specified as such in the applicable Subscription Agreement;

**Definitive Notes** means the note certificates representing the Notes while in definitive form;

**Designated Account** means the account maintained by a Holder with a Designated Bank and identified as such in the Register;

**Designated Bank** means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency and (in the case of a payment in euro) any bank which processes payments in euro;

**Determination Date** means, in respect of any Series and Class of Notes, the date(s) specified as such (if any) for such Notes in the applicable Final Terms;

**Dollars, U.S.\$, U.S. Dollars** or **\$** means the lawful currency for the time being of the United States of America;

**DTC** means The Depository Trust Company;

**EURIBOR** means the Euro-zone inter-bank offered rate;

**Euro, euro** or **€** means the currency of the member states of the European Union that adopt the single currency in accordance with the Treaty of Rome of 25 March 1957, establishing the European Community, as amended from time to time;

**Euroclear** means Euroclear Bank S.A./N.V.;

**Extraordinary Resolution** means a resolution passed at a meeting of the Noteholders of a particular Class, Series or Series and Class duly convened and held in accordance with the provisions of the Note Trust Deed by a majority consisting of not less than three-fourths of the persons voting thereat upon a show of hands or if a poll is duly demanded by a majority consisting of not less than three-fourths of the votes cast on such poll;

**FSA** means the Financial Services Authority;

**Final Maturity Date** means, in respect of any Series and Class of Notes, the date specified as such for such Notes in the applicable Final Terms;

**Final Terms** means, in relation to any Series of Notes, the final terms issued in relation to such Series of Notes as a supplement to these Conditions and giving details of, *inter alia*, the amount and price of such Series of Notes and which forms a part of the base prospectus in relation to such Series of Notes;

**Fixed Coupon Amount** means, in respect of any Series and Class of Notes, the amount specified as such (if any) for such Notes in the applicable Final Terms;

**Funding 1** means Fosse Funding (No.1) Limited;

**Funding 1 Bank Account Agreement** means the agreement entered into on or about the Initial Closing Date between Santander UK in its capacity then as Funding 1 Account Bank, Funding 1, the Cash Manager and the Funding 1 Security Trustee as amended and restated from time to time and as further amended and restated on or about the date hereof, pursuant to which amendment and restatement The Bank of New York Mellon, acting through its London Branch, acceded as Account Bank A and Santander UK acceded to its role as Account Bank B which governs the operation of the Funding 1 Bank Accounts (as the same may be amended, restated, varied, supplemented and/or novated from time to time);

**Funding 1 Bank Accounts** means the Funding 1 GIC Account and the Funding 1 Transaction Account and such other bank account(s) held in the name of Funding 1 with the approval of the Funding 1 Security Trustee from time to time;

**Funding 1 Deed of Charge** means the deed of charge entered into on the Initial Closing Date between, among others, Funding 1, the Funding 1 Security Trustee, the Issuer and the Issuer Security Trustee and each deed of accession or supplement entered into in connection therewith;

**Funding 1 GIC Account** means the account in the name of Funding 1 held at Account Bank B and maintained subject to the terms of the Funding 1 Bank Account Agreement and the Funding 1 Deed of Charge or such additional or replacement account as may for the time being be in place;

**Funding 1 Interest Payment Date** means, in relation to a Loan Tranche, the Quarter Dates specified in the Final Terms in each year (or, if such day is not a Business Day, the next succeeding Business Day) or, following the occurrence of a Pass-Through Trigger Event, the 18th day of each calendar month in each year (or, if such day is not a Business Day, the next succeeding Business Day);

**Funding 1 Loan Agreement** means the Funding 1 loan agreement entered into on or about the date hereof between Funding 1, the Funding 1 Loan Provider and the Funding 1 Security Trustee;

**Funding 1 Loan Provider** means Santander UK;

**Funding 1 Secured Creditors** means the Funding 1 Security Trustee, the Funding 1 Swap Provider, the Cash Manager, Account Bank A, Account Bank B, the Seller, the Corporate Services Provider, each Start Up Loan Provider, the Issuer and any other entity that accedes to the terms of the Funding 1 Deed of Charge from time to time;

**Funding 1 Security** means the security created under the Funding 1 Deed of Charge;

**Funding 1 Security Trustee** means Law Debenture Trust Company of New York and its successors or any other security trustee under the Funding 1 Deed of Charge;

**Funding 1 Start-Up Loan Agreements** means the Funding 1 start-up loan agreement entered into on or about the Initial Closing Date between Funding 1, the Funding 1 Start-Up Loan Provider and the Funding 1 Security Trustee and each other start-up loan agreement entered into in connection with the issuance of a Series of Notes (as each of the same may be amended, restated, novated and/or supplemented from time to time);

**Funding 1 Swap Agreement** means the ISDA Master Agreement and Schedule entered into on the Initial Closing Date between Funding 1, the Funding 1 Swap Provider and the Funding 1 Security Trustee and any confirmation documented thereunder from time to time between Funding 1, the Funding 1 Swap Provider and the Funding 1 Security Trustee (as each of the same may be amended, restated, novated or supplemented from time to time);

**Funding 1 Swap Provider** means Santander UK acting in its capacity as the Funding 1 Swap Provider pursuant to the Funding 1 Swap Agreement;

**Funding 1 Transaction Account** means the account in the name of Funding 1 held with Account Bank A and maintained subject to the terms of the Funding 1 Bank Account Agreement and the Funding 1 Deed of Charge or such additional or replacement account as may for the time being be in place;

**Funding Companies** means Funding 1 and each Further Funding Company (if any);

**Further Funding Company** means any funding entity (other than Funding 1) established in the future by Holdings;

**Global Notes** means the Rule 144A Global Notes and the Reg S Global Notes;

**Holdings** means Fosse (Master Issuer) Holdings Limited (registered number 5925689), a limited company incorporated under the laws of England and Wales, whose registered office is at 35 Great St. Helen's, London EC3A 6AP;

**Initial Closing Date** means 28 November 2006;

**Intercompany Loan** means, at any time, the aggregate of all Loan Tranches advanced under the Intercompany Loan Agreement;

**Intercompany Loan Agreement** means the loan agreement entered into on the Initial Closing Date between, amongst others, Funding 1, the Issuer and the Funding 1 Security Trustee (as the same may be amended, restated, novated and/or supplemented from time to time);

**Interest Commencement Date** means, in respect of any Series and Class of Notes, the Closing Date of such Notes or such other date as may be specified as such for such Notes in the applicable Final Terms;

**Interest Determination Date** means, with respect to the Notes denominated in Dollars, the date two Business Days prior to each Interest Payment Date, with respect to the Notes denominated in Euros, the date two Target Business Days prior to each Interest Payment Date, with respect to Notes denominated in Sterling, Australian dollars, Japanese yen and Canadian dollars, each Interest Payment Date;

**Interest Payment Date** means, in respect of a Series and Class of Notes (other than Monthly Payment Notes), the Quarterly Interest Payment Dates and (in the case of Monthly Payment Notes) the Monthly Interest Payment Dates, subject, in each case, to the applicable Final Terms;

**ISDA Definitions** means the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Closing Date of the first Series of Notes;

**Issuer** means Fosse Master Issuer plc;

**Issuer Account Bank** means Santander UK or such other person for the time being acting as account bank to the Issuer under the Issuer Bank Account Agreement;

**Issuer Bank Accounts** means the Issuer Transaction Account, the Issuer Share Capital Account and any other account opened and maintained by the Issuer with the Issuer Account Bank pursuant to the Transaction Documents (including without limitation the Issuer GIC Account);

**Issuer Bank Account Agreement** means the bank account agreement entered into on the Initial Closing Date between the Issuer, the Issuer Cash Manager, the Issuer Account Bank and the Issuer Security Trustee (as the same may be amended, restated, novated and/or supplemented from time to time);

**Issuer Cash Management Agreement** means the cash management agreement dated the Initial Closing Date between, amongst others, the Issuer Cash Manager, the Issuer and the Issuer Security Trustee (as the same may be amended, restated, novated and/or supplemented from time to time);

**Issuer Cash Manager** means Santander UK or such other person or persons for the time being acting, under the Issuer Cash Management Agreement, as agent, *inter alia*, for the Issuer;

**Issuer Charged Assets** means the property, assets and undertakings of the Issuer the subject of any security created by the Issuer Deed of Charge;

**Issuer Corporate Services Agreement** means the agreement entered into on or about the Initial Closing Date and made between (amongst others) the Issuer Corporate Services Provider and the Issuer for the provision by the Issuer Corporate Services Provider of certain corporate services and personnel to the Issuer (as the same may be amended, restated, novated and/or supplemented from time to time);

**Issuer Corporate Services Provider** means Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to the Issuer under the Issuer Corporate Services Agreement;

**Issuer Deed of Charge** means the deed of charge entered into on the Initial Closing Date between, among others, the Issuer and the Issuer Security Trustee and each deed of accession or supplement entered into in connection therewith;

**Issuer Master Definitions and Construction Schedule** means, in relation to the Issuer, the Issuer Master Definitions and Construction Schedule signed on or about the Initial Closing Date, as the same may be amended, restated, replaced, novated and/or supplemented from time to time;

**Issuer Priority of Payments** means the Issuer Pre-Acceleration Revenue Priority of Payments, the Issuer Pre-Acceleration Principal Priority of Payments, the Issuer Post-Acceleration Principal Priority of Payments or the Issuer Post-Enforcement Priority of Payments, as the case may be, each as set out in the Issuer Cash Management Agreement or the Issuer Deed of Charge (as the case may be);

**Issuer Secured Creditors** means the Issuer Security Trustee, the Note Trustee, the Issuer Swap Providers, the Issuer Corporate Services Provider, the Issuer Account Bank, the Issuer Cash Manager, the Paying Agents, the Agent Bank, the Exchange Rate Agent, the Transfer Agent, the Registrar and the Noteholders and any new Issuer Secured Creditor who accedes to the Issuer Deed of Charge from time to time under a deed of accession or a supplemental deed;

**Issuer Security** means the security created by the Issuer pursuant to the Issuer Deed of Charge;

**Issuer Security Trustee** means Law Debenture Trust Company of New York and its successors or any other security trustee under the Issuer Deed of Charge;

**Issuer Swap Agreement** means the ISDA master agreements, schedules and confirmations relating to the currency and/or interest rate swaps to be entered into on or prior to each Closing Date between the Issuer, the applicable Issuer Swap Provider and the Issuer Security Trustee in connection with the Notes (as each of the same may be amended, restated, novated and/or supplemented from time to time);

**Issuer Swap Providers** means in respect of a Series and Class of Notes, the institutions identified in the applicable Final Terms;

**Issue Terms** means, in relation to any Series of Non-ISE Listed Notes, the issue terms issued in relation to such Series of Non-ISE Listed Notes as a supplement to these Conditions and giving details of, *inter alia*, the amount and price of such Series of Non-ISE Listed Notes;

**JPY LIBOR** means the London inter-bank offered rate for deposits in Japanese yen;

**LIBOR** means the London inter-bank offered rate, as further described in the Issuer Master Definitions and Construction Schedule;

**Loan** means each loan referenced by its loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other monies (including all Further Advances) due or owing with respect to that loan under the relevant Mortgage Conditions by a Borrower on the security of a Mortgage from time to time outstanding or, as the context may require, the Borrower's obligations in respect of the same;

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

**Mandatory Transfer Date** means, in respect of any Series and Class of Remarketable Notes, the Interest Payment Date specified as such for such Remarketable Notes in the applicable Final Terms;

**Mandatory Transfer Price** means, in respect of any Series and Class of Remarketable Notes, the Principal Amount Outstanding of such Remarketable Notes on the relevant Mandatory Transfer Date following the application of Note Principal Payments on such date;

**Mandatory Transfer Termination Event** shall occur in respect of any Series and Class of Remarketable Notes if the Conditional Purchaser has purchased an interest in all such Remarketable Notes;

**Managers** means the entities specified as such in the applicable Final Terms;

**Margin** means, in respect of any Series and Class of Notes, the amount specified as such for such Notes in the applicable Final Terms and, in the case of Remarketable Notes, shall include the Reset Margin;

**Maximum Reset Margin** means, in respect of any Series and Class of Remarketable Notes, the amount specified as such for such Remarketable Notes in the applicable Final Terms;

**Maximum Rate of Interest** means, in respect of any Series and Class of Notes, the rate of interest specified as such for such Notes in the applicable Final Terms;

**Minimum Rate of Interest** means, in respect of any Series and Class of Notes, the rate of interest specified as such for such Notes in the applicable Final Terms;

**Money Market Notes** means Notes which will be “Eligible Securities” within the meaning of Rule 2a-7 under the United States Investment Company Act of 1940, as amended;

**Monthly Dates** means the 18th day of each calendar month in each year (or, if such day is not a Business Day, the next succeeding Business Day);

**Monthly Interest Payment Dates** means, in respect of any Monthly Payment Notes, the Monthly Dates specified in the applicable Final Terms for the payment of interest and/or principal subject, in each case, to the appropriate Business Day Convention, if any, specified in the applicable Final Terms;

**Monthly Payment Notes** means either Money Market Notes or any other Notes in respect of which Monthly Interest Payment Dates are specified in the applicable Final Terms;

**Mortgage Sale Agreement** means the mortgage sale agreement entered into on the Initial Closing Date and made between the Seller, Funding 1, the Mortgages Trustee and the Funding 1 Security Trustee in relation to the sale of Loans to the Mortgages Trustee from time to time (as the same may be amended, restated, novated and/or supplemented from time to time);

**Mortgages Trust Deed** means the mortgages trust deed entered into between (amongst others) the Mortgages Trustee, Funding 1 and the Seller on or about the Initial Closing Date (as the same may be amended, restated, novated and/or supplemented from time to time);

**Mortgages Trustee** means Fosse Trustee Limited (registered number 94410), a private company with limited liability incorporated in Jersey, Channel Islands, whose registered office is at 13 Castle Street, St. Helier, Jersey JE4 5UT, Channel Islands;

**Mortgages Trustee Account Bank** means the bank at which the Mortgages Trustee GIC Account is maintained from time to time (being initially Alliance & Leicester and currently Santander UK plc acting through its offices at 2 Triton Square, Regent's Place, London NW1 3AN and, thereafter, such other replacement account bank as the Mortgages Trustee may appoint in accordance with the Transaction Documents);

**Mortgages Trustee Bank Account Agreement** means the agreement entered into on or about the Initial Closing Date between (amongst others) the Mortgages Trustee Account Bank; and the Mortgages Trustee which governs the operation of the Mortgages Trustee GIC Account (as the same may be amended, restated, novated and/or supplemented from time to time);

**Mortgages Trustee Corporate Services Agreement** means the agreement entered into on or about the Initial Closing Date among State Street (Jersey) Limited, the Mortgages Trustee and Alliance & Leicester (which has been replaced by Santander UK since the Part VII Effective Date), as novated to State Street Capital Markets Services (Jersey) Limited (now Sanne Corporate Services Limited) on 1 June 2013, pursuant to a novation letter dated 13 May 2013 from State Street Global Services to the Mortgages Trustee and Santander UK, for the provision by the Mortgages Trustee Corporate Services Provider of certain corporate services to the Mortgages Trustee (as the same may be amended, restated, novated and/or supplemented from time to time);

**Mortgages Trustee Corporate Services Provider** means Sanne Corporate Services Limited or such other person or persons for the time being acting as corporate services provider to the Mortgages Trustee under the Mortgages Trustee Corporate Services Agreement;

**Mortgages Trustee GIC Account** means the account in the name of the Mortgages Trustee maintained with the Mortgages Trustee Account Bank pursuant to the Mortgages Trustee Bank Account Agreement or such additional or replacement bank account of the Mortgages Trustee as may for the time being be in place (as the same may be amended, restated, novated and/or supplemented from time to time);

**New York Business Day** means a day (other than a Saturday or a Sunday) on which banks are open for general business (including dealings in foreign currency) in the city of New York;

**Non-ISE Listed Notes** means any notes listed and/or traded on any exchange other than the Irish Stock Exchange;

**Note Event of Default** means the occurrence of an event of default by the Issuer as specified in **Condition 9**;

**Noteholders** means the Holders for the time being of the Notes;

**Notes** means any Global Notes or Definitive Notes;

**Note Trust Deed** means the trust deed entered into on the Initial Closing Date between the Issuer and the Note Trustee, and each supplemental deed entered into in connection therewith;

**Note Trustee** means Law Debenture Trust Company of New York and its successors or any further or other note trustee under the Note Trust Deed, as trustee for the Noteholders;

**NSS** means the New Safekeeping Structure for Global Notes which are intended to constitute eligible collateral for Eurosystem monetary policy operations;

**Official List** means the official list of securities maintained by the Irish Stock Exchange;

**Part VII Effective Date** means 28 May 2010;

**Pass-Through Trigger Event** means any of the following events:

- (a) a Trigger Event;
- (b) the service of a Note Acceleration Notice by the Note Trustee on the Issuer; or
- (c) the service of an Intercompany Loan Acceleration Notice by the Funding 1 Security Trustee on Funding 1;

**Paying Agent and Agent Bank Agreement** means the paying agent and agent bank agreement entered into on the Initial Closing Date between, among others, the Issuer, the Paying Agents, the Transfer Agent, the Registrar, the Agent Bank and the Issuer Security Trustee (as the same may be amended, restated, novated and/or supplemented from time to time);

**Paying Agents** means the Principal Paying Agent and the U.S. Paying Agent, together with any further or other paying agents for the time being appointed under the Paying Agent and Agent Bank Agreement;

**PECOH Corporate Services Provider** means Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to the Post-Enforcement Call Option Holder under the PECO Corporate Services Agreement;

**Post-Enforcement Call Option Agreement** means the post-enforcement call option agreement entered into on the Initial Closing Date between the Issuer, the Post-Enforcement Call Option Holder and the Note Trustee (as the same may be amended, restated, novated and/or supplemented from time to time);

**Post-Enforcement Call Option Holder or PECO** means Fosse PECO Limited;

**Post-Enforcement Call Option Holder Corporate Services Agreement or PECO Corporate Services Agreement** means the agreement entered into on the Initial Closing Date between (amongst others) the PECO Corporate Services Provider, PECO and the Note Trustee for the provision by the PECO Corporate Services Provider of certain corporate services and personnel to PECO (as the same may be amended, restated, novated and/or supplemented from time to time);

**Principal Amount Outstanding** has the meaning indicated in **Condition 5.3**;

**Principal Paying Agent** means Citibank, N.A., London Branch in its capacity as principal paying agent at its Specified Office or such other person for the time being acting as principal paying agent under the Paying Agent and Agent Bank Agreement;

**Programme Agreement** means the agreement entered into on or around the Initial Closing Date between (amongst others) the Issuer and the Dealers named therein (or deemed named therein) (as the same may be amended, restated, novated and/or supplemented from time to time);

**Quarter Dates** means the 18th day of any of the following dates (or any one of such dates occurring annually or two of such dates occurring semi-annually) as specified in the Final Terms for the payment of interest and/or principal on the Notes and any corresponding Loan Tranche:



- (a) January, April, July and October; or
- (b) February, May, August and November; or
- (c) March, June, September and December;

**Quarterly Interest Payment Dates** means, in respect of a Series and Class of Notes (other than Monthly Payment Notes), the Quarter Dates specified in the Final Terms for the payment of interest and/or principal until the occurrence of a Pass-Through Trigger Event and, following such occurrence, the Monthly Dates, subject, in each case, to the appropriate Business Day Convention, if any, specified in the applicable Final Terms;

**Rate of Interest and Rates of Interest** means, in respect of any Series and Class of Notes, the rate or rates (expressed as a percentage per annum) of interest payable in respect of such Notes specified in the applicable Final Terms or calculated and determined in accordance with the applicable Final Terms;

**Rating Agencies** means Standard & Poor's Rating Services, a division of Standard & Poor's Credit Market Services Europe Limited, Moody's Investors Service Limited and Fitch Ratings Ltd.;

**Reference Price** means, in respect of any Series and Class of Notes, the price specified as such for such Notes in the applicable Final Terms;

**Reference Banks** has the meaning given to it in the Issuer Master Definitions and Construction Schedule;

**Reference Rate** means, in respect of any Series and Class of Notes, the rate specified as such for such Notes in the applicable Final Terms;

**Reg S** means Regulation S under the United States Securities Act of 1933, as amended;

**Reg S Notes** means each Series and Class of Notes constituted by the Note Trust Deed that are sold outside the United States to non-U.S. persons in reliance on Reg S;

**Reg S Global Notes** means the note certificates representing the Reg S Notes while in global form;

**Register** means the register of Noteholders kept by the Registrar and which records the identity of each Noteholder and the number of Notes that each Noteholder owns;

**Registrar** means Citibank, N.A., London Branch in its capacity as registrar at its Specified Office or such other person for the time being acting as registrar under the Paying Agent and Agent Bank Agreement;

**Relevant Screen** means a page of the Reuters service or Bloomberg service, or any other medium for electronic display of data as may be previously approved in writing by the Note Trustee and has been notified to Noteholders in the manner set out in **Condition 14**;

**Relevant Screen Page** means, in respect of any Series and Class of Notes, the screen page specified as such for such Notes in the applicable Final Terms;

**Remarketing Agent** means, in respect of any Series and Class of Remarketable Notes, the Remarketing Agent specified in the applicable Final Terms, or such other agent appointed to act as remarketing agent under the terms of the relevant Remarketing Agreement;

**Remarketing Agreement** means, in respect of any Series and Class of Remarketable Notes, the agreement between the Issuer and the Remarketing Agent pursuant to which the Remarketing Agent agrees to use reasonable efforts to identify third party purchasers for such Remarketable Notes on each Mandatory Transfer Date prior to the occurrence of a Mandatory Transfer Termination Event (as the same may be amended, restated, novated and/or supplemented from time to time);

**Remarketable Notes** means any Series and Class of Notes identified as such in the applicable Final Terms;

**Repayment Tests** means Rules 1 and 2 under the Funding 1 Pre-Acceleration Principal Priority of Payments as set out in the Funding 1 Deed of Charge;

**Reset Margin** means, in respect of any Series and Class of Remarketable Notes, (i) for each Reset Period a percentage not exceeding the Maximum Reset Margin determined by the Remarketing Agent in

accordance with the Remarketing Agreement or (ii) if the Remarketing Agreement has been terminated, the Maximum Reset Margin;

**Reset Period** means, in respect of any Series and Class of Remarketable Notes, the period commencing on the first Mandatory Transfer Date specified in the applicable Final Terms up to but excluding the next Mandatory Transfer Date and thereafter the period from each Mandatory Transfer Date up to but excluding the next Mandatory Transfer Date;

**Rule 144A Global Notes** means the note certificates representing the Rule 144A Notes while in global form;

**Rule 144A Notes** means each Series and Class of Notes constituted by the Note Trust Deed which are sold in the United States only to qualified institutional buyers within the meaning of Rule 144A under the United States Securities Act of 1933, as amended;

**Santander UK** means Santander UK plc (registered number 2294747), a public limited company incorporated under the laws of England and Wales, whose registered office is at 2 Triton Square, Regent's Place, London NW1 3AN;

**Scottish Declaration of Trust** means each declaration of trust in relation to Scottish Loans and their Related Security granted by the Seller in favour of the Mortgages Trustee pursuant to the Mortgage Sale Agreement;

**Scottish Loan** means a Loan secured by a standard security over a Property located in Scotland;

**Seller** means Alliance & Leicester or (on and after the Part VII Effective Date) Santander UK;

**Series** means, in relation to the Notes, all Notes (of any Class) issued on a given day and designated as such;

**Series and Class** means a particular Class of Notes of a given Series or, where such Class of such Series comprises more than one sub-class, **Series and Class** means any sub-class of such Class;

**Servicer** means Alliance & Leicester or (on and after the Part VII Effective Date) Santander UK, or such other person as may from time to time be appointed as servicer of the Portfolio pursuant to the Servicing Agreement;

**Servicing Agreement** means the agreement entered into on the Initial Closing Date between the Servicer, the Mortgages Trustee, the Funding 1 Security Trustee, Funding 1, and the Seller pursuant to which the Servicer agrees to administer the Loans and their Related Security comprised in the Portfolio (as the same may be amended, restated, novated and/or supplemented from time to time);

**Specified Currency** means, in respect of any Series and Class of Notes, the currency or currencies specified as such for such Notes in the applicable Final Terms;

**Specified Currency Exchange Rate** means, in relation to a Series and Class of Notes, the exchange rate specified in the Issuer Swap Agreement relating to such Series and Class of Notes or, if the Issuer Swap Agreement has been terminated, the applicable spot rate;

**Specified Denomination** means, in respect of any Series and Class of Notes, the denomination specified as such for such Notes in the applicable Final Terms which shall be in the case of Rule 144A Notes a minimum of \$200,000 or such other amount specified in the applicable Final Terms (or its equivalent in any other currency as at the date of issue of such Notes) and in the case of Reg S Notes a minimum of £100,000 or such other amount specified in the applicable Final Terms if denominated in sterling or €100,000 or such other amount specified in the applicable Final Terms (or its equivalent in any other currency as at the date of issue of such Notes) if denominated in a currency other than sterling;

**Specified Office** means, as the context may require, in relation to any of the Agents, the office specified against the name of such Agent in the Paying Agent and Agent Bank Agreement or such other specified office as may be notified to the Issuer and the Note Trustee pursuant to the Paying Agent and Agent Bank Agreement;

**Specified Time** has the meaning given in **Condition 4.2(b)(ii)**;

**Step-Up Date** means:

- (a) in respect of any Loan Tranche, the Funding 1 Interest Payment Date on which the interest rate payable in respect of the relevant Loan Tranche made under the Intercompany Loan increases by a pre-determined amount; and
- (b) in respect of any Notes, the date on which the interest rate payable by the Issuer in respect of those Notes increases by a pre-determined amount;

**Sterling, Pounds Sterling or £** means the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland;

**Sterling Notes** means each Series and Class of Notes denominated in Sterling;

**Subscription Agreement** means an agreement supplemental to the Programme Agreement in or substantially in the form set out in the Programme Agreement or such other form as may be agreed between the Issuer, Managers and the Dealers;

**sub-Unit** means, with respect to any currency other than Sterling, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Sterling, one pence;

**TARGET Business Day** means a day on which the Trans-European Automated Real-time Gross settlement Express (known as TARGET2) system which was launched on 19 November 2007, or any successor thereto, is open;

**Tender Agent** means, in respect of any Series and Class of Remarketable Notes, the Tender Agent specified in the applicable Final Terms;

**Transaction Documents** means the Cash Management Agreement, the Funding 1 Bank Account Agreement, the Corporate Services Agreement, the Controlling Beneficiary Deed, the Funding 1 Deed of Charge, each Deed of Accession to the Funding 1 Deed of Charge, the Funding 1 Swap Agreement, the Funding 1 Loan Agreement, the Intercompany Loan Agreement, the Issuer Deed of Charge, each Deed of Accession to the Issuer Deed of Charge, the Master Definitions and Construction Schedule, the Issuer Bank Account Agreement, the Issuer Cash Management Agreement, the Issuer Corporate Services Agreement, the Issuer Master Definitions and Construction Schedule, each Issuer Swap Agreement and any related Issuer Swap Guarantees, the Mortgage Sale Agreement, the Mortgages Trust Deed, the Mortgages Trustee Bank Account Agreement, the Mortgages Trustee Corporate Services Agreement, the Post-Enforcement Call Option Holder Corporate Services Agreement, the Paying Agent and Agent Bank Agreement, the Post-Enforcement Call Option Agreement, the Programme Agreement, each Scottish Declaration of Trust, the Servicing Agreement, each Funding 1 Start-Up Loan Agreement, each Subscription Agreement, the Note Trust Deed, each Loan Tranche Supplement, each Conditional Purchase Agreement, each Remarketing Agreement, any other deeds of accession or supplemental deeds relating to any such documents and any other agreement or document from time to time designated as such by the Issuer and Note Trustee and/or the Issuer Security Trustee and/or the Funding 1 Security Trustee;

**Transfer Agent** means Citibank, N.A., London Branch in its capacity as transfer agent at its Specified Office or such other person for the time being acting as transfer agent under the Paying Agent and Agent Bank Agreement;

**USD-LIBOR** means the London inter-bank offered rate for deposits in U.S. dollars, as further described in the Issuer Master Definitions and Construction Schedule ; and

**U.S. Paying Agent** means Citibank, N.A., New York Branch acting in its capacity as U.S. paying agent through its New York office or such other person for the time being acting as U.S. paying agent under the Paying Agent and Agent Bank Agreement.

## STATIC POOL DATA

The tables below set out static pool information with respect to all the mortgage loans on the Alliance & Leicester system. These tables show, for each of the last five years of origination, the distribution of such loans originated in that year by origination characteristics.

Static pool information on prepayments has not been included because changes in prepayment and payment rates historically have not affected repayment of the notes, and are not anticipated to have a significant effect on future payments on the notes for a number of reasons. The mechanics of the mortgage trust require an extended cash accumulation period (for bullet term advances) when prepayment rates fall below certain minima required by the rating agencies, serving to limit the extent to which slow prepayments would cause the average lives of the notes to extend. Furthermore, only a limited amount of note principal in relation to the very large mortgages trust size is actually due to be repaid on any particular interest payment date.

### Origination Characteristics by Year

	2006	2007	2008	2009	2010	2011	2012	2013
Number of accounts opened (thousands) .....	94.7	88.9	23.7	41.5	31.4	3.0	2.0	0.3
Aggregate original balance (£) (millions) .....	11,884.9	11,872.4	2,929.0	4,753.6	4,377.6	502.5	342.3	45.0
Average original balance (£) (thousands) ...	125.5	133.5	123.7	114.7	139.6	167.9	171.0	171.7
Weighted average original loan-to-value ratio .....	73.6	73.4	71.9	64.6	64.5	66.8	66.6	65.4
Weighted average original term (years) .....	24.6	24.7	23.6	21.4	21.4	22.6	23.3	22.3

(1) Data are based on all business written in the period 2001-2012.

(2) Weighted averages are weighed by the original balance.

One of the characteristics of the mortgages trust is that the seller is able to sell more loans to the mortgages trustee over time, whether in connection with an issuance of notes by the issuer or any new notes by a new issuer or in order to maintain the minimum seller share. To aid in understanding changes to the mortgages trust over time, the following table sets out information relating to each sale of loans by the seller to the mortgages trustee pursuant to the mortgage sale agreement.

Date	Balance of loans substituted or sold	Number of loans substituted or sold
28 November 2006	£3,399,995,370	42,395
1 August 2007	£4,888,705,280	53,212
26 November 2007	£1,517,425,544	15,680
12 March 2010	£1,199,521,398	14,468
3 June 2010	£4,312,895,908	42,051
27 July 2010	£3,021,735,828	27,596
25 May 2011	£4,774,431,440	53,726
15 July 2011	£1,200,835,714	10,662
28 November 2011	£3,343,203,162	24,830
27 April 2012	£3,440,690,829	35,433
31 May 2012	£ 485,536,388	7,352
31 October 2012	£2,001,895,926	21,132

The sale of new loans by the seller to the mortgages trustee is subject to conditions, including ones required by the rating agencies, designed to maintain certain credit-related and other characteristics of the mortgages trust. These include limits on loans in arrears in the mortgages trust at the time of sale, limits on the aggregate balance of loans sold, limits on changes in the weighted average repossession frequency

**(WAFF)** and the weighted average loss severity (**WALS**), minimum yield for the loans in the mortgages trust after the sale and maximum LTV for the loans in the mortgages trust after the sale. See a description of these conditions in “**Description of the transaction documents – The mortgage sale agreement – Sale of the loans and their related security**”.

## ARREARS EXPERIENCE

The following table summarises loans in arrears and repossession experience for loans in the portfolio as at the dates indicated below. All of the loans shown in the table below were originated by Alliance & Leicester or Santander UK; and the loans shown in the table below were serviced by Alliance & Leicester prior to the Part VII effective date and, since the Part VII effective date, by Santander UK. As at the date of this base prospectus, Santander UK services all of the loans in the portfolio.

	<u>31 Dec 2009</u>	<u>31 Dec 2010</u>	<u>31 Dec 2011</u>	<u>31 Dec 2012</u>	<u>31 Dec 2013</u>
Outstanding Balance (£ millions)	5,746	14,045	18,717	18,756	14,481
Number of loans outstanding (thousands)	72.23	153.79	202.10	216.293	177.298
<b>Outstanding balance of loans in arrears (£ millions)</b>					
30-59 days in arrears	36.04	52.79	99.66	118.26	103.02
60-89 days in arrears		11.41	17.42	27.48	24.85
90-179 days in arrears	13.98	12.89	22.50	36.08	45.95
180-365 days in arrears	9.96	10.84	13.29	23.60	25.95
366 or more days in arrears	8.12	7.11	6.66	8.63	12.65
Total outstanding balance of loans in arrears	<u>68.10</u>	<u>95.04</u>	<u>159.52</u>	<u>214.05</u>	<u>212.42</u>
Total outstanding balance of loans in arrears as % of the outstanding balance	<u>1.19%</u>	<u>0.68%</u>	<u>0.85%</u>	<u>1.14%</u>	<u>1.47%</u>
Outstanding balance of loans relating to properties in possession	<u>0.92</u>	<u>2.65</u>	<u>1.18</u>	<u>5.95</u>	<u>3.11</u>
Net loss on sales of all repossessed properties <sup>(1)</sup>	<u>0.633</u>	<u>1.039</u>	<u>1.496</u>	<u>1.960</u>	<u>4.636</u>
Ratio of aggregate net losses to average aggregate outstanding balance of loans <sup>(2)</sup>	<u>0.011%</u>	<u>0.007%</u>	<u>0.008%</u>	<u>0.010%</u>	<u>0.032%</u>
Average net loss on all properties sold (thousands)	<u>21.10</u>	<u>32.46</u>	<u>27.70</u>	<u>26.48</u>	<u>29.91</u>
<b>Number of loans outstanding in arrears (thousands)</b>					
30-59 days in arrears	0.38	0.53	0.83	1.17	1.05
60-89 days in arrears		0.13	0.16	0.27	0.27
90-179 days in arrears	0.13	0.14	0.22	0.38	0.45
180-365 days in arrears	0.10	0.10	0.12	0.22	0.27
366 or more days in arrears	0.06	0.07	0.07	0.10	0.13
Total number of loans outstanding in arrears	<u>0.67</u>	<u>0.96</u>	<u>1.39</u>	<u>2.13</u>	<u>2.16</u>
Total number of loans outstanding in arrears as % of the number of loans outstanding	<u>0.92%</u>	<u>0.63%</u>	<u>0.69%</u>	<u>0.99%</u>	<u>1.22%</u>
Number of properties in possession	<u>7</u>	<u>22</u>	<u>12</u>	<u>51</u>	<u>29</u>
Number of properties sold during the year	<u>30</u>	<u>32</u>	<u>54</u>	<u>74</u>	<u>155</u>

(1) Net loss is net of recoveries in the current period on properties sold in prior periods.

(2) Average of opening and closing balances for the period.

There can be no assurance that the arrears experience with respect to the loans comprising the portfolio will correspond to the experience of the seller's loan portfolio as set forth in the foregoing table. The statistics in the preceding table represent only the arrears experience for the periods presented, whereas the arrears experience on the loans in the portfolio depends on results obtained over the life of the loans in the portfolio. The foregoing statistics include loans with a variety of payment and other characteristics that may not correspond to those of the loans in the portfolio. Moreover, if the property market experiences an overall decline in property values so that the value of the properties in the portfolio falls below the principal balances of the loans comprising the overall pool, the actual rates of arrears could be significantly higher than those previously experienced by the servicer. In addition, other adverse economic conditions, whether or not they affect property values, may nonetheless affect the timely payment by borrowers of principal and interest and, accordingly, the rates of arrears and losses with respect to the loans in the portfolio. Noteholders should observe that the United Kingdom experienced relatively low and stable interest rates during the periods covered in the preceding table. If interest rates were to rise, it is likely that the rate of arrears would rise.

The level of mortgage arrears with respect to the seller's loan portfolio has reduced since the recession in the United Kingdom in the early 1990s.

House price inflation has indirectly contributed to the improved arrears situation by enabling borrowers to sell at a profit if they encounter financial hardship. In the late 1980s house prices rose substantially faster than inflation as housing turnover increased to record levels. This was at a time when the economy grew rapidly, which led to falling unemployment and relatively high rates of real income growth. These fed into higher demand for housing, and house prices rose rapidly. Demand was further increased by changes in taxation legislation with regard to tax relief on mortgage payments in 1988. When monetary policy was subsequently tightened (in terms of both "locking in" sterling to the European Exchange Rate Mechanism and higher interest rates), the pace of economic activity first slowed and then turned into recession. Rising unemployment combined with high interest rates led to a fall in housing demand and increased default rates and repossessions. The ability of borrowers to refinance was limited as house prices began to fall and many were in a position of negative equity (borrowings greater than the resale value of the property) in relation to their mortgage loans.

Santander UK regularly reviews its lending policies in the light of prevailing market conditions and reviews actions so as to mitigate possible problems. The performance of Santander UK's new business and the arrears profiles are continuously monitored in monthly reports.

## HISTORICAL CHARACTERISTICS OF THE UNITED KINGDOM RESIDENTIAL MORTGAGE MARKET

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

### Industry CPR rates

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

<u>Quarter</u>	<u>Industry CPR rate for the quarter (%)</u>	<u>4 quarter Rolling Average (%)</u>	<u>Quarter</u>	<u>Industry CPR rate for the quarter (%)</u>	<u>4 quarter Rolling Average (%)</u>
March 1999 .....	12.32		June 1999 .....	15.96	
September 1999 .....	17.55		December 1999.....	16.47	15.57
March 2000 .....	13.62	15.90	June 2000 .....	15.31	15.73
September 2000 .....	15.97	15.34	December 2000.....	15.67	15.14
March 2001 .....	15.38	15.58	June 2001 .....	18.23	16.31
September 2001 .....	20.25	17.39	December 2001.....	20.06	18.48
March 2002 .....	18.75	19.32	June 2002 .....	21.10	20.04
September 2002 .....	23.63	20.89	December 2002.....	22.89	21.59
March 2003 .....	21.24	22.22	June 2003 .....	22.43	22.55
September 2003 .....	24.03	22.65	December 2003.....	24.87	23.14
March 2004 .....	21.22	23.14	June 2004 .....	22.93	23.26
September 2004 .....	24.27	23.32	December 2004.....	20.85	22.32
March 2005 .....	17.96	21.50	June 2005 .....	21.32	21.10
September 2005 .....	24.29	21.10	December 2005.....	24.61	22.04
March 2006 .....	22.27	23.12	June 2006 .....	23.37	23.64
September 2006 .....	24.95	23.80	December 2006.....	24.87	23.87
March 2007 .....	23.80	24.25	June 2007 .....	24.84	24.61
September 2007 .....	25.48	24.74	December 2007.....	23.55	24.42
March 2008 .....	19.56	23.36	June 2008 .....	20.88	22.37
September 2008 .....	20.15	21.03	December 2008.....	15.33	18.98
March 2009 .....	12.91	17.32	June 2009 .....	11.39	14.95
September 2009 .....	12.77	13.10	December 2009.....	11.99	12.27
March 2010 .....	9.60	11.44	June 2010 .....	10.60	11.24
September 2010 .....	11.30	10.87	December 2010.....	10.98	10.62
March 2011 .....	10.03	10.73	June 2011 .....	10.59	10.73
September 2011 .....	11.91	10.88	December 2011.....	11.41	10.98
March 2012 .....	10.55	11.11	June 2012 .....	10.85	11.18
September 2012 .....	11.11	10.98	December 2012.....	11.39	10.97
March 2013 .....	10.96	11.07	June 2013 .....	12.52	11.49
September 2013 .....	14.14	12.25	December 2013.....	14.41	13.01
March 2014 .....	13.04	13.53	June 2014 .....	13.71	13.82

Source: Bank of England, CML Research



## 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	1995.....	0.47	2005.....	0.12
1986.....	0.30	1996.....	0.40	2006.....	0.18
1987.....	0.32	1997.....	0.31	2007.....	0.22
1988.....	0.22	1998.....	0.31	2008.....	0.34
1989.....	0.17	1999.....	0.27	2009.....	0.43
1990.....	0.47	2000.....	0.20	2010.....	0.34
1991.....	0.77	2001.....	0.16	2011.....	0.33
1992.....	0.69	2002.....	0.11	2012.....	0.30
1993.....	0.58	2003.....	0.07	2013.....	0.26
1994.....	0.47	2004.....	0.07		

Source: CML Research

## House price to earnings ratio

The following table shows the ratio for each year of the average annual value of houses compared with the average annual salary in the United Kingdom. The average annual earnings figures are constructed using the CML's Annual Survey of Hours and Earnings (**ASHE**) figures (which have replaced the New Earnings Survey figures since 2007) that refer to the median gross weekly earnings in April of the most recent year for those male employees whose pay was not affected by absence. While this is a good indication of house affordability, it does not take into account the fact that the majority of households have more than one income to support a mortgage loan.

Year	House Price to Earnings Ratio	Year	House Price to Earnings Ratio
1994.....	4.55	2004.....	8.15
1995.....	4.47	2005.....	8.31
1996.....	4.51	2006.....	8.24
1997.....	4.77	2007.....	8.83
1998.....	5.11	2008.....	8.54
1999.....	5.37	2009.....	7.79
2000.....	6.14	2010.....	8.26
2001.....	6.27	2011.....	8.35
2002.....	7.11	2012.....	8.83
2003.....	7.66	2013.....	9.12

Source: CML Research

## House price index

UK residential property prices, as measured by the Nationwide House Price Index and Halifax House Price Index (collectively, the **Housing Indices**), have generally followed the UK Retail Price Index over an extended period. (Nationwide is a UK building society and Halifax is a trading name of Bank of Scotland plc, a UK bank who publishes the Halifax House Price Index.)

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

Time in Quarters	UK Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
March 1987.....	100.30	0.00	81.55	13.70	140.60	13.78
June 1987.....	101.90	0.00	85.75	14.96	147.30	13.58
September 1987.....	102.10	0.00	88.64	14.98	152.60	13.67
December 1987.....	103.20	0.00	88.48	11.36	158.20	14.46
March 1988.....	103.70	3.33	89.95	9.80	164.90	15.94

Time in Quarters	UK Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
June 1988 .....	106.20	4.13	97.61	12.95	180.20	20.16
September 1988 .....	107.70	5.34	108.43	20.15	198.90	26.50
December 1988 .....	109.90	6.29	114.20	25.51	212.00	29.27
March 1989 .....	111.70	7.43	118.76	27.79	217.80	27.82
June 1989 .....	114.90	7.87	124.17	24.06	226.80	23.00
September 1989 .....	116.00	7.42	125.24	14.42	227.30	13.35
December 1989 .....	118.30	7.37	122.68	7.16	222.80	4.97
March 1990 .....	120.40	7.50	118.87	0.09	220.70	1.32
June 1990 .....	126.00	9.22	117.66	(5.38)	224.30	(1.11)
September 1990 .....	128.10	9.92	114.20	(9.23)	224.20	(1.37)
December 1990 .....	130.10	9.51	109.56	(11.31)	222.90	0.04
March 1991 .....	130.80	8.28	108.82	(8.84)	220.20	(0.23)
June 1991 .....	133.60	5.86	110.55	(6.23)	223.20	(0.49)
September 1991 .....	134.20	4.65	109.53	(4.18)	220.80	(1.53)
December 1991 .....	135.50	4.07	107.00	(2.37)	217.50	(2.45)
March 1992 .....	136.20	4.05	104.11	(4.42)	210.60	(4.46)
June 1992 .....	139.10	4.03	105.06	(5.10)	210.40	(5.91)
September 1992 .....	139.00	3.51	104.22	(4.97)	208.40	(5.78)
December 1992 .....	139.60	2.98	100.08	(6.68)	199.30	(8.74)
March 1993 .....	138.70	1.82	100.00	(4.02)	196.90	(6.73)
June 1993 .....	140.90	1.29	103.57	(1.42)	203.20	(3.48)
September 1993 .....	141.30	1.64	103.23	(0.96)	204.20	(2.04)
December 1993 .....	141.80	1.56	101.84	1.74	202.50	1.59
March 1994 .....	142.00	2.35	102.39	2.36	202.30	2.71
June 1994 .....	144.50	2.52	102.46	(1.08)	204.30	0.54
September 1994 .....	144.60	2.31	103.20	(0.03)	204.30	0.05
December 1994 .....	145.50	2.58	103.96	2.06	200.90	(0.79)
March 1995 .....	146.80	3.32	101.91	(0.47)	200.30	(0.99)
June 1995 .....	149.50	3.40	103.00	0.53	201.00	(1.63)
September 1995 .....	149.90	3.60	102.41	(0.77)	199.00	(2.63)
December 1995 .....	150.10	3.11	101.60	(2.30)	197.80	(1.56)
March 1996 .....	150.90	2.75	102.47	0.55	200.90	0.30
June 1996 .....	152.80	2.18	105.79	2.67	208.60	3.71
September 1996 .....	153.10	2.11	107.74	5.08	209.80	5.28
December 1996 .....	154.00	2.57	110.06	8.00	212.60	7.22
March 1997 .....	154.90	2.62	111.33	8.30	215.30	6.92
June 1997 .....	156.90	2.65	116.51	9.65	222.60	6.50
September 1997 .....	158.40	3.40	121.20	11.77	223.60	6.37
December 1997 .....	159.70	3.63	123.34	11.40	224.00	5.22
March 1998 .....	160.20	3.36	125.48	11.96	226.40	5.03
June 1998 .....	163.20	3.94	130.11	11.04	234.90	5.38
September 1998 .....	163.70	3.29	132.39	8.84	236.10	5.44
December 1998 .....	164.40	2.90	132.29	7.00	236.30	5.35
March 1999 .....	163.70	2.16	134.61	7.02	236.30	4.28
June 1999 .....	165.50	1.40	139.66	7.09	247.70	5.31
September 1999 .....	165.60	1.15	144.35	8.65	256.70	8.37
December 1999 .....	166.80	1.45	148.89	11.83	263.40	10.86
March 2000 .....	167.50	2.29	155.00	14.10	270.50	13.52
June 2000 .....	170.60	3.04	161.99	14.83	275.60	10.67
September 2000 .....	170.90	3.15	161.46	11.20	277.60	7.83
December 2000 .....	172.00	3.07	162.84	8.95	278.30	5.50
March 2001 .....	171.80	2.53	167.52	7.77	279.00	3.09
June 2001 .....	173.90	1.92	174.83	7.63	297.00	7.48
September 2001 .....	174.00	1.80	181.63	11.77	305.00	9.41
December 2001 .....	173.80	1.04	184.59	12.54	310.90	11.08
March 2002 .....	173.90	1.21	190.22	12.71	324.30	15.05
June 2002 .....	176.00	1.20	206.47	16.64	346.60	15.44
September 2002 .....	176.60	1.48	221.09	19.66	369.10	19.08
December 2002 .....	178.20	2.50	231.29	22.55	393.00	23.43

Time in Quarters	UK Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
March 2003	179.20	3.00	239.26	22.94	400.10	21.00
June 2003	181.30	2.97	250.12	19.18	422.50	19.80
September 2003	181.80	2.90	258.86	15.77	437.60	17.02
December 2003	182.90	2.60	267.12	14.40	453.50	14.32
March 2004	183.80	2.53	277.34	14.77	474.00	16.95
June 2004	186.30	2.72	296.16	16.90	513.20	19.45
September 2004	187.40	3.03	306.18	16.79	527.20	18.63
December 2004	189.20	3.39	304.15	12.98	522.00	14.07
March 2005	189.70	3.16	304.80	9.44	520.20	9.30
June 2005	191.90	2.96	314.18	5.91	532.10	3.62
September 2005	192.60	2.74	314.45	2.67	543.10	2.97
December 2005	193.70	2.35	313.97	3.18	548.40	4.93
March 2006	194.20	2.34	319.82	4.81	552.60	6.04
June 2006	197.60	2.93	329.22	4.68	582.10	8.98
September 2006	199.30	3.42	336.06	6.65	586.70	7.72
December 2006	201.40	3.90	343.25	8.92	602.80	9.46
March 2007	203.00	4.43	350.21	9.08	613.90	10.52
June 2007	206.30	4.31	362.69	9.68	644.10	10.12
September 2007	207.10	3.84	367.32	8.89	649.30	10.14
December 2007	209.80	4.09	366.98	6.68	634.40	5.11
March 2008	211.10	3.91	357.81	2.15	620.90	1.13
June 2008	215.30	4.27	348.14	(4.10)	605.10	(6.25)
September 2008	217.40	4.85	329.53	(10.86)	568.90	(13.22)
December 2008	215.50	2.68	312.85	(15.96)	531.50	(17.70)
March 2009	210.90	(0.09)	298.65	(18.07)	512.50	(19.19)
June 2009	212.60	(1.26)	307.34	(12.46)	514.30	(16.26)
September 2009	214.40	(1.39)	319.50	(3.09)	526.50	(7.75)
December 2009	216.90	0.65	323.40	3.32	537.30	1.09
March 2010	219.30	3.91	324.94	8.44	539.00	5.04
June 2010	223.50	5.00	336.57	9.09	546.60	6.09
September 2010	224.50	4.60	333.85	4.39	540.40	2.61
December 2010	227.00	4.55	325.11	0.53	528.80	(1.59)
March 2011	230.90	5.15	323.93	(0.31)	523.20	(2.98)
June 2011	234.90	4.97	332.67	(1.17)	527.20	(3.61)
September 2011	236.20	5.08	332.34	(0.45)	528.00	(2.32)
December 2011	238.60	4.98	328.73	1.11	522.00	(1.29)
March 2012	239.60	3.70	324.61	0.21	520.10	(0.59)
June 2012	242.20	3.06	329.06	(1.09)	524.70	(0.48)
September 2012	243.10	2.88	326.98	(1.63)	521.80	(1.18)
December 2012	246.00	3.05	325.01	(1.14)	520.47	(0.29)
March 2013	247.40	3.20	325.28	0.20	525.66	1.06
June 2013	249.70	3.05	333.73	1.41	544.39	3.68
September 2013	250.90	3.16	340.96	4.19	554.19	6.02
December 2013	252.50	2.61	348.00	6.83	559.49	7.23
March 2014	253.90	2.59	355.34	8.84	571.20	8.31
June 2014	255.97	2.48	372.13	10.89	592.21	8.42

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

Notes:

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

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

The issuer confirms that all of the information contained in the tables above in this section entitled "Historical Characteristics of the United Kingdom Residential Mortgage Market" has been accurately

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**CURRENCY PRESENTATION**  
**Sterling/U.S. dollar exchange rate history**

	Years ended 31 December					
	2013	2012	2011	2010	2009	2008
Last <sup>(1)</sup> .....	1.6557	1.6255	1.5543	1.5612	1.6170	1.4593
Average <sup>(2)</sup> .....	1.5649	1.5852	1.6041	1.5458	1.5670	1.8524
High.....	1.6557	1.6279	1.6707	1.6362	1.6989	2.0335
Low .....	1.4867	1.5318	1.5343	1.4334	1.3753	1.4392

Notes:

(1) The closing exchange rate on the last operating business day of each of the periods indicated, years commencing from 1 January or the next operating business day.

(2) Average daily exchange rate during the period.

Source: Bloomberg – Close of Business Mid Price

**Euro/sterling exchange rate history**

	Years ended 31 December					
	2013	2012	2011	2010	2009	2008
Last <sup>(1)</sup> .....	0.8302	0.8119	0.8334	0.8574	0.8869	0.9548
Average <sup>(2)</sup> .....	0.8491	0.8113	0.8680	0.8581	0.8909	0.7974
High.....	0.8747	0.8494	0.9039	0.9118	0.9569	0.9757
Low .....	0.8101	0.7779	0.8302	0.8091	0.8432	0.7346

Notes:

(1) The closing exchange rate on the last operating business day of each of the periods indicated, years commencing from 1 January or the next operating business day.

(2) Average daily exchange rate during the period.

Source: Bloomberg – Close of Business Mid Price

**AUD\$/sterling exchange rate history**

	Years ended 31 December					
	2013	2012	2011	2010	2009	2008
Last <sup>(1)</sup> .....	0.5386	0.6395	0.6570	0.6555	0.5551	0.4802
Average <sup>(2)</sup> .....	0.6193	0.6535	0.6440	0.5956	0.5048	0.4586
High.....	0.6926	0.6827	0.6748	0.6594	0.5742	0.4896
Low .....	0.5382	0.6188	0.6074	0.5488	0.4381	0.3775

Notes:

(1) The closing exchange rate on the last operating business day of each of the periods indicated, years commencing from 1 January or the next operating business day.

(2) Average daily exchange rate during the period.

Source: Bloomberg – Close of Business Mid Price

## Yen/sterling exchange rate history

	Years ended 31 December					
	2013	2012	2011	2010	2009	2008
Last <sup>(1)</sup> .....	0.5736	0.7095	0.8367	0.7896	0.6648	0.7556
Average <sup>(2)</sup> .....	0.6562	0.7910	0.7834	0.7392	0.6848	0.5320
High.....	0.7188	0.8498	0.8548	0.7952	0.8166	0.7683
Low .....	0.5736	0.7095	0.7163	0.6655	0.6144	0.4510

## Notes:

(1) The closing exchange rate on the last operating business day of each of the periods indicated, years commencing from 1 January or the next operating business day.

(2) Average daily exchange rate during the period.

Source: Bloomberg – Close of Business Mid Price

## CAD\$/sterling exchange rate history

	Years ended 31 December					
	2013	2012	2011	2010	2009	2008
Last <sup>(1)</sup> .....	0.5685	0.6204	0.6297	0.6418	0.5873	0.5618
Average <sup>(2)</sup> .....	0.6211	0.6312	0.6307	0.6287	0.5621	0.5105
High.....	0.6542	0.6452	0.6534	0.6712	0.6116	0.5704
Low .....	0.5669	0.6180	0.6109	0.5811	0.5220	0.4860

## Notes:

(1) The closing exchange rate on the last operating business day of each of the periods indicated, years commencing from 1 January or the next operating business day.

(2) Average daily exchange rate during the period.

Source: Bloomberg – Close of Business Mid Price

## **MATERIAL LEGAL ASPECTS OF THE LOANS AND THEIR RELATED SECURITY**

*The following discussion is a summary of the material legal aspects of English, Northern Irish and Scottish residential property loans and mortgages. It is not an exhaustive analysis of the relevant law.*

### **English Loans**

#### **General**

There are two parties to a mortgage. The first party is the mortgagor, who is the borrower and homeowner. The mortgagor grants the mortgage over its property. The second party is the mortgagee, who is the lender. Each English loan will be secured by a mortgage which has a first ranking priority over all other mortgages secured on the property and over all unsecured creditors of the borrower. In respect of previous seller originated loans, borrowers may create a subsequent mortgage or other secured interest over the relevant property without the consent of the seller, though such other mortgage or interest will rank below the seller's mortgage in priority. In respect of seller originated loans, each borrower is prohibited from creating another mortgage or other secured interest over the relevant property without the consent of the seller.

#### ***Nature of property as security***

There are two forms of title to land in England and Wales: registered and unregistered. Both systems of title can include both freehold and leasehold land.

#### ***Registered title***

Title to registered land is registered at the Land Registry. Each parcel of land is given a unique title number. Prior to 13 October 2003, title to the land was established by a land certificate or (in the case of land which is subject to a mortgage or charge) charge certificate containing official copies of the entries on the register relating to that land. However, pursuant to the Land Registration Act 2002, which came into force on 13 October 2003, the provision of land certificates and charge certificates has now been abolished. Title to land is now established by reference to entries on the registers held by the Land Registry.

There are four classes of registered title. The most common is title absolute. A person registered with title absolute owns the land free from all interests other than those entered on the register and those classified as unregistered interests which override first registration and unregistered interests which override registered dispositions.

Title information documents provided by the Land Registry will reveal the present owner of the land, together with any legal charges and other interests affecting the land. However, the Land Registration Act 2002 provides that some interests in the land will bind the land even though they are not capable of registration at the Land Registry such as unregistered interests which override first registration and unregistered interests which override registered dispositions. The title information documents will also contain a plan indicating the location of the land. However, this plan is not conclusive as to matters such as the location of boundaries.

#### ***Unregistered title***

All land in England and Wales is now subject to compulsory registration on the occurrence of any of a number of trigger events, which includes the granting of a first legal mortgage. However, a small proportion of land in England and Wales (typically where the land has been in the same ownership for a number of years) is still unregistered. Title to unregistered land is proved by establishing a chain of documentary evidence to title going back at least 15 years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However, other rights would have to be registered at the Central Land Charges Registry in order to be effective against a subsequent purchaser of the land.

#### ***Taking security over land***

Where land is registered, a mortgagee must register its mortgage at the Land Registry in order to secure priority over any subsequent mortgagee. Prior to registration, the mortgage will take effect only as an equitable mortgage or charge. Priority of mortgages over registered land is governed by the date of registration of the mortgage rather than date of creation. However, a prospective mortgagee is able to obtain a priority period within which to register his mortgage. If the mortgagee submits a proper application for registration during this period, its interest will take priority over any application for registration of another interest which is received by the Land Registry during this priority period.

In the system of unregistered land, the mortgagee protects its interest by retaining possession of the title deeds to the property. Without the title deeds to the property, the borrower is unable to establish the necessary chain of ownership, and is therefore effectively prevented from dealing with its land without the consent of the mortgagee. Priority of mortgages over unregistered land is governed first by the possession of title deeds, and, in relation to subsequent mortgages, by the registration of a land charge.

### ***The seller as mortgagee***

The sale of the English mortgages by the seller to the mortgages trustee will take effect in equity only. The mortgages trustee will not apply to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the mortgages. The consequences of this are explained in **Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on your notes**” above.

### ***Enforcement of mortgages***

If a borrower defaults under a loan, the English mortgage conditions provide that all monies under the loan will become immediately due and payable. The seller or its successors or assigns would then be entitled to recover all outstanding principal, interest and fees under the covenant of the borrower contained in the English mortgage conditions to pay or repay those amounts. In addition, the seller or its successors or assigns may enforce its mortgage in relation to the defaulted loan. Enforcement may occur in a number of ways, including the following:

- The mortgagee may enter into possession of the property. If it does so, it does so in its own right and not as agent of the mortgagor, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property.
- The mortgagee may lease the property to third parties.
- The mortgagee may foreclose on the property. Under foreclosure procedures, the mortgagor's title to the property is extinguished so that the mortgagee becomes the owner of the property. The remedy is, because of procedural constraints, rarely used.
- The mortgagee may sell the property, subject to various duties to ensure that the mortgagee exercises proper care in relation to the sale. This power of sale arises under the Law of Property Act 1925. The purchaser of a property sold pursuant to a mortgagee's power of sale becomes the owner of the property.

There is a requirement for a court order to enforce a land mortgage securing a loan to the extent that the credit agreement is regulated by the consumer credit regime or treated as such or, on and from N(M), is a regulated mortgage contract that would otherwise be regulated by the consumer credit regime or treated as such. See further **"Risk factors – If the seller's interpretation of certain technical rules under the consumer credit regime were held to be incorrect by a court, the FCA or the Ombudsman or was challenged by a significant number of borrowers, or borrowers were to exercise rights of set-off, to the extent available under the consumer credit regime, there could be material disruption to the income flow from the mortgages trust"**.

## **Scottish loans**

### ***General***

A standard security is the only means of creating a fixed charge over heritable or long leasehold property in Scotland. Its form must comply with the requirements of the Conveyancing and Feudal Reform (Scotland) Act 1970 (the **1970 Act**). There are two parties to a standard security. The first party is the grantor, who is the borrower and homeowner. The grantor grants the standard security over its property (and is generally the only party to execute the standard security). The second party is the grantee of the standard security, who is the lender and is called the heritable creditor. Each Scottish loan will be secured by a standard security which has a first ranking priority over all other standard securities secured on the property and over all unsecured creditors of the borrower. Borrowers may create a subsequent standard security over the relevant property without the consent of the seller. Upon intimation to the seller (in its capacity as trustee for the mortgages trustee pursuant to the relevant Scottish declaration of trust) of the creation of any subsequent standard security the prior ranking of the seller's standard security shall be restricted to security for advances made prior to such intimation and advances made subsequent to such intimation which the seller or the mortgages trustee is obliged to advance, and for interest and expenses in respect thereof.

The 1970 Act automatically imports a statutory set of **“Standard Conditions”** into all standard securities, although the majority of these may be varied by agreement between the parties. Both Alliance & Leicester and Santander UK, along with most lenders in the residential mortgage market in Scotland, have



elected to vary the Standard Conditions by means of their own sets of Scottish mortgage conditions, the terms of which are imported into each standard security. The main provisions of the Standard Conditions which cannot be varied by agreement relate to redemption and enforcement, and in particular to the notices and other procedures that are required to be carried out prior to the exercise of the heritable creditor's rights on a default by the borrower.

### ***Nature of property as security***

While title to all land in Scotland is registered there are currently two possible forms of registration, namely the Land Register and the Sasine Register. Both systems of registration can include both heritable (the Scottish equivalent to freehold) and long lease land.

### ***Land Register***

This system of registration was established by the Land Registration (Scotland) Act 1979 and now applies to the whole of Scotland. The Land Registration (Scotland) Act 1979 is due to be amended and replaced by the Land Registration etc. (Scotland) Act 2012 on 8 December 2014, which will make certain changes to the system of land registration in Scotland. Any sale of land (including a long lease interest in land) the title to which has not been registered in the Land Register or the occurrence of certain other events in relation thereto (but not currently the granting of a standard security alone) trigger its registration in the Land Register, when it is given a unique title number. Title to the land and the existence of any standard security over it are established by the entries on the Land Register relating to that land. Prior to 22 January 2007 the holder of the title received a land certificate containing official copies of the relevant entries on the Land Register. Similarly, the holder of any standard security over the land in question received a charge certificate containing official copies of the entries relating to that security. However, in terms of the Automated Registration of Title to Land (Electronic Communications) (Scotland) Order 2006 and the Land Registration (Scotland) Rules 2006, with effect from 22 January 2007 such land and charge certificates are only issued to the relevant title or security holder if so requested at the time of the relevant registration and otherwise are available in electronic form only. Under the Land Registration etc. (Scotland) Act 2012, land and charge certificates will no longer be issued, but a person will be able to apply for an extract of the title sheet for any property, being an official copy of the relevant entries on the Land Register. A person registered in the Land Register owns the land free from all interests other than those entered on the Register and any interests which are constituted otherwise than by registration.

The relevant Land Register entries and, where issued, land certificate (whether in paper or electronic form) will reveal the present owners of the land, together with any standard securities and other interests (other than any interests and any other which are constituted otherwise than by registration) affecting the land. They will also contain a plan indicating the location and extent of the land. While this plan is not in all circumstances conclusive as to the extent of the land, it cannot currently be amended if this would be to the prejudice of a proprietor in possession of the land, unless the statutory indemnity in respect of such amendments has been expressly excluded in the relevant Land Register entries and land certificate. Significant changes to the procedure for rectification of the Land Register will be brought in by the Land Registration etc. (Scotland) Act 2012, including a statutory duty upon the Keeper of the Land Register to rectify any manifest inaccuracy of which he or she becomes aware.

### ***Sasine Register***

Title to all land in Scotland where no event has yet occurred to trigger registration in the Land Register is currently recorded in the General Register of Sasines. Title to such land is proved by establishing a chain of documentary evidence of title going back at least ten years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However, other rights (including standard securities) would have to be recorded in the Sasine Register in order to be effective against a subsequent purchaser of the land.

### ***Taking security over land***

A heritable creditor must register its standard security in the Land Register or the Sasine Register (as applicable) in order to perfect its security and to secure priority over any subsequent standard security. Until such registration occurs, a standard security will not be effective against a subsequent purchaser or the heritable creditor under another standard security over the property. Priority of standard securities is (subject to express agreement to the contrary between the security holders) governed by their date of registration rather than their date of execution. There is no equivalent in Scotland to the priority period system which operates in relation to registered land in England and Wales.

### **The seller as heritable creditor**

The sale of the Scottish mortgages by the seller to the mortgages trustee on the first sale date was given effect by a declaration of trust by the seller in favour of the mortgages trustee (and any further sale of Scottish mortgages subsequent to the first sale date has been or will be given effect by further declarations of trust), by which the beneficial interest in the Scottish mortgages has been or will be transferred to the mortgages trustee. Such beneficial interest (as opposed to the legal title) cannot be registered in the Land Register or the Sasine Register. The consequences of this are explained in "**Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on your notes**" above.

### **Enforcement of mortgages**

If a borrower defaults under a Scottish loan, the applicable Scottish mortgage conditions provide that all monies under the loan will become immediately due and payable. The seller or its successors or assignees would then be entitled to recover all outstanding principal, interest and fees under the obligation of the borrower contained in the Scottish mortgage conditions to pay or repay those amounts. In addition, the seller or its successors or assignees may, subject to taking various preliminary steps to attempt to resolve the borrower's position and observing certain procedural requirements, enforce its standard security in relation to the defaulted loan. Enforcement may occur in a number of ways, including the following (all of which arise under the 1970 Act):

- The heritable creditor may enter into possession of the property. If it does so, it does so in its own right and not as agent of the borrower, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property.
- The heritable creditor may grant a lease of the property of up to seven years (or longer with the court's permission) to third parties.
- The heritable creditor may sell the property, subject to various duties to ensure that the sale price is the best that can reasonably be obtained. The purchaser of a property sold pursuant to a heritable creditor's power of sale becomes the owner of the property.
- The heritable creditor may, in the event that a sale cannot be achieved, foreclose on the property. Under foreclosure procedures the borrower's title to the property is extinguished so that the heritable creditor becomes the owner of the property. However, this remedy is rarely used.

In contrast to the position in England and Wales, the heritable creditor has no power to appoint a receiver under the standard security.

There is a requirement for a court order to enforce a standard security securing a loan to the extent that the credit agreement is regulated by the consumer credit regime or treated as such or, on and from N(M), is a regulated mortgage contract that would otherwise be regulated by the consumer credit regime or treated as such. See further "**Risk factors – If the seller's interpretation of certain technical rules under the consumer credit regime were held to be incorrect by a court, the FCA or the Ombudsman or was challenged by a significant number of borrowers, or borrowers were to exercise rights of set-off, to the extent available under the consumer credit regime, there could be material disruption to the income flow from the mortgages trust**".

### **Borrower's right of redemption**

Under Section 11 of the Land Tenure Reform (Scotland) Act 1974 the grantor of any standard security over residential property has an absolute right, on giving appropriate notice, to redeem that standard security once it has subsisted for a period of 20 years, subject only to the payment of certain sums specified in Section 11 of that Act. These specified sums consist essentially of the principal monies advanced by the lender, interest thereon and expenses incurred by the lender in relation to that standard security.

### **Northern Irish Loans**

#### **General**

There are two parties to a mortgage. The first party is the mortgagor, who is the borrower and homeowner. The mortgagor grants the mortgage over its property (and is generally the only party to execute the mortgage). The second party is the mortgagee, who is the lender. Each Northern Irish loan will be secured by a mortgage which has a first ranking priority over all other mortgages secured on the property

and over all unsecured creditors of the borrower. Borrowers may create a subsequent mortgage or other secured interest over the relevant property without the consent of the seller (or, in the case of any Northern Irish registered charge originated by and remaining registered in the name of Alliance & Leicester from the Part VII effective date, Alliance & Leicester), though such other mortgage or interest will rank below the seller's (or, in the case of any Northern Irish registered charge originated by Alliance & Leicester that remains registered in the name of Alliance & Leicester from the Part VII effective date, Alliance & Leicester's) mortgage in priority but only to the extent of advances made by the seller (or, in the case of any Northern Irish registered charge originated by Alliance & Leicester that remains registered in the name of Alliance & Leicester from the Part VII effective date, Alliance & Leicester) prior to receipt of notice of the other mortgage together with interest and expenses in respect thereof.

### ***Nature of property as security***

There are two forms of title to land in Northern Ireland: registered and unregistered. Both systems of title can include both freehold and leasehold land.

### ***Registered title***

Title to registered land is registered at the Land Registry of Northern Ireland. Each parcel of land is given a unique title number known as a folio number. Title to the land is established by reference to the folio and the associated land certificate (if any has been issued) containing official copies of the entries on the register relating to that land.

There are four classes of registered title namely Good Fee Farm Grant, Good Leasehold, Absolute (leasehold, freehold under a fee farm grant or fee simple) and a Qualified or Possessory class. The most common is title absolute although Good Fee Farm Grant and Good Leasehold titles are also common. A person registered with title absolute owns the land free from all interests other than those entered on the register and those classified as unregistered interests which override first registration and unregistered interests which override registered dispositions.

Title information documents provided by the Land Registry of Northern Ireland will reveal the present owner of the land, together with any legal charges and other interests affecting the land. However, the Land Registration Act (Northern Ireland) 1970 provides that some interests in the land will bind the land even though they are not capable of registration at the Land Registry of Northern Ireland such as unregistered interests which override first registration and unregistered interests which override registered dispositions. The title information documents will also contain a plan indicating the location of the land. However, this plan is not conclusive as to matters such as the location of boundaries.

The Electronic Registration (NI) Order 2011 and the Land Registration (Amendment) Rules (Northern Ireland) 2011 amended Land Registry procedures so that it is no longer necessary to lodge a land certificate or certificate of charge with any application for registration and the Land Registry is discouraging the issue of new land certificates with the intention that in time land certificates and certificates of charge will become obsolete.

### ***Unregistered title***

From 1 May 2003 all land in Northern Ireland is now subject to compulsory registration on the occurrence of any of a number of trigger events, which does not include the granting of a first legal mortgage alone. A substantial proportion of land in Northern Ireland (typically where the land has been in the same ownership for a number of years) is still unregistered. Title to all land in Northern Ireland where no event has occurred to trigger registration at the Land Registry of Northern Ireland is registered at the Registry of Deeds. Title to unregistered land is proved by establishing a chain of documentary evidence to title going back at least 15 years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However other rights would have to be registered at the Registry of Deeds in order to be effective against a subsequent purchaser of the land.

### ***Taking security over registered land***

The position in relation to further advances where the security is taken over registered land is governed by Section 43(1) of the Land Registration Act 1970. Borrowers may create a subsequent mortgage or other secured interest over the relevant property without the consent of the lender, though such other mortgage or interest will rank below the lender's mortgage in priority but only to the extent of further advances made by the lender prior to receipt of notice of the other mortgage (together with interest and expenses in respect thereof). Thus a mortgagee (e.g. a lender) must register its mortgage at the Land Registry of Northern Ireland in order to secure priority over any subsequent mortgagee. Prior to registration,

the mortgage will take effect only as an equitable mortgage or charge. Priority of mortgages over registered land is governed by the date of registration of the mortgage rather than the date of creation. However, a prospective mortgagee is able to obtain a priority period within which to register its mortgage. The priority period is 40 days and a priority search may only be lodged if the mortgagee is in contract to lend. If the mortgagee submits a proper application for registration during this period, its interest will take priority over any application for registration of another interest which is received by the Land Registry of Northern Ireland during this priority period.

### ***Taking security over unregistered land***

In the system of unregistered land, a mortgagee (e.g. a lender) must register its mortgage at the Registry of Deeds in order to secure priority over a subsequent mortgagee. Priority of mortgages over unregistered land is governed by the date of registration of the mortgage rather than the date of creation unless there is actual notice of a prior unregistered mortgage. There is no equivalent priority period system which operates in relation to registered land.

The position regarding priority of security for further advances where the security is taken over unregistered land is not governed by statute in Northern Ireland. Where unregistered land is involved, the equitable doctrine of tacking survives. A mortgagee's (e.g. a lender's) right to "tack" is a right, in certain circumstances, to add further advances to the original security (taken to secure earlier advances) so as to obtain priority over any intermediate security taken by a subsequent lender over the same property. The application of the doctrine of tacking means that the first lender is allowed to "tack" for further advances (so ensuring that such further advances are secured with priority over any intermediate charge) only in the following circumstances: (i) if an intervening lender has agreed to postpone its mortgage to further advances by the first lender, or (ii) if the first lender is under an obligation to make further advances. However, even in the event that the obligation to make further advances is contained in the relevant mortgage deed, if the first lender making the further advances has been notified of an intervening mortgage at the time of making the further advance, that further advance cannot be "tacked" to the original security. The effect of this is that if the first lender receives notice from an intervening lender of an intermediate charge over the relevant property, then the further advances made by the first lender will not be secured with priority over such intermediate charge.

By virtue of Article 51 of the Judgments Enforcement (Northern Ireland) Order 1981, an order charging land, i.e. a judgment mortgage, if founded on a judgment in respect of rates payable in respect of that land, will have priority over all other charges and encumbrances whatever affecting that land except other debts owing to the crown.

### ***The seller as mortgagee***

The sale of the Northern Irish loans by the seller to the mortgages trustee will take effect in equity only and any sale of Northern Irish loans in the future will take effect in equity only. The mortgages trustee will not apply to the Land Registry of Northern Ireland or the Registry of Deeds to register or record its equitable interest in the mortgages. The consequences of this are explained in the section "**Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on your notes**" above.

### ***Enforcement of mortgages***

If a borrower defaults under a Northern Irish loan, the Northern Irish mortgage conditions provide that all monies under the loan will become immediately due and payable. The seller or its successors or assigns would then be entitled to recover all outstanding principal, interest and fees under the covenant of the borrower contained in the Northern Irish mortgage conditions to pay or repay those amounts. In addition, the seller or its successors or assigns may enforce its mortgage in relation to the defaulted loan. Enforcement may occur in a number of ways, including the following:

- The mortgagee may enter into possession of the property. If it does so, it does so in its own right and not as agent of the mortgagor, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property.
- The mortgagee may lease the property to third parties.
- The mortgagee may foreclose on the property. Under foreclosure procedures, the mortgagor's title to the property is extinguished so that the mortgagee becomes the owner of the property. The remedy is, in theory, available, but in modern times it has not been granted by the courts.

- The mortgagee may sell the property, subject to various duties to ensure that the mortgagee exercises proper care in relation to the sale. This power of sale arises under the Conveyancing and Law of Property Act 1881. The purchaser of a property sold pursuant to a mortgagee's power of sale becomes the owner of the property.

There is a requirement for a court order to enforce a land mortgage securing a loan to the extent that the credit agreement is regulated by the consumer credit regime or treated as such or, on and from N(M), is a regulated mortgage contract that would otherwise be regulated by the consumer credit regime or treated as such. See further "**Risk factors – If the seller's interpretation of certain technical rules under the consumer credit regime were held to be incorrect by a court, the FCA or the Ombudsman or was challenged by a significant number of borrowers, or borrowers were to exercise rights of set-off, to the extent available under the consumer credit regime, there could be material disruption to the income flow from the mortgages trust**". As legal title to certain Northern Irish registered charges remains registered in the name of Alliance & Leicester, there may be delays in enforcing these mortgages due to the requirement to register the transfer from Alliance & Leicester to the seller, as further described under "**Risk factors – There may be delays in enforcing certain Northern Irish registered charges where legal title remains registered in the name of Alliance & Leicester**" above.

## UNITED KINGDOM TAXATION

The comments below, which are of a general nature and based on current United Kingdom tax law and HM Revenue & Customs published practice, describe only the United Kingdom withholding tax treatment of payments of interest in respect of the notes. They do not deal with any other United Kingdom tax implications of acquiring, holding or disposing of notes. Slaughter and May, United Kingdom tax advisers to the issuer (**UK tax counsel**), has prepared and reviewed this summary and the opinions of UK tax counsel are contained in this summary. Prospective noteholders who are unsure as to their tax position should seek their own professional advice.

### Payment of interest on the notes

Payments of interest on the notes may be made without deduction 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 **ITA**). The Irish Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the Irish Stock Exchange if they are admitted to trading on the Main Securities Market of the Irish Stock Exchange. Provided, therefore, that the notes are and remain so listed and the Irish Stock Exchange continues to be a "recognised stock exchange" within the meaning of Section 1005 of the ITA, interest on the notes will be payable without withholding or deduction on account of United Kingdom income tax.

Interest on the notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the notes is paid by a company and, at the time the payment is made, the issuer reasonably believes (and any person by or through whom interest on the notes is paid reasonably believes) that either (i) the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, or (ii) the payment falls within Section 935, 936 or 937 of the ITA, provided that in both cases HM Revenue & Customs has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

Interest on the notes may also be paid without withholding or deduction on account of United Kingdom tax where the maturity of the notes is less than 365 days from the date of issue and where notes do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for a year or more.

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.). 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 interest paid to a noteholder, HM Revenue & Customs 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).

HM Revenue & Customs have powers to obtain information, including in relation to interest or payments treated as interest and payments derived from securities. This may include details of the beneficial owners of the notes (or the persons for whom the notes are held), details of the persons to whom payments derived from the notes are or may be paid and information in connection with transactions relating to the notes. Information obtained by HM Revenue & Customs may be provided to tax authorities in other countries.

### EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the EU Savings Directive), each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid or secured by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, certain member states are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State

must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the EU Savings Directive.

The EU Savings Directive does not preclude member states from levying other types of withholding tax.

### **Withholding tax on loans**

Under current law, it is not expected that amounts due under the loan are subject to withholding or deduction for or on account of any tax in their jurisdiction of origination.

## UNITED STATES FEDERAL INCOME TAXATION

### General

The following is a general summary of certain material U.S. federal income tax consequences that may be relevant with respect to the purchase, ownership and disposition of the Rule 144A notes. In general, the discussion assumes that a holder acquires the Rule 144A notes at original issuance and holds the Rule 144A notes as capital assets. It does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the Rule 144A notes. In particular, it does not discuss special tax considerations that may apply to certain types of taxpayers, including, without limitation, the following: (i) financial institutions; (ii) insurance companies; (iii) dealers or traders in stocks, securities, notional principal contracts or currencies; (iv) tax-exempt entities; (v) regulated investment companies; (vi) real estate investment trusts; (vii) persons that will hold the Rule 144A notes as part of a “hedging” or “conversion” transaction or as a position in a “straddle” for U.S. federal income tax purposes; (viii) persons that own (or are deemed to own) 10 per cent. or more of the voting shares of the issuer; (ix) partnerships, pass-through entities or persons who hold Rule 144A notes through partnerships or other pass-through entities; and (x) persons that have a “functional currency” other than the U.S. dollar. This discussion also does not address alternative minimum tax consequences, or the indirect effects on the holders of equity interests in holders of Rule 144A notes, nor does it describe any tax consequences arising under the laws of any taxing jurisdiction other than the U.S. federal government.

This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the **Code**), U.S. Treasury regulations and judicial and administrative interpretations thereof, all as currently in effect and subject to change at any time, possibly with retroactive effect.

As described below under “– **Tax status of the issuer, Funding 1, mortgages trustee and mortgages trust**”, unless otherwise indicated in the applicable final terms, upon issuance of the Rule 144A notes, Cleary Gottlieb Steen & Hamilton LLP, U.S. federal income tax advisers to the issuer (**U.S. tax counsel**), will deliver an opinion that the mortgages trustee acting as trustee of the mortgages trust, Funding 1 and the issuer will not be subject to U.S. federal income tax as a result of their contemplated activities. As described further below under “– **Characterisation of the Rule 144A notes**”, unless otherwise indicated in the applicable final terms, upon issuance of the Rule 144A notes, U.S. tax counsel will deliver an opinion that, although there is no authority on the treatment of instruments substantially similar to the Rule 144A notes, the class A, class B and class M Rule 144A notes, when issued, will be treated as debt for U.S. federal income tax purposes (either of the issuer or Funding 1, as described below), and the class C Rule 144A notes, when issued, should be treated as debt for U.S. federal income tax purposes (either of the issuer or Funding 1, as described below). The treatment of the class D Rule 144A notes for U.S. federal income tax purposes will be set forth in the applicable final terms.

An opinion of U.S. tax counsel is not binding on the U.S. Internal Revenue Service (the **IRS**) or the courts, and no rulings will be sought from the IRS on any of the issues discussed in this section and there can be no assurance that the IRS or courts will agree with the conclusions expressed herein. **Accordingly, investors are encouraged to consult their own tax advisers as to the U.S. federal income tax consequences to the investor of the purchase, ownership and disposition of the Rule 144A notes to them, including the possible application of state, local, non-U.S. or other tax laws, and other U.S. tax issues affecting the transaction.**

As used in this section, the term **United States holder** means a beneficial owner of Rule 144A notes that is for U.S. federal income tax purposes: (i) a citizen or resident of the United States; (ii) a corporation (or other entity treated as a corporation) created or organised in or under the laws of the United States or any state thereof (including the District of Columbia); (iii) any estate the income of which is subject to U.S. federal income tax regardless of the source of its income; or (iv) any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust. A **Non-United States holder** is a beneficial owner of the Rule 144A notes that is not a United States holder. If a partnership holds Rule 144A notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding Rule 144A notes are encouraged to consult their own tax advisers regarding the personal tax consequences to them.

### **Tax status of the issuer, Funding 1, mortgages trustee and mortgages trust**

Under the transaction documents, each of the issuer, Funding 1 and the mortgages trustee acting in its capacity as trustee of the mortgages trust covenants not to engage in any activities in the United States (directly or through agents), not to derive any income from sources within the United States as determined



under U.S. federal income tax principles, and not to hold any property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the United States as determined under U.S. federal income tax principles. Unless otherwise indicated in the applicable final terms, upon issuance of the Rule 144A notes, U.S. tax counsel will deliver an opinion that, assuming compliance with the transaction documents, none of the issuer, Funding 1 or the mortgages trustee acting in its capacity as trustee of the mortgages trust will be subject to U.S. federal income tax. See “ – **General**” above for further information regarding this opinion. No election will be made to treat the issuer, Funding 1 or the mortgages trustee or any of their assets as a REMIC (a type of securitisation vehicle having a special tax status under the Code).

### **Characterisation of the Rule 144A notes**

Although there is no authority regarding the treatment of instruments that are substantially similar to the Rule 144A notes, unless otherwise indicated in the applicable final terms, upon issuance of the Rule 144A notes, U.S. tax counsel will deliver an opinion that the class A, class B and class M Rule 144A notes, when issued, will be treated as debt for U.S. federal income tax purposes, and the class C Rule 144A notes, when issued, should be treated as debt for U.S. federal income tax purposes (either of the issuer or of Funding, as described under “– **Rule 144A notes as debt of Funding 1**”). The treatment of the class D Rule 144A notes for U.S. federal income tax purposes will be set forth in the applicable final terms. The issuer intends to treat the Rule 144A notes (other than notes that will not be treated as debt for U.S. federal income tax purposes as indicated in the applicable final terms) as indebtedness of the issuer for all purposes, including U.S. federal income tax purposes.

The Rule 144A notes will not be qualifying real property loans in the hands of domestic savings and loan associations, real estate investment trusts, or REMICs under Sections 7701(a)(19)(C), 856(c) or 860G(a)(3) of the Code, respectively.

For the purposes of the discussions below, the term **Rule 144A notes** excludes notes that will not be treated as debt for U.S. federal income tax purposes as indicated in the applicable final terms.

### **Taxation of United States holders of the notes**

#### ***Qualified Stated Interest and Original Issue Discount***

The issuer intends to treat interest on the Rule 144A notes as “qualified stated interest” under U.S. Treasury regulations (**OID Regulations**) relating to original issue discount (**OID**). As a consequence, discount on the Rule 144A notes arising from an issuance at less than par will only be required to be accrued under the OID regulations if such discount exceeds a statutorily defined *de minimis* amount. Qualified stated interest, which generally must be unconditionally payable at least annually, is taxed under a holder's normal method of accounting as ordinary interest income. *De minimis* original issue discount is included in income on a *pro rata* basis as principal payments are made on the Rule 144A notes.

It is possible that interest on the Rule 144A notes that are class B notes, class M notes or class C notes (or, if treated as debt for U.S. federal income tax purposes, class D notes) could be treated as OID because such interest is subject to deferral in certain limited circumstances. A United States holder of an offered note issued with OID must include OID in income over the term of such offered note under a constant yield method that takes into account the compounding of interest. Under the Code, OID is calculated and accrued using prepayment assumptions where payments on a debt instrument may be accelerated by reason of prepayments of other obligations securing such debt instrument. Moreover, the legislative history to the provisions provides that the same prepayment assumptions used to price a debt instrument be used to calculate OID, as well as to accrue market discount and to amortise premium. Here, prepayment of the loans is not expected to alter the scheduled principal payments on the Rule 144A notes that are class B notes, class M notes or class C notes (or, if treated as debt for U.S. federal income tax purposes, class D notes) and accordingly, the issuer intends to assume that such Rule 144A notes will have their principal repaid according to the schedule for the purposes of accruing any OID. No representation is made that the loans will pay on the basis of such prepayment assumption or in accordance with any other prepayment scenario.

All of the interest payable on Rule 144A notes with a term of one year or less (**short-term obligations**), such as the money market notes, will be treated as OID. In general, United States holders who report income for U.S. federal income tax purposes under the accrual method are required to accrue OID on short-term obligations on a straight-line basis unless an election is made to accrue the OID under a constant yield method (based on daily compounding). A United States holder who is an individual or other cash method holder is not required to accrue such OID unless such holder elects to do so. If such an election is not made, any gain recognised by such holder on the sale, exchange or maturity of such short-term obligations will be ordinary income to the extent of the holder's rateable share of OID accrued on a straight-line basis, or upon election under the constant yield method (based on daily compounding), through the date of the sale, exchange or maturity.

As an alternative to the above treatments, United States holders may elect to include in gross income all interest with respect to the Rule 144A notes, including stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount, and unstated interest, as adjusted by any amortisable bond premium or acquisition premium, using the constant yield method described above.

Interest income on the Rule 144A notes will be treated as foreign source income for U.S. federal income tax purposes, which may be relevant in calculating a United States holder's foreign tax credit limitation for U.S. federal income tax purposes. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific classes of income. The foreign tax credit rules are complex, and United States holders are encouraged to consult their own tax advisers regarding the availability of a foreign tax credit and the application of the limitation in their particular circumstances.

### **Sales and retirement**

In general, a United States holder of a Rule 144A note will have a basis in such Rule 144A note equal to the cost of the Rule 144A note to such holder, increased by any amounts includible in income by the holder as OID, and reduced by any payments thereon other than payments of qualified stated interest. Upon a sale or exchange of the Rule 144A note, a United States holder will generally recognise gain or loss equal to the difference between the amount realised (less any accrued interest, which would be taxable as such) and the holder's tax basis in the Rule 144A note. Such gain or loss will be long-term capital gain or loss if the United States holder has held the Rule 144A note for more than one year at the time of disposition. Long-term capital gains recognised by an individual holder generally are subject to tax at a lower rate than short-term capital gains or ordinary income. The deductibility of capital losses is subject to limitations.

### **Notes denominated in a non-U.S. dollar currency**

A United States holder holding notes denominated in a non-dollar currency will be subject to the U.S. federal income tax rules generally applicable to debt instruments denominated in a non-functional currency. Under those rules, interest income generally will be calculated in the non-dollar currency and converted into dollars based on an applicable exchange rate. The holder will recognise foreign currency gain or loss (which is ordinary income or loss) as interest payments are received to account for any difference between the amount of reported interest income and the dollar value of the interest payments received. Foreign currency gain or loss also may be recognised as principal payments are received, or upon a sale or exchange of the notes (limited by the overall gain or loss on sale or exchange of the notes), reflecting changes in exchange rates over the period in which the notes are held. United States holders purchasing notes denominated in a non-dollar currency should consult their own tax advisers regarding the calculation and treatment of foreign currency gain or loss.

### **Taxation of Non-United States holders of the Rule 144A notes**

Subject to the backup withholding rules discussed below, a Non-United States holder generally should not be subject to U.S. federal income or withholding tax on any payments on a Rule 144A note and gain from the sale, redemption or other disposition of a Rule 144A note unless: (i) that payment and/or gain is effectively connected with the conduct by that Non-United States holder of a trade or business in the United States; (ii) in the case of any gain realised on the sale or exchange of a Rule 144A note by an individual Non-United States holder, that holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met; or (iii) the Non-United States holder is subject to tax pursuant to provisions of the Code applicable to certain expatriates. **Non-United States holders are encouraged to consult their own tax advisers regarding the U.S. federal income and other tax consequences to them of owning Rule 144A notes.**

### **Rule 144A notes as debt of Funding 1**

The IRS could possibly seek to characterise the Rule 144A notes as ownership interests in the related loan tranche between the issuer and Funding 1 (the **related advance**), rather than as debt of the issuer. If the IRS were successful in such a characterisation, a United States holder of a Rule 144A note would be treated as owning (a) a *pro rata* share of the related advance, which, in the case of the class A, class B and class M Rule 144A notes, will be treated as debt for U.S. federal income tax purposes, and in the case of the class C Rule 144A notes, should be treated as debt for U.S. federal income tax purposes and (b) an interest in the related issuer dollar currency swap. U.S. Treasury regulations permit taxpayers meeting certain requirements to integrate a debt instrument and a related currency hedge and to treat them for most tax purposes as if they were a synthetic debt instrument having the terms of the debt instrument and hedge combined. Integrating the related advance and issuer dollar currency swap would create a synthetic debt instrument having the characteristics of the Rule 144A notes and hence would produce largely the same result as if the Rule 144A notes were not recharacterised as debt of Funding 1.

The integration regulations apply only if a taxpayer creates a record identifying the debt instrument and hedge on or before the close of the date the hedge is entered into. The issuer will create a record that is intended to provide such identification effective for each United States holder as of the date of acquisition of a Rule 144A note. By its acquisition of a Rule 144A note, each United States holder agrees to appoint the issuer as its agent for this purpose. The IRS could challenge the effectiveness of such an identification made on behalf of a group of taxpayers. The integration rules would not apply to a United States holder that is related to any issuer dollar currency swap provider.

If an issuer dollar currency swap terminated before the Rule 144A notes were retired, and the integration regulations applied, then a United States holder may be considered to recognise gain or loss as if the holder had sold for fair market value his interest in the related advance. Moreover, for periods following such termination, the integration rules would no longer apply to the related advance except in the discretion of the IRS.

If any issuer dollar currency swap was not integrated with the related advance, then a United States holder would calculate separately income and deductions from that issuer dollar currency swap and income from the related advance. For most holders, the tax consequences of treating an issuer dollar currency swap and the related advance separately would be similar to the treatment if they were combined, but there could be differences. For example, income from an issuer dollar currency swap may be sourced differently from income from the related advance and would always be computed under an accrual method. Individual taxpayers may be allowed deductions for payments made under issuer dollar currency swaps only as a miscellaneous itemized deduction (which is allowed for regular tax purposes only subject to limitations and is not allowed for alternative minimum tax purposes). United States holders may wish to consult their own tax advisors regarding the possible treatment of Rule 144A notes as debt of Funding 1, application of the integration rules, and the consequences of an inability to integrate an issuer dollar currency swap and the related advance.

#### **Alternative characterisation of the Rule 144A notes as equity**

The proper characterisation of the arrangement involving the issuer and the holders of the Rule 144A notes is not clear because there is no authority on directly comparable transactions. The issuer intends to treat the Rule 144A notes as debt for all U.S. federal income tax purposes. Prospective investors are encouraged to consult their own tax advisers regarding the tax consequences to them of an alternative characterisation of the Rule 144A notes for U.S. federal income tax purposes as equity.

The IRS could also seek to recharacterise the Rule 144A notes as equity in the issuer for U.S. federal income tax purposes based on the view that the issuer lacks substantial equity. This recharacterisation is less likely for the class A, class B and class M Rule 144A notes than for other classes of Rule 144A notes. If a class of Rule 144A notes were treated as equity, United States holders of such notes would be treated as owning equity in a passive foreign investment company (**PFIC**) or, depending on the level of equity ownership by such United States holders and certain other factors, a controlled foreign corporation (**CFC**) for such United States holder. Treatment of a note as equity in a PFIC or CFC rather than a debt instrument for U.S. federal income tax purposes would have certain timing and character consequences to a United States holder and could require certain elections and disclosures that would need to be made shortly after acquisition to avoid potentially adverse U.S. tax consequences.

If a United States holder were treated as owning an equity interest in a PFIC, such holder will be subject to a special tax regime: (i) in respect of gains realised on the sale or other disposition of the relevant Rule 144A notes; and (ii) in respect of distributions on the relevant Rule 144A notes held for more than one taxable year to the extent those distributions constitute "excess distributions". An excess distribution generally includes dividends or other distributions received from a PFIC in any taxable year to the extent the amount of such distributions exceeds 125 per cent. of the average distributions for the three preceding years (or, if shorter, the investor's holding period). Because the Rule 144A notes may pay interest at a floating rate, it is possible that a United States holder will receive excess distributions as a result of fluctuations in the rate of USD-LIBOR over the term of the Rule 144A notes. In general, under the PFIC rules, a United States holder will be required to allocate such excess distributions and any gain realised on a sale of its Rule 144A notes to each day during the United States holder's holding period for the Rule 144A notes, and such distribution or gain will be taxable at the highest rate of taxation applicable to the Rule 144A notes for the year to which the excess distribution or gain is allocable (without regard to the United States holder's other items of income and loss for such taxable year) (the **deferred tax**). The deferred tax (other than the tax on amounts allocable to the year of disposition or receipt of the distribution) will then be increased by an interest charge computed by reference to the rate generally applicable to underpayments of tax (which interest charge generally will be a non-deductible interest expense for individual taxpayers).

Generally, a United States holder treated as owning an equity interest in a PFIC can avoid the adverse tax consequences described above by making either a “QEF Election” or a “mark-to-market” election. The issuer does not intend to provide information that would enable a holder of a Rule 144A note to make a QEF election, and the mark-to-market election will only be available during any period in which the Rule 144A notes are “regularly traded” on a qualifying exchange or market. The issuer encourages persons considering the purchase or ownership of 10 per cent. or more of any class of Rule 144A notes (or combination of classes) that is treated as equity for U.S. federal income tax purposes to consult their own tax advisers regarding the U.S. tax consequences to them of such an acquisition under the special rules applicable to CFCs under the Code.

### Foreign Financial Asset Reporting

Certain United States holders that own certain foreign financial assets, including debt or equity of foreign entities, with an aggregate value in excess of \$50,000 may be required to file an information report with respect to such assets with their tax returns. Failure to comply with this requirement may result in the imposition of substantial penalties. Individual United States holders are urged to consult their tax advisers regarding the application of this legislation to their ownership of the Rule 144A notes.

### Backup withholding and information reporting

Backup withholding and information reporting requirements may apply to certain payments on the Rule 144A notes and to proceeds of the sale or redemption of the Rule 144A notes to United States holders. The issuer, its agent, a broker, or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding if the United States holder fails to furnish the United States holder's taxpayer identification number (usually on IRS Form W-9), to certify that such United States holder is not subject to backup withholding, or to otherwise comply with the applicable requirements of the backup withholding rules. Certain United States holders are not subject to the backup withholding and information reporting requirements. Non-United States holders may be required to comply with applicable certification procedures (usually on IRS Form W-8BEN or IRS Form W-8BEN-E) to establish that they are not United States holders in order to avoid the application of such information reporting requirements and backup withholding.

Payments of principal or interest made to or through a foreign office of a custodian, nominee or other agent acting on behalf of a beneficial owner of a Rule 144A note generally will not be subject to backup withholding. However, if such custodian, nominee or other agent is: (i) a United States person (as defined in Section 7701(a)(30) of the Code); (ii) a controlled foreign corporation (as defined in Section 957(a) of the Code); (iii) a foreign person 50 per cent. or more of whose gross income is effectively connected with a U.S. trade or business for a specified three-year period; or (iv) a foreign partnership if: (A) at any time during its tax year, one or more of its partners are United States persons (as defined in applicable Treasury regulations) who in the aggregate hold more than 50 per cent. of the income or capital interest in the partnership; or (B) at any time during its taxable year, it is engaged in a U.S. trade or business (each of (i) through (iv), a **U.S. connected holder**), such custodian, nominee or other agent may be subject to certain information reporting requirements with respect to such payment unless it has in its records documentary evidence that the beneficial owner is not a United States holder and certain conditions are met or the beneficial owner otherwise establishes an exemption. Principal and interest paid by the U.S. office of a custodian, nominee or agent will be subject to both backup withholding and information reporting unless the beneficial owner certifies its non-U.S. status under penalty of perjury or otherwise establishes an exemption. Payments of proceeds on the sale of an offered Rule 144A note made to or through a foreign office of a broker will not be subject to backup withholding. However, if such broker is a U.S. connected holder, information reporting will be required unless the broker has in its records documentary evidence that the beneficial owner is not a United States holder and certain conditions are met or the beneficial owner otherwise establishes an exemption. Payments of proceeds on the sale of an offered Rule 144A note made to or through the U.S. office of a broker will be subject to backup withholding and information reporting unless the beneficial owner certifies, under penalty of perjury, that it is not a United States holder or otherwise establishes an exemption.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be refunded or credited against the United States holder's U.S. federal income tax liability, provided that the required information is furnished to the IRS. **Holders of Rule 144A notes are encouraged to consult their own tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.**

### U.S. Foreign Account Tax Compliance Act

The IRS has issued final regulations implementing the U.S. Foreign Account Tax Compliance Act rules (**FATCA**) and the United Kingdom has entered into an intergovernmental agreement (the **U.S. – UK IGA**)

with the United States relating to FATCA. Pursuant to the U.S. – UK IGA, the issuer may be required to comply with certain reporting requirements. Investors in the notes may therefore be required to provide information and tax documentation regarding their identities as well as that of their direct and indirect owners and this information may be reported to the Commissioners for Her Majesty’s Revenue & Customs. Assuming the issuer complies with any applicable reporting requirements pursuant to the U.S. – UK IGA, the issuer should not be subject to FATCA withholding on payments it receives. Under the final regulations implementing FATCA, assuming the notes are treated as debt for U.S. federal income tax purposes and are not materially modified after issuance, payments on the notes will not be subject to FATCA withholding.

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

## **MATERIAL JERSEY (CHANNEL ISLANDS) TAX CONSIDERATIONS**

### **Tax status of the mortgages trustee and the mortgages trust**

Jersey is not subject to the EU Savings Tax Directive. However, in keeping with Jersey's policy of constructive international engagement and in line with steps taken by other relevant third countries and territories, the States of Jersey introduced with effect from 1st July, 2005 a retention tax system in respect of payments of interest, or other similar income, made to an individual beneficial owner resident in an EU Member State by a paying agent established in Jersey (the terms "beneficial owner" and "paying agent" are defined in the EU Savings Tax Directive). The retention tax system will apply for a transitional period prior to the implementation of a system of automatic information exchange with EU member states regarding such payments. During the transitional period, an individual beneficial owner resident in an EU member state who does not wish interest payments to be subject to the retention tax system is entitled to request a paying agent not to retain tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the EU Member State in which the beneficial owner is resident.

The transitional period will end only after all EU member states and other relevant third countries and territories have agreed to automatic exchange of information and the EU member states unanimously agree that the United States of America has committed to exchange of information upon request as defined in the 2002 OECD Model Agreement on Exchange of Information on Tax Matters.

The retention tax system and the disclosure arrangements are implemented by means of bilateral agreements with each of the EU member states, the Taxation (Agreements with European Union Member States) (Jersey) Regulations 2005 and Guidance Notes issued by the Policy & Resources Committee of the States of Jersey.

In August 2013, the Council of Ministers of the States of Jersey announced that it would ask the States of Jersey to make Regulations that will make it mandatory, from 1 January 2015, for Jersey to automatically exchange tax information for EU bilateral savings tax agreements, and that will repeal the present retention tax provisions.

It is the opinion of Mourant Ozannes, our Jersey (Channel Islands) tax counsel, that the mortgages trustee is resident in Jersey for taxation purposes and will be liable to income tax in Jersey at a rate of 0 per cent. in respect of the profits it makes from acting as trustee of the mortgages trust. The mortgages trustee will not be liable for any income tax in Jersey in respect of any income it receives in its capacity as mortgages trustee on behalf of the beneficiaries of the mortgages trust.

## ERISA CONSIDERATIONS

Certain Rule 144A notes specified in the final terms will be eligible for purchase by employee benefit plans and other plans subject to the U.S. Employee Retirement Income Security Act of 1974, as amended (**ERISA**), and/or the provisions of Section 4975 of the Code and by governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and foreign plans (as defined in Section 4(b)(4) of ERISA) that are subject to state, local or other federal law of the United States or foreign law that is substantially similar to Title I of ERISA or Section 4975 of the Code, subject to consideration of the issues described in this section. ERISA imposes certain requirements on **employee benefit plans** (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, **ERISA Plans**) and on those persons who are fiduciaries with respect to ERISA Plans. The class A Rule 144A notes, the class B Rule 144A notes, the class M Rule 144A notes and the class C Rule 144A notes will be eligible for purchase by entities using assets of ERISA Plans (**ERISA-eligible notes**) unless otherwise set forth in the applicable final terms. The ERISA-eligibility of the class D Rule 144A notes will be set forth in the applicable final terms. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirements of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed under "**Risk factors**" and the fact that in the future there may be no market in which such fiduciary will be able to sell or otherwise dispose of the ERISA-eligible notes.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, the **Plans**)) and certain persons (referred to as **parties in interest** or **disqualified persons**) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The seller, the issuer, the servicer, the mortgages trustee, Funding 1 or any other party to the transactions contemplated by the transaction documents may be parties in interest or disqualified persons with respect to many Plans. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any of the ERISA-eligible notes is acquired or held by a Plan with respect to which the issuer, the servicer, the mortgages trustee, Funding 1 or any other party to such transactions is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire any such ERISA-eligible notes and the circumstances under which such decision is made. Included among these exemptions are Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code (relating to certain transactions between a plan and a non-fiduciary service provider), Prohibited Transaction Class Exemption (**PTCE**) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a qualified professional asset manager), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by in-house asset managers). There can be no assurance that any of these class exemptions or any other exemption will be available with respect to any particular transaction involving any ERISA-eligible notes.

Each purchaser and subsequent transferee of any ERISA-eligible note will be deemed by such purchase or acquisition of any such note to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such note through and including the date on which the purchaser or transferee disposes of such note, either that: (A) it is not a Plan or an entity whose underlying assets include the assets of any Plan or a governmental, church or foreign plan which is subject to any federal, state or local law of the United States or foreign law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code; or (B) its acquisition, holding and disposition of such note will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental, church or foreign plan, any substantially similar federal, state or local law of the United States or foreign law) for which an exemption is not available.

In addition, the U.S. Department of Labor has promulgated a regulation, 29 C.F.R. Section 2510.3-101, as modified by section 3(42) of ERISA (the **Plan Asset Regulation**), describing what constitutes the assets of a Plan with respect to the Plan's investment in an entity for purposes of certain provisions of

ERISA, including the fiduciary responsibility provisions of Title I of ERISA, and Section 4975 of the Code. Under the Plan Asset Regulation, if a Plan invests in an equity interest of an entity that is neither a publicly-offered security nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless one of the exceptions to such treatment described in the Plan Asset Regulation applies. Under the Plan Asset Regulation, a security which is in debt form may be considered an equity interest if it has substantial equity features. If the issuer were deemed under the Plan Asset Regulation to hold plan assets by reason of a Plan's investment in any of the ERISA-eligible notes, such plan assets would include an undivided interest in the assets held by the issuer and transactions by the issuer would be subject to the fiduciary responsibility provisions of Title I of ERISA and the prohibited transaction provisions of ERISA and Section 4975 of the Code. The Plan Asset Regulation provides, however, that if equity participation in any entity by "Benefit Plan Investors" is not significant, then the "look-through" rule will not apply to such entity. The term "Benefit Plan Investors" is defined in the Plan Asset Regulation, as modified by Section 3(42) of ERISA, to include: (1) any employee benefit plan (as defined in Section 3(3) of ERISA) subject to Title I of ERISA; (2) any plan described in Section 4975(e)(1) of the Code to which Section 4975 applies; and (3) any entity whose underlying assets include "plan assets" by reason of any such plan's investment in the entity. Equity participation by Benefit Plan Investors in any entity is significant if, immediately after the most recent acquisition of any equity interest in the entity, 25 per cent. or more of the value of any class of equity interests in the entity (excluding the value of any interests held by certain persons, other than Benefit Plan Investors, exercising control over the assets of the entity or providing investment advice to the entity for a fee or any affiliates of such persons) is held by Benefit Plan Investors.

There is little pertinent authority in this area and securities may change character from debt to equity over time due to changing circumstances. Fiduciaries of Plans considering the purchase of ERISA-eligible notes should consult their counsel in this regard. As noted above, it is expected that the class A notes, the class B notes and the class M notes, when issued, will be treated as debt for U.S. federal income tax purposes and, thus, will not constitute "equity interests". There is less certainty that the class C notes will be treated as debt for U.S. federal income tax purposes. If any class C notes are specified to be ERISA-eligible in the applicable final terms, no measures will be taken to restrict investment in such class C notes by Benefit Plan Investors. As noted above, the ERISA-eligibility of the class D notes and the class Z notes will be as set forth in the applicable final terms.

Any insurance company proposing to purchase any of the ERISA-eligible notes using the assets of its general account should consider the extent to which such investment would be subject to the requirements of ERISA in light of the U.S. Supreme Court's decision in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank* and under any subsequent guidance that may become available relating to that decision. In particular, such an insurance company should consider the retroactive and prospective exemptive relief granted by the Department of Labor for transactions involving insurance company general accounts in PTCE 95-60, 60 Fed. Reg. 35925 (12 July 1995), the enactment of Section 401(c) of ERISA by the Small Business Job Protection Act of 1996 (including, without limitation, the expiration of any relief granted thereunder) and the Insurance Company General Account Regulations, 65 Fed. Reg. No. 3 (5 January 2000) (codified at 29 C.F.R. pt. 2550) that became generally applicable on 5 July 2001.

Each Plan fiduciary who is responsible for making the investment decisions whether to purchase or commit to purchase and to hold any of the ERISA-eligible notes should determine whether, under the documents and instruments governing the Plan, an investment in such notes is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio and liquidity needs in view of the Plan's benefit obligations. Any Plan proposing to invest in such notes (including any governmental, church or foreign plan) should consult with its counsel to confirm that such investment will not result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA and the Code (or, in the case of a governmental, church or foreign plan, any substantially similar state, local or other federal law of the United States or foreign law).

The sale of any ERISA-eligible notes to a Plan is in no respect a representation by the seller, the issuer, the servicer, the mortgages trustee, Funding 1 or any other party to the transactions that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.



## UNITED STATES LEGAL INVESTMENT CONSIDERATIONS

None of the notes will constitute “mortgage related securities” under the United States Secondary Mortgage Market Enhancement Act of 1984, as amended.

No representation is made as to the proper characterisation of the notes for legal investment purposes, financial institutional regulatory purposes, or other purposes, or as to the ability of particular investors to purchase the notes under applicable legal investment restrictions. These uncertainties may adversely affect the liquidity of the notes. Accordingly, all institutions whose investment activities are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult with their legal advisers in determining whether and to what extent the notes constitute legal investments or are subject to investment, capital or other restrictions.

Any money market notes of the issuer (as detailed in the final terms) will be “Eligible Securities” within the meaning of Rule 2a-7 under the Investment Company Act. Money market notes designated as remarketable notes in the relevant final terms will be sold subject to **condition 5.8**, which provides for mandatory transfer on each note mandatory transfer date in respect of the period up to and including the first mandatory transfer date. Thereafter, if a remarketing termination event has not occurred, it is expected that the remarketable notes will be “Eligible Securities” within the meaning of Rule 2a-7 in respect of the period up to and including the next following mandatory transfer date if the eligibility requirements of Rule 2a-7 remain unchanged.

## SUBSCRIPTION AND SALE

Each of the **initial dealer**, the managers and any **other dealers** appointed from time to time (together, the **dealers**) in accordance with the programme agreement dated the closing date (as amended from time to time) have agreed with the issuer a basis upon which such dealers or any of them may from time to time agree to purchase the notes. The issuer may pay the dealers a commission and a fee from time to time in connection with the sale of any notes. In the programme agreement, the issuer has agreed to reimburse and indemnify the dealers for certain of their expenses and liabilities in connection with the establishment and any future update of the programme and the issue of the notes under the programme. The dealers are entitled to be released and discharged from their obligations in relation to any agreement to issue and purchase the notes under the programme agreement in certain circumstances prior to the payment to the issuer.

### United Kingdom

Each dealer has represented and agreed and each further dealer appointed under the programme agreement will be required to represent and agree that:

- in relation to any notes which have a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the notes would otherwise constitute a contravention of Section 19 of the FSMA by the issuer;
- 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
- 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 the securities laws of any state of the United States or other relevant jurisdiction and may not be offered or sold, directly or indirectly, within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the notes are being offered hereby only (a) in the United States (or to U.S. persons outside the United States) to QIBs in reliance on Rule 144A and (b) to non-U.S. persons in transactions outside the United States in reliance on Regulation S.

In connection with any Reg S notes, each dealer has agreed, and each further dealer appointed under the programme agreement will be required to agree, that with respect to the relevant Reg S notes for which it has subscribed that it will not offer, or sell or deliver the Reg S notes (or any beneficial interest in a Reg S global note): (a) as part of its distribution at any time; or (b) otherwise until 40 days after the later of the commencement of the offering of the Reg S notes and the closing date (the **distribution compliance period**) within the United States or to, or for the account or benefit of, U.S. persons. Each dealer has further agreed, and each further dealer appointed under the programme agreement will be required to agree, that it will have sent to each distributor, dealer or person receiving a selling commission, fee or other remuneration that purchases Reg S notes from it during the distribution compliance period (other than resales pursuant to Rule 144A) a confirmation or other notice setting forth the restrictions on offers and sales of the Reg S notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Reg S.

Until the expiration of the distribution compliance period, an offer or sale of the Reg S notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers may arrange for the resale of notes to QIBs pursuant to Rule 144A and each such purchaser of notes is hereby notified that the dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. To permit compliance with Rule 144A in connection with any resales or other transfers of notes that are "restricted securities" within the meaning of the Securities Act, the issuer has undertaken in the note trust deed to furnish, upon the request of a holder of such notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the notes remain outstanding as "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act and the issuer is neither a reporting company under Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

This base prospectus has been prepared by the issuer for use in connection with the offer and sale of the notes outside the United States pursuant to Reg S and for the sale of the notes in the United States pursuant to Rule 144A. The issuer and the dealers reserve the right to reject any offer to purchase the notes, in whole or in part, for any reason. This base prospectus does not constitute an offer to any person in the United States or to any U.S. person, other than any QIB within the meaning of Rule 144A to whom an offer has been made directly by one of the dealers or its U.S. broker-dealer affiliate. Distribution of this base prospectus by any non-U.S. person outside the United States or by any QIB in the United States to any U.S. person or to any other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB, is prohibited.

Each dealer has acknowledged that the Reg S notes and any Rule 144A notes that are not ERISA-eligible notes are not designed for, and may not be purchased or held by, any "employee benefit plan" as defined in Section 3(3) of ERISA, which is subject thereto, or any "plan" as defined in Section 4975 of the Code to which Section 4975 applies, or by any person any of the assets of which are, or are deemed for purposes of ERISA or Section 4975 of the Code to be, assets of such an "employee benefit plan" or "plan" and each purchaser of such note will be deemed to have represented, warranted and agreed that it is not, and for so long as it holds such note will not be, such an "employee benefit plan", "plan" or person.

Further, in connection with any notes which are offered or sold in the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Rule 144A, each dealer has represented and agreed, and each dealer appointed under the programme agreement will be required to represent and agree, that:

- (a) offers, sales, resales and other transfers of notes made in the United States made or approved by a dealer (including offers, resales or other transfers made or approved by a dealer in connection with secondary trading) shall be effected pursuant to an exemption from the registration requirements of the Securities Act;
- (b) offers, sales, resales and other transfers of notes made in the United States will be made only in private transactions to institutional investors that are reasonably believed to qualify as QIBs;
- (c) no general solicitation or general advertising within the meaning of Rule 502(c) under the Securities Act will be used in connection with the offering of the notes in the United States;
- (d) no sale of notes in the United States to any one QIB will be for less than \$100,000 principal amount or its equivalent rounded upwards and no note will be issued in connection with such a sale in a smaller principal amount. If such purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least \$100,000 principal amount of the notes; and
- (e) it may resell the Rule 144A notes in the United States only if such dealer is a registered broker-dealer in the United States or through its selling agent which is a registered broker-dealer in the United States in compliance with the Exchange Act.

## **Australia**

This document and the offer is only made available in Australia to persons to whom a disclosure document is not required to be given under Chapter 6D of the Australian Corporations Act 2001 (Cth) (**Australian Corporations Act**). This document is not a prospectus, product disclosure statement or any other form of formal "disclosure document" for the purposes of the Australian Corporations Act, and is not required to, and does not, contain all the information which would be required in a disclosure document under the Australian Corporations Act. If you are in Australia, this document is made available to you provided you are a person to whom an offer of securities can be made without a disclosure document such

as a professional investor or sophisticated investor for the purposes of Chapter 6D of the Australian Corporations Act.

This document has not been and will not be lodged or registered with the Australian Securities and Investments Commission or ASX or any other regulatory body or agency in Australia.

The persons referred to in this document may not hold Australian financial services licences and may not be licensed to provide financial product advice in relation to the securities. No "cooling-off" regime will apply to an acquisition of any interest in the issuer.

This document does not take into account the investment objectives, financial situation or needs of any particular person. Accordingly, before making any investment decision in relation to this document, you should assess whether the acquisition of any interest in the issuer is appropriate in light of your own financial circumstances or seek professional advice.

Any notes issued upon acceptance of an offer may not be offered for sale or transferred to any person located in, or a resident of, Australia for a period of at least 12 months after the issue, except in circumstances where the person is a person to whom a disclosure document is not required to be given under Chapter 6D or of the Australian Corporations Act. Accordingly, each investor acknowledges these restrictions and, by applying for the securities under this document, gives an undertaking not to sell these notes (except in the circumstances referred to above) for 12 months after their issue.

## **Japan**

The notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**). Each dealer has represented and agreed that it will not offer or sell any notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

## **Notice to investors in the European Economic Area (EEA)**

Each dealer has represented and agreed that the notes have not been and will not be offered, sold or publicly promoted or advertised by it in any Member State of the European Economic Area (**EEA**) which has implemented the Prospectus Directive (each, a **Relevant Member State**) other than in compliance with the Prospectus Directive or any other laws applicable in the EEA governing the issue, offering and sale of securities.

No action has been taken, or will be taken, in any Relevant Member State to permit an offer to the public of any of the notes in that Relevant Member State. Accordingly, the notes are not being (and will not be) offered and will not be allocated to any person in the EEA other than:

(a) to qualified investors as defined in the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of a dealer for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes shall result in a requirement for the publication by the issuer or any dealer of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement to a base prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any notes in any Relevant Member State means the communication to persons in any form and by any means, presenting sufficient information on the terms of the offer and the notes to be offered, so as to enable an investor to decide to purchase or subscribe to these notes, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measures in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

## Italy

Unless it is specified within the relevant final terms that a non-exempt offer may be made in Italy, the offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this base prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (**Regulation No. 11971**); or
- (ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of this base prospectus or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (**the Italian Banking Act**);
- (b) in compliance with Article 129 of the Italian Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

## France

Each dealer will represent and agree that it has not offered or sold and will not offer or sell, directly or indirectly, the notes to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the base prospectus, the relevant final terms or any other offering material relating to the notes, and that such offers, sales and distributions have been and will be made in France only to (i) providers of investment services relating to portfolio management for the account of third parties, and/or (ii) qualified investors (*investisseurs qualifiés*) other than individuals, all as defined in, and in accordance with, articles L.411-1, L.411-2, and D.411-1 to D.411-3 of the French *Code monétaire et financier*.

This base prospectus prepared in connection with the issue of notes has not been submitted to the clearance procedures of the Autorité des marchés financiers.

## Canada

The notes will not be qualified for sale under the securities laws of any province or territory of Canada. Each dealer will represent and agree, that it has not offered, sold or distributed and will not offer, sell or distribute any notes, directly or indirectly, in Canada or to or for the benefit of any resident of Canada, other than in compliance with applicable securities laws. Each dealer will also represent and agree that it has not and will not distribute or deliver the base prospectus, or any other offering material in connection with any offering of notes in Canada, other than in compliance with applicable securities laws.

## General

Except for the listing of the notes during a period of 12 months from the date of this base prospectus on the Official List, and the admission to trading of the notes on the Main Securities Market, no action is being taken by the issuer or the dealers in any jurisdiction which would or is intended to permit a public offering of the notes or the possession, circulation or distribution of this base prospectus or any other material relating to the issuer or the notes in any country or jurisdiction where action for that purpose is required.

This base prospectus does not constitute, and may not be used for the purposes of, an offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised. Accordingly, notes may not be offered or sold, directly or indirectly, and neither this base prospectus nor any other prospectus, form of application, advertisement or other offering material in connection with the notes may be distributed in or from or published in any country or jurisdiction except under circumstances which will result in compliance with applicable laws and regulations of any such country or jurisdiction.

The dealers have represented and agreed, and each dealer appointed under the programme agreement will be required to represent and agree, that they have complied, and will comply, with all applicable laws and regulations in force in any jurisdiction in which they purchase, offer, sell or deliver the notes or possess them or distribute this base prospectus or any part thereof, and the issuer shall have no responsibility for such activities by the dealers. Furthermore, the dealers, and each dealer appointed under the programme agreement, will not directly or indirectly offer, sell or deliver any of the notes or distribute or publish this base prospectus or any prospectus, form of application, offering document, advertisement or other offering material in connection with the notes except under circumstances that will, to the best of their knowledge and belief, result in compliance with all applicable laws and regulations, and all offers, sales and deliveries of the notes by them will be made on the same terms.

Neither the issuer nor the dealers represent that the notes may at any time lawfully be sold in compliance with any application, registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assume any responsibility for facilitating such sale.

With regard to the issue of each series and class of notes, the relevant dealers will be required to comply with such other additional or modified restrictions (if any) as the issuer and the dealers shall agree.

The dealers will, unless prohibited by applicable law, furnish to each person to whom they offer or sell notes, a copy of this base prospectus as then amended or supplemented or, unless delivery of this base prospectus is required by applicable law, inform each such person that a copy will be made available upon request. The dealers are not authorised to give any information or to make any representation not contained in this base prospectus in connection with the offer and sale of notes to which this base prospectus relates.

This base prospectus and the final terms may be used by the dealers for offers and sales related to market making transactions in the notes. All or any one of the dealers may act as principal or agent in these transactions. These sales will be made at prices relating to prevailing market prices at the time of sale. None of the dealers has any obligation to make a market in the notes, and any market making may be discontinued at any time without notice.

Santander UK may purchase any of the notes from time to time as specified in the applicable final terms.

## TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS

### Offers and sales by the initial purchasers

The notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States, and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons except pursuant to an effective registration statement or in accordance with an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any other applicable laws. Accordingly, the notes (and any interests therein) will only be offered and sold (i) in the case of the Rule 144A notes, in the United States to QIBs in transactions exempt from the registration requirements of the Securities Act pursuant to Rule 144A and in accordance with any state securities law and (ii) in the case of the Reg S notes, outside the United States to non-U.S. persons in compliance with Reg S.

The Reg S global notes may be transferred only to another common depository or common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg and the Rule 144A global notes may be transferred only to another custodian for DTC or DTC's nominee.

On or prior to the expiration of the distribution compliance period, ownership of interests in Reg S global notes will be limited to persons who have accounts with Euroclear or Clearstream, Luxembourg, or persons who hold interests through Euroclear or Clearstream, Luxembourg, and any sale or transfer of such interests to U.S. persons shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A as provided below.

### Investors' representations and restrictions on resale

Each purchaser of the notes (which term for the purposes of this section will be deemed to include any purchaser of beneficial interests in the notes, including interests represented by a global note and book-entry interests) will be deemed to have represented and agreed as follows:

- (1) (A) in the case of the Rule 144A global notes, it is a QIB and is acquiring such notes for its own account or as a fiduciary or agent for others (which others must also be QIBs) for investment purposes and not for distribution in violation of the Securities Act, it is able to bear the economic risk of an investment in the Rule 144A notes and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of purchasing the notes and it is aware, and each beneficial owner of the notes has been advised, that the sale of such notes is being made in reliance on Rule 144A; or (B) in the case of the Reg S global notes, it is not a U.S. person (within the meaning of Reg S) or an affiliate of the issuer or a person acting on behalf of such an affiliate and is acquiring such notes for its own account or as a fiduciary or agent for other non-U.S. persons in an offshore transaction (as defined in Reg S, an **offshore transaction**) pursuant to an exemption from registration provided by Reg S;
- (2) such notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act and such notes have not been and will not be registered under the Securities Act or any other applicable U.S. 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 except as set forth below;
- (3) unless it holds an interest in a Reg S note and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the notes or any beneficial interests in the notes, it will do so, prior to the date which is one year after the later of the last closing date for the series of notes and the last date on which the issuer or an affiliate of the issuer was the owner of such notes, only (a) to the issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;
- (4) it will, and will require each subsequent holder to, notify any purchaser of the notes from it of the resale restrictions referred to in paragraph (3) above, if then applicable;

- (5) each purchaser and subsequent transferee of any ERISA-eligible note will be deemed by such purchase or acquisition of any such note to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such note through and including the date on which the purchaser or transferee disposes of such note, either that (A) it is not a Plan or an entity whose underlying assets include the assets of any Plan or a governmental, church or foreign plan which is subject to any federal, state or local law of the United States or foreign law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (B) its acquisition, holding and disposition of such note will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental, church or foreign plan, any substantially similar federal, state or local law of the United States or foreign law) for which an exemption is not available;
- (6) each purchaser and subsequent transferee of any Reg S note or any Rule 144A note that is not an ERISA-eligible note will be deemed by such purchase or acquisition of any such note to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such note through and including the date on which the purchaser or transferee disposes of such note, that it is not and will not be a Plan and that in purchasing and holding such note it is not and will not be acting on behalf of a Plan or using assets of a Plan;
- (7) it understands that the notes offered in reliance on Rule 144A will be represented by the Rule 144A global notes. Before any interest in the Rule 144A global note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Reg S global note, it will be required to provide a transfer agent with a written certification (in the form provided in the note trust deed) as to compliance with applicable securities laws;
- (8) it also understands that the notes offered in reliance on Reg S will be represented by the Reg S global notes. Before any interest in the Reg S global note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A global note, it will be required to provide a transfer agent with a written certification (in the form provided in the note trust deed) as to compliance with applicable securities laws;
- (9) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the notes prior to the expiration of the distribution compliance period, it will do so only (a)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. State securities laws, and it acknowledges that the Reg S notes will bear a legend to the following effect unless otherwise agreed to by the issuer:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND, AS A MATTER OF U.S. LAW (1) AS PART OF THEIR DISTRIBUTION AT ANY TIME OR (2) PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES AND THE CLOSING DATE, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN OR INTO THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING OR ACCEPTING THIS NOTE, AGREES FOR THE BENEFIT OF THE ISSUER AND THE MANAGERS OF THE OFFERING OF THE NOTES OUTSIDE THE UNITED STATES THAT NO PART OF THE ASSETS USED TO PURCHASE THIS NOTE CONSTITUTES ASSETS OF ANY EMPLOYEE BENEFIT PLAN, OTHER PLAN OR INDIVIDUAL RETIREMENT ACCOUNT SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, OR SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED";

- (10) the notes in registered form, other than the Reg S notes, will bear a legend to the following effect unless otherwise agreed to by the issuer:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES



OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE SUBSCRIPTION AGREEMENT AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE LAST CLOSING DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; (C) WITH RESPECT TO THE NOTES SPECIFIED IN THE APPLICABLE FINAL TERMS TO BE ERISA-ELIGIBLE, AGREES FOR THE BENEFIT OF THE ISSUER AND THE MANAGERS OF THE OFFERING OF THE NOTES OUTSIDE THE UNITED STATES THAT IT WILL OFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE, ONLY TO A PURCHASER WITH RESPECT TO WHOM (X) NO PART OF THE ASSETS USED TO PURCHASE THIS NOTE CONSTITUTES ASSETS OF ANY EMPLOYEE BENEFIT PLAN, OTHER PLAN OR INDIVIDUAL RETIREMENT ACCOUNT SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**), OR SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **CODE**) OR A GOVERNMENTAL, CHURCH OR FOREIGN PLAN SUBJECT TO FEDERAL, STATE, LOCAL OR FOREIGN LAWS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (**SIMILAR LAW**), OR (Y) PART OR ALL OF THE ASSETS USED TO PURCHASE THIS NOTE CONSTITUTE ASSETS OF AN EMPLOYEE BENEFIT PLAN, OTHER PLAN OR INDIVIDUAL RETIREMENT ACCOUNT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE OR A GOVERNMENTAL, CHURCH OR FOREIGN PLAN IF AND ONLY IF THE USE OF SUCH ASSETS WILL NOT CONSTITUTE, CAUSE OR RESULT IN THE OCCURRENCE OF A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF ANY SIMILAR LAW PROVIDED THAT THE AGREEMENT OF THE HOLDER HEREOF IS SUBJECT TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF THE PURCHASER'S PROPERTY SHALL AT ALL TIMES BE AND REMAIN WITHIN ITS CONTROL. IF THE NOTE REPRESENTED HEREBY IS NOT SPECIFIED IN THE APPLICABLE FINAL TERMS AS ERISA-ELIGIBLE, THE HOLDER HEREOF, BY PURCHASING OR ACCEPTING THIS NOTE, AGREES FOR THE BENEFIT OF THE ISSUER AND THE MANAGERS OF THE OFFERING OF THE NOTES THAT NO PART OF THE ASSETS USED TO PURCHASE THIS NOTE CONSTITUTES ASSETS OF ANY EMPLOYEE BENEFIT PLAN, OTHER PLAN OR INDIVIDUAL RETIREMENT ACCOUNT SUBJECT TO TITLE I OF ERISA, OR SECTION 4975 OF THE CODE, AS AMENDED; AND (D) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

THIS NOTE AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES UNDERTAKEN OR REPRESENTED BY THE HOLDER, FOR REALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OR RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS NOTE AND ANY BENEFICIAL OWNER OF ANY INTEREST HEREIN SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS NOTE AND ANY NOTES ISSUED IN EXCHANGE OR SUBSTITUTION HEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON) AND AGREES TO TRANSFER THIS NOTE ONLY IN ACCORDANCE WITH ANY SUCH AMENDMENT OR

SUPPLEMENT IN ACCORDANCE WITH APPLICABLE LAW IN EFFECT AT THE DATE OF SUCH TRANSFER. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE"; and

- (11) it understands that the issuer, the registrar, the dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any notes for the account of one or more QIBs it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Prospective purchasers are hereby notified that sellers of the notes may be relying on the exemptions from the provisions of Section 5 of the Securities Act provided by Rule 144A.

*Because of the foregoing restrictions, purchasers of notes are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such securities offered and sold.*

## LISTING AND GENERAL INFORMATION

### Authorisation

The update of the programme and the issue of each series of notes from time to time has been authorised by resolution of the board of directors of the issuer passed on 6 October 2014.

### Listing of notes

Application will be made to the Irish Stock Exchange, for the notes issued under the programme (other than notes which are to be unlisted or any non-ISE listed notes) during the period of 12 months from the date of this base prospectus to be admitted to the Official List. Application will also be made to the Irish Stock Exchange for each such class of the notes to be admitted to trading on the Irish Stock Exchange's Main Securities Market. Admission to the Official List together with admission to the Irish Stock Exchange's Main Securities Market (being a regulated market for the purposes of Directive 2004/39/EC (the **MIFID**)) constitute official listing on the Irish Stock Exchange. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the issuer in relation to the notes and is not itself seeking admission of the notes to the Official List of the Irish Stock Exchange or to trading on the regulated market of the Irish Stock Exchange for the purposes of the Prospectus Directive.

It is expected that each issue, series and class (or sub-class) of notes which is to be admitted to the Official List and to trading on the Irish Stock Exchange's Main Securities Market will be admitted separately, as and when issued, subject only to the issue of a global note or notes initially representing the notes of each issue, series and class (or sub-class) and to making the final terms relating to the notes available to the public in accordance with the EU Directive 2003/71/EC (the **Prospectus Directive**) and associated Irish and EU implementing legislation.

This base prospectus has been prepared in compliance with the Irish and EU law pursuant to the Prospectus Directive.

The issuer accepts responsibility for the information contained in this base prospectus. To the best of the knowledge of the issuer (who has taken all reasonable care to ensure that such is the case) the information contained in this base prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. The issuer accepts responsibility accordingly.

### Clearing and settlement

Transactions in respect of the Rule 144A notes will normally be effected for settlement in U.S. dollars and for delivery on the third working day after the date of the transaction. Prior to listing, however, dealings will be permitted by the Irish Stock Exchange in accordance with its rules.

The Rule 144A notes have been accepted for clearance through DTC, Clearstream, Luxembourg and Euroclear. The appropriate CUSIP numbers, common codes and ISINs for each series and class of notes will be specified in the applicable final terms.

### Litigation

As at the date of this base prospectus, none of the issuer, Funding 1, Holdings or the mortgages trustee is or has been involved in the preceding 12 calendar months in any governmental, legal or arbitration proceedings or enforcement proceedings (including any such proceedings which are pending or threatened of which the issuer, Funding 1, Holdings or the mortgages trustee is aware), which may have or have had in the recent past a significant effect upon the financial position or profitability of the issuer, Funding 1, Holdings or the mortgages trustee (as the case may be).

As at the date of this base prospectus, there are no legal or arbitration proceedings pending (or known by Santander UK to be contemplated by governmental authorities) against Santander UK or in which any property of Santander UK is the subject, that is material to holders of the notes (see "**Santander UK**").

### Accounts

Statutory accounts to 31 December 2013 within the meaning of the Companies Act 2006 (as amended) have been prepared by the issuer and Funding 1.

So long as the notes are listed on the Official List and are trading on the Main Securities Market, the audited annual accounts for the last two financial years of the issuer and Funding 1 from time to time shall be made available for inspection (i) at the specified office of the principal paying agent in London during usual business hours, on any weekday (public holidays excepted) in hard copy and (ii) via the following website:

<http://www.santander.co.uk/uk/about-santander-uk/investor-relations/fosse-master-trust>. Neither the issuer nor Funding 1 publishes interim accounts.

The audited financial statements of the issuer and Funding 1 are prepared in accordance with IFRS as adopted for use in the European Union. In addition to complying with the legal obligation to comply with IFRS as adopted in the European Union, the issuer and Funding 1 also comply with the IFRS as issued by the International Accounting Standard Board.

Since the date of its incorporation, neither the issuer nor Funding 1 has entered into any contracts or arrangements not being in the ordinary course of business.

### **Significant or material change**

Since 31 December 2013 (being the date of the issuer's most recent audited financial statements) and 31 December 2013 (being the date of Funding 1's most recent audited financial statements), there has been (1) no material adverse change in the financial position or prospects of the issuer or Funding 1 and (2) no significant change in the financial or trading position of the issuer or Funding 1.

### **Monthly investor reports**

Copies of monthly investor reports, which will include, among other things, information on the loans and payments in arrears, loan-to-value analysis in respect of the loans and recent values of the portfolio, will be made available, from the date of this base prospectus as long as any series and class (or sub-class) of notes issued by the issuer remains outstanding (including during the period while the base prospectus is valid and the notes are listed on the Main Securities Market), and can be accessed via the following website: <http://www.santander.co.uk/uk/about-santander-uk/investor-relations/fosse-master-trust>. The information provided in such reports will be updated monthly.

All defined terms used in the monthly investor reports have the meanings given to them in the Glossary set out in this base prospectus, unless otherwise defined in such monthly investor reports.

### **Bank of England information**

In order to comply with the Bank of England's Market Notice dated 30 November 2010 in respect of its eligibility requirements for residential mortgage backed securities, the following information in respect of the programme is made available to investors, potential investors and certain other market professionals acting on their behalf via a secure website (which can be accessed at: <https://boeportal.co.uk/santanderuk>):

- anonymised loan-level data (provided at least quarterly);
- transaction summary listing key features of the programme;
- a link to all material transaction documents; and
- a waterfall cash flow model, representing how cash is applied through the “waterfall” given the priority of payments.

The information listed above, is, from the date of this base prospectus as long as any series and class (or sub-class) of notes remain outstanding (including during the period while the base prospectus is valid and the notes are listed on the Irish Stock Exchange's Main Securities Market), made available to investors, potential investors and certain other market professionals acting on their behalf via a secure website (which can be accessed at: <https://boeportal.co.uk/santanderuk>). For the avoidance of doubt, such information will be made available, in each case, prior to the issue date of a series and class (or sub-class) of notes issued after the date of this base prospectus and, once made available, such information will be updated on a periodic basis.

### **Documents available**

Copies of the documents listed below, may, from the date of this base prospectus as long as any series and class (or sub-class) of notes remain outstanding (including during the period while the base prospectus is valid and the notes are listed on the Main Securities Market), when published, be (i) inspected at the registered office of the issuer and from the specified office of the principal paying agent during usual business hours, on any weekday (public holidays excepted) and (ii) accessed via the following website: <http://www.santander.co.uk/uk/about-santander-uk/investor-relations/fosse-master-trust>.

1. the memorandum and articles of association of each of the issuer, Funding 1, Holdings and the mortgages trustee;
2. a copy of the base prospectus and the related final terms;
3. any future offering circulars, prospectuses, information memoranda and including final terms (as applicable) (save that a final terms relating to an unlisted series and class of notes will be

available for inspection only by the dealers and managers as specified in the final terms or, upon proof satisfactory to the principal paying agent or the registrar, as the case may be, as to the identity of the holder of any note to which the final terms relates) to the base prospectus and any other documents incorporated therein or therein by reference;

4. each of the following documents:

- the cash management agreement;
- each conditional purchase agreement;
- the controlling beneficiary deed;
- the corporate services agreement;
- the Funding 1 bank account agreement;
- the Funding 1 deed of charge (and each deed supplemental thereto);
- each Funding 1 deed of charge deed of accession;
- each Funding 1 start-up loan agreement;
- the Funding 1 swap agreement;
- the intercompany loan agreement;
- the issuer bank account agreement;
- the issuer cash management agreement;
- the issuer corporate services agreement;
- the issuer deed of charge (and each deed supplemental thereto);
- each issuer deed of charge deed of accession;
- the issuer master definitions and construction schedule;
- each issuer swap agreement and any related issuer swap guarantees;
- each loan tranche supplement;
- the master definitions and construction schedule;
- the mortgage sale agreement;
- the mortgages trust deed;
- the mortgages trustee bank account agreement;
- the mortgages trustee corporate services agreement;
- the note trust deed (and each deed supplemental thereto);
- the paying agent and agent bank agreement;
- the programme agreement;
- each remarketing agreement;
- each Scottish declaration of trust;
- the secretarial services agreement;
- the servicing agreement;
- each subscription agreement; and
- any other deeds of accession or supplemental deeds relating to any such documents and any other agreement or document from time to time designated as such by the issuer and the note trustee and/or the issuer security trustee and/or the Funding 1 security trustee.

The issuer confirms that the loans backing the loan tranches outstanding under the intercompany loan agreement and the loan tranches outstanding under the intercompany loan agreement backing the notes, taken together with the other arrangements entered into by the issuer on the initial closing date and subsequent closing dates pursuant to the transaction documents, have the characteristics that demonstrate capacity to produce funds to service any payments due and payable on the notes. This confirmation is based on the information available to the issuer as at the date of this base prospectus and may be affected by the future performance of such assets backing the notes. Consequently you are advised to review carefully any disclosure in the base prospectus together with any amendments or supplements thereto.

## GLOSSARY

<b>\$, U.S.\$, U.S. dollars and dollars</b>	the lawful currency for the time being of the United States of America
<b>€, euro and Euro</b>	the single currency introduced at the third stage of European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended from time to time
<b>£, pounds and sterling</b>	the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland
<b>1970 Act</b>	the Conveyancing and Feudal Reform (Scotland) Act 1970, as amended
<b>1999 Regulations</b>	the Unfair Terms in Consumer Contracts Regulations 1999, as amended
<b>A loan tranches</b>	the loan tranches made by the issuer to Funding 1 under the intercompany loan agreement from the proceeds of issue of any series of class M notes
<b>AA loan tranches</b>	the loan tranches made by the issuer to Funding 1 under the intercompany loan agreement from the proceeds of issue of any series of class B notes
<b>AAA loan tranches</b>	the loan tranches made by the issuer to Funding 1 under the intercompany loan agreement from the proceeds of issue of any series of class A notes
<b>A principal deficiency sub-ledger</b>	a sub-ledger on the principal deficiency ledger which specifically records any principal deficiency in respect of any A loan tranches
<b>AA principal deficiency sub-ledger</b>	a sub-ledger on the principal deficiency ledger which specifically records any principal deficiency in respect of any AA loan tranches
<b>AAA principal deficiency sub-ledger</b>	a sub-ledger on the principal deficiency ledger which specifically records any principal deficiency in respect of any AAA loan tranches or, where the context requires, the comparable ledger for a further Funding company
<b>accrued interest</b>	in respect of a mortgage account on a given date (the relevant date), the interest which has accrued but which is not yet due and payable from and including the last regular interest payment date up to (but excluding) that the relevant date
<b>account bank A</b>	the bank at which the Funding 1 transaction account is maintained from time to time, being, as at the date hereof, The Bank of New York Mellon, acting through its London Branch and thereafter such other authorised entity as Funding 1 may choose with the prior written approval of the issuer security trustee
<b>account bank B</b>	the bank at which the Funding 1 GIC account is maintained from time to time, being, as at the date hereof, Santander UK acting through its office at 21 Prescott Street, London, E1 8AD and thereafter such other authorised entity as Funding 1 may choose with the prior written approval of the issuer security trustee
<b>adjusted general reserve fund level</b>	the sum of: <ul style="list-style-type: none"><li>(a) the amount standing to the credit of the general reserve fund; and</li><li>(b) the amount (if any) then to be credited in accordance with item (b) of the relevant Funding 1 pre-acceleration principal priority of payments</li></ul>
<b>affected cash accumulation loan tranche</b>	the meaning given to it on page 169
<b>agent bank</b>	Citibank, N.A., London branch
<b>Alliance &amp; Leicester</b>	Alliance & Leicester plc

<b>annualised CPR</b>	<p>the result of the calculation <math>1 - ((1 - M)^{12})</math></p> <p>where M is expressed as a percentage and determined as at the most recent trust calculation date as indicated in the definition of “anticipated cash accumulation period” (see “<b>The mortgages trust – Cash management of trust property – principal receipts</b>” above)</p>
<b>anticipated cash accumulation period</b>	<p>the anticipated number of months required to accumulate sufficient principal receipts to pay the relevant accumulation amount, as described further in “<b>The mortgages trust – Cash management of trust property – principal receipts</b>” above</p>
<b>ANTS</b>	<p>Abbey National Treasury Services plc</p>
<b>applicable final terms</b>	<p>in relation to a series and class of notes, the final terms (or the relevant provisions thereof) attached to or endorsed on such notes, as described further in “<b>Terms and conditions of the notes</b>” above</p>
<b>arranger</b>	<p>Barclays Bank PLC</p>
<b>arrears of interest</b>	<p>in respect of a given date, interest and expenses which are due and payable and remain unpaid on that date</p>
<b>arrears or step-up trigger event</b>	<p>(i) when the outstanding principal balance of the loans in arrears for more than 3 times the monthly payment then due divided by the outstanding principal balance of all of the loans in the mortgages trust (expressed as a percentage) exceeds 2 per cent. or (ii) if the issuer fails to exercise its option to redeem any of its notes on the relevant step-up date as specified in the relevant final terms</p>
<b>asset trigger event</b>	<p>will occur when an amount is debited to the AAA principal deficiency sub-ledger of Funding 1 or any further Funding company, unless such debit is made when the sum of the amount standing to the credit of the general reserve ledger, liquidity reserve ledger (if any) and the Funding 1 revenue ledger together with amounts determined and due to be credited to the Funding 1 revenue ledger prior to the immediately following Funding 1 interest payment date after such debit is made, and the amount available under the Funding 1 liquidity facility agreement (if established) is greater than the amount necessary to pay items (a) to (f) of the Funding 1 pre-acceleration revenue priority of payments on the immediately following Funding 1 interest payment date after such debit is made</p>
<b>authorised entity</b>	<p>(a) any entity (i) whose unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1 short-term and A long-term (or, if such entity has no short-term rating from S&amp;P, at least A+ long-term) by S&amp;P, (ii) whose short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least P-1 by Moody's, and (iii) whose short-term and long-term IDR are at least F1 and A (respectively) by Fitch or (b) any other entity approved in writing by the Funding 1 security trustee and/or the issuer security trustee, as applicable, and the rating agencies, in each case being an institution (1) incorporated in the United Kingdom or that is the United Kingdom branch of a foreign bank and (2) with a permission under Part IV of the FSMA that includes accepting deposits under the FSMA</p>
<b>authorised investments</b>	<ul style="list-style-type: none"> <li>• sterling gilt-edged securities provided that in all cases such investments have a maturity date of 90 days or less and mature on or before the next following interest payment date for the notes (in relation to any issuer bank account), Funding 1 interest payment date (in relation to any Funding 1 bank account) or distribution date (in relation to any mortgages trustee bank account) and having (i) a minimum sovereign long-term rating at least equal to AA- and minimum sovereign short-term rating at least equal to A-1+ by Standard &amp; Poor's and (ii) a minimum sovereign long-term rating at least equal to A1 and minimum sovereign short-term rating at least equal to P-1 by Moody's; and</li> </ul>

- (excluding deposits made with eligible banks pursuant to the cash management agreement and the applicable bank account agreement) sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) provided that in all cases (i) such investments have a maturity date of 90 days or less and mature on or before the next following interest payment date for the notes (in relation to any issuer bank account), Funding 1 interest payment date (in relation to any Funding 1 bank account) or distribution date (in relation to any mortgages trustee bank account) (ii) the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least equal to A-1+ by Standard & Poor's and P-1 by Moody's and the short-term IDR of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are at least equal to F1+ by Fitch and the long-term IDR of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are at least equal to AA- by Fitch (or such other ratings as may be acceptable to the respective rating agencies) and (iii) in relation to any investments made from monies standing to the credit of the Funding 1 bank account or the mortgages trustee bank account, as applicable, the interest or other return payable on any such investment shall be in an amount not less than the interest that would have been earned on the Funding 1 GIC account or the mortgages trustee GIC account, as applicable, for the term of such investment

<b>bank account agreement</b>	the Funding 1 bank account agreement, the mortgages trustee bank account agreement or the issuer bank account agreement, as the context may require
<b>base rate</b>	the Bank of England base rate
<b>base rate-linked rate</b>	the rate of interest applicable to a base rate loan (before applying any cap or minimum rate), as described further in " <b>The loans – Characteristics of the A&amp;L loans</b> " above
<b>base rate loan</b>	a loan (and, for the avoidance of doubt, any further advance made under an account is to be regarded as a separate loan) where interest is linked to a variable interest rate other than the variable rates. The rate on base rate loans is currently set at a margin by reference to rates set by the Bank of England, as described further in " <b>The loans – Characteristics of the A&amp;L loans</b> " above
<b>base rate loans Funding 1 swap(s)</b>	the meaning given to it on page 141
<b>Basel II Framework</b>	the regulatory capital framework described in the Basel Committee on Banking Supervision's publication, "International Convergence of Capital Measurement and Capital Standards: A Revised Framework (Comprehensive Version)"
<b>basic terms modification</b>	the modification of terms, including altering the amount, rate or timing of payments on the notes, the currency of payment, the priority of payments or the quorum or majority required in relation to these terms
<b>BB loan tranches</b>	the loan tranches made by the issuer to Funding 1 under the intercompany loan agreement from the proceeds of issue of any series of class D notes
<b>BBB loan tranches</b>	the loan tranches made by the issuer to Funding 1 under the intercompany loan agreement from the proceeds of issue of any series of class C notes



<b>BB principal deficiency sub-ledger</b>	a sub-ledger on the principal deficiency ledger which specifically records any principal deficiency in respect of any BB loan tranches
<b>BBB principal deficiency sub-ledger</b>	a sub-ledger on the principal deficiency ledger which specifically records any principal deficiency in respect of any BBB loan tranches
<b>beneficial owner</b>	an actual purchaser of notes held within a clearing system, as described further in “ <b>Book-entry clearance procedures – Settlement and transfer of notes</b> ” above
<b>beneficiaries</b>	Funding 1 and the seller (and any further Funding company) as beneficiaries of the mortgages trust
<b>booking fee</b>	a fee payable by the borrower in respect of applications for certain types of loans
<b>borrower</b>	in relation to a loan, the individual or individuals specified as such in the relevant mortgage together with the individual or individuals (if any) from time to time assuming an obligation to repay such loan or any part of it
<b>bullet accumulation liability</b>	on any Funding 1 interest payment date prior to any payment under item (d) of the priority of payments described above in “ <b>Cashflows – Distribution of Funding 1 available principal receipts – Repayment of loan tranches before a trigger event and before intercompany loan acceleration or acceleration of all notes</b> ” the aggregate of each relevant accumulation amount at that time of each bullet loan tranche which is within a cash accumulation period
<b>bullet accumulation shortfall</b>	at any time that the cash accumulation ledger amount is less than the bullet accumulation liability
<b>bullet loan tranche</b>	in respect of Funding 1 under the intercompany loan agreement, any loan tranche which is scheduled to be repaid in full on one Funding 1 interest payment date (which may occur prior to the final repayment date), namely those loan tranches designated as “bullet loan tranches” in the applicable loan tranche supplement and the accompanying final terms. The bullet loan tranches will be deemed to be pass-through loan tranches if a pass-through trigger event occurs
<b>bullet redemption date</b>	the bullet redemption date for any series and class of bullet redemption notes will be the interest payment date specified as such for such series and class of notes in the applicable final terms, subject to the terms and conditions of the notes
<b>bullet redemption notes</b>	any series and class of notes which has a single specified redemption date in addition to the final maturity date and designated as “bullet redemption” notes in the applicable final terms. The bullet redemption notes will be deemed to be pass-through notes if a pass-through trigger event occurs
<b>bullet repayment date</b>	the Funding 1 interest payment date specified as such for such loan tranche in the applicable loan tranche supplement
<b>business day</b>	a day that is a London business day, a New York business day and a TARGET business day
<b>calendar year</b>	a year from the beginning of 1 January to the end of 31 December
<b>capitalised</b>	means, in respect of a fee or other amount, added to the principal balance of a loan
<b>capitalised arrears</b>	the aggregate amount of any interest which is overdue in respect of the loans which the seller has agreed to capitalise and has been capitalised and added in the accounts of the seller to the outstanding principal balance of a loan, as described further in “ <b>The mortgages trust – Funding 1 share of trust property – Trust calculation date recalculation</b> ” above

<b>capitalised interest</b>	if a borrower takes a payment holiday (as permitted under the terms of the loan), then the outstanding principal balance of the loan will increase by the amount of interest that would have been paid on the relevant loan if not for such payment holiday
<b>capped loan tranches</b>	the meaning given to it on page 182
<b>cash accumulation ledger</b>	a ledger maintained by the cash manager to record the amount accumulated by Funding 1 from time to time to pay the relevant accumulation amounts
<b>cash accumulation ledger amount</b>	at any time the amount standing to the credit of the cash accumulation ledger at that time immediately prior to any drawing to be applied on that interest payment date and prior to any payment under item (h) of the priority of payments described above in <b>“Cashflows – Distribution of Funding 1 available principal receipts – Repayment of loan tranches before a trigger event and before intercompany loan acceleration or acceleration of all notes”</b>
<b>cash accumulation liability</b>	<p>on any Funding 1 interest payment date prior to any payment under item (d) of the priority of payments described above in <b>“Cashflows – Distribution of Funding 1 available principal receipts – Repayment of loan tranches before a trigger event and before intercompany loan acceleration or acceleration of all notes”</b>, the sum of:</p> <ul style="list-style-type: none"> <li>• the bullet accumulation liability at that time; and</li> <li>• the aggregate of each relevant accumulation amount at that time of each scheduled amortisation instalment which is within a cash accumulation period</li> </ul>
<b>cash accumulation loan tranche</b>	a bullet loan tranche and/or scheduled amortisation instalment
<b>cash accumulation period</b>	<p>(in the case of a scheduled amortisation loan tranche) means 3 months and (in the case of a bullet loan tranche) means the period of time beginning on the earlier of the following two dates:</p> <ul style="list-style-type: none"> <li>(a) the date determined after counting back in time from the relevant scheduled repayment date of the relevant accumulation amount, the number of months calculated under the definition of the Funding 1 anticipated cash accumulation period; and</li> <li>(b) the date determined after counting back in time from the relevant scheduled repayment date of the relevant accumulation amount, the number of months specified in the relevant final terms accompanying this base prospectus,</li> </ul> <p>provided that, if the beginning of a cash accumulation period as determined above would fall on a date which is not a distribution date, then the cash accumulation period shall commence on the distribution date falling immediately before that date. A cash accumulation period shall end in respect of a relevant accumulation amount when Funding 1 has accumulated an amount equal to that particular relevant accumulation amount, as described further in <b>“The mortgages trust – Cash management of trust property – principal receipts”</b> above</p>
<b>cash accumulation requirement</b>	the meaning given to it on page 91
<b>cash accumulation shortfall</b>	the cash accumulation ledger amount being less than the cash accumulation liability
<b>cash management agreement</b>	the cash management agreement entered into on the initial closing date, as amended from time to time, between the cash manager, the mortgages trustee, Funding 1 and the Funding 1 security trustee, as described further above in <b>“Description of the transaction documents – Cash management agreement”</b>

<b>cash manager</b>	Alliance & Leicester or (on and after the Part VII effective date) Santander UK acting, pursuant to the cash management agreement, as agent for the mortgages trustee, Funding 1 and the Funding 1 security trustee, among others, to manage all cash transactions and maintain certain ledgers on behalf of the mortgages trustee, Funding 1 and the Funding 1 security trustee
<b>cash withdrawal</b>	a cash withdrawal made by a borrower in an amount of all or part of the accrued overpayments, as described further above in “ <b>The loans – Characteristics of the A&amp;L loans – Flexible payments</b> ”
<b>CCA</b>	the Consumer Credit Act 1974, as amended
<b>CCA 2006</b>	the Consumer Credit Act 2006, as amended
<b>CFC</b>	a controlled foreign corporation, as described further above in “ <b>United States federal income taxation – Alternative characterisation of the Rule 144A notes</b> ”
<b>class</b>	any of the class A notes, the class B notes, the class M notes, the class C notes, the class D notes and the class Z notes
<b>class A available subordinated amount</b>	the meaning given to it on page 91
<b>class A noteholders</b>	the holders of the class A notes
<b>class A notes</b>	the notes of a series designated as such (or a sub-class of such) in the applicable final terms
<b>class A required subordinated amount</b>	the meaning given to it on page 91
<b>class B available subordinated amount</b>	the meaning given to it on page 91
<b>class B noteholders</b>	the holders of the class B notes
<b>class B notes</b>	the notes of a series designated as such (or a sub-class of such) in the applicable final terms
<b>class B required subordinated amount</b>	the meaning given to it on page 91
<b>class C available subordinated amount</b>	the meaning given to it on page 92
<b>class C noteholders</b>	the holders of the class C notes
<b>class C notes</b>	the notes of a series designated as such (or a sub-class of such) in the applicable final terms
<b>class C required subordinated amount</b>	the meaning given to it on page 92
<b>class D available subordinated amount</b>	the meaning given to it on page 93
<b>class D noteholders</b>	the holders of the class D notes
<b>class D notes</b>	the notes of a series designated as such (or a sub-class of such) in the applicable final terms
<b>class D required subordinated amount</b>	the meaning given to it on page 93
<b>class M available subordinated amount</b>	the meaning given to it on page 92
<b>class M noteholders</b>	the holders of the class M notes
<b>class M notes</b>	the notes of a series designated as such (or a sub-class of such) in the applicable final terms
<b>class M required subordinated amount</b>	the meaning given to it on page 92

<b>class Z noteholders</b>	the holders of the class Z notes
<b>class Z notes</b>	the notes of a series designated as such (or a sub-class of such) in the applicable final terms
<b>clearing agency</b>	an agency registered under the provisions of Section 17A of the United States Securities Exchange Act of 1934, as amended
<b>clearing corporation</b>	a corporation within the meaning of the New York Uniform Commercial Code
<b>Clearstream, Luxembourg</b>	Clearstream Banking, société anonyme
<b>closing date</b>	the meaning given to it in the applicable final terms
<b>CMA</b>	Competitions and Markets Authority
<b>CML</b>	Council of Mortgage Lenders
<b>CML Code</b>	the Mortgage Code issued by the CML
<b>Code</b>	United States Internal Revenue Code of 1986, as amended
<b>collection accounts</b>	the collection accounts in the name of the seller which are from time to time used for the purpose of collecting, directly or indirectly, monies due in respect of the loans and/or the related security forming part of the trust property
<b>common safekeeper</b>	the common safekeeper for Euroclear and Clearstream, Luxembourg
<b>common service provider</b>	the common service provider appointed by Euroclear and Clearstream, Luxembourg to service the notes held under the NSS
<b>CONSOB</b>	the Italian Securities Exchange Commission
<b>controlling beneficiary deed</b>	the controlling beneficiary deed entered into on the initial closing date, as amended from time to time, between Funding 1, the Funding 1 security trustee and the seller, to which any further Funding company and any further Funding security trustee will accede at the time that such further Funding company becomes a beneficiary of the mortgages trust
<b>corporate services agreement</b>	an agreement entered into on the initial closing date between, among others, Holdings, Funding 1, Alliance & Leicester plc (which has been replaced by Santander UK since the Part VII effective date), the corporate services provider and the Funding 1 security trustee, which governs the provision of corporate services by the corporate services provider to Holdings and Funding 1 (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>corporate services provider</b>	in respect of Funding 1 and Holdings means Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to Funding 1 and Holdings under the corporate services agreement
<b>CRA Regulation</b>	Regulation (EC) No 1060/2009 (as amended)
<b>crystallise</b>	when a floating charge becomes a fixed charge
<b>current balance</b>	in relation to a loan at any given date, the aggregate (without double counting) of the outstanding principal balance, accrued interest and other amounts in arrears relating to that loan as at that date
<b>current weighted average LTV</b>	for the purpose of the Fitch conditions, the ratio calculated in the manner agreed with Fitch as further described on page 99
<b>custodian</b>	Citibank, N.A., London Branch
<b>dealers</b>	the entities specified as such in the applicable subscription agreement
<b>deferred contribution</b>	the meaning given to it on page 151
<b>deferred purchase price</b>	the deferred purchase price paid to the seller in accordance with the provisions of the mortgage sale agreement from the proceeds of any deferred contributions

<b>deferred tax</b>	the meaning given to it on page 329
<b>detached</b>	a house not joined to another house
<b>determination date</b>	in respect of a series and class of notes, the date(s) specified as such in the applicable final terms
<b>differential rate</b>	the meaning given to it on page 213
<b>diligence</b>	the process (under Scots law) by which a creditor attaches the property of a debtor to implement or secure a court decree or judgment
<b>discount loan</b>	the meaning given to it on page 212
<b>discount rate</b>	a specified discount to the variable rate of interest, as described further in “ <b>The loans – Characteristics of the loans</b> ” above
<b>discount rate period</b>	the meaning given to it on page 212
<b>disqualified persons</b>	the meaning given to it on page 333
<b>distribution compliance period</b>	the meaning given to it on page 336
<b>distribution date</b>	the date which is four London business days after each trust calculation date, being the date that the mortgages trustee will distribute principal and revenue receipts to Funding 1 and the seller
<b>dollar notes</b>	each series and class of notes denominated in U.S. dollars
<b>drawdown prospectus</b>	means in relation to any series of notes, the drawdown prospectus issued in relation to such series of notes as a supplement to the conditions and giving details of, <i>inter alia</i> , the amount and price of such series of notes which forms a part of the base prospectus in relation to such series of notes
<b>DTC</b>	The Depository Trust Company
<b>early repayment charge</b>	any fee which a borrower is required to pay in the event that his or her loan becomes repayable for any mandatory reason or he or she repays all or any part of the relevant loan before a specified date
<b>eligible bank</b>	an authorised entity (which, for the avoidance of doubt, shall be an institution incorporated in the United Kingdom or that is the United Kingdom branch of a foreign bank) selected by the cash manager from a panel of banks in accordance with the panel bank guidelines, for the purposes of depositing amounts standing to the credit of the Funding 1 transaction account subject to and in accordance with the terms of the Funding 1 bank account agreement and the cash management agreement
<b>eligible bank account</b>	an account in the name of Funding 1 held with an eligible bank subject to and in accordance with the terms of the Funding 1 bank account agreement and the cash management agreement; provided, that, for the avoidance of doubt, the Funding 1 GIC account is not an eligible bank account
<b>eligible bank account agreement</b>	a bank account agreement substantially in the form attached to the cash management agreement entered into between each eligible bank and The Bank of New York Mellon, acting through its London branch, as agent for Funding 1
<b>eligible bank ledger</b>	a ledger established and maintained by the cash manager in the books of Funding 1 for the purpose of recording amounts deposited with eligible banks from time to time
<b>eligible bank terms and conditions</b>	the terms and conditions named "Third Party Deposit Placement Services Terms and Conditions" entered into on 29 August 2013 between Funding 1, Santander UK and The Bank of New York Mellon, acting through its London Branch, as agent for Funding 1
<b>English loan</b>	a loan secured by an English mortgage
<b>English mortgage</b>	a mortgage secured over a property in England or Wales

<b>English mortgage conditions</b>	the mortgage conditions applicable to English loans
<b>ERISA</b>	the U.S. Employee Retirement Income Security Act of 1974, as amended
<b>ERISA-eligible notes</b>	the meaning given to it on page 333
<b>ERISA Plans</b>	the meaning given to it on page 333
<b>euro notes</b>	each series and class of notes denominated in euro
<b>EURIBOR</b>	the Euro-zone inter-bank offered rate
<b>Euroclear</b>	Euroclear Bank S.A./N.V.
<b>excess swap collateral</b>	an amount equal to the value of the collateral (or the applicable part of any collateral) provided by an issuer swap provider to the issuer in respect of that issuer swap provider's obligations to transfer collateral to the issuer under the relevant issuer swap agreement which is in excess of that issuer swap provider's liability under the relevant issuer swap agreement as at the date of termination of the relevant issuer swap agreement or which it is otherwise entitled to have returned to it under the terms of the relevant issuer swap agreement
<b>Exchange Act</b>	the United States Exchange Act of 1934, as amended
<b>exchange event</b>	the meaning given to it on page 229
<b>exchange rate agent</b>	Citibank, N.A., London branch
<b>excluded further advance</b>	all loans subject of a further advance (including, for the avoidance of doubt, that further advance) that are or are to be repurchased by the seller in accordance with the mortgage sale agreement following the delivery of an excluded further advance notice that has not been revoked
<b>excluded further advance notice</b>	a notice delivered by the seller to the mortgages trustee pursuant to the mortgage sale agreement which would require the seller thereafter to repurchase all loans which become the subject of further advances (including, for the avoidance of doubt, the further advances) until the date on which such notice is revoked
<b>excluded product switch</b>	all loans the subject of a product switch that are or are to be repurchased by the seller in accordance with the mortgage sale agreement following the delivery of an excluded product switch notice that has not been revoked
<b>excluded product switch notice</b>	a notice delivered by the seller to the mortgages trustee pursuant to the mortgage sale agreement which would require the seller thereafter to repurchase all loans which become the subject of product switches until the date on which such notice is revoked
<b>FATCA</b>	Sections 1471 through 1474 of the Code and any applicable intergovernmental agreement entered into in respect thereof, and any related provisions of law, court decisions, or administrative guidance, including an agreement between the Issuer and the IRS, if any, that sets forth the requirements for the Issuer to be treated as complying with Section 1471(b) of the Code
<b>FCA</b>	means the Financial Conduct Authority, known before 1 April 2013 as the Financial Services Authority
<b>final maturity date</b>	in respect of a series and class of notes means the date specified as such for such class in the final terms
<b>final repayment date</b>	in relation to a loan tranche, the date specified as such in the related loan tranche supplement and applicable final terms
<b>final terms</b>	in relation to any series of notes, the final terms issued in relation to such series of notes giving details of, <i>inter alia</i> , the amount and price of such series of notes and which forms a part of the base prospectus in relation to such series of notes
<b>first title</b>	First Title Insurance plc

<b>Fitch</b>	Fitch Ratings Ltd. and any successor to its ratings business
<b>Fitch conditions</b>	the meaning given to it on page 99
<b>fixed rate</b>	a fixed rate of interest
<b>fixed rate loan</b>	the meaning given to it on page 212
<b>fixed rate loans Funding 1 swap(s)</b>	the meaning given to it on page 141
<b>fixed rate note</b>	a note, the interest basis of which is specified in the applicable final terms as being fixed rate
<b>fixed rate period</b>	the meaning given to it on page 212
<b>fixed security</b>	a form of security which means that the chargor is not allowed to deal with the assets subject to the charge without the consent of the chargee
<b>flexible draw capacity</b>	an amount equal to the maximum amount of cash withdrawal that borrowers may draw under flexible loans included in the trust property as determined as at the end of the previous trust calculation period
<b>flexible facility</b>	the meaning given to it on page 214
<b>flexible features</b>	the meaning given to it on page 214
<b>flexible loan</b>	a type of loan product that typically incorporates features that give the borrower options to, among other things, make further drawings on the loan account and/or to overpay or underpay interest and principal in a given month
<b>floating charge</b>	a form of charge which is not attached to specific assets but which “floats” over a class of them and which allows the chargor to deal with those assets in the everyday course of its business, up until the point that the floating security is enforced, at which point it crystallises into a fixed security
<b>floating rate note</b>	a note, the interest basis of which is specified in the applicable final terms as being floating rate
<b>foreign law notes</b>	the meaning given on page (ii)
<b>FSA</b>	the Financial Services Authority
<b>FSMA</b>	the Financial Services and Markets Act 2000, as amended
<b>Funding companies</b>	Funding 1 and any further Funding company
<b>Funding company loan tranche</b>	any loan tranche made to a Funding company
<b>Funding 1</b>	Fosse Funding (No.1) Limited
<b>Funding 1 anticipated cash accumulation period</b>	the meaning given to it on page 162
<b>Funding 1 available principal receipts</b>	the meaning set out above under “ <b>Cashflows – Distribution of Funding 1 available principal receipts</b> ”
<b>Funding 1 available revenue receipts</b>	the meaning set out above under “ <b>Cashflows – Distribution of Funding 1 available revenue receipts</b> ”

<b>Funding 1 bank account agreement</b>	means the agreement entered into on or about the initial closing date between Santander UK in its capacity then as Funding 1 account bank, Funding 1, the cash manager and the Funding 1 security trustee as amended and restated from time to time and as further amended and restated on or about the date hereof, pursuant to which amendment and restatement The Bank of New York Mellon, acting through its London Branch, acceded as account bank A and Santander UK acceded to its role as account bank B which governs the operation of the Funding 1 bank accounts (as the same may be amended, restated, varied, supplemented and/or novated from time to time)
<b>Funding 1 bank accounts</b>	the Funding 1 GIC account, the Funding 1 transaction account, any eligible bank account (including the Santander A-2/P-2/F2 account) and such other bank account(s) held in the name of Funding 1 with the approval of the Funding 1 security trustee from time to time
<b>Funding 1 cash accumulation period</b>	the meaning given to it on page 113
<b>Funding 1 deed of charge</b>	the deed of charge entered into on the initial closing date between (amongst others) Funding 1, the Funding 1 security trustee and the Funding 1 secured creditors on such date, as amended from time to time, including any deeds of accession or supplements thereto in connection with the issuance of a series
<b>Funding 1 GIC account</b>	the account in the name of Funding 1 held at account bank B and maintained subject to the terms of the Funding 1 bank account agreement and the Funding 1 deed of charge or such additional or replacement account as may for the time being be in place with the prior consent of the Funding 1 security trustee
<b>Funding 1 intercompany loan event of default</b>	the meaning given to it on page 113
<b>Funding 1 interest period</b>	the meaning given to it in paragraph (b) of the definition of interest period
<b>Funding 1 interest payment date</b>	in respect of a loan tranche, the quarter dates specified in the applicable final terms in each year (or if such day is not a business day, the next succeeding business day) or, following the occurrence of a pass-through trigger event, the 18th day of each calendar month in each year (or, if such day is not a business day, the next succeeding business day)
<b>Funding 1 liquidity facility agreement</b>	any agreement entered into after the initial closing date between (among others) Funding 1 and the Funding 1 liquidity facility provider in relation to the provision of a liquidity facility to Funding 1
<b>Funding 1 liquidity facility</b>	a liquidity facility entered into at any time after the initial closing date
<b>Funding 1 liquidity facility provider</b>	the provider of the Funding 1 liquidity facility
<b>Funding 1 liquidity facility principal payment</b>	the payments specified as such in the Funding 1 liquidity facility agreement (if any)
<b>Funding 1 liquidity facility subordinated amounts</b>	the amounts specified as such in the Funding 1 liquidity facility agreement (if any)
<b>Funding 1 loan</b>	all the advances made available by the Funding 1 loan provider to Funding 1 pursuant to the Funding 1 loan agreement
<b>Funding 1 loan agreement</b>	the Funding 1 loan agreement entered into on 19 August 2013 Funding 1, the Funding 1 loan provider and the Funding 1 security trustee
<b>Funding 1 loan prepayable</b>	



<b>amount</b>	the amount, determined by the cash manager on any distribution date, by which it expects the Funding 1 loan will exceed the amounts which it reasonably expects will be deposited on the Santander A-2/P-2/F2 account from time to time and which may be prepaid
<b>Funding 1 loan principal deficiency sub-ledger</b>	the sub-ledger of the losses ledger corresponding to the Funding 1 loan in order to record any losses allocated to the Funding 1 share of the trust property or the application of Funding 1 available principal receipts in paying interest on the Funding 1 loan and certain amounts ranking in priority thereto in accordance with the Funding 1 pre-acceleration revenue priority of payments
<b>Funding 1 loan provider</b>	Santander UK in its capacity as lender of the Funding 1 loan pursuant to the Funding 1 loan agreement
<b>Funding 1 post-acceleration priority of payments</b>	the order in which, following acceleration of the intercompany loan, the cash manager or the Funding 1 security trustee, as the case may be, will apply the amounts received following enforcement of the Funding 1 security, as set out above in “ <b>Security for Funding 1's obligations</b> ” and “ <b>Cashflows – Distribution of Funding 1 principal receipts and Funding 1 revenue receipts following intercompany loan acceleration</b> ”
<b>Funding 1 pre-acceleration principal priority of payments</b>	the order in which, prior to acceleration of the intercompany loan, the cash manager will apply the Funding 1 available principal receipts as set out above in “ <b>Description of the transaction documents – Funding 1 deed of charge – Funding 1 pre-acceleration priority of payments</b> ” and “ <b>Cashflows – Distribution of Funding 1 available principal receipts</b> ”
<b>Funding 1 pre-acceleration revenue priority of payments</b>	the order in which, prior to enforcement of the Funding 1 security, the cash manager will apply the Funding 1 available revenue receipts as set out in “ <b>Description of the transaction documents – Funding 1 deed of charge – Funding 1 pre-acceleration priority of payments</b> ” and “ <b>Cashflows – Distribution of Funding 1 available revenue receipts before intercompany loan acceleration</b> ”
<b>Funding 1 principal funds</b>	the meaning given to it on page 181
<b>Funding 1 principal ledger</b>	a ledger maintained by the cash manager to record the amount of principal receipts received by Funding 1 from the mortgages trustee on each distribution date
<b>Funding 1 principal receipts</b>	the principal receipts paid by the mortgages trustee to Funding 1 on each distribution date
<b>Funding 1 priority of payments</b>	as the context requires, any of the Funding 1 pre-acceleration revenue priority of payments, the Funding 1 pre-acceleration principal priority of payments or the Funding 1 post-acceleration priority of payments
<b>Funding 1 revenue deficit amount</b>	the meaning given to it on page 35
<b>Funding 1 revenue deficit cure amount</b>	the meaning given to it on page 166
<b>Funding 1 revenue ledger</b>	a ledger maintained by the cash manager to record all amounts received by Funding 1 from the mortgages trustee on each distribution date other than principal receipts, together with interest received by Funding 1 on its authorised investments or pursuant to the Funding 1 bank account agreement
<b>Funding 1 secured creditors</b>	the Funding 1 security trustee, the Funding 1 swap provider, the cash manager, account bank A, account bank B, the seller, the corporate services provider, each Funding 1 start-up loan provider, the issuer and any other entity that accedes to the terms of the Funding 1 deed of charge from time to time

<b>Funding 1 security</b>	the security created under the Funding 1 deed of charge
<b>Funding 1 security trustee</b>	Law Debenture Trust Company of New York
<b>Funding 1 share</b>	the Funding 1 share of the trust property from time to time, as calculated on each trust calculation date
<b>Funding 1 share percentage</b>	the Funding 1 share percentage of the trust property from time to time as calculated on each trust calculation date
<b>Funding 1 start-up loan agreements</b>	the Funding 1 start-up loan agreement entered into on or about the initial closing date and any other start-up loan agreement entered into in connection with the issuance of a series
<b>Funding 1 start-up loan provider</b>	Santander UK in its capacities as provider of each Funding 1 start-up loan and/or (as the context requires) any new Funding 1 start-up loan provider
<b>Funding 1 start-up loans</b>	each loan made by a Funding 1 start-up loan provider under a Funding 1 start-up loan agreement in connection with the issuance of a series
<b>Funding 1 swap (BBR) 1</b>	the Funding 1 swap between the Funding 1 swap provider and Funding 1 with respect to (i) in the case of the base rate loans with reset dates, such base rate loans which have a remaining period up to their reset dates of 3 years or less; or (ii) in the case of the base rate loans without reset dates, such base rate loans which have a remaining maturity of 3 years or less, with such Funding 1 swap commencing on the day on which the reset dates or maturity dates are determined
<b>Funding 1 swap (BBR) 2</b>	the Funding 1 swap between the Funding 1 swap provider and Funding 1 with respect to (i) in the case of the base rate loans with reset dates, such base rate loans which have a remaining period up to their reset dates of greater than 3 years but less than or equal to 5 years; or (ii) in the case of the base rate loans without reset dates, such base rate loans which have a remaining maturity of greater than 3 years but less than or equal to 5 years, with such Funding 1 swap commencing on the day on which the reset dates or maturity dates are determined
<b>Funding 1 swap (BBR) 3</b>	the Funding 1 swap between the Funding 1 swap provider and Funding 1 with respect to (i) in the case of the base rate loans with reset dates, such base rate loans which have a remaining period up to their reset dates of greater than 5 years but less than or equal to 10 years; or (ii) in the case of the base rate loans without reset dates, such base rate loans which have a remaining maturity of greater than 5 years but less than or equal to 10 years, with such Funding 1 swap commencing on the day on which the reset dates or maturity dates are determined
<b>Funding 1 swap (BBR) 4</b>	the Funding 1 swap between the Funding 1 swap provider and Funding 1 with respect to (i) in the case of the base rate loans with reset dates, such base rate loans which have a remaining period up to their reset dates of greater than 10 years but less than or equal to 15 years; or (ii) in the case of the base rate loans without reset dates, such base rate loans which have a remaining maturity of greater than 10 years but less than or equal to 15 years, with such Funding 1 swap commencing on the day on which the reset dates or maturity dates are determined
<b>Funding 1 swap (BBR) 5</b>	the Funding 1 swap between the Funding 1 swap provider and Funding 1 with respect to (i) in the case of the base rate loans with reset dates, such base rate loans which have a remaining period up to their reset dates of greater than 15 years; or (ii) in the case of the base rate loans without reset dates, such base rate loans which have a remaining maturity of greater than 15 years, with such Funding 1 swap commencing on the day on which the reset dates or maturity dates are determined

<b>Funding 1 swap (Fixed) 1</b>	the Funding 1 swap between the Funding 1 swap provider and Funding 1 with respect to the fixed rate loans which have a remaining period up to their reset dates of 3 years or less, with such Funding 1 swap commencing on the day on which the reset dates are determined
<b>Funding 1 swap (Fixed) 2</b>	the Funding 1 swap between the Funding 1 swap provider and Funding 1 with respect to the fixed rate loans which have a remaining period up to their reset dates of greater than 3 years but less than or equal to 5 years, with such Funding 1 swap commencing on the day on which the reset dates are determined
<b>Funding 1 swap (Fixed) 3</b>	the Funding 1 swap between the Funding 1 swap provider and Funding 1 with respect to the fixed rate loans which have a remaining period up to their reset dates of greater than 5 years but less than or equal to 10 years, with such Funding 1 swap commencing on the day on which the reset dates are determined
<b>Funding 1 swap (Fixed) 4</b>	the Funding 1 swap between the Funding 1 swap provider and Funding 1 with respect to the fixed rate loans which have a remaining period up to their reset dates of greater than 10 years but less than or equal to 15 years, with such Funding 1 swap commencing on the day on which the reset dates are determined
<b>Funding 1 swap (Fixed) 5</b>	the Funding 1 swap between the Funding 1 swap provider and Funding 1 with respect to the fixed rate loans which have a remaining period up to their reset dates of greater than 15 years, with such Funding 1 swap commencing on the day on which the reset dates are determined
<b>Funding 1 swap (SVR) 1</b>	the Funding 1 swap between the Funding 1 swap provider and Funding 1 with respect to the variable rate loans which have a remaining maturity of 3 years or less, with such Funding 1 swap commencing on the day on which the maturity dates are determined
<b>Funding 1 swap (SVR) 2</b>	the Funding 1 swap between the Funding 1 swap provider and Funding 1 with respect to the variable rate loans which have a remaining maturity of greater than 3 years but less than or equal to 5 years, with such Funding 1 swap commencing on the day on which the maturity dates are determined
<b>Funding 1 swap (SVR) 3</b>	the Funding 1 swap between the Funding 1 swap provider and Funding 1 with respect to the variable rate loans which have a remaining maturity of greater than 5 years but less than or equal to 10 years, with such Funding 1 swap commencing on the day on which the maturity dates are determined
<b>Funding 1 swap (SVR) 4</b>	the Funding 1 swap between the Funding 1 swap provider and Funding 1 with respect to the variable rate loans which have a remaining maturity of greater than 10 years but less than or equal to 15 years, with such Funding 1 swap commencing on the day on which the maturity dates are determined
<b>Funding 1 swap (SVR) 5</b>	the Funding 1 swap between the Funding 1 swap provider and Funding 1 with respect to the variable rate loans which have a remaining maturity of greater than 15 years, with such Funding 1 swap commencing on the day on which the maturity dates are determined
<b>Funding 1 swap(s)</b>	any swap documented under the Funding 1 swap agreement which enables Funding 1 to hedge against the possible variance between the mortgages trustee variable rate payable on the variable rate loans, the fixed rates of interest payable on the fixed rate loans and the rates of interest payable on the base rate loans and a LIBOR-based rate for three-month sterling deposits, as described further in “ <b>Description of the transaction documents – Swap agreements – Funding 1 swap agreement</b> ” above
<b>Funding 1 swap agreement</b>	the ISDA master agreement and schedule thereto entered into on the initial closing date between Funding 1 and the Funding 1 swap provider and any confirmation documented thereunder from time to

time between Funding 1, the Funding 1 swap provider and the Funding 1 security trustee (as each of the same may be amended, restated, novated or supplemented from time to time)

<b>Funding 1 swap excluded termination amount</b>	<p>in relation to the Funding 1 swap agreement an amount equal to:</p> <p>(a) the amount of any termination payment due and payable to the Funding 1 swap provider as a result of a Funding 1 swap provider default or following a Funding 1 swap provider downgrade termination event;</p> <p>less</p> <p>(b) the amount, if any, received by Funding 1 from a replacement swap provider upon entry by Funding 1 into an agreement with such replacement swap provider to replace the Funding 1 swap agreement which has terminated as a result of such Funding 1 swap provider default or following the occurrence of such Funding 1 swap provider downgrade termination event</p>
<b>Funding 1 swap provider</b>	Santander UK, pursuant to the Funding 1 swap agreement
<b>Funding 1 swap provider default</b>	the occurrence of an event of default (as defined in the Funding 1 swap agreement) where the Funding 1 swap provider is the defaulting party (as defined in the Funding 1 swap agreement)
<b>Funding 1 swap provider downgrade termination event</b>	the occurrence of an additional termination event following the failure by the Funding 1 swap provider to comply with the requirements of the ratings downgrade provisions set out in the Funding 1 swap agreement
<b>Funding 1 transaction account</b>	the account in the name of Funding 1 maintained with account bank A pursuant to the Funding 1 bank account agreement and the Funding 1 deed of charge or such additional or replacement account as may for the time being be in place
<b>funds</b>	where the context requires, the general reserve fund and the liquidity reserve fund
<b>further advance</b>	an advance made following a request from an existing borrower for a further amount to be lent to him or her under his or her mortgage, where the seller has a discretion as to whether to accept that request
<b>further contribution</b>	the consideration in the form of cash payable by any beneficiary to the mortgages trustee to increase the Funding 1 share, the further Funding company share or the seller share of the trust property, as the case may be, pursuant to the terms of the mortgages trust deed, but excluding any initial contribution or deferred contribution paid by Funding 1
<b>further contribution date</b>	the date that any of the beneficiaries makes a further contribution to the mortgages trust
<b>further Funding companies</b>	funding entities (other than Funding 1) established in future by Holdings
<b>further Funding company cash accumulation period</b>	the meaning given to it on page 162
<b>further Funding company share</b>	the share of each further Funding company in the trust property, as described further in " <b>The mortgages trust – Further Funding company's share of trust property</b> " above
<b>further Funding company share percentage</b>	the percentage share of each further Funding company in the trust property, as described further in " <b>The mortgages trust – Further Funding company's share of trust property</b> " above
<b>further Funding security trustee</b>	any trustee in whose favour security is created pursuant to a deed of charge entered into by any further Funding company and any new issuer, where applicable

<b>general reserve fund</b>	at any time the amount standing to the credit of the general reserve ledger at that time, which may be used in certain circumstances by Funding 1 to meet any deficit in revenue or to repay amounts of principal, as described further in “ <b>Credit structure – General reserve fund</b> ” above
<b>general reserve ledger</b>	a ledger maintained by the cash manager to record the amount credited to the general reserve fund from the proceeds of a portion of each Funding 1 start-up loan, and other withdrawals and deposits or credits in respect of the general reserve fund
<b>general reserve required amount</b>	the amount specified as such in the most recent final terms
<b>global notes</b>	the notes in global form
<b>Help-to-Buy loans</b>	loans which meet the criteria published by the Homes and Communities Agency from time to time
<b>Holdings</b>	Fosse (Master Issuer) Holdings Limited
<b>housing indices</b>	the Nationwide House Price Index and Halifax House Price Index
<b>IDR</b>	issuer default ratings from Fitch
<b>IFRS</b>	International Financial Reporting Standards
<b>in arrears</b>	in respect of a mortgage account, occurs when one or more monthly payments in respect of a mortgage account have become due and unpaid by a borrower
<b>industry CPR</b>	a constant repayment rate which is calculated by dividing the amount of scheduled and unscheduled repayments of mortgages made by building societies in a quarter by the quarterly balance of mortgages outstanding for building societies in the United Kingdom
<b>initial closing date</b>	28 November 2006
<b>initial contribution</b>	a contribution by way of cash payable, pursuant to the terms of the mortgages trust deed, by Funding 1 or any further Funding company in respect of any trust property sold to the mortgages trustee at the time of such sale for the purposes of enabling the mortgages trustee to fund the payment of the initial purchase price owed by the mortgages trustee to the seller, pursuant to the terms of the mortgage sale agreement, in respect of any loans and their related security sold by the seller to the mortgages trustee from time to time
<b>initial dealer</b>	Barclays Bank PLC
<b>initial loans</b>	the loans sold by the seller to the mortgages trustee on the initial closing date pursuant to the terms of the mortgage sale agreement
<b>initial purchase price</b>	that portion of the purchase price paid by the mortgages trustee to the seller on the date loans are sold to the mortgages trustee in consideration for the sale to the mortgages trustee of loans pursuant to the terms of the mortgage sale agreement
<b>Insolvency Act</b>	the Insolvency Act 1986, as amended
<b>insolvency event</b>	in respect of the seller, the servicer, the cash manager or the issuer cash manager (each, for the purposes of this definition, a <b>relevant entity</b> ) means: <ul style="list-style-type: none"> <li>(a) an order is made or an effective resolution passed for the winding up of the relevant entity;</li> <li>(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 of the Insolvency Act 1986 (as amended) or otherwise becomes insolvent; or</li> </ul>

- (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, 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 London 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

<b>intercompany loan</b>	at any time, the aggregate of all loan tranches advanced under the intercompany loan agreement
<b>intercompany loans</b>	together, the intercompany loan and any new intercompany loans
<b>intercompany loan acceleration notice</b>	where the context so requires, an acceleration notice served: <ul style="list-style-type: none"> <li>(a) by the Funding 1 security trustee on Funding 1 following an intercompany loan event of default and/or following an event of default under a new intercompany loan (where applicable); and/or</li> <li>(b) on a further Funding company following an event of default under a new intercompany loan</li> </ul>
<b>intercompany loan agreement</b>	the intercompany loan agreement entered into on the initial closing date between Funding 1, the issuer, the Funding 1 security trustee, the issuer security trustee and the agent bank
<b>intercompany loan event of default</b>	an event of default under the intercompany loan agreement
<b>intercompany loan ledger</b>	a ledger maintained by the cash manager to record payments of interest and repayments of principal made on each of the loan tranches under the intercompany loan
<b>interest commencement date</b>	in relation to a series and class of notes, the closing date of such notes or such other date as may be specified as such in the applicable final terms; and in respect of a loan tranche, the closing date of the related series and class of notes or such other date as may be specified as such in the applicable loan tranche supplement
<b>interest-only portion</b>	the meaning given to it on page 211
<b>interest payment date</b>	in respect of a series and class of notes (other than monthly payment notes), the quarterly interest payment dates and (in the case of monthly payment notes) the monthly interest payment dates, subject, in each case, to the applicable final terms and, in all other cases, each set of quarter dates any one or more of which is applicable for the payment of interest and/or principal on any series and class of notes as specified in the applicable final terms (or, if such day is not a business day, the next succeeding business day)

<b>interest period</b>	(a) in relation to a series and class of notes (i) with respect to the first interest payment date, the period from (and including) the applicable interest commencement date to (but excluding) such first interest payment date, and (ii) thereafter, with respect to each interest payment date, the period from and including the preceding interest payment date to (but excluding) that interest payment date; and  (b) in respect of a loan tranche, (i) with respect to the first Funding 1 payment date, the period from (and including) the applicable interest commencement date to (but excluding) such first Funding 1 payment date, and (ii) thereafter, the period from and including the preceding Funding 1 payment date to (but excluding) that Funding 1 payment date
<b>interest period Funding 1 amount</b>	the meaning given to it on page 143
<b>interim trust calculation period</b>	the meaning given to it on page 152
<b>investment plan</b>	in respect of an interest-only loan, a repayment mechanism selected by the borrower and intended to provide sufficient funds to redeem the full principal of a loan at maturity
<b>Investment Company Act</b>	the United States Investment Company Act of 1940, as amended
<b>Irish Stock Exchange</b>	Irish Stock Exchange plc
<b>IRS</b>	the U.S. Internal Revenue Service
<b>issuance tests</b>	the conditions and tests (including the required levels of subordination) necessary to issue a series and class of notes, as described further in “ <b>The issuance of notes – Issuance</b> ” above
<b>issue terms</b>	the meaning given to it on page i
<b>issuer</b>	Fosse Master Issuer plc
<b>issuer accounts</b>	the issuer share capital account, the issuer transaction account and any other account held by the issuer from time to time (including without limitation the issuer GIC account)
<b>issuer account bank</b>	Santander UK
<b>issuer bank account agreement</b>	the agreement entered into on 23 November 2009 between the issuer account bank, the issuer, the issuer cash manager and the issuer security trustee (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) which governs the operation of issuer transaction account and the issuer share capital account
<b>issuer cash management agreement</b>	the issuer cash management agreement entered into on the initial closing date between the issuer cash manager, the issuer and the issuer security trustee (as the same may be amended, restated, novated, replaced or supplemented from time to time), as described further above in “ <b>Description of the transaction documents – Issuer cash management agreement</b> ”
<b>issuer cash manager</b>	Santander UK acting, pursuant to the issuer cash management agreement, as agent for the issuer and the issuer security trustee to manage all cash transactions and maintain certain ledgers on behalf of the issuer
<b>issuer charged assets</b>	the meaning given to it in condition 10.2 on page 286
<b>issuer corporate services agreement</b>	the agreement entered into on the initial closing date between, among others, the issuer, Santander UK, the issuer corporate services provider and the note trustee, which governs the provision of corporate services by the corporate services provider to the issuer (as amended, restated, supplemented, replaced and/or novated from time to time)

<b>issuer corporate services provider</b>	Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to the issuer under the issuer corporate services agreement
<b>issuer currency swaps</b>	the issuer dollar currency swaps, the issuer euro currency swaps and any other currency swaps which enable the issuer to receive and pay amounts under the intercompany loan in sterling and to receive and pay amounts under the notes in any other relevant currency, as described further above in <b>“Description of the transaction documents – Swap agreements – The issuer swap agreements”</b>
<b>issuer deed of charge</b>	the deed of charge entered into on the initial closing date between, among others, the issuer and the issuer security trustee, under which the issuer charges the issuer security in favour of the issuer security trustee for the benefit of the issuer secured creditors, as described further above in <b>“Description of the transaction documents – Issuer deed of charge”</b>
<b>issuer dollar account</b>	the account of the issuer held with the issuer account bank, denominated in dollars and maintained subject to the terms of the issuer bank account agreement and the issuer deed of charge, or any additional or replacement account denominated in dollars as may for the time being be in place with the prior consent of the issuer security trustee
<b>issuer dollar currency swap agreements</b>	in respect of a series and class of notes, the ISDA master agreements, schedules and confirmations relating to the issuer dollar currency swaps to be entered into on or before the relevant closing date in respect of such series between the issuer, the relevant issuer swap provider and the issuer security trustee (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>issuer dollar currency swaps</b>	the sterling-dollar currency swaps which enable the issuer to receive and pay amounts under the intercompany loan in sterling and to receive and pay amounts under the dollar notes, as described further above in <b>“Description of the transaction documents – Swap agreements – The issuer swap agreements”</b>
<b>issuer euro account</b>	the account of the issuer held with the issuer account bank, denominated in euro and maintained subject to the terms of the issuer bank account agreement and the issuer deed of charge, or any additional or replacement account denominated in euro as may for the time being be in place with the prior consent of the issuer security trustee
<b>issuer euro currency swap agreements</b>	in respect of a series and class of notes, the ISDA master agreements, schedules and confirmations relating to the issuer euro currency swaps to be entered into on or before the relevant closing date between the issuer, the relevant issuer swap provider and the issuer security trustee (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>issuer euro currency swaps</b>	the sterling-euro currency swaps which enable the issuer to receive and pay amounts under the intercompany loan in sterling and to receive and pay amounts under the euro notes, as described further above in <b>“Description of the transaction documents – Swap agreements – The issuer swap agreements”</b>
<b>issuer GIC account</b>	the account to be established with the issuer account bank as a condition precedent to the issue of notes with quarterly interest payment dates which do not correspond to the quarterly interest payment dates of notes (other than monthly payment notes) issued on the initial closing date



<b>issuer interest rate swap agreements</b>	the ISDA master agreements, schedules and confirmations relating to the issuer interest rate swaps entered into on or before the relevant closing date between the issuer, the relevant issuer swap provider and the issuer security trustee (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>issuer interest rate swaps</b>	the issuer interest rate swaps which enable the issuer to hedge its exposure to potential mismatches between the floating rate of interest payable under the intercompany loan and to the fixed rate of interest payable by the issuer under certain sterling notes, as described further above in <b>“Description of the transaction documents – Swap agreements – The issuer swap agreements”</b>
<b>issuer post-acceleration principal priority of payments</b>	the order in which, following the service of a note acceleration notice but prior to the service of an intercompany loan acceleration notice, the issuer cash manager or the issuer security trustee, as the case may be, will apply the issuer principal receipts on each interest payment date or such other day, as set out above in <b>“Cashflows – Distribution of issuer principals receipts after note acceleration but before intercompany loan acceleration”</b>
<b>issuer pre-acceleration principal priority of payments</b>	the order in which, prior to enforcement of the issuer security, the issuer or the issuer cash manager will apply the issuer principal receipts on each interest payment date, as set out above in <b>“Cashflows – Distribution of issuer principal receipts before note acceleration”</b>
<b>issuer pre-acceleration revenue priority of payments</b>	the order in which, prior to enforcement of the issuer security, the issuer cash manager will apply the issuer revenue receipts on each interest payment date, as set out above in <b>“Cashflows – Distribution of issuer revenue receipts before note acceleration”</b>
<b>issuer principal receipts</b>	an amount equal to the sum of all principal amounts repaid by Funding 1 to the issuer under the intercompany loan
<b>issuer priority of payments</b>	the issuer pre-acceleration revenue priority of payments, the issuer pre-acceleration principal priority of payments, the issuer post-acceleration principal priority of payments or the issuer priority of payments following an intercompany loan acceleration notice, as the case may be
<b>issuer priority of payments following an intercompany loan acceleration notice</b>	the order in which, following the service of an intercompany loan acceleration notice, the issuer cash manager or the issuer security trustee, as the case may be, will apply the amounts received following enforcement of the issuer security, as set out above in <b>“Description of the transaction documents – Issuer deed of charge”</b> and <b>“Cashflows – Distribution of issuer principal receipts and issuer revenue receipts following intercompany loan acceleration”</b>
<b>issuer revenue ledger</b>	the ledger on which the issuer cash manager records issuer revenue receipts received and paid out by the issuer
<b>issuer revenue receipts</b>	an amount equal to the sum of: <ul style="list-style-type: none"> <li>(a) interest paid by Funding 1 on the relevant Funding 1 interest payment date in respect of the loan tranches under the intercompany loan;</li> <li>(b) interest previously paid by Funding 1 on a previous Funding 1 interest payment date and required to be held in the issuer GIC account until such interest payment date;</li> <li>(c) fees to be paid by Funding 1 on the relevant date under the terms of the intercompany loan agreement;</li> </ul>

- (d) interest payable on issuer bank accounts and authorised investments which will be received on or before the relevant date;
- (e) other net income of the issuer including amounts received or to be received under the issuer swap agreements on or before the relevant interest payment date (other than any early termination amount received by the issuer under any issuer swap agreement to the extent used to enter into a replacement issuer swap agreement) and including any amounts received by the issuer in consideration of it entering into a replacement issuer swap agreement (which amounts shall be deemed to be received by the issuer in respect of the loan tranche corresponding to the series and class of notes to which the replaced issuer swap agreement relates) but excluding (i) the return or transfer of any excess swap collateral as set out under any of the issuer swap agreements and (ii) in respect of each issuer swap provider, prior to the designation of an early termination date under the relevant issuer swap agreement and the resulting application of the collateral by way of netting or set-off, an amount equal to the value of all collateral (other than excess swap collateral) provided by such issuer swap provider to the issuer pursuant to the relevant issuer swap agreement (and any interest or distributions in respect thereof); and
- (f) any additional amount the issuer receives from any taxing authority on account of amounts paid to that taxing authority for and on account of tax by an issuer swap provider under an issuer swap agreement

<b>issuer secured creditors</b>	the issuer security trustee, noteholders, the issuer swap providers, the note trustee, the issuer account bank, the paying agents, the registrar, the transfer agent, the agent bank, the exchange rate agent, the issuer corporate services provider under the issuer corporate services agreement, the issuer cash manager and any new issuer secured creditor who accedes to the issuer deed of charge from time to time under a deed of accession or a supplemental deed
<b>issuers</b>	together, the issuer and any new issuer(s)
<b>issuer security</b>	security created by the issuer pursuant to the issuer deed of charge in favour of the issuer secured creditors
<b>issuer security trustee</b>	Law Debenture Trust Company of New York in whose favour security is created pursuant to the issuer deed of charge
<b>issuer security trustees</b>	the issuer security trustee and each security trustee in whose favour security is created pursuant to a deed of charge entered into by the issuer and/or any new issuer which enters into a new loan agreement with Funding 1
<b>issuer share capital account</b>	the bank account of the issuer held with the issuer account bank pursuant to the terms of the issuer bank account agreement into which the share capital of the issuer is deposited
<b>issuer sterling account</b>	the account of the issuer held with the issuer account bank, denominated in sterling and maintained subject to the terms of the issuer bank account agreement and the issuer deed of charge, or any additional or replacement account denominated in sterling as may for the time being be in place with the prior consent of the issuer security trustee
<b>issuer swap</b>	in respect of a series and class of notes, the issuer currency swap or the issuer interest rate swap, as the case may be
<b>issuer swaps</b>	the issuer currency swaps and issuer interest rate swaps
<b>issuer swap agreements</b>	the issuer dollar currency swap agreements, the issuer euro currency swap agreements and the issuer currency swap agreements entered

into from time to time in respect of any other currencies and any issuer interest rate swap agreements

<b>issuer swap excluded termination amount</b>	in relation to any issuer swap agreement an amount equal to: <ul style="list-style-type: none"> <li>(a) the amount of any termination payment due and payable to the relevant issuer swap provider as a result of an issuer swap provider default or following an issuer swap provider downgrade termination event; less</li> <li>(b) the amount, if any, received by the issuer from a replacement swap provider upon entry by the issuer into an agreement with such replacement swap provider to replace such issuer swap agreement which has been terminated as a result of such issuer swap provider default or following the occurrence of such issuer swap provider downgrade termination event</li> </ul>
<b>issuer swap guarantees</b>	if applicable, the guarantee of the obligations of an issuer swap provider under an issuer swap agreement
<b>issuer swap provider</b>	in respect of a series and class of notes, either ANTS or the issuer swap provider identified in the relevant drawdown prospectus
<b>issuer swap provider default</b>	as the context may require, the occurrence of an event of default (as defined in the relevant issuer swap agreement) where the relevant issuer swap provider is the defaulting party (as defined in the relevant issuer swap agreement)
<b>issuer swap provider downgrade termination event</b>	the occurrence of an additional termination event following the failure by an issuer swap provider to comply with the requirements of the ratings downgrade provisions set out in the relevant issuer swap agreement
<b>issuer transaction account</b>	the issuer dollar account, the issuer euro account and the issuer sterling account
<b>issuance tests</b>	the tests set out above in “ <b>Issuance of the notes</b> ”
<b>Jersey share trustee</b>	Sanne Trustee Services Limited
<b>lending criteria</b>	the criteria applicable to the granting of an offer of a mortgage to a borrower, as may be amended from time to time and as further described above in “ <b>The loans – Characteristics of the loans – Lending criteria</b> ”
<b>LIBOR</b>	the London inter-bank offered rate for deposits, in the relevant currency
<b>liquidity reserve fund</b>	a liquidity reserve fund established on the occurrence of certain ratings downgrades of the seller to meet interest and principal shortfalls (in limited circumstances) on certain of the loan tranches
<b>liquidity reserve fund rating event</b>	<p>where there are class A notes and/or class B notes then outstanding, the seller's long-term, unsecured, unsubordinated and unguaranteed debt obligations are rated below A3 by Moody's or A- by Fitch (unless Moody's or Fitch, as applicable, confirms that the then current ratings of the notes (and any new notes, where applicable) will not be adversely affected by the ratings downgrade).</p> <p>For such purposes, Fitch has indicated that it no longer employs a liquidity reserve in its ratings methodology such that it would not regard any downgrade of the seller as warranting the establishment of a liquidity reserve</p>
<b>liquidity reserve fund required amount</b>	on any Funding 1 interest payment date, an amount equal to the excess (if any) of 3 per cent. of the aggregate outstanding balance of the notes on that date over the aggregate of amounts standing to the

	credit of the general reserve fund on that Funding 1 interest payment date
<b>liquidity reserve ledger</b>	a ledger maintained by the cash manager to record the withdrawals and deposits in respect of the liquidity reserve fund
<b>liquidity reserve principal payment</b>	the meaning given to it on page 194
<b>listed notes</b>	the meaning given to it on page i
<b>loan</b>	each loan referenced by its loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other monies (including all further advances) due or owing with respect to that loan under the relevant mortgage conditions by a borrower on the security of a mortgage from time to time outstanding or, as the context may require, the borrower's obligations in respect of the same
<b>loan tranche payment date</b>	in respect of (i) a bullet loan tranche, the bullet repayment date, (ii) a scheduled amortisation loan tranche, the scheduled repayment dates specified in the applicable final terms and each Funding 1 interest payment date following the last such specified scheduled repayment date, and (iii) a pass-through loan tranche, the Funding 1 interest payment dates, in each case specified in the applicable loan tranche supplement or, following the occurrence of a pass-through trigger event, the dates corresponding to the interest payment dates for the corresponding notes;
<b>loan tranche ratings</b>	the meaning given to it on page 110
<b>loan tranche supplement</b>	in relation to any loan tranche, the document between, amongst others, Funding 1 and the issuer recording the principal terms of such loan tranche; and in relation to any new loan tranche made available to Funding 1 and/or a further Funding company, the document between, amongst others, Funding 1, the relevant further Funding company and the new issuer recording the principal terms of such new loan tranche
<b>loan tranches</b>	the AAA loan tranches, the AA loan tranches, the A loan tranches, the BBB loan tranches, the BB loan tranches and the NR loan tranches, being the advances made by the issuer to Funding 1 pursuant to the intercompany loan agreement, each being funded from proceeds received by the issuer from the issue of a series and class of notes
<b>London business day</b>	a day (other than a Saturday or Sunday) on which banks are generally open for business in London
<b>losses</b>	the realised losses experienced on the loans in the portfolio
<b>losses ledger</b>	the ledger of such name created and maintained by the cash manager pursuant to the cash management agreement to record the losses on loans in the portfolio
<b>LTV, LTV ratio or loan-to-value ratio</b>	the ratio of the outstanding balance of a loan to the value of the mortgaged property securing that loan
<b>Main Securities Market managers</b>	the regulated market of the Irish Stock Exchange the entities specified as such in the applicable subscription agreement
<b>master definitions and construction schedule</b>	the master definitions and construction schedule, as amended from time to time, containing definitions used in the transaction documents
<b>MCOB</b>	the Mortgages and Home Finance: Conduct of Business sourcebook under the FSMA
<b>MH/CP Documentation</b>	an affidavit, declaration, consent or renunciation granted in terms of the Matrimonial Homes (Family Protection) (Scotland) Act 1981 or (as applicable) the Civil Partnership Act 2004 in connection with a Scottish mortgage or the property secured thereby

<b>MiFID</b>	the Markets in Financial Instruments Directive 2004/39/EC
<b>minimum required ratings</b>	with respect to the Funding 1 bank account agreement (i) short-term, unsubordinated, unguaranteed and unsecured debt obligations rated at least P-1 by Moody's, (ii) unsubordinated, unguaranteed and unsecured debt obligations rated at least A-1 short-term and A long-term (or, if the related institution has no short-term rating from S&P, at least A+ long-term) by S&P, and (iii) short-term and long-term IDR of least F-1 and A, respectively, by Fitch
<b>minimum seller share</b>	an amount included in the current seller share which is calculated in accordance with the mortgages trust deed as further described under " <b>The mortgages trust</b> " above
<b>minimum yield</b>	LIBOR for 3 month sterling deposits plus 1.00 per cent (or any higher percentage specified in the most recent final terms)
<b>money market notes</b>	the meaning given to it under " <b>Description of the notes – money market notes</b> " above
<b>monthly CPR</b>	the meaning given to it on page 162
<b>monthly dates</b>	the 18th day of each calendar month in each year (or, if such day is not a business day, the next succeeding business day)
<b>monthly interest payment date</b>	in respect of any monthly payment notes, the monthly dates specified in the applicable final terms for the payment of interest and/or principal, subject, in each case, to the appropriate business day convention, if any, specified in the applicable final terms
<b>monthly payment notes</b>	either money market notes or any other notes in respect of which monthly interest payment dates are specified in the applicable final terms
<b>monthly payments</b>	the amount (including interest and principal) which the relevant mortgage terms require a borrower to pay on each interest payment date in respect of that borrower's loan
<b>Moody's</b>	Moody's Investors Service Ltd. and any successor to its ratings business
<b>Moody's portfolio variation test</b>	the calculation methodology provided by Moody's to the servicer from time to time for the purpose of calculating the Moody's portfolio variation test value
<b>Moody's portfolio variation test value</b>	a certain percentage resulting from the application of the Moody's portfolio variation test
<b>mortgage</b>	the legal charge or standard security securing a loan
<b>mortgage account</b>	a loan secured on a property will be incorporated in a single mortgage account
<b>mortgage conditions</b>	the terms and conditions applicable to the loans as contained in the seller's Mortgage Conditions booklets for England and Wales, or Scotland or Northern Ireland applicable from time to time
<b>mortgage related securities</b>	as defined in the U.S. Secondary Mortgage Markets Enhancement Act 1984, as amended
<b>mortgage sale agreement</b>	the mortgage sale agreement entered into on the initial closing date, as amended from time to time, among the seller, the mortgages trustee, Funding 1 and the Funding 1 security trustee in relation to the sale of loans to the mortgages trustee from time to time, as further described in " <b>Description of the transaction documents – The mortgage sale agreement</b> " above
<b>mortgage terms</b>	all the terms and conditions applicable to a loan, including without limitation the applicable mortgage conditions and offer conditions

<b>mortgage transfer service</b>	a service offered by the seller which allows remortgages of properties to be completed under an expedited procedure, as described further in <b>“The loans – Characteristics of the loans – Insurance policies”</b> above
<b>mortgages trust</b>	the bare trust of the trust property held by the mortgages trustee as to both capital and income on trust absolutely for Funding 1 (as to the Funding 1 share), for each further Funding company (as to its respective further Funding company share) and the seller (as to the seller share), so that each has an undivided beneficial interest in the trust property
<b>mortgages trust available principal receipts</b>	the amount standing to the credit of the principal ledger on the relevant trust calculation date
<b>mortgages trust available revenue receipts</b>	an amount equal to: <ul style="list-style-type: none"> <li>(a) revenue receipts on the loans (but excluding principal receipts);</li> <li>(b) plus interest payable to the mortgages trustee on the mortgages trustee GIC account;</li> <li>(c) less third party amounts,</li> </ul> as described further above in <b>“The mortgages trust”</b>
<b>mortgages trust deed</b>	the mortgages trust deed entered into on the initial closing date, as amended from time to time, between (among others) the mortgages trustee, Funding 1 and the seller, as further described above in <b>“The mortgages trust”</b>
<b>mortgages trust principal priority of payments</b>	the meaning given to it on page 165
<b>mortgages trust revenue priority of payments</b>	the order in which the cash manager applies mortgages trust available revenue receipts on each distribution date, as described further above in <b>“The mortgages trust – Mortgages trust calculation of revenue receipts”</b>
<b>mortgages trustee</b>	Fosse Trustee Limited
<b>mortgages trustee account bank</b>	Santander UK
<b>mortgages trustee bank account agreement</b>	the agreement entered into on 23 November 2009, as amended from time to time, between, among others, the mortgages trustee account bank and the mortgages trustee, which governs the operations of the mortgages trustee GIC account
<b>mortgages trustee corporate services agreement</b>	the agreement entered into on or about the initial closing date between State Street (Jersey) Limited, the mortgages trustee and Alliance & Leicester plc (which has been replaced by Santander UK since the Part VII effective date) as novated to State Street Capital Markets Services (Jersey) Limited (now Sanne Corporate Services Limited) on 1 June 2013, pursuant to a novation letter dated 13 May 2013 from State Street Global Services to the mortgages trustee and Santander UK, which governs the provision of corporate services by the mortgages trustee corporate services provider to the mortgages trustee
<b>mortgages trustee corporate services provider</b>	Sanne Corporate Services Limited or such other person or persons for the time being acting as corporate services provider to the mortgages trustee under the mortgages trustee corporate services agreement

<b>mortgages trustee GIC account</b>	the account in the name of the mortgages trustee maintained with Santander UK pursuant to the terms of the mortgages trustee bank account agreement or such additional or replacement account as may for the time being be in place
<b>mortgages trustee variable rate</b>	the variable rates which apply to the variable rate loans in the portfolio as set, other than in limited circumstances, by the servicer, as described further above in “ <b>Description of the transaction documents – Servicing agreement</b> ”
<b>new Funding 1 start-up loan provider</b>	any entity other than Santander UK that provides a Funding 1 start-up loan in the future
<b>new intercompany loans</b>	loans made by any new issuer to Funding 1 and/or any further Funding company (where applicable) using proceeds of new notes issued by that new issuer
<b>new issuers</b>	any company other than the issuer which issues new notes where all or part of the proceeds of the issue of such new notes will be on-lent to Funding 1 and/or any further Funding company
<b>new loan tranches</b>	any advances made by new issuers to Funding 1 and/or any further Funding company under a new intercompany loan
<b>new loan type</b>	on any date, a type of loan which is materially different from the types of loans comprised in the portfolio
<b>new loans</b>	loans which the seller may sell, from time to time after the closing date, to the mortgages trustee pursuant to the terms of the mortgage sale agreement
<b>new noteholders</b>	holders of new notes
<b>new notes</b>	notes issued by new issuers
<b>new rated notes</b>	rated notes issued by new issuers
<b>new trust property</b>	the meaning given to it on page 152
<b>New York business day</b>	a day (other than a Saturday or a Sunday) on which banks are generally open in the city of New York
<b>N(M)</b>	31 October 2004, being the date on which mortgage lending in the United Kingdom became a regulated activity under FSMA
<b>non-asset trigger event</b>	on a trust calculation date (a) the occurrence of an insolvency event in relation to the seller on or before that trust calculation date, (b) the seller's role as servicer is terminated and a new servicer is not appointed within 60 days, (c) the current seller share of the trust property is less than the minimum seller share on two consecutive trust calculation dates (in each case by reference to the most recent trust calculation date) or (d) as at the trust calculation date immediately preceding the relevant trust calculation date, the aggregate outstanding principal balance of loans comprising the trust property is less than the required loan balance amount specified in the most recent final terms and this has not been remedied by the relevant trust calculation date
<b>non bullet Funding 1 principal amounts</b>	all mortgages trust available principal receipts distributed to Funding 1 on each distribution date under the mortgages trust deed (other than amounts allocated to the general reserve fund or the liquidity reserve fund in accordance with the mortgages trust deed and excluding the bullet accumulation liability due in respect of any bullet loan tranche which is within a cash accumulation period)
<b>non-ISE listed notes</b>	the meaning given to it on page i
<b>non-United States holder</b>	a beneficial owner of the Rule 144A notes who is not a United States holder

<b>Northern Irish loan</b>	a loan secured by a Northern Irish mortgage
<b>Northern Irish mortgage</b>	a mortgage secured over a property in Northern Ireland
<b>Northern Irish mortgage conditions</b>	the mortgage conditions applicable to Northern Irish loans
<b>note acceleration notice</b>	an acceleration notice served by the note trustee in relation to the enforcement of the issuer security following a note event of default
<b>note event of default</b>	an event of default under the provisions of condition 9 of the notes where the issuer is the defaulting party
<b>note principal payment</b>	the amount of each principal payment payable on each note
<b>note trust deed</b>	the principal agreement entered into on the initial closing date governing the notes
<b>note trustee</b>	Law Debenture Trust Company of New York in whose favour certain rights are vested pursuant to the note trust deed
<b>note trustees</b>	the note trustee and each trustee who has each entered into a note trust deed with any new issuer which enters into a new loan agreement with Funding 1
<b>noteholders</b>	the holders of the class A notes, the class B notes, the class M notes, the class C notes, the class D notes and the class Z notes of any series
<b>notes</b>	includes all of the class A notes, the class B notes, the class M notes, the class C notes, the class D notes and the class Z notes of any series
<b>notional amount of the Funding 1 swap(s)</b>	the meaning given to it on page 143
<b>NR loan tranches</b>	the loan tranches made by the issuer to Funding 1 under the intercompany loan agreement from the proceeds of issue of any series of class Z notes
<b>NR principal deficiency sub-ledger</b>	a sub-ledger on the principal deficiency ledger which specifically records any principal deficiency in respect of any NR loan tranches
<b>NSS</b>	the new safekeeping structure for registered notes which are intended to constitute eligible collateral for Eurosystem monetary policy operations
<b>offer conditions</b>	the terms and conditions applicable to a specific loan as set out in the relevant offer letter to the borrower
<b>Official List</b>	the official list maintained by the Irish Stock Exchange
<b>offshore transaction</b>	as defined in Reg S
<b>OFT</b>	Office of Fair Trading
<b>OID</b>	original issue discount, as described further above in “ <b>United States federal income taxation – Taxation of United States holders of the notes</b> ”
<b>OID regulations</b>	U.S. Treasury regulations relating to original issue discount
<b>original bullet loan tranche</b>	in respect of Funding 1 under the intercompany loan agreement, a loan tranche which at any time has been a bullet loan tranche (even if such bullet loan tranche has subsequently become a pass-through loan tranche)
<b>original LTV</b>	for the purpose of the Fitch conditions, the ratio calculated in the manner agreed with Fitch as further described on page 99



<b>original scheduled amortisation instalment</b>	in respect of Funding 1 under the intercompany loan agreement, that part of a loan tranche which at any time has been a scheduled amortisation instalment (even if that part of that loan tranche has subsequently become a pass-through loan tranche)
<b>original scheduled amortisation loan tranche</b>	a loan tranche which at any time has been a scheduled amortisation loan tranche (even if such loan tranche has subsequently become a pass-through loan tranche)
<b>original weighted average LTV</b>	for the purpose of the Fitch conditions, the ratio calculated in the manner agreed with Fitch as further described on page 99
<b>other dealers</b>	any dealers (other than the initial dealer) appointed by the issuer under the programme agreement
<b>outstanding principal amount</b>	in relation to any intercompany loan or loan tranche or new loan tranche, the original principal amount thereof on the date that it is made to the relevant Funding company less any payments of principal in respect thereof
<b>outstanding principal balance</b>	<p>in relation to a loan at any date (in this definition, the <b>determination date</b>), means the aggregate principal balance of the loan at such date, including (but avoiding double counting):</p> <ul style="list-style-type: none"> <li>(a) the original principal amount advanced by the seller to the relevant borrower;</li> <li>(b) any increase in the principal amount due under that loan due to the borrower making cash withdrawals or a borrower taking payment holidays or making underpayments or a further advance being made available to a borrower; and</li> </ul> <p>in each case relating to such loan less any prepayment (including any decrease in the principal amount due under that loan due to the borrower making overpayments), repayment or payment of the foregoing made on or prior to the determination date</p>
<b>overpayment</b>	a payment made by a borrower in an amount greater than the monthly payment then due on the loan
<b>panel bank guidelines</b>	guidelines set out from time to time by the cash manager for the purpose of depositing amounts standing to the credit of the Funding 1 transaction account with eligible banks subject to and in accordance with the terms of the cash management agreement and which are described under “ <b>Descriptions of the Transaction Documents – Cash Management Agreement – Deposits with eligible banks in accordance with panel bank guidelines</b> ”
<b>Part VII effective date</b>	the meaning given to it on page 3
<b>participants</b>	in relation to Euroclear and Clearstream, Luxembourg, the direct and indirect participants as described further above in “ <b>Book-entry clearance procedures – Euroclear, Clearstream, Luxembourg and DTC</b> ”
<b>parties in interest</b>	the meaning given to it on page 333
<b>pass-through loan tranche</b>	in respect of Funding 1 under the intercompany loan agreement, a loan tranche which has no scheduled repayment date other than the final repayment date, namely those loan tranches designated as “pass-through” loan tranches in the applicable loan tranche supplement and the accompanying final terms. In addition, on the occurrence of a pass-through trigger event, each bullet loan tranche and scheduled amortisation loan tranche will be deemed to be pass-through loan tranches

<b>pass-through notes</b>	any series and class of notes which has no specified redemption dates other than the final maturity date, namely those series and class of notes designated as “pass-through notes” in the applicable final terms. In addition, on the occurrence of a pass-through trigger event, all bullet redemption notes and scheduled redemption notes will be deemed to be pass-through notes
<b>pass-through trigger event</b>	if (a) a trigger event occurs; (b) a note acceleration notice is served by the note trustee on the issuer, or (c) an intercompany loan acceleration notice is served by the Funding 1 security trustee on Funding 1
<b>paying agent and agent bank agreement</b>	the agreement entered into on the initial closing date which sets out the appointment of the paying agents, the registrar, the transfer agent, the exchange rate agent and the agent bank for the notes (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>paying agents</b>	the principal paying agent and the U.S. paying agent
<b>payment holiday</b>	a period during which a borrower may suspend payments under a loan without penalty
<b>PECOH corporate services provider</b>	Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to the post-enforcement call option holder under the PECOH corporate services agreement
<b>permitted product switch</b>	<p>a variation in the financial terms and conditions of a loan in which a borrower exchanges its then current loan product for a different loan product offered by the seller, provided that:</p> <ul style="list-style-type: none"> <li>• the relevant borrower has made at least one monthly payment on its then current loan product;</li> <li>• the new loan for which the prior loan is to be exchanged is a permitted replacement loan;</li> <li>• each of the conditions for the assignment of new loans and their related security (other than conditions (e) and (h)) as set forth under “<b>Description of the transaction documents – The mortgage sale agreement – Conditions for sale of initial loans and new loans</b>” above are satisfied, provided that conditions (i), (j) and (l) in that section will only be required to have been satisfied on the date of the most recent assignment of loans to the mortgages trustee;</li> <li>• the interest-only mortgages level test is satisfied if, as calculated on the most recent trust calculation date: <math>A/B \times 100 \leq C</math>  where  A = the current balance of all interest-only loans (which, for the avoidance of doubt includes interest-only components of combination repayment and interest-only loans) comprised in the trust property as at the relevant trust calculation date; B = the current balance of all loans comprising the trust property as at the relevant trust calculation date; and C = the number specified in the most recent final terms; and</li> <li>• the product switch is not a variation or arrangement agreed with a borrower made pursuant to the Homeowner Mortgage Support Scheme as set out by HM Treasury in a press notice on 10 December 2008 and as set out in further detail by the Department for Communities and Local Government in a press notice on 21 April 2009 (or a comparable scheme operated by the seller)</li> </ul>

<b>permitted redemption dates</b>	in respect of a series and class of notes, the interest payment date specified in the applicable final terms on which those notes may be redeemed by the issuer, subject to the terms and conditions of the notes
<b>permitted replacement loan</b>	a loan: <ul style="list-style-type: none"> <li>• that is subject to either a fixed rate, a variable rate or a base rate-linked rate of interest;</li> <li>• that has a maturity date prior to October 2052; and</li> <li>• to which the purchase obligations of the seller set forth under <b>“Description of the transaction documents – The mortgage sale agreement – Repurchase of the loans under a mortgage account”</b> above shall not apply</li> </ul>
<b>PFIC</b>	a passive foreign investment company, as described further above in <b>“United States federal income taxation – Alternative characterisation of the Rule 144A notes”</b>
<b>Plan Asset Regulation</b>	regulation 29 C.F.R. Section 2510.3-101 promulgated by the U.S. Department of Labor as modified by Section 3(42) of ERISA
<b>Plans</b>	the meaning given to it on page 333
<b>portable loan</b>	a loan (other than a variable rate loan) that incorporates a portability facility, which allows the borrower to transfer the loan balance at the same interest rate and subject to all the existing terms and conditions to a new property during any applicable discount rate period, fixed rate period or premium rate period
<b>portfolio</b>	at any time the loans and their related security sold to the mortgages trustee and held by the mortgages trustee on trust for the beneficiaries
<b>post-enforcement call option</b>	the call option granted to the post-enforcement call option holder in respect of the notes under the post-enforcement call option agreement
<b>post-enforcement call option agreement</b>	the agreement entered into on the initial closing date under which the note trustee agrees on behalf of the holders of the notes, that following enforcement of the issuer security, the post-enforcement call option holder may call for the notes (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>post-enforcement call option holder or PECO</b>	Fosse PECO Limited
<b>post-enforcement call option holder corporate services agreement</b>	an agreement entered into on the initial closing date between, among others, the post-enforcement call option holder, the PECO corporate services provider and the note trustee which governs the provision of corporate services by the PECO corporate services provider to the post-enforcement call option holder
<b>post-perfection SVR-LIBOR margin</b>	the percentage specified as such in the most recent final terms
<b>potential seller principal distribution amount</b>	the amount, determined by the cash manager, of mortgages trust available principal receipts that (absent any distributions of mortgages trust available principal receipts to be made in respect of the Funding 1 loan) are available to be distributed to the seller
<b>PRA</b>	means the Prudential Regulation Authority
<b>premium rate period</b>	the meaning given to it on page 212
<b>previous seller</b>	Alliance & Leicester plc
<b>principal deficiency ledger</b>	the ledger of such name maintained by the cash manager, on the date hereof comprising on the closing date seven sub-ledgers, the AAA principal deficiency sub-ledger, the AA principal deficiency sub-ledger,

	the A principal deficiency sub-ledger, the BBB principal deficiency sub-ledger, the BB principal deficiency sub-ledger, the NR principal deficiency sub-ledger and the Funding 1 loan principal deficiency sub-ledger and which records any deficiency of principal (following a loss on a loan or the application of principal receipts to meet any deficiency in Funding 1 available revenue receipts) in respect of payments due under the intercompany loan and, if the context requires, the comparable ledger for a further Funding company
<b>principal deficiency sub-ledger</b>	the AAA principal deficiency sub-ledger, the AA principal deficiency sub-ledger, the A principal deficiency sub-ledger, the BBB principal deficiency sub-ledger, the BB principal deficiency sub-ledger, the NR principal deficiency sub-ledger or the Funding 1 loan principal deficiency sub-ledger, and/or such additional principal deficiency sub-ledgers that may be established from time to time after the initial closing date, as the case may be
<b>principal ledger</b>	the ledger of such name maintained by the cash manager on behalf of the mortgages trustee pursuant to the cash management agreement to record principal receipts on the loans and payments of principal from the mortgages trustee GIC account to Funding 1, each further Funding company and the seller on each distribution date. Together the principal ledger and the revenue ledger reflect the aggregate of all amounts of cash standing to the credit of the mortgages trustee GIC account
<b>principal paying agent</b>	Citibank, N.A., London branch
<b>principal prepayment rate</b>	a constant rate per annum of unscheduled principal receipts assumed to have been produced by the loans included in the portfolio, due to the full or partial prepayment of any loans included in the portfolio prior to the relevant repayment dates or (as the case may be) maturity dates applicable to those loans
<b>principal receipts</b>	all principal amounts received from borrowers in respect of the loans or otherwise paid or recovered in respect of the loans and their related security representing monthly repayments of principal, prepayments of principal, redemption proceeds and amounts recovered on enforcement representing principal and prepayments on the loans made by borrowers (but excluding principal received or treated as received in respect of a loan subsequent to the completion of enforcement procedures)
<b>product switch</b>	a variation to the financial terms and conditions of a loan other than: <ul style="list-style-type: none"> <li>• any variation agreed with a borrower to control or manage arrears on the loan;</li> <li>• any variation of the maturity date of the loan unless, while the intercompany loan is outstanding, it is extended beyond October 2052;</li> <li>• any variation imposed by statute (excluding any variation or arrangement agreed with a borrower made pursuant to the Homeowner Mortgage Support Scheme or a comparable scheme operated by the seller);</li> <li>• any variation of the rate of interest payable in respect of the loan where that rate is offered to the borrowers of more than 10 per cent. by current balance of loans in the trust property as calculated on the next trust calculation date as at the end of the immediately preceding trust calculation period (except where such variation would cause the yield of the loans comprising the trust property to be less than the minimum yield (after taking into account the average yield on the loans which are variable rate loans, base rate loans and fixed rate loans and the margins on the Funding 1 swap(s) (and the relevant swaps of any further Funding companies, where applicable))); or</li> </ul>

	<ul style="list-style-type: none"> <li>any variation in the frequency with which the interest payable in respect of the loan is charged</li> </ul>
<b>programme</b>	the meaning given to it on page i
<b>programme agreement</b>	the agreement entered into on or about the initial closing date, as amended from time to time, between, amongst others, the issuer, Funding 1 and the dealers named therein (or deemed named therein)
<b>Prospectus Directive</b>	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC
<b>PTCE</b>	Prohibited Transaction Class Exemption, as described further above in “ <b>ERISA considerations</b> ”
<b>Purpose-Built</b>	in respect of a residential dwelling, built or made for such a residential purpose (as opposed to converted)
<b>QIBs</b>	qualified institutional buyers within the meaning of Rule 144A under the Securities Act
<b>quarter dates</b>	<p>the 18th day of any of the following dates (or any one of such dates occurring annually or two of such dates occurring semi-annually) as specified in the applicable final terms for payment of interest and/or principal on the notes and any corresponding loan tranche:</p> <p>(a) January, April, July and October; or</p> <p>(b) February, May, August and November; or</p> <p>(c) March, June, September and December</p>
<b>quarterly CPR</b>	<p>on any date means the average of the three most recent CPRs, where CPR is, on any trust calculation date, the annualised principal repayment rate of all the loans comprised in the trust property during the previous trust calculation period calculated as follows:</p> $1 - ((1 - R) ^ 12)$ <p>where R equals the result (expressed as a percentage) of the total principal receipts received during the period of one month ending on that trust calculation date divided by the aggregate outstanding principal balance of the loans comprised in the trust property as at the first day of that period</p>
<b>quarterly interest payment date</b>	in respect of a series and class of notes (other than monthly payment notes), the quarter dates specified in the final terms for the payment of interest and/or principal, until the occurrence of a pass-through trigger event and, following such occurrence, the monthly dates subject, in each case, to the appropriate business day convention, if any, specified in the applicable final terms
<b>rated notes</b>	the meaning given to it on page 72
<b>rating</b>	rating assigned by the relevant rating agencies to the current rated notes or new rated notes, where applicable
<b>rating agencies</b>	in respect of any rated notes, Moody's, Standard & Poor's and/or Fitch (in each case, only if they have provided a rating in respect of those rated notes) and any further or replacement rating agency appointed by the issuer with the approval of the note trustee to give a credit rating to the rated notes of any series and/or class; each of the rating agencies is established in the European Union, is registered under the CRA Regulation and is included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation
<b>rating agency excess spread</b>	the meaning given to it on page 93
<b>reasonable, prudent mortgage lender</b>	a reasonably prudent prime residential mortgage lender lending to borrowers in England, Wales, Northern Ireland and Scotland who

	generally satisfy the lending criteria of traditional sources of residential mortgage capital
<b>receiver</b>	a receiver appointed by the relevant security trustee pursuant to the issuer deed of charge and/or the Funding 1 deed of charge
<b>reference banks</b>	at the date of this base prospectus, the London office of each of the following banks: The Royal Bank of Scotland N.V., Barclays Bank PLC, Citibank, N.A. and The Royal Bank of Scotland plc
<b>refinancing contribution</b>	the meaning given to it on page 151
<b>refinancing distribution</b>	the meaning given to it on page 151
<b>required loan balance amount</b>	(notwithstanding any references to the definition of “non-asset trigger event” in the final terms relating to any notes) zero
<b>Reg S</b>	Regulation S under the United States Securities Act of 1933, as amended
<b>Reg S global notes</b>	the note certificates representing the Reg S notes while in global form
<b>Reg S notes</b>	each series and class of notes that are sold outside the United States to non-U.S. persons in reliance on Reg S
<b>Regulated Activities Order</b>	the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001
<b>Registers of Scotland registrar</b>	the Land Register of Scotland and/or the General Register of Sasines Citibank, N.A., London branch
<b>regulated mortgage contract</b>	as defined in “ <b>Risk factors – Certain regulatory considerations – Failure by the seller or the servicer to hold relevant authorisation and permissions under the FSMA in relation to regulated mortgage contracts and regulated consumer credit agreements may have an adverse effect on enforcement of mortgage contracts</b> ” on page 42
<b>reinstatement</b>	in relation to a property that has been damaged, repairing or rebuilding that property to the condition that it was in prior to the occurrence of the damage
<b>related security</b>	in relation to a loan, the security for the repayment of that loan including the relevant mortgage and all other matters applicable thereto acquired as part of the portfolio sold to the mortgages trustee
<b>relevant accumulation amount</b>	the amount of funds to be accumulated over a cash accumulation period in order to repay a bullet loan tranche or a scheduled amortisation instalment on its scheduled repayment date whether or not actually repaid on that scheduled repayment date
<b>relevant closing date</b>	in respect of a series and class of notes, the closing date specified in the relevant final terms
<b>relevant distribution date</b>	the meaning given to it on page 165
<b>relevant trust calculation date</b>	the meaning given to it on page 152
<b>repayment requirement</b>	the meaning given to it on page 163
<b>repayment tests</b>	Rules 1 and 2 under “ <b>Cashflows – Distribution of Funding 1 available principal receipts</b> ”
<b>required note issuance ratings</b>	the meaning given to it on page 72
<b>reserve principal payment</b>	the meaning given to it on page 192

<b>revenue ledger</b>	the ledger(s) of such name created and maintained by the cash manager on behalf of the mortgages trustee pursuant to the cash management agreement to record revenue receipts on the loans and interest from the mortgages trustee GIC account and payments of revenue receipts from the mortgages trustee GIC account to Funding 1 and the seller on each distribution date. The revenue ledger and the principal ledger together reflect the aggregate of all amounts of cash standing to the credit of the mortgages trustee GIC account
<b>revenue receipts</b>	amounts received by the mortgages trustee in the mortgages trustee GIC account in respect of the loans other than principal receipts and third party amounts
<b>Rule 144A</b>	Rule 144A under the Securities Act
<b>Rule 144A global notes</b>	the note certificates representing the Rule 144A Notes while in global form
<b>Rule 144A notes</b>	each series and class of notes which are sold in the United States only to qualified institutional buyers within the meaning of Rule 144A under the United States Securities Act of 1933, as amended
<b>sale date</b>	the date on which any new loans are sold to the mortgages trustee in accordance with clause 4 of the mortgage sale agreement
<b>Santander UK</b>	Santander UK plc (formerly Abbey National plc)
<b>Santander A-2/P-2/F2 account</b>	a bank account held at and maintained with Santander UK whilst it maintains its current FSMA authorisations to accept deposits and: <ul style="list-style-type: none"> <li>(a) its short-term, unsubordinated, unguaranteed and unsecured debt obligation ratings of account bank B is below P-1 but at least P-2 by Moody's; and</li> <li>(b) its short-term and long-term IDR are below F1+ and AA- but at least F2 and BBB+ respectively by Fitch; and</li> <li>(c) its unsubordinated, unguaranteed and unsecured debt obligation ratings are below A-1+ short-term and AA long-term but at least A-2 short-term and BBB+ long-term by S&amp;P</li> </ul>
<b>scheduled amortisation instalment</b>	in respect of each loan tranche that is a scheduled redemption loan tranche and in respect of the corresponding series and class of scheduled redemption notes, the instalment amounts specified as applying to such loan tranche and related series and class of notes in the relevant final terms and, following the last such scheduled repayment date specified in the relevant final terms, the outstanding principal amount of such loan tranche payable on each Funding 1 interest payment date thereafter
<b>scheduled amortisation loan tranche</b>	in respect of Funding 1 under the intercompany loan agreement, any loan tranche that is scheduled to be repaid in instalments on one or more Funding 1 interest payment dates (the last of which may occur prior to the final repayment date) and which is designated as a "scheduled amortisation" loan tranche in the applicable loan tranche supplement and the accompanying final terms. The scheduled amortisation loan tranches will be deemed to be pass-through loan tranches if a pass-through trigger event occurs
<b>scheduled amortisation repayment restrictions</b>	the meaning given to it on page 181
<b>scheduled redemption dates</b>	in respect of a series and class of notes, the interest payment date, if any, specified in the applicable final terms, for the payment of principal, subject to the terms and conditions of the notes
<b>scheduled redemption notes</b>	any series and class of notes which has two or more specified redemption dates in addition to the final maturity date and which are designated as "scheduled redemption" notes in the applicable final

	terms. The scheduled redemption notes will be deemed to be pass-through notes if a pass-through trigger event occurs
<b>scheduled repayment dates</b>	in respect of a loan tranche, the date(s) specified in the final terms, for the repayment of principal
<b>Scottish declaration of trust</b>	each declaration of trust granted or to be granted by the seller in favour of the mortgages trustee pursuant to the mortgage sale agreement transferring the beneficial interest in Scottish loans and their related security to the mortgages trustee
<b>Scottish loan</b>	a loan secured by a Scottish mortgage
<b>Scottish mortgage</b>	a mortgage secured over a property in Scotland
<b>Scottish mortgage conditions</b>	the mortgage conditions applicable to Scottish loans
<b>secretarial services agreement</b>	the agreement entered into on the initial closing date pursuant to which Alliance & Leicester (which has been replaced by Santander UK since the Part VII effective date) agrees to provide secretarial services to each of the issuer, Funding 1, Holdings and PECO
<b>Securities Act</b>	the United States Securities Act of 1933, as amended
<b>seller</b>	Alliance & Leicester plc or, on and from the Part VII effective date, Santander UK
<b>seller accrued interest amounts</b>	amounts of accrued interest on the loans up to and excluding their sale into the mortgages trust
<b>seller contribution</b>	the meaning given to it on page 151
<b>seller's policy</b>	the originating, underwriting, administration, arrears and enforcement policy applied by the seller from time to time to loans and their related security owned solely by the seller
<b>seller share</b>	the seller share of the trust property from time to time, as calculated on each trust calculation date
<b>seller share percentage</b>	the seller share percentage of the trust property from time to time, as calculated on each trust calculation date
<b>semi-detached</b>	a house joined to another house on one side only
<b>senior expenses</b>	amounts ranking in priority to interest due on the loan tranches
<b>servicer</b>	Alliance & Leicester or (on and after the Part VII effective date) Santander UK or such other person as may from time to time be appointed as servicer of the portfolio pursuant to the servicing agreement
<b>servicer termination event</b>	the meaning given to it on page 117
<b>servicing agreement</b>	the agreement entered into on the initial closing date (as amended, restated, supplemented, replaced and/or novated from time to time) between the servicer, the mortgages trustee, the seller, the Funding 1 security trustee and Funding 1 under which the servicer agrees to administer the loans and their related security comprised in the portfolio, as described further above in " <b>Description of the transaction documents – Servicing agreement</b> "
<b>shortfall</b>	the deficiency of Funding 1 available revenue receipts on a Funding 1 interest payment date over the amounts due by Funding 1 under the Funding 1 pre-acceleration revenue priority of payments
<b>special distribution</b>	the meaning given to it on page 169
<b>specified minimum rate</b>	the rate specified in the offer conditions
<b>sponsor</b>	Santander UK
<b>Standard &amp; Poor's or S&amp;P</b>	Standard & Poor's Rating Services, a division of Standard & Poor's Credit Market Services Europe Limited, and any successor to its ratings business



<b>step-up date</b>	(i) in relation to a loan tranche, the Funding 1 interest payment date on which the interest rate on the relevant loan tranche under the intercompany loan increases by a pre-determined amount and (ii) in relation to the notes, the interest payment date on which the interest rate on the relevant notes increases by a pre-determined amount as specified in the applicable final terms
<b>sterling notes</b>	each series and class of notes denominated in sterling
<b>subscription agreement</b>	an agreement supplemental to the programme agreement in or substantially in the form set out in the programme agreement or such other form as may be agreed between the issuer, managers and the dealers
<b>swap agreements</b>	the Funding 1 swap agreement and the issuer swap agreements and swap agreement means any one of them
<b>swap early termination event</b>	a circumstance in which a swap agreement can be terminated prior to its scheduled termination date
<b>swap providers</b>	the Funding 1 swap provider and the issuer swap providers and swap provider means any one of them
<b>TARGET business day</b>	a day on which the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET2) System which was launched on 19 November 2007 is open
<b>terraced</b>	a house in a row of houses built in one block in a uniform style
<b>third party amounts</b>	includes: <ul style="list-style-type: none"> <li>(a) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup that amount itself from its customer's account;</li> <li>(b) payments by borrowers of any fees and other charges which are due to the seller; or</li> <li>(c) recoveries in respect of amounts deducted from loans as described above in paragraphs (a) to (d) in "<b>The mortgages trust – Adjustments to trust property</b>", which shall belong to and be paid to the seller as described therein</li> </ul>
<b>transaction documents</b>	the documents listed in paragraph 4 in " <b>Listing and general information</b> " above and any additional documents entered into in connection therewith
<b>transfer agent</b>	Citibank, N.A., London branch
<b>trigger event</b>	an asset trigger event and/or a non-asset trigger event
<b>trust calculation date</b>	the initial closing date, the London business day following the last day of each month and the day on which the mortgages trust is terminated
<b>trust calculation period</b>	the period from (and including) the first day of each calendar month (or, as applicable, the initial closing date) to (and including) the last day of that calendar month or, as applicable, the date of termination of the mortgages trust
<b>trust calculation period Funding 1 amount</b>	the meaning given to it on page 142
<b>trust calculation period swap provider amount</b>	the meaning given to it on page 142
<b>trust property</b>	includes: <ul style="list-style-type: none"> <li>(a) the sum of £100 settled by the Jersey share trustee on trust on the date of the mortgages trust deed;</li> <li>(b) the portfolio of loans and their related security sold to the mortgages trustee by the seller on the initial closing date;</li> <li>(c) any new loans and their related security sold to the mortgages trustee by the seller after the initial closing date;</li> </ul>

- (d) any increase in the outstanding principal balance of a loan due to a borrower taking payment holidays or making underpayments under a loan or making drawings under any flexible loan or the seller making a further advance under a loan or the capitalisation of arrears in respect of any loan;
- (e) any revenue receipts and principal receipts on the loans in the portfolio;
- (f) any contribution paid by Funding 1, any further Funding company or the seller to the mortgages trustee, for application in accordance with the terms of the mortgages trust deed, but only until such contributions have ceased to be trust property having been applied by the mortgages trustee in accordance with the terms of the mortgages trust deed;
- (g) any other amounts received under or in respect of the loans and their related security on or after the relevant sale date (excluding third party amounts), including the proceeds of any sale of the loans and their related security and any other proceeds of sale of any other trust property;
- (h) any authorised investments made by or on behalf of the mortgages trustee;
- (i) rights under the insurance policies that are assigned to the mortgages trustee or which the mortgages trustee has the benefit of; and
- (j) amounts on deposit (and interest earned on those amounts) in the mortgages trustee GIC account;

less

- (k) any actual losses in relation to the loans and any actual reductions occurring in respect of the loans as described above in paragraph (a) in “**The mortgages trust – Adjustments to trust property**” above;
- (l) distributions of revenue receipts and principal receipts made from time to time to the beneficiaries of the mortgages trust; and
- (m) refinancing distributions and/or special distributions made from time to time to the beneficiaries of the mortgages trust

**UK share trustee**

SFM Corporate Services Limited

**underpayment**

the meaning given to it in “**The loans – Characteristics of the loans – Flexible payments**” above

**Unfair Practices Directive**

Directive (2005/29/EC) on unfair business-to-consumer commercial practices adopted by the European Parliament and the Council on 11 May 2005

**United States holder**

a beneficial owner of Rule 144A notes who is for U.S. federal income tax purposes:

- (a) a citizen or resident of the United States;
- (b) a corporation (or other entity treated as a corporation) or partnership created or organised in or under the laws of the United States or any state thereof (including the District of Columbia);
- (c) any estate, the income of which is subject to U.S. federal income tax regardless of the source of its income; or
- (d) any trust if: (i) a court within the United States is able to exercise primary supervision over the administration of the trust; and (ii) one or more U.S. persons have the authority to control all substantial decisions of the trust

**U.S. paying agent**

Citibank, N.A., New York branch

<b>USD-LIBOR</b>	the London inter-bank offered rate for dollar deposits
<b>UTCCR</b>	the Unfair Terms in Consumer Contracts Regulations 1994 and 1999, as amended
<b>valuation</b>	a methodology for determining the value of a property which would meet the standards of a reasonable, prudent mortgage lender (as referred to under “ <b>Description of the transaction documents – Servicing agreement – Undertakings by the servicer</b> ” above)
<b>valuation fee</b>	a fee incurred by borrowers as a result of the seller or servicer obtaining a valuation of the property
<b>variable mortgage rate</b>	the rate of interest which determines the amount of interest payable each month on a variable rate loan
<b>variable rate loan</b>	a loan (and, for the avoidance of doubt, any further advance made under an account is to be regarded as a separate loan) where the interest rate payable by the borrower varies in accordance with a specified variable mortgage rate and in accordance with the relevant mortgage terms
<b>variable rate loans Funding 1 swap(s)</b>	the meaning given to it on page 141
<b>variable rates</b>	the seller's variable rate or the mortgages trustee's variable rate, as applicable
<b>VAT</b>	value added tax
<b>WAFF</b>	weighted average foreclosure frequency
<b>WALS</b>	weighted average loss severity
<b>weighted average Funding 1 share percentage</b>	the meaning given to it on page 155
<b>weighted average Funding 1 share (losses) percentage</b>	the meaning given to it on page 155
<b>weighted average Funding 1 share (principal) percentage</b>	the meaning given to it on page 155
<b>weighted average Funding 1 share (revenue) percentage</b>	the meaning given to it on page 155
<b>weighted average further Funding company share percentage</b>	the meaning given to it on page 156
<b>weighted average further Funding company share (losses) percentage</b>	the meaning given to it on page 156
<b>weighted average further Funding company share (principal) percentage</b>	the meaning given to it on page 156
<b>weighted average further Funding company share (revenue) percentage</b>	the meaning given to it on page 156
<b>weighted average income multiple</b>	for the purpose of the Fitch conditions, the multiple calculated in the manner agreed with Fitch as further described on page 99
<b>weighted average seller share percentage</b>	the meaning given to it on page 157
<b>weighted average seller share (losses) percentage</b>	the meaning given to it on page 157
<b>weighted average seller share (principal) percentage</b>	the meaning given to it on page 157
<b>weighted average seller share (revenue) percentage</b>	the meaning given to it on page 157

**withholding tax**

a tax levied under UK law, as further described above in “**United Kingdom taxation**”

**ISSUER**

**Fosse Master Issuer plc**  
35 Great St. Helen's  
London EC3A 6AP

**SPONSOR, SELLER AND SERVICER**

**Santander UK plc**  
2 Triton Square  
Regent's Place  
London NW1 3AN

**ARRANGER**

**Barclays Bank PLC**  
5 The North Colonnade  
London E14 4BB

**AGENT BANK, PRINCIPAL PAYING AGENT,  
REGISTRAR AND TRANSFER AGENT**

**Citibank, N.A., London Branch**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

**U.S. PAYING AGENT**

**Citibank, N.A., New York Branch**  
14th Floor  
388 Greenwich Street  
New York  
New York 10013

**NOTE TRUSTEE, ISSUER SECURITY TRUSTEE AND FUNDING 1 SECURITY TRUSTEE**

**Law Debenture Trust Company of New York**  
400 Madison Avenue – 4th Floor  
New York  
New York 10017

**LEGAL ADVISERS TO  
THE ISSUER AND SANTANDER UK IN ITS VARIOUS CAPACITIES**

*as to English law*  
**Slaughter and May**  
One Bunhill Row  
London EC1Y 8YY

*as to Northern Irish law*  
**Pinsent Masons  
Belfast LLP**  
The Soloist  
1 Lanyon Place  
Belfast BT1 3LP

*as to Scots law*  
**Shepherd and  
Wedderburn LLP**  
1 Exchange Crescent  
Conference Square  
Edinburgh EH3 8UL

*as to U.S. law*  
**Cleary Gottlieb Steen &  
Hamilton LLP**  
City Place House  
55 Basinghall Street  
London EC2V 5EH

**LEGAL ADVISERS TO DEALERS**

**Allen & Overy LLP**  
One Bishops Square  
London EA1 6AD

**LEGAL ADVISERS TO THE NOTE TRUSTEE,  
ISSUER SECURITY TRUSTEE AND FUNDING 1  
SECURITY TRUSTEE**

*as to English law*  
**Linklaters LLP**  
One Silk Street  
London EC2Y 8HQ

**LEGAL ADVISERS TO THE MORTGAGES  
TRUSTEE**

*as to Jersey law*  
**Mourant Ozannes**  
22 Grenville Street  
St. Helier  
Jersey JE4 8PX  
Channel Islands

**AUDITORS TO THE ISSUER AND FUNDING 1**

**Deloitte LLP**  
2 New Street Square  
London EC4A 3BZ