

## IMPORTANT NOTICE

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

**IMPORTANT: You must read the following before continuing.** The following applies to this prospectus attached to this electronic transmission, and you are therefore advised to read this carefully before reading, accessing or making any other use of this prospectus. In accessing this 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 OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

EXCEPT WITH THE PRIOR WRITTEN CONSENT OF THE BENEFICIAL TITLE SELLER (A “**U.S. RISK RETENTION CONSENT**”) AND WHERE SUCH SALE FALLS WITHIN THE EXEMPTION PROVIDED BY SECTION 20 OF THE FINAL RULES PROMULGATED UNDER SECTION 15G OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (THE “**U.S. RISK RETENTION RULES**”), THE NOTES OFFERED AND SOLD BY THE ISSUER MAY NOT BE PURCHASED BY, OR FOR THE ACCOUNT OR BENEFIT OF, ANY “U.S. PERSON” AS DEFINED IN THE U.S. RISK RETENTION RULES (“**RISK RETENTION U.S. PERSONS**”). PROSPECTIVE INVESTORS SHOULD NOTE THAT THE DEFINITION OF “U.S. PERSON” IN THE U.S. RISK RETENTION RULES IS SUBSTANTIALLY SIMILAR TO, BUT NOT IDENTICAL TO, THE DEFINITION OF “U.S. PERSON” IN REGULATION S. EACH PURCHASER OF THE NOTES, OR A BENEFICIAL INTEREST THEREIN, ACQUIRED IN THE INITIAL SYNDICATION OF THE NOTES BY ITS ACQUISITION OF THE NOTES, OR A BENEFICIAL INTEREST THEREIN, WILL BE DEEMED TO HAVE MADE CERTAIN REPRESENTATIONS AND AGREEMENTS, INCLUDING THAT IT (1) EITHER (I) IS NOT A RISK RETENTION U.S. PERSON OR (II) HAS OBTAINED A U.S. RISK RETENTION CONSENT FROM THE BENEFICIAL TITLE SELLER, (2) IS ACQUIRING SUCH NOTE, OR BENEFICIAL INTEREST THEREIN, FOR ITS OWN ACCOUNT AND NOT WITH A VIEW TO DISTRIBUTE SUCH NOTE, AND (3) IS NOT ACQUIRING SUCH NOTE, OR BENEFICIAL INTEREST THEREIN, AS PART OF A SCHEME TO EVADE THE REQUIREMENTS OF THE U.S. RISK RETENTION RULES (INCLUDING ACQUIRING SUCH NOTE THROUGH A NON-RISK RETENTION U.S. PERSON, RATHER THAN A RISK RETENTION U.S. PERSON, AS PART OF A SCHEME TO EVADE THE 10 PER CENT. RISK RETENTION U.S. PERSON LIMITATION IN THE EXEMPTION PROVIDED FOR IN SECTION 20 OF THE U.S. RISK RETENTION RULES).

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

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. 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 SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are reminded that this prospectus has been delivered to you on the basis that you are a person into whose possession this prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the dealers or any affiliate of the dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the dealers or such affiliate on behalf of the issuer in such jurisdiction.

By accessing this 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 this prospectus by electronic transmission, (c) you are not a U.S. person (within the meaning of Regulation S under the Securities Act) or acting for the account or benefit of a U.S. person and the electronic mail address that you have given to us and to which this e mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) or the District of Columbia and (d) if you are a person in the United Kingdom, then you are a person who (i) 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.

This prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, Merrill Lynch International, J.P. Morgan Securities plc or any person who controls it nor any director, officer, employee nor agent of it (or parties of any such person) accepts any liability or responsibility whatsoever in respect of any difference between this prospectus distributed to you in electronic format and the hard copy version available to you on request from Merrill Lynch International.

# MALT HILL NO.2 PLC

(incorporated in England and Wales with limited liability under registered number 11360421)

Notes	Initial Principal Amount Outstanding	Issue Price	Interest Reference Rate	Relevant Margin	Portfolio Call/ Optional Redemption Date	Pre-Call Redemption Profile	Final Maturity Date	Ratings (Fitch/Moody's)
Class A Notes	£317,500,000	100%	Three-month Sterling LIBOR	Prior to the first Optional Redemption Date, 0.75 per cent. and on and after the first Optional Redemption Date, 1.125 per cent.	Interest Payment Date falling in May 2021 and each subsequent Interest Payment Date	Pass-through amortisation	Interest Payment Date falling in November 2055	AAAsf/Aaa(sf)
Class Z VFN	£38,900,000 (being the initial Principal Amount subscribed for as at the Closing Date) up to a maximum of £150,000,000	100%	Three-month Sterling LIBOR	0.00 per cent.	N/A	Pass-through amortisation	Interest Payment Date falling in November 2055	Unrated

Prospectus dated 27 June 2018

*Arranger*

**BofA Merrill Lynch**

*Joint Lead Managers*

**BofA Merrill Lynch**

**J.P. Morgan**

<b>Issue Date</b>	The Issuer expects to issue the Notes described above on the Closing Date.
<b>Standalone/ programme issuance</b>	Stand alone issuance.
<b>Underlying Assets</b>	<p>The Issuer will make payments on the Notes from, <i>inter alia</i>, payments of principal and interest received from a portfolio comprising mortgage loans originated by Godiva Mortgages Limited (the “<b>Originator</b>” and the “<b>Legal Title Holder</b>”) to borrowers secured on Properties in England and Wales to be acquired by the Issuer from the Beneficial Title Seller on the Closing Date.</p> <p>See the section entitled “<i>The Mortgage Portfolio and the Mortgage Loans</i>” for further details.</p>
<b>Credit Enhancement</b>	<ul style="list-style-type: none"> <li>• The General Reserve Fund will be a non amortising reserve fund initially funded from the proceeds of issue of the Class Z VFN and thereafter from Available Revenue Funds in an amount up to General Reserve Fund Target Amount (being an amount equal to 1.45% of the aggregate Principal Amount Outstanding of the Class A Notes as at the Closing Date). There will be two ledgers under the General Reserve Fund: (i) the Liquidity Ledger and (ii) the Credit Ledger.</li> <li>• The Credit Ledger Required Amount (being an amount by which General Reserve Fund Target Amount exceeds the Liquidity Ledger Required Amount) will be applied to reduce or eliminate any shortfall in Available Revenue Funds to pay items (a) to (h) of the Pre-Enforcement Revenue Payments Priorities.</li> <li>• The Liquidity Ledger Required Amount (being an amount equal to 1.45% of the aggregate Principal Amount Outstanding of the Class A Notes) will be applied to reduce or eliminate any shortfall in Available Revenue Funds (after the application of any General Reserve Drawings) to pay items (a) to (f) of the Pre-Enforcement Revenue Payments Priorities.</li> <li>• Principal Losses and Principal Reallocation Amounts will be debited to the sub-ledgers of the Principal Deficiency Ledger in reverse sequential order: first to the Class Z Principal Deficiency Sub-Ledger and second to the Class A Principal Deficiency Sub-Ledger. Revenue Reallocation Amounts will be credited to the relevant Principal Deficiency Sub-Ledgers in accordance with the Pre-Enforcement Revenue Payments Priorities.</li> <li>• Available Revenue Funds will be applied to replenish the General Reserve Fund on each Interest Payment Date in accordance with the applicable Payments Priorities.</li> <li>• In respect of the Class A Notes only, subordination of the Class Z VFN.</li> </ul> <p>See the section entitled “<i>Credit Enhancement and Liquidity Support</i>” for further details.</p>
<b>Liquidity Support</b>	<ul style="list-style-type: none"> <li>• The Credit Ledger Required Amount will be applied to reduce or eliminate, among other things, any shortfall in Available Revenue Funds (without taking into account any Liquidity Drawings or Principal Reallocation Amounts) to pay Interest Amounts in respect of the Class A Notes.</li> <li>• The Liquidity Ledger Required Amount will be applied to reduce or eliminate, among other things, any shortfall in Available Revenue Funds (after the application of any General Reserve Drawings but without taking into account any Principal Reallocation Amounts) to pay Interest Amounts in respect of the Class A Notes.</li> <li>• Available Principal Funds will be applied to reduce or eliminate, among other things, any shortfall in Available Revenue Funds (after the application of any Liquidity Reserve Drawings and any General Reserve Drawings) to pay Interest Amounts in respect of the Class A Notes.</li> </ul>

- Available Revenue Funds will be applied to replenish the General Reserve Fund on each Interest Payment Date in accordance with the applicable Payments Priorities.

See the section entitled “*Credit Enhancement and Liquidity Support*” for further details.

#### **Redemption Provisions**

Repayment of the Class A Notes and the Class Z VFN (the “**Notes**”) with Available Principal Funds. Available Principal Funds includes, among other things, principal receipts from any disposal of the Mortgage Portfolio. Redemption to occur no later than the Final Maturity Date.

See the section entitled “*Description of the Terms and Conditions of the Notes*” and Condition 8 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*).

#### **Credit Rating Agencies**

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Community and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended (the “**CRA Regulation**”) unless the rating is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

Each of Fitch and Moody’s is a credit rating agency established in the European Community and registered under the CRA Regulation.

The European Securities and Markets Authority (“**ESMA**”) is obliged to maintain on its website, [www.esma.europa.eu](http://www.esma.europa.eu), a list of credit rating agencies registered and certified in accordance with the CRA Regulation. This list must be updated within five working days of ESMA’s adoption of any decision to withdraw the registration of a credit rating agency under the CRA Regulation. Therefore, such list is not conclusive evidence of the status of the relevant rating agency 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 contents of this website do not form part of this Prospectus and are not incorporated by reference into this Prospectus.

Each of Fitch and Moody’s are included on the list of registered and certified credit rating agencies that is maintained by ESMA.

#### **Credit Ratings**

Ratings are expected to be assigned to the Class A Notes only (the “**Class A Notes**”) as set out above on or before the Closing Date. The Class Z VFN will not be rated.

The ratings assigned by Fitch address the likelihood of: (i) timely payment of interest due to the holders of Class A Notes on each Interest Payment Date; and (ii) full payment of principal due to the holders of Class A Notes by a date that is not later than the Final Maturity Date. The ratings assigned by Moody’s address the likelihood of timely payment of interest due to the holders of the Class A Notes on each Interest Payment Date and the expected loss to a holder of the Class A Notes in proportion to the initial principal amount of the Class A Notes held by the holder of such Class A Notes until the Final Maturity Date.

**The assignment of ratings to the Class A Notes is not a recommendation to invest in the Class A Notes. Any credit rating assigned to the Class A Notes may be revised or withdrawn at any time.**

#### **Listing**

This document comprises a prospectus (the “**Prospectus**”), for the purpose of Directive 2003/71/EC as amended (the “**Prospectus Directive**”). The Prospectus has been approved by the Central Bank of Ireland (the “**Central Bank**”) as competent authority under the Prospectus Directive. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to The Irish Stock Exchange plc trading as Euronext Dublin (the “**Stock Exchange**”) for the Class A Notes to be admitted to the Official List (the

“**Official List**”) and trading on its regulated market. The regulated market (the “**Main Securities Market**”) of the Stock Exchange is a regulated market for the purposes of Directive 2004/39/EC. The Issuer is not and will not be regulated by the Central Bank as a result of issuing the Class A Notes.

Such approval relates only to the Class A Notes which are to be admitted to trading on the regulated market of the Stock Exchange or other regulated markets for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area.

The Class Z VFN will not be admitted to the Official List nor will it be admitted to trading on the Main Securities Market.

**Eurosystem Eligibility**

On 6 September 2012 the European Central Bank (“**ECB**”) announced the temporary expansion of the list of assets eligible as collateral in Eurosystem credit operations and pursuant to this, the Eurosystem will accept, on a temporary basis, marketable debt instruments denominated in Sterling (among other currencies) as foreign currency-denominated collateral. The Class A Notes at issuance are intended to be held in a manner which would allow Eurosystem eligibility; that is in a manner which would allow the Class A Notes to be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by Eurosystem. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria and potential investors in the Class A Notes should reach their own conclusions and seek their own advice with respect to whether or not the Class A Notes constitute Eurosystem eligible collateral.

**Obligations**

The Notes will be obligations of the Issuer alone and will not be guaranteed by, or be the responsibility of, any other entity. The Notes will not be obligations of any of the Beneficial Title Seller, Legal Title Holder, their affiliates or any other party named in the Prospectus.

**Retention Undertaking**

Pursuant to Articles 404 to 410 of Regulation (EU) No. 575/2013, referred to as the Capital Requirements Regulation (“**CRR**”), Article 51 of Regulation (EU) No 231/2013 (“**Article 51**”) referred to as the Alternative Investment Fund Managers Regulation (“**AIFMR**”) and Article 254 (“**Article 254**”) of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 referred to as the Solvency II Regulation (“**Solvency II Regulation**”), the Beneficial Title Seller will undertake to the Issuer, for the benefit of the Noteholders, that it will retain at all times until the redemption of the last of the Notes, a material net economic interest of not less than 5 per cent. in the nominal value of the securitisation in accordance with the text of Article 405 of the CRR, Article 51 of the AIFMR and Article 254 of the Solvency II Regulation. As at the Closing Date, such interest will be comprised of an interest in the first loss tranche in the Class Z VFN, as contemplated by Article 405 of the CRR, Article 51 of the AIFMR and Article 254 of the Solvency II Regulation.

See the sections entitled “*Regulatory Disclosure*” and “*Risk Factors - Regulatory initiatives may result in increased regulatory capital requirements and/or decreased liquidity in respect of the Notes*”.

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

**Volcker Rule**

The Issuer will be relying on an exclusion or exemption from the definition of “investment company” under the investment company act of 1940 (the “**Investment Company Act**”), as contained in section 3(c)(5)(C) of the Investment Company Act, although there may be

additional exclusions or exemptions available to the Issuer. The Issuer is of the view that it is not now, and immediately following the issuance of the Notes and the application of the proceeds thereof, will not be a “covered fund” for the purposes of the Volcker Rule under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

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

## IMPORTANT NOTICE

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

UK Mortgages Corporate Funding Designated Activity Company (the “**Beneficial Title Seller**”) accepts responsibility for the information set out in the sections headed “*The Mortgage Portfolio and the Mortgage Loans*”, “*Characteristics of the Mortgage Portfolio*” and “*Description of the Beneficial Title Seller*”. To the best of the knowledge and belief of the Beneficial Title Seller (having taken all reasonable care to ensure that such is the case), the information contained in the sections referred to in this paragraph is in accordance with the facts and does not omit anything likely to affect the import of such information.

Coventry Building Society (the “**Servicer**”) accepts responsibility for the information set out in the section headed “*Description of the Servicer*”. To the best of the knowledge and belief of Coventry Building Society (having taken all reasonable care to ensure that such is the case), the information contained in the section referred to in this paragraph is in accordance with the facts and does not omit anything likely to affect the import of such information.

Godiva Mortgages Limited (the “**Originator**”) accepts responsibility for the information set out in the section headed “*Description of the Originator and Legal Title Holder*”. To the best of the knowledge and belief of Godiva Mortgages Limited (having taken all reasonable care to ensure that such is the case), the information contained in the section referred to in this paragraph is in accordance with the facts and does not omit anything likely to affect the import of such information.

BNP Paribas (the “**Interest Rate Swap Provider**”) accepts responsibility for the information set out in the section headed “*Description of the Interest Rate Swap Provider*”. To the best of the knowledge and belief of Interest Rate Swap Provider (having taken all reasonable care to ensure that such is the case), the information contained in the section referred to in this paragraph is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Beneficial Title Seller, the Legal Title Holder, the Servicer, the Trustee, the Joint Lead Managers or the Arranger or any of them to subscribe for or purchase any of the Class Z VFN, and none of them make any representation, warranty or other assurance, expressed or implied, to any investors in the Class Z VFN (and nothing contained herein is, or shall be relied upon as, a representation, whether as to the past, the present or the future). The distribution of this Prospectus or any part hereof, and any offering of the Notes in certain jurisdictions may be restricted by law. No representation is made by any Transaction Party that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and none of them assumes any responsibility for facilitating any such distribution or offering. In particular, save for obtaining the approval of this prospectus as a Prospectus for the purposes of the Prospectus Directive by the Central Bank of Ireland, no action has been or will be taken by any Transaction Party which would permit a public offering of the Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required.

Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published, in any jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations. Persons into whose possession this Prospectus comes are required by the Issuer, Merrill Lynch International (the “**Arranger**” and



a “**Joint Lead Manager**”) and J.P. Morgan Securities plc (a “**Joint Lead Manager**”, and together with Merrill Lynch International the “**Joint Lead Managers**”) to inform themselves about and to observe any such restriction. BofA Merrill Lynch is the marketing name of, and means, Merrill Lynch International. For a further description of certain restrictions on offers and sales of the Notes and distribution of this document (or any part hereof), see the section entitled “*Subscription and Sale*”.

Neither the delivery of this Prospectus nor any sale or allotment made in connection with any 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 information contained in this Prospectus since the date of this Prospectus.

**None of the Joint Lead Managers, the Arranger, the Trustee, the Beneficial Title Seller, the Originator, the Legal Title Holder, the Corporate Services Provider, the Interest Rate Swap Provider, the Servicer, the Back-Up Servicer Facilitator, the Cash Manager, the Back-Up Cash Manager Facilitator, the Transaction Account Bank, the Swap Collateral Account Bank, the Principal Paying Agent, the Agent Bank or the Class VFN Registrar makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus or part thereof or any other information provided by the Issuer in connection with the Notes, other than as expressly set out above. None of the Joint Lead Managers, the Arranger, the Trustee, the Beneficial Title Seller, the Originator, the Legal Title Holder, the Corporate Services Provider, the Interest Rate Swap Provider, the Servicer, the Back-Up Servicer Facilitator, the Cash Manager, the Back-Up Cash Manager Facilitator, the Transaction Account Bank, the Swap Collateral Account Bank, the Principal Paying Agent, the Agent Bank or the Class Z VFN Registrar accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the Notes, other than as expressly set out above. Each potential purchaser of Notes should determine the relevance of the information contained in this Prospectus or part hereof and the purchase of Notes should be based upon such investigation as each purchaser deems necessary. None of the Joint Lead Managers, the Arranger, the Trustee, the Beneficial Title Seller, the Originator, the Legal Title Holder, the Corporate Services Provider, the Interest Rate Swap Provider, the Servicer, the Back-Up Servicer Facilitator, the Cash Manager, the Back-Up Cash Manager Facilitator, the Transaction Account Bank, the Swap Collateral Account Bank, the Principal Paying Agent, the Agent Bank or the Class Z VFN Registrar undertakes or shall undertake to review the financial condition or affairs of the Issuer nor to advise any investor or potential investor in the Notes of any information coming to their attention (other than as expressly required by the Transaction Documents).**

**PRIIPS Regulation / Prohibition of sales to EEA retail investors** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “**IMD**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**MIFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and

professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

Amounts payable under the Notes may be calculated by reference to the London Interbank Offered Rate ("**LIBOR**"), which is provided by ICE Benchmark Administration Limited ("**IBA**"). As at the date of this Prospectus, IBA appears on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the "**BMR**").

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and the Notes are subject to U.S. tax law requirements. The Notes may not be sold or delivered, directly or indirectly, in the United States or to any U.S. persons (see the section entitled "*Subscription and Sale*" below) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Except with the prior written consent of the Beneficial Title Seller (a "**U.S. Risk Retention Consent**") and where such sale falls within the exemption provided by Section 20 of the final rules promulgated under section 15g of the Securities Exchange Act of 1934, as amended (the "**U.S. Risk Retention Rules**"), the Notes offered and sold by the Issuer may not be purchased by, or for the account or benefit of, any "U.S. Person" as defined in the U.S. Risk Retention Rules ("**Risk Retention U.S. Persons**"). Prospective investors should note that the definition of "U.S. Person" in the U.S. Risk Retention Rules is substantially similar to, but not identical to, the definition of "U.S. Person" in Regulation S. Each purchaser of the Notes or a beneficial interest therein acquired in the initial syndication of the Notes, by its acquisition of the Notes or a beneficial interest therein will be deemed to have made certain representations and agreements, including that it (1) either (i) is not a Risk Retention U.S. Person or (ii) it has obtained a U.S. Risk Retention Consent from the Beneficial Title Seller, (2) is acquiring such Note or a beneficial interest therein for its own account and not with a view to distribute such Note and (3) is not acquiring such Note or a beneficial interest therein as part of a scheme to evade the requirements of the U.S. Risk Retention Rules (including acquiring such Note through a non-Risk Retention U.S. Person, rather than a Risk Retention U.S. Person, as part of a scheme to evade the 10 per cent. Risk Retention U.S. Person limitation in the exemption provided for in Section 20 of the U.S. Risk Retention Rules).

None of the Issuer, the Trustee, the Joint Lead Managers, the Arranger, the Beneficial Title Seller, the Originator, the Legal Title Holder, the Corporate Services Provider, the Interest Rate Swap Provider, the Servicer, the Back-Up Servicer Facilitator, the Cash Manager, the Back-Up Cash Manager Facilitator, the Transaction Account Bank, the Swap Collateral Account Bank, the Principal Paying Agent, the Agent Bank or the Class Z VFN Registrar makes any representation to any prospective investor or purchaser of the Notes regarding the legality of investment therein by such prospective investor or purchaser under applicable legal investment or similar laws or regulations.

No person has been authorised to give any information or to make any representation other than as contained in this 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 Trustee, the directors of the Issuer, the Joint Lead Managers or the Arranger.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. No

action has been taken by the Issuer, the Joint Lead Managers or the Arranger other than as set out in the paragraph headed “*Listing*” on page iii of this Prospectus that would permit a public offer of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Prospectus nor any part hereof nor any other prospectus, form of application, advertisement or other offering material may be issued, distributed or published in any country or jurisdiction (including the United Kingdom and Ireland), except in circumstances that will result in compliance with applicable laws, orders, rules and regulations.

The Class A Notes will be represented initially by a temporary global note in bearer form, without Coupons (a “**Temporary Global Note**”), which will be deposited with a common safekeeper (the “**Common Safekeeper**”) for Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) and Euroclear Bank SA / NV (“**Euroclear**”) on the Closing Date. Each Temporary Global Note will be exchangeable not earlier than 40 days after the Closing Date (provided that certification of non-U.S. beneficial ownership has been received) for interests in a permanent global note in bearer form, without Coupons, for the Class A Notes (each, a “**Permanent Global Note**” and, together with each Temporary Global Note, the “**Global Notes**”). The Permanent Global Notes will also be deposited with the Common Safekeeper. The Common Safekeeper will hold the Global Notes in custody for Euroclear and Clearstream, Luxembourg. The Class A Notes, issued in new global note form and represented by the Global Notes may be transferred in book-entry form only. The Class A Notes will be issued in the denomination of £100,000 and integral multiples of £1,000 in excess thereof. Except in the limited circumstances described in the section entitled “*Description of the Global Notes — Issuance of Definitive Notes*”, the Class A Notes will not be available in definitive form (the “**Definitive Notes**”).

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

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

References in this Prospectus to “£” or “**Sterling**” are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland.

As at the date of this Prospectus notes denominated in Sterling are (temporarily) recognised as eligible collateral for the purposes of the funding programmes and liquidity schemes established by the European Central Bank pursuant to Guideline of the European Central Bank (ECB/2014/31), subject to certain valuation markdowns described therein.

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

Certain matters contained in this Prospectus are forward looking statements. Such statements appear in a number of places in this Prospectus, including with respect to assumptions on prepayment and certain other characteristics of the Mortgage Loans, and reflect significant assumptions and subjective judgments by the Issuer that may not prove to be correct. Such statements may be identified by reference to a future period or periods and the use of forward looking terminology such as “may”, “will”, “could”, “believes”, “expects”, “anticipates”, “continues”, “intends”, “plans” or similar terms. Consequently, future results may differ from the Issuer’s expectations due to a variety of factors, including (but not limited to) the economic environment and regulatory changes in the residential mortgage industry in the United Kingdom. This Prospectus also

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

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

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should (without limitation):

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

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

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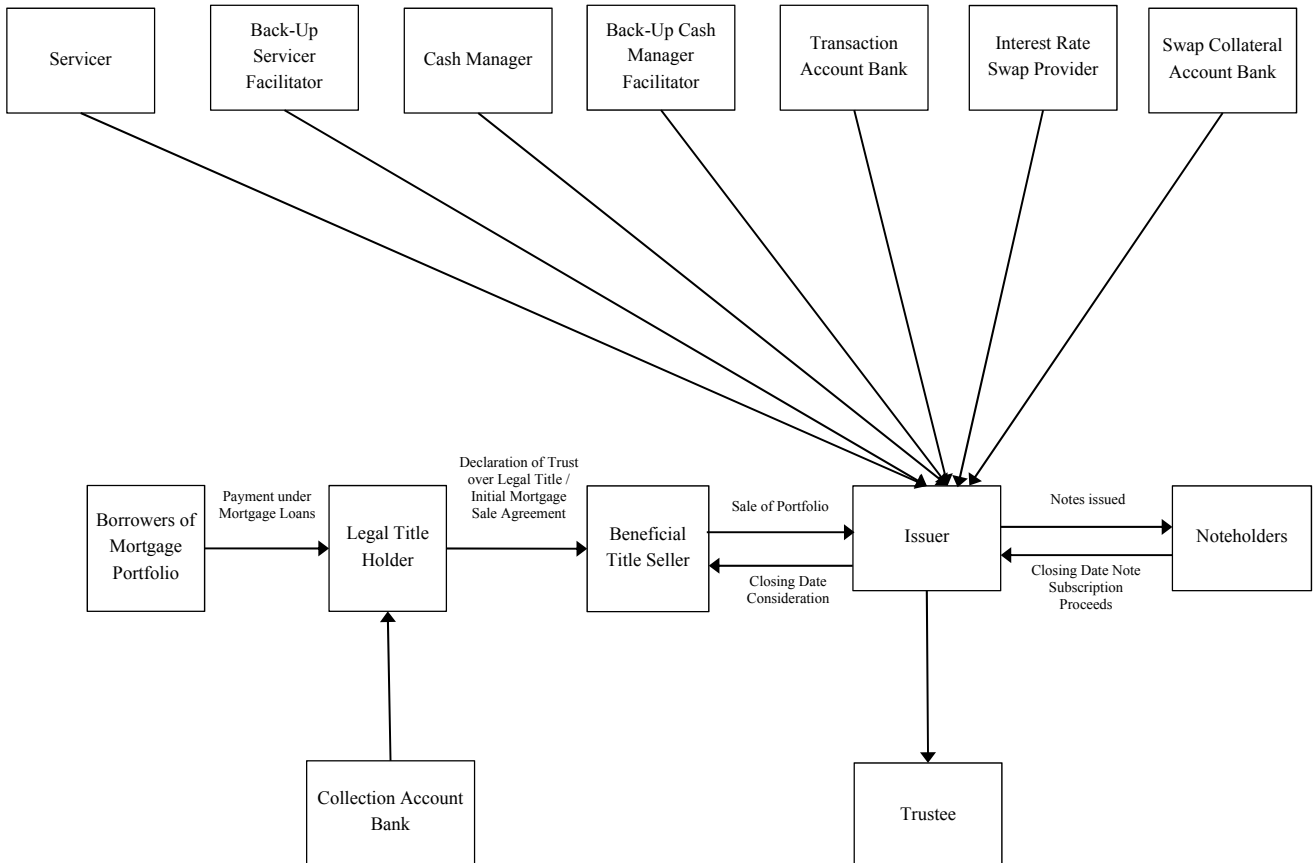
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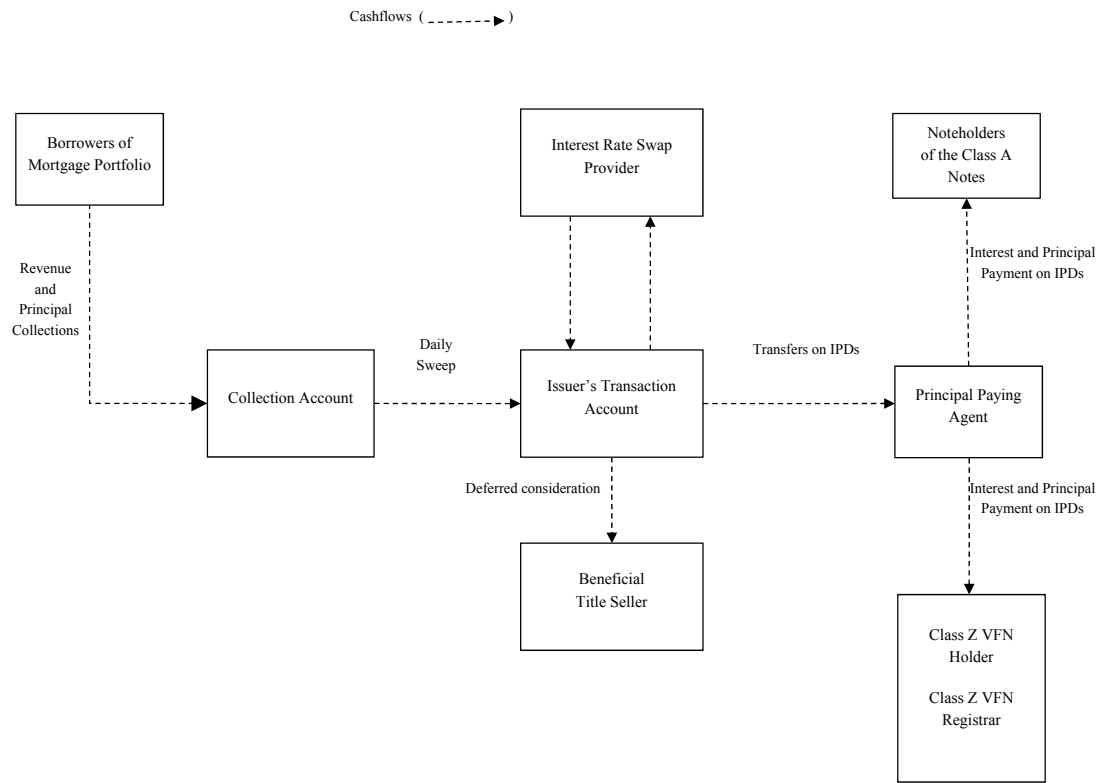
## OVERVIEW

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

### (A) DIAGRAMMATIC OVERVIEW OF THE TRANSACTION

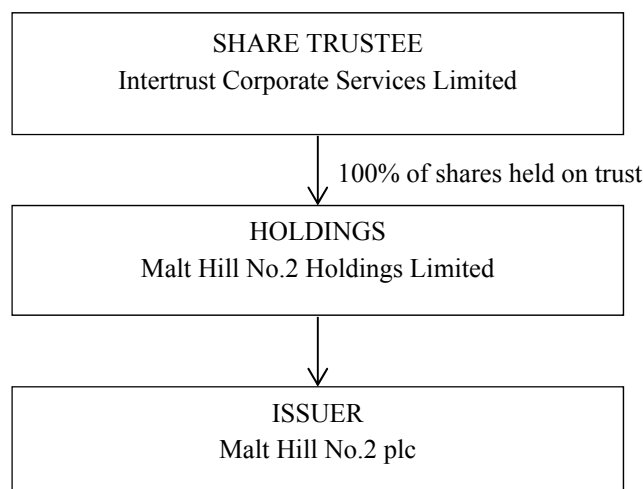


(B) DIAGRAMMATIC OVERVIEW OF ON-GOING CASH FLOW





(C) OVERVIEW OF THE OWNERSHIP STRUCTURE



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

- The Issuer is a wholly-owned subsidiary of Malt Hill No.2 Holdings Limited (“**Holdings**”) in respect of its beneficial ownership.
- The entire issued share capital of Holdings is held on trust by Intertrust Corporate Services Limited as share trustee (the “**Share Trustee**”) under the terms of a discretionary trust, the benefit of which is expressed to be for discretionary purposes.
- None of the Issuer, Holdings and the Share Trustee is either owned, controlled, managed, directed or instructed, whether directly or indirectly, by the Beneficial Title Seller or the Legal Title Holder or any member of the group of companies of the Beneficial Title Seller or the Legal Title Holder.

(D) TRANSACTION PARTIES AND OTHER RELATED PARTIES ON THE CLOSING DATE

Party	Name	Address	Document under which appointed/Further Information
<b>Issuer</b>	Malt Hill No.2 plc (incorporated on 14 May 2018)	35 Great St Helen’s London EC3A 6AP	N/A See the section entitled “ <i>The Issuer</i> ”
<b>Holdings</b>	Malt Hill No.2 Holdings Limited (incorporated on 14 May 2018)	35 Great St Helen’s London EC3A 6AP	N/A See the section entitled “ <i>Holdings</i> ”
<b>Legal Title Holder</b>	Godiva Mortgages Limited	Oak Tree Court Binley Business Park Harry Weston Road Coventry CV3 2UN	Mortgage Sale Agreement. See the section entitled “ <i>Description of the Originator and Legal Title Holder</i> ”
<b>Beneficial Title Seller</b>	UK Mortgages Corporate Funding Designated Activity Company (the “ <b>Beneficial Title Seller</b> ”)	5 George’s Dock I.F.S.C Dublin 1 Ireland	Mortgage Sale Agreement. See the section entitled “ <i>Description of the Beneficial Title Seller</i> ”

<b>Party</b>	<b>Name</b>	<b>Address</b>	<b>Document under which appointed/Further Information</b>
<b>Portfolio Option Holder</b>	UK Mortgages Corporate Funding Designated Activity Company	5 George's Dock I.F.S.C Dublin 1 Ireland	Deed Poll. See the section entitled " <i>Credit Enhancement and Liquidity Support - Early Redemption of Notes</i> "
<b>Class Z VFN Holder</b>	UK Mortgages Corporate Funding Designated Activity Company	5 George's Dock I.F.S.C Dublin 1 Ireland	Trust Deed.
<b>Interest Rate Swap Provider</b>	BNP Paribas	16 Boulevard des Italiens, 75009 PARIS, France	Interest Rate Swap Agreement. See the section entitled " <i>Credit Enhancement and Liquidity Support - Interest Rate Swap</i> "
<b>Originator</b>	Godiva Mortgages Limited	Oak Tree Court Binley Business Park Harry Weston Road Coventry CV3 2UN	N/A See the section entitled " <i>Description of the Originator and Legal Title Holder</i> "
<b>Servicer</b>	Coventry Building Society	Oak Tree Court Binley Business Park Harry Weston Road Coventry CV3 2UN	Servicing Agreement. See the sections entitled " <i>Description of the Servicer</i> " and " <i>Servicing of the Mortgage Portfolio</i> "
<b>Back-Up Servicer Facilitator</b>	Intertrust Management Limited	35 Great St Helen's London EC3A 6AP	Servicing Agreement.
<b>Cash Manager</b>	Citibank, N.A., London Branch	Citigroup Centre Canada Square Canary Wharf London E14 5LB	Cash Management Agreement. See the section entitled " <i>Description of the Transaction Account Bank, Principal Paying Agent, Agent Bank and Cash Manager</i> "
<b>Back-Up Cash Manager Facilitator</b>	Intertrust Management Limited	35 Great St Helen's London EC3A 6AP	Cash Management Agreement.
<b>Transaction Account Bank</b>	Citibank, N.A., London Branch	Citigroup Centre Canada Square Canary Wharf London E14 5LB	Transaction Account Agreement. See the sections entitled " <i>Description of the Transaction Account Bank</i> " and " <i>Credit Enhancement and Liquidity Support</i> "
<b>Trustee</b>	Citicorp Trustee Company Limited	Citigroup Centre Canada Square Canary Wharf London E14 5LB	Trust Deed. See the sections entitled " <i>Description of the Trustee</i> " and " <i>The Trust Deed</i> "

<b>Party</b>	<b>Name</b>	<b>Address</b>	<b>Document under which appointed/Further Information</b>
<b>Principal Paying Agent / Agent Bank</b>	Citibank, N.A., London Branch	Citigroup Centre Canada Square Canary Wharf London E14 5LB	Agency Agreement.
<b>Corporate Services Provider</b>	Intertrust Management Limited	35 Great St Helen's London EC3A 6AP	Corporate Services Agreement. See the section entitled " <i>The Issuer</i> "
<b>Class Z VFN Registrar</b>	Citibank, N.A., London Branch	Citigroup Centre Canada Square Canary Wharf London E14 5LB	Agency Agreement.
<b>Competent Authority for the purposes of the Prospectus Directive</b>	Central Bank of Ireland	New Wapping Street North Wall Quay Dublin 1 Ireland	N/A
<b>Listing Authority and Stock Exchange</b>	The Irish Stock Exchange plc trading as Euronext Dublin.	28 Anglesea Street Dublin 2 Ireland	N/A
<b>Clearing Systems</b>	Euroclear Bank SA / NV	1, Boulevard du Roi Albert II B-1210 Brussels Belgium	N/A
	Clearstream Banking, <i>société anonyme</i>	42 Avenue JF Kennedy L-1855 Luxembourg	N/A
<b>Rating Agencies</b>	Fitch Ratings Limited	30 North Colonnade Canary Wharf E14 5GN	N/A
	Moody's Investor Service Limited	One Canada Square Canary Wharf London E14 5FA	N/A

## **RISK FACTORS**

*The following is a summary of the principal risks (including all material risks of which the Issuer is presently aware) associated with an investment in the Notes about which prospective investors should be aware. It is not intended to be exhaustive as to all the matters about which prospective investors should be aware.*

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

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

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

#### **Obligations of Issuer only**

The Notes represent obligations of the Issuer, and do not constitute obligations or responsibilities of, or guarantees by, any other person.

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

The ability of the Issuer to meet its obligations to pay (a) amounts under the Notes and (b) its operating and administrative expenses will be dependent solely on the extent of monies received or recovered by or on behalf of the Issuer. Such monies consist solely of (i) monies received or recovered on the Mortgage Loans (whether by way of monthly payments, enforcement, disposal of the Mortgage Loans or otherwise), (ii) amounts of interest received from the Transaction Account Bank under the Transaction Account Agreement, (iii) amounts available in the General Reserve Fund and (iv) receipts under the Interest Rate Swap Agreement. Other than the foregoing, the Issuer will not have any other funds available to it to make payments under the Notes and/or any other payment obligation ranking in priority to, or *pari passu* with, the Notes under the applicable Payments Priorities. If such funds are insufficient, any such insufficiency will be borne by the Noteholders and the other Secured Creditors, subject to the applicable Payments Priorities. Other than as provided in the Mortgage Sale Agreement the Issuer and the Trustee will have no recourse to the Beneficial Title Seller or any other entity (see “*Risks Related to the Mortgage Loans – Repurchase and payment obligations of the Beneficial Title Seller*” below).

#### **Limited recourse**

The Notes will be limited recourse obligations of the Issuer. If, and to the extent that, after the Charged Property has been realised and the proceeds thereof have been applied in accordance with the applicable Payments Priorities, the amounts recovered on realisation of the Charged Property are insufficient to pay or discharge amounts due from the Issuer to the Noteholders in full for any reason, the amounts will cease to be due and payable by the Issuer.

#### **Deferral of interest payments on the Class Z VFN**

If, on any Interest Payment Date, the Issuer has insufficient funds to make payment in full of all amounts of interest (including any accrued interest thereon) payable in respect of the Class Z VFN, after having paid or provided for items of higher priority in the Pre-Enforcement Revenue Payments Priorities, then that amount shall not be due and payable and the Issuer will be entitled under Condition 7.10 (*Interest Accrual*) to defer payment of that amount (to the extent of the insufficiency) until the following Interest Payment Date or such earlier date as interest in respect of the Class Z VFN becomes immediately due and repayable in accordance with the Conditions and it shall not constitute an Event of Default. To the extent that there are insufficient

funds on the following Interest Payment Date or such earlier date as interest in respect of the Class Z VFN is scheduled to be paid in accordance with the Conditions, the deferral of interest shall continue until the Final Maturity Date or any earlier date on which Notes are redeemed pursuant to Condition 8 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*).

### **Credit risk**

The Issuer is subject to the risk of default in payment by the Borrowers and the risk of failure by the Servicer (or, if at any time applicable, any back-up servicer) on behalf of the Issuer, to realise or recover sufficient funds under the arrears and default procedures in respect of the relevant Mortgage Loan and Related Security in order to discharge all amounts due and owing by the relevant Borrowers under the relevant Mortgage Loans. This risk may affect the Issuer's ability to make payments on the Notes but is mitigated to some extent by certain credit enhancement features for the Class A Notes which are described in the section entitled "*Credit Enhancement and Liquidity Support*". However, no assurance can be made as to the effectiveness of such credit enhancement features, or that such credit enhancement features will protect the Noteholders from all risk of loss.

### **Liquidity risk**

The Issuer is subject to the risk of insufficiency of funds on any Interest Payment Date as a result of various reasons including (i) payments being made late by Borrowers after the end of the relevant Calculation Period, (ii) contractual interest rates of the Mortgage Loans being lower than required by the Issuer in order to meet its commitments to pay interest on the Notes, and (iii) the risk that any cash held by or on behalf of the Issuer may earn a rate of return below the rate of interest payable on the Notes. This risk may adversely affect the Issuer's ability to make payments on the Notes but is mitigated to some extent for the Class A Notes by the provision of liquidity from alternative sources as described in the section entitled "*Credit Enhancement and Liquidity Support*".

### **Subordination of the Class Z VFN**

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

### **Yield and Prepayment Considerations**

The yield to maturity of the Notes of each class will depend on, among other things, the extent and timing of payments of principal (including full and partial prepayments, proceeds of disposal of Mortgage Loans or proceeds of enforcement of Mortgage Loans) on the Mortgage Loans and the price paid by the Noteholders of each class. Such yield may be adversely affected by a higher or lower than anticipated rate of prepayments on the Mortgage Loans.

The rate of prepayment of the Mortgage Loans cannot be predicted and is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing, local and regional economic conditions and homeowner mobility. Subject to the terms and conditions of the Mortgage Loans, a Borrower may "overpay" or prepay principal at any time (which may require in some cases notification to the Legal Title Holder and in other cases the consent of the Legal Title Holder). In addition, should a Borrower elect, subject to the agreement of the Legal Title Holder and the Servicer, to change the terms of their Loan from an Interest-Only Mortgage Loan to a Repayment Mortgage Loan, the Issuer would receive principal payments in respect of the relevant Mortgage Loan earlier than would otherwise be anticipated. No assurance can be given as to the level of prepayments that the Mortgage Portfolio will experience. Accelerated prepayments will lead to a reduction in the average weighted life of the Notes. See also the section entitled "*The Mortgage Portfolio and the Mortgage Loans*".

Pursuant to the Deed Poll, the Portfolio Option Holder has the option to purchase the Mortgage Portfolio and its Related Security by giving notice to the Issuer with a copy to the Trustee at any time in the period from the Business Day falling 20 Business Days prior to the relevant Optional Redemption Date until such Optional Redemption Date for a purchase price which shall be the higher of (i) the aggregate market value of the Mortgage Portfolio as at the Optional Portfolio Purchase Completion Date, and (ii) an amount equal to the aggregate Principal Amount Outstanding of the Class A Notes as at the Optional Portfolio Purchase Completion Date plus accrued but unpaid interest thereon up to and including the Optional Portfolio Purchase Completion Date, together with any payments due from the Issuer in respect of items ranking in priority to or *pari passu* with the Class A Notes (including interest and principal due and payable in respect of the Class A Notes) pursuant to the applicable Payments Priorities on the Interest Payment Date immediately following the Optional Portfolio Purchase Completion Date less any Available Principal Funds and Available Revenue Funds to be applied in accordance with the applicable Payments Priorities on the Interest Payment Date immediately following the Optional Portfolio Purchase Completion Date (including the credit balance of the General Reserve Fund).

The occurrence of the Optional Portfolio Purchase will lead to a reduction in the average weighted life of the Notes. See also the section entitled “*Early Redemption of Notes*”.

On any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Class A Notes is less than 10 per cent. of the aggregate Principal Amount Outstanding of all Class A Notes on the Closing Date, the Issuer may, subject to certain conditions, redeem all of the Class A Notes. Further, the Issuer may, subject to certain conditions, redeem all of the Notes on any Interest Payment Date on or after the Step-Up Date. In addition, the Issuer may, subject to the Conditions, redeem all of the Notes if a change in tax law results in the Issuer being required to make a Tax Deduction in respect of any payment in respect of the Notes, or the Issuer would be subject to United Kingdom corporation tax in an accounting period on an amount which materially exceeds the Issuer Profit Amount retained during that accounting period. See Condition 8.6 (*Optional Redemption of the Class A Notes in whole for taxation reasons*) for further information.

Early redemption of the Notes may adversely affect the yield on the Notes.

As from the Step-Up Date and until the Class A Notes are redeemed in full, the Note Rate on the Class A Notes will be increased. There will not be any increase in the Note Rate on the Class Z VFN following the Step-Up Date. There will, however, be no additional receipts or other sources of funds available to the Issuer at such time in order to fund the increased Note Rate payable in respect of the Class A Notes, nor is it expected that any of the sources of income available to the Issuer prior to the Step-Up Date will be increased. In such circumstances the Issuer may not have sufficient funds to pay all amounts of interest (including any Note Rate on the Class A Notes).

### **The regulation and reform of “benchmarks” may adversely affect the value of the Notes**

Interest rates and indices which are deemed to be “benchmarks” (including LIBOR), are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on the Notes, as they reference a “benchmark”. Since 1 January 2018, the BMR applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. Among other things, it (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities of “benchmarks” of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The BMR could have a material impact on the Notes, in particular, if the methodology or other terms of the “benchmark” are changed in order to comply with the requirements of the BMR. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the “benchmark”.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of “benchmarks”, could increase the costs and risks of administering or otherwise participating in the setting of a “benchmark” and complying with any such regulations or requirements. Such factors may have the following effects on certain “benchmarks” (including LIBOR): (i) discourage market participants from continuing to administer or contribute to the “benchmark”; (ii) trigger changes in the rules or methodologies used in the “benchmark” or (iii) lead to the disappearance of the “benchmark”. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations in relation to LIBOR or, after a Benchmark Rate Modification, any other relevant benchmark, could have a material adverse effect on the value of and return on the Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the BMR reforms in making any investment decision with respect to any Notes linked to or referencing a “benchmark”.

#### **Future discontinuance of LIBOR may adversely affect the value of the Notes**

On 27 July 2017, the Chief Executive of the FCA, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forwards. This may cause LIBOR to perform differently than it did in the past and may have other consequences which cannot be predicted.

In addition to the risks outlined in *“The regulation and reform of “benchmarks” may adversely affect the value of the Notes”* above, investors should be aware that:

- (a) if LIBOR is discontinued or otherwise unavailable, the rate of interest on the Notes (which reference LIBOR on the Closing Date), will be determined for the relevant period by the fall-back provisions applicable to such Notes. This may ultimately result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR was available. This could have an adverse effect on the value or liquidity of, and return on, the Notes;
- (b) while an amendment may be made under Condition 16.5 (*Benchmark Rate Modification*) to an Alternative Benchmark Rate, there can be no assurance that any such amendment will be made or, if made, that it will (i) fully or effectively mitigate interest rate risks or result in an equivalent methodology for determining the interest rate on the Notes or (ii) be made prior to any date on which any of the risks described in this risk factor become relevant; and
- (c) if LIBOR is discontinued, there can be no assurance that the applicable fall-back provisions under the Interest Rate Swap Agreement would operate such that the transactions under the Swap Agreement effectively mitigate interest rate risk in respect of the Notes.

#### **Interest Rate Risk**

The Mortgage Loans in the Mortgage Portfolio are subject to variable and fixed interest rates while the Issuer’s liabilities under the Notes are based on Three-Month Sterling LIBOR.

To hedge its interest rate exposure in relation to the Fixed Rate Loans in the Mortgage Portfolio, the Issuer will enter into the Interest Rate Swap Agreement with the Interest Rate Swap Provider on the Closing Date (see “*Credit Enhancement and Liquidity Support – Interest Rate Swap*”). As of the date of this Prospectus, the Issuer has not hedged its interest rate exposure in relation to Tracker Rate Loans or Discretionary Rate Loans in the Mortgage Portfolio and an increase in the rate of Three-Month Sterling LIBOR could result in the Issuer having insufficient funds to make payment under the Notes.

A failure by the Interest Rate Swap Provider to make timely payments of amounts due under the Interest Rate Swap Agreement will constitute a default thereunder. The Interest Rate Swap Agreement provides that the Sterling amounts owed by the Interest Rate Swap Provider on any payment date under the Interest Rate Swap (which corresponds to an Interest Payment Date) may be netted against the Sterling amounts owed by the Issuer on the same payment date. Accordingly, (i) if the amounts owed by the Issuer to the Interest Rate Swap Provider on a payment date are greater than the amounts owed by the Interest Rate Swap Provider to the Issuer on the same payment date, then the Issuer will pay the positive difference to the Interest Rate Swap Provider on such payment date; (ii) if the amounts owed by the Interest Rate Swap Provider to the Issuer on a payment date are greater than the amounts owed by the Issuer to the Interest Rate Swap Provider on the same payment date, then the Interest Rate Swap Provider will pay the positive difference to the Issuer on such payment date; and (iii) if the amounts owed by both parties are equal on a payment date, neither party will make a payment to the other on such payment date. To the extent that the Interest Rate Swap Provider defaults in its obligations under its Interest Rate Swap Agreement to make payments to the Issuer in Sterling, on any payment date under the Interest Rate Swap (which corresponds to an Interest Payment Date), the Issuer will be exposed to the possible variance between the interest rates payable on the Fixed Rate Loans in the Mortgage Portfolio and Three-Month Sterling LIBOR. Further, if the Interest Rate Swap Provider fails to pay any amounts or make any deliveries when due under the Interest Rate Swap Agreement, the Available Revenue Funds may be insufficient to make the required payments on the Notes and the Noteholders may experience delays and/or reductions in the interest payments due to be received by them.

The Interest Rate Swap Provider will be obliged to make payments under the Interest Rate Swap Agreement without any withholding or deduction of taxes unless required by law. If any such withholding or deduction is required by law, the Interest Rate Swap Provider will be required to pay such additional amount as is necessary to ensure that the net amount actually received by the Issuer will equal the full amount that the Issuer would have received had no such withholding or deduction been required. The Interest Rate Swap Agreement will provide, however, that in case of a Tax Event, the Interest Rate Swap Provider may transfer its rights and obligations to another of its offices, branches or affiliates to avoid the relevant Tax Event. If the Interest Rate Swap Provider is unable to transfer its rights and obligations under the Interest Rate Swap Agreement to another office, branch or affiliate, it will have the right to terminate the Interest Rate Swap Agreement. Upon such termination, the Issuer or the Interest Rate Swap Provider may be liable to make a termination payment to the other party.

In the event that the Interest Rate Swap Provider is downgraded below the Required Swap Rating, the Issuer may terminate the Interest Rate Swap Agreement if the Interest Rate Swap Provider fails to take certain remedial measures within the timeframe stipulated in the Interest Rate Swap Agreement. Such remedial measures may include providing collateral for its obligations under the Interest Rate Swap Agreement, arranging for its obligations under the Interest Rate Swap Agreement to be transferred to an entity with the Required Swap Ratings, procuring another entity with the Required Swap Ratings to become co-obligor or guarantor in respect of its obligations under the Interest Rate Swap Agreement or taking such other action (which may include taking no action) that would result in the rating of the Class A Notes being maintained at, or restored to, the level it would have been at prior to such ratings downgrade. However, in the event the Interest Rate Swap Provider is downgraded there can be no assurance that a co-obligor, guarantor or replacement interest rate swap provider will be found or that the amount of collateral provided will be



sufficient to meet the Interest Rate Swap Provider's obligations. Unless one or more comparable replacement interest rate swaps are entered into, the Issuer may have insufficient funds to make payments due on the Notes.

If the Interest Rate Swap Provider posts any Swap Collateral to an account established for such purpose with a Swap Collateral Account Bank, such collateral will be utilised solely in returning collateral and making payments directly to the Interest Rate Swap Provider (and not in accordance with the relevant Payments Priorities) in accordance with the terms of the Interest Rate Swap Agreement and the credit support annex entered into in connection with such agreement. Following the termination of the Interest Rate Swap Agreement, any Swap Collateral or the liquidation proceeds thereof which is not returned to the Interest Rate Swap Provider in accordance with the terms of the Interest Rate Swap Agreement shall constitute Available Revenue Funds unless applied in acquiring a replacement swap.

The Interest Rate Swap Agreement will be terminable early by one party if an Early Termination Event occurs, which includes, inter alia, (i) an Event of Default or Termination Event (as defined in the Interest Rate Swap Agreement) occurring in relation to the other party; (ii) an Enforcement Notice being served; (iii) the Class A Notes being redeemed pursuant to Condition 8.2 (*Redemption by Optional Portfolio Purchase*), Condition 8.4 (*Optional Redemption in whole of the Class A Notes*), Condition 8.5 (*Optional Redemption of the Class A Notes on or after the Step-Up Date*), Condition 8.6 (*Optional Redemption of the Class A Notes in whole for taxation reasons*) or for any other reason (other than pursuant to Condition 8.3 (*Mandatory Redemption in part*)); or (iv) if any of the Transaction Documents to which the Interest Rate Swap Provider is not a party is amended without the prior written consent of the Interest Rate Swap Provider and the Interest Rate Swap Provider determines that such amendment would affect certain provisions in the Transaction Documents that are relevant to the amount or timing of any payments or deliveries due to or by the Interest Rate Swap Provider, or its rights as a Secured Creditor (as further described under the heading "*Risks in respect of amendments to the Transaction Documents*" below) unless the Interest Rate Swap Provider has been notified of the proposed amendment and does not state in writing that it is of the opinion that it would be materially adversely affected thereby. Events of default under the Interest Rate Swap Agreement in relation to the Issuer will be limited to (i) non-payment under the Interest Rate Swap Agreement and (ii) insolvency events.

Unless the Interest Rate Swap has been terminated due to an occurrence of an Early Termination Event, the Interest Rate Swap will terminate on the earlier of (i) the date on which all outstanding Notes are redeemed in full pursuant to Condition 8.3 (*Mandatory Redemption in part*); and (ii) only from the Step-Up Date, the date on which the aggregate of the Current Balances of the Performing Fixed Rate Loans is reduced to zero.

If a replacement swap is entered into following an Early Termination Event, this may be on terms less favourable to the Issuer and therefore may mean that reduced amounts are available for distribution by the Issuer to the Secured Creditors (including inter alia, the Noteholders). The Issuer may not be able to enter into a replacement interest rate swap with a replacement interest rate swap provider immediately or at a later date. If a replacement interest rate swap provider cannot be found, the risk of a difference between the rate of interest to be received by the Issuer on the Fixed Rate Loans in the Mortgage Portfolio and the rate of interest payable by the Issuer on the Notes will not be hedged, and so the funds available to the Issuer to pay any interest on the Notes may be insufficient if the interest revenues received by the Issuer on such Fixed Rate Loans in the Mortgage Portfolio are substantially lower than the rate of interest payable by it on the Notes. In these circumstances, the holders of Notes may experience delays and/or reductions in the interest payments to be received by them, and the Class A Notes may also be downgraded.

The rates payable by the Issuer under the Interest Rate Swap are not an exact match of the interest rates that the Issuer receives in respect of the Fixed Rate Loans in the Mortgage Portfolio. As such, the fixed rate

payable by the Issuer under the Interest Rate Swap may exceed the amount that the Issuer receives in respect of the Fixed Rate Loans in the Mortgage Portfolio.

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

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

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

The Issuer shall use reasonable endeavours to enter into a replacement interest rate swap with a replacement interest rate swap provider (if required), however no assurance can be given as to the ability of the Issuer to enter into one or more replacement transactions, or if one or more replacement transactions are entered into, as to the credit rating of the interest rate swap provider for the replacement transactions.

### **European Market Infrastructure Regulation**

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

Under EMIR, (i) financial counterparties ("**FCs**") and (ii) non-financial counterparties whose positions, together with the positions of all other non-financial counterparties in its "group" (as defined in EMIR), in OTC derivatives (excluding hedging positions) exceed a specified clearing threshold ("**NFC+s**", and together with FCs, the "**In-scope Counterparties**") must clear via an authorised or recognised central counterparty ("**CCP**") OTC derivatives contracts that are entered into on or after the effective date for the Clearing Obligation for that counterparty pair and class of derivatives (the "**Clearing Start Date**").

Unless an exemption applies, FCs and NFC+s must clear any such OTC derivative contracts entered into between each other and with certain third country equivalent entities (i.e. those that would have been subject to the Clearing Obligation if they were established in the EU). The process for implementing the Clearing Obligation is under way and a timeframe for compliance has been established for the first class of transactions (being certain interest rate derivative contracts in USD, EUR, GBP and JPY), with the Clearing Start Date for such contracts with NFC+s being 21 December 2018. Timeframes for mandatory clearing of certain other classes of OTC derivatives transactions have also been established.

On the basis that the Issuer is currently a non-financial counterparty whose positions, together with the positions of all other non-financial counterparties in its “group”, in OTC derivatives (after the exclusion of hedging positions) do not exceed any of the specified clearing thresholds (each, an “NFC-”), OTC derivative contracts that are entered into by the Issuer would not in any event be subject to any mandatory clearing or frontloading requirements. If the Issuer’s counterparty status as an NFC- changes then certain OTC derivatives contracts that are entered into by the Issuer may become subject to the Clearing Obligation.

Under EMIR, OTC derivatives contracts entered into by NFC+ and FC entities (and/or third country equivalent entities) that are not cleared by a CCP may be subject to margining requirements unless certain exemptions apply. The regulatory technical standards relating to the collateralisation obligations in respect of OTC derivatives contracts which are not cleared are now in force and the obligation for In-scope Counterparties to margin uncleared OTC derivatives contracts was phased-in from the first quarter of 2017 with variation margin obligations applying to all transactions entered into by In-scope Counterparties from 1 March 2017. However, on the basis that the Issuer is an NFC-, OTC derivatives contracts that are entered into by the Issuer would not be subject to any margining requirements. If the Issuer’s counterparty status as an NFC- changes then certain OTC derivatives contracts that are entered into by the Issuer may become subject to margining requirements.

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

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

Separately, it should also be noted that further changes will be made to the EMIR framework in the context of the EMIR review process which is ongoing and expected to be finalised during the course of 2018. We note that the EU Commission has published legislative proposals providing for certain amendments to EMIR. If the proposals are adopted in the form originally proposed by the EU Commission, the classification of certain counterparties under EMIR would change including with respect to certain securitisation vehicles such as the Issuer. The compliance position under any adopted amended framework of swap transactions entered into prior to application is uncertain. No assurances can be given that any such changes made to EMIR would not cause the counterparty status of the Issuer to change to NFC+ and lead to some or all of the potentially adverse consequences outlined below.

If the classification of the Issuer changes and the Interest Rate Swap Agreement is regarded to be in-scope, then the Interest Rate Swap Agreement may become subject to the Clearing obligation or (more likely) to the Collateral Obligation. Prospective investors should note that there is some uncertainty with respect to the ability of the Issuer to comply with these obligations if applicable, which may (i) lead to regulatory sanctions, (ii) adversely affect the ability of the Issuer to continue to be party to the Swap Agreement (possibly resulting

in a restructuring or termination of the swap) and/or (iii) significantly increase the cost of such arrangements, thereby negatively affecting the ability of the Issuer to hedge certain risks. As a result, the amounts available to the Issuer to meet its obligations may be reduced, which may in turn result in investors receiving less interest or principal than expected.

### **Certain material interests**

Certain of the advisers and other parties to the transaction have engaged in, and may in the future engage in, investment banking and/or commercial banking or other services for the Issuer and the Beneficial Title Seller in the ordinary course of business. Other parties to the transaction may also perform multiple roles. Accordingly, conflicts of interest may exist or may arise as a result of parties having previously engaged or in the future engaging in transactions with other parties, having multiple roles or carrying out other transactions for third parties. The parties to the transaction may pursuant to the Transaction Documents be replaced by one or more new parties. It cannot be excluded that such a new party also could have a potential conflicting interest.

### **Ratings of the Class A Notes**

A rating issued by a Rating Agency is not a recommendation to buy, sell or hold securities and there is no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by one or both of the Rating Agencies as a result of changes in or unavailability of information or if, in the judgment of the Rating Agencies, circumstances so warrant such revision, suspension or withdrawal of the rating of the Class A Notes.

At any time, a Rating Agency may revise its relevant rating methodology, with the result that any rating assigned to the Class A Notes may be lowered. A qualification, downgrade or withdrawal of any of the ratings mentioned above may adversely impact the market value of the Class A Notes. The Class Z VFN will not be rated by the Rating Agencies.

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

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

The terms of certain Transaction Documents require that certain action proposed to be taken by the Issuer and/or the Trustee may only occur if the Rating Agencies confirm that such proposed action will not have an adverse effect on the then current rating of the Class A Notes (a “**Rating Confirmation**”).

A Rating Confirmation that any action proposed to be taken by the Issuer or the Trustee will not have an adverse effect on the then current rating of the Class A Notes does not, for example, confirm that such action (a) is permitted by the terms of the Transaction Documents or (b) is in the best interests of, or not prejudicial to, the Noteholders. While each of the Secured Creditors (including the holders of the Class A Notes), the Issuer or the Trustee (as applicable) are entitled to have regard to the fact that the Rating Agencies have confirmed that the then current rating of the Class A Notes would not be adversely affected, the above does not impose or extend any actual or contingent liability on the Rating Agencies to the Secured Creditors (including the holders of the Class A Notes), the Issuer, the Trustee or any other person or create any legal relationship between the Rating Agencies and the Secured Creditors (including the holders of the Class A Notes), the Issuer, the Trustee or any other person whether by way of contract or otherwise.

Any such Rating Confirmation may or may not be given at the sole discretion of the Rating Agencies. 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 the Rating Agencies cannot provide a Rating Confirmation in the time available or at all, and the Rating Agencies shall not be responsible for the consequences thereof. A Rating Confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time and in the context of cumulative changes to the transaction of which the securities form part since the Closing Date. A Rating Confirmation represents only a restatement of the opinions given as at the Closing Date and cannot be construed as advice for the benefit of any parties to the transaction.

#### **The Trustee may assume performance and is not obliged to act in certain circumstances**

The Trustee is under no obligation to monitor or supervise the functions of the Servicer from time to time under the terms of the Servicing Agreement or any other person under any other Transaction Document, and will not do so, and is entitled to assume that the Servicer is properly performing its obligations in accordance with the provisions of the Servicing Agreement and that such other person is properly performing its obligations in accordance with each other Transaction Document, and will so assume.

The Trustee is under no obligation to, and shall not, review the information or documents or reports or files or discs which the Mortgage Sale Agreement or the Servicing Agreement or other Transaction Documents provide for to be delivered to it.

The Trustee may, at any time, at its discretion and without notice, take such proceedings, actions or steps against the Issuer or any other party to any of the Transaction Documents as it may think fit to enforce the provisions of the Notes or the Transaction Documents (including the Conditions) to which it is a party, and at any time after the service of an Enforcement Notice the Trustee may, at its discretion and without notice, take such proceedings, actions or steps as it may think fit to enforce the Security. However, the Trustee shall not be bound to take any such proceedings, actions or steps (including, but not limited to, the giving of an Enforcement Notice in accordance with Condition 12 (*Events of Default*)) unless:

- (a) it shall have been directed to do so by an Extraordinary Resolution of the Most Senior Class of Noteholders or in writing by the holders of at least 25 per cent. in Principal Amount Outstanding of the Most Senior Class of Notes then outstanding; and
- (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

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

As of the Cut-Off Date, 100 per cent. of the loans in the Mortgage Portfolio by Current Balance constitute Fixed Rate Loans. Fixed Rate Loans may be subject to a Product Switch and exchanged into either a Tracker Rate Loan, Flexx Rate Loan, Discretionary Rate Loan or a Fixed Rate Loan (including a Flexx Fixed Mortgage Loan). Increases in the Bank of England's base rate, the Legal Title Holder's discretionary interest rate, the Legal Title Holder's prevailing published standard variable rate, or any other variable interest rate, may result in Borrowers with a loan subject to a variable or discretionary rate of interest being exposed to increased monthly payments as and when the related mortgage interest rate adjusts upward. This increase in Borrowers' monthly payments may result in higher delinquency rates and losses for the Issuer in the future.

#### **Limited Liquidity**

No assurance is provided that there is an active and liquid secondary market for the Notes, and no assurance is provided that a secondary market for the Notes will develop or, if it does develop, that it will provide Noteholders with liquidity of investment for the life of the Notes. Any investor in the Notes must be prepared to hold their Notes for an indefinite period of time or until their Final Maturity Date or alternatively such investor may only be able to sell the Notes at a discount to the original purchase price of those Notes.

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

There can be no assurance that the market for mortgage-backed securities will recover from these disruptions at all, or, if it does begin to recover, to what degree or how quickly it will do so.

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

### **Denominations**

The Class A Notes are issued in the denominations of £100,000 per Note. However, for so long as the Class A Notes are represented by Global Notes, and Euroclear and Clearstream, Luxembourg so permit, the Notes shall be tradable in minimum nominal amounts of £100,000 and integral multiples of £1,000 thereafter. In such a case a Noteholder of a Class A Note who, as a result of trading such amounts, holds a principal amount of less than the minimum authorised denomination of £100,000 in his account with the relevant clearing system at the relevant time will not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of the relevant class of Class A Notes such that it holds an amount equal to one or more minimum authorised denominations.

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

### **Book-Entry Interests**

Unless and until Definitive Notes are issued in exchange for Book-Entry Interests (in the limited set of circumstances described under Condition 3 (*Form, Denomination and Title*)), holders and beneficial owners of Book-Entry Interests will not be considered the legal owners or holders of Class A Notes under the Trust Deed. After payment to the Principal Paying Agent, the Issuer will not have responsibility or liability for the payment of interest, principal or other amounts to Euroclear or Clearstream, Luxembourg or to holders or beneficial owners of Book-Entry Interests.

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

Payments of principal and interest on, and other amounts due in respect of, each Global Note will be made by the Principal Paying Agent to the order of the Common Safekeeper for Euroclear and Clearstream, Luxembourg against presentation of such Global Note. Upon receipt of any payment from the Principal

Paying Agent, Euroclear and Clearstream, Luxembourg, as applicable, will promptly credit participants' accounts with payment in amounts proportionate to their respective ownership of Book-Entry Interests as shown on their records. The Issuer expects that payments by participants or indirect payments to owners of Book-Entry Interests held through such participants or indirect participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers registered in "street name" and will be the responsibility of such participants or indirect participants. None of the Issuer, the Trustee, or any Paying Agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, the Book-Entry Interests or for maintaining, supervising or reviewing any records relating to such Book-Entry Interests.

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

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

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

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

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

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

If, in the Trustee's opinion, there is a conflict between the interests of holders of the Class A Notes and the Class Z VFN, the Trustee will have regard only to the interests of the holders of the Most Senior Class of Notes then outstanding.

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

## **Risks in respect of amendments to the Transaction Documents**

The Trustee shall be obliged, without any consent or sanction of the Noteholders or any of the other Secured Creditors, or, (subject to the receipt of consent from any of the Secured Creditors party to the Transaction Document being modified or who would need to be a party to a new, supplemental or additional agreement, or which, as a result of the relevant amendment, would be further contractually subordinated to any Secured Creditor than would otherwise have been the case prior to such amendment) to concur with the Issuer and any other relevant parties in making any modification (other than in respect of a Reserved Matter or any provisions of the Trust Documents referred to in the definition of Reserved Matter) to the Conditions and/or any other Transaction Document to which it is a party or in relation to which it holds security or enter into any new, supplemental or additional documents that the Issuer considers necessary for the purpose of (i) complying with, or implementing or reflecting, any change in the criteria of one or more of the Rating Agencies which may be applicable from time to time, (ii) complying with requirements applicable to it under EMIR, (iii) complying with certain risk retention legislation, regulations or official guidance in relation thereto, (iv) enabling the Class A Notes to be (or to remain) listed on the Stock Exchange, (v) enabling the Issuer or any of the other Transaction Parties to comply with FATCA, (vi) complying with any changes in the requirements of the CRA Regulation after the Closing Date or qualifying as a simple, transparent and standardised (“**STS**”) securitisation (as defined in the Securitisation Regulation) and (vii) making a Benchmark Rate Modification (each a “**Proposed Amendment**”), without the consent of Noteholders pursuant to and in accordance with the detailed provisions of Condition 16.4 (*Additional Right of Modification*) and 16.5 (*Benchmark Rate Modification*). There can be no assurance that the effect of such modifications will not adversely affect the interests of the holders of one or more classes of Notes.

In relation to any such Proposed Amendment (other than a Proposed Amendment relating to EMIR), the Issuer is required to, amongst other things, give at least 30 calendar days’ notice to the Noteholders of the proposed modification in accordance with Condition 21 (*Notices*) and by publication on Bloomberg on the “Company News” screen relating to the Notes. However, Noteholders should be aware that, in relation to each Proposed Amendment, unless Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding have contacted the Trustee in writing (or, in the case of the Class A Notes, otherwise in accordance with the then current practice of any applicable clearing system through which such Class A Notes may be held) within such notification period notifying the Trustee that such Noteholders do not consent to the modification, the modification can be made without Noteholder consent.

The full requirements in relation to the modifications discussed above are set out in Condition 16.4 (*Additional Right of Modification*) and 16.5 (*Benchmark Rate Modification*).

The Interest Rate Swap Provider's written consent is required to modify or supplement any Transaction Document to which the Interest Rate Swap Provider is not a party if such modification or supplement would, in the commercially reasonable opinion of the Interest Rate Swap Provider, affect any of the following: (a) the Interest Rate Swap Provider’s rights in relation to any security (howsoever described, and including as a result of changing the nature or the scope of, or releasing such security) granted by the Issuer in favour of the Trustee on behalf of the Secured Creditors; (b) the definitions of Final Maturity Date, Available Revenue Funds, Swap Collateral Account, Interest Rate Swap Excluded Termination Amounts, Excess Swap Collateral, Swap Collateral, Replacement Swap Premium or Swap Tax Credits; (c) the Pre-Enforcement Revenue Payments Priorities or the Post-Enforcement Payments Priorities; (d) the provisions in the Transaction Documents or the Conditions setting out the method of calculation of amounts payable to the Interest Rate Swap Provider under the Pre-Enforcement Revenue Payments Priorities or the Post-Enforcement Payments Priorities and outside the Payments Priorities; (e) any amendment to Condition 8 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*) or any additional



redemption rights in respect of the Notes; (f) Clause 20.1 (*Modification of Transaction Documents*) of the Trust Deed or Condition 16.1 (*Modification*); or (g) Clause 22 (*Protection of Interest Rate Swap Provider*) of the Security Deed.

The Servicer's written consent is required to modify or supplement any Transaction Document to which the Servicer is not a party if such modification or supplement would, in the commercially reasonable opinion of the Servicer, affect: (a) the Servicer's rights under the Pre-Enforcement Revenue Payments Priorities or the Post-Enforcement Payments Priorities; (b) Clause 20.1 (*Modification of Transaction Documents*) of the Trust Deed; or (c) Condition 16.1 (*Modification*).

The Legal Title Holder's written consent is required to modify or supplement any Transaction Document to which the Legal Title Holder is not a party if such modification or supplement would, in the commercially reasonable opinion of the Legal Title Holder, affect: (a) Clause 13.3 (*Further Assurance*) of the Mortgage Sale Agreement; or (b) the Legal Title Holder's Right of First Refusal.

If Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding have notified the Issuer or the Principal Paying Agent in writing (or, in respect of the Class A Notes, otherwise in accordance with the then current practice of any applicable clearing system through which such Class A Notes may be held) within the notification period referred to above that they do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Noteholders of the Most Senior Class of Notes then outstanding is passed in favour of such modification in accordance with Condition 15 (*Meetings of Noteholders*).

In addition, Noteholders should be aware that the Trustee may agree with the Issuer and/or any other person, to make certain modifications or amendments to the Conditions or the Transaction Documents without the consent of the Noteholders in certain circumstances as set out in Condition 16.1 (*Modification*).

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

### **Repurchase and payment obligations of the Beneficial Title Seller**

None of the Arranger, the Joint Lead Managers, the Issuer nor the Trustee has undertaken or will undertake any investigations, searches or other actions in respect of the Mortgage Loans and their Related Security and will rely instead on, *inter alia*, the warranties given by the Beneficial Title Seller in relation to the Mortgage Loans and in respect of any Further Advances or Product Switches to the Issuer pursuant to the Mortgage Sale Agreement (the "**Asset Warranties**"). The sole remedy provided for in the Mortgage Sale Agreement (subject to the relevant cure period as set out in the Mortgage Sale Agreement and save as described below) of the Issuer in respect of a breach of an Asset Warranty in relation to a Mortgage Loan, Further Advance or Product Switch shall be the requirement that the Beneficial Title Seller repurchase the beneficial title in any Mortgage Loan which is the subject of the breach or make a cash payment to the Issuer equal to the Repurchase Price (or, in the case of a Further Advance that is subject to an Asset Warranty or Asset Condition, make a cash payment to the Issuer equal to the amount of the Further Advance Repurchase Price), provided that this shall not limit any other remedies available to the Issuer if the Beneficial Title Seller fails to repurchase or purchase (as the case may be) a Mortgage Loan when obliged to do so.

The obligations of the Beneficial Title Seller to repurchase, purchase or make cash payments (as the case may be) in respect of Mortgage Loans pursuant to the terms of the Mortgage Sale Agreement are not guaranteed by nor will they be the responsibility of any person other than the Beneficial Title Seller and neither the Issuer nor the Trustee will have recourse to any other person in the event that the Beneficial Title Seller, for whatever reason, fails to meet such payment or repurchase obligations. There can be no assurance that the assets of the Beneficial Title Seller will be sufficient to meet its obligations under the Mortgage Sale Agreement. On or prior to the Closing Date, the Beneficial Title Seller will purchase the Mortgage Loans

from the Originator pursuant to the terms of the Mortgage Sale Agreement. Investors should note that the Originator will not give any warranties in favour of the Issuer and that the Beneficial Title Seller will have limited recourse to the Originator for breach of warranty in respect of the Mortgage Loans given by the Originator to the Beneficial Title Seller under the Initial Mortgage Sale Agreement.

### **Knowledge of matters represented in Asset Warranties**

Although the Beneficial Title Seller will give certain representations and warranties in respect of the Mortgage Loans sold by it to the Issuer, the Beneficial Title Seller was not the originator of any of the Mortgage Loans. The Beneficial Title Seller purchased beneficial title to the Mortgage Loans and Related Security from the Originator under the Initial Mortgage Sale Agreement. The Beneficial Title Seller does not have any direct knowledge as to whether an Asset Warranty which relates to the origination process is correct or not or (where a warranty is qualified by reference to the awareness of the Beneficial Title Seller) it may not have actual knowledge of any relevant matters which give rise to a breach of warranty.

To the extent that an Asset Warranty is not expressed to be limited by reference to the awareness of the Beneficial Title Seller, the Beneficial Title Seller will nevertheless be liable to repurchase (or make a cash payment in respect of) a Mortgage Loan in relation to which there has been a breach of warranty.

### **Right of First Refusal**

The Legal Title Holder is entitled to a right of first refusal (within 45 days of receiving notice) to purchase any Mortgage Loans as a whole and at the prevailing market rate which the Issuer proposes to sell in connection with (a) a dissolution, liquidation or winding-up of the Issuer; or (b) any enforcement action taken by the Trustee. However, in respect of paragraph (a) above, the Legal Title Holder shall not be entitled to such right if the aggregate Current Balance of the Mortgage Loans proposed to be transferred exceeds 10 per cent. of the aggregate Current Balance of the Mortgage Portfolio.

If the Legal Title Holder does not exercise its right of first refusal before the expiry of the 45 day period, the Issuer may transfer the Mortgage Loans and Related Security which are the subject of the right of first refusal not exercised by the Legal Title Holder pursuant to a Permitted Transfer.

The right of first refusal may have an adverse impact on the sale of the Mortgage Portfolio on any enforcement action taken by the Trustee (see "*Assignment of the Mortgage Loans and Related Security – Right of First Refusal*").

### **Portfolio Option**

Under the Deed Poll, the Portfolio Option Holder may exercise the Portfolio Option on and from the Step-Up Date (and every Interest Payment Date thereafter) to require the Issuer to transfer the Mortgage Loans and their Related Security in the Mortgage Portfolio to it. The initial Portfolio Option Holder is the Class Z VFN Holder. If the Portfolio Option Holder is anyone other than the Class Z VFN Holder, the consent of the Legal Title Holder will be required for any transfer, assignment, assignation, novation or other disposal of the Mortgage Portfolio in connection with the exercise of the Portfolio Option. The exercise of the Portfolio Option will give rise to an early redemption of the Notes on the relevant Optional Redemption Date (see "*Early Redemption of Notes*").

### **Risks associated with non owner-occupied Properties**

The Mortgage Loans are secured by non-owner occupied freehold or leasehold properties charged as security for the repayment of a Mortgage Loan (each a "**Property**"). Although it is intended that the Properties will be let by the relevant Borrower to tenants, there can be no guarantee that each such Property will be the subject of an existing tenancy when the relevant Mortgage is acquired by the Issuer or that any tenancy which is granted will subsist throughout the life of the Mortgage and/or that the rental income achievable from

tenancies of the relevant Property will be sufficient to provide the Borrower with sufficient income to meet the Borrower's interest obligations in respect of the Mortgage.

As such, the security for the Notes will also from time to time be affected by the condition of the private residential rental market in England and Wales and, in particular, the condition of the private rental market within the various regional areas in England and Wales where the relevant Properties are located. The condition of the rental market will influence both the ability of Borrowers to find tenants and the amount of rental income which may be achieved by the relevant Borrower in any letting.

Upon enforcement of a Mortgage in respect of a Property which is the subject of an existing tenancy, the Servicer (or its replacement or delegate, as applicable) may not be able to obtain vacant possession of the Property, in which case the Servicer (or its replacement or delegate, as applicable) will only be able to sell the Property as an investment property with one or more sitting tenants. This may affect the amount which such administrator could realise upon enforcement of the Mortgage and a sale of the Property. However, enforcement procedures in relation to such Mortgages include appointing a receiver of rent, in which case such a receiver must collect any rents payable in respect of the Property and apply them accordingly in payment of any interest and arrears accruing under the Mortgage.

The UK Government has passed legislation restricting the amount of income tax relief that individual landlords can claim for residential property finance costs (such as mortgage interest) to the basic rate of tax. Such restriction has been introduced gradually and the first stage of changes apply from 6 April 2017.

From 1 April 2016, a higher rate of stamp duty land tax (“**SDLT**”) has applied to the purchase of additional residential properties (such as buy to let properties). The current additional rate is three per cent. above the current SDLT rates.

The introduction of these measures may adversely affect the private residential rental market in England, Wales in general, or (in the case of the restriction of income tax relief) the ability of individual Borrowers of Buy-to-Let Loans to meet their obligations under those Loans.

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

The Legal Title Holder or the Servicer (on behalf of the Legal Title Holder) may offer a Borrower, or a Borrower may request, a Further Advance or a Product Switch from time to time. Any Mortgage Loan which has been the subject of a Further Advance or a Product Switch following an application by the Borrower will remain in the Mortgage Portfolio. If the Issuer subsequently determines that any Further Advance or Product Switch does not satisfy an Asset Condition, as at the last day of the Monthly Period in which the relevant Further Advance or Product Switch was made (other than paragraphs (g) and (m) of the Asset Conditions, which shall only need to be complied with on and from the Interest Payment Date immediately following the end of the calendar month in which the relevant Switch Date or Advance Date occurs) and as determined on the Monthly Test Date immediately following the relevant Monthly Period (other than paragraphs (g) and (m) of the Asset Conditions, which shall be tested on the Monthly Test Date immediately following the Interest Payment Date immediately following the end of the relevant Monthly Period)), and such default is not remedied in accordance with the Mortgage Sale Agreement, the Beneficial Title Seller will be required to repurchase (or make a cash payment in respect of) the relevant Mortgage Loan and its Related Security. See further “*Assignment of the Mortgage Loans and Related Security – Repurchase by the Beneficial Title Seller*”.

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

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

FSMA or the CCA as further discussed below. If this were to occur, then this could adversely affect the Issuer's ability to make payments due on the Notes or to redeem the Notes

### **Collection of amounts due under Mortgage Loans**

The collection of amounts due under the Mortgage Loans is subject to credit, liquidity and interest rate risks and will generally vary in response to, among other things, market interest rates, general economic conditions, the financial standing of Borrowers, the extent to which Borrowers make prepayments under their Mortgage Loans and other similar factors. Other factors (including factors which may not affect real estate values) may have an impact on the ability of the Borrowers to repay the Mortgage Loans. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies and bankruptcy filings by Borrowers and could ultimately have an adverse impact on the ability of Borrowers to repay Mortgage Loans.

In addition, the ability of the Issuer to dispose of a Property, in the event of enforcement against a Borrower at a price sufficient to repay the amounts outstanding under the relevant Mortgage Loan will depend upon a number of factors including the availability of buyers for the Property.

### **Risk of Losses Associated with Declining Property Values**

The Security for the Notes consists of the Charged Property and may be affected by, among other things, a decline in the value of the Properties. No assurance can be given that the values of the Properties have remained or will remain at the level at which they were on the dates of origination of the related Mortgage Loans. Declines in property values could in certain circumstances result in the value of the Mortgages supporting the Mortgage Loans being significantly reduced and, ultimately, may result in losses to the Noteholders if the Security is required to be enforced.

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

As of the Cut-Off Date, approximately 93.24 per cent. of the loans in the Mortgage Portfolio by value constitute Interest Only Mortgage Loans. Interest Only Mortgage Loans are originated with a requirement that the Borrower pay scheduled interest payments only and, as such, there is no scheduled amortisation of principal. Consequently, upon the maturity of an Interest Only Mortgage Loan, the Borrower will be required to make a bullet payment that will represent the entirety of the Current Balance. The ability of such Borrower to repay an Interest Only Mortgage Loan at maturity frequently depends on such Borrower's ability to refinance the Property, to sell the Property, or to obtain funds from another source such as pension policies, personal equity plans or endowment policies. The ability of a Borrower to sell or refinance the Property will be affected by a number of factors, including the value of the Property, the Borrower's equity in the Property, the financial condition and payment history of the Borrower, tax laws and general economic conditions at that time. Because of the greater risk relating to refinancing of Interest Only Mortgage Loans, a significant downturn in the property markets or the economy could lead to a greater increase in defaults or repayment of principal of Interest Only Mortgage Loans than on Repayment Mortgage Loans. Moreover, the Mortgage Conditions in respect of Interest Only Mortgage Loans do not require a Borrower to put in place alternative funding arrangements.

Similar considerations apply to the portion of a Part and Part Mortgage Loan in respect of which principal payments are only required at maturity of such Mortgage Loan.

Borrowers may have insufficient equity to refinance their Mortgage Loans with lenders and may have insufficient resources to pay amounts in respect of their Mortgage Loans as and when they fall due. This could lead to a higher delinquency rates and losses which in turn may adversely affect the Issuer's ability to make payment on the Notes.

### **Risk of Losses Associated with Arrears Loans**

Some Borrowers may have breached payment or non-payment obligations under the Mortgage Loans during the period since they were originated. While the Issuer will receive a degree of comfort by virtue of the Asset Warranties (see “*Assignment of the Mortgage Loans and Related Security*”), mortgage loans in arrears may experience higher rates of delinquency, write offs, enforcements and bankruptcy than mortgage loans without such arrears or breaches.

### **Payment Holidays**

The terms and conditions of the Mortgage Loans provide that the Legal Title Holder will not require monthly repayments of capital in respect of any amount covered by a repayment plan or option acceptable to it. The Legal Title Holder may also permit suspension of monthly payments other than as a result of a repayment plan or option, in which case the Borrower will pay such interest and any reduced monthly payment as the Legal Title Holder may require as a condition of the suspension. At the end of the suspension period, subsequent monthly payments must be sufficient to pay off the arrears.

To the extent that the Legal Title Holder (or the Servicer on its behalf) permits Borrowers to suspend monthly payments, this may result in a shortfall in interest receipts and/or principal receipts.

### **Borrowers may default on their obligations**

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

### **Geographic Concentration of Properties**

Certain geographic regions will from time to time experience weaker regional economic conditions and housing markets than other regions and, consequently, will experience higher rates of loss and delinquency on mortgage loans generally.

There are concentrations of Properties within certain regional areas which may present risk considerations in addition to those generally present for similar mortgage loan asset backed securities without such concentrations. See the section entitled “*Characteristics of the Mortgage Portfolio*”.

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

The ability of the Issuer to redeem all the Notes in full and to pay amounts to the Noteholders including after the occurrence of an Event of Default, may depend upon whether the Mortgage Loans can be realised to obtain an amount sufficient to redeem the Notes. Unless such Mortgage Loans are sold pursuant to an exercise of the Portfolio Purchase Option, there can be no assurance that the Mortgage Loans can be realised for an amount sufficient to redeem the Notes. There may not be an active and liquid secondary market in the United Kingdom for loans with characteristics similar to the Mortgage Loans. It may not, therefore, be possible for the Issuer or, as the case may be, the Trustee or a Receiver to sell the Mortgage Loans on appropriate terms should such a course of action be required.

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

If the appointment of the Servicer is terminated under the Servicing Agreement, it would be necessary for a substitute servicer with experience of servicing residential property mortgage loans in the United Kingdom, to

be appointed. Such appointment would be made by the Issuer with the assistance of the Back-Up Servicer Facilitator on substantially the same terms as those set out in the Servicing Agreement.

The ability of a substitute servicer fully to perform the required services would depend on the information, software and records available at the time of the relevant appointment. Further, no assurance can be given that upon termination, the Issuer will be able to appoint a suitable substitute servicer and the Trustee has no obligation to act as servicer in such event.

As at the Closing Date, the Servicer has the ability under the Servicing Agreement to sub-contract its obligations. Notwithstanding any such sub-contracting to any party or delegation of the performance of any of its obligations under the Servicing Agreement, the Servicer will (subject to certain qualifications) (see “*Servicing of the Mortgage Portfolio*”) remain responsible for the performance of such obligations under the Servicing Agreement.

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

The Issuer is party to contracts with a number of other third parties who have agreed to perform services in relation to the Notes. In particular, but without limitation, the Cash Manager and the Back-Up Cash Manager Facilitator under the Cash Management Agreement, the Transaction Account Bank under the Transaction Account Agreement, the Principal Paying Agent, the Common Safekeeper, the Common Service Provider, the Agent Bank and the Class Z VFN Registrar under the Agency Agreement, the Interest Rate Swap Provider under the Interest Rate Swap Agreement and the Corporate Services Provider under the Corporate Services Agreement have all agreed to provide services with respect to the Notes. If any of the above parties were to fail to perform their obligations under the respective agreements to which they are a party or were to resign from their appointment or if their appointment under the agreements to which they are a party were to be terminated (in each case, without being replaced), Noteholders may be adversely affected. It should also be noted that the liability of a number of these parties, including the Servicer and the Cash Manager, is limited in accordance with the terms of their relevant agreements.

### **Buildings Insurance Policy**

No assurance can be given that the Issuer will always receive the benefit of any claims made under any applicable buildings insurance policy or that the amounts received in respect of a successful claim will be sufficient to reinstate the affected Property. This could adversely affect the Issuer’s ability to redeem the Notes.

### **Title of the Issuer**

Legal title to all of the Mortgage Loans and (subject to registration or recording at the Land Registry of England and Wales (the “**Land Registry**”)) their related Mortgages are currently vested in the Originator in its capacity as the initial Legal Title Holder.

Legal title to the Mortgage Loans and their related Mortgages will only be transferred to the Issuer in the limited circumstances described in the section entitled “*Assignment of the Mortgage Loans and Related Security*”. Prior to the Issuer obtaining legal title to the Mortgage Loans and Mortgages, a bona fide purchaser from the Legal Title Holder for value of any of such Mortgage Loans without notice of any of the interests of the Issuer or the Trustee might obtain a good title free of any such interest. However, the risk of third party claims obtaining priority to the interests of the Issuer or the Trustee in this way is likely to be limited to circumstances arising from a breach by the Legal Title Holder of its contractual obligations or fraud, gross negligence or mistake on the part of the Legal Title Holder or the Issuer or their respective personnel or agents. Further, the rights of the Issuer and the Trustee may be or become subject to the direct rights of the Borrowers against the Legal Title Holder. Such rights may include the rights of set off which arise in relation to transactions made between certain Borrowers and the Legal Title Holder and the right of the relevant

Borrowers to redeem their Mortgage Loans by repaying the relevant Mortgage Loan directly to the Legal Title Holder. These rights may result in the Issuer receiving less monies than anticipated from the Mortgage Loans.

Until the Issuer obtains legal title to the Mortgage Loans and their related Mortgages, the sale of the Mortgage Loans and their related Mortgages will take effect in equity only, in terms of which the Issuer will acquire the beneficial interest therein.

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

### **General Regulatory Considerations**

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

### **Changes to the UK regulatory structure**

The way in which providers of Mortgage Loans are licensed and regulated has been changed as a result of two developments.

First, the Financial Services Act 2012 came into force on 1 April 2013 and established a new regulatory body, the Financial Conduct Authority (the “**FCA**”). The FCA commenced its regulatory responsibilities as the new regulator on that date. The FCA has power to render unenforceable contracts made in contravention of its product intervention rules. The Financial Services Act 2012 also formalises cooperation between the FCA and the Financial Ombudsman Service, particularly where issues identified have potentially wider implications. The Financial Services Act 2012 also created the Prudential Regulation Authority (the “**PRA**”), which is responsible for the prudential supervision of deposit takers, insurers and a small number of significant investment firms.

Secondly, the way in which providers of credit and related companies are licensed was changed in the United Kingdom. On 1 April 2014, the scope of the Financial Services and Markets Act 2000 (“**FSMA**”) was extended, by amendment to the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the “**Regulated Activities Order**”) *inter alia*, to include regulation of certain credit agreements (“**Regulated Credit Agreements**”) which were previously regulated primarily under the Consumer Credit Act 1974 (“**CCA**”). Responsibility for the regulation of consumer credit was transferred from the Office of Fair Trading (“**OFT**”) to the FCA with effect from 1 April 2014. The FCA is now responsible for the conduct of business and ensuring that business across financial services and markets is conducted in a way which advances the interests of all users and participants.

As a result of the above developments, the FCA now regulates under FSMA loans falling within either the Regulated Mortgage Contracts (as defined below) regime or the Regulated Credit Agreements regime. To avoid duplication, Regulated Mortgage Contracts are excluded from the definition of Regulated Credit Agreements such that a given mortgage loan cannot fall within both of the Regulated Mortgage Contracts and Regulated Credit Agreements regimes under FSMA.

Whilst the licensing regime under the CCA has been repealed and replaced by a similar regime under FSMA, other parts of the CCA remain in force and continue to regulate agreements which are Regulated Credit

Agreements under FSMA, exempt credit agreements and, in some cases, regulate contracts which are Regulated Mortgage Contracts under FSMA.

### **Mortgages Regulated under FSMA**

In the United Kingdom, regulation of certain residential mortgage business under FSMA came into force on 31 October 2004 (the “**Mortgage Regulation Date**”). This regulatory power is exercised by the FCA as of 1 April 2013. Prior to that date this power was exercised by the previous regulator, the Financial Services Authority (“**FSA**”). Subject to certain exemptions, entering into, arranging or advising in respect of or administering Regulated Mortgage Contracts (as defined below) (or agreeing to do any of these things) are regulated activities under FSMA requiring authorisation and permission from the FCA.

A credit agreement is a “**Regulated Mortgage Contract**” under FSMA if, at the time it is entered into on or after the Mortgage Regulation Date (a) the borrower is an individual or trustee, (b) the contract provides for the obligation of the borrower to repay to be secured by a first ranking legal mortgage on land (other than timeshare accommodation) in the EEA, (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 and (d) the credit agreement is not a “regulated home purchase plan” as defined in the Regulated Activities Order. As the Mortgage Portfolio consists only of Buy to Let Loans, the Mortgage Loans should not be Regulated Mortgage Contracts.

### **The Regulated Credit Agreement Regime under FSMA**

As noted above, any credit agreement intended to be a Regulated Mortgage Contract under FSMA might instead be wholly or partly regulated by the CCA or treated as such, or unregulated, and any credit agreement intended to be regulated by the CCA or treated as such, or unregulated, might instead be a Regulated Mortgage Contract under FSMA, 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.

As also noted above, on 1 April 2014, responsibility for the regulation of consumer credit was transferred from the OFT to the FCA. As part of this transfer, the CCA licensing provisions have been repealed and replaced by corresponding provisions in the FSMA framework. The majority of the current conduct of business rules in the CCA will remain, with a number being transferred into the Consumer Credit sourcebook (“**CONC**”) in the FCA’s handbook. This means that from 1 April 2014 credit agreements previously regulated by the CCA have become subject to both the CCA and FSMA (and its associated secondary legislation and the FCA’s handbook).

A credit agreement is regulated by the CCA where it was made before 1 April 2014 and (a) the Borrower was or included an “individual” as defined in the CCA; (b) if the credit agreement was made before 6 April 2008, the amount of “credit” as defined in the CCA did not exceed the financial limit of £25,000 for credit agreements made on or after 1 May 1998 or lower amounts for credit agreements made before that date; and (c) the credit agreement was not an exempt agreement under the CCA. A credit agreement is regulated by both FSMA and the CCA where it was made on or after 1 April 2014 and it is an agreement between an individual or relevant recipient of credit (“**A**”) and any other person (“**B**”) under which B provides A with credit of any amount and is not an exempt agreement under Articles 60C to 60H of the Regulated Activities Order. For this purpose, a “relevant recipient of credit” is (a) a partnership consisting of two or three persons not all of whom are bodies corporate, or (b) an unincorporated body of persons which does not consist entirely of bodies corporate and is not a partnership.

Any credit agreement that is wholly or partly regulated by the CCA or treated as such must comply with the requirements as to authorisation of, *inter alios*, lenders and brokers now set out in FSMA and the Regulated



Activities Order, documentation and procedures of credit agreements, and (in so far as applicable) precontract disclosure. If it does not comply with those requirements then, to the extent that the credit agreement is regulated by the CCA or treated as such, it is unenforceable against the borrower: (a) without an order of the FCA or the court, if the lender or broker did not hold the required licence or authorisation at the relevant time; (b) totally, for agreements entered into before 6 April 2007, if the form to be signed by the borrower was not signed by the borrower personally or omits or misstates a “prescribed term”; or (c) without a court order in other cases. In exercising its discretion whether to make the order, the court would take into account any prejudice suffered by the borrower and any culpability by the lender.

A court order under section 126 of the CCA is necessary to enforce a land mortgage securing a loan or further advance to the extent that the credit agreement is a Regulated Mortgage Contract or regulated by the CCA or treated as such. In dealing with such an application, the court has the power, if it appears just to do so, to amend the credit agreement or to impose conditions upon its performance or to make a time order (for example, giving extra time for arrears to be cleared).

Under section 75 of the CCA, in certain circumstances the lender is liable to the borrower in relation to misrepresentation and breach of contract by a supplier in a transaction financed by a credit agreement that is wholly or partly regulated by the CCA or treated as such. In addition, a borrower who is a private person may be entitled to claim damages for loss suffered as a result of any contravention by an authorised person of a rule under FSMA. The borrower may set off the amount of the claim against the lender under section 75 of the CCA, or for contravention of CONC, against the amount owing by the borrower under the loan or under any other loan that the borrower has taken with the lender. Any such set-off in relation to a Mortgage Loan in the Mortgage Portfolio may adversely affect the Issuer's ability to make payments on the Notes. A Regulated Credit Agreement is unenforceable for any period when the lender fails to comply with requirements as to default notices. A Regulated Credit Agreement is also unenforceable for any period when the lender fails to comply with further requirements as to annual statements and arrears notices. 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. 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. Early repayment charges are restricted by a formula under the CCA. A more restrictive formula applies from 11 June 2010. If a Mortgage Loan is a credit agreement which is regulated by the CCA, any failure to comply with the requirements of the CCA may result in adverse effects on the Issuer's ability to make payment in full on the Notes when due.

The Issuer does not intend to obtain authorisation under FSMA. As a consequence thereof, if a Perfection Event occurs and legal title to the Mortgage Loans transfers to the Issuer (or a nominee of the Issuer) for so long as the Issuer (or such nominee) does not have appropriate authorisation under FSMA or is unable to rely on an exemption in carrying on relevant regulated activities, any Mortgage Loan regulated by FSMA would be unenforceable against the relevant Borrower.

### **The CCA 2006**

The Beneficial Title Seller has warranted to the Issuer in the Mortgage Sale Agreement that no Mortgage Loan is wholly or partly regulated by the CCA or treated as such or, to the extent that it is so regulated, all the requirements of the CCA have been met in full. Should this Asset Warranty be incorrect in respect of any Mortgage Loan, the following considerations need to be taken into account.

The Consumer Credit Act 2006 (the “CCA 2006”), which amends and updates the CCA, was enacted on 30 March 2006 and was fully implemented by 31 October 2008. It includes an “unfair relationship” test which applies to all existing and new credit agreements except Regulated Mortgage Contracts and “regulated home purchase plans” (as defined in the Regulated Activities Order), whether or not they were regulated under the CCA and/or are regulated under the Regulated Credit Agreement regime. The new test explicitly imposes

liability to repay amounts received from a borrower on both the originator and any assignee (such as the Legal Title Holder or the Beneficial Title Seller).

In applying the “unfair relationship” test, the courts will be able to consider a wider range of circumstances surrounding the transaction, including the creditor’s conduct before and after making the agreement. There is no statutory definition of the word “unfair” as the intention is for the test to be flexible and subject to judicial discretion. The courts may, but are not obliged to, look solely to the CCA 2006 for guidance. The FCA “Principles for Businesses” may also be relevant and apply to the way contract terms are used in practice and not just the way they are drafted. Once the debtor alleges that an “unfair relationship” exists, the burden of proof is on the creditor to prove the contrary. It is unclear how the “unfair relationship” test will be interpreted by the courts. However, the word “unfair” is not an unfamiliar term in UK legislation due to the UTCCR and the CRA (each as defined below).

An alternative dispute resolution scheme for consumer credit matters is run by the Ombudsman and was established on 6 April 2007. The responsibility for regulating consumer credit matters was transferred from the OFT to the FCA from 1 April 2014. FCA has many of the same powers formerly exercised by the OFT under CCA 2006 as well as certain further powers. However, it has been indicated that the regulation of consumer credit matters by the FCA in the future will differ from the regulatory practices of the OFT.

A judgment of the court concluding that an unfair relationship exists may require a significant remediation exercise in relation to the Mortgage Portfolio which could adversely affect the Issuer’s ability to make payment in full when due to Noteholders, if the judgment is based on facts common to a material percentage of the Mortgage Portfolio.

### **Consumer Credit Directive 2008**

In April 2008, the European Parliament and the Council adopted a second directive on consumer credit (the “**Consumer Credit Directive**”), which provides that, subject to exemptions, loans not exceeding €75,000 will be regulated. The Consumer Credit Directive repeals and replaces the first consumer credit directive. The Consumer Credit Directive came into effect in the United Kingdom on 1 February 2011.

Mortgage Loans secured by a land mortgage are, however, exempted from the Consumer Credit Directive and from the first consumer credit directive.

### **EU Mortgage Credit Directive**

The Mortgage Credit Directive (2014/17/EU) (“**MCD**”) on credit agreements for consumers relating to residential immovable property was adopted on 4 February 2014. This directive aims to create a Union-wide mortgage credit market with a high level of consumer protection. It applies to both secured credit and home loans to both first and second charge lending (as well as certain unsecured lending) and to both residential and buy-to-let mortgages (see further below as to buy-to-let).

The main provisions include consumer information requirements (including a European Standard Information Sheet), principle based rules and standards for the performance of services (e.g. conduct of business obligations, competence and knowledge requirements for staff), a consumer creditworthiness assessment obligation, provisions on early repayment, provisions on foreign currency loans, provisions on tying practices, some high-level principles (e.g. those covering financial education, property valuation and arrears and foreclosures) and a passport for credit intermediaries who meet the admission requirements in their home Member State.

The FCA published its final rules on the implementation of the MCD in respect of both first and second charge mortgages in Policy Statement 15/9 on 27 March 2015. In the UK, many of the protections required by the MCD already apply to regulated mortgage contracts (i.e. first charge mortgages) under the FCA’s

Mortgages and Home Finance: Conduct of Business sourcebook (“**MCOB**”). In response to the MCD, the FCA extended the definition of a regulated mortgage contract in 4.4.15G of the Perimeter Guidance manual to cover first, second or subsequent mortgages. Where requirements of the MCD were not already reflected in MCOB, MCOB was amended to apply these provisions both to first and second charge lending. The FCA also took the opportunity to make certain other changes to MCOB not required by the MCD. New rules in respect of disclosure of alternative finance options, and rules on information sharing, shared equity credits, the charges and the amount of charges that may be imposed and the treatment of vulnerable customers in arrears apply from 21 March 2016. The application of such rules may affect the business of the Legal Title Holder and the Servicer insofar as it may result in delayed recoveries and delay payments by the Issuer on the Notes.

The UK Government has sought to put in place what it has described as the minimum requirements to meet its legal obligations under the Mortgage Directive in respect of buy-to-let mortgages. The UK Government has, accordingly, made use of an optional exemption in the MCD which allows Member States, in their discretion, to exclude buy-to-let credit agreements from the main requirements of the MCD. Member States utilising such exemption must, instead, ensure the application of an appropriate framework at a national level for this type of credit. Accordingly, the UK Government established in legislation a framework for ‘consumer buy-to-let’ mortgages (“**CBTL**”) via the Mortgage Credit Directive Order 2015 which took effect on 21 March 2016 (“**Mortgage Credit Directive Order**”). In parallel, the FCA made its Mortgage Credit Directive Instrument 2015, which also took effect on 21 March 2016. The legislation created a new distinction between buy-to-let activity involving consumers (“**CBTL Agreements**”) and buy-to-let mortgage agreements wholly or predominantly for the purposes of a business carried on, or intended to be carried on, by the borrower (“**Unregulated BTL Agreements**”). The legislation sets out a series of circumstances which would indicate a buy-to-let customer is acting by way of business. The UK Treasury has stated that they would expect CBTL activity to represent a small proportion of total buy-to-let transactions. A firm acting as a lender, administrator, intermediary, arranger or carrying out advisory services in relation to CBTL Agreements must be registered with the FCA and will be subject to conduct of business rules in respect of both the origination and servicing of CBTL Agreements. The Legal Title Holder and the Servicer will be subject to the conduct of business rules in respect of any CBTL Agreements in the mortgage portfolios.

Any further changes to MCOB or changes in the regulatory framework may adversely affect the Loans, the Beneficial Title Seller and/or the Servicer and their respective businesses and operations.

### **The Renting Homes (Wales) Act 2016**

The Renting Home (Wales) Act (the “**Renting Homes Act**”) received royal assent on 18 January 2016 but has not yet been brought into force. This Act will convert the majority of residential tenancies in Wales into a ‘standard contract’ with retrospective effect when it has been brought into force, however some tenancies will not be converted with retrospective effect (including those which have Renting Homes Act protection and tenancies for more than 21 years).

The Renting Homes Act (which only has effect in Wales) does not contain an equivalent mandatory ground for possession that a lender had under the Housing Act 1988 where a property was subject to a mortgage granted before the beginning of the tenancy and the lender required possession in order to dispose of the property with vacant possession.

The Renting Homes Act may result in lower recoveries in relation to buy-to-let mortgages over Properties in Wales and may affect the ability of the Issuer to make payments under the Notes.

### **Repossessions policy**

A protocol for mortgage re-possession cases in England and Wales came into force on 19 November 2008 (the “**Pre-Action Protocol**”), which sets out the steps that judges will expect any lender to take before starting a

claim. In response to this, a number of mortgage lenders have confirmed that they will delay the initiation of repossession action for at least three (or, in the case of some lenders, six) months after a borrower, who is an owner-occupier, is in arrears. The application of such a moratorium is subject to the wishes of the relevant borrower and may not apply in cases of fraud. In addition, the Mortgage Repossession (Protection of Tenants etc.) Act 2010 (the “**Repossession Act 2010**”) came into force in England and Wales in October, 2010. The Repossession Act 2010 introduced new powers for courts hearing a mortgage repossession case where the property is occupied by unauthorised tenants, including powers to delay a repossession order and suspend a warrant of eviction on application by an unauthorised tenant.

The Pre-Action Protocol requirements for mortgage possession cases and the Repossession Act 2010 may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the Mortgage Loans may result in delayed recoveries and delayed payments on the Notes.

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

In the United Kingdom, the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the “**1999 Regulations**”), together with (insofar as applicable) the Unfair Terms in Consumer Contracts Regulations 1994 (together with the 1999 Regulations, the “**UTCCR**”), apply to agreements made between 1 July, 1995 and 30 September, 2015 and affect all or almost all of the Mortgage Loans originated between those dates. The Consumer Rights Act 2015 (the “**CRA**”) has revoked the UTCCR as from 1 October 2015 (see “*Consumer Rights Act 2015*” below).

The UTCCR provide that a consumer (which would include any Borrowers who are not in the business of letting Properties) may challenge a standard term in an agreement on the basis that it is “unfair” within the UTCCR and therefore not binding on the consumer (although the rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term).

The UTCCR will not affect terms which define the main subject matter of the contract, such as the Borrower’s obligation to repay the principal (provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer’s attention), but may affect terms that are not considered to be terms which define the main subject matter of the contract, such as the lender’s power to vary the interest rate and certain terms imposing mortgage exit administration fees. If any term of the Mortgage Loans is found to be unfair for the purpose of the UTCCR, this may adversely affect the ability of the Issuer to make payments under the Notes.

In May 2005 the previous regulator, the FSA, issued a statement of good practice on fairness of terms in consumer contracts, which is relevant to firms authorised by the FCA in relation to products and services within the FCA’s regulatory scope. This statement provides that, for locked-in Borrowers, a lender 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 January 2007, the FSA issued a statement of good practice on mortgage exit administration fees. This statement provides that the lender should ensure that the fee represents in fact the cost of the administration services that the lender provides when a Borrower exits the mortgage. The FSA issued a follow-up communication in November 2007 emphasising that this statement should not be interpreted narrowly and, where appropriate, firms should consider applying its principles to other charges. In August 2007, the Unfair Contract Terms Regulatory Guide (previously in the FSA handbook and now in the FCA handbook) came into force. This guide is designed to explain the FCA’s policy on how it will use its powers under the 1999 Regulations. In January 2012, the FSA published finalised guidance entitled “*Unfair contract terms: improving standards in consumer contracts*” and “*Statement on using Switching Terms in mortgage contracts under the Unfair Terms in Consumer Contracts Regulations 1999*”. Under the later guidance the FSA considered that terms in interest-only mortgage contracts that allow firms to switch consumers from an

interest-only mortgage to a repayment mortgage may be regarded as unfair if they give the firm too broad a discretion to determine when such switching terms will apply. Further, where switching terms are determined to be unfair by a court, the firms will be unable to switch the consumer from an interest-only mortgage to a repayment mortgage, as such switching terms will not bind that consumer. The May 2005, January 2007 and January 2012 guidance (the “**Previous Guidance**”) has recently been removed from the FCA's website because they no longer reflect the FCA's current view on unfair contract terms and firms should no longer rely on the content of the documents that have been removed.

Whilst the FCA has powers to enforce the UTCCR, it would be for a court to determine their proper interpretation. The extremely broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any Mortgage Loans which have been made to Borrowers covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans. If any term of the Mortgage Loans entered into before 1 October 2015 is found to be unfair for the purpose of the UTCCR, this may adversely affect the ability of the Issuer to make payments under the Notes.

### **Consumer Rights Act 2015**

The main provisions of the CRA came into force on 1 October 2015. The CRA significantly reforms and consolidates consumer law in the UK. The CRA involves the creation of a single regime out of the Unfair Contract Terms Act 1977 (which essentially deals with attempts to limit liability for breach of contract) and the UTCCR. The CRA has revoked the UTCCR for contracts entered into on and after 1 October 2015 and applies to all Mortgage Loans entered into on or after that date where the borrower is classified as a consumer.

The amendments introduced by the CRA primarily concern the scope of the unfair contract terms protections, rather than their substance, as well as codifying certain case law developments concerning unfair contract terms. One significant amendment introduced under the CRA is an express requirement on the court to consider the fairness of the terms in a consumer contract, where it has sufficient legal and factual information to do so, even where this is not in issue between the parties in that particular case. In addition, the CRA applies to both negotiated and non-negotiated (standard term) contracts.

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

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

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

The provisions in the CRA governing unfair contractual terms came into force on 1 October 2015. The Unfair Contract Terms Regulatory Guide (UNFCOG in the FCA handbook) explains the FCA's policy on how it uses its formal powers under the CRA and the Competition and Markets Authority (the “CMA”) published guidance on the unfair terms provisions in the CRA on 31 July 2015. (the “CMA Guidance”). The CMA indicated in the CMA Guidance that the fairness and transparency provisions of the CRA are regarded to be "effectively the same as those of the UTCCR". The document further notes that "the extent of continuity in unfair terms legislation means that existing case law generally, and that of the Court of Justice of the European Union particularly, is for the most part as relevant to the Act as it was the UTCCRs". In general, there is little reported case law on the UTCCR and/or the CRA and the interpretation of each is open to some doubt. The extremely broad and general wording of the CRA makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any Mortgage Loans which have been made to Borrowers covered by the CRA may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans. If any term of the Mortgage Loans entered into on or after 1 October 2015 is found to be unfair for the purpose of the CRA, this may adversely affect the ability of the Issuer to make payments to Noteholders. No assurance can be given that any changes in legislation, guidance or case law on unfair terms will not have a material adverse effect on the Legal Title Holder, the Servicer, the Issuer and their respective businesses and operations. There can be no assurance that any such changes (including changes in regulators' responsibilities) will not affect the Mortgage Loans.

The Previous Guidance and the guidance issued by the CMA has changed over time and it is possible that it may change in the future. No assurance can be given that any such changes in guidance on the UTCCR and the CRA, or reform of the UTCCR and the CRA, will not have a material adverse effect on the Loans, the Legal Title Holder, the Servicer or their respective businesses and operations.

This new regime does not seem to be significantly different from the regime under the UTCCR. However, this area of law is rapidly developing. On 17 May 2018, the FCA launched a consultation on new guidance on unfair contract terms following the introduction of the CRA and in light of a number of rulings on variation terms in the Court of Justice of the EU. The consultation closes on 7 September 2018. We can expect new regulatory guidance and case law as a result of this new legislation. No assurance can be given that any changes in legislation, guidance or case law on unfair terms will not have a material adverse effect on the Legal Title Holder, the Servicer or the Issuer and their respective businesses and operations. There can be no assurance that any such changes (including changes in regulators' responsibilities) will not affect the Mortgage Loans.

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

On 11 May 2005, the European Parliament and Council adopted a directive on unfair business-to-consumer commercial practices (the “Unfair Practices Directive”). The Unfair Practices Directive was implemented into United Kingdom law through the Consumer Protection from Unfair Trading Regulations 2008 (“CPUTRs”). The CPUTRs came into effect on 26 May 2008 and affect all contracts entered into with persons who are natural persons and acting for purposes outside their respective business. Although the CPUTRs are not concerned solely with financial services, they do apply to the residential mortgage market.

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

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

In addition to the general prohibition on unfair commercial practices, the CPUTRs contain provisions aimed at aggressive and misleading practices (including, but not limited to: (i) pressure selling; (ii) misleading marketing (whether by action or omission); and (iii) falsely claiming to be a signatory to a code of conduct) and a list of practices which will in all cases be considered unfair. The effect (if any) of the CPUTRs on the Mortgage Loans, the Legal Title Holder or the Issuer and their respective businesses and operations will depend on whether those entities engage in any of the practices described in the CPUTRs. Whilst engaging in an unfair commercial practice does not render a contract void or unenforceable, to do so is an offence punishable by a fine and/or imprisonment. In practical terms, the CPUTRs have not added much to the regulatory requirements already in place, such as treating customers fairly and conduct of business rules. Breach of the CPUTRs could initiate intervention by a regulator.

The CPUTRs do not provide consumers with a private act of redress. Instead, consumers must rely on existing private law remedies based on the law of misrepresentation and duress. The Consumer Protection (Amendment) Regulations 2014 (SI No.870/2014) came into force on 1 October 2014. These amendments to the CPUTR give consumers a right to redress for misleading or aggressive commercial practices (as defined in the CPUTR), including a right to unwind agreements. This will apply to any unregulated buy-to-let contracts in the Mortgage Portfolio and any debt collection activity with regard to demands for repayment.

In addition, the FCA has taken the Unfair Practices Directive into account in reviewing its relevant rules, such as MCOB. For example, MCOB rules for regulated mortgage contracts from 25 June 2010 (formerly these were matters of non-binding guidance) prevent the lender from: (a) repossessing the property unless all other reasonable attempts to resolve the position have failed, which include considering whether it is appropriate to offer an extension of term, or conversion to interest-only for a period, or a deferral of interest payments, and (b) automatically capitalising a payment shortfall.

The Unfair Practices Directive provided for a transitional period until 12 June 2013 for the application of full harmonisation in the fields to which it applies. In March 2013, the European Commission published a report on the application of the Unfair Practices Directive, which indicated (among other things) that there is no case for further harmonisation in the fields of financial services and immovable property. No assurance can be given that the implementation of the Unfair Practices Directive into law in the UK and any further harmonisation will not have a material adverse effect on the Mortgage Loans or the manner in which they are serviced and accordingly on the ability of the Issuer to make payments to Noteholders.

### **Distance Marketing**

The Financial Services (Distance Marketing) Regulations 2004 apply to, *inter alia*, credit agreements entered into on or after 31 October 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator and the borrower). The Distance Marketing Disclosure Rules contained in the FCA's MCOB apply specifically to Regulated Mortgage Contracts under FSMA. Additional rules are set out in the Conduct of Business Sourcebook ("COBS") and for regulated credit agreements in the Consumer Credit Sourcebook ("CONC"), if made by a UK originator from an establishment in the UK. Under the Financial Services (Distance Marketing) Regulations 2004, if the borrower does not receive

prescribed information at the prescribed time the credit agreement or regulated mortgage contract will be cancellable. If the borrower does not receive the prescribed information, he may send notice of cancellation at any time before he receives the last of the prescribed information. Where the contract has been concluded at the consumer's request using a means of distance communication which does not enable provision of the prescribed information before the conclusion day of the credit agreement or regulated mortgage contract, the borrower may send notice of cancellation before the end of the fourteenth day after the day on which the cancellable agreement is made or, if later, the borrower receives the last of the prescribed information. Some of the Mortgage Loans may have been originated on the basis of distance marketing and are therefore subject to the requirements and risks set out in this paragraph.

If the borrower cancels the credit agreement under these regulations, then:

- (a) the borrower is liable to repay the principal and any other sums paid by the originator to the borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the borrower's 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 for the cancelled agreement

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

### **Financial Ombudsman Service**

Under FSMA, the Financial Ombudsman Service (the "**Ombudsman**") is required to make decisions on, among other things, complaints relating to activities and transactions under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all circumstances of the case, taking into account, among other things, law and guidance. Complaints brought before the Ombudsman for consideration must be decided on a case by case basis, with reference to the particular facts of any individual case. Each case 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 an ombudsman. As the Ombudsman is required to make decisions on the basis of, among other things, the principles of fairness, and may order a money award to a complaining borrower, it is not possible to predict whether any future decision of the Ombudsman may have an adverse effect on the Mortgage Loans, the Issuer, the Servicer and their respective businesses and operations and such decision may affect the ability of the Issuer to make payments to Noteholders.

### **Enforcement**

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



Proceedings for the repossession and/or sale of the relevant property are generally initiated between three and four months after the first default of a scheduled monthly payment. Any delays in enforcement and recovery in respect of the Loans may in turn adversely affect the rate at which the Notes will be redeemed and the ability of the Issuer to make timely payments on the Notes.

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

### **Implementation of, and amendments to, the Basel III framework may affect the regulatory capital and liquidity treatment of the Notes**

The Basel Committee on Banking Supervision (the “**Basel Committee**”) approved significant changes to the Basel II regulatory capital and liquidity framework in 2011 (such changes being commonly referred to as “**Basel III**”). In particular, Basel III provides for a substantial strengthening of existing prudential rules, including requirements intended to reinforce capital standards (with heightened requirements for global systemically important banks) and to establish a leverage ratio “backstop” for financial institutions and certain minimum liquidity standards (referred to as the “**Liquidity Coverage Ratio**” and the “**Net Stable Funding Ratio**”). The European Commission published the final version of the Delegated Regulation for the Liquidity Coverage Ratio in October 2014, which was published in the Official Journal of the EU on 17 January 2015 and applies from 1 October 2015. The minimum Liquidity Coverage Ratio requirement of 100 per cent. applies as of 1 January 2018. The Net Stable Funding Ratio is intended to apply from January 2018. Implementation of Basel III requires national legislation and therefore the final rules and the timetable for their implementation in each jurisdiction may be subject to some level of national variation. The Basel Committee has also published certain proposed revisions to the securitisation framework, including proposed new hierarchies of approaches to calculating risk weights and a new risk weight floor of 15 per cent. It should also be noted that changes to regulatory capital requirements have been made for insurance and reinsurance undertakings through participating jurisdiction initiatives, such as Solvency II framework in Europe.

Implementation of the Basel framework (to the extent that it has not already been fully implemented in member countries) and/or of any of the changes put forward by the Basel Committee as described above may have an impact on the capital requirements in respect of the Notes and/or on incentives to hold the Notes for investors that are subject to requirements that follow the relevant framework and, as a result, may affect the liquidity and/or value of the Notes.

In general, prospective 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 any changes to the Basel framework (including the changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any prospective investor or otherwise.

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

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

makes any representation to any prospective investor or purchaser of the Notes regarding the regulatory capital treatment of their investment in the Notes on the Closing Date or at any time in the future.

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 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 the position of its Note in the relevant Payments Priorities, 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.

In particular, investors should be aware of Articles 404 to 410 of Regulation (EU) No. 575/2013 referred to as the Capital Requirements Regulation ("**CRR**") which apply, in general, to securitisations newly issued on or after 1 January 2014. Article 405 of the CRR restricts an EU regulated credit institution and consolidated group affiliates thereof from investing in a securitisation unless the originator, sponsor or original lender in respect of that securitisation has explicitly disclosed to the EU regulated credit institution that it will retain, on an ongoing basis, a net economic interest of not less than 5 per cent. in that securitisation as contemplated by Article 405. Article 406 also requires an EU regulated credit institution to be able to demonstrate that it has undertaken certain due diligence in respect of, amongst other things, the notes it has acquired and the underlying exposures and that procedures have been established for such due diligence to be conducted on an on-going basis. Failure to comply with one or more of the requirements set out in Articles 404 to 410 may result in the imposition of a penal capital charge with respect to the investment made in the securitisation by the relevant investor.

Investors should also be aware of Section 5 of Regulation (EU) No 231/2013 (the "**AIFMR**"), the provisions of which section introduced risk retention and due diligence requirements (which took effect from 22 July 2013 in general) in respect of alternative investment fund managers that are required to become authorised under the EU Directive 2011/61/EC on Alternative Investment Fund Managers and which assume exposure to the credit risk of a securitisation on behalf of one or more alternative investment funds. While the requirements under Section 5 of the AIFMR are similar to those which apply under Articles 404 to 410 (including in relation to the requirement to disclose to alternative investment fund managers that the originator, sponsor or original lender will retain, on an ongoing basis, a net economic interest of not less than 5 per cent. in respect of certain specified credit risk tranches or asset exposures), they are not identical and, in particular, additional due diligence obligations apply to relevant alternative investment fund managers.

Investors should also be aware of Chapter VIII of Title I of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 (the "**Solvency II Regulation**"). Article 254 of the Solvency II Regulation, which took effect on 1 January 2016, restricts an EU regulated insurance or reinsurance undertaking from investing in a securitisation unless the originator, sponsor or original lender has explicitly disclosed that it shall retain, on an ongoing basis, a net economic interest of not less than 5 per cent. in that securitisation. The requirements under Chapter VIII of Title I of the Solvency II Regulation are similar, but not identical to, the requirements under Articles 404 and 410 of the CRR. In particular, additional due diligence obligations apply to relevant EU regulated insurance or reinsurance undertakings.

Aspects of the risk retention and due diligence requirements described above and what is or will be required to demonstrate compliance to national regulators remain unclear. In particular, in the context of the

requirements which apply in respect of EU regulated credit institution investors, investment firms and authorised alternative investment fund managers, coming legislative developments may result in changes to the corresponding interpretation materials which apply in respect of such requirements. No assurance can be provided that any such changes will not affect the compliance position of previously issued transactions and/or the requirements applying to relevant investors in general.

The risk retention and due diligence requirements described above apply, or are expected to apply, in respect of the Notes. 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. Relevant investors are required to independently assess and determine (i) whether the transaction complies with any relevant requirements, and (ii) the sufficiency of the information described in this Prospectus and in any investor reports provided in relation to the transaction for the purposes of complying with any relevant requirements and none of the Issuer, the Arranger, the Joint Lead Managers, the Originator, the Servicer or any Transaction Party makes any representation that the information described above is sufficient in all circumstances for such purposes or that the transaction complies with any relevant requirements.

It should be noted that the European authorities have adopted and finalised two new regulations related to securitisation (being the Securitisation Regulation and Regulation (EU) 2017/2401) which will apply in general from 1 January 2019. Amongst other things, the new regulations include provisions intended to implement the revised securitisation framework developed by the Basel Committee on Banking Supervision (with adjustments) and provisions intended to harmonise and replace the risk retention and due diligence requirements (including the corresponding guidance provided through technical standards) applicable to certain EU regulated and potentially other investors. There are material differences between the coming new requirements and the current requirements including with respect to certain matters to be verified under the due diligence requirements, as well as with respect to the application approach under the retention requirements and the originator entities eligible to retain the required interest. Further differences may arise under the corresponding guidance which will apply under the new risk retention requirements, which guidance is to be made through new technical standards. In general, the new regulations (including the retention and due diligence requirements) apply to securitisations, the securities of which are issued on or after the application date of 1 January 2019. Aspects of the application of the new requirements in the context of existing transactions involving further issuances are unclear.

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.

### **Securitisation Regulation**

On 17 January 2018, the Securitisation Regulation entered into force. The Securitisation Regulation recasts (with some amendments) a number of provisions which already apply in respect of securitisations in the EU, including those relating to risk retention, due diligence and disclosure. It also introduces a new framework for STS securitisations. The Securitisation Regulation applies to EU-regulated institutional investors, originators, sponsors and original lenders and securitisation special purpose entities. The Securitisation Regulation is expressed to apply to securitisations “the securities of which are issued on or after” 1 January 2019.

A securitisation, the securities of which were issued before 1 January 2019, can qualify as STS if (i) it met, at the time of issuance, the criteria relating to true sale, perfection triggers, eligibility criteria, homogeneous assets, no securitisation positions, no assets in default, at least one payment, no reliance on sales, risk

retention and interest rates and (ii) it meets, at the time of notification of STS eligibility to ESMA, the criteria relating to no encumbrances and underwriting standards, as well as the remaining standardisation criteria and all the transparency criteria.

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

### **CRA3**

Prospective investors are responsible for ensuring that an investment in the Notes is compliant with all applicable investment guidelines and requirements and in particular any requirements relating to ratings. In this context, prospective investors should note the provisions of Regulation 462/2013 (EU) which amends Regulation (EC) 1060/2009 on Credit Rating Agencies (together, "**CRA3**") which became effective on 20 June 2013. CRA3 may require, among other things, issuers or related third parties intending to solicit a credit rating of a structured finance instrument to appoint at least two credit rating agencies to provide credit ratings independently of each other. Additionally, CRA3 requires certain additional disclosure to be made in respect of structured finance transactions.

In general, European regulated investors are restricted under the CRA3 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 CRA3 (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending.

Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA3 (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

The Issuer and the Beneficial Title Seller (each an "**Applicable Entity**" and together, the "**Applicable Entities**") have undertaken to (a) procure the appointment of a designated reporting entity for the purposes of complying with the Article 8b Requirements (the "**Designated Reporting Entity**") and (b) procure that the Designated Reporting Entity provides notice to ESMA of the appointment of the designated reporting entity for the purposes of complying with the Article 8b Requirements and to provide such notice in accordance with article 2(2) of Regulation (EU) No. 2015/3 and any corresponding formal guidance provided by ESMA.

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

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

### **Tax Considerations**

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

The Taxation of Securitisation Companies Regulations 2006 (2006/3296) (the "**Regulations**") were made under section 84 of the Finance Act 2005 (now section 624 of the Corporation Tax Act 2010) on 11 December 2006 to deal with the corporation tax position of securitisation companies such as the Issuer with effect for their periods of account beginning on or after 1 January 2007 (and subsequently amended by the Taxation of

Securitisation Companies (Amendment) Regulations 2018 (2018/143)) with effect for their periods of account beginning on or after 1 January 2018. If the Regulations apply to a company, then, broadly, it will be subject to corporation tax on the cash profit retained by it for each accounting period in accordance with the transaction documents. Based on advice received, the Issuer considers that it will be taxed under the special taxation regime for which provision is made by the Regulations. Investors should note, however, that the Regulations are in short form and advisers are relying significantly upon guidance from the United Kingdom tax authorities when advising on the scope and operation of the Regulations including whether any particular company falls within the regime provided for in the Regulations. Investors should note that if the Issuer did not fall to be taxed under this regime then its profits or losses for tax purposes might be different from its cash position and there might be a risk of the Issuer incurring unfunded tax liabilities. In addition, the deduction of interest paid on the Notes could be disallowed for United Kingdom corporation tax purposes which could cause a significant divergence between the cash profits and the taxable profits of the Issuer. Any unforeseen taxable profits in the Issuer could have an adverse effect on its ability to make payments to Noteholders.

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

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

### **Legal Considerations**

#### **Effect of set-off**

Where a Borrower has a valid claim against a mortgagee, that Borrower will be entitled to set-off payment otherwise due to that mortgagee to the extent of the Borrower's claim where the Borrower's claim arises out of the contract in respect of which the mortgagee claims payment (that is, the relevant Mortgage Condition) or in respect of closely connected transactions.

If a Borrower were to attempt to set-off, the amount he or she could set-off would be limited to the damages that Borrower suffered as a result of the breach by the Legal Title Holder of such contractual obligation. The likely measure of damages would be the difference, if any, between the cost of borrowing from the Legal Title Holder and the cost of borrowing from another lender.

#### **Change of Law**

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

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

The Dwelling Houses (Execution of Possession Orders by Mortgagees) Regulations 2010 came into effect on 1 October 2010 and contain new requirements for creditors to give at least 14 days' notice of their intention to execute a possession order over residential premises which have been let. Additionally, pursuant to the Mortgage Repossessions (Protection of Tenants etc.) Act 2010, a court could delay execution of possession orders for up to two months on an application by a tenant. These changes in the law may delay the Legal Title

Holder exercise of its power of sale in relation to the Buy to Let Loans and may in turn reduce the timeliness of receipts receivable by the Issuer under the Mortgage Portfolio and may adversely impact on the ability of the Issuer to make payments under the Notes.

### **EU Referendum**

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

The timing of the UK’s exit from the EU remains subject to some uncertainty, although the draft legislation states that it will be 29 March 2019. Article 50 provides that the EU treaties will cease to apply to the UK two years after the Article 50 Notice unless a withdrawal agreement enters into force earlier or the two-year period is extended by unanimous agreement of the UK and the European Council.

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

In addition to the economic and market uncertainty this brings there are a number of potential risks for the Transaction that Noteholders should consider:

#### *Legal uncertainty*

A significant proportion of English law currently derives from or is designed to operate in concert with European Union law. This is especially true of English law relating to financial markets, financial services, prudential and conduct regulation of financial institutions, bank recovery and resolution, payment services and systems, settlement finality, market infrastructure, and mortgage credit regulation. A government white paper was published on 30 March 2017, describing the “great repeal bill” that aims to incorporate the EU law *acquis* into UK law the moment before the UK ceases to be a member of the EU, with the intention of limiting immediate legal change.

The European Union (Withdrawal) Bill was subsequently introduced into Parliament on 13 July 2017. The Bill will repeal the European Communities Act, which was passed in 1972 in order to enable the UK to join what is now the EU. In terms of the Bill, nearly all existing EU law will be incorporated into UK law. However, the Bill will give government ministers powers to amend, repeal and replace EU laws that are incorporated into UK law by the Bill.

Over time – and depending on the timing and terms of the UK’s exit from the EU – significant changes to English law in areas relevant to the Transaction and the parties to the Transaction are likely. The Issuer cannot predict what any such changes will be and how they may affect payments of principal and interest to the Noteholders.

#### *Regulatory uncertainty*

There is significant uncertainty about how financial institutions from the remaining EU (the “**EU27**”) with assets (including branches) in the UK will be regulated and vice versa. At present, EU single market regulation allows regulated financial institutions (including credit institutions, investment firms, alternative investment fund managers, insurance and reinsurance undertakings) to benefit from a passporting system for regulatory authorisations required to conduct their businesses, as well as facilitating mutual rights of access to important elements of market infrastructure such as payment and settlement systems. EU law is also the framework for mutual recognition of bank recovery and resolution regimes.

Once the UK ceases to be a Member State of the EU, the current passporting arrangements will cease to be effective, as will the current mutual rights of access to market infrastructure and current arrangements for mutual recognition of bank recovery and resolution regimes. In addition, the potential change in the regulatory framework may in the future impact on the eligibility of the Class A Notes as Eurosystem eligible collateral under the Eurosystem monetary policy framework of the European Central Bank. The ability of regulated financial institutions to continue to do business between the UK and the EU27 after the UK ceases to be a Member State of the EU would therefore be subject to separate arrangements between the UK and the EU27. Although the UK Government has said that it “will be aiming for the freest possible trade in financial services between the UK and EU Member States” in a white paper setting out its Brexit negotiation objectives, there can be no assurance that there will be any such arrangements concluded and, if they are concluded, when and on what terms. Such uncertainty could adversely impact the ability of third parties who are regulated financial institutions to provide services to the Issuer and the Transaction.

#### *Counterparty risk*

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

#### *Rating actions*

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

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

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

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

#### **Economic conditions in the Eurozone and General market volatility**

Concerns relating to credit risk (including that of sovereigns and of those entities which have exposure to sovereigns) persist, in particular, with respect to current economic, monetary and political conditions in the region comprising of the Member States of the EU that have adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957) as amended (the “**Eurozone**”). If such conditions further deteriorate (including as may be demonstrated by any relevant credit rating agency action, any default or restructuring of indebtedness by one or more

states or institutions and/or any exit(s) by any Member State(s) from the European Union and/or any changes to, including any break-up of, the Eurozone), then these matters may cause further severe stress in the financial system generally and/or may adversely affect the UK housing market, the Issuer, one or more of the other parties to the Transaction Documents (including the Servicer, the Account Bank and/or the Cash Administrator) and/or any Borrower in respect of its Loan.

#### **Risks relating to the Banking Act 2009 and the Bank Recovery and Resolution Directive 2014**

The Banking Act 2009 (the “**Banking Act**”) includes provision for a special resolution regime pursuant to which specified UK authorities have extended tools to deal with the failure (or likely failure) of certain UK incorporated entities, including authorised deposit-taking institutions and investment firms, and powers to recognise and give effect to certain resolution actions in respect of third country institutions. In addition, powers may be used in certain circumstances in respect of UK established banking group companies, where such companies are in the same group as a relevant UK or third country institution or in the same group as an EEA credit institution or investment firm. Coventry Building Society in its capacity as Servicer and Godiva Mortgages Limited as Legal Title Holder and Originator are relevant entities for this purpose.

The tools available under the Banking Act include share and property transfer powers (including powers for partial property transfers), bail-in powers, certain ancillary powers (including powers to modify contractual arrangements in certain circumstances) and special insolvency procedures which may be commenced by the UK authorities. In respect of UK building societies, the relevant tools include (i) modified property transfer powers which also refer to cancellation of shares and conferring rights and liabilities in place of such shares, (ii) in place of the share transfer powers, a public ownership tool which may involve (amongst other things) arranging for deferred shares in a building society to be publicly owned, cancellation of private membership rights and the eventual winding up or dissolution of the building society and (iii) modified bail-in powers such that exercise of the tool may be immediately preceded by the demutualisation of the building society through the conversion of it into a company or the transfer of all of the property, rights or liabilities of the society to a company. It is possible that the extended tools described above could be used prior to the point at which an application for insolvency proceedings with respect to a relevant entity could be made and, in certain circumstances, the UK authorities may exercise broad pre-resolution powers in respect of relevant entities with a view to removing impediments to the exercise of the stabilisation tools.

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

If an instrument or order were to be made under the provisions of the Banking Act currently in force in respect of a relevant entity as described above, such action may (amongst other things) affect the ability of such entity to satisfy its/their obligations under the Transaction Documents and/or result in the cancellation, modification or conversion of certain unsecured liabilities of such entity under the Transaction Documents or in other modifications to such documents. In particular, modifications may be made pursuant to powers permitting (i) certain trust arrangements to be removed or modified, (ii) contractual arrangements between relevant entities and other parties to be removed, modified or created where considered necessary to enable a transferee in the context of a property or share transfer to operate the transferred business effectively and (iii) in connection with the modification of an unsecured liability through use of the bail-in tool, the discharge of a relevant entity from further performance of its obligations under a contract. In addition, subject to certain



conditions, powers would apply to require a relevant instrument or order (and related events) to be disregarded in determining whether certain widely defined “default events” have occurred (which events may include trigger events included in the Transaction Documents in respect of the relevant entity, including termination events and (in the case of the Legal Title Holder) trigger events in respect of perfection of legal title to the Mortgage Loans). As a result, the making of an instrument or order in respect of a relevant entity as described above may affect the ability of the Issuer to meet its obligations in respect of the Notes.

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

Lastly, as a result of Directive 2014/59/EU providing for the establishment of an EEA-wide framework for the recovery and resolution of credit institutions and investment firms and any relevant national implementing measures, it is possible that an institution with its head office in an EEA state other than the UK and/or certain group companies (such as BNP Paribas in its capacity as Interest Rate Swap Provider) could be subject to certain resolution actions in that other state. Once again, any such action may affect the ability of any relevant entity to satisfy its obligations under the Transaction Documents and there can be no assurance that Noteholders will not be adversely affected as a result.

### **Liquidation Expenses**

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

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

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

### **Insolvency Act 2000**

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

The Insolvency Act 1986 defines a “small company” by reference to whether the company meets certain tests contained in section 382(3) of the Companies Act 2006, relating to a company’s balance sheet total, turnover and average number of employees in a particular period. The position as to whether or not a company is a “small company” may change from financial period to financial period, depending on its financial position and average number of employees during that particular period. The Secretary of State for Business, Energy and Industrial Strategy may, by regulations, also modify the qualifications for eligibility of a company for a moratorium and may also modify the present definition of a “small company”. Accordingly, the Issuer may, at any given time, come within the ambit of the “small companies” provisions, such that the Issuer may (subject to the exemptions referred to below) be eligible to seek a moratorium, in advance of a company voluntary arrangement.

During the period for which a moratorium is in force in relation to a company, *inter alia*, no winding up may be commenced or administrator appointed to that company, no administrative receiver of that company may be appointed, no security created by that company over its property may be enforced (except with the leave of the court) and no other proceedings or legal process may be commenced or continued in relation to that company (except with the leave of the court). In addition, if the holder of security (the “chargee”) created by that company consents or if the court gives leave, the company may dispose of the secured property as if it were not subject to the security. Where the property in question is subject to a floating charge, the chargee will have the same priority in respect of any property of the company directly or indirectly representing the property disposed of as he would have had in respect of the property subject to the floating charge. Where the security in question is that other than a floating charge, it shall be a condition of the chargee’s consent or the leave of the court that the net proceeds of the disposal shall be applied towards discharging the sums secured by the security. Further, during the period for which a moratorium is in force in respect of a company it may not make any payments with respect to debts or liabilities existing prior to the date of filing for a moratorium unless (i) there are reasonable grounds for believing the payment will benefit the company, and (ii) the payment is approved by a committee of creditors of the company if established or, if not, by the nominee of the proposed company voluntary arrangement.

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

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

## **The 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 a floating charge to appoint an administrative receiver (unless the security was created prior to 15 September 2003 or an exception applies) and instead give primacy to collective insolvency procedures (in particular, administration). Previously, the holder of a floating charge over the whole or substantially the whole of the assets of a company had the ability to block the appointment of an administrator by appointing an administrative receiver, who would act primarily in the interests of the floating chargeholder.

The Insolvency Act contains provisions which continue to allow for the appointment of an administrative receiver in relation to certain transactions in the capital markets. The relevant exception provides that the right to appoint an administrative receiver is retained for certain types of security which form part of a capital market arrangement (as defined in the Insolvency Act) and which involve indebtedness of at least £50,000,000 (or, when the relevant security document (being, in respect of the transactions described in this Prospectus, the Security Deed) was entered into, a party to the relevant transaction (such as the Issuer) was expected to incur a debt of at least £50,000,000) and the issue of a capital market investment (also defined but generally a rated, listed or traded bond). It is expected that the security which the Issuer will grant to the Trustee will fall within the capital markets exception. However, it should be noted that the Secretary of State could, by secondary legislation, modify the capital market 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 market exception, or its ceasing to be applicable to the transactions described in this document, would not be detrimental to the interests of the Noteholders.

The Insolvency Act also contains a new out of court route into administration for a qualifying floating chargeholder, the directors or the relevant company itself. The relevant provisions provide for a notice period during which the holder of the floating charge can either agree to the appointment of the administrator proposed by the directors or the company or appoint an alternative administrator, although a moratorium on enforcement of the relevant security will take effect immediately after notice is given. If the qualifying floating chargeholder 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.

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

The provisions of the Insolvency Act (as amended) give primary emphasis to the rescue of a company as a going concern and achieving a better result for the creditors as a whole. The purpose of realising property to make a distribution to secured parties is secondary. No assurance can be given that the primary purpose of the new provisions would not conflict with the interests of Noteholders were the Issuer ever subject to administration.

The Enterprise Act also removed the Crown's preferential rights in all insolvencies (section 251) and makes provisions to ensure that unsecured parties take the benefits of this change (section 252) (although certain debts, including contributions to occupational and state pension schemes, retain preferential status and are payable in priority to debts owed to floating chargeholders). Under this latter provision the unsecured parties will have recourse to the floating charge assets up to a fixed amount (the "**prescribed part**") in priority to the holder of the floating charge concerned. The prescribed part will be 50 per cent. of the first £10,000 of net floating charge assets; then 20 per cent. of the remaining net floating charge assets until the prescribed part reaches a maximum of £600,000. The obligation on the insolvency officeholder to set aside the prescribed part for unsecured parties does not apply if the net floating charge realisations are less than £10,000 and the officeholder is of the view that the costs of making a distribution to unsecured parties would be disproportionate to the benefits. The prescribed part will apply to all floating charges created on or after 15 September 2003 regardless as to whether they fall within one of the exceptions or not.

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

There is uncertainty as to the validity and/or enforceability of a provision which, based on contractual (such as the contractual Payments Priorities as contemplated in this transaction) and/or trust principles, subordinates certain payment rights of a creditor to the payment rights of other creditors of its counterparty upon the occurrence of insolvency proceedings relating to that creditor. In particular, recent English Supreme Court and US Bankruptcy Court 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 included in the Transaction Documents relating to the subordination of Interest Rate Swap Excluded Termination Amounts payable in respect of the Interest Rate Swap Agreement (or any replacement interest rate swap agreement).

The English Supreme Court has held that a flip clause as described above is valid under English law. Contrary to this, however, the US Bankruptcy Court has held that such a subordination provision is unenforceable under US bankruptcy law and that any action to enforce such provision would violate the automatic stay which applies under such law in the case of a US bankruptcy of the counterparty. However, a subsequent US Bankruptcy Court decision held that flip clauses are protected under the Bankruptcy code and therefore enforceable on bankruptcy. This decision was affirmed on March 14, 2018 by the US District Court. The implications of these conflicting judgments remain unresolved. If a creditor of the Issuer (such as the Interest Rate Swap Provider) or a related entity becomes subject to insolvency proceedings in any jurisdiction outside England and Wales (including, but not limited to, the US), and it is owed a payment by the Issuer (such as an Interest Rate Swap Excluded Termination Amount which is paid in a subordinated position as it is being made as a result of that swap provider's insolvency), a question arises as to whether the insolvent creditor or any insolvency official appointed in respect of that creditor could successfully challenge the validity and/or enforceability of subordination provisions included in the English law governed Transaction Documents (such as a provision of the Payments Priorities which refers to the ranking of a swap provider's payment rights in respect of Interest Rate Swap Excluded Termination Amounts). In particular, in light of the conflicting US decision of the US Bankruptcy Court referred to above, there remains a risk that such subordination provisions would not be upheld under US bankruptcy laws. Such laws may be relevant in certain circumstances with respect to the Interest Rate Swap Provider given that it has assets and/or operations

in the U.S., notwithstanding that it is a non-U.S. established entity and/or with respect to any replacement counterparty, depending on certain matters in respect of that entity.

In relation to the Interest Rate Swap Agreement entered into with the Interest Rate Swap Provider or any replacement swap provider which is subject to an insolvency proceeding governed by French law, it is not certain that a French court would give effect to the provisions of the relevant Interest Rate Swap Agreement and the Transaction Documents subordinating payment of any Interest Rate Swap Excluded Termination Amounts in the event of insolvency proceedings being commenced in respect of the Interest Rate Swap Provider or any replacement swap provider in France (the “**Subordination Provisions**”).

In general, if a Subordination Provision included in the Transaction Documents was successfully challenged under the insolvency laws of any relevant jurisdiction outside England and Wales and any relevant foreign judgment or order was recognised by the English courts, there can be no assurance that such actions would not adversely affect the rights of the Class A Noteholders, the market value of the Notes and/or the ability of the Issuer to satisfy its obligations under the Class Notes.

Lastly, given the general relevance of the issues referred to above and that the Transaction Documents include terms providing for the subordination of the Interest Rate Swap Excluded Termination Amounts, there is a risk that the final outcome of the dispute in such judgments (including any recognition action by the English courts) may result in negative rating pressure in respect of the Class A Notes. If any rating assigned to the Class A Notes is lowered, the market value of the Class A Notes may reduce.

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

The Issuer will purport to grant, *inter alia*, fixed charges in favour of the Trustee over the Issuer’s interest in the Transaction Account and any other bank account in which the Issuer has an interest.

The law in England and Wales relating to the re-characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the Issuer (other than by way of assignment in security) may take effect under English law as floating charges only, if, for example, it is determined that the Trustee does not exert sufficient control over the relevant account or the proceeds thereof for the security to be said to “fix” over those assets. If the charges take effect as floating charges instead of fixed charges, then certain claims, which are given priority over the floating charge by law, would be given priority over the claims of the floating chargeholder. See the section entitled “*The Enterprise Act 2002*” above.

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

Section 941 of the Dodd-Frank Act of 2010 amended the Exchange Act to generally require the “securitizer” of a “securitisation transaction” to retain at least 5 per cent. of the “credit risk” of “securitized assets”, as such terms are defined for the purposes of that statute, and generally prohibit a securitizer from directly or indirectly eliminating or reducing its credit exposure by hedging or otherwise transferring the credit risk that the securitizer is required to retain. The U.S. Risk Retention Rules came into effect on 24 December 2015 with respect to residential mortgage-backed securitisations. The U.S. Risk Retention Rules provide that the securitizer of an asset backed securitisation is its sponsor. The U.S. Risk Retention Rules also provide for certain exemptions from the risk retention obligation that they generally impose.

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

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

The Mortgage Portfolio will be comprised of mortgage loans and their related security, all of which are originated by the Originator, a company incorporated in England. See the section entitled “*Description of the Originator and Legal Title Holder*”.

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

Under the U.S. Risk Retention Rules, and subject to limited exceptions, “U.S. person” (and “Risk Retention U.S. Person” as used in this Prospectus) means any of the following:

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

Each holder of a Note or a beneficial interest therein acquired on the Issue Date, by its acquisition of a Note or a beneficial interest in a Note, will be deemed, and, in certain circumstances, will be required to represent to the Issuer, the Beneficial Title Seller and, the Joint Lead Managers that it (1) either (i) is not a Risk Retention U.S. Person or (ii) it has obtained a U.S. Risk Retention Consent, (2) is acquiring such Note or a beneficial interest therein for its own account and not with a view to distribute such Note and (3) is not acquiring such Note or a beneficial interest therein as part of a scheme to evade the requirements of the U.S.

Risk Retention Rules (including acquiring such Note through a non-Risk Retention U.S. Person, rather than a Risk Retention U.S. Person, as part of a scheme to evade the 10 per cent. Risk Retention U.S. Person limitation in the exemption provided for in Section 20 of the U.S. Risk Retention Rules described herein).

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

There can be no assurance that the exemption provided for in Section 20 of the U.S. Risk Retention Rules regarding non-U.S. transactions will be available. No assurance can be given as to whether a failure by the Beneficial Title Seller to comply with the U.S. Risk Retention Rules (regardless of the reason for such failure to comply) may give rise to regulatory action which may adversely affect the Notes or the market value of the Notes. Furthermore, the impact of the U.S. Risk Retention Rules on the securitisation market generally is uncertain, and a failure by the Beneficial Title Seller to comply with the U.S. Risk Retention Rules could therefore negatively affect the market value and secondary market liquidity of the Notes.

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

#### **Risks relating to U.S. Volcker Rule**

The Issuer has been structured so as not to constitute a “covered fund” for purposes of the Volcker Rule and its implementing regulations. If the Issuer is considered a “covered fund”, the liquidity of the market for the Notes may be materially and adversely affected, since banking entities could be prohibited from, or face restrictions in, investing in the Notes.

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

## MORTGAGE PORTFOLIO AND SERVICING

See the sections entitled “*The Mortgage Portfolio and the Mortgage Loans*”, “*Characteristics of the Mortgage Portfolio*”, “*Assignment of the Mortgage Loans and Related Security*” and “*Servicing of the Mortgage Portfolio*” for further detail in respect of the characteristics of the Mortgage Portfolio and the sale and the servicing arrangements in respect of the Mortgage Portfolio.

### Sale of Portfolio

The Mortgage Portfolio will consist of the Mortgage Loans, the Related Security, and all monies derived therefrom from time to time after the Cut-Off Date, which will be sold to the Beneficial Title Seller on or before the Closing Date and which the Beneficial Title Seller will on-sell to the Issuer on the Closing Date and includes any Further Advances made in respect of such Mortgage Loans.

The Mortgage Portfolio comprises Mortgage Loans secured over properties in England and Wales.

Each Mortgage Loan and its Related Security is governed by English law.

The Mortgage Portfolio comprises Buy to Let Loans originated by the Originator.

See the sections entitled “*The Mortgage Portfolio and the Mortgage Loans*” and “*Assignment of the Mortgage Loans and Related Security*”.

### Features of Mortgage Loans

Certain features of the loans in the Mortgage Portfolio as at the Cut-Off Date are set out in the table below and investors should refer to, and carefully consider, further details in respect of the loans in the Mortgage Portfolio set out in “*Characteristics of the Mortgage Portfolio*”.

Type of mortgage	repayment, interest only, part and part
Buy to let Loans	Yes – 100%
Individual Borrowers	Yes – 100%
Number of Mortgage Loans	1,994
Current Balance	£350,863,998.55
	<b>Average / Weighted average</b>
Weighted Average Current Balance / Original Valuation	<u>60.75%</u>
Weighted Average Current Balance / Indexed Valuation	59.24
Seasoning	15.59 months
Remaining Term	241.21 months

### Consideration

The consideration payable by the Issuer to the Beneficial Title Seller in respect of the sale of the Mortgage Loans and Related Security shall be £350,863,998.55 in cash consideration, plus the Deferred Consideration.

In the event of a breach of an Asset Warranty given in respect of the relevant Mortgage Loan or a breach of the Asset Conditions in relation to any Mortgage Loan subject to a Further Advance or Product Switch (which in



either case is either not capable of remedy or, if capable of remedy, the Beneficial Title Seller fails to remedy within the applicable grace period following such breach of Asset Warranty), the Beneficial Title Seller will be required to either (x) make a cash payment equal to the Repurchase Price or (in the case of a breach of Asset Warranty or Asset Condition in relation to a Further Advance) equal to the amount of the Further Advance Repurchase Price or (y) repurchase the relevant Mortgage Loan which is subject to a breach of Asset Warranty or Asset Condition.

**Representations and Warranties**

The Beneficial Title Seller will make certain Asset Warranties regarding the Mortgage Loans and Related Security to the Issuer on the Closing Date, on the Advance Date in relation to a Further Advance and on the Switch Date in relation to a Product Switch.

See the section entitled “*Assignment of the Mortgage Loans and Related Security*” for further details.

**Repurchase of Mortgage Loans and Related Security**

The Issuer shall sell and the Beneficial Title Seller shall repurchase (or make a cash payment in respect of) the relevant Mortgage Loans and their Related Security following a breach of an Asset Warranty or in relation to any Mortgage Loan which is subject to a Further Advance or Product Switch upon breach of the Asset Conditions (which in either case is either not capable of remedy or, if capable of remedy, the Beneficial Title Seller fails to remedy within the applicable grace period following such breach of an Asset Warranty). The Issuer shall also sell and the Beneficial Title Seller shall repurchase a Mortgage Loan subject to a Further Advance if the Issuer is unable to fund the purchase of such Further Advance from funds standing to the credit of the Principal Ledger and the Class Z VFN Holder fails to advance an amount equal to such shortfall.

**Consideration for repurchase**

Where the Beneficial Title Seller is required to repurchase or make a cash payment in relation any Mortgage Loan, and elects to repurchase such Mortgage Loan, the consideration payable by the Beneficial Title Seller in respect thereof shall be equal to the Current Balance of such Mortgage Loan as at the close of business on the date immediately preceding the date of repurchase (excluding, if applicable, the amount of any Further Advance to the extent not yet paid for by the Issuer) plus an amount equal to the Issuer’s reasonable and proper third party costs and expenses incurred or payable in connection with such repurchase (the “**Repurchase Price**”).

**Cash payment for Further Advances**

Where the Beneficial Title Seller is required to repurchase or make a cash payment in relation to any Mortgage Loan that is subject of a Further Advance due to an Asset Warranty and/or Asset Condition breach, and elects to make a cash payment in respect of such Mortgage Loan, the consideration payable by the Beneficial Title Seller in respect thereof shall be equal to the Repurchase Price, save that for a breach of each of paragraphs (a), (b), (c), (g), (i) and (j) of the Asset Conditions, the amount payable shall be equal to the amount of the Further Advance provided that if there is more than one breach of Asset Warranty and/or Asset Condition in respect of such Mortgage Loan, and any of those breaches express the amount payable to be the Repurchase Price as set out above, then the amount payable by the Beneficial

Title Seller in respect thereof shall be equal to the Repurchase Price (the “**Further Advance Repurchase Price**”).

**Purchase of Mortgage Portfolio by Portfolio Option Holder**

The Portfolio Option Holder may exercise the Portfolio Option by notice to the Issuer with a copy to the Trustee at any time in the period from the Business Day falling 20 Business Days prior to an Optional Redemption Date until such Optional Redemption Date (the “**Optional Portfolio Purchase**”). Completion of the purchase by the Portfolio Option Holder will occur on the Business Day falling two Business Days prior to the next Interest Payment Date to occur after the exercise date, provided that, if the Portfolio Option is exercised later than 10 Business Days prior to the next Interest Payment Date, the completion date shall occur on the Business Day falling two Business Days prior to the second Interest Payment Date to occur after the date of exercise (the “**Optional Portfolio Purchase Completion Date**”).

**Consideration for purchase by Portfolio Option Holder**

The purchase price payable by the Portfolio Option Holder in respect of the Optional Portfolio Purchase shall be the higher of (i) the aggregate market value of the Mortgage Portfolio as at the Optional Portfolio Purchase Completion Date, and (ii) an amount equal to the aggregate Principal Amount Outstanding of the Class A Notes as at the Optional Portfolio Purchase Completion Date plus accrued but unpaid interest thereon up to and including the Optional Portfolio Purchase Completion Date, together with any payments due from the Issuer in respect of items ranking in priority to or *pari passu* with the Class A Notes (including interest and principal due and payable in respect of the Class A Notes) pursuant to the applicable Payments Priorities on the Interest Payment Date immediately following the Optional Portfolio Purchase Completion Date less any Available Principal Funds and Available Revenue Funds to be applied in accordance with the applicable Payments Priorities on the Interest Payment Date immediately following the Optional Portfolio Purchase Completion Date (including the credit balance of the General Reserve Fund).

**Perfection Events:**

Transfer of the legal title to the relevant Mortgage Loans and Related Security will be perfected if certain specified perfection events occur. Such perfection events will include (i) insolvency of the Legal Title Holder (ii) perfection being required by an order of the court or change in law (iii) unless otherwise agreed with the Legal Title Holder, the replacement of Coventry Building Society as Servicer, and (iv) the Legal Title Holder not exercising its Right of First Refusal.

Prior to the completion of the transfer of legal title to the relevant Mortgage Loans and Related Security to the Issuer (or a nominee of the Issuer), the Issuer will hold only the equitable title to those Mortgage Loans and the Related Security and will therefore be subject to certain risks as set out in the risk factors entitled “*Title of the Issuer*” in the “*Risk Factors*” section.

See the section entitled “*Assignment of the Mortgage Loans and Related Security*” for further details.

**Servicing of the Mortgage Portfolio:**

The Servicer will be appointed by the Issuer to service the Mortgage Portfolio on a day-to-day basis.

The appointment of the Servicer may be terminated by the Issuer or by the

Trustee, upon the occurrence of certain events, as more particularly described in the section entitled “*Servicing of the Mortgage Portfolio*”.

In the event that the Servicer has:

- (a) ceased to be assigned a counterparty risk assessment by Moody's of at least Baa3(cr) (or (i) such other lower risk assessment which is consistent with then current methodology of Moody's or (ii) such other lower risk assessment that the Cash Manager certifies in writing to the Trustee would not have an adverse effect on the ratings of the Class A Notes); or
- (b) ceased to be assigned a long-term issuer default rating by Fitch of at least BBB- (or (i) such other lower risk assessment which is consistent with then current methodology of Fitch or (ii) such other lower risk assessment that the Cash Manager certifies in writing to the Trustee would not have an adverse effect on the ratings of the Class A Notes),

then

- (i) the Back-Up Servicer Facilitator shall use best efforts to identify, on behalf of the Issuer, a suitable back-up servicer;
- (ii) the Issuer will require the Servicer to use best efforts to appoint a back-up servicer acceptable to the Trustee;
- (iii) the Servicer (on behalf of the Legal Title Holder) will deliver to the Issuer and the Trustee details of the names and addresses of the Borrowers with Mortgage Loans then in the Mortgage Portfolio, in a format to be agreed between the Servicer and the Issuer and a draft letter of notice to such Borrowers of the sale and assignment of those Mortgage Loans and the Related Security to the Issuer; and
- (iv) the Servicer will provide updates of such information in paragraph (iii) above to the Issuer and the Trustee on a monthly basis thereafter.

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

See the section entitled “*Servicing of the Mortgage Portfolio*” for further details.

## **DESCRIPTION OF THE TERMS AND CONDITIONS OF THE NOTES**

See the sections entitled “*Terms and Conditions of the Notes*” and “*Early Redemption of Notes*” for further detail in respect of the terms of the Notes.

## FULL CAPITAL STRUCTURE OF THE NOTES

	<u>Class A Notes</u>	<u>Class Z VFN</u>
Currency:	GBP	GBP
Initial Principal Amount Outstanding:	£317,500,000	£38,900,000 (being the initial Principal Amount subscribed at the Closing Date) up to a maximum of £150,000,000
Note Credit Enhancement:	Subordination of the Class Z VFN, Liquidity Ledger, Credit Ledger, excess spread	Excess spread
Liquidity Support:	Liquidity Ledger, Credit Ledger, Principal Reallocation Amount and excess spread	N/A
Issue Price:	100%	100%
Interest Reference Rate:	3 month Sterling LIBOR	3 month Sterling LIBOR
Margin:	0.75%	0% p.a.
Step-Up Margin:	1.125%	0% p.a.
Interest Accrual Method:	Act/365 (fixed)	
Interest Determination Date:	Interest Payment Date	
Interest Payment Dates:	Interest is payable quarterly in arrear on the 27 <sup>th</sup> day of February, May, August and November	
Business Day Convention:	Modified Following	
First Interest Payment Date:	The Interest Payment Date falling in August 2018	
First Interest Period:	The period from the Closing Date to the First Interest Payment Date	
Optional Redemption Date:	The Interest Payment Date falling in May 2021 and each subsequent Interest Payment Date	

Pre-Enforcement Redemption Profile:	Pass through amortisation on each Interest Payment Date to the extent of Available Principal Funds subject to and in accordance with the relevant Payments Priorities.
Portfolio Call Option:	On or after the Optional Redemption Date, the Portfolio Option Holder may exercise the option to purchase the Mortgage Portfolio. The purchase price for the Mortgage Portfolio shall be the higher of (i) the aggregate market value of the Mortgage Portfolio as at the Optional Portfolio Purchase Completion Date, and (ii) (amongst others) an amount equal to the aggregate Principal Amount Outstanding of the Class A Notes as at the Optional Portfolio Purchase Completion Date plus accrued but unpaid interest thereon, less any Available Principal Funds and Available Revenue Funds to be applied in accordance with the applicable Payments Priorities on the immediately following Interest Payment Date (including the credit balance of the General Reserve Fund).
Portfolio Call:	If the Optional Portfolio Purchase is exercised later than 10 Business Days prior to the next Interest Payment Date to occur after the exercise date in respect of the Portfolio Option the Notes will be redeemed on the Interest Payment Date immediately following that Interest Payment Date.
Other Early Redemption in Full Events:	Tax/clean-up call/Issuer voluntary call on each Interest Payment Date on or after the Step-Up Date
Post-Enforcement Redemption Profile:	Sequential pass-through amortisation in accordance with the Post-Enforcement Payments Priorities.
Final Maturity Date:	Interest Payment Date falling in November 2055

	<b>Class A Notes</b>	<b>Class Z VFN</b>
	Bearer	Registered
Form of the Notes:		
Application for Listing:	Main Securities Market of the Euronext Dublin	N/A
ISIN:	XS1839667075	N/A
Common Code:	183966707	N/A
Clearance/Settlement:	Euroclear / Clearstream, Luxembourg	N/A
Minimum Denomination:	£100,000 and £1,000 increments	£100,000 and £1,000 increments
Rating of Notes on Issue (Fitch/Moody's):	AAAsf/Aaa(sf)	N/A

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

- Class A Mortgage Backed Floating Rate Notes due 27 November 2055 (the “**Class A Notes**”); and
- Class Z Variable Funded Note due 27 November 2055 (the “**Class Z VFN**”),

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

**Ranking**

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

The “**Most Senior Class**” shall be:

- (a) the Class A Notes whilst they remain outstanding; and
- (b) thereafter the Class Z VFN whilst it remains outstanding.

Any reference to a “**class**” of Noteholders shall be a reference to the Class A Notes and/or the Class Z VFN, as the case may be, or to the respective holders thereof.

**Form of Notes**

The Class A Notes will be issued in global bearer form. The Class Z VFN will be issued in dematerialised registered form.

**Pre-Enforcement  
Ranking of Payments  
of Interest:**

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

- (a) first, in respect of the Class A Notes; and
- (b) second, in respect of the Class Z VFN,

in each case in accordance with the Pre-Enforcement Revenue Payments Priorities.

**Pre-Enforcement  
Ranking of Payments  
of Principal:**

Payments of principal due on the Notes will be made in Sequential Order in the following order of priority:

- (a) first, in respect of the Class A Notes; and
- (b) second, in respect of the Class Z VFN,

in each case in accordance with the Pre-Enforcement Principal Payments Priorities.

**Sequential Order:**

In respect of payments of interest and principal to be made to the Class A Notes and Class Z VFN: first, to the Class A Notes and second, to the Class Z VFN.

**Pre-Enforcement  
Ranking of the Notes:  
Variable Funded Note**

Payments of interest on the Notes will at all times rank in priority to any payments of Deferred Consideration.

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

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

On the Closing Date, the Class Z VFN will be subscribed for in the amount of £38,900,000. Prior to the Class Z VFN Commitment Termination Date, the Class Z VFN will have a maximum principal amount of £150,000,000 or such other amount as may be agreed from time to time by the Issuer and the holder of the Class Z VFN (the “**Class Z VFN Holder**”, which on the Closing Date will

be the Beneficial Title Seller) and notified to the Trustee (the “**Maximum Class Z VFN Amount**”), that can be funded by the Class Z VFN Holder at the request of the Issuer.

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

- (a) the Interest Payment Date falling in November 2055; and
- (b) an Event of Default,

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

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

## **Security**

The Notes are secured and will share the Security with the other Secured Amounts of the Issuer as set out in the Security Deed. The security granted by the Issuer includes:

- (a) an assignment over the benefit of the Issuer in each Mortgage Loan, Mortgage and other Related Security relating to such Mortgage Loan, each Mortgage Conditions and all Receivables;
- (b) an assignment of rights held by the Issuer against certain third parties;
- (c) a first fixed charge of the benefit of any bank or other accounts in which the Issuer may at any time have or acquire any benefit;
- (d) an assignment of the benefit of the Issuer under each relevant Transaction Document (other than the Trust Documents); and
- (e) a first floating charge over all the assets and undertaking of the Issuer to the extent not effectively charged pursuant to paragraphs (a) to (d) above.

Some of the other Secured Amounts rank senior to the Issuer’s obligations under the Notes in respect of the allocation of proceeds as set out in the Post-Enforcement Payments Priorities.

See also the following risk factor under “*Risk Factors – Fixed charges May Take Effect under English Law as Floating Charges*”.

## **Interest Provisions**

See “*Full Capital Structure of the Notes*” and “*Terms and Conditions of the Notes*”.

## **Interest Deferral**

Interest due and payable on the Class Z VFN may be deferred in accordance with Condition 7.10 (*Interest Accrual*).

## **Gross-up**

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

## **Redemption**

The Notes are subject to the following mandatory redemption events:

- mandatory redemption in whole on the Final Maturity Date, as fully set out in Condition 8 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*);
- mandatory redemption of the Class A Notes in whole after the occurrence of an Optional Portfolio Purchase, as fully set out in Condition 8 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*);
- mandatory redemption in part on any Interest Payment Date as fully set out in Condition 8 (*Final Redemption, Mandatory Redemption in part,*



*Optional Redemption and Cancellation*); and

- optional redemption of the Class A Notes exercisable by the Issuer in whole on any Interest Payment Date where the Principal Amount Outstanding of the Class A Notes is equal to or less than 10 per cent. of the aggregate Principal Amount Outstanding of the Class A Notes as at the Closing Date, as fully set out in Condition 8 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*);
- optional redemption of the Class A Notes exercisable by the Issuer in whole on any Interest Payment Date on or after the Step-Up Date, as fully set out in Condition 8 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*);
- optional redemption exercisable by the Issuer in whole for tax reasons, as fully set out in Condition 8 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*).

Any Note redeemed pursuant to the above redemption provisions will be redeemed at an amount equal to the Principal Amount Outstanding (or the relevant proportion thereof, if in part) of the relevant Note, together with accrued (and unpaid) interest on the Principal Amount Outstanding (or the relevant proportion thereof, if in part) of the relevant Notes to be redeemed, in each case up to (but excluding) the date of redemption.

#### **Events of Default**

As fully set out in Condition 12 (*Events of Default*), which includes (and where relevant will be subject to the applicable grace period):

- non-payment of interest and/or principal in respect of the Most Senior Class of Notes (provided that, for the avoidance of doubt, a deferral of interest in respect of the Class Z VFN in accordance with Condition 7.10 (*Interest Accrual*) shall not constitute a default in the payment of such interest);
- breach of contractual obligations by the Issuer under the Transaction Documents or of the Notes; and
- Insolvency Events.

#### **Enforcement**

If an Event of Default has occurred and is continuing, the Trustee may, and for so long as any Notes remain outstanding shall, if so requested: (a) in writing by the holders of at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of Notes then outstanding; or (b) by an Extraordinary Resolution of the Noteholders of the Most Senior Class of Notes then outstanding, deliver an Enforcement Notice to the Issuer and institute such proceedings or take such action or step as may be required in order to enforce the Security in accordance with the Trust Documents. The Trustee shall not be obliged to deliver an Enforcement Notice, unless it shall have been fully indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

#### **Limited Recourse**

The Notes are limited recourse obligations of the Issuer and, if not repaid in full, amounts outstanding are subject to a final write-off, which is described in more detail in Condition 9 (*Limited Recourse*).

#### **Non-petition**

The Noteholders shall not be entitled to take any steps (otherwise than in accordance with the Trust Deed and the Conditions):

- to direct the Trustee to enforce the Security or take any proceedings against the Issuer to enforce the Security other than when expressly permitted to do so under the Conditions; or
- to take or join any person in any steps against the Issuer to obtain payment of any amount due from the Issuer to it; or
- until the date falling two years after the Final Discharge Date, to initiate or join in initiating any proceeding in relation to an Insolvency Event in relation to the Issuer; or
- to take or join in taking of any steps or proceedings which would result in any of the Payments Priorities not being observed.

**Governing Law**

English law.

## RIGHTS OF NOTEHOLDERS AND RELATIONSHIP WITH OTHER SECURED CREDITORS

*See the section entitled “Terms and Conditions of the Notes” for further detail in respect of the rights of Noteholders, conditions for exercising such rights and relationship with other Secured Creditors.*

### **Prior to an Event of Default**

Noteholders holding no less than 10 per cent. of the Principal Amount Outstanding of the outstanding Notes of the relevant class are entitled to request the Trustee (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) to convene a Noteholders’ Meeting with respect to that class and all Noteholders of each class are entitled to participate in a Noteholders’ Meeting with respect to that class convened by the Issuer or Trustee to consider any matter affecting their interests.

However, investors should note that the Noteholders will not be entitled to instruct or direct the Issuer to take any actions, either directly or through the Trustee, where the Issuer has no right, obligation or ability to take such action under the Transaction Documents.

### **Following an Event of Default**

Following the occurrence of an Event of Default which is continuing, the holders of the Most Senior Class of Notes may, if they hold not less than 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of Notes then outstanding or if they pass an Extraordinary Resolution, direct the Trustee (provided it has been indemnified and/or secured and/or prefunded to its satisfaction) to deliver an Enforcement Notice to the Issuer stating that all classes of the Notes are immediately due and repayable at their respective Principal Amount Outstanding.

### **Noteholders Meeting provisions**

	<i>Initial meeting</i>	<i>Adjourned meeting</i>
Notice period:	21 clear days	14 clear days
Quorum for meetings on Extraordinary Resolutions:	One or more persons holding or representing a majority of the Principal Amount Outstanding of the relevant class or classes of Notes then outstanding (other than a Reserved Matter (which must be proposed separately to each class of Noteholders), which requires one or more persons holding or representing not less than 75 per cent. of the Principal Amount Outstanding of the relevant class or classes of Notes then outstanding).	One or more persons, whatever the Principal Amount Outstanding of the Notes then outstanding held or represented by them (other than a Reserved Matter (which must be proposed separately to each class of Noteholders), which requires one or more persons holding or representing not less than 25 per cent. of the Principal Amount Outstanding of the relevant class or classes of Notes then outstanding).

Extraordinary Resolution passed at a Meeting: 75 per cent. of votes cast for matters requiring Extraordinary Resolution

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

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

**Matters requiring Extraordinary Resolution**

The following matters (including but not limited to):

- Reserved Matter;
- modification of the Conditions;
- substitution of the Issuer;
- subject to Condition 16 (*Modification and Waiver*), waiving a breach of covenant by the Issuer;
- after the service of an Enforcement Notice, the termination of the Servicer's appointment;
- (absent an instruction in writing given by holders of not less than 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of Notes then outstanding) giving of a direction to the Trustee to deliver an Enforcement Notice;
- removal of the Trustee and approval of the successor trustee;
- approval of the terms of a merger, reorganisation or amalgamation of the Issuer; and
- (absent an instruction in writing given by holders of not less than 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of Notes then outstanding) giving of a direction to the Trustee to refrain from exercising any powers conferred upon it by Condition 16.2 (*Waiver*).

**Relationship between classes of Noteholders**

Subject to the provisions in respect of a Reserved Matter, a resolution of Noteholders of the Most Senior Class of Notes then outstanding shall be binding on all other classes and would override any resolutions to the contrary of any class ranking behind such Most Senior Class of Notes.

A Reserved Matter requires an Extraordinary Resolution of each class of Notes then outstanding.

**Relationship between Noteholders and other Secured Creditors**

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

**Issuer or Beneficial Title Seller as Noteholder**

For the purpose of, *inter alia*, the right to attend and vote at any Meeting of Noteholders, the right to resolve by Extraordinary Resolution in writing or by Electronic Consent and certain rights to direct, the relevant Notes must be "outstanding". Those Notes (if any) which are for the time being held by or on behalf of or for the benefit of the Issuer, the Beneficial Title Seller, any holding

company of any of them or any other subsidiary of either such holding company, in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain outstanding, except, in the case of the Beneficial Title Seller, any holding company of the Beneficial Title Seller or any other subsidiary of such holding company (the “**Relevant Persons**”) where all of the Notes of any class are held by or on behalf of or for the benefit of one or more Relevant Persons, in which case such class of Notes (the “**Relevant Class of Notes**”) shall be deemed to remain outstanding except that, if there is any other class of Notes ranking *pari passu* with, or junior to, the Relevant Class of Notes and one or more Relevant Persons are not the beneficial owners of all the Notes of such class, then the Relevant Class of Notes shall be deemed not to remain outstanding.

**Provision of  
Information to the  
Noteholders**

The Cash Manager will provide an investor report on a monthly basis containing information in relation to the Notes including, but not limited to, amounts paid by the Issuer pursuant to the Payments Priorities in respect of the relevant period and required counterparty information. The monthly investor report will be published on [www.sf.citidirect.com](http://www.sf.citidirect.com). For the avoidance of doubt, this website and the contents thereof do not form part of this Prospectus.

**Communication with  
Noteholders**

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

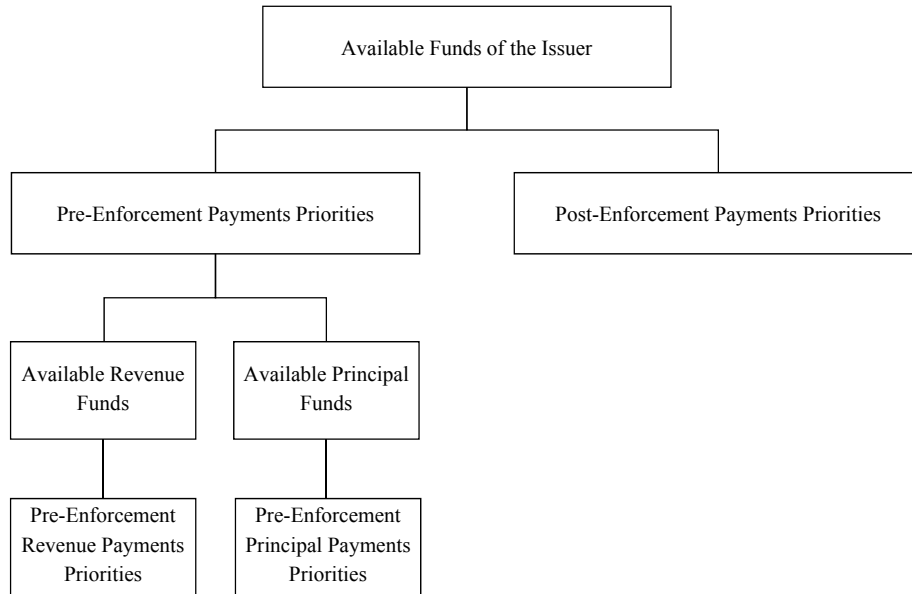
- so long as the Class A Notes are held in the Clearing Systems, by delivery to the relevant Clearing System for communication by it to Noteholders;
- so long as the Class A Notes are listed on a recognised stock exchange, by delivery to them in accordance with the notice requirements of such stock exchange; or
- in respect of all Notes, by publication on the Relevant Screen.

The Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or to a 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 exchange on which the Class A Notes are then listed and provided that notice of such other method is given to the Noteholders in such manner as the Trustee shall require.

Notices to the Class Z VFN Holder will be sent by the Issuer to the fax number or email address of the Class Z VFN Holder notified to the Issuer from time to time in writing.

## CREDIT STRUCTURE AND CASHFLOW

See the sections entitled “Cashflows” and “Credit Enhancement and Liquidity Support” for further detail in respect of the credit structure and cash flow of the transaction



**Available Funds of the Issuer:**

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

“**Available Revenue Funds**” will, broadly, include the following:

- Revenue Receipts (including any Revenue Collections paid by the Beneficial Title Seller into the Transaction Account pursuant to the Mortgage Sale Agreement) received during the immediately preceding Calculation Period, or, if in a Determination Period, Calculated Revenue Funds, in each case, excluding an amount equal to any Reconciliation Amounts to be applied as Available Principal Funds on that Interest Payment Date;
- amounts received by the Issuer under the Interest Rate Swap Agreement (other than certain types of (i) termination amount, (ii) Excess Swap Collateral or Swap Collateral, (iii) Replacement Swap Premium and (iv) amounts in respect of Swap Tax Credits);
- (prior to the occurrence of an Optional Portfolio Purchase) any Principal Reallocation Amounts (as required to meet any Senior Revenue Shortfall);
- (prior to the occurrence of an Optional Portfolio Purchase) amounts standing to the credit of the Credit Ledger drawn from the General Reserve Fund (as required to meet any Revenue Shortfall);
- (prior to the occurrence of an Optional Portfolio Purchase) amounts standing to the credit of the Liquidity Ledger drawn from the General Reserve Fund (as required to meet any Revenue Shortfall);
- (upon the redemption in full of the Class A Notes prior to the occurrence of an Optional Portfolio Purchase) all amounts standing to the credit of the General

Reserve Fund;

- interest paid to the Issuer on the Transaction Account during the immediately preceding Calculation Period;
- (upon the redemption in full of the Class A Notes) any amount transferred from the Principal Ledger in respect of Residual Principal Allocation Amount; and
- in relation to a Determination Period, any Reconciliation Amounts deemed to be Available Revenue Funds in accordance with Condition 7.11 (*Determinations and Reconciliation*);

*plus* any other amounts which the Cash Manager may have credited to the Revenue Ledger during that Calculation Period pursuant to the Cash Management Agreement.

*less* relevant amounts debited during the Calculation Period, which include the following:

- any Borrower Repayment Amount of a revenue nature;
- any tax payment;
- any Third Party Expenses;
- amounts to remedy any overdraft in relation to the Collection Account or to pay any amounts due to the Collection Account Bank;

“**Available Principal Funds**”, broadly, includes the following:

- all Principal Receipts (including any Principal Collections paid by the Beneficial Title Seller into the Transaction Account pursuant to the Mortgage Sale Agreement), or, in relation to a Determination Period, any Calculated Principal Funds, in each case, excluding an amount equal to any Reconciliation Amounts to be applied as Available Revenue Funds on that Interest Payment Date, received by the Issuer during the immediately preceding Calculation Period (including consideration paid by the Beneficial Title Seller in respect of the re-purchase of the Mortgage Loans and their Related Security (or any related cash payments) which relates to principal amounts due and receipt of realisation proceeds of the relevant Related Security);
- amounts transferred from the Revenue Ledger comprising Revenue Reallocation Amounts;
- proceeds of the issue of the Notes (to the extent any such amounts stand to the credit of the Principal Ledger as at the relevant Calculation Date);
- (on the occurrence of an Optional Portfolio Purchase) all amounts standing to the credit of the General Reserve Fund;
- in relation to a Determination Period, any Reconciliation Amounts deemed to be Available Principal Funds in accordance with Condition 7.11 (*Determinations and Reconciliation*); and

*plus* any amounts which the Cash Manager may have credited to the Principal Ledger during that Calculation Period pursuant to the Cash Management Agreement; and

*less* (i) any Borrower Repayment Amount of a principal nature debited during the related Calculation Period and (ii) Further Advance Purchase Prices.

## Payments Priorities

Prior to the service of an Enforcement Notice by the Trustee, Available Revenue Funds shall be applied in the order of priority set out in the Pre-Enforcement Revenue Payments Priorities and Available Principal Funds shall be applied in the order of priority set out in the Pre-Enforcement Principal Payments Priorities. After an Enforcement Notice is delivered by the Trustee, Trust Proceeds shall (after deduction of all costs and expenses incurred by the Trustee in obtaining receipt or recovery of the Trust Proceeds) be held by the Trustee upon trust to be applied in the order of priority set out in the Post-Enforcement Payments Priorities.

Please see full details of the payments priorities set out in the section entitled “Cashflows”.

## General Credit Structure

The general credit structure of the transaction includes the following elements:

### (a) *Credit Support:*

- *General Reserve Fund:* the General Reserve Fund, initially funded in an amount equal to £4,603,750 (being approximately 1.45 per cent. of the aggregate Principal Amount Outstanding of the Class A Notes as at the Closing Date) initially funded from the proceeds of issue of the Class Z VFN, and thereafter to be maintained at the General Reserve Fund Target Amount from Available Revenue Funds.

The Credit Ledger Required Amount may be applied to reduce the debit balance on the Class A Principal Deficiency Sub-Ledger.

- *Revenue Reallocation Amounts:* Available Revenue Funds may be applied as Available Principal Funds to the extent of, among other things, any Principal Losses on the Mortgage Loans.
- *Redemption of Notes:* following the redemption of the Class A Notes, the Residual Principal Allocation Amount will be applied to the Pre-Enforcement Revenue Payments Priorities.

See the section entitled “Credit Enhancement and Liquidity Support”.

### (b) *Liquidity Support:*

*General Reserve Fund:* the General Reserve Fund will initially be funded in an amount equal to £4,603,750 (being approximately 1.45 per cent. of the aggregate Principal Amount Outstanding of the Class A Notes as at the Closing Date) from the proceeds of issue of the Class Z VFN. Thereafter, the General Reserve Fund will be funded to the level of the General Reserve Fund Target Amount using Available Revenue Funds. The General Reserve Fund is represented by the credit balance of Liquidity Ledger and Credit Ledger.

Amounts standing to the credit of the Credit Ledger will be applied to reduce or eliminate any shortfall in Available Revenue Funds to pay (a) to (h) of the Pre-Enforcement Revenue Payments Priorities.

Amounts standing to the credit of the Liquidity Ledger will be applied to reduce or eliminate any Revenue Shortfall by paying amounts referred to in items (a) to (f) (after application of any General Reserve Drawings) of the Pre-Enforcement Revenue Payments Priorities.

To the extent that any Revenue Shortfall occurs, such shortfall shall be reduced or eliminated using amounts standing to the credit of:



- (i) first, the Credit Ledger;
- (ii) second, the Liquidity Ledger; and
- (iii) third, the Principal Ledger.

*Principal Re-allocation Amounts:* Available Principal Funds will be applied to reduce or eliminate, among other things, any shortfall in Available Revenue Funds (after the application of the any Liquidity Reserve Drawings and General Reserve Drawings) to pay any Interest Amount due and payable in respect of the Class A Notes.

See the section entitled “*Credit Enhancement and Liquidity Support*”.

(c) ***Interest Rate Swap Agreement***

*Fixed Rate Hedging:* availability of a fixed interest rate swap provided by the Interest Rate Swap Provider to hedge against the possible variance between the fixed rates of interest received on the Fixed Rate Loans in the Mortgage Portfolio and the rates of interest payable on the Notes (see section “*Credit Enhancement and Liquidity Support – Interest Rate Swap*” for further details).

**Bank Accounts and Cash Management**

Collections of revenue and principal in respect of the Mortgage Loans in the Mortgage Portfolio are received by the Servicer into its Collection Account. The Servicer is obliged to transfer collections in respect of the Mortgage Loans in the Mortgage Portfolio to the Transaction Account on a daily basis. On each Interest Payment Date, the Cash Manager will withdraw monies from the Transaction Account to be applied in accordance with the relevant Payments Priorities. Monies may also be transferred from the Transaction Account on any Business Day during a Calculation Period (other than an Interest Payment Date) prior to delivery of an Enforcement Notice to pay, *inter alia*, the Further Advance Purchase Price in respect of any Further Advance. (see section “*Cashflows – Payments on Business Days other than Interest Payment Dates*” for further details).

“**Collection Account**” means the account to which the Borrowers pay amounts on the Mortgage Loans in the Mortgage Portfolio held by the Servicer at the Collection Account Bank.

The Cash Manager shall instruct the Transaction Account Bank to make payments pursuant to the Cash Management Agreement.

**Interest Rate Swap**

On or about the Closing Date, the Interest Rate Swap Provider will enter into a 2002 ISDA Master Agreement (including a schedule and a credit support annex thereto and a confirmation thereunder) with the Issuer (as amended from time to time) (the “**Interest Rate Swap Agreement**”).

Payments received by the Issuer under some of the Mortgage Loans in the Mortgage Portfolio will be subject to fixed rates of interest. The interest amounts payable by the Issuer in respect of the Notes will be calculated by reference to Three-Month Sterling LIBOR. Pursuant to the Interest Rate Swap Agreement the Issuer will enter into a swap to hedge against the possible variance between the fixed rates of interest received on the Fixed Rate Loans in the Mortgage Portfolio and Three-Month Sterling LIBOR (the “**Interest Rate Swap**”).

The following definitions shall apply to the Interest Rate Swap only:

“**Current Balance**” means:

- (a) in relation to a Mortgage Loan, on any date, the aggregate balance of that

Mortgage Loan at such date (but avoiding double counting) including:

- (i) where such Mortgage Loan relates to an Initial Advance, the amount of such Initial Advance, and where such Mortgage Loan relates to a Further Advance, the amount of such Further Advance, in each case secured or intended to be secured by the related Mortgage;
- (ii) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment, in each case relating to such Mortgage Loan, and which has been properly capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent and added to the amounts secured or intended to be secured by the related Mortgage; and
- (iii) any other amount (including, for the avoidance of doubt, accrued interest and arrears of interest), in each case relating to such Mortgage Loan, and which is due or accrued (whether or not due) and which has not been paid by the relevant Borrower and has not been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent but which is secured or intended to be secured by the related Mortgage,

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

- (b) in relation to the Mortgage Portfolio and on any day, the aggregate of the Current Balances in respect of the Mortgage Loans contained in that Mortgage Portfolio.

**“Mortgage Loan”** means any residential mortgage loan secured by a Mortgage and Related Security, in the Mortgage Portfolio originated by the Legal Title Holder and sold to the Issuer pursuant to the Mortgage Sale Agreement, including any alteration to a Mortgage Loan pursuant to a Product Switch but excluding (for the avoidance of doubt) each Mortgage Loan and its Related Security which is repurchased by the Beneficial Title Seller pursuant to the Mortgage Sale Agreement or otherwise sold by the Issuer and no longer beneficially owned by the Issuer, and for the purposes of the Interest Rate Swap only, a Mortgage Loan in respect of a Borrower shall constitute one Mortgage Loan in relation to the Initial Advance to such Borrower, and another, separate Mortgage Loan in relation to each Further Advance to such Borrower.

The Interest Rate Swap has the following key commercial terms:

**Initial Pool:** The Performing Fixed Rate Loans in the Mortgage Portfolio which (i) do not relate to a Further Advance whose Advance Date occurred after 31 May 2018 and (ii) have not been the subject to a Product Switch, whose Switch Date occurred after 31 May 2018.

**Additional Pool:** The Performing Fixed Rate Loans in respect of which: (a) the Servicer has agreed to a Product Switch whose Switch Date falls on or before the Step-Up Date, provided that if a Mortgage Loan (other than a Flexx Fixed Mortgage Loan) is subject to a Product Switch before the end of its applicable fixed rate period, that Mortgage Loan shall only form part of the Additional Pool if the applicable early redemption charge has been paid by the relevant Borrower; or

(b) a Mortgage Loan relating to a Further Advance whose Advance Date falls on or before Step-Up Date, provided that a Performing Fixed Rate Loan whose fixed rate period is or has been longer than 5 years and 9 months or a Mortgage Loan which is subject to a Product Switch which Switch Date falls after the Step-Up Date or a Mortgage Loan which relates to a Further Advance whose Advance Date falls after the Step-Up Date shall not be part of the Additional Pool.

For the avoidance of doubt, the aggregate Current Balance of the Performing Fixed Rate Loans in the Mortgage Portfolio within the Additional Pool as of 31 May 2018 is zero.

**Notional Amount:** The lesser of the Fixed Notional Amount and the Maximum Notional Amount.

**Fixed Notional Amount:** For the first calculation period under the Interest Rate Swap, £350,863,998.55, and for each subsequent calculation period under the Interest Rate Swap, the sum of (i) the aggregate Current Balance of the Performing Fixed Rate Loans in the Mortgage Portfolio within the Initial Pool and (ii) the aggregate Current Balance of the Performing Fixed Rate Loans in the Mortgage Portfolio within the Additional Pool.

**Performing Fixed Rate Loan:** Each Relevant Fixed Rate Loan in the Mortgage Portfolio, excluding (i) those with three months or more in arrears, and (ii) and those which are Repossessed Mortgage Loans.

If any Mortgage Loan in the Initial Pool or the Additional Pool is three months or more in arrears, then any related Mortgage Loan secured over the same property in the Additional Pool or the Initial Pool, respectively, shall be deemed to be in arrears for the same period of time.

**Relevant Fixed Rate Loan:** Each Mortgage Loan to the extent that and for such time as the interest payable by the Borrower does not vary and is fixed for a certain period of time by the Originator, but excluding:

- (i) those Mortgage Loans which are not subject to an early redemption charge in respect of repayments during the fixed rate period (other than Flexx Fixed Mortgage Loans which, for the avoidance of doubt, shall constitute Relevant Fixed Rate Loans);
- (ii) those Mortgage Loans whose then current fixed rate period is or has been longer than 5 years and 9 months; and
- (iii) those Mortgage Loans which have been subject to a Product Switch whose Switch Date occurred after the Step-Up Date, and those Mortgage Loans which relate to a Further Advance whose Advance Date occurred after the Step-Up Date.

**Repossessed Mortgage Loans:** Each Mortgage Loan in respect of which the related property has been repossessed from the related Borrower.

**Flexx Fixed Mortgage Loans:** Each Mortgage Loan offered on the Originator's "Flexx Fixed" standard terms in effect as at 3 November 2015, except that the applicable interest rates may differ to those in effect at that date.

**Fixed Rate:** The rate, expressed as a percentage rate per annum of (A) the sum of the Weighted Fixed Rate Balance for each Performing Fixed Rate Loan in the Initial Pool and in the Additional Pool divided by (B) the sum of the Current Balance for each Performing Fixed Rate Loan in the Initial Pool and in the Additional Pool. For the avoidance of doubt, if B is equal to zero, the Fixed Rate

shall be equal to zero.

**Weighted Fixed Rate Balance:** For each Performing Fixed Rate Loan, the product of the Mortgage Fixed Rate of such Performing Fixed Rate Loan and the Current Balance of such Performing Fixed Rate Loan

**Mortgage Fixed Rate:** For each Performing Fixed Rate Loan (i) in respect of each Mortgage Loan in the Initial Pool, 1.306 per cent. per annum or (ii) in respect of each Mortgage Loan in the Additional Pool, a breakeven swap rate plus reset spread as calculated in accordance with the Interest Rate Swap Agreement

**Maximum Notional Amount:** £370,000,000

**Issuer payment:** An amount equal to the product of (i) the Notional Amount of the Interest Rate Swap for the relevant Interest Periods; (ii) the applicable Fixed Rate; and (iii) the applicable day count fraction

**Interest Rate Swap Provider Payment:** an amount equal to the product of (i) the Notional Amount of the Interest Rate Swap for the relevant Interest Period; and (ii) three-month Sterling LIBOR (determined in accordance with the 2006 ISDA definitions) and the relevant day count fraction

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

**Termination Date:** unless the Interest Rate Swap has been terminated due to an occurrence of an Early Termination Event, the Interest Rate Swap will terminate on the earlier of (i) the date on which all outstanding Notes are redeemed in full pursuant to Condition 8.3 (*Mandatory Redemption in part*); and (ii) only from the Step-Up Date, the date on which the aggregate of the Current Balances of the Performing Fixed Rate Loans is reduced to zero.

See section “*Credit Enhancement and Liquidity Support – Interest Rate Swap*” for further details.

## TRIGGERS TABLES

### Rating Triggers Table

Transaction Party	Required Ratings/Triggers	Possible effects of Trigger being breached include the following
Transaction Account Bank	<p>(i) in respect of Fitch at least A (long-term) or F1 (short-term); and</p> <p>(ii) in respect of Moody's, at least Baa3 (long-term),</p> <p>or in each case such other rating or ratings as would maintain the then current rating of the Class A Notes.</p> <p>The consequences of the relevant required rating being breached are set out in more detail in the section entitled "<i>Cash Management</i>".</p>	<p>The Issuer shall, within 30 calendar days, use all reasonable endeavours to replace the Transaction Account Bank</p>
Interest Rate Swap Provider	<p><b>Moody's:</b> A long term counterparty risk assessment from Moody's of A3(cr) or above (the "<b>Qualifying Collateral Trigger Rating</b>").</p>	<p>If the Interest Rate Swap Provider (or its successor or any relevant guarantor) does not have the Qualifying Collateral Trigger Rating and either (a) has not had a Qualifying Collateral Trigger Rating since the Closing Date or (b) at least 30 business days have elapsed since the last time the Interest Rate Swap Provider (or its successor or relevant guarantor) had a Qualifying Collateral Trigger Rating, the Interest Rate Swap Provider must, if required, post collateral and may either (i) transfer its rights and obligations under the Interest Rate Swap Agreement to an appropriately rated replacement third party, or (ii) procure a guarantee from an appropriately rated third party.</p> <p>A failure by the Interest Rate Swap Provider to take such steps will, in certain circumstances, allow the Issuer to terminate the</p>

**Moody's:** A long term counterparty risk assessment from Moody's of Baa1(cr) or above (the "**Qualifying Transfer Trigger Rating**").

Interest Rate Swap Agreement.

If the Interest Rate Swap Provider (or its successor or any relevant guarantor) does not have the Qualifying Transfer Trigger Rating, the Interest Rate Swap Provider must, at its own cost, use commercially reasonable efforts to, as soon as reasonably practicable, either (i) transfer its rights and obligations under the Interest Rate Swap Agreement to an appropriately rated replacement third party, or (ii) procure a guarantee from an appropriately rated third party.

A failure by the Interest Rate Swap Provider to take such steps will, in certain circumstances, allow the Issuer to terminate the Interest Rate Swap Agreement.

**Fitch required ratings:** The Fitch required ratings depend on the rating of the Class A Notes from Fitch (the "**Fitch Relevant Notes**") and are set out in the table below.

So long as BNP Paribas is the Interest Rate Swap Counterparty, or if the Interest Rate Swap Agreement is transferred to an Interest Rate Swap Provider who is incorporated in England or an Interest Rate Swap Provider that provides an external legal opinion confirming that the subordination provisions relating to Interest Rate Swap Excluded Termination Amount are enforceable, in a form acceptable to Fitch and the Issuer, then the ratings set out in the third column "Supported Minimum Counterparty Ratings" below will be the Supported Minimum Counterparty Ratings which apply.

If the Interest Rate Swap Agreement is transferred to any other Interest Rate Swap

Provider, or if the subordination provisions relating to Interest Rate Swap Excluded Termination Amount are not enforceable under French law in relation to BNP Paribas (or an Interest Rate Swap Provider incorporated in the same jurisdiction), then the ratings set out in the fourth column “Supported Minimum Counterparty Ratings (adjusted)” below will be the Fitch Supported Minimum Required Ratings which apply.

<b>Current Fitch rating of Class A Notes</b>	<b>Unsupported Minimum Counterparty Ratings</b>	<b>Supported Minimum Counterparty Ratings</b>	<b>Supported Minimum Counterparty Ratings (adjusted)</b>
AAAsf	A or F1	BBB- or F3	BBB+ or F2
AAsf	A- or F1	BBB- or F3	BBB+ or F2
Asf	BBB or F2	BB+	BBB or F2
BBBsf	BBB- or F3	BB-	BBB- or F3
BBsf	At least as high as the Fitch rating of the Class A Notes	B+	BB-
Bsf	At least as high as the Fitch rating of the Class A Notes	B-	B-

**Transaction Party**

**Required Ratings**

**Contractual requirements on occurrence of breach of ratings trigger include the following:**

Interest Rate Swap Provider

**Fitch initial required ratings**

The Interest Rate Swap Provider, or an applicable guarantor, fails to have the required Unsupported Minimum Counterparty Ratings.

The Interest Rate Swap Provider must provide collateral within 14 calendar days (to the extent required depending on the value of the Interest Rate Swap to each of the parties at such time) unless, it either (i) transfers its obligations in respect of the Interest Rate Swap to an entity that is eligible to be a swap provider under the Fitch ratings criteria, (ii) obtains a guarantee or co-obligation in respect of the Interest Rate Swap from an entity with the required Unsupported Minimum Counterparty Ratings, or (iii) takes such other action (which may, for the avoidance of doubt, include taking no action) as will maintain, or restore, the rating of the Class A Notes by

Fitch, including not being placed on rating watch negative.

The Issuer may terminate the Interest Rate Swap if the Interest Rate Swap Provider fails to provide collateral in respect of the Interest Rate Swap in the relevant time period (to the extent the Interest Rate Swap Provider is required to do so) and the Interest Rate Swap Provider has failed to take the relevant actions in (i) to (iii) above.

**Fitch subsequent required ratings**

The Interest Rate Swap Provider, or an applicable guarantor, fails to have the required Supported Minimum Counterparty Ratings or Supported Minimum Counterparty Ratings (adjusted), as applicable.

The Interest Rate Swap Provider must, within 30 calendar days, either (i) transfer its obligations in respect of the Interest Rate Swap to an entity that is eligible to be a swap provider under the Fitch ratings criteria, (ii) obtain a guarantee or co-obligation in respect of the Interest Rate Swap from an entity with the required Unsupported Minimum Counterparty Ratings, or an entity with the Supported Minimum Counterparty Ratings or the Supported Minimum Counterparty Ratings (adjusted), as applicable provided that such entity complies with the collateral requirements of an applicable guarantor who fails to have the required Unsupported Minimum Counterparty Ratings (as set out above) or (iii) take such other action (which may, for the avoidance of doubt, include taking no action) as will maintain, or restore, the rating of the Class A Notes by Fitch, including not being placed on rating watch negative.

Whilst this process is ongoing the Interest Rate Swap Provider must also provide collateral within 14 calendar days or if collateral has previously been provided,



continue to provide collateral (to the extent required depending on the value of the Interest Rate Swap to each of the parties at such time).

The Issuer may terminate the Interest Rate Swap if the Interest Rate Swap Provider fails to provide collateral in respect of the Interest Rate Swap in the relevant time period (to the extent the Interest Rate Swap Provider is required to do so). The Issuer may also terminate the Interest Rate Swap if the Interest Rate Swap Provider fails to take the relevant actions in (i) to (iii) above.

Cash Manager

Ceasing to be assigned a counterparty risk assessment by Moody's of at least Baa3(cr) (or (i) such other lower risk assessment which is consistent with then current methodology of Moody's or (ii) such other lower risk assessment that the Cash Manager certifies in writing to the Trustee would not have an adverse effect on the ratings of the Class A Notes)

The Cash Manager shall not be required to take any action or provide any certification in relation to the above in so far as it relates to a lower risk assessment unless the Beneficial Title Seller has confirmed to the Cash Manager that such lower risk assessment would not have an adverse effect on the ratings of the Class A Notes.

The Issuer shall, with the assistance of the Back-Up Cash Manager Facilitator, within 60 days, use best efforts to appoint a back-up cash manager which meets the requirements for a substitute service provided for by the Cash Management Agreement.

Servicer

Either:

(a) Ceasing to be assigned a counterparty risk assessment by Moody's of at least Baa3(cr) (or (i) such other lower risk assessment which is consistent with then current methodology of

(a) The Servicer, with the assistance of the Back-Up Servicer Facilitator, shall, within 60 days, use best efforts to appoint a back-up servicer which meets the requirements for a substitute service provided for by the

Moody's or (ii) such other lower risk assessment that the Cash Manager certifies in writing to the Trustee would not have an adverse effect on the ratings of the Class A Notes); or

- (b) Ceasing to be assigned a long-term issuer default rating by Fitch of at least BBB- (or (i) such other lower risk assessment which is consistent with then current methodology of Fitch or (ii) such other lower risk assessment that the Cash Manager certifies in writing to the Trustee would not have an adverse effect on the ratings of the Class A Notes)

The Cash Manager shall not be required to take any action or provide any certification in relation to the above in so far as it relates to a lower risk assessment unless the Beneficial Title Seller has confirmed to the Cash Manager that such lower risk assessment would not have an adverse effect on the ratings of the Class A Notes.

Servicing Agreement; and

- (b) The Servicer (on behalf of the Legal Title Holder) will deliver to the Issuer and the Trustee details of the names and addresses of the Borrowers with Mortgage Loans then in the Mortgage Portfolio, in a format to be agreed between the Servicer and the Issuer and a draft letter of notice to such Borrowers of the sale and assignment of those Mortgage Loans and the Related Security to the Issuer, and updates of such information to the same parties on a monthly basis thereafter.

### Non-Rating Triggers Table

Nature of Trigger	Description of Trigger	Consequence of Trigger
Perfection Events	<p>The occurrence of any of the following:</p> <ul style="list-style-type: none"> <li>• perfection being required by an order of court or by a change in law in each case occurring after the Closing Date or by a Regulatory Authority which has jurisdiction over the Legal Title Holder;</li> <li>• unless otherwise agreed with the Legal Title Holder the replacement of Coventry Building Society as Servicer;</li> <li>• the date on which an Insolvency Event occurs with respect to the Legal Title Holder; and</li> </ul>	<p>A number of events will occur, including Borrowers being notified of the sale to the Issuer (or a nominee of the Issuer) and legal title to the Mortgage Portfolio being transferred to the Issuer (or a nominee of the Issuer) by way of registration or recording in the Land Registry.</p>

Nature of Trigger	Description of Trigger	Consequence of Trigger
Servicer Termination Events	<ul style="list-style-type: none"> <li>• the Legal Title Holder not exercising its Right of First Refusal (defined below).</li> </ul> <p>The occurrence of any of the following (subject to applicable grace periods for remedy and materiality thresholds) (each a “<b>Servicer Termination Event</b>”):</p> <ul style="list-style-type: none"> <li>• default by the Servicer in the payment of any payment due and payable under the Servicing Agreement;</li> <li>• default by the Servicer in the performance or observance of any of its other covenants and obligations under the Servicing Agreement, which default in the opinion of the Issuer is materially prejudicial to the interests of the Issuer;</li> <li>• the occurrence of an Insolvency Event in respect of the Servicer; and</li> <li>• the occurrence of a Perfection Event in respect of the Legal Title Holder.</li> </ul> <p>See further the section entitled “<i>Servicing of the Mortgage Portfolio</i>”.</p>	<p>Termination of appointment of the Servicer, provided that no termination shall take effect until a substitute servicer shall be appointed by the Issuer who holds all licences, approvals, authorisations, and consents required in connection with the provision of the services.</p> <p>The Servicer, with the assistance of the Back-Up Servicer Facilitator, shall, within 60 days, use best efforts to appoint a back-up servicer which meets the requirements for a substitute servicer provided for by the Servicing Agreement.</p>
Cash Manager Termination Events	<p>The occurrence of any of the following (subject to applicable grace periods for remedy and materiality thresholds) (each a “<b>Cash Manager Termination Event</b>”):</p> <ul style="list-style-type: none"> <li>• failure to make a payment;</li> <li>• breach of certain representations and warranties;</li> <li>• non-compliance with certain covenants or obligations;</li> <li>• an insolvency event in respect of the Cash Manager;</li> <li>• invalidity of the Cash Manager’s obligations;</li> <li>• unlawfulness in respect of the Cash Manager; or</li> <li>• to protect the Secured Creditors’ interests after service of an</li> </ul>	<p>Termination of appointment of Cash Manager, provided that no termination shall take effect until a substitute cash manager shall be appointed by the Issuer who holds all licences, approvals, authorisations, and consents required in connection with the provision of the services.</p> <p>The Issuer with the assistance of the Back-Up Cash Manager Facilitator, shall, within 60 days, use best efforts to appoint a back-up cash manager which meets the requirements for a substitute cash manager provided for by the Cash Management Agreement.</p>

**Nature of Trigger**

**Description of Trigger**

**Consequence of Trigger**

Enforcement Notice.

## FEES

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

Type of Fee	Amount of Fee	Priority in Cashflow	Frequency
Servicing fees to Servicer	(1) 0.20 per cent. per annum (exclusive of VAT) on the Current Balance of all Mortgage Loans (other than those in paragraph (2) below) as determined by the Servicer on the last calendar day of each month; and	Ahead of all outstanding Notes	Payable quarterly in arrear on each Interest Payment Date
	(2) 0.30 per cent. per annum (exclusive of VAT) on the Current Balance of all Mortgage Loans in the Mortgage Portfolio in relation to which more than one Monthly Payment is in arrears as determined by the Servicer on the last calendar day of each month		
Fee for an annual audit of the Mortgage Loans and Related Security and other ancillary requests made by the Issuer in accordance with the terms of the Servicing Agreement and the Mortgage Sale Agreement	£50,000 (exclusive of VAT)	Ahead of all outstanding Notes	Payable on the first Interest Payment Date of each year
Other fees and expenses of the Issuer	Estimated at £74,500 each year (exclusive of VAT)	Ahead of all outstanding Notes	Payable quarterly in arrear on each Interest Payment
Expenses related to the admission to trading of the Class A Notes	Estimated at €6,790 (exclusive of applicable VAT)	Ahead of all outstanding Notes	On the Closing Date

## REGULATORY DISCLOSURE

### **Articles 404 to 410 of the CRR and Article 51 of the AIFMR and Article 254 of the Solvency II Regulation**

The Beneficial Title Seller will retain a material net economic interest of not less than 5 per cent. in the securitisation in accordance with Articles 404 to 410 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 21 June 2013 (“**CRR**”), Article 51 of the AIFMR and Article 254 of the Solvency II Regulation. As at the Closing Date, such interest will comprise an interest in the first loss tranche as required by Article 405(1)(d) of the CRR, Article 51(1)(d) of the AIFMR and Article 254(2)(d) of the Solvency II Regulation. Such retention requirement will be satisfied by the Beneficial Title Seller holding the Class Z VFN. The Beneficial Title Seller will confirm its ongoing retention of the net economic interest described above in the Monthly Investor Reports and any change to the manner in which such interest is held will be notified to Noteholders. For more information please refer to the Risk Factor entitled “*The Trustee may assume performance and is not obliged to act in certain circumstances*”.

The Beneficial Title Seller has undertaken to provide to prospective investors readily available access to the data and information referred to in Article 409 of the CRR, Section 5 of the AIFMR, and Article 256 of the Solvency II Regulation subject always to any requirement of law.

Each prospective investor is required to independently assess and determine the sufficiency of the information described above and in this Prospectus generally for the purposes of complying with Articles 404 to 410 of the CRR and Section 5 of the AIFMR and none of the Issuer, the Arranger, the Joint Lead Managers, the Originator, the Servicer nor any of the Transaction Parties makes any representation that the information described above or in this Prospectus is sufficient in all circumstances for such purposes. In addition, each prospective Noteholder should ensure that it complies with the implementing provisions in respect of Articles 405 to 410 of the CRR, Section 5 of the AIFMR and Article 256 of Solvency II Regulation in their relevant jurisdiction. Investors who are uncertain as to the requirements which apply to them in respect of their relevant jurisdiction, should seek guidance from their regulator.

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

The Beneficial Title Seller, as the sponsor under the U.S. Risk Retention Rules, does not intend to retain at least 5 per cent. of the credit risk of the securitized assets for purposes of compliance with the U.S. Risk Retention Rules, but rather intends to rely on an exemption provided for in Section 20 of the U.S. Risk Retention Rules regarding non-U.S. transactions. Therefore, in order to ensure that the transaction falls within this exemption, the Notes offered and sold by the Issuer may not be purchased by, or for the account or benefit of Risk Retention U.S. Persons. See “*Risk Factors – U.S. Risk Retention Requirements*”.

### **CRA Regulation**

The credit ratings included or referred to in this Prospectus have been issued by the Rating Agencies.

Each of Fitch and Moody’s is a credit rating agency established in the European Community and registered under the CRA Regulation.

### **Credit Policies of Coventry Building Society**

Coventry Building Society is a credit institution and as such is bound by the requirements of the Capital Requirements Directive 2013/36/EU (the “**CRD**”). The policies and procedures of Coventry Building Society in relation to the granting of credit, administration of credit-risk bearing portfolios and risk mitigation are in compliance with the requirements of the CRD. Coventry Building Society maintains the same such policies and procedures across its wholly-owned subsidiary companies (including the Originator) and as such the

policies and procedures of the Originator in relation to the granting of credit, administration of credit-risk bearing portfolios and risk mitigation are also in compliance with the requirements of the CRD.

Coventry Building Society has internal policies and procedures in relation to the granting of credit, administration of credit-risk bearing portfolios and risk mitigation. The policies and procedures of Coventry Building Society in this regard broadly include the following:

- (A) criteria for the granting of credit and the process for approving, amending, renewing and re-financing credits (as to which, please see further the section of this Prospectus headed “*Servicing of the Mortgage Portfolio*”);
- (B) systems in place to administer and monitor the various credit-risk bearing portfolios and exposures and the Mortgage Portfolio will be serviced in line with the usual servicing procedures of Coventry Building Society and the Originator (please see further the section of this Prospectus headed “*Servicing of the Mortgage Portfolio*”);
- (C) diversification of credit portfolios taking into account Coventry Building Society’s target market and overall credit strategy (as to which, in relation to the Mortgage Portfolio, please see the section of this Prospectus headed “*Characteristics of the Mortgage Portfolio*”); and
- (D) policies and procedures in relation to risk mitigation techniques (as to which, please see the section of this Prospectus headed “*Servicing of the Mortgage Portfolio*”).

#### **Volcker Rule**

The Issuer is of the view that it is not now, and immediately following the issuance of the Notes and the application of the proceeds thereof it will not be, a “covered fund” as defined in the regulations adopted under Section 13 of the Bank Holding Company Act of 1956, as amended, commonly known as the “Volcker Rule”. Although other exclusions may be available to the Issuer, this analysis is based on the conclusion that the Issuer satisfies all the elements of the exemption from the definition of “investment company” in the Investment Company Act of 1940 provided by Section 3(c)(5)(C) thereunder. Any prospective investor in the Notes, including a bank or subsidiary or other affiliate thereof, should consult its own legal advisors regarding the Volcker Rule and its effects.

## **DESCRIPTION OF THE BENEFICIAL TITLE SELLER**

### **UK Mortgages Corporate Funding Designated Activity Company**

The Beneficial Title Seller is a designated activity company incorporated under the laws of Ireland (registration number 567943), having its registered office at 5 George's Dock, IFSC, Dublin 1, Ireland.

The Beneficial Title Seller was established for the purposes of acquiring residential mortgage loans advanced to borrowers in the United Kingdom.

The Beneficial Title Seller has an authorised share capital of EUR1,000,000.

The Beneficial Title Seller has not engaged in any activity since the date of its formation other than in connection with the acquisition of the beneficial title to residential mortgage loans secured on Property in England and Wales and associated activities, including in relation to the financing of such acquisition. It does not have, and has not had, any employees.



## DESCRIPTION OF THE ORIGINATOR AND LEGAL TITLE HOLDER

Godiva Mortgages Limited as the Originator and Legal Title Holder is a wholly owned subsidiary of Coventry Building Society.

### Introduction

Godiva Mortgages Limited is a private limited company, incorporated and registered under the laws of England and Wales with company registration number 05830727. Its registered address is Oakfield House, Binley Business Park, Harry Weston Road, Coventry, CV3 2TQ. As at 31 December 2017 Godiva Mortgages Limited had assets of £12,312 million.

Coventry Building Society launched Godiva Mortgages Limited in 2007 for the principal purpose of originating residential mortgage loans to borrowers in England, Wales, Scotland and Northern Ireland. Building on the proven service standards and expertise of Coventry Building Society, Godiva Mortgages Limited is the dedicated intermediary-only brand of the Coventry Building Society Group and provides mortgage products across some of the key intermediary business areas. Godiva Mortgages Limited offers a range of competitive products that include standard residential mortgages, buy-to-let mortgages, product transfers and further advances. It is well established in the intermediary market and operates in accordance with the same origination, underwriting and servicing criteria as Coventry Building Society. Both Coventry Building Society and Godiva Mortgages Limited share the same staff and infrastructure. Principal areas of distinction between Coventry Building Society and Godiva Mortgages Limited relate to product range and the ability to differentiate on back book pricing. Furthermore, Godiva Mortgages Limited borrowers do not become members of Coventry Building Society.

Godiva Mortgages Limited is authorised and regulated by the Financial Conduct Authority, firm reference number 457622. Further details of the products offered from time to time by Godiva Mortgages Limited are available on Godiva Mortgages Limited's website at <http://www.coventrybuildingsociety.co.uk/intermediaries/home.aspx> (this website and the contents thereof do not form part of this Prospectus).

### Directors

Godiva Mortgages Limited's directors are:

- Michele Faull; and
- Mark Parsons.

### Corporate Governance

It is the practice of Godiva Mortgages Limited to apply a high standard of corporate governance. In this regard, all relevant activities are fully considered by the Coventry Building Society Group's Board Audit Committee, whose members are independent non-executive directors.

**DESCRIPTION OF THE TRANSACTION ACCOUNT BANK, PRINCIPAL PAYING  
AGENT, AGENT BANK AND CASH MANAGER**

**Citibank N.A., London Branch**

Citibank, N.A. is a company incorporated with limited liability in the United States of America under the laws of the City and State of New York on 14 June 1812 and reorganised as a national banking association formed under the laws of the United States of America on 17 July 1865 with Charter number 1461 and having its principal business office at 399 Park Avenue, New York, NY 10043, USA and having in Great Britain a principal branch office situated at Canada Square, Canary Wharf, London E14 5LB with a foreign company number FC001835 and branch number BR001018.

The London Branch is authorised and regulated by the Office of the Comptroller of the Currency (USA) and authorised by the Prudential Regulation Authority. It is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority.

## **DESCRIPTION OF THE TRUSTEE**

### **Citicorp Trustee Company Limited**

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

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

CTCL is regulated by the UK's Financial Conduct Authority.

## DESCRIPTION OF THE SERVICER

Coventry Building Society (together with its consolidated subsidiary undertakings from time to time, the “CBS Group”) will be appointed as the Servicer pursuant to the Servicing Agreement.

### Introduction

Coventry Building Society’s principal office is at Economic House, PO Box 9, High Street, Coventry, CV1 5QN (telephone number: +44 24 7655 5255). Coventry Building Society is the second largest building society in the United Kingdom based on asset size with the CBS Group assets as at 31 December 2017 of £42,573 million. The society now operates a regional network of 70 branches, 17 agencies and has over 1.8 million members.

Coventry Building Society was originally founded in 1884 and in its present form was created as a result of a merger between Coventry Economic Building Society and Coventry Provident Building Society on 30 June 1983. More recently, it merged with Stroud & Swindon Building Society on 1 September 2010.

Coventry Building Society operates exclusively in the United Kingdom and has a branch network focused on Coventry, Warwickshire and the South West. Mortgage, savings and related products are offered via branches, the internet, by telephone and through the post to customers both inside and outside the branch operating area.

Except as otherwise stated, financial information contained herein is either (i) extracted from the audited consolidated annual accounts of the Coventry Building Society and the CBS Group, or (ii) calculated using financial information extracted from such annual accounts.

### Constitution

Coventry Building Society is incorporated under the Building Societies Act 1986 (the Act) and operates in accordance with the Act, regulations made thereunder and its Rules and Memorandum. Coventry Building Society is an incorporated building society for the purposes of the Act and is authorised by the PRA and regulated by the FCA and the PRA under firm reference number 150892.

The affairs of Coventry Building Society are conducted and managed by the board who are appointed or elected and serve in accordance with the Rules and Memorandum. The board is responsible to the members for the proper conduct of the affairs of Coventry Building Society and appoints and supervises the executives who are responsible to the board for the day-to-day management of Coventry Building Society. Eligibility to vote at general meetings is governed by the Act and by Coventry Building Society’s Rules.

Coventry Building Society has a policy regarding conflicts of interest that enables existing or potential conflicts of interest between any duties owed to Coventry Building Society by its directors or members of its Executive and the private interests and/or other external duties owed by these individuals to be managed appropriately.

### Business and Strategy of Coventry Building Society

The principal purpose of Coventry Building Society, as stated in Clause 3 of its Memorandum, is making loans which are secured on residential property and are funded substantially by its members. Coventry Building Society seeks to provide a safe and attractive home for members’ savings.

Coventry Building Society obtains funds from the retail market through personal savings and deposit accounts and also raises funds in the wholesale markets. It advances the funds raised mainly to borrowers on the security of first charge mortgages secured on freehold and leasehold.

Coventry Building Society concentrates on its core business of personal savings and residential mortgage lending.

Coventry Building Society operates across a number of distribution channels including its network of branches, the internet and post. CBS Group distributes its mortgages to members via Coventry Building Society and through the intermediary market via its wholly owned subsidiary Godiva Mortgages Limited.

Further details of Coventry Building Society's strategy, and the steps being taken by CBS Group to implement the strategy, are set out in the Annual Report and Accounts of Coventry Building Society for the financial year ended 31 December 2017.

The other purposes and powers of Coventry Building Society are specified in its Rules and Memorandum.

#### **Other Activities**

Aside from its core activities, Coventry Building Society operates the following key subsidiary companies:

- Godiva Mortgages Limited
- ITL Mortgages Limited
- Five Valleys Property Company Limited

In addition, Coventry Building Society has the following direct, wholly owned subsidiary companies, none of which are carrying on a business:

- Coventry Financial Services Limited
- Coventry Property Services Limited
- Godiva Financial Services Limited
- Godiva Housing Developments Limited
- Godiva Savings Limited
- Godiva Securities and Investments Limited

Coventry Building Society also has an interest in Coventry Building Society Covered Bonds LLP which gives rise to risks and rewards that are in substance no different than if it was a subsidiary undertaking.

## DESCRIPTION OF THE INTEREST RATE SWAP PROVIDER

### BNP Paribas

BNP Paribas is a French multinational bank and financial services company with its registered office located at 16 boulevard des Italiens 75009 Paris, France, and its corporate website in English is <http://www.bnpparibas.com/en>.

BNP Paribas, together with its consolidated subsidiaries (the "**BNP Paribas Group**") is a global financial services provider, conducting retail, corporate and investment banking, private banking, asset management, insurance and specialized and other financial activities throughout the world.

The BNP Paribas Group, one of Europe's leading providers of banking and financial services, has four domestic retail banking markets in Europe, namely in Belgium, France, Italy and Luxembourg.

It operates in 73 countries and has more than 196,000 employees, including more than 149,000 employees in Europe. BNP Paribas holds key positions in its two main businesses, being:

- Retail Banking and Services, which includes:
  - Domestic Markets, comprising:
    - French Retail Banking (FRB);
    - BNL banca commerciale (BNL bc), Italian retail banking;
    - Belgian Retail Banking (BRB); and
    - Other Domestic Markets activities including Luxembourg Retail Banking (LRB); and
  - International Financial Services, comprising:
    - Europe-Mediterranean;
    - BancWest;
    - Personal Finance;
    - Insurance; and
    - Wealth and Asset Management; and
- Corporate and Institutional Banking (CIB):
  - Corporate Banking;
  - Global Markets; and
  - Securities Services.

BNP Paribas SA is the parent company of the BNP Paribas Group.

At 31 December 2017, the BNP Paribas Group had consolidated assets of €1,960.3 billion (compared to €2,077 billion at 31 December 2016), consolidated loans and receivables due from customers of €727.7 billion (compared to €712.2 billion at 31 December 2016), consolidated items due to customers of €767.9 billion (compared to €765.9 billion at 31 December 2016) and shareholders' equity (BNP Paribas Group share) of €102.0 billion (compared to €100.7 billion at 31 December 2016).

At 31 December 2017, pre-tax income was €11.3 billion (compared to €11.2 billion at the end of 2016). Net income, attributable to equity holders, for the year 2017 was €7,8 billion (compared to €7.7 billion for the year 2016).

At the date of this Prospectus, the BNP Paribas Group currently has long-term senior debt ratings of "A" with stable outlook from S&P, "Aa3" with stable outlook from Moody's Investors Service, Inc. and "AA (low)" with stable outlook from DBRS and a long-term issuer default rating of "A+" with stable outlook from Fitch Ratings, Ltd.

The information contained in this section relates to and has been obtained from BNP Paribas. The information concerning BNP Paribas and the BNP Paribas Group contained herein is furnished solely to provide limited introductory information regarding BNP Paribas and the BNP Paribas Group and does not purport to be comprehensive.

The delivery of the information contained in this section shall not create any implication that there has been no change in the affairs of BNP Paribas or the BNP Paribas Group since the date hereof, or that the information contained or referred to in this section is correct as of any time subsequent to its date.

For up-to-date financial information, including quarterly results since the last fiscal year end, please refer to <http://invest.bnpparibas.com/en>.

## THE ISSUER

### Introduction

The Issuer was incorporated in England and Wales as a public company limited by shares under the Companies Act 2006 on 14 May 2018 with registered number 11360421. The registered office of the Issuer is at 35 Great St Helen's, London EC3A 6AP (telephone number +44 (0)20 7398 6300). The Issuer's issued share capital comprises 50,000 ordinary shares of £1.00 each, of which 1 ordinary share is fully paid up and 49,999 ordinary shares are 25 per cent. paid up, all of which are beneficially owned by Holdings. (see "Holdings")

The Issuer has been established as a special purpose vehicle for the purpose of issuing asset backed securities and will be mostly passive. The Issuer has no subsidiaries. Neither of the Beneficial Title Seller nor the Legal Title Holder own, directly or indirectly, any of the share capital of the Issuer or Holdings.

Since its incorporation, the Issuer has not engaged in any material activities other than those incidental to its registration as a public company under the Companies Act 2006, the authorisation and issue of the Notes, the matters contemplated in this Prospectus, the authorisation of the other Transaction Documents referred to in this Prospectus or in connection with the issue of the Notes and other matters which are incidental or ancillary to those activities. The Issuer has no employees. As at the date of this Prospectus no financial statements have been prepared by the Issuer.

The rights of Holdings as a shareholder of the Issuer are contained in the articles of association of the Issuer and the Issuer will be managed in accordance with the provisions of its articles of association and English law.

There is no intention to accumulate surplus cash in the Issuer except in the circumstances set out in the section entitled "*Security for the Issuer's Obligations*".

### Directors and Secretary

The directors of the Issuer 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>
Helena Whitaker	35 Great St Helen's, London EC3A 6AP	Director
Intertrust Directors 1 Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
Intertrust Directors 2 Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director

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

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities/Business Occupation</b>
Neil Townson	35 Great St Helen's, London EC3A 6AP	Director



Claudia Wallace	35 Great St Helen's, London EC3A 6AP	Director
Susan Abrahams	35 Great St Helen's, London EC3A 6AP	Director
Helena Whitaker	35 Great St Helen's, London EC3A 6AP	Director

All of the directors of the Issuer are residents of the United Kingdom, or companies incorporated in the United Kingdom.

The company secretary of the Issuer is:

<b>Name</b>	<b>Business Address</b>
Intertrust Corporate Services Limited	35 Great St Helen's, London EC3A 6AP

In accordance with the Corporate Services Agreement, the Corporate Services Provider will provide directors and other corporate services for the Issuer in consideration for the payment of an annual fee to the Corporate Services Provider.

The Issuer's activities will principally comprise the issue of the Notes, the entering into of all documents relating to such issue and the exercise of related rights and powers and other activities referred to in this Prospectus or reasonably incidental to those activities.

### **Capitalisation and Borrowings**

The following table shows the unaudited capitalisation and borrowings of the Issuer as at 27 June 2018 adjusted for the issue of Notes:

	<b>£</b>
<b><i>Share Capital</i></b>	
Issued Share Capital .....	
50,000 issued ordinary shares of £1 each (1 fully paid and 49,999 one quarter paid).....	12,500.75
	<hr/> <hr/>
	<b>£</b>
<b><i>Borrowings</i></b>	
Class A Notes .....	317,500,000
Class Z VFN .....	38,900,000
	<hr/> <hr/>
	356,400,000

The current financial period of the Issuer will end on 30 June 2019.

## **Issuer profit**

Pursuant to the Pre-Enforcement Revenue Payments Priorities, Available Revenue Funds are to be applied on each Interest Payment Date in an amount of up to £5,000 on each Interest Payment Date for the first four Interest Payment Dates, reducing to £2,500 on each Interest Payment Date for each other Interest Payment Date, making a total of up to £20,000 for the first accounting year and up to £10,000 for each other accounting year (the “**Required Profit Amount**”) for retention by the Issuer and to be recognised in the accounts of the Issuer as profit for the relevant accounting year. Any Required Profit Amount so applied shall be credited to the Issuer Profit Ledger and applied in satisfaction of the Issuer’s obligations in respect of United Kingdom corporation tax and in payment of dividends.

## HOLDINGS

### Introduction

Holdings was incorporated in England and Wales as a private limited company limited by shares under the Companies Act 2006 on 14 May 2018 with registered number 11360319. The registered office of the Holdings is at 35 Great St Helen's, London EC3A 6AP (telephone number +44(0)2073986300). The issued share capital of Holdings comprises 1 ordinary share of £1.00. Intertrust Corporate Services Limited (the "Share Trustee") holds the entire beneficial interest in the issued share under a discretionary trust for discretionary purposes. Holdings holds the entire beneficial interest in the issued share capital of the Issuer.

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

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

### Directors and Secretary

The directors of Holdings 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>
Helena Whitaker	35 Great St Helen's, London EC3A 6AP	Director
Intertrust Directors 1 Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
Intertrust Directors 2 Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director

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

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities/Business Occupation</b>
Neil Townson	35 Great St Helen's, London EC3A 6AP	Director
Claudia Wallace	35 Great St Helen's, London EC3A 6AP	Director
Susan Abrahams	35 Great St Helen's, London EC3A 6AP	Director
Helena Whitaker	35 Great St Helen's, London EC3A 6AP	Director

All of the directors of Holdings are residents of the United Kingdom, or companies incorporated in the United Kingdom.

The company secretary of the Holdings is:

**Name**

**Business Address**

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Intertrust Corporate Services Limited

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35 Great St Helen's, London EC3A 6AP

In accordance with the Corporate Services Agreement, the Corporate Services Provider will provide directors and other corporate services for Holdings in consideration for the payment of an annual fee to the Corporate Services Provider.

The accounting reference date of Holdings is 30 July and the first statutory accounts of Holdings will be drawn up to 30 July 2019.

Holdings has no employees.

## **THE CORPORATE SERVICES PROVIDER**

Intertrust Management Limited (registered number 3853947), having its principal address at 35 Great St. Helen's, London EC3A 6AP will be appointed to provide corporate services to the Issuer and Holdings pursuant to the Corporate Services Agreement.

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

The Corporate Services Provider will be entitled to terminate its respective appointment under the Corporate Services Agreement on 30 days' written notice to the Issuer, the Trustee and each other party to the Corporate Services Agreement, provided that a substitute corporate services provider has been appointed on substantially the same terms as those set out in the Corporate Services Agreement.

The Issuer or, following delivery of an Enforcement Notice, the Trustee can terminate the appointment of the Corporate Services Provider on 30 days' written notice so long as a substitute corporate services provider has been appointed on substantially the same terms as those set out in the Corporate Services Agreement.

In addition, the appointment of the Corporate Services Provider may be terminated immediately upon notice in writing given by the Issuer or, following delivery of an Enforcement Notice, the Trustee, if the Corporate Services Provider breaches its obligations under the terms of the Corporate Services Agreement and/or certain insolvency related events occur in relation to the Corporate Services Provider.

## THE MORTGAGE PORTFOLIO AND THE MORTGAGE LOANS

### Introduction

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

A portfolio of mortgage loans has been identified and agreed by the Originator and the Beneficial Title Seller (the “**Mortgage Portfolio**”) for sale by the Originator to the Beneficial Title Seller which the Beneficial Title Seller will separately on-sell to the Issuer.

As at the Cut-Off Date, the Mortgage Portfolio had the characteristics shown below. See “*Characteristics of the Mortgage Portfolio*”.

### The Originator

The Mortgage Portfolio comprises mortgage loans originated by the Originator.

### Characteristics of the Mortgage Loans

#### Buy to Let Loans

The Mortgage Loans in the Mortgage Portfolio are secured by non-owner occupied freehold or leasehold properties charged as security for the repayment of the respective Mortgage Loans (such Mortgage Loans being “**Buy to Let Loans**”).

#### Fixed Rate Loan

On the Closing Date, the Mortgage Portfolio is expected to consist of Mortgage Loans which are subject to a fixed rate of interest for a specified period of time (a “**Fixed Rate Loan**”), usually for 2, 3 or 5 years, and upon expiry of the fixed rate period the interest rate shall be subject to the Legal Title Holder’s standard variable rate (“**SVR**” and an “**SVR Mortgage Loan**” respectively).

If a Product Switch occurs in respect of a Mortgage Loan, the Mortgage Portfolio may include the additional types of loan described below.

#### Flexx Fixed Mortgage Loans

The Mortgage Portfolio may consist of Mortgage Loans offered on the Originator’s “Flexx Fixed” standard terms in effect as at 3 November 2015, except that the applicable interest rates may differ to those in effect at that date (a “**Flexx Fixed Mortgage Loan**”). The applicable rate of interest for a Flexx Fixed Mortgage Loan does not vary and is fixed for a certain period of time, and the Borrowers do not have to pay an Early Repayment Charge unless the loan agreement states otherwise.

#### Flexx for Term Loan

These are Mortgage Loans which are subject to a variable rate for the term of the loan, administered by Coventry Building Society and set independently of the SVR and the Bank of England’s base rate (a “**Flexx Rate Loan**”).

#### Tracker Rate Loan

These are Mortgage Loans which are subject to an interest rate other than the SVR for a specified period of time (a “**Tracker Rate Loan**”), following which the interest rate will revert to the SVR after the end of that specified period.

#### Discretionary Rate Loan

These are Mortgage Loans which are subject to the SVR and/or any other Discretionary Rates and other than a Capped Rate Loan or a Flexx for Term Loan (a “**Discretionary Rate Loan**”).

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

### **Repayment Terms**

The Mortgage Loans have different repayment methods, as described as follows:

#### **(a) Repayment**

A Mortgage Loan under the terms of which monthly instalments covering both interest and principal are payable so that by the stated maturity date for that Mortgage Loan (a “**Repayment Mortgage Loan**”) the full amount of principal advanced to the Borrower (in addition to the interest) has been repaid.

#### **(b) Interest Only**

A Mortgage Loan under the terms of which the Borrower is only obliged to make monthly payments of interest (but not of principal) during the term of that Mortgage Loan (an “**Interest Only Mortgage Loan**”) with the entire principal amount being payable only upon the relevant maturity date. As the principal amount associated with an Interest Only Mortgage Loan is repayable only upon the maturity of the Mortgage Loan, a life insurance or endowment policy or other repayment vehicle may have been taken out by a Borrower or a Borrower may be reliant on the sale of the property as a means of repayment of the Mortgage Loan.

#### **(c) Part and Part**

A combination of the above two types of Loan: a Mortgage Loan under the terms of which the Borrower is obliged to make monthly payments of interest due on both portions of the Loan and monthly payments of principal on one portion of the Loan only during the term of that Mortgage Loan (a “**Part and Part Mortgage Loan**”). The principal amount relating to the portion of the Loan in respect of which the Borrower is required to make monthly payments of interest only is repayable at maturity.

Of the mortgage loans in the Mortgage Portfolio, approximately 6.61 per cent. by Current Balance as at the Cut-Off Date are Repayment Mortgage Loans, approximately 93.24 per cent. by Current Balance as at the Cut-Off Date are Interest Only Mortgage Loans and approximately 0.15 per cent. by Current Balance as at the Cut-Off Date are Part and Part Mortgage Loans.

### **Early Repayment Charges**

The Borrower may be required to pay an early repayment charge (an “**Early Repayment Charge**”) if the loan agreement states that the Borrower is liable for Early Repayment Charges and the Originator has not waived or revised its policy with regards the payment of Early Repayment Charges.

Generally, an Early Repayment Charge is applicable to Fixed Rate Loans and not for Flexx Fixed Mortgage Loans.

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

### **Overpayments**

Overpayments are allowed on all products, although an Early Repayment Charge may be payable (as described in “*Early Repayment Charges*” above). Borrowers may either increase their regular monthly payments above the normal monthly payment then applicable or make lump sum payments at any time.

Since interest is calculated on a daily basis, if Borrowers pay more than the scheduled Monthly Payment, the balance on their Mortgage Loan will be reduced immediately. The Legal Title Holder will charge interest on the reduced balance, which reduces the amount of interest the Borrower must pay.

#### **Further Advances**

If a Borrower wishes to take out a further loan secured by the same mortgage the Borrower will need to make a further advance application and the Legal Title Holder (or the Servicer on its behalf) will use the lending criteria applicable to further advances at that time in determining whether to approve the application. The original mortgage deed is expressed to cover all amounts due under the relevant loan which would cover any Further Advances.

Some Mortgage Loans in the Mortgage Portfolio may have Further Advances made on them prior to their being sold to the Issuer on the Closing Date.

If a Mortgage Loan is subject to a Further Advance after being sold to the Issuer, the Beneficial Title Seller will be required to repurchase the Mortgage Loan and its Related Security from the Issuer at the Repurchase Price or make a cash payment to the Issuer equal to the amount of the Further Advance (less any deductions made pursuant to the Mortgage Sale Agreement), to the extent that the Issuer does not have sufficient funds from the Principal Ledger or from a drawing under the Class Z VFN to fund the purchase of such Further Advance (see *“Assignment of the Mortgage Loans and Related Security – Further Advances and Product Switches”*).

#### **Product Switches**

From time to time, Borrowers may request or the Legal Title Holder (or the Servicer on its behalf) may send an offer of a variation in the financial terms and conditions applicable to the Borrower's loan. In limited circumstances, if a Mortgage Loan is subject to a Product Switch as a result of a variation, then the Beneficial Title Seller may be required to repurchase the Mortgage Loan or Mortgage Loans and their Related Security from the Issuer or make a cash payment to the Issuer equal to the Repurchase Price of the relevant Mortgage Loan (see *“Assignment of the Mortgage Loans and Related Security – Further Advances and Product Switches”*).

#### **Lending Criteria**

On the Closing Date, the Beneficial Title Seller will represent that each Mortgage Loan being sold to the Issuer was originated according to the lending criteria applicable at the time the Mortgage Loan was offered (the **“Lending Criteria”**), in all material respects, subject only to exceptions made on a case-by-case basis as would be acceptable to a Prudent Mortgage Lender. Policy and risk appetite varies in line with a number of internal and external factors in particular expectations of the housing market and wider economy and the Legal Title Holder retains the right to revise their Lending Criteria from time to time, and so the criteria applicable to any Mortgage Loans which are the subject of a Further Advance or a Product Switch may not be the same as those currently used.

This section of the Prospectus reflects the lending criteria applied for originations as of the date of the Prospectus.

#### **Type of Property**

Properties may be either freehold or leasehold. In the case of leasehold properties, there must be a minimum of 70 years remaining on inception of the mortgage. The property must be let to a sole occupant, single family unit or a maximum of four adults. Properties must be of good quality, in sound structural condition and in a reasonable state of repair. The property should be suitable for immediate owner occupation or letting. A property is considered suitable for letting when the property is not in need of any essential repairs or refurbishment which would prevent it from being let in its current condition and its overall condition of repair and fittings is to a standard which would readily let in its current condition to the majority of potential tenants.



House boats, mobile homes, and any property on which buildings insurance cannot be arranged are not acceptable. All persons who are to be legal owners of the property on completion must be named as Borrowers under the Mortgage.

All properties have been valued by a valuer approved by the Originator to the standards of a Prudent Mortgage Lender.

### **Term of Loan**

The maximum term for residential loans is generally 35 years. A repayment period for a Further Advance or a Product Switch that would extend beyond the term of the original advance may in exceptional circumstances also be accepted at the Legal Title Holder's (or the Servicer on its behalf) discretion. However, Further Advances and Product Switches may only be sold to the Issuer subject to the Asset Conditions being met on the relevant Advance Date.

### **Details of applicant**

All Borrowers must be aged 18 or over, and they must be no more than 85 years old at the end of the mortgage term. Applicants must be no more than 75 years old at the date of application for purchases and remortgages and must not be first-time buyers.

The maximum number of applicants on any one residential mortgage application is 4.

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

Normally, the maximum original LTV ratio of Mortgage Loans in each expected portfolio would be 75% for buy-to-let loan amounts up to a maximum of £500,000 and 50% for buy-to-let loan amounts more than £500,000 and up to a maximum of £1,000,000. The maximum original LTV for a new build or converted apartment, flat or coach house is 50% and the maximum original LTV for a new build house is 75%. For these purposes, a new build is a property that has been built within three years of the mortgage application or is a property to be occupied for the first time. Where fees were added to the Mortgage Loan, they may have taken the total lending over the specified LTV limit.

### **Credit history**

The current policy is as follows:

#### *Credit search:*

A credit search is carried out in respect of all new applicants (and in relation to Further Advances to existing Borrowers) with a bureau of the Legal Title Holder's choice at a level of the Legal Title Holder's choice.

With certain limited exceptions approved by the Legal Title Holder acting as a Prudent Mortgage Lender (including loans to existing borrowers and investors), all applications must pass the Legal Title Holder's credit score test which will be carried out at the same time as the credit search. Applications may be declined where an adverse credit history is revealed (for example, certain unsatisfied or material (in quantum) county court judgements and bankruptcy notices).

### **Scorecard**

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

The Legal Title Holder reserves the right to decline an application that has received a passing score. The Legal Title Holder does have an appeals process if a potential borrower believes his or her application has

been unfairly denied. It is the Legal Title Holder's policy to allow only authorised individuals to exercise discretion in granting variances from the scorecard.

### **Changes to the underwriting policies and the Lending Criteria**

The Legal Title Holder's underwriting policies and Lending Criteria were and are subject to change within the Legal Title Holder's sole discretion. Mortgage Loans and Further Advances were and are originated by way of exception to the Lending Criteria where the Legal Title Holder determined that the exception would have been acceptable to a Prudent Mortgage Lender. Further Advances that are originated under Lending Criteria that are different from the criteria set out here may be sold to the Issuer.

### **Insurance Policies**

#### **Insurance on the Property**

Each Property is required to be insured with buildings insurance. The Property may be insured by the Legal Title Holder at the expense of the Borrower or, the insurance may be purchased by the Borrower or (in the case of leasehold property) by a landlord or by a property management company. If the Legal Title Holder becomes aware that no adequate insurance is in place, they have the power to arrange insurance on the Property and charge the premiums for this to the Borrower's mortgage account.

Subject as set out above, the Legal Title Holder only insures a Property once it has repossessed the Property from a defaulting Borrower. See "*Properties in possession cover*" below.

#### **Borrower-arranged buildings insurance**

The Legal Title Holder requires that a Borrower maintains home insurance for the duration of the mortgage and the Legal Title Holder checks that such insurance is in place at the time when the mortgage commences. The Legal Title Holder issues warnings on each annual statement to Borrowers that home insurance must be in place. The Legal Title Holder maintains a policy which indemnifies them for any losses incurred due to the failure of a Borrower to maintain home insurance.

#### **Properties in possession cover**

When a Property is taken into possession by the Legal Title Holder, the Legal Title Holder takes the necessary actions to ensure that the property is placed on to their block properties in possession insurance policy so that appropriate insurance cover is provided on the Property. The Legal Title Holder may claim under this policy for any damage occurring to the Property while in the Legal Title Holder's possession.

#### **Title and Search insurance**

Search insurance is obtained in some instances on remortgage cases, in these instances a solicitor does not undertake a local search. Local searches are undertaken on all new mortgages.

Title insurance is obtained in respect of certain limited title defects (e.g. restrictive covenants, absence of rights of way) from all solicitors on new mortgages and remortgages. An investigation of title is always undertaken and insurance obtained if an investigation of title has taken place and a defect discovered.

#### **Arrears policy**

The Servicer identifies a Mortgage Loan as being in arrears where an amount equal to or greater than a full month's contractual payment remains unpaid at the end of a calendar month. The Borrower will receive an initial arrears letter from the Legal Title Holder (or the Servicer on its behalf) following the end of the month.

The Legal Title Holder (or the Servicer on its behalf) will attempt to contact the Borrower initially by letter and then by telephone if such payments remain unpaid. The Servicer will upon establishing the Borrower's circumstances offer options specifically tailored to return the account to order, where possible. These options may include concessionary payment and repayment plans. A field agent may also be engaged as part of the

process. Where a satisfactory arrangement cannot be reached or maintained, possession proceedings may be instigated to enable the Legal Title Holder (or the Servicer on its behalf) to enforce the security.

#### **Interest Rate Setting for Mortgage Loans**

The applicable rate of interest accruing under each Mortgage Loan is referred to as the “**Mortgage Rate**”. The Mortgage Portfolio consists entirely of Fixed Rate Loans. If a Mortgage Loan is subject to a Product Switch, such Mortgage Loan may be exchanged into a Tracker Rate Loan, a Discretionary Rate Loan (including a Flexx Rate Loan), or a Fixed Rate Loan (including a Flexx Fixed Mortgage Loan), and the interest rate on such Mortgage Loan shall vary accordingly.

#### **Mortgage Payment Dates**

All Borrowers are obliged to make monthly payments of interest and, if applicable, principal as required by the conditions of the Mortgage Loans contained in the relevant Mortgage Conditions. The Mortgage Loans have payment dates throughout the month.

## CHARACTERISTICS OF THE MORTGAGE PORTFOLIO

The statistical and other information contained in this section has been compiled by reference to the Mortgage Portfolio of £350,863,998.55 as at the Cut-Off Date and is described further in the section entitled “*The Mortgage Portfolio and the Mortgage Loans - Introduction*”.

The information contained in this section has not been updated to reflect any decrease in the size of the Mortgage Portfolio from that of the Mortgage Portfolio.

Except as otherwise indicated, these tables have been prepared using the outstanding principal balance as at the Cut-Off Date. Columns may not add up to the total due to rounding.

As at the Cut-Off Date, the Mortgage Portfolio had the following characteristics:

### Summary Statistics

Cut-Off Date.....	31 May 2018
Portfolio Current Balance (£).....	350,863,998.55
Number of Loans.....	1,994
Number of Loan Parts.....	2,077
WA Seasoning (month).....	15.59
WA OLTV (%).....	61.13
WA Current Indexed LTV (%).....	60.75
WA Interest Rate (%).....	2.71
Largest Loan (Original Balance) (£).....	679,000.000
Largest Concentration.....	Greater London (51.5%)
WA Remaining term.....	241.21

### 1 Region

	Current Balance	Current Balance	Number of Loan Parts	Number of Loans
	(£)	(%)		(%)
Greater London	180,720,150.17	51.51	796	38.32
South East	67,756,701.81	19.31	428	20.61
East Anglia	41,907,681.87	11.94	275	13.24
South West	21,483,798.67	6.12	170	8.18
West Midlands	11,991,397.48	3.42	122	5.87
East Midlands	8,213,487.87	2.34	87	4.19
Yorks & Humber	5,750,535.76	1.64	63	3.03
North West	7,793,957.46	2.22	79	3.8
Wales	3,697,723.55	1.05	40	1.93
North East	1,548,563.91	0.44	17	0.82
<b>Total:</b>	<b>350,863,998.55</b>	<b>100</b>	<b>2,077</b>	<b>100</b>

## 2 Current Indexed LTV (%)

	Current Balance	Current Balance	Number of Loan Parts	Number of Loans
	(£)	(%)		(%)
0.01 to 10.00	0	0	0	0
10.01 to 20.00	515,303.42	0.15	7	0.34
20.01 to 30.00	3,186,750.87	0.91	32	1.54
30.01 to 40.00	13,976,727.67	3.98	96	4.62
40.01 to 50.00	42,910,334.98	12.23	231	11.12
50.01 to 60.00	102,612,889.37	29.25	566	27.25
60.01 to 70.00	140,252,422.23	39.97	812	39.09
70.01 to 80.00	47,409,570.01	13.51	333	16.03
80.01 to 90.00	0	0	0	0
90.01 to 100.00	0	0	0	0
<b>Total:</b>	<b>350,863,998.55</b>	<b>100</b>	<b>2,077</b>	<b>100</b>

## 3 Original LTV (%)

	Current Balance	Current Balance	Number of Loan Parts	Number of Loans
	(£)	(%)		(%)
0.01 to 10.00	0	0	0	0
10.01 to 20.00	434,978.64	0.12	6	0.29
20.01 to 30.00	2,104,098.54	0.60	21	1.01
30.01 to 40.00	11,293,892.28	3.22	74	3.56
40.01 to 50.00	31,502,869.05	8.98	167	8.04
50.01 to 60.00	86,563,570.85	24.67	437	21.04
60.01 to 70.00	154,455,969.95	44.02	922	44.39
70.01 to 80.00	64,508,619.24	18.39	450	21.67
80.01 to 90.00	0	0	0	0
90.01 to 100.00	0	0	0	0
<b>Total:</b>	<b>350,863,998.55</b>	<b>100</b>	<b>2,077</b>	<b>100</b>

#### 4 Current Loan Size

	<b>Current Balance</b>	<b>Current Balance</b>	<b>Number of Loan Parts</b>	<b>Number of Loans</b>
	(£)	(%)		(%)
<= 50,000	3,081,019.49	0.88	92	4.43
50,001 to 100,000	29,383,890.88	8.37	373	17.96
100,001 to 150,000	64,037,678.63	18.25	512	24.65
150,001 to 200,000	71,640,387.51	20.42	413	19.88
200,001 to 250,000	83,203,772.53	23.71	374	18.01
250,001 to 500,000	94,947,854.08	27.06	305	14.68
500,001 to 1,000,000	4,569,395.43	1.30	8	0.39
<b>Total:</b>	<b>350,863,998.55</b>	<b>100</b>	<b>2,077</b>	<b>100</b>

#### 5 Interest Rates (%)

	<b>Current Balance</b>	<b>Current Balance</b>	<b>Number of Loan Parts</b>	<b>Number of Loans</b>
	(£)	(%)		(%)
1.51 to 2.00	0	0	0	0
2.01 to 2.50	83,899,979.27	23.91	439	21.14
2.51 to 3.00	244,620,454.18	69.72	1,398	67.31
3.01 to 3.50	17,255,837.31	4.92	182	8.76
3.51 to 4.00	5,083,216.18	1.45	57	2.74
4.01 to 4.50	4,511.61	0	1	0.05
4.51 to 5.00	0	0	0	0
<b>Total:</b>	<b>350,863,998.55</b>	<b>100</b>	<b>2,077</b>	<b>100</b>

#### 6 Product Type

	<b>Current Balance</b>	<b>Current Balance</b>	<b>Number of Loan Parts</b>	<b>Number of Loans</b>
	(£)	(%)		(%)
Fixed	350,863,998.55	100	2,077	100
<b>Total:</b>	<b>350,863,998.55</b>	<b>100</b>	<b>2,077</b>	<b>100</b>

## 7 Months in Arrears

	Current Balance (£)	Current Balance (%)	Number of Loan Parts	Number of Loans (%)
<= 0.00	350,863,998.55	100	2,077	100
0.01 to 1.00	0	0	0	0
1.01 to 2.00	0	0	0	0
2.01 to 3.00	0	0	0	0
<b>Total:</b>	<b>350,863,998.55</b>	<b>100</b>	<b>2,077</b>	<b>100</b>

## 8 Origination Year

	Current Balance (£)	Current Balance (%)	Number of Loan Parts	Number of Loans (%)
2007	485,052.70	0.14	4	0.19
2008	125,477.15	0.04	2	0.10
2009	492,908.18	0.14	6	0.29
2010	654,811.63	0.19	7	0.34
2011	2,622,965.19	0.75	24	1.16
2012	5,311,010.55	1.51	49	2.36
2013	9,393,037.54	2.68	71	3.42
2014	7,537,681.24	2.15	42	2.02
2015	25,671,732.61	7.32	144	6.93
2016	1,054,907.07	0.30	13	0.63
2017	297,292,020.22	84.73	1,708	82.23
2018	222,394.47	0.06	7	0.34
<b>Total:.....</b>	<b>350,863,998.55</b>	<b>100</b>	<b>2,077</b>	<b>100</b>

## 9 Purpose

	Current Balance (£)	Current Balance (%)	Number of Loan Parts	Number of Loans (%)
Re-mortgage	278,555,453.02	79.39	1,588	76.46
Purchase	72,308,545.53	20.61	489	23.54
<b>Total:</b>	<b>350,863,998.55</b>	<b>100</b>	<b>2,077</b>	<b>100</b>

## 10 Repayment Method

	Current Balance	Current Balance	Number of Loan Parts	Number of Loans
	(£)	(%)		(%)
Interest Only	327,160,569.17	93.24	1,879	90.47
Repayment	23,175,834.51	6.61	195	9.39
Part and Part	527,594.87	0.15	3	0.14
<b>Total:</b>	<b>350,863,998.55</b>	<b>100</b>	<b>2,077</b>	<b>100</b>

## 11 Property Type

	Current Balance	Current Balance	Number of Loan Parts	Number of Loans
	(£)	(%)		(%)
Residential (Flat/Apartment)	127,866,626.80	36.44	702	33.8
Residential (House)	86,662,158.88	24.70	521	25.08
Residential (Terraced)	122,349,807.77	34.87	766	36.88
Other	13,985,405.10	3.99	88	4.24
<b>Total:</b>	<b>350,863,998.55</b>	<b>100</b>	<b>2,077</b>	<b>100</b>

## 12 Seasoning (Months)

	Current Balance	Current Balance	Number of Loan Parts	Number of Loans
	(£)	(%)		(%)
<= 0.00	9,999.97	0	1	0.05
0.00 to 1.00	108,956.49	0.03	2	0.10
1.01 to 2.00	68,440.06	0.02	2	0.10
2.01 to 3.00	21,000.82	0.01	1	0.05
3.01 to 4.00	13,997.13	0	1	0.05
4.01 to 5.00	4,649,726.07	1.33	27	1.30
5.01 to 6.00	21,925,563.78	6.25	117	5.63
6.01 to 7.00	30,050,410.39	8.56	180	8.67
7.01 to 8.00	34,962,476.25	9.96	202	9.73
8.01 to 9.00	47,827,798.34	13.63	293	14.11
9.01 to 10.00	65,768,635.88	18.74	392	18.87
10.01 to 11.00	36,148,633.04	10.30	217	10.45
11.01 to 12.00	24,653,530.02	7.03	124	5.97
12.01 to 24.00	32,004,192.73	9.12	166	7.99
24.01 to 36.00	11,863,248.63	3.38	72	3.47
36.01 to 48.00	20,606,822.40	5.87	108	5.20
48.01 to 60.00	6,305,316.20	1.80	51	2.46
60.01 >=	13,875,250.35	3.95	121	5.83



	Current Balance	Current Balance	Number of Loan Parts	Number of Loans
	(£)	(%)		(%)
<b>Total:</b>	<b>350,863,998.55</b>	<b>100</b>	<b>2,077</b>	<b>100</b>

### 13 Reversion Date

	Current Balance	Current Balance	Number of Loan Parts	Number of Loans
	(£)	(%)		(%)
19Q3	21,145.68	0.01	1	0.05
19Q4	25,929.94	0.01	1	0.05
20Q3	9,999.97	0	1	0.05
21Q3	51,214.76	0.01	2	0.10
21Q4	70,887.66	0.02	1	0.05
22Q4	84,560,927.44	24.10	432	20.8
23Q1	209,901,999.47	59.82	1,300	62.59
23Q2	55,879,008.92	15.93	330	15.89
23Q3	110,164.61	0.03	3	0.14
23Q4	232,720.10	0.07	6	0.29
<b>Total:</b>	<b>350,863,998.55</b>	<b>100</b>	<b>2,077</b>	<b>100</b>

### 14 Remaining Term (Months)

	Current Balance	Current Balance	Number of Loan Parts	Number of Loans
	(£)	(%)		(%)
<= 60.00	1,475,659.39	0.42	16	0.77
60.01 to 120.00	22,797,067.21	6.50	159	7.66
120.01 to 180.00	54,072,634.44	15.41	344	16.56
180.01 to 240.00	87,596,452.05	24.97	529	25.47
240.01 to 300.00	153,618,350.47	43.78	852	41.02
300.01 to 360.00	18,250,727.97	5.20	100	4.81
360.01 >=	13,053,107.02	3.72	77	3.71
<b>Total:</b>	<b>350,863,998.55</b>	<b>100</b>	<b>2,077</b>	<b>100</b>

## 15 Interest Coverage Ratio

	<b>Current Balance</b>	<b>Current Balance</b>	<b>Number of Loan Parts</b>	<b>Number of Loans</b>
	(£)	(%)		(%)
150.01 to 175.00	0	0	0	0
175.01 to 200.00	2,947,445.65	0.84	25	1.2
200.01 to 225.00	20,910,837.54	5.96	138	6.64
225.01 to 250.00	58,848,054.35	16.77	326	15.7
250.01 to 275.00	115,242,148.23	32.85	602	28.98
275.01 to 300.00	58,295,077.88	16.61	312	15.02
300.01 to 325.00	40,128,034.92	11.44	244	11.75
325.01 to 350.00	19,856,501.71	5.66	142	6.84
350.01 >=	34,635,898.27	9.87	288	13.87
<b>Total:</b>	<b>350,863,998.55</b>	<b>100</b>	<b>2,077</b>	<b>100</b>

## ASSIGNMENT OF THE MORTGAGE LOANS AND RELATED SECURITY

### Sale of Mortgage Loans and their Related Security

Under the mortgage sale agreement entered into between the Originator and the Beneficial Title Seller to be dated on or before the Closing Date, the “**Initial Mortgage Sale Agreement**” the Originator will sell to the Beneficial Title Seller the beneficial interest in each Mortgage Loan and its Related Security.

The Beneficial Title Seller will, on the Closing Date, sell and transfer to the Issuer by way of assignment its beneficial interest in each Mortgage Loan and its Related Security pursuant to the terms of the Mortgage Sale Agreement to be entered into between the Legal Title Holder, the Beneficial Title Seller, the Trustee and the Issuer. In addition, the Originator in its capacity as initial Legal Title Holder will undertake to hold the legal title held by it to each Mortgage Loan and its Related Security on the Closing Date on bare trust for the Issuer.

### Transfer of legal title under the Mortgage Sale Agreement

The sale to the Issuer of the Mortgage Loans and the Related Security under the Mortgage Sale Agreement will take effect in equity and transfer beneficial title only. As a result, legal title to the Mortgage Loans and their Related Security will remain with the Legal Title Holder until such time as certain additional steps have been taken including the giving of notices of the assignment to the Borrowers.

Under the Mortgage Sale Agreement, neither the Beneficial Title Seller nor the Issuer will require the execution and completion of any transfers in favour of the Issuer or the registration of any transfers or service of notice on Borrowers in order to effect the transfer of legal title to the Mortgage Loans and their Related Security, except in the limited circumstances described below.

### Perfection Events

Legal title will not be transferred by the Legal Title Holder to the Issuer until the occurrence of a Perfection Event (defined below) which is continuing. Under the Mortgage Sale Agreement, the Originator will transfer the legal title held by it to each Mortgage Loan and its Related Security to the Issuer or a person designated by the Issuer (the “**Replacement Legal Title Holder**”) on the 20<sup>th</sup> Business Day after the earliest to occur of the following events:

- (a) perfection being required by an order of court or by a change in law in each case occurring after the Signing Date or by a Regulatory Authority which has jurisdiction over the Legal Title Holder;
- (b) unless otherwise agreed with the Legal Title Holder, the replacement of Coventry Building Society as Servicer;
- (c) the date on which an Insolvency Event occurs with respect to the Legal Title Holder; or
- (d) the Legal Title Holder not exercising its Right of First Refusal (defined below),

such date, the “**Legal Title Transfer Date**”, and each of the events referred to in (a) to (d) above a “**Perfection Event**”.

On and from the Legal Title Transfer Date, the Replacement Legal Title Holder shall be the Legal Title Holder and shall hold legal title to the Mortgage Loans and their Related Security on bare trust for the Issuer.

For the purposes of this section, an “**Insolvency Event**” in respect of the Originator means:

- (a) an order is made or an effective resolution passed for the winding up of the Originator; or
- (b) the Originator ceases or threatens to cease to carry on the whole of 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(1)(a), (b), (c) or (d) of the Insolvency Act or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amounts of its liabilities (taking into account, for both these purposes, contingent and prospective liabilities) or otherwise becomes insolvent provided that in determining whether the Originator is insolvent under s.123(1)(a) £10,000,000 should be substituted for £750 set out therein;

- (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 Originator under any applicable liquidation, administration, reorganisation (other than a reorganisation where the Originator 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 the substantial part of the undertaking or assets of the Originator or the appointment of an administrator takes effect; or a distress, execution or diligence or other process is enforced upon the whole or the substantial part of the undertaking or assets of the Originator and in any of the foregoing cases it is not discharged within 20 Business Days; or
- (d) if the Originator 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.

Following a Perfection Event, notice shall be given to each Borrower or any other relevant person of the sale and transfer of that Borrower's Mortgage Loan and its Related Security to the Issuer or other entity as directed by the Issuer.

Within twenty-five (25) Business Days following perfection of the assignments, or transfers following a Perfection Event, the Legal Title Holder will do all of the acts, matters or things as the Issuer requires the Legal Title Holder to do, including providing a bulk transfer of Direct Debit Mandates or, if any consent of the Borrower is required providing details of the relevant Borrower and addresses and, in the case of all Borrowers who do not make payment by using Direct Debiting Scheme, ensuring that all Borrowers will be instructed to make all payments under the Mortgage Loans directly to any such bank account as the Issuer requires in order to give effect to the terms of the assignments, including without limitation completing all registration formalities.

The Issuer shall, as soon as reasonably practicable following receipt of notification to it, or its agents, of completion of the registration of the transfer of all of the relevant Mortgages and other acts required to perfect the transfer of the relevant Mortgage Loans and their Related Security, give notice thereof to the Legal Title Holder.

### **Right of First Refusal**

Where any Mortgage Loans are proposed to be sold by the Issuer in any of the following circumstances:

- (a) in connection with a dissolution, liquidation or winding up of the Issuer; or
- (b) in connection with any enforcement action taken by the Trustee,

the Issuer shall procure that the Legal Title Holder shall have a first right of refusal to purchase such Mortgage Loans (as a whole) at the prevailing market rate provided that in respect of a transfer pursuant to paragraph (a) above if the aggregate of the Current Balance of the Mortgage Loans proposed to be transferred exceeds 10 per cent. of the aggregate of the Current Balance of the Mortgage Portfolio then there shall be no obligation on the Issuer to procure that the Legal Title Holder have such a right of first refusal (the "**Right of First Refusal**").

If the Legal Title Holder fails to exercise its right to purchase all such Mortgage Loans within 45 days of receiving notice of the triggering of such right from the Issuer or the Trustee, the Issuer may sell the Mortgage Loans and their Related Security which had been the subject of the Right of First Refusal, pursuant to a Permitted Transfer.

### **Restrictions on Transfer of the Mortgage Loans**

The Mortgage Sale Agreement provides that prior to a Perfection Event, the Issuer may only transfer the Mortgage Loans and their Related Security in the Mortgage Portfolio pursuant to a Permitted Transfer. Further, subject to the Right of First Refusal and save as otherwise consented to by the Legal Title Holder or otherwise contemplated by the Mortgage Sale Agreement, the Issuer will ensure that any purchaser of the Mortgage Loans and their Related Security will agree and confirm, in favour of the Legal Title Holder and the Servicer, that:

- (a) it will only sell the Mortgage Loans and their Related Security pursuant to a Permitted Transfer;
- (b) following the making of a Further Advance by the Legal Title Holder and receipt by the Issuer from the Beneficial Title Seller of a notice setting out the details of the Further Advance and prior to the payment in full by the Issuer of the Further Advance Purchase Price, it will hold upon trust for the Legal Title Holder absolutely any amounts, property, interests, rights or benefits in relation to such Further Advance;
- (c) prior to a Perfection Event, it will not:
  - (I) submit or require the submission of any notice, form, request or application to, or pay any fee for the registration of, or the noting of any interest at the Land Charges Department of the Land Registry in relation to the Issuer's or Trustee's interests in the Mortgage Portfolio;
  - (II) give or require the giving of any notice to any Borrower or any other relevant person of the sale or transfer of that Borrower's Mortgage Loan and its Related Security to the Issuer;
  - (III) send or require to be sent to any solicitor who has acted on behalf of the Legal Title Holder in respect of any Mortgage with respect to which the Legal Title Holder has not received a complete set of the Title Deeds, a letter or other communication requiring such solicitor to hold such documents to the order of the Issuer or the Trustee (as the case may be);
  - (IV) take any other step or action analogous to those in paragraphs (I) to (III) above;
- (d) it will ensure that (i) prior to the occurrence of a Perfection Event it will not seek to set the SVR applicable to the Mortgage Loans or any other Discretionary Rate of the Legal Title Holder and (ii) following the occurrence of a Perfection Event it will ensure that the SVR and any Discretionary Rate are set in accordance with the Mortgage Conditions, applicable law and the standards of a Prudent Mortgage Lender;
- (e) it will enter into an agreement with Coventry Building Society to appoint Coventry Building Society as servicer in relation to the Mortgage Loans and their Related Security.

### **Other Provisions of the Mortgage Sale Agreement**

In addition to providing for the sale, transfer and assignment of the Mortgage Portfolio, the Mortgage Sale Agreement also sets out or provides for the following:

- (a) Beneficial Title Seller's Warranties and the Asset Warranties;
- (b) the provisions governing the repurchase of, or payments to be made to the Issuer in respect of, the relevant Mortgage Loan and Related Security in case of a breach of a warranty which has not been remedied within applicable grace periods;

- (c) the undertaking of the Beneficial Title Seller to retain a material net economic interest of not less than 5 per cent. in the securitisation in accordance with Article 405 of the CRR, Article 51 of the AIFMR, and Article 254 of the Solvency II Regulation; and
- (d) the circumstances for the transfer of legal title to the Mortgage Loans and their Related Security to the Issuer as described above.

### **Consideration**

The consideration payable by the Issuer to the Beneficial Title Seller for the Mortgage Portfolio on the Closing Date will consist of an amount of £350,863,998.55 together with Deferred Consideration payable by the Issuer to the Beneficial Title Seller. All amounts received on or prior to the Cut-off Date by the Beneficial Title Seller or, as applicable, the Originator shall be for its account.

### **Asset Warranties and Breach of Asset Warranties**

The Mortgage Sale Agreement contains the asset warranties given in relation to the Mortgage Loans and their Related Security by the Beneficial Title Seller (the “**Asset Warranties**”). No searches, enquiries or independent investigations have been or will be made by the Issuer or the Trustee, each of whom is relying upon the Asset Warranties.

If, upon the occurrence of a breach of an Asset Warranty under the Mortgage Sale Agreement in relation to a Mortgage Loan (including any Mortgage Loan subject to a Further Advance or a Product Switch), such breach is either not capable of remedy or, if capable of remedy, the Beneficial Title Seller has failed to remedy such breach within the applicable grace period starting from when the Issuer gives notice of such breach to the Beneficial Title Seller, the Beneficial Title Seller must either repurchase the relevant Mortgage Loan and its Related Security or make a cash payment to the Issuer.

The following are the Asset Warranties (or extracts or summaries of certain warranties) given in favour of the Issuer by the Beneficial Title Seller under the Mortgage Sale Agreement in relation to: (i) the Mortgage Loans and the Related Security, on the Closing Date; (ii) in relation to each Mortgage Loan which is subject to a Further Advance made by the Legal Title Holder, on the relevant Advance Date; and (iii) in relation to each Mortgage Loan which is subject to a Product Switch made by the Legal Title Holder, on the relevant Switch Date:

- (a) The particulars of each Mortgage Loan and its related Mortgage set out in the data tape provided by the Beneficial Title Seller to the Issuer on 31 May 2018 (the “**Data Tape**”) are complete, true and accurate in all material respects on the Cut-Off Date.
- (b) Prior to the making of each Initial Advance or Further Advance, each Mortgage Loan was originated by the Originator in accordance with the Originator’s then current lending criteria and all preconditions to the making of the Mortgage Loan were satisfied in all material respects, subject only to such exceptions and waivers as would be acceptable to a Prudent Mortgage Lender.
- (c) All of the Borrowers are individuals (and not partnerships) and were aged 18 years or older at the date they executed the relevant Mortgage.
- (d) The Legal Title Holder is not required to make any future further advances under any Mortgage Loan (such as with future reserve loans and retention loans).
- (e) At least one monthly payment due in respect of each Mortgage Loan has been paid by the relevant Borrower.
- (f) So far as the Beneficial Title Seller is aware, no Borrower is in breach of any obligation under a Mortgage Loan.

- (g) Each Mortgage Loan and its Related Security constitutes legal, valid, binding and enforceable obligations of the Borrower and are non-cancellable except that enforceability may be limited by (I) bankruptcy or insolvency of the Borrower and (II) the court's discretion in relation to the granting or enforcement of an Order for Possession or in relation to equitable or other discretionary remedies and no warranty is given (without prejudice to the general warranty as to the enforceability of the Mortgage Loan and Related Security itself) that any early repayment charges or default or administration fees or charges are legal, valid, binding or enforceable or that any individual terms of Mortgage Loans or Mortgages which are in substantially the same terms as the Standard Documentation are legal, valid, binding or enforceable.
- (h) The rate of interest under each Mortgage Loan is charged in accordance with the Standard Documentation, subject to the terms of any offer letter in relation thereto.
- (i) No agreement for a Mortgage Loan is wholly or partly regulated by the CCA or treated as such or, to the extent that it is so regulated or partly regulated or treated as such, the procedures and requirements under the CCA have been complied with in all material respects.
- (j) No agreement for a Mortgage Loan (whether alone or with any related agreement) constitutes an unfair relationship for the purposes of sections 140A to 140D of the CCA.
- (k) No Mortgage Loan is a Regulated Mortgage Contract.
- (l) 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 mortgage sale agreements, of the Mortgage Loans and their related Mortgages and other Related Security to be sold under the Mortgage Sale Agreement have been obtained or taken and there is no requirement in order for the transfer to be effective to obtain the consent of the Borrower before, on or after any equitable transfer or before any legal transfer of the Mortgage Loans and their related Mortgages and other Related Security and such transfer or disposal shall not give rise to any claim by the Borrower against the Purchaser, its lenders or any of their successors in title or assigns or assignees.
- (m) Subject in certain appropriate cases to the completion of an application for registration or recording at the Land Registry, the whole of the Current Balance on each Mortgage Loan and all future interest, fees, costs and expenses payable under or in respect of such Mortgage Loan is secured by a Mortgage or Mortgages over a residential Property and each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage or charge over the relevant Property.
- (n) The Borrower has good and marketable title to the relevant Property (subject to registration or recording of the title at the Land Registry) free from any encumbrance (except the Mortgage and any subsequent ranking mortgage or charge) which would materially adversely affect such title or the value of the Property for security purposes and, without limiting the foregoing, in the case of a leasehold or long lease Property:
  - (I) the lease cannot be forfeited on the bankruptcy of the tenant;
  - (II) any requisite consent of the landlord to or notice to the landlord of, the creation of the Related Security has been obtained or given; and
  - (III) a copy of any such requisite consent or notice has been or will be placed with the Title Deeds.
- (o) The Legal Title Holder has not agreed to waive any of its rights against any valuer, solicitor, licensed conveyancer or other professional who has provided information, carried out work or given advice in connection with any Mortgage Loan or Related Security.

- (p) Prior to the granting of each Mortgage, the Legal Title Holder received a Valuation Report on the relevant Property (or such other form of report as would be acceptable to a Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Prudent Mortgage Lender.
- (q) Prior to the making of each Mortgage (and other than in respect of a re-mortgage), the Legal Title Holder:
  - (I) instructed its solicitor or licensed conveyancer to carry out an investigation of title to the relevant Property and to undertake other searches, investigations, enquiries and other actions on behalf of the Legal Title Holder in accordance with the instructions which the Legal Title Holder issued to the relevant solicitor or licensed or qualified conveyancer as are set out in the CML's Lenders' Handbook for England and Wales or other comparable or successor instructions and/or guidelines as may for the time being be in place, subject only to those variations as would be acceptable to a Prudent Mortgage Lender; and
  - (II) received a Certificate of Title from the solicitor or licensed conveyancer relating to such Property, the contents of which were such as would be acceptable to a Prudent Mortgage Lender in order to proceed with the Mortgage Loan.
- (r) At origination, each Property was insured under:
  - (I) a buildings insurance policy arranged by the Borrower in accordance with the relevant Mortgage Conditions or under the buildings insurance policy arranged by the Legal Title Holder; or
  - (II) the case of a leasehold property or a commonhold property a buildings insurance policy arranged by the relevant landlord or property management company,

and since origination the Legal Title Holder has not received notice that any such property has since become uninsured.
- (s) All of the Properties are in England or Wales.
- (t) Save in relation to any matter which is no longer outstanding, as at the Closing Date, the Legal Title Holder has not received any written notice of any litigation or claim (including, without limitation, forfeiture proceedings) brought by a third party relating to any Property.
- (u) The Legal Title Holder (or the Servicer on its behalf) has not received notice of any litigation, claim, complaint or dispute (in each case, subsisting, pending or threatened) in relation to any Borrower, Property, Mortgage Loan or Related Security which is likely to have a material impact on the recoverability of sums payable under that Mortgage Loan.
- (v) Each Mortgage Loan and related Mortgage and other Related Security has been made on substantially the terms set out in 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, subject to:
  - (I) any product-specific or borrower-specific amendments or additions to the terms and conditions of any Loans including without limitation variations of interest rates, payment profiles and maturity dates;
  - (II) any modification or variation made pursuant to the Legal Title Holder's usual administration practices; and
  - (III) any variation made following regular legal and regulatory compliance review.
- (w) The Legal Title Holder has in relation to its period of ownership of a Mortgage Loan, kept or procured the keeping of such accounts, books and records as are necessary to show all material transactions,



payments, receipts and proceedings made during the period in which the relevant Mortgage Loan is outstanding in relation to that Mortgage Loan and its Related Security and all such accounts, books and records are in the possession or control or held to the order of the Legal Title Holder or its advisers or agents.

- (x) The Title Deeds and the Loan Files in respect of the Loans are currently in the Legal Title Holder's possession, or held to its order, save for those Title Deeds and Loan File held or being dealt with by the Legal Title Holder's advisers or agents.
- (y) The Legal Title Holder is the sole absolute unencumbered legal and beneficial owner of all property, interests, rights and benefits in relation to each Mortgage Loan and related Mortgage and other Related Security subject, in each case, only to the Mortgage Sale Agreement and the relevant Borrower's equity or right of redemption and any requisite application for registration of the relevant Mortgage at the Land Registry, but otherwise free from any security, encumbrance, lien or option over, or agreement for sale or other disposition, claims and equities (including, without limitation, rights of set-off or counterclaim and unregistered dispositions which override first registration and unregistered interests which override registered dispositions (as listed in Schedule 1 and Schedule 3 respectively to the Land Registration Act 2002)), and the Legal Title Holder is not in breach of any covenant or warranty implied by reason of its selling the Mortgage Portfolio with full title guarantee.
- (z) The Legal Title Holder has not knowingly waived or acquiesced in any breach of any of its rights in respect of a Mortgage Loan or its Related Security, other than waivers and acquiescence such as a Prudent Mortgage Lender might make on a case by case basis.
- (aa) No Mortgage Loan or its Related Security is subject to any right of rescission, set-off, lien, counterclaim or defence.
- (bb) No Borrower is an employee of the Legal Title Holder.
- (cc) No Mortgage Loan had an original LTV greater than 75% as at the Cut-Off Date in relation to such Mortgage Loan, disregarding for such purposes any fees which have been capitalised and added to the balance of the Mortgage Loan on or after origination.
- (dd) No Mortgage Loan has a maturity date falling later than three years before the Final Maturity Date.
- (ee) All steps necessary to perfect the Legal Title Holder'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.
- (ff) Godiva Mortgages Limited is the legal title holder in respect of the Mortgage Loans.
- (gg) All Mortgage Loans were at the time of origination, and are, denominated in Sterling.
- (hh) No steps have been taken by the Beneficial Title Seller to enforce any Related Security as a result of a breach of any obligation by a Borrower under a Mortgage Loan.
- (ii) The Mortgage Loans do not include Self-Certified Mortgage Loans or Equity Release Mortgage Loans.
- (jj) The Originator is not in breach of any of the requirements of the Mortgage Credit Directive Order 2015 in relation to any Mortgage Loan which is a consumer buy-to-let mortgage contract (as defined in the Mortgage Credit Directive Order 2015) where such breach would (i) render the consumer buy-to-let mortgage contract unenforceable or (ii) give a right to the borrower under such consumer buy-to-let mortgage contract to receive compensation from the Originator or any successor in title to that mortgage contract for such breach.

Where the Beneficial Title Seller has made a cash payment in relation to a Mortgage Loan due to a breach of Asset Warranty and/or Asset Condition, the Beneficial Title Seller shall not be required to repurchase (or make any further cash payment in respect of) the relevant Mortgage Loan due to a breach of any other Asset Warranty and/or Asset Condition in respect of such Mortgage Loan unless the initial relevant breach related to a Further Advance and the cash payment was limited to the amount of the Further Advance, in which case the repurchase (or cash payment) obligations under the Mortgage Sale Agreement shall continue to apply but without taking account of the relevant Further Advance for the purpose of determining any Further Advance Repurchase Price or Repurchase Price payable.

“**Certificate of Title**” means a solicitor's or licensed conveyancer's report or certificate of title obtained by or on behalf of the Originator in respect of each Property substantially in the form of the pro forma set out in the Standard Documentation;

“**Current Balance**” means:

- (a) in relation to a Mortgage Loan, on any date, the aggregate balance of that Mortgage Loan at such date (but avoiding double counting) including:
  - (I) the original amount advanced to the relevant Borrower and any further amount (including any Further Advance) advanced on or before the given date to the relevant Borrower secured or intended to be secured by the related Mortgage;
  - (II) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been properly capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent and added to the amounts secured or intended to be secured by the related Mortgage; and
  - (III) any other amount (including, for the avoidance of doubt, accrued interest and arrears of interest) which is due or accrued (whether or not due) and which has not been paid by the relevant Borrower and has not been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent but which is secured or intended to be secured by the related Mortgage,

in each case, as at the end of the Business Day immediately preceding that given date less any repayment or payment of any of the foregoing made on or before the end of the Business Day immediately preceding that given date and excluding any retentions made but not released and any Further Advances committed to be made but not made by the end of the Business Day immediately preceding that given date; and

- (b) in relation to the Mortgage Portfolio and on any day, the aggregate of the Current Balances in respect of the Mortgage Loans contained in that Mortgage Portfolio;

“**Direct Debiting Scheme**” means the scheme for the manual or automated debiting of bank accounts by direct debit operated in accordance with the detailed rules of certain members of the Association for Payment Clearing Services;

“**Discretionary Rate**” means the SVR and/or any other discretionary rates or margins applicable to any Discretionary Rate Loans;

“**Discretionary Rate Loans**” means loans which are subject to the Legal Title Holder's SVR or to other Discretionary Rates for the life of the mortgage loan (other than any Capped Rate Loans);

“**Equity Release Mortgage Loan**” means a residential mortgage loan where borrowers have monetised their properties for either a lump sum of cash or regular periodic income (e.g. as a retirement plan);

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

“**Further Advance**” means, in relation to a Mortgage Loan, any advance of further money to the relevant Borrower (including any commitment to fund any further amount which has not yet been advanced or any further amount advanced but not yet drawn) following the making of the Initial Advance, which is made on the same product type as the original Mortgage Loan and secured by the same Mortgage as the Initial Advance together with any fees capitalised in respect of such future advances, but does not include the amount of any retention advanced to the relevant Borrower as part of the Initial Advance after completion of the Mortgage;

“**Further Advance Purchase Price**” means an amount equal to the amount by which the Current Balance of the relevant Mortgage Loan is increased by the relevant Further Advance as of the relevant Advance Date to be paid by the Issuer to the Beneficial Title Seller provided that (A) to the extent that any fees payable by the Borrower to the Beneficial Title Seller in connection with the Further Advance are not capitalised, such fee shall be for the account of the Issuer or (B) to the extent capitalised the fee shall be included within the definition of Current Balance;

“**Indexed LTV**” means the ratio of the Current Balance of the relevant Mortgage Loan divided by the indexed valuation of the relevant Property based on the Nationwide House Price Index, from the date falling at the end of the quarter immediately following the date of the latest recorded valuation of the Property to the date falling at the end of the quarter immediately prior to the Cut-Off Date;

“**Initial Advance**” means all amounts advanced by the Legal Title Holder to a Borrower under a Mortgage Loan other than a Further Advance;

“**Interest Only Mortgage Loan**” means a Mortgage Loan in respect of which the Borrower shall, in accordance with the Mortgage Conditions, only be obliged to make interest payments during the term of the Mortgage Loan with no principal repayments due until the maturity date of such Mortgage Loan;

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

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

“**Moody's**” means Moody's Investors Service Limited;

“**Mortgage Offer**” means the offer letter sent to the relevant Borrower setting out details of the specific terms of the mortgage loan including, but not limited to, the interest rate term, repayment terms and product type;

“**Part and Part Mortgage Loan**” means a Mortgage Loan under the terms of which the Borrower is obliged to make monthly payments of interest due on both portions of the Loan and monthly payments of principal on one portion of the Loan only during the term of that Mortgage Loan;

“**Permitted Product Switch**” means a Product Switch where:

- (a) the relevant Borrower has made at least two Monthly Payments, in full, on its Mortgage Loan;
- (b) the new loan for which the prior Mortgage Loan is to be exchanged is either a Fixed Rate Loan (including a Flexx Fixed Mortgage Loan), a Discretionary Rate Loan, or a Tracker Rate Loan; and

- (c) on the Monthly Test Date immediately following the making of that Product Switch, each of the Asset Conditions are satisfied (other than paragraphs (g) and (m) of the Asset Conditions, which must be satisfied on the Monthly Test Date immediately following the Interest Payment Date immediately following the relevant Monthly Period);

“**Permitted Transfer**” means the assignment, assignation, transfer, novation or other disposal of any of the Mortgage Loans and Related Security (or the beneficial interest therein):

- (a) in connection with a dissolution, liquidation or winding up of the Issuer;
- (b) from the Issuer in respect of which the Beneficial Title Seller acts as a relevant purchaser or repurchaser as applicable;
- (c) in connection with any enforcement action taken by the Trustee; or
- (d) any other transfer, assignment, assignation, novation or other disposal with the prior written consent of the Legal Title Holder.

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

- (a) agreed with a Borrower to control or manage arrears on the Mortgage Loan;
- (b) in the maturity date of the Mortgage Loan;
- (c) imposed by statute;
- (d) in the rate of interest payable (a) as a result of any variation in SVR or other applicable Discretionary Rate or (b) where the terms of the Mortgage Loan change the rate of interest payable by a Borrower on termination of an interest discount for a fixed period of time;
- (e) in the frequency with which the interest payable in respect of the Mortgage Loan is charged;
- (f) agreed with the Borrower to change the Mortgage Loan from an Interest Only Mortgage Loan to a Repayment Loan;
- (g) agreed with the Borrower to change the Mortgage Loan from a Part and Part Mortgage Loan to a Repayment Loan; or
- (h) agreed with the Borrower to change the Mortgage Loan from an Interest Only Mortgage Loan to a Part and Part Mortgage Loan;

“**Prudent Mortgage Lender**” means a reasonably prudent residential mortgage lender lending to borrowers in England and Wales who generally satisfies the lending criteria of traditional sources of residential mortgage capital.

“**Regulatory Authority**” means the FCA or the PRA, as applicable, or any replacement thereto;

“**Repayment Mortgage Loan**” means a Mortgage Loan where the Borrower makes monthly payments of both interest and principal so that, when the Mortgage Loan matures, the full amount of the principal of the Mortgage Loan will have been repaid;

“**Self-Certified Mortgage Loan**” means 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;

“**Step-Up Date**” means the first Optional Redemption Date;

“**Switch Date**” means the day on which a Product Switch is made;

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

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

“**Valuation Report**” means the valuation report or reports for mortgage purposes obtained by the Legal Title Holder (or the Servicer on its behalf) from a valuer in respect of each Property or a valuation report in respect of a valuation made using a methodology which would be acceptable to a Prudent Mortgage Lender and which has been approved by the relevant officers of the Legal Title Holder (or the Servicer on its behalf);

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

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

**Further Advances:** The Issuer shall purchase Further Advances from the Legal Title Holder (through the Beneficial Title Seller) on the date that the relevant Further Advance is advanced to the relevant Borrower by the Legal Title Holder (the “**Advance Date**”). To the extent that the Servicer (on behalf of the Legal Title Holder) had not deducted the balance of the Further Advance Purchase Price from amounts received in respect of the Mortgage Portfolio which would otherwise have been paid to the Beneficial Title Seller, the Issuer will pay the Legal Title Holder (through the Beneficial Title Seller) the Further Advance Purchase Price on the Monthly Payment Date immediately following the Monthly Period in which the relevant Advance Date occurred by using amounts standing to the credit of the Principal Ledger.

Where the Issuer (or the Cash Manager on its behalf) determines that the aggregate of the amounts standing to the credit of the Principal Ledger would not be sufficient to fund such Further Advance Purchase Price, the Issuer will, prior to the Class Z VFN Commitment Termination Date, make a drawing under the Class Z VFN in an amount equal to the difference between (i) the aggregate of amounts standing to the credit of the Principal Ledger and (ii) the outstanding Further Advance Purchase Price and use such proceeds of the Class Z VFN to fund the purchase of Further Advances under the Mortgage Loans. If the Issuer is unable to fund the purchase of any Further Advance from funds standing to the credit of the Principal Ledger and the Class Z VFN Holder fails to advance an amount equal to such shortfall in the Further Advance Purchase Price to be paid on the Monthly Payment Date, or if the Further Advance occurs after the Step-Up Date then, unless the Beneficial Title Seller makes a cash payment to the Issuer equal to the amount of the Further Advance, the Issuer shall not complete the purchase of the relevant Further Advance and the Beneficial Title Seller must repurchase the related Mortgage Loan and its Related Security in accordance with the terms of the Mortgage Sale Agreement (see “*Repurchase by the Beneficial Title Seller*” below for more details).

If it is determined by the Servicer on the Monthly Test Date immediately following the Monthly Period in which the relevant Further Advance was made (other than paragraphs (g) and (m) of the Asset Conditions which shall be tested on the Monthly Test Date immediately following the Interest Payment Date immediately following the end of the relevant Monthly Period)] that any of the Asset Conditions have not been met as at the last day of the Monthly Period in which the relevant Further Advance was made (other than paragraph (g) and (m) of the Asset Conditions, which shall only need to be complied with on and from the Interest Payment Date immediately following the end of the calendar month in which the relevant Advance Date occurs) (or such breach was subsequently discovered in respect of such date) in respect of the Mortgage Loan subject to such Further Advance, then the Beneficial Title Seller will have an obligation to remedy such breach within 60 days after receiving written notice of such breach from the Servicer. If such breach is not capable of

remedy, or, if capable of remedy, is not remedied within the 60 day period on behalf of the Issuer, the Beneficial Title Seller has an obligation to either (x) make a cash payment equal to the amount of the Further Advance Repurchase Price or (y) repurchase such Mortgage Loan and its Related Security in accordance with the provisions of the Mortgage Sale Agreement (see “*Repurchase by the Beneficial Title Seller*” below for more details).

The Legal Title Holder (or the Servicer on its behalf) will be solely responsible for offering and documenting any Further Advance. Neither the Servicer nor the Legal Title Holder shall make an offer to a Borrower for a Further Advance if it would result in the Issuer arranging or advising in respect of, administering (servicing) or entering into a regulated mortgage contract or carrying on any credit related activity, as defined in the FCA Handback Glossary, or in each case agreeing to carry on any of these activities, if the Issuer would be required to be authorised under the FSMA to do so.

**Product Switches:** The Legal Title Holder (or the Servicer on behalf of the Legal Title Holder) may accept applications from, or offer a Borrower (and the Borrower may accept), a Product Switch. Any Mortgage Loan which has been subject to a Product Switch will remain in the Mortgage Portfolio provided that it continues to satisfy the Asset Conditions and it is a Permitted Product Switch. If the Servicer determines on the Monthly Test Date immediately following the Monthly Period in which the Product Switch was made (other than paragraphs (g) and (m) of the Asset Conditions, which shall be tested on the Monthly Test Date immediately following the Interest Payment Date immediately following the end of the relevant Monthly Period) that any of the relevant Asset Conditions have not been met as at the last day of the Monthly Period in which such Product Switch was made (other than paragraphs (g) and (m) of the Asset Conditions, which shall only need to be complied with on and from the Interest Payment Date immediately following the end of the calendar month in which the relevant Switch Date occurs) or the Product Switch was not a Permitted Product Switch as at the last day of the Monthly Period in which such Product Switch was made (or such breach was subsequently discovered in respect of such date) in respect of a Mortgage Loan which is the subject of a Product Switch and which remains in the Mortgage Portfolio, then the Beneficial Title Seller will at any time on or before the 45<sup>th</sup> Business Day after receiving written notice of such breach from the Servicer give a counter-notice in response . If such breach is not capable of remedy, or the Beneficial Title Seller gives a counter-notice but the breach is not remedied within 60 days, or, no counter-notice is given but the breach is not remedied within the 45 day period, the Beneficial Title Seller has an obligation to either (x) make a cash payment equal to the Repurchase Price or (y) repurchase such Mortgage Loan and its Related Security (see “*Repurchase by the Beneficial Title Seller*” below for more details).

The Legal Title Holder (or the Servicer on its behalf) will be solely responsible for offering and documenting any Product Switch. Neither the Servicer nor the Legal Title Holder shall make an offer to a Borrower for a Product Switch if it would result in the Issuer arranging or advising in respect of, administering (servicing) or entering into a regulated mortgage contract or carrying on any credit-related activity, as defined in the FCA Handbook Glossary, or in each case agreeing to carry on any of these activities, if the Issuer would be required to be authorised under the FSMA to do so.

“**Monthly Payment Date**” means the 15<sup>th</sup> Business Day of each calendar month;

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

“**Monthly Test Date**” means the 15<sup>th</sup> Business Day of each calendar month.

### **Repurchase by the Beneficial Title Seller**

As set out above and below, the Beneficial Title Seller shall either (x) make a cash payment equal to the Repurchase Price or, in relation to certain Further Advances, an amount equal to the Further Advance Repurchase Price or (y) repurchase the relevant Mortgage Loans and their Related Security in the following circumstances:

- (A) Breach of Asset Warranties on the Closing Date: If it is determined that a Mortgage Loan sold to the Issuer on the Closing Date had materially breached any of the Asset Warranties as at the Closing Date, and where such breach is either not capable of remedy or has not been remedied by the Beneficial Title Seller within 60 days of serving a counter-notice on the Issuer (following receipt by the Beneficial Title Seller of an initial notice of breach from the Issuer) under the Mortgage Sale Agreement, then the Issuer shall serve a notice on the Beneficial Title Seller (the “**Loan Repurchase Notice**”) requiring the Beneficial Title Seller to repurchase (or make a cash payment in relation to) such Mortgage Loan at the Repurchase Price on the Monthly Payment Date following receipt by the Beneficial Title Seller of such Loan Repurchase Notice;
- (B) Breach of Asset Warranties in respect of Mortgage Loans subject to an Further Advance or Product Switch: If it is determined that any of the Asset Warranties is materially untrue in the case of a Mortgage Loan in respect of which a Further Advance or Product Switch is made, as at the Advance Date for the relevant Further Advance or the Switch Date for the relevant Product Switch (as the case may be), and where such breach is either not capable of remedy or has not been remedied by the Beneficial Title Seller within 60 days of serving a counter-notice on the Issuer (following receipt by the Beneficial Title Seller of an initial notice of breach from the Issuer) under the Mortgage Sale Agreement, then the Issuer shall serve a Loan Repurchase Notice on the Beneficial Title Seller requiring the Beneficial Title Seller to repurchase the relevant Mortgage Loan and its Related Security or make a cash payment in relation to a Mortgage Loan subject to a Product Switch at the Repurchase Price (or, for a Mortgage Loan subject to a Further Advance, make a cash payment at the amount of the Further Advance Repurchase Price) on the Monthly Payment Date following the receipt by the Beneficial Title Seller of such Loan Repurchase Notice;
- (C) Insufficient Funds to fund Further Advances: If the Issuer is unable to fund the purchase of any Further Advance from funds standing to the credit of the Principal Ledger, the Class Z VFN Holder fails to advance an amount equal to such shortfall, and the Beneficial Title Seller does not make a cash payment to the Issuer in respect of such Mortgage Loan, then the Issuer shall serve a Loan Repurchase Notice on the Beneficial Title Seller requiring the Beneficial Title Seller to repurchase the relevant Mortgage Loan subject to a Further Advance its Related Security at the Repurchase Price (or make a cash payment at the amount of the Further Advance (less any amounts deducted pursuant to the Mortgage Sale Agreement)) on the Monthly Payment Date following the period in which such Further Advance was advanced; and
- (D) Breach of the Asset Conditions in respect of Mortgage Loans subject to a Further Advance and/or Product Switch: If it is determined that a Mortgage Loan subject to a Further Advance or Product Switch had not complied with the Asset Conditions on the relevant Monthly Test Date and where such breach is either not capable of remedy or has not been remedied by the Beneficial Title Seller within 60 days of serving a counter-notice on the Issuer (following receipt by the Beneficial Title Seller of an initial notice of breach from the Issuer) under the Mortgage Sale Agreement, then the Issuer shall serve a Loan Repurchase Notice on the Beneficial Title Seller requiring the Beneficial Title Seller to repurchase the relevant Mortgage Loan and its Related Security or make a cash payment in relation to a Mortgage Loan subject to a Product Switch at the Repurchase Price (or, for a Mortgage Loan subject to a Further Advance, make a cash payment at the amount of the Further Advance Repurchase Price) on the Monthly Payment Date following the receipt by the Beneficial Title Seller of such Loan Repurchase Notice.

### **Asset Conditions**

In order for any Mortgage Loan which has been the subject of a Further Advance or Product Switch to remain in the Mortgage Portfolio, the conditions below (the “**Asset Conditions**”) must be complied with as of the last day of the Monthly Period in which the relevant Switch Date or Advance Date occurred (other than

paragraphs (g) and (m) below, which shall only need to be complied with on and from the Interest Payment Date immediately following the end of the calendar month in which the relevant Switch Date or Advance Date occurs). The Asset Conditions will be tested on the Monthly Test Date immediately following the Monthly Period in which such sale of the Further Advance or Product Switch took place (other than paragraphs (g) and (m) below, which shall be tested on the Monthly Test Date immediately following the Interest Payment Date immediately following the end of the relevant Monthly Period).

If the Legal Title Holder (or the Servicer on its behalf) accepts an application from or makes an offer (which is accepted) to a Borrower for a Further Advance or a Product Switch and if any of the Asset Conditions are not satisfied as at the last day of the Monthly Period in which the relevant Advance Date and/or Switch Date occurred (other than paragraphs (g) and (m) below, which shall only need to be complied with on and from the Interest Payment Date immediately following the end of the calendar month in which the relevant Switch Date or Advance Date occurs), then the Mortgage Loan in respect of which the Further Advance or Product Switch occurred will be repurchased (or have a cash payment made) by the Beneficial Title Seller in accordance with the provisions of the Mortgage Sale Agreement (see “*Repurchase by the Beneficial Title Seller*” above for more details.)

The Asset Conditions are:

- (a) the Current Balance of the Mortgage Loans comprising the Mortgage Portfolio, in respect of which the aggregate amount in arrears is more than three times the Monthly Payment then due, is less than 3 per cent. of the aggregate Current Balance of the Mortgage Loans comprising the Mortgage Portfolio at that date;
- (b) the General Reserve Fund is at the General Reserve Fund Target Amount, or failing such condition, a drawing is made under the Class Z VFN in order to replenish the General Reserve Fund to the General Reserve Fund Target Amount;
- (c) the Cash Manager is not aware that the then current ratings of the Class A Notes then outstanding would be downgraded, withdrawn or qualified as a result of the relevant Further Advance and/or Product Switch remaining in the Mortgage Portfolio;
- (d) the Rating Agency Tests will not be breached as a result of the relevant Further Advance and/or Product Switch remaining in the Mortgage Portfolio (after taking into account any drawing under the Class Z VFN);
- (e) no Event of Default has occurred which is continuing;
- (f) if the making of a Product Switch would result in a New Loan Type being included in the Mortgage Portfolio and advance notice in writing of any such Mortgage Loans subject to a Product Switch remaining in the Mortgage Portfolio has been provided to Moody's and Fitch and there being no reduction, qualification or withdrawal by Moody's or Fitch of the then current ratings of the Class A Notes as a consequence thereof (provided that no response or action is required to be taken by Moody's or Fitch in response to such notification and provided further that should Moody's or Fitch not respond or take no action in response to such notification the Beneficial Title Seller shall be entitled to assume no reduction, qualification or withdrawal of the then current ratings of the Class A Notes shall occur by Moody's or Fitch as a result of such Product Switch);
- (g) the Interest Rate Swap Agreement, which complies with Moody's and Fitch's interest rate hedging criteria as at the date the Interest Rate Swap is entered into or amended, hedges or will on and from the Interest Payment Date immediately following the end of the calendar month in which the relevant Switch Date or Advance Date occurs hedge against the interest rates payable in respect of that Mortgage Loan (a) if it undergoes a Product Switch to another Fixed Rate Loan, until the end of the period on which the interest rate does not vary and is fixed in relation to that Fixed Rate Loan or (b) if it is subject to a Further Advance;



- (h) the Class A Principal Deficiency Sub-Ledger does not have a debit balance as at the most recent Interest Payment Date after applying all Available Revenue Funds on that Interest Payment Date;
- (i) the aggregate amount of all Further Advances (including the Further Advances made since the Closing Date) does not exceed 5 per cent. of the Current Balance of the Mortgage Loans comprised in the Mortgage Portfolio on the Closing Date;
- (j) the Advance Date or the Switch Date (as the case may be) falls before the Step-Up Date;
- (k) no Insolvency Event has occurred in relation to the Beneficial Title Seller;
- (l) each Mortgage Loan and its Related Security which is the subject of a Further Advance and/or Product Switch complies at the date of such Further Advance and/or Product Switch with the Asset Warranties;
- (m) where the relevant Mortgage Loan has a fixed rate of interest, the relevant fixed rate term (being the period in which the Mortgage Loan bears a fixed rate of interest) does not exceed 5 years and 9 months from the relevant Advance Date or Switch Date (as applicable); and
- (n) no Product Switch is such that a Mortgage Loan is exchanged for a Capped Rate Loan,

provided that, for item (c) above, the Cash Manager shall be not be required to take any action unless the Beneficial Title Seller has confirmed to the Cash Manager by the relevant Monthly Test Date that the Beneficial Title Seller is aware that the then current ratings of the Class A Notes then outstanding would be downgraded, withdrawn or qualified as a result of the relevant Further Advance and/or Product Switch remaining in the Mortgage Portfolio at that relevant Monthly Test Date (a “**Class A Note Rating Event**”) and unless the Servicer has received notice from the Cash Manager of a Class A Note Rating Event it may assume in relation to item (c) above that no Class A Note Rating Event has occurred or will occur.

Where the Beneficial Title Seller has made a cash payment in relation to a Mortgage Loan due to a breach of Asset Warranty and/or Asset Condition, the Beneficial Title Seller shall not be required to repurchase (or make any further cash payment in respect of) the relevant Mortgage Loan due to a breach of any other Asset Warranty and/or Asset Condition in respect of such Mortgage Loan unless the initial relevant breach related to a Further Advance and the cash payment was limited to the amount of the Further Advance, in which case the repurchase (or cash payment) obligations under the Mortgage Sale Agreement shall continue to apply but without taking account of the relevant Further Advance for the purpose of determining any Further Advance Repurchase Price or Repurchase Price payable.

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

“**Original Valuation**” means the property valuation at the time of the latest advance.

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

- (a) for Further Advances, the weighted average original LTV ratio (calculated by dividing Total Debt Advanced by the Original Valuation) of the Mortgage Loans in the Mortgage Portfolio does not exceed 75 per cent.; and
- (b) for Further Advances, the original LTV ratio (calculated by dividing Total Debt Advanced by Original Valuation) of each Mortgage Loan is less than 80 per cent.

“**Total Debt Advanced**” means the total amount of debt outstanding immediately following the last advance to the relevant Borrower.

### **Third Party Interest**

As a consequence of neither the Issuer nor the Trustee obtaining legal title to the Mortgages and not registering or recording their respective interest at the Land Registry a *bona fide* purchaser from the Legal Title Holder (or until such registration or recording of the title of the Legal Title Holder is complete, a *bona fide* purchaser from any previous owner of the Mortgage Loans) for value of any of such Mortgage Loans without notice of any of the interests of the Legal Title Holder (where registration or recording of the title of the Legal Title Holder to any Mortgages is incomplete), the Issuer or the Trustee might obtain a good title free of any such interest. Further, the rights of the Legal Title Holder, the Issuer and the Trustee may be or become subject to equities (for example, rights of set off as between the relevant Borrowers or insurance companies and the Legal Title Holder (or any previous owner of the Mortgage Loans)). However, the risk of third party claims obtaining priority to the interests of the Issuer or the Trustee would be likely to be limited to circumstances arising from a breach by the Legal Title Holder (or any previous owner of the Mortgage Loans) of its contractual obligations or fraud, negligence or mistake on the part of the Legal Title Holder (or any previous owner of the Mortgage Loans) or the Issuer or their respective personnel or agents.

### **Limited recourse**

The Issuer may not have any direct rights (under general law or in contract) against any solicitors or valuers who, when acting for the Legal Title Holder in relation to the origination of any Mortgage Loan, may have been negligent or fraudulent. However, and notwithstanding the absence of any such direct rights, the Legal Title Holder has, to the extent assignable, assigned its causes and rights of actions against third parties in respect of the Mortgage Loans to the Beneficial Title Seller, who in turn has assigned such causes and rights of actions to the Issuer pursuant to the Mortgage Sale Agreement.

### **Governing Law**

The Mortgage Sale Agreement and any non-contractual obligation arising out of or in connection to the Mortgage Sale Agreement will be governed by English law.

## SERVICING OF THE MORTGAGE PORTFOLIO

### The Servicer

The Servicer will be appointed by the Issuer and after the service of an Enforcement Notice the Trustee under the terms of the Servicing Agreement as their agent to service the Mortgage Loans.

The Servicer represents that it holds and will maintain, all appropriate notifications, licences and authorities (if any) required under the FSMA and Data Protection Legislation to enable it to perform its obligations under the Servicing Agreement.

The Servicer is required to administer the Mortgage Portfolio as the agent of the Issuer and after an Event of Default the Trustee under and in accordance with the terms of the Servicing Agreement. The duties of the Servicer include, *inter alia*:

- (a) setting the SVR or any other Discretionary Rates or margins in relation to the Mortgage Loans;
- (b) acting as collection agent for the Originator under the Direct Debiting Scheme;
- (c) taking all reasonable steps, in accordance with the usual procedures undertaken by a Prudent Mortgage Lender, to recover all sums due to the Issuer including, without limitation, the institution of proceedings and/or the enforcement of any Mortgage Loan sold by the Beneficial Title Seller comprised in the Mortgage Portfolio or its Related Security;
- (d) keeping records in relation to the Mortgage Loans and their Related Security for the purposes of identifying the loan, the amounts paid by each Borrower, any amount due from a Borrower and the Current Balance from time to time on a Borrower's account and such other records as would be kept by a Prudent Mortgage Lender;
- (e) notifying relevant Borrowers of any change in their Monthly Payments;
- (f) administering applications from Borrowers for Further Advances and Product Switches;
- (g) taking all reasonable steps to ensure safe custody of all title deeds and loan files in respect of the Mortgage Loans and their Related Security which are in its possession;
- (h) making claims under insurance contracts with respect to the Mortgage Loans;
- (i) providing a redemption statement upon the request of a relevant Borrower or the Borrower's solicitor, licensed conveyancer or qualified conveyancer or otherwise at the discretion of the Servicer;
- (j) notifying relevant Borrowers of any other matter or thing which the applicable Mortgage Conditions require them to be notified of in the manner and at the time required by the relevant Mortgage Conditions;
- (k) to use best efforts, together with the Back-Up Servicer Facilitator, to appoint a back-up servicer in accordance with the provisions of the Servicing Agreement;
- (l) provide such information to the Cash Manager in relation to the Mortgage Portfolio as may be necessary for the Cash Manager to perform its services, and to use reasonable endeavours to assist the Cash Manager in making any determinations pursuant to the Cash Management Agreement;
- (m) providing such other information to the Issuer as reasonably requested by the Issuer; and
- (n) notifying the Issuer of the amount (if any) that any Borrower has set off against their mortgage payments pursuant to the Mortgage Conditions.

The Servicer is entitled to delegate its functions under the Servicing Agreement subject to certain conditions. However, the Servicer remains liable for the performance of those functions (other than certain sub-

delegations, including any rights or functions (x) assigned to the Issuer at its request under the Servicing Agreement or (y)(i) not related to the custody or control of any Customer Files and/or Title Information Documents or (ii) involving the receipt by the sub-contractor or delegate of monies belonging to the Issuer) notwithstanding any such delegation.

The Servicer will receive a fee for its services under the Servicing Agreement payable on each Interest Payment Date. Such fee is payable in accordance with the relevant Payments Priorities. Furthermore, the Issuer shall, if certain conditions are met, pay to the Servicer on the first Interest Payment Date of each year, £50,000 as a fee for an annual audit of the Mortgage Loans and Related Security and any other ancillary requests made by the Beneficial Title Seller in accordance with the terms of the Servicing Agreement and the Mortgage Sale Agreement.

### **Back-Up Servicer Facilitator**

Under the Servicing Agreement in the event that (a) the counterparty risk assessment of the Servicer falls below Baa3(cr) by Moody's (or (i) such other lower risk assessment which is consistent with then current methodology of Moody's or (ii) such other lower risk assessment that the Cash Manager certifies in writing to the Trustee would not have an adverse effect on the ratings of the Class A Notes); (b) the long term unsecured, issuer default rating of the Servicer falls below BBB- by Fitch (or (i) such other lower risk assessment which is consistent with then current methodology of Fitch or (ii) such other lower risk assessment that the Cash Manager certifies in writing to the Trustee would not have an adverse effect on the ratings of the Class A Notes), the Issuer with the assistance of the Back-Up Servicer Facilitator shall, within 60 days, use best efforts to enter into a back-up servicing agreement with a back-up servicer with suitable experience and credentials in such form as the Issuer and the Trustee shall reasonably require, subject to, in accordance with and on substantially the same terms as the Servicing Agreement and the Back-up Servicer Facilitator shall use best efforts to identify, on behalf of the Issuer, a suitable back-up servicer or successor servicer, as applicable, in accordance with the terms of the Servicing Agreement.

The Cash Manager shall not be required to take any action or provide any certification in relation to the above in so far as it relates to a lower risk assessment unless the Beneficial Title Seller has confirmed to the Cash Manager that such lower risk assessment would not have an adverse effect on the ratings of the Class A Notes.

### **Provision of Borrower Details**

The Servicer shall, in the event that (a) the counterparty risk assessment of the Servicer falls below Baa3(cr) by Moody's (or (i) such other lower risk assessment which is consistent with then current methodology of Moody's or (ii) such other lower risk assessment that the Cash Manager certifies in writing to the Trustee would not have an adverse effect on the ratings of the Class A Notes) ("**Moody's Downgrade**") ; or (b) the long term unsecured, issuer default rating of the Servicer falls below BBB- by Fitch (or (i) such other lower risk assessment which is consistent with then current methodology of Fitch or (ii) such other lower risk assessment that the Cash Manager certifies in writing to the Trustee would not have an adverse effect on the ratings of the Class A Notes) ("**Fitch Downgrade**"), the Servicer (on behalf of the Legal Title Holder) shall deliver to the Issuer and the Trustee within 20 Business Days details of the names and addresses of the Borrowers with Mortgage Loans in the Mortgage Portfolio in a format to be agreed between the Servicer and the Issuer, together with a draft letter of notice to such Borrowers of the sale and assignment of those Mortgage Loans and the Related Security to the Issuer, and shall deliver an update of such information to the Issuer and the Trustee on a monthly basis thereafter.

The Cash Manager shall not be required to take any action or provide any certification in relation to the above in so far as it relates to a lower risk assessment unless the Beneficial Title Seller has confirmed to the Cash Manager that such lower risk assessment would not have an adverse effect on the ratings of the Class A Notes.

## Termination and Resignation of the Servicer

The occurrence of any of the following (subject to applicable grace periods for remedy and materiality thresholds) will constitute a “**Servicer Termination Event**”:

- (a) default by the Servicer in the payment of any payment due and payable under the Servicing Agreement;
- (b) default by the Servicer in the performance or observance of any of its other covenants and obligations under the Servicing Agreement, which default in the opinion of the Issuer is materially prejudicial to the interests of the Issuer;
- (c) the occurrence of an Insolvency Event in respect of the Servicer;
- (d) the occurrence of a Perfection Event in respect of the Legal Title Holder.

After the occurrence of a Servicer Termination Event, the appointment of the Servicer may, in each case, be terminated by the Issuer or, if the Trustee gives an Enforcement Notice in relation to the Notes, the Trustee (acting on the direction of an Extraordinary Resolution of the Most Senior Class of Notes outstanding or after the service of an Enforcement Notice).

Following a Servicer Termination Event, the Issuer shall (with the assistance of the Back-Up Servicer Facilitator) appoint a substitute servicer who holds all licences, approvals, authorisations, and consents required in connection with the provision of the Services, including without limitation any necessary notifications under the DPA and authorisations and permissions under the FSMA. The Issuer shall notify the Rating Agencies in writing of the identify of such substitute servicer.

“**Insolvency Event**” in respect of the Servicer means:

- (a) an order is made or an effective resolution passed for the winding up of the Servicer; or
- (b) the Servicer ceases or threatens to cease to carry on the whole of 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(1)(a), (b), (c) or (d) of the Insolvency Act 1986 or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amounts of its liabilities (taking into account, for both these purposes, contingent and prospective liabilities) or otherwise becomes insolvent provided that in determining whether the Servicer is insolvent under s.123(1)(a) £10,000,000 should be substituted for £750 set out therein; or
- (c) proceedings (including, but not limited to, presentation of an application for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) are initiated against the Servicer under any applicable liquidation, administration, reorganisation (other than a reorganisation where the Servicer 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 the substantial part of the undertaking or assets of the Servicer or the appointment of an administrator takes effect; or a distress, execution or diligence or other process is enforced upon the whole or the substantial part of the undertaking or assets of the Servicer and in any of the foregoing cases it is not discharged within 20 Business Days; or
- (d) if the Servicer 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;

Following a Fitch Downgrade or a Moody’s Downgrade, the Issuer with the assistance of the Back-Up Servicer Facilitator shall, within 60 days of such Moody’s Downgrade or Fitch Downgrade, use best efforts to

enter into a back-up servicing agreement with a back-up servicer with suitable experience and credentials in such form as the Issuer and the Trustee shall reasonably require, subject to, in accordance with and on substantially the same terms as the Servicing Agreement and the Back-up Servicer Facilitator shall use best efforts to identify, on behalf of the Issuer, a suitable back-up servicer or successor servicer, as applicable, in accordance with the terms of the Servicing Agreement.

The Cash Manager shall not be required to take any action or provide any certification in relation the above in so far as it relates to a lower risk assessment unless the Beneficial Title Seller has confirmed to the Cash Manager such lower risk assessment which would not have an adverse effect on the ratings of the Class A Notes.

Subject to the fulfilment of a number of conditions, the Servicer may voluntarily resign by giving not less than 12 months' written notice to the Issuer and the Trustee (or such shorter time as may be agreed between the Servicer, the Issuer and the Trustee) provided that a substitute servicer who holds all licences, approvals, authorisations, and consents required in connection with the provision of the Services (including without limitation any necessary notifications under Data Protection Legislation), qualified to act as such under the FSMA and the CCA and with a management team with experience of servicing residential mortgages in the United Kingdom has been appointed and enters into a servicing agreement with the Issuer substantially on the same terms as the Servicing Agreement. The resignation of the Servicer is conditional on the resignation having no adverse effect on the then current ratings of the Notes unless the Noteholders agree otherwise by Extraordinary Resolution.

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

The Trustee is not obliged to act as servicer in any circumstances.

### **Governing Law**

Each of the Servicing Agreement and any non-contractual obligation arising out of or in connection with the Servicing Agreement shall be governed by English law.

The registered office of the Servicer is located at Oak Tree Court, Binley Business Park, Harry Weston Road, Coventry, CV3 2UN.

## CASH MANAGEMENT

On the Closing Date, the Issuer will appoint Citibank, N.A., London Branch as the cash manager (the “**Cash Manager**”) to provide cash management services to the Issuer pursuant to a cash management agreement (the “**Cash Management Agreement**”).

### Cash Management Services

The primary obligation of the Cash Manager is to effect the transfer of monies between the relevant parties and accounts. The Cash Manager’s duties will include, but are not limited to:

- (a) determining no later than the Cash Manager Determination Date the amount of the Available Revenue Funds and the amount of the Available Principal Funds and the amounts to be paid in respect of each item in the Pre-Enforcement Payments Priorities on the next following Interest Payment Date;
- (b) applying Available Revenue Funds and Available Principal Funds in accordance with the order of payments set forth in the relevant Payments Priorities on each Interest Payment Date;
- (c) (on the occurrence of an Optional Portfolio Purchase) applying any amounts standing to the credit of the Revenue Ledger and Principal Ledger as at the Interest Payment Date in which the Optional Portfolio Purchase Completion Date occurred in accordance with the order of payments set forth in the relevant Payments Priorities on that Interest Payment Date (provided that no amount shall be applied in respect of any Principal Reallocation Amount);
- (d) maintaining the Principal Ledger, the Revenue Ledger, the Credit Ledger, the Liquidity Ledger, the Issuer Profit Ledger and the Principal Deficiency Ledger;
- (e) make payments of any Further Advance Purchase Price to the Legal Title Holder;
- (f) make a drawing under the Class Z VFN as required including, without limitation, any drawing required to fund any repurchases or Further Advance Purchase Price;
- (g) make any determinations and calculations in respect of the Reconciliation Amount, if necessary; and
- (h) preparing the monthly investor report in accordance with the Cash Management Agreement (the “**Monthly Investor Report**”).

The Monthly Investor Report will be published on [www.sf.citidirect.com](http://www.sf.citidirect.com) on the 13th Business Day of each calendar month. The loan level data report to be submitted to the Cash Manager will be in a format that is compliant with the relevant Bank of England collateral eligibility criteria.

### Collection Account

The Collection Account is held by the Servicer at the Collection Account Bank, to which Principal Receipts received from Borrowers (“**Principal Collections**”) and Revenue Receipts received from Borrowers (“**Revenue Collections**”) are directed.

The Collection Account is held with the Collection Account Bank which will, receive monies in respect of the Mortgage Loans as well as other loans serviced by the Servicer. The Servicer will be obliged to transfer the aggregate amounts received in the Collection Account on each day in respect of the Mortgage Loans into the Transaction Account within 1 Business Day.

In addition, Borrower Repayment Amounts will be paid out of the Collection Account to the relevant recipient on any Business Day.

“**Collection Account Bank**” means the bank at which the Servicer holds the Collection Account.

## Transaction Account

Pursuant to the Transaction Account Agreement, the Issuer will maintain the Transaction Account. The Issuer may, with the prior written consent of the Trustee, open additional or replacement bank accounts on terms as agreed between the parties from time to time.

Interest shall accrue on the daily credit balance of the Transaction Account at the Transaction Account Rate and shall be credited to the Transaction Account.

“**Transaction Account Rate**” means the rate of interest accruing on the balance standing to the credit of the Transaction Account from time to time.

## Eligible Investments

The Cash Manager may at the direction of the Issuer on any Business Day prior to the delivery of an Enforcement Notice on which the same are not otherwise required for making any payment due by the Issuer under the terms of the Transaction Documents, instruct the Transaction Account Bank to withdraw (or keep withdrawn) funds from the Transaction Account for the purpose only of investing those funds in Eligible Investments specified by the Issuer. The Cash Manager shall direct all income, principal, proceeds of sale, redemption, realisation or disposal or any other amounts received in respect of any Eligible Investments are returned prior to the next succeeding Calculation Date and credited to the Transaction Account.

For this purpose, “**Eligible Investments**” means:

- (a) Sterling gilt-edged securities;
- (b) money market funds that meet the European Securities and Markets Authority (ESMA) Short-Term Money Market Fund definition, set out in Guideline reference 10-049 of the Committee for European Securities Regulators;
- (c) Sterling demand or time deposits and certificates of deposit; and
- (d) short-term debt obligations (including commercial paper),

provided that in all cases such investments will only be made such that there is no withholding or deduction for or on account of taxes applicable thereto and such investments: (i) (aa) have a maturity date of 90 days or less and mature on or before the next following Calculation Date or within 90 days, whichever is sooner, and are rated at least F1+ (short term) and/or AA- (long term) by Fitch and at least P-1 (short term) and A1 (long term) by Moody's (or, as applicable, AAmmf by Fitch and Aaa –mf by Moody's, in respect of money market funds) or (bb) have a maturity date of 30 days or less and mature on or before the next Calculation Date or within 30 days, whichever is the sooner, and are rated at least F1 (short term) and A (long term) by Fitch and at least P-1 (short term) and A2 (long term) by Moody's (or, as applicable, AAmmf by Fitch and Aaa–mf by Moody's, in respect of money market funds and (ii) may be broken or demanded by the Issuer (at no cost to the Issuer) on or before the next following Calculation Date or within 30 to 90 days, whichever is sooner, as specified in (i) above, save that where such investments would result in the recharacterisation of the Notes or any transaction under the Transaction Documents as a "re-securitisation" or a "synthetic securitisation" as defined in Articles 4(63) and 242(11), respectively, of Regulation (EU) No 575/2013 (as amended and/or supplemented from time to time), such investments shall not qualify as authorised investments.

## Ledgers

The Cash Manager shall maintain the following ledgers in respect of amounts standing to the credit of the Transaction Account:

- (a) the Principal Ledger. Amounts credited to this ledger during a Calculation Period (such as Principal Receipts and Revenue Reallocation Amounts) will be available, *inter alia*, to pay Further Advance Purchase Price on any day and on the following Interest Payment Date for application in accordance with the Pre-Enforcement Principal Payments Priorities;



- (b) the Revenue Ledger. Amounts credited to this ledger during a Calculation Period (such as Revenue Receipts, Principal Reallocation Amounts and (following redemption of the Class A Notes) Residual Principal Allocation Amounts) will be available on the following Interest Payment Date for application in accordance with the Pre-Enforcement Revenue Payments Priorities;
- (c) the Issuer Profit Ledger. Amounts credited to this ledger on Interest Payment Dates will be applied in the satisfaction of the Issuer's income tax obligations and for payment to the shareholders of the Issuer by way of dividend;
- (d) the Liquidity Ledger. Amounts standing to the credit of this ledger may be credited to the Revenue Ledger for application on an Interest Payment Date towards the payment of the amounts referred to in items (a), (b), (c), (d), (e) and (f) of the Pre-Enforcement Revenue Payments Priorities;
- (e) the Credit Ledger. Amounts standing to the credit of this ledger may be credited to the Revenue Ledger for application on an Interest Payment Date towards the payment of the amounts referred to in items (a), (b), (c), (d), (e), (f), (g) and (h) of the Pre-Enforcement Revenue Payments Priorities.

A further ledger, the Principal Deficiency Ledger, will be maintained by the Cash Manager. That ledger does not relate to amounts standing to the credit of the Transaction Account but rather records (i) amounts of Principal Loss and Principal Reallocation Amounts (which are debited to the Principal Deficiency Ledger) and (ii) amounts transferred from the Revenue Ledger to the Principal Ledger comprising a Revenue Reallocation Amount (which are credited to the Principal Deficiency Ledger).

#### **Ratings of the Transaction Account Bank**

If at any time the Transaction Account Bank ceases to be an Eligible Institution, the Transaction Account Bank shall, within 10 calendar days of becoming aware of such circumstance, give notice of such event to the Issuer (who will give notice to the Noteholders) and the Trustee. The Transaction Account Bank shall use commercially reasonable efforts to assist the Issuer in identifying a replacement transaction account bank which is an Eligible Institution but if it is unable to identify such a replacement within such time period, the Transaction Account Bank shall have no liability or further obligation to any person.

The Issuer shall, within 30 calendar days from the date on which the Transaction Account Bank has ceased to be an Eligible Institution, use all reasonable endeavours to replace the Transaction Account Bank with an entity which is an Eligible Institution and, as a result, procure that the Transaction Account Bank transfers the amounts standing to the credit of the Transaction Account to that entity and procure that such entity establishes arrangements substantially similar to those contained in the Transaction Account Agreement. The Transaction Account Bank shall provide the Issuer with any assistance reasonably requested of it in order to effect such a transfer of banking arrangements. A failure on the part of the Issuer to procure such a transfer, having used all reasonable endeavours to do so, shall not constitute an Event of Default under Condition 12.1.2.

**"Eligible Institution"** means, in respect of the Transaction Account Bank, any depository institution with the Account Bank Required Rating.

**"Account Bank Required Rating"** means:

- (A) in respect of Moody's, at least Baa3; and
- (B) in respect of Fitch, a long-term issuer default rating of at least A or a short-term issuer default rating of at least F1,

or, in each case, such other rating or ratings as would maintain the then current rating of the Class A Notes.

### **Back-Up Cash Manager Facilitator**

Under the Cash Management Agreement in the event that the counterparty risk assessment of the Cash Manager falls below Baa3(cr) by Moody's (or (i) such other lower risk assessment which is consistent with then current methodology of Moody's; or (ii) such other lower risk assessment that the Cash Manager certifies in writing to the Trustee would not have an adverse effect on the ratings of the Class A Notes), the Issuer with the assistance of the Back-Up Cash Manager Facilitator shall, within 60 days, use best efforts to enter into a back-up cash management agreement with a back-up cash manager with suitable experience and credentials in such form as the Issuer and the Trustee shall reasonably require, subject to, in accordance with and on substantially the same terms as the Cash Management Agreement and the Back-up Cash Manager Facilitator shall use best efforts to identify, on behalf of the Issuer, a suitable back-up cash manager or successor cash manager, as applicable, in accordance with the terms of the Cash Management Agreement.

The Cash Manager shall not be required to take any action or provide any certification in relation to the above in so far that as it relates to a lower risk assessment unless the Beneficial Title Seller has confirmed to the Cash Manager that such lower risk assessment would not have an adverse effect on the ratings of the Class A Notes.

### **Remuneration of Cash Manager**

The Cash Manager will be paid at a rate as agreed between the Cash Manager and the Issuer from time to time.

### **Resignation of Cash Manager**

The Cash Manager may resign only on giving not less than 90 days' notice in writing to the Trustee and the Issuer (with a copy to the Transaction Account Bank) provided that (i) a successor cash manager has been appointed and a new cash management agreement is entered into on substantially the same terms as the Cash Management Agreement or on such terms as are satisfactory to the Trustee and the Issuer and (ii) the Rating Agencies have been notified in writing of such resignation and appointment and have indicated that such appointment would not result in the downgrade of the Notes (provided that no such indication shall be required from any Rating Agency where such Rating Agency confirms it does not provide such indications).

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

The Issuer may, with the written consent of the Trustee, or following the delivery of an Enforcement Notice the Trustee may itself upon written notice to the Cash Manager with a copy to the Transaction Account Bank, the Issuer and the Trustee (as applicable), terminate the Cash Manager's rights and obligations immediately if any of the following events occur:

- (a) default is made by the Cash Manager in ensuring the payment on the due date of any payment required to be made under the Cash Management Agreement and such default continues unremedied for a period of three Business Days;
- (b) any representation or warranty made by the Cash Manager under the Cash Management Agreement or in any certificate, report or other notice delivered pursuant hereto shall prove to be false, misleading, incomplete or untrue, in any case in any material respect as of the date on which such representation or warranty is made or deemed to be made provided that, where such representation or warranty is remediable, it has not been remedied within 10 calendar days of the breach;
- (c) other than as set out in paragraph (a) above, any breach of any covenant, term, agreement or condition herein by the Cash Manager shall continue un-remedied for a period of (in the case of a monetary breach) three Business Days or (in the case of a non-monetary breach) 30 calendar days after written notice of such breach has been given to the Cash Manager;

- (d) any material provision in the Cash Management Agreement, shall cease, for any reason, to be in full force and effect, or the Cash Manager shall so assert in writing or shall otherwise seek to terminate or disaffirm its material obligations;
- (e) at any time after the service of an Enforcement Notice, the Trustee determines that termination of the Cash Manager's appointment under the Cash Management Agreement is prudent to protect the interests of the Secured Creditors;
- (f) it is or will become unlawful for the Cash Manager to perform any of its obligations under the Cash Management Agreement; or
- (g) any insolvency event occurs, and is continuing, in relation to the Cash Manager.

Upon termination of the appointment of the Cash Manager, the Issuer will use its reasonable endeavours to appoint a substitute cash manager (and give notice of such appointment to the Rating Agencies). Any such substitute cash manager will be required to enter into an agreement on substantially the same terms as the Cash Management Agreement or on such terms as are satisfactory to the Trustee and the Issuer.

If the appointment of the Cash Manager is terminated or the Cash Manager resigns, the Cash Manager must deliver its records and books of account relating to the Notes to the substitute cash manager or at the direction of the Issuer. The Cash Management Agreement will terminate automatically on the Interest Payment Date following the realisation of Charged Property.

### **Governing Law**

The Cash Management Agreement and any non-contractual obligations arising out of or in relation to the Cash Management Agreement will be governed by English law.

### **Interest Rate Swap Agreement**

For a description of the Interest Rate Swap Agreement, see "*Credit Enhancement and Liquidity Support*".

## CASHFLOWS

### Payments on Business Days other than Interest Payment Dates

On each Business Day during a Calculation Period (other than an Interest Payment Date) prior to delivery of an Enforcement Notice, the Cash Manager shall, on behalf of the Issuer, effect payment from monies in the Transaction Account and recorded in the Revenue Ledger of the amounts due and payable by the Issuer on such Business Day in relation to the following matters in the amounts required (provided that payments to be made from and including a Cash Manager Determination Date to and including the following Interest Payment Date shall only be made from amounts paid into the Transaction Account during the Calculation Period in which that payment falls and in the case of payments to be made pursuant to paragraphs (a) and (d) below, to the extent the Cash Manager has been notified of the proposed payment of such amounts by the Servicer) (but in no order of priority):

- (a) any amount payable by the Issuer (a) to a Borrower under the terms of the Mortgage Conditions or by operation of law including (without limitation) amounts overpaid by a Borrower or proceeds of enforcement which exceed the amounts outstanding in respect of the Mortgage Loan (but subject to any right to refuse or withhold payment of such amount or any right of set off that has arisen by reason of such Borrower's breach of the terms of such Mortgage Conditions) or (b) to any other person in respect of a payment relating to a Mortgage Loan which has not been accepted by the Legal Title Holder or the Servicer (a "**Borrower Repayment Amount**") of a revenue nature, to be paid into the Collection Account;
- (b) any tax payment and any amount due in respect of VAT at the rate applicable from time to time;
- (c) any Third Party Expenses; and
- (d) any amount necessary to be paid to the Collection Account to remedy an overdraft in relation to the Collection Account caused by a payment from the Collection Account by the Collection Account Bank to satisfy any of its obligations and/or liabilities properly incurred under the Direct Debiting Scheme or in respect of other unpaid sums (including but not limited to cheques and payment reversals) in each case relating to Borrowers under the Mortgage Loans, or to pay any amounts due or owing to the Collection Account Bank.

On each Business Day during a Calculation Period (other than an Interest Payment Date) prior to delivery of an Enforcement Notice, the Cash Manager shall, on behalf of the Issuer, effect payment from monies in the Transaction Account and recorded in the Principal Ledger of the amounts due and payable by the Issuer on such Business Day in relation to the following matters in the amounts required (provided that payments to be made from and including a Cash Manager Determination Date to and including the following Interest Payment Date shall only be made from amounts paid into the Transaction Account during the Calculation Period in which that payment falls and provided that the Cash Manager has been notified of the proposed payment of such amounts by the Issuer or the Servicer) (but in no order of priority):

- (a) any Borrower Repayment Amount of a principal nature to be paid to the Collection Account;
- (b) the purchase price for the Mortgage Loans payable to the Beneficial Title Seller on the Closing Date; and
- (c) any Further Advance Purchase Price,

provided that if on any Business Day (other than an Interest Payment Date) amounts are to be paid in respect of item (c), such amounts shall be paid (i) out of any remaining monies after items (a) and (b) have been paid and (ii) thereafter, any amounts advanced under Class Z VFN to fund such amounts.

“**Direct Debit Mandate**” means a mandate from a Borrower to the Legal Title Holder authorising payments to be made by the relevant Borrower to the Legal Title Holder by way of the Direct Debiting Scheme; and

“**Direct Debiting Scheme**” means the system for the manual or automated debiting of bank accounts by direct debit operated in accordance with the principal rules of certain members of the Association for Payment Clearing Services.

### **Pre-Enforcement Revenue Payments Priorities**

Prior to the service of an Enforcement Notice by the Trustee to the Issuer, the Cash Manager (on behalf of the Issuer) shall, on each Interest Payment Date, apply Available Revenue Funds in the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full) (the “**Pre-Enforcement Revenue Payments Priorities**”):

- (a) in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of the Trustee Liabilities and the Trustee Fees;
- (b) in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any Agents’ Liabilities;
  - (ii) the Agents’ Fees;
  - (iii) any Servicer Liabilities;
  - (iv) the Servicing Fees;
  - (v) any Back-Up Servicer Facilitator Liabilities;
  - (vi) any Back-Up Servicer Facilitator Fees;
  - (vii) any Cash Manager Liabilities;
  - (viii) the Cash Manager Fees;
  - (ix) any Back-Up Cash Manager Facilitator Fees;
  - (x) any Back-Up Cash Manager Facilitator Liabilities;
  - (xi) the Transaction Account Bank Fees;
  - (xii) any Swap Collateral Account Bank Fees;
  - (xiii) any Corporate Services Provider Liabilities; and
  - (xiv) the Corporate Services Provider Fees;
- (c) to the extent such amounts have not already been paid in accordance with Paragraph 13 (*Payments from Revenue Ledger on any Business Day*) of Part 3 of Schedule 1 to the Cash Management Agreement, in or towards satisfaction of any Third Party Expenses and any amounts required to pay or discharge any liability of the Issuer to corporation tax (which cannot be met out of amounts retained previously by the Issuer as profit under item (d) below);
- (d) to credit an amount to the Issuer Profit Ledger up to an amount for the relevant accounting year of the Issuer equal to the Required Profit Amount for that accounting year;
- (e) in or towards payments of any amounts due but unpaid under the Interest Rate Swap Agreement (excluding an Interest Rate Swap Excluded Termination Amount) including any termination payment due and payable by the Issuer to the extent it is not satisfied by the payment by the Issuer to the Interest Rate Swap Provider of any Replacement Swap Premium or amounts standing to the credit of

any Swap Collateral Account (if applicable) but excluding, if applicable, any related Interest Rate Swap Excluded Termination Amount;

- (f) in or towards payments of amounts of interest due and payable in respect of the Class A Notes;
- (g) prior to the redemption of the Class A Notes in full or, if earlier, an Optional Portfolio Purchase, to credit the Liquidity Ledger in an amount necessary to bring the credit balance of the Liquidity Ledger up to the Liquidity Ledger Required Amount;
- (h) to record a credit entry in the Class A Principal Deficiency Sub-Ledger in an amount equal to the Class A Revenue Reallocation Amount (if any) determined as at the related Calculation Date and to record a credit entry of such amount in the Principal Ledger;
- (i) prior to the redemption of the Class A Notes in full or, if earlier, an Optional Portfolio Purchase, to credit the Credit Ledger in an amount necessary to bring the credit balance of the Credit Ledger up to the Credit Ledger Required Amount such that the credit balance of the General Reserve Fund equals the General Reserve Fund Target Amount;
- (j) to record a credit entry in the Class Z Principal Deficiency Sub-Ledger in an amount equal to the Class Z Revenue Reallocation Amount (if any) determined as at the related Calculation Date and to record a credit entry of such amount in the Principal Ledger;
- (k) (so long as any Class A Notes will remain outstanding following such Interest Payment Date), if such Interest Payment Date falls directly after a Determination Period, then the excess (if any) to the Transaction Account to be applied as Available Revenue Funds on the next following Interest Payment Date;
- (l) in or towards payments of amounts of interest due and payable in respect of the Class Z VFN (including any Deferred Interest and Additional Interest thereon);
- (m) in payment to the Interest Rate Swap Provider of any Interest Rate Swap Excluded Termination Amounts due but unpaid under the Interest Rate Swap Agreement; and
- (n) to pay Deferred Consideration due and payable under the Mortgage Sale Agreement to the Beneficial Title Seller.

For the avoidance of doubt, when applying Available Revenue Funds in the Pre-Enforcement Revenue Payments Priorities on any Interest Payment Date:

- (a) an amount equal to the General Reserve Drawing comprised in the Available Revenue Funds on such Interest Payment Date shall only be applied, prior to any Liquidity Reserve Drawing and Principal Reallocation Amounts on such Interest Payment Date, to pay items (a) to (h) of the Pre-Enforcement Revenue Payments Priorities;
- (b) an amount equal to the Liquidity Reserve Drawing comprised in the Available Revenue Funds on such Interest Payment Date shall only be applied, after the application of any General Reserve Drawing but without taking into account any Principal Reallocation Amounts on such Interest Payment Date, to pay items (a) to (f) of the Pre-Enforcement Revenue Payments Priorities; and
- (c) an amount equal to the Principal Reallocation Amount comprised in the Available Revenue Funds on such Interest Payment Date shall be applied after all other Available Revenue Funds have been applied and shall only be applied to pay items (a) to (f) of the Pre-Enforcement Revenue Payments Priorities.

**“Agents’ Fees”** means the fees payable to the Principal Paying Agent for the account of the Paying Agents, the Agent Bank and the Class Z VFN Registrar in accordance with the terms of the Agency Agreement.

**“Agents’ Liabilities”** means any Liabilities due and payable by the Issuer to the Agents in accordance with the terms of the Agency Agreement, in each case together with interest as provided in the Agency Agreement.

“**Available Revenue Funds**” means, in relation to a Calculation Period, the aggregate of:

- (a) Revenue Receipts (including any Revenue Collections paid by the Beneficial Title Seller into the Transaction Account pursuant to the Mortgage Sale Agreement) received during the immediately preceding Calculation Period, or, if in a Determination Period, Calculated Revenue Funds, in each case, excluding an amount equal to any Reconciliation Amounts to be applied as Available Principal Funds on that Interest Payment Date;
- (b) amounts received by the Issuer under the Interest Rate Swap Agreement (other than (i) any early termination amount received by the Issuer under the Interest Rate Swap Agreement to the extent it is to be applied in acquiring a replacement swap, (ii) Excess Swap Collateral, (iii) Swap Collateral, except to the extent that the value of such Swap Collateral has been applied, pursuant to the provisions of the Interest Rate Swap Agreement, to reduce the amount that would otherwise be payable by the Interest Rate Swap Provider to the Issuer on early termination of the Interest Rate Swap under the Interest Rate Swap Agreement and, to the extent so applied in reduction of the amount otherwise payable by the Interest Rate Swap Provider, such Swap Collateral is not to be applied in acquiring a replacement swap in which case such amounts will be included in Available Revenue Funds), (iv) any Replacement Swap Premium but only to the extent applied directly to pay any termination payment due and payable by the Issuer to the Interest Rate Swap Provider and (v) amounts in respect of Swap Tax Credits);
- (c) (prior to the occurrence of an Optional Portfolio Purchase) the Principal Reallocation Amount (if any) to be recorded as a credit entry on the Revenue Ledger on the Interest Payment Date following such Calculation Period;
- (d) (prior to the occurrence of an Optional Portfolio Purchase) General Reserve Drawings to be recorded as a credit entry on the Revenue Ledger on the Interest Payment Date following such Calculation Period;
- (e) (prior to the occurrence of an Optional Portfolio Purchase) Liquidity Reserve Drawings to be recorded as a credit entry on the Revenue Ledger on the Interest Payment Date following such Calculation Period;
- (f) (upon the redemption in full of the Class A Notes prior to the occurrence of an Optional Portfolio Purchase) all amounts standing to the credit of the General Reserve Fund;
- (g) any interest earned during such Calculation Period on amounts in the Transaction Account and credited to such account;
- (h) (upon the redemption in full of the Class A Notes) any amount transferred from the Principal Ledger in respect of Residual Principal Allocation Amounts; and
- (i) in relation to a Determination Period, any Reconciliation Amounts deemed to be Available Revenue Funds in accordance with Condition 7.11 (*Determinations and Reconciliation*),

plus any amounts which the Cash Manager may have credited to the Revenue Ledger during that Calculation Period pursuant to Paragraphs 10.2 (*Deductions from Liquidity Ledger*) and 11.2 (*Deductions from Credit Ledger*) of Part 2 of Schedule 1 to the Cash Management Agreement,

less any amounts which the Cash Manager may have debited to the Revenue Ledger during that Calculation Period pursuant to Paragraph 13 (*Payments from Revenue Ledger on any Business Day*) of Part 3 of Schedule 1 to the Cash Management Agreement;

“**Back-Up Cash Manager Facilitator Fees**” means the fees, costs and expenses payable by the Issuer to the Back-Up Cash Manager in accordance with the terms of the Cash Management Agreement.

“**Back-Up Cash Manager Facilitator Liabilities**” means any Liabilities due and payable by the Issuer to the Back-Up Cash Manager Facilitator in accordance with the terms of the Cash Management Agreement.

“**Back-Up Servicer Facilitator Liabilities**” means any Liabilities due and payable by the Issuer to the Back-Up Servicer Facilitator in accordance with the terms of the Servicing Agreement.

“**Back-Up Servicer Facilitator Fees**” means the fees, costs and expenses payable by the Issuer to the Back-Up Servicer Facilitator in accordance with the terms of the Servicing Agreement.

“**Cash Manager Liabilities**” means any Liabilities due and payable by the Issuer to the Cash Manager in accordance with the terms of the Cash Management Agreement.

“**Cash Manager Fees**” means the fees, costs and expenses payable by the Issuer to the Cash Manager in accordance with the terms of the Cash Management Agreement.

“**Corporate Services Provider Liabilities**” means any Liabilities due and payable by the Issuer to the Corporate Services Provider and the Share Trustee in accordance with the terms of the Corporate Services Agreement.

“**Corporate Services Provider Fees**” means the fees due and payable to the Corporate Services Provider and the Share Trustee in accordance with the terms of the Corporate Services Agreement.

“**Deferred Consideration**” means the deferred consideration due and payable to the Beneficial Title Seller pursuant to the Mortgage Sale Agreement in respect of the sale of the Mortgage Portfolio, which shall be an amount equal to the amount remaining from Available Revenue Funds or Available Principal Funds, as applicable, in the case of (a) below, and from all monies held in the Transaction Account and other Trust Proceeds, in the case of (b) below after making payment of (as applicable):

- (a) the items described in (a) to (m) inclusive of the Pre-Enforcement Revenue Payments Priorities on each Interest Payment Date; or
- (b) the items described in (a) to (h) inclusive of the Post-Enforcement Payments Priorities;

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

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

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

“**Liabilities**” means, in respect of any person, any losses, damages, costs, charges, awards, claims, demands, expenses, judgments, actions, proceedings or other liabilities whatsoever including proper legal fees and any Taxes and penalties incurred by that person.

“**Replacement Swap Premium**” means an amount received by the Issuer from a replacement interest rate swap provider upon entry by the Issuer into an agreement with such replacement interest rate swap provider to replace the Interest Rate Swap Agreement.

“**Servicer Liabilities**” means any and all of: (a) amounts due to the Servicer in connection with the enforcement of any Mortgage Loan and/or the protection or enforcement of the Trustee’s rights and remedies in relation to such enforcement in the immediately preceding Calculation Period; and (b) any other Liabilities properly and reasonably incurred by or on behalf of the Servicer in connection with the performance of the



Servicer's functions under the Servicing Agreement (including without limitation, any costs, expenses and charges payable by the Issuer to the Servicer in accordance with the Servicing Agreement).

“**Servicing Fees**” means the fees, costs and expenses payable by the Issuer to the Servicer in accordance with the terms of the Servicing Agreement.

“**Swap Collateral Account Bank Fees**” means the fees, costs and expenses of any Swap Collateral Account Bank for the operation of a Swap Collateral Account as determined in accordance with the Transaction Account Agreement or, as applicable, any other agreement pursuant to which a Swap Collateral Account is opened.

“**Third Party Expenses**” means any amounts due and payable by the Issuer to third parties (not being Secured Creditors) including any Liabilities payable in connection with:

- (a) the purchase by the Issuer of the Mortgage Loans;
- (b) any filing or registration of any Transaction Documents;
- (c) any provision for and payment of the Issuer's liability to any Tax Authority for any Tax (to the extent that such Liability or potential Liability cannot be paid out of the amounts credited to the Issuer Profit Ledger);
- (d) any Requirement of Law or any Regulatory Direction;
- (e) any legal or audit or other professional advisory fees (including Rating Agency fees);
- (f) any directors' fees or emoluments;
- (g) any advertising, publication, communication and printing expenses including postage, telephone and telex charges;
- (h) the admission of the Notes to the Official List or to trading on the Regulated Market of the Stock Exchange; and
- (i) any other amounts then due and payable to third parties and incurred without breach by the Issuer of the provisions of the Transaction Documents.

“**Transaction Account Bank Fees**” means the fees, costs and expenses of the Transaction Account Bank for the operation of the Transaction Account as determined in accordance with the terms of the Transaction Account Agreement.

“**Trustee Fees**” means the fees payable by the Issuer to the Trustee, together with any interest payable thereon pursuant to the Trust Documents.

“**Trustee Liabilities**” means any Liabilities due and payable by the Issuer to the Trustee in accordance with the terms of the Trust Documents together with interest payable in accordance with the terms of the Trust Deed.

### **Pre-Enforcement Principal Payments Priorities**

Prior to the service of an Enforcement Notice by the Trustee to the Issuer, the Cash Manager (on behalf of the Issuer) shall, on each Interest Payment Date, apply Available Principal Funds in the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full) (provided that following an Optional Portfolio Purchase no amounts shall be applied in respect of item (a)) (the “**Pre-Enforcement Principal Payments Priorities**”):

- (a) an amount equal to the Principal Reallocation Amount (if any) determined as at the related Calculation Date, such amount to be recorded as a credit entry in the Revenue Ledger and a debit entry in the relevant Principal Deficiency Sub-Ledger;

- (b) any Principal Amount Outstanding due and payable in respect of the Class A Notes;
- (c) any Principal Amount Outstanding due and payable in respect of the Class Z VFN; and
- (d) (after redemption of the Class A Notes in full) any Residual Principal Allocation Amount, such amount to be recorded as a credit entry in the Revenue Ledger.

“**Available Principal Funds**” means in relation to an Interest Payment Date, the amount calculated as at the related Calculation Date equal to the amount by which (a) exceeds (b) where:

- (a) is the aggregate of:
  - (i) all Principal Receipts (including any Principal Collections paid by the Beneficial Title Seller into the Transaction Account pursuant to the Mortgage Sale Agreement), or, in relation to a Determination Period, any Calculated Principal Funds, in each case, excluding an amount equal to any Reconciliation Amounts to be applied as Available Revenue Funds on that Interest Payment Date, received by the Issuer during the immediately preceding Calculation Period (including consideration paid by the Beneficial Title Seller in respect of the re-purchase of the Mortgage Loans and their Related Security (or any related cash payments) which relates to principal amounts due and receipt of realisation proceeds of the relevant Related Security);
  - (ii) the Revenue Reallocation Amount (if any) to be entered as a credit entry on the Principal Ledger on such Interest Payment Date;
  - (iii) (if applicable) the proceeds of the issue of the Notes (to the extent any such amounts stand to the credit of the Principal Ledger as at the relevant Calculation Date);
  - (iv) (upon the occurrence of an Optional Portfolio Purchase) all amounts standing to the credit of the General Reserve Fund to be recorded as a credit entry on the Principal Ledger on such Interest Payment Date; and
  - (v) in relation to a Determination Period, any Reconciliation Amounts deemed to be Available Principal Funds in accordance with Condition 7.11 (*Determinations and Reconciliation*), plus any amounts which the Cash Manager may have credited to the Principal Ledger during that Calculation Period pursuant to Paragraphs 10.2.2 (*Deductions from Liquidity Ledger*) and 11.2.2 (*Deductions from Credit Ledger*) of Part 2 of Schedule 1 to the Cash Management Agreement; and
- (b) is the aggregate of any amounts which the Cash Manager may have debited to the Principal Ledger during the related Calculation Period pursuant to Paragraph 14 (*Payments from Principal Ledger on any Business Day*) of Part 3 of Schedule 1 to the Cash Management Agreement.

### **Post-Enforcement Payments Priorities**

After an Enforcement Notice is delivered by the Trustee, all monies held in the Transaction Account and all other Trust Proceeds (after deduction of all costs and expenses incurred by the Trustee in obtaining receipt or recovery of the Trust Proceeds) other than:

- (a) monies received or recovered by the Trustee which do not constitute Trust Proceeds, which shall be paid to or retained by the persons entitled to such monies, save that any Borrower Repayment Amounts shall be paid to the Collection Account and not to Borrowers directly;
- (b) amounts representing any Excess Swap Collateral which shall be returned directly to the Interest Rate Swap Provider under the Interest Rate Swap Agreement;
- (c) any Swap Collateral, which shall be returned directly to the Interest Rate Swap Provider, except to the extent that the value of such Swap Collateral has been applied, pursuant to the provisions of the

Interest Rate Swap Agreement, to reduce the amount that would otherwise be payable by the Interest Rate Swap Provider to the Issuer on early termination of the Interest Rate Swap under the Interest Rate Swap Agreement;

- (d) any Swap Tax Credits which shall be returned directly to the Interest Rate Swap Provider;
- (e) any Replacement Swap Premium (only to the extent it is applied directly to pay a termination payment due and payable by the Issuer to the Interest Rate Swap Provider) which shall be paid directly to the Interest Rate Swap Provider; and
- (f) any amounts standing to the credit of the Issuer Profit Ledger or any Issuer Profit Amount which shall be used by the Issuer in or towards satisfaction of any amounts due and payable by the Issuer to third parties (and any amounts necessary to provide for any such amounts expected to become due and payable by the Issuer in the immediately succeeding Interest Period) and incurred without breach by the Issuer of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and any amounts required to pay or discharge any liability of the Issuer for corporation tax on any income or chargeable gain of the Issuer,

shall be held by the Trustee on trust to be applied in payment, in the amounts required, each in the following order of priority (the “**Post-Enforcement Payments Priorities**”):

- (a) *pro rata and pari passu*:
  - (i) to the Trustee, the Trustee Liabilities;
  - (ii) to the Trustee, all amounts of Trustee Fees due on or prior to the date of payment;
  - (iii) to any Receiver, any out-of-pocket expenses, liabilities, losses, damages, proceedings, claims and demands then due and payable by the Issuer to any Receiver in accordance with the Security Deed or incurred by a Receiver together with interest payable provided in the Trust Deed;
  - (iv) to any Receiver, all remuneration due to the Receiver in accordance with the terms of his appointment on or prior to the date of payment;
- (b) *pro rata and pari passu*:
  - (i) to the Transaction Account Bank, any Transaction Account Bank Fees;
  - (ii) to any Swap Collateral Account Bank, the Swap Collateral Account Bank Fees;
  - (iii) to the Agents, the Agents’ Fees due on or prior to the date of payment and the Agents’ Liabilities;
  - (iv) to the Cash Manager, the Cash Manager Liabilities and the Cash Manager Fees;
  - (v) to the Back-Up Cash Manager Facilitator, the Back-Up Cash Manager Facilitator Liabilities and the Back-Up Cash Manager Facilitator Fees;
  - (vi) to the Corporate Services Provider, the Corporate Services Provider Liabilities and the Corporate Services Provider Fees;
  - (vii) to the Servicer, the Servicing Fees due on or prior to the date of payment and the Servicer Liabilities;
  - (viii) to the Back-Up Servicer Facilitator, any unpaid Back-Up Servicer Facilitator Fees and/or Back-Up Servicer Facilitator Liabilities; and

- (ix) fees (other than commitment fees) and expenses accrued due and payable to a successor Servicer (after it has taken over as Servicer) agreed by the Issuer with the successor Servicer in relation to the successor Servicer's obligations under the replacement Servicing Agreement;
- (c) in or towards any payments of any outstanding amounts payable to the Interest Rate Swap Provider (excluding any Interest Rate Swap Excluded Termination Amounts) due but unpaid in respect of the Interest Rate Swap Agreement including any termination payment due and payable by the Issuer to the extent it is not satisfied by the payment by the Issuer to the Interest Rate Swap Provider of amounts standing to the credit of any Swap Collateral Account (if applicable) but excluding, if applicable, any related Interest Rate Swap Excluded Termination Amount;
- (d) all amounts of interest due in respect of the Class A Notes;
- (e) all amounts of principal due in respect of the Class A Notes;
- (f) all amounts of interest due in respect of the Class Z VFN (including any Deferred Interest and Additional Interest thereon);
- (g) all amounts of principal due in respect of the Class Z VFN;
- (h) in payment to the Interest Rate Swap Provider of any Interest Rate Swap Excluded Termination Amount due but unpaid under the Interest Rate Swap Agreement; and
- (i) to pay Deferred Consideration due and payable under the Mortgage Sale Agreement to the Beneficial Title Seller.

“**Beneficial Title Seller Covenants**” means the covenants of the Beneficial Title Seller set out in Schedule 5 (*Beneficial Title Seller Covenants*) to the Incorporated Terms Memorandum.

“**Beneficial Title Seller Warranties**” means the representations and warranties set forth in Schedule 3 (*Beneficial Title Seller's Representations and Warranties*) to the Incorporated Terms Memorandum.

“**Issuer Warranties**” means the representations and warranties of the Issuer set out in Schedule 4 (*Issuer's Representations and Warranties*) of the Incorporated Terms Memorandum.

“**Trust Proceeds**” means all recoveries, receipts and benefits received by the Trustee by virtue of the Trust Property save for monies or other assets which it is entitled to retain for its own account or which are earmarked for receipt by a third party other than as part of the Trust Property.

“**Trust Property**” means the Covenant to Pay, the Issuer Covenants, the Beneficial Title Seller Covenants, the Issuer Warranties, the Beneficial Title Seller Warranties, the Security and all proceeds of the Security and any other rights conferred on it on behalf of the Secured Creditors under the Transaction Documents.

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

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

## CREDIT ENHANCEMENT AND LIQUIDITY SUPPORT

The Notes are obligations of the Issuer only and will not be the 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 by the Noteholders, as follows:

- (a) A Revenue Shortfall on any Interest Payment Date may be reduced or eliminated by applying amounts standing to the credit of the Liquidity Ledger or Credit Ledger as applicable and, if thereafter there remains a Senior Revenue Shortfall, by applying Principal Reallocation Amounts.
- (b) Principal Losses and Principal Reallocation Amounts will be debited to the sub-ledgers of the Principal Deficiency Ledger in reverse Sequential Order: first to the Class Z Principal Deficiency Sub-Ledger, and lastly to the Class A Principal Deficiency Sub-Ledger. Revenue Reallocation Amounts will be credited to the Principal Deficiency Ledger in accordance with the Pre-Enforcement Revenue Payments Priorities.
- (c) Available Revenue Funds will be applied to replenish the General Reserve Fund.
- (d) The subordination of the Class Z VFN.

For the purposes of this paragraph and where used elsewhere in this Prospectus:

“**Principal Loss**” means, in relation to any Mortgage Loan on an Interest Payment Date, the amount (if any) determined in good faith by the Servicer as at the related Calculation Date in respect of the related Calculation Period as being (x) the amount of a principal nature due in respect of such Mortgage Loan after the earlier of (a) completion of Enforcement Procedures over the related Property or (b) the sale (whether by way of voluntary sale by the mortgagor or following enforcement by or on behalf of the Borrower) of the related Property or (y) as a result of an insolvency event in relation to the Collection Account Bank which results in a shortfall in the amount of principal received on such Mortgage Loan.

“**Sequential Order**” means, in respect of payments of interest and principal to be made in respect of the Notes, first, to the Class A Notes, and second, to the Class Z VFN.

Each of these factors and certain other factors relating to credit enhancement and/or liquidity support are considered in more detail below.

### **Liquidity support provided by use of General Reserve Fund and Available Principal Funds**

On the Cash Manager Determination Date, the Cash Manager will, to the extent such information is available to it, determine whether Available Revenue Funds (excluding Liquidity Reserve Drawings, General Reserve Drawings and Principal Reallocation Amounts) are sufficient to pay or provide for payment of items (a) to (h) of the Pre-Enforcement Revenue Payments Priorities.

To the extent that such Available Revenue Funds (excluding Liquidity Reserve Drawings, General Reserve Drawings and Principal Reallocation Amounts) are insufficient for this purpose, the Cash Manager shall, on behalf of the Issuer on the relevant Interest Payment Date, take the following actions: (i) debit the Credit Ledger by the lower of the amount of such shortfall and the credit balance of the Credit Ledger and (ii) credit the Revenue Ledger in an amount to reduce or eliminate such shortfall.

If following application of Available Revenue Funds (including General Reserve Drawings but excluding Liquidity Reserve Drawings and Principal Reallocation Amounts), the Cash Manager determines that such Available Revenue Funds (including General Reserve Drawings but excluding Liquidity Reserve Drawings and Principal Reallocation Amounts) are insufficient to satisfy items (a) to (f) of the Pre-Enforcement Revenue Payments Priorities, the Cash Manager shall, on behalf of the Issuer on the relevant Interest Payment Date, take the following actions: (i) debit the Liquidity Ledger by the lower of the amount of such shortfall and the credit balance of the Liquidity Ledger and (ii) credit the Revenue Ledger in an amount to reduce or eliminate such shortfall.

If following application of Available Revenue Funds (including Liquidity Reserve Drawings and General Reserve Drawings but excluding Principal Reallocation Amounts), the Cash Manager determines that such Available Revenue Funds (including Liquidity Reserve Drawings and General Reserve Drawings but excluding Principal Reallocation Amounts) are insufficient to satisfy items (a) to (f) of the Pre-Enforcement Revenue Payments Priorities, the Cash Manager shall, on behalf of the Issuer on the relevant Interest Payment Date, take the following actions: (i) debit the Principal Ledger by the lower of the amount of such shortfall and the credit balance of the Principal Ledger and (ii) credit the Revenue Ledger in an amount to reduce or eliminate such shortfall.

#### **Principal Losses and Principal Reallocation Amounts allocated to the Principal Deficiency Ledger**

On or prior to the 10th Business Day of each calendar month, the Servicer will determine the amount of Principal Losses on the Mortgage Portfolio as at each Calculation Date. On or prior to each Cash Manager Determination Date, the Cash Manager will determine the amount of any Principal Reallocation Amount and the Cash Manager will be required to allocate such amounts to the sub-ledgers of the Principal Deficiency Ledger.

A principal deficiency ledger (the “**Principal Deficiency Ledger**”), comprising two sub-ledgers relating to the Class A Notes (the “**Class A Principal Deficiency Sub-Ledger**”), and the Class Z VFN (the “**Class Z Principal Deficiency Sub-Ledger**”) will be established on the Closing Date in order to record (i) any Principal Losses on the Mortgage Portfolio and (ii) the application of any Principal Reallocation Amounts to meet any Senior Revenue Shortfall.

Principal Losses and the amount of any Principal Reallocation Amounts will be recorded as a debit to the Principal Deficiency Ledger as follows:

- (a) *first*, to the Class Z Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class Z VFN; and
- (b) *second*, to the Class A Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class A Notes.

Available Revenue Funds on each Interest Payment Date will be applied in Sequential Order to the extent of funds available for such purpose pursuant to:

- (a) item (h) of the Pre-Enforcement Revenue Payments Priorities to credit the Class A Principal Deficiency Sub-Ledger to reduce the debit balance to zero;
- (b) item (j) of the Pre-Enforcement Revenue Payments Priorities to credit the Class Z Principal Deficiency Sub-Ledger to reduce the debit balance to zero.

Available Revenue Funds allocated as described above will be applied in or towards redemption of the Notes as Available Principal Funds in accordance with the Pre-Enforcement Principal Payments Priorities.

#### **Source of funds to establish and replenish the General Reserve Fund**

Part of the proceeds from the issuance of Class Z VFN will be initially used by the Issuer to fund the General Reserve Fund on the Closing Date.

The General Reserve Fund will initially be funded in an amount equal to £4,603,750 which is approximately 1.45 per cent. of the aggregate Principal Amount Outstanding of the Class A Notes as at the Closing Date. The funds will firstly be credited into the Liquidity Ledger for the amount of Liquidity Ledger Required Amount and the remaining amount will be credited into the Credit Ledger. Thereafter, the General Reserve Fund will be funded in accordance with the Pre-Enforcement Revenue Payments Priorities from Available Revenue Funds to the level of the General Reserve Fund Target Amount. Accordingly, the size of the General Reserve Fund may decrease (or increase) from time to time, as further described in this section below.

The Cash Manager will also maintain the Liquidity Ledger and the Credit Ledger to record the balance from time to time of the General Reserve Fund and the monies representing the General Reserve Fund will be held in the Transaction Account.

The amount of the General Reserve Fund, which is represented by the credit balance of the Liquidity Ledger and/or Credit Ledger, may increase and decrease over time.

The amount of the General Reserve Fund may decrease by virtue of debit entries to the Liquidity Ledger and the Credit Ledger to increase Available Revenue Funds to reduce or eliminate any Revenue Shortfall. For details of the required balance of the General Reserve Fund, see the definition of “General Reserve Fund Target Amount” in the section entitled “*Terms and Conditions of the Notes*”.

Following the earlier of the redemption of the Class A Notes in full or the occurrence of an Optional Portfolio Purchase, the Issuer shall not be required to maintain the General Reserve Fund Target Amount and the General Reserve Fund Target Amount shall be reduced to zero, in which case, all amounts standing to the credit of the Liquidity Ledger and Credit Ledger shall be: (i) (in the event that the Class A Notes are redeemed in full) credited to the Revenue Ledger and applied as Available Revenue Funds in accordance with the Pre-Enforcement Revenue Payments Priorities or (ii) (upon the occurrence of an Optional Portfolio Purchase) credited to the Principal Ledger and applied as Available Principal Funds in accordance with the Pre-Enforcement Principal Payments Priorities.

The amount of the General Reserve Fund may increase on each Interest Payment Date to the extent that Available Revenue Funds are available to replenish the General Reserve Fund at items (g) and (i) of the Pre-Enforcement Revenue Payments Priorities but only to the extent necessary to bring the credit balance of the Credit Ledger and Liquidity Ledger up to the General Reserve Fund Target Amount.

#### **Residual Principal Allocation Amount**

Following the redemption of the Class A Notes, any Residual Principal Allocation Amount shall be credited to the Revenue Ledger and applied, as Available Revenue Funds, to the Pre-Enforcement Revenue Payments Priorities. Accordingly, any such funds remaining, after payment of any expenses due and payable and set out in the Pre-Enforcement Revenue Payments Priorities, will be applied in payment of the Deferred Consideration to the Beneficial Title Seller.

#### **Interest Rate Risk for the Notes**

Some of the Loans in the Mortgage Portfolio pay a fixed rate of interest for a period of time. Other Loans in the Mortgage Portfolio pay a variable rate of interest. However, the interest rate payable by the Issuer with respect to the Notes is an amount calculated by reference to Three-Month Sterling LIBOR.

To provide a hedge against the possible variance between:

- (a) the fixed rates of interest payable on the Fixed Rate Loans in the Mortgage Portfolio; and
- (b) a rate of interest calculated by reference to Three-Month Sterling LIBOR payable on the Class A Notes,

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

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

#### **Interest Rate Swap**

Payments received by the Issuer under some of the Mortgage Loans in the Mortgage Portfolio will be subject to fixed rates of interest. The interest amounts payable by the Issuer in respect of the Notes will be calculated by reference to Three-Month Sterling LIBOR. Pursuant to the Interest Rate Swap Agreement the Issuer will enter into the Interest Rate Swap to hedge against the possible variance between the fixed rates of interest received on the Fixed Rate Loans in the Mortgage Portfolio and the rates of interest payable on the Class A Notes (the “**Interest Rate Swap**”).

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

- (a) the amount equal to the product of (i) the Notional Amount of the Interest Rate Swap for the relevant Interest Period; (ii) the applicable Fixed Rate; and (iii) the applicable day count fraction (the “**Fixed Interest Period Issuer Amount**”) and
- (b) an amount equal to the product of (i) the Notional Amount of the Interest Rate Swap for the relevant Interest Period; and (ii) three-month Sterling LIBOR (determined in accordance with the 2006 ISDA definitions) and (iii) the relevant day count fraction (the “**Fixed Interest Period Swap Provider Amount**”).

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

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

If a payment is to be made by the Interest Rate Swap Provider, that payment will be included in the Available Revenue Funds and will be applied on the relevant Interest Payment Date according to the relevant Payments Priorities. If a payment is to be made by the Issuer, it will be made according to the relevant Payments Priorities of the Issuer.

Subject to the circumstances described below, unless the Interest Rate Swap has been terminated due to an occurrence of an Early Termination Event, the Interest Rate Swap will terminate on the earlier of (i) the date on which all outstanding Notes are redeemed in full pursuant to Condition 8.3 (*Mandatory Redemption in part*); and (ii) only from the Step-Up Date, the date on which the aggregate of the Current Balances of the Performing Fixed Rate Loans is reduced to zero.

The following definitions shall apply only for the purposes of the Interest Rate Swap:

“**Additional Pool**” means the Performing Fixed Rate Loans in respect of which: (a) the Servicer has agreed to a Product Switch whose Switch Date falls on or before the Step-Up Date, provided that if a Mortgage Loan (other than a Flexx Fixed Mortgage Loan) is subject to a Product Switch before the end of its applicable fixed rate period, that Mortgage Loan shall only form part of the Additional Pool if the applicable early redemption charge has been paid by the relevant Borrower; or (b) a Mortgage Loan relating to a Further Advance whose Advance Date falls on or before Step-Up Date, provided that a Performing Mortgage Loan whose fixed rate period is or has been longer than 5 years and 9 months or a Mortgage Loan which is subject to a Product Switch which Switch Date falls after the Step-Up Date or a Mortgage Loan which relates to a Further Advance whose Advance Date falls after the Step-Up Date shall not be part of the Additional Pool. For the avoidance of doubt, the aggregate Current Balance of the Performing Fixed Rate Loans in the Mortgage Portfolio within the Additional Pool as of 31 May 2018 is zero.

“**Current Balance**” means:

- (a) in relation to a Mortgage Loan, on any date, the aggregate balance of that Mortgage Loan at such date (but avoiding double counting) including:



- (i) where such Mortgage Loan relates to an Initial Advance, the amount of such Initial Advance, and where such Mortgage Loan relates to a Further Advance, the amount of such Further Advance, in each case secured or intended to be secured by the related Mortgage;
- (ii) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment, in each case relating to such Mortgage Loan, and which has been properly capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent and added to the amounts secured or intended to be secured by the related Mortgage; and
- (iii) any other amount (including, for the avoidance of doubt, accrued interest and arrears of interest), in each case relating to such Mortgage Loan, and which is due or accrued (whether or not due) and which has not been paid by the relevant Borrower and has not been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent but which is secured or intended to be secured by the related Mortgage,

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

- (b) in relation to the Mortgage Portfolio and on any day, the aggregate of the Current Balances in respect of the Mortgage Loans contained in that Mortgage Portfolio.

“**Fixed Notional Amount**” means, for the first calculation period under the Interest Rate Swap, £350,863,998.55, and for each subsequent calculation period under the Interest Rate Swap, the sum of (i) the aggregate Current Balance of the Performing Fixed Rate Loans in the Mortgage Portfolio within the Initial Pool and (ii) the aggregate Current Balance of the Performing Fixed Rate Loans in the Mortgage Portfolio within the Additional Pool.

“**Fixed Rate**” means the rate, expressed as a percentage rate per annum of (A) the sum of each Weighted Fixed Rate Balance for each Performing Fixed Rate Loan in the Mortgage Portfolio divided by (B) the sum of each Current Balance for each Performing Fixed Rate Loan in the Mortgage Portfolio. For the avoidance of doubt, if B is equal to zero, the Fixed Rate shall be equal to zero.

“**Flexx Fixed Mortgage Loan**” means each Mortgage Loan offered on the Originator's “Flexx Fixed” standard terms in effect as at 3 November 2015, except that the applicable interest rates may differ to those in effect at that date.

“**Frequency of payment**” means quarterly on each Interest Payment Date.

“**Initial Pool**” means the Performing Fixed Rate Loans in the Mortgage Portfolio which (i) do not relate to a Further Advance whose Advance Date occurred after 31 May 2018 and (ii) have not been the subject to a Product Switch, whose Switch Date occurred after 31 May 2018.

“**Interest Rate Swap Provider Payment**” means an amount equal to the product of (i) the Notional Amount of the Interest Rate Swap for the relevant Interest Period; and (ii) three-month Sterling LIBOR (determined in accordance with the 2006 ISDA definitions) and the relevant day count fraction

“**Issuer payment**” means an amount equal to the product of (i) the Notional Amount of the Interest Rate Swap for the relevant Interest Periods; (ii) the applicable Fixed Rate; and (iii) the applicable day count fraction.

“**Maximum Notional Amount**” means £370,000,000.

“**Mortgage Fixed Rate**” means, for each Performing Fixed Rate Loan that (i) in respect of each Mortgage Loan in the Initial Pool, 1.306 per cent. per annum or (ii) in respect of each Mortgage Loan in the Additional Pool, a breakeven swap rate plus reset spread as calculated in accordance with the Interest Rate Swap Agreement.

“**Mortgage Loan**” means any residential mortgage loan secured by a Mortgage and Related Security, in the Mortgage Portfolio originated by the Legal Title Holder and sold to the Issuer pursuant to the Mortgage Sale Agreement, including any alteration to a Mortgage Loan pursuant to a Product Switch but excluding (for the avoidance of doubt) each Mortgage Loan and its Related Security which is repurchased by the Beneficial Title Seller pursuant to the Mortgage Sale Agreement or otherwise sold by the Issuer and no longer beneficially owned by the Issuer, and for the purposes of the Interest Rate Swap only, a Mortgage Loan in respect of a Borrower shall constitute one Mortgage Loan in relation to the Initial Advance to such Borrower, and another, separate Mortgage Loan in relation to each Further Advance to such Borrower.

“**Notional Amount**” means the lesser of the Fixed Notional Amount and £370,000,000.

“**Performing Fixed Rate Loan**” means the Relevant Fixed Rate Loan in the Mortgage Portfolio, excluding (i) those with three months or more in arrears, and (ii) and those which are Repossessed Mortgage Loans. If any Mortgage Loan in the Initial Pool or the Additional Pool is three months or more in arrears, then any related Mortgage Loan secured over the same property in the Additional Pool or the Initial Pool, respectively, shall be deemed to be in arrears for the same period of time.

“**Relevant Fixed Rate Loan**” means each Mortgage Loan to the extent that and for such time as the interest payable by the Borrower does not vary and is fixed for a certain period of time by the Originator, but excluding:

- (a) those Mortgage Loans which are not subject to an early redemption charge in respect of repayments during the fixed rate period (other than Flexx Fixed Mortgage Loans which, for the avoidance of doubt, shall constitute Relevant Fixed Rate Loans);
- (b) those Mortgage Loans whose then current fixed rate period is or has been longer than 5 years and 9 months; and
- (c) those Mortgage Loans which have been subject to a Product Switch whose Switch Date occurred after the Step-Up Date, and those Mortgage Loans which relate to a Further Advance whose Advance Date occurred after the Step-Up Date.

“**Reposessed Mortgage Loans**” means each Mortgage Loan in respect of which the related property has been reposessed from the related Borrower.

“**Weighted Fixed Rate Balance**” means, for each Performing Fixed Rate Loan, the product of the Mortgage Fixed Rate of such Performing Fixed Rate Loan and the Current Balance of such Performing Fixed Rate Loan.

### **Interest Rate Swap Agreement**

Under the terms of the Interest Rate Swap Agreement, in the event that the relevant rating(s) or counterparty risk assessment of the Interest Rate Swap Provider assigned by a Rating Agency is or are below the rating or counterparty risk assessment specified in the Interest Rate Swap Agreement (in accordance with the requirements of the Rating Agencies) (the “**Required Swap Rating**”), the Interest Rate Swap Provider will, in accordance with the Interest Rate Swap Agreement, be required to take certain remedial measures within the timeframe stipulated in the Interest Rate Swap Agreement and at its own cost which may include providing collateral for its obligations under the Interest Rate Swap Agreement, arranging for its obligations under the Interest Rate Swap Agreement to be transferred to an entity with the Required Swap Ratings, procuring another entity with the Required Swap Ratings to become co-obligor or guarantor, as applicable, in respect of its obligations under the Interest Rate Swap Agreement or taking such other action (which may, for the avoidance of doubt, include taking no action) that would result in the rating of the Class A Notes being maintained at, or restored to, the level it would have been at prior to such rating or counterparty risk assessment being assigned by the relevant Rating Agency.

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

- (d) if there is a failure by a party to pay amounts due under an Interest Rate Swap Agreement and any applicable grace period has expired;
- (e) if certain insolvency events occur with respect to a party;
- (f) if a breach of a provision of the Interest Rate Swap Agreement by the Interest Rate Swap Provider is not remedied within the applicable grace period;
- (g) if a change of law results in the obligations of one of the parties becoming illegal or a *force majeure* event results in the performance by either party of its obligations becoming impossible;
- (h) in certain circumstances, if a deduction or withholding for or on account of taxes is imposed on payments under the Interest Rate Swap due to change in law (a “**Tax Event**”);
- (i) if the Interest Rate Swap Provider is downgraded and fails to comply with the requirements of the downgrade provisions contained in the Interest Rate Swap Agreement and described above;
- (j) service by the Trustee of an Enforcement Notice on the Issuer pursuant to Condition 12 (*Events of Default*) of the Notes;
- (k) if there is a redemption of the Notes pursuant to pursuant to Condition 8.2 (*Redemption by Optional Portfolio Purchase*), Condition 8.4 (*Optional Redemption in whole of the Class A Notes*), Condition 8.5 (*Option Redemption of the Class A Notes on or after the Step-Up Date*), Condition 8.6 (*Optional Redemption of the Class A Notes in whole for taxation reasons*) or for any other reason (other than pursuant to Condition 8.3 (*Mandatory Redemption in part*)); and
- (l) if any of the Transaction Documents to which the Interest Rate Swap Provider is not a party is amended without the prior written consent of the Interest Rate Swap Provider where, in the commercially reasonable opinion of the Interest Rate Swap Provider, such amendment would affect:
  - a. the Interest Rate Swap Provider’s rights in relation to any security (howsoever described, and including as a result of changing the nature or the scope of, or releasing such security) granted by the Issuer in favour of the Trustee on behalf of the Secured Creditors;
  - b. the definitions of Final Maturity Date, Available Revenue Funds, Swap Collateral Account, Interest Rate Swap Excluded Termination Amounts, Excess Swap Collateral, Swap Collateral, Replacement Swap Premium or Swap Tax Credits;
  - c. the Pre-Enforcement Revenue Payments Priorities or the Post-Enforcement Payments Priorities;
  - d. the provisions in the Transaction Documents or the Conditions setting out the method of calculation of amounts payable to the Interest Rate Swap Provider under the Pre-Enforcement Revenue Payments Priorities or the Post-Enforcement Payments Priorities and outside the Payments Priorities;
  - e. any amendment to Condition 8 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*) or any additional redemption rights in respect of the Notes;
  - f. Clause 20.1 (*Modification of Transaction Documents*) of the Trust Deed or Condition 16.1 (*Modification*); or
  - g. Clause 22 (*Protection of Interest Rate Swap Provider*) of the Security Deed.

Unless the Interest Rate Swap has been terminated due to an occurrence of an Early Termination Event, the Interest Rate Swap will terminate on the earlier of (i) the date on which all outstanding Notes are redeemed in

full pursuant to Condition 8.3 (*Mandatory Redemption in part*); and (ii) only from the Step-Up Date, the date on which the aggregate of the Current Balances of the Performing Fixed Rate Loans is reduced to zero.

Upon termination following the designation of an Early Termination Date (as defined in the Interest Rate Swap Agreement), depending on the circumstances prevailing at the time of termination, the Issuer or the Interest Rate Swap Provider may be liable to make a termination payment to the other. This termination payment will be calculated and made in Sterling. The amount of any termination payment will in certain circumstances (including following an Interest Rate Swap Provider Default or an Interest Rate Swap Provider Downgrade Event) be based on the market value of the terminated swaps as determined on the basis of firm offers sought from leading dealers as to the costs of entering into a transaction that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties. In other circumstances (including where no firm offers can be obtained, or following early termination due to a default by the Issuer), the amount of any termination payment may reflect, among other things, the cost of entering into a replacement transaction at the time, third party market data such as rates, prices, yields and yield curves, or similar information derived from internal sources of the party making the determination. In either case, the early termination amount will include any unpaid amounts that became due and payable on or prior to the date of termination, taking account of any collateral transferred by the Interest Rate Swap Provider to the Issuer.

If on or prior to the date of the earlier of (a) the reduction of the aggregate Principal Amount Outstanding of all the Notes to zero pursuant to Condition 8.3 (*Mandatory Redemption in part*) or (b) after the Step-up Date, the reduction of the aggregate Current Balances of the Performing Fixed Rate Loans in the Mortgage Portfolio to zero, the Interest Rate Swap Agreement is terminated, the Issuer shall use reasonable endeavours to purchase a replacement interest rate swap.

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

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

The Issuer is not obliged under the Interest Rate Swap Agreement to gross up payments made by it if a withholding or deduction for or on account of taxes is imposed on payments made under the Interest Rate Swap. However, if the Interest Rate Swap Provider is required to receive a payment subject to withholding under the Interest Rate Swap due to a change in law, the Interest Rate Swap Provider may terminate the Interest Rate Swap.

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

The Interest Rate Swap Agreement is governed by English law.

## MATURITY AND PREPAYMENT CONSIDERATIONS

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

The model used in this Prospectus for the Mortgage Loans represents an assumed constant per annum rate of prepayment (“**CPR**”) each month relative to the then current principal balance of a pool of mortgages, after taking into account the scheduled payments due in the period. CPR does not purport to be either an historical description of the prepayment experience of any pool of loans or a prediction of the expected rate of prepayment of any Mortgage Loans, including the Mortgages to be included in the Mortgage Portfolio.

The following tables were prepared based on the characteristics of the Mortgage Loans included in the Mortgage Portfolio and the following additional assumptions (the “**Modelling Assumptions**”):

- (a) the portfolio of £350,863,998.55 mortgages to be purchased by the Issuer consists of Mortgage Loans acquired on the Closing Date;
- (b) the Issuer exercises its rights to redeem all (but not some only) of the Notes then outstanding on the first Optional Redemption Date assuming the option is exercised as indicated in the heading of the relevant table below;
- (c) in addition to the scheduled payments derived from the Mortgage Loans detailed in paragraph (a) above, the Mortgage Loans are subject to prepayments at annualised rates expressed as a percentage of the Current Balance of the Mortgage Loans (“**CPR**”) indicated in the relevant column headings in the table below;
- (d) no Enforcement Notice is delivered in relation to the Notes and no Event of Default occurs in relation to the Notes;
- (e) there are no suspensions of monthly payments or Payment Holidays in respect of the Mortgage Loans;
- (f) the Mortgage Loans continue to be fully performing;
- (g) no principal deficiency arises;
- (h) there have been no breaches of the Asset Warranties;
- (i) no Borrowers are offered or accept different mortgage products or Further Advances by the Originator or Servicer;
- (j) the portfolio composition of mortgage characteristics remains the same throughout the life of the Notes;
- (k) the Notes will be redeemed in accordance with the Conditions;
- (l) the benchmark interest rates remain flat at the following values: three-month GBP LIBOR: 0.60 per cent., standard variable rate in respect of Mortgage Loans: 4.74 per cent;
- (m) the Closing Date is 27 June 2018;
- (n) the first Collection Period commences on 1 June 2018;
- (o) the first Interest Payment Date is 28 August 2018; and
- (p) the ratios of the initial Principal Amount Outstanding of the Class A Notes and (to the extent that the initial Principal Amount Outstanding of the Class Z VFN is collateralised by the Mortgage Portfolio)

the Class Z VFN to the aggregate initial Principal Amount Outstanding of the Notes is the following:  
 Class A Notes: 90.5 per cent.; Class Z VFN: 9.5 per cent.

The actual characteristics and performance of the Mortgage Loans are likely to differ from these assumptions. The following tables are hypothetical in nature and are provided only to give a general sense of how the principal cash flows might behave under varying prepayment scenarios. For example, it is not expected that the Mortgage Loans will prepay at a constant rate until maturity, that all of the Mortgage Loans will prepay at the same rate or that there will be no defaults or delinquencies on the Mortgage Loans. Moreover, the diverse remaining terms to maturity and mortgage rates of the Mortgage Loans could produce slower or faster principal distributions than indicated in the tables at the various percentages of CPR specified, even if the weighted average remaining term to maturity and weighted average mortgage rates of the Mortgage Loans are as assumed. Any difference between such assumptions and the actual characteristics and performance of the Mortgage Loans, or actual prepayment of loss experience, will affect the percentage of the initial amount outstanding of the Notes which are outstanding over time and cause the weighted average lives of the Notes to differ (which difference could be material) from the corresponding information in the tables for each indicated percentage CPR.

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

Subject to the foregoing discussion and assumptions, the following tables indicate the weighted average lives of the Notes. These average lives have been calculated on an 30/360 fixed basis:

	<b>Without any Early Redemption</b>				
Class\CPR .....	0%	5%	10%	15%	20%
Possible Average Life of Class A Notes (years)	18.51	10.61	6.63	4.59	3.44

	<b>With Early Redemption on the First Optional Redemption Date</b>				
Class\CPR .....	0%	5%	10%	15%	20%
Possible Average Life of Class A Notes (years)	2.91	2.70	2.50	2.30	2.12

## EARLY REDEMPTION OF NOTES

### Portfolio Option

The Issuer will, by the Deed Poll, grant to the Class Z VFN Holder (the “**Portfolio Option Holder**”) an option (the “**Portfolio Option**”) to require the Issuer to (a) sell to the Portfolio Option Holder the beneficial title to all Mortgage Loans and Related Security in the Mortgage Portfolio and (b) transfer to the Portfolio Option Holder the right to have the legal title to all Mortgage Loans and Related Security in the Mortgage Portfolio transferred to it (provided that such transfer is a Permitted Transfer). If the Portfolio Option Holder is anyone other than the Class Z VFN Holder, the consent of the Legal Title Holder will be required for any transfer, assignment, assignation, novation or other disposal of the Mortgage Portfolio in connection with the exercise of the Portfolio Option.

The Portfolio Option may be exercised by notice to the Issuer with a copy to the Trustee at any time in the period from the Business Day falling 20 Business Days prior to an Optional Redemption Date until such Optional Redemption Date. Completion of the purchase by the Portfolio Option Holder will occur on the Business Day falling two Business Days prior to the next Interest Payment Date to occur after the exercise date, provided that, if the Portfolio Option is exercised later than 10 Business Days prior to the next Interest Payment Date, the completion date shall occur on the Business Day falling two Business Days prior to the second Interest Payment Date to occur after the date of exercise (the “**Optional Portfolio Purchase Completion Date**”). The Issuer shall cause the exercise of the Portfolio Option to be notified to the Noteholders and the other Secured Creditors in accordance with the Notices Condition as soon as practicable after receipt of the notice to exercise the Portfolio Option by the Portfolio Option Holder.

The purchase price for the Mortgage Portfolio under the Portfolio Option shall be the higher of (i) the aggregate market value of the Mortgage Portfolio as at the Optional Portfolio Purchase Completion Date, and (ii) an amount equal to the aggregate Principal Amount Outstanding of the Class A Notes as at the Optional Portfolio Purchase Completion Date plus accrued but unpaid interest thereon up to and including the Optional Portfolio Purchase Completion Date, together with any payments due from the Issuer in respect of items ranking in priority to or *pari passu* with the Class A Notes (including interest and principal due and payable in respect of the Class A Notes) pursuant to the applicable Payments Priorities on the Interest Payment Date immediately following the Optional Portfolio Purchase Completion Date less any Available Principal Funds and Available Revenue Funds to be applied in accordance with the applicable Payments Priorities on the Interest Payment Date immediately following the Optional Portfolio Purchase Completion Date (including the credit balance of the General Reserve Fund).

### Redemption of Notes

Upon sale of the Mortgage Portfolio, that part of the purchase price constituting Revenue Receipts shall be applied in accordance with the Pre-Enforcement Revenue Payments Priorities on the relevant Interest Payment Date. That part of the purchase price constituting Principal Receipts shall be applied in accordance with the Pre-Enforcement Principal Payments Priorities on the relevant Interest Payment Date and will result in the Notes being redeemed in full.

Upon the occurrence of an Optional Portfolio Purchase, the General Reserve Fund Target Amount shall be reduced to zero and the entire credit balance of the General Reserve Fund shall constitute Available Principal Funds, to be applied to repay the Notes.

Following redemption of the Class A Notes in full, the Residual Principal Allocation Amount will be credited to the Revenue Ledger and may be applied, together with Revenue Receipts, in payment to the Beneficial Title Seller as Deferred Consideration in accordance with the Pre-Enforcement Revenue Payments Priorities.

On the immediately following Interest Payment Date on which the Notes are being redeemed in full pursuant to an Optional Portfolio Purchase, the Cash Manager shall apply any amounts standing to the credit of the Revenue Ledger and Principal Ledger as at that Interest Payment Date in accordance with the order of payments set forth in the relevant Payments Priorities.



## SECURITY FOR THE ISSUER'S OBLIGATIONS

### Security Deed

Under the terms of the Security Deed, the Issuer will grant the following security to be held by the Trustee for itself and on trust for the benefit of the other Secured Creditors (which definition includes the Noteholders):

- (a) an assignment of the benefit of the Issuer in each Mortgage Loan, Mortgage and other Related Security relating to such Mortgage Loan, each Mortgage Condition and all Receivables;
- (b) an assignment of rights held by the Issuer against certain third parties;
- (c) a first fixed charge of the benefit of any bank or other accounts of the Issuer in which the Issuer may at any time have or acquire any benefit;
- (d) assignment of the benefit of the Issuer under each relevant Transaction Document to which the Issuer is a party (other than the Trust Documents and the Subscription Agreement), including:
  - (i) the Agency Agreement;
  - (ii) the Cash Management Agreement;
  - (iii) the Corporate Services Agreement;
  - (iv) the Mortgage Sale Agreement;
  - (v) the Interest Rate Swap Agreement;
  - (vi) the Servicing Agreement; and
  - (vii) the Transaction Account Agreement; and
- (e) a first floating charge over all the assets and undertakings of the Issuer to the extent not effectively charged pursuant to paragraphs (a) to (d) above.

### Post-Enforcement Payments Priorities

The Security Deed sets out the order of priority for the application of cash following the service of an Enforcement Notice by or on behalf of the Trustee (or a receiver of the Issuer appointed by the Trustee pursuant to the Security Deed). This order of priority is described in the section entitled "*Cashflows*".

### Enforcement

The Security shall only become enforceable on the service of an Enforcement Notice pursuant to Condition 12 (*Events of Default*). The Security Deed will set out the procedures by which the Trustee may take steps to enforce the Security.

### No withdrawals from Charged Accounts

From and including the date on which the Trustee delivers a notice substantially in the form set out in Schedule 1 to the Security Deed (a "**Security Protection Notice**") to the Issuer with a copy to the Interest Rate Swap Provider) pursuant to the Security Deed or the floating charge created by the Issuer under the Security Deed otherwise crystallises into a fixed charge pursuant to the Security Deed and unless and until such Security Protection Notice is withdrawn or the relevant fixed charge is otherwise reconverted into a floating charge, no amount may be withdrawn from the Charged Accounts without the prior written consent of the Trustee, provided that, unless an Enforcement Notice has been delivered, the Trustee shall not act in such

a way as to require any payment other than in accordance with the Pre-Enforcement Payments Priorities or the Cash Management Agreement.

### **Application of monies standing to Reserve Ledgers**

After an Enforcement Notice is delivered by the Trustee, all monies standing to the credit of the Liquidity Ledger and the Credit Ledger shall be applied in payment of the amount required in the order of priority specified in the Post-Enforcement Payments Priorities.

### **Governing Law**

The Security Deed and any non-contractual obligation arising out of or in relation to the Security Deed will be governed by English law.

## THE TRUST DEED

The Issuer and the Trustee will enter into a Trust Deed on the Closing Date. The Trust Deed will contain the forms of the Notes. Under the Trust Deed, the Issuer will covenant to the Trustee to pay all amounts due under the Notes. The Trustee will hold the benefit of the Issuer's covenant to pay on trust for the Noteholders.

### **Conflicts / Relationship with Noteholders**

The Trust Deed will provide that, except where expressly provided otherwise, where the Trustee is required to have regard to the interests of the Noteholders, the Trustee shall have regard to the interests of all the Noteholders equally, and in the event of a conflict of interests of holders of different classes, the Trustee shall have regard only to the interests of the holders of the Most Senior Class of Notes then outstanding.

The Trustee shall not be bound to take any action in relation to the Notes or the Transaction Documents, including delivering an Enforcement Notice, unless it has been directed to do so either by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding or in writing by the holders of more than 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of Notes then outstanding.

The Trustee is not obliged to take any action unless it shall have been indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby become liable or which may be incurred by it in connection therewith.

### **Modification and waiver**

The Trust Deed provides that, without the consent or sanction of the Noteholders or any of the other Secured Creditors, the Trustee may at any time and from time to time:

- (a) agree with the Issuer and any other relevant parties in making any modification to the Conditions, the Trust Documents, the Notes or the Transaction Documents in relation to which its consent is required:
  - (i) which in the opinion of the Trustee is made to correct a manifest error or is of a formal, minor or technical nature; or
  - (ii) (other than in respect of a Reserved Matter or any provision of the Trust Documents referred to in the definition of Reserved Matter) which, in the opinion of the Trustee, will not be materially prejudicial to the interests of the holders of the Most Senior Class of Notes;

provided that:

- (A) the prior written consent of the Interest Rate Swap Provider shall be required to modify or supplement any provision of the Transaction Documents or the Conditions if, in the commercially reasonable opinion of the Interest Rate Swap Provider, such modification or supplement would affect any of the following:
  - (a) the Interest Rate Swap Provider's rights in relation to any security (howsoever described, and including as a result of changing the nature or the scope of, or releasing such security) granted by the Issuer in favour of the Trustee on behalf of the Secured Creditors;
  - (b) the definitions of Final Maturity Date, Available Revenue Funds, Swap Collateral Account, Interest Rate Swap Excluded Termination Amounts, Excess Swap Collateral, Swap Collateral, Replacement Swap Premium or Swap Tax Credits;
  - (c) the Pre-Enforcement Revenue Payments Priorities or the Post-Enforcement Payments Priorities;

- (d) the provisions in the Transaction Documents or the Conditions setting out the method of calculation of amounts payable to the Interest Rate Swap Provider under the Pre-Enforcement Revenue Payments Priorities or the Post-Enforcement Payments Priorities and outside the Payments Priorities;
- (e) any amendment to Condition 8 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*) or any additional redemption rights in respect of the Notes;
- (f) Clause 20.1 (*Modification of Transaction Documents*) of the Trust Deed or this Condition 16.1 (*Modification*); or
- (g) Clause 22 (*Protection of Interest Rate Swap Provider*) of the Security Deed,

and in each case the Issuer shall notify in writing to the Interest Rate Swap Provider, with a copy to the Trustee, of any proposed modification or supplement to any of the provisions of the Transaction Documents or the Conditions as soon as reasonably practicable but not less than 20 Business Days (inclusive) prior to such modification or supplement being effected, notwithstanding any other provision of the Transaction Documents or the Conditions. The Interest Rate Swap Provider may notify the Trustee and the Issuer in writing if it determines (acting in a commercially reasonable manner) that such modifications or supplement would affect any of the items listed in paragraphs (a) to (g) above and stating which proposed modification or supplement is so affected. If the Issuer and the Trustee do not receive any such notice within 20 Business Days (inclusive) of the Interest Rate Swap Provider having been notified of such proposed modification or supplement, the Interest Rate Swap Provider shall be deemed to have consented to each such modification or supplement. If the Interest Rate Swap Provider has not received notice in accordance with this paragraph, the proposed modification or supplement shall not be effective. If the Interest Rate Swap Provider has notified its consent in writing to the Issuer and the Trustee in writing to any proposed modification or supplement such modification or supplement may proceed to become effective notwithstanding that less than 20 Business Days have elapsed since the relevant notice was received by the Interest Rate Swap Provider;

- (B) the prior written consent of the Servicer shall be required to modify or supplement any provision of the Transaction Documents or the Conditions if, in the commercially reasonable opinion of the Servicer, such modification or supplement would affect any of the following:
  - (a) the Servicer's rights under the Pre-Enforcement Revenue Payments Priorities or the Post-Enforcement Payments Priorities;
  - (b) Clause 20.1 (*Modification of Transaction Documents*) of the Trust Deed; or
  - (c) Condition 16.1 (*Modification*); and
- (C) the prior written consent of the Legal Title Holder shall be required to modify or supplement any provision of the Transaction Documents or the Conditions if, in the commercially reasonable opinion of the Legal Title Holder, such modification or supplement would affect any of the following:
  - (a) Clause 13.1 (*Further Assurance*) of the Mortgage Sale Agreement; or
  - (b) the Legal Title Holder's Right of First Refusal,
- (b) in its sole discretion concur with the Issuer or any other relevant parties in authorising or waiving any breach or proposed breach of the covenants or provisions contained in the Trust Documents, the Instruments or any other Transaction Documents (other than in respect of a Reserved Matter, a matter set out in (A) to (C) above or any provision of the Trust Documents referred to in the definition of

Reserved Matter), if in the Trustee's sole opinion, the interests of the holders of the Most Senior Class of Notes will not be materially prejudiced thereby; and

- (c) in its sole discretion determine that any Event of Default or Potential Event of Default shall not be treated as such if, in the Trustee's sole opinion, the interests of the holders of the Most Senior Class of Notes will not be materially prejudiced thereby,

provided always that the Trustee shall not exercise any powers under paragraph (a), (b) or (c) above in contravention of any express direction given by an Extraordinary Resolution of the Most Senior Class of Notes then outstanding, or by a request in writing of the holders of more than 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding (but no such direction or request shall affect any modification, waiver, authorisation or determination previously given or made). The Trustee shall not authorise or waive any such proposed breach or breach relating to a Reserved Matter unless the Noteholders have, by Extraordinary Resolution, so authorised its exercise.

Unless the Trustee otherwise agrees, the Issuer shall cause any such modification, waiver, authorisation or determination to be notified to the Noteholders and the other Secured Creditors in accordance with the Notices Condition and the Transaction Documents as soon as practicable thereafter.

### **Fees and expenses**

The Issuer will reimburse the Trustee for all costs and expenses incurred in acting as Trustee. In addition, the Issuer shall pay to the Trustee a fee of such amount and on such dates as will be agreed from time to time by the Trustee and the Issuer subject to and in accordance with the Trust Deed.

### **Retirement and removal**

The Trustee may retire after giving not less than two calendar months' notice in writing to the Issuer. The Most Senior Class of Notes then outstanding may by an Extraordinary Resolution remove the Trustee.

The retirement or removal of the Trustee shall not become effective unless there remains at least one trustee under the Trust Deed and the Issuer will covenant in the Trust Deed to use its best endeavours to procure the appointment of a new Trustee after the resignation or removal of the existing Trustee. If the Issuer has failed to appoint a replacement Trustee prior to the expiry of the notice period given by the Trustee, the outgoing Trustee will be entitled to nominate a successor which shall be approved by an Extraordinary Resolution of the Most Senior Class of Notes then outstanding. The Rating Agencies shall be notified by the Issuer of such appointment.

### **Governing Law**

The Trust Deed and any non-contractual obligation arising out of or in relation to the Trust Deed will be governed by English law.

## DESCRIPTION OF THE GLOBAL NOTES

### General

The Class A Notes shall be initially represented by a temporary global note in bearer form, without coupons or talons (each a “**Temporary Global Note**”), in the principal amount of £317,500,000. Each Temporary Global Note will be deposited on or around the Closing Date with a common safekeeper (the “**Common Safekeeper**”) for Euroclear Bank SA / NV (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**” and together with Euroclear, the “**Clearing Systems**”).

Upon confirmation by the Common Safekeeper that it has custody of the Temporary Global Notes, Euroclear or Clearstream, Luxembourg, as the case may be, will record the beneficial interests in the Temporary Global Notes (“**Book-Entry Interests**”) representing beneficial interests in the Class A Notes attributable thereto.

Interests in each Temporary Global Note will be exchangeable (provided certification of non-U.S. beneficial ownership by the Noteholders has been received) not earlier than 40 days after the issue date of the relevant Notes (the “**Exchange Date**”) for interests in a permanent global note (each a “**Permanent Global Note**” and together with the Temporary Global Notes, the “**Global Notes**”), in bearer form, without coupons or talons, in the principal amount of the Notes of the relevant class. The Permanent Global Notes will also be deposited with the Common Safekeeper. The Common Safekeeper will hold the Global Notes in custody for Euroclear and Clearstream, Luxembourg.

No payments of principal, interest or any other amounts payable in respect of the Notes will be made under the Temporary Global Notes unless exchange for interests in the relevant Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

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

Book-Entry Interests in respect of the Class A Notes are recorded in denominations of £100,000 and integral multiples of £1,000 in excess thereof. Ownership of Book-Entry Interests will be limited to persons that have accounts with Euroclear or Clearstream, Luxembourg (“**Participants**”) or persons that hold interests in the Book-Entry Interests through Participants (“**Indirect Participants**”), including, as applicable, banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with Euroclear or Clearstream, Luxembourg, either directly or indirectly. Indirect Participants will also include persons that hold beneficial interests through such Indirect Participants. Book-Entry Interests will not be held in definitive form. Instead, Euroclear and Clearstream, Luxembourg, as applicable, will credit the Participants’ accounts with the respective Book-Entry Interests beneficially owned by such Participants on each of their respective book-entry registration and transfer systems. The accounts initially credited will be designated by the Joint Lead Managers. Ownership of Book-Entry Interests will be shown on, and transfers of Book-Entry Interests or the interests therein will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg (with respect to the interests of their Participants) and on the records of Participants or Indirect Participants (with respect to the interests of Indirect Participants). The laws of some jurisdictions or other applicable rules may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may therefore impair the ability to own, transfer or pledge Book-Entry Interests.

So long as the Common Safekeeper holds the Global Note underlying the Book-Entry Interests, it will be considered the sole Noteholder of the Notes represented by that Global Note for all purposes under the Trust Deed. Except as set forth under “*Issuance of Definitive Notes*”, below, Participants or Indirect Participants

will not receive or be entitled to receive physical delivery of Notes in definitive form and will not be considered the holders thereof under the Trust Deed. Accordingly, each person holding a Book-Entry Interest must rely on the rules and procedures of Euroclear or Clearstream, Luxembourg, as the case may be, and Indirect Participants must rely on the procedures of the Participants or Indirect Participants through which such person owns its interest in the relevant Book-Entry Interests, to exercise any rights and obligations of a holder of Notes under the Trust Deed. See “*Action in Respect of the Global Notes and the Book-Entry Interests*”, below.

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

Unless and until Book-Entry Interests are exchanged for Definitive Notes, the Notes held by the Common Safekeeper may not be transferred except as a whole by that Common Safekeeper to a successor of the Common Safekeeper.

Purchasers of Book-Entry Interests in a Note will hold Book-Entry Interests in the Notes relating thereto. Investors may hold their Book-Entry Interests in respect of a Note directly through Euroclear or Clearstream, Luxembourg (in accordance with the provisions set forth in the section entitled “*Transfers and Transfer Restrictions*”, below), if they are account holders in such systems, or indirectly through organisations which are account holders in such systems. Euroclear and Clearstream, Luxembourg will hold Book-Entry Interests in each Note on behalf of their account holders through securities accounts in the respective account holders’ names on Euroclear’s and Clearstream, Luxembourg’s respective book-entry registration and transfer systems.

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

### **Issuance of Definitive Notes**

Each of the Permanent Global Notes will become exchangeable in whole, but not in part, for Definitive Notes in denominations of £100,000, or above £100,000 in increments of £1,000 at the request of the bearer of the relevant Permanent Global Note against presentation and surrender of such Permanent Global Note to the Principal Paying Agent if the relevant Clearing System is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so (an “**Exchange Event**”).

Whenever a Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons (as defined in the Conditions) attached, in an aggregate principal amount equal to the principal amount of the relevant Permanent Global Note to the bearer of such Permanent Global Note against the surrender of such

Permanent Global Note at the Specified Office (as defined in the Conditions) of the Principal Paying Agent within 30 days of the occurrence of the relevant Exchange Event.

### **Payments on Global Notes**

All payments in respect of each Temporary Global Note and each Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the relevant Temporary Global Note or (as the case may be) the relevant Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes.

Each holder of Book-Entry Interests must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of any amounts paid by or on behalf of the Issuer to the Common Safekeeper or its nominee in respect of those Book-Entry Interests. All such payments will be distributed without deduction or withholding for any taxes, duties, assessments or other governmental charges of whatever nature except as may be required by law. If any such deduction or withholding is required to be made, then neither the Issuer, the Principal Paying Agent nor any other person will be obliged to pay additional amounts in respect thereof.

In accordance with the rules and procedures for the time being of Euroclear or, as the case may be, Clearstream, Luxembourg, after receipt of any payment from the Principal Paying Agent to the Common Safekeeper, the respective systems will promptly credit their Participants' accounts with payments in amounts proportionate to their respective ownership of Book-Entry Interests as shown in the records of Euroclear or Clearstream, Luxembourg. The Issuer expects that payments by Participants to owners of interests in Book-Entry Interests held through such Participants or Indirect Participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form, and will be the responsibility of such Participants or Indirect Participants. None of the Issuer, any agent of the Issuer, the Arranger, the Joint Lead Managers or the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of a Participant's ownership of Book-Entry Interests or for maintaining, supervising or reviewing any records relating to a Participant's ownership of Book-Entry Interests.

### **Information Regarding Euroclear and Clearstream, Luxembourg**

Euroclear and Clearstream, Luxembourg have advised the Issuer as follows:

- Euroclear and Clearstream, Luxembourg each hold securities for their account holders and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders, thereby eliminating the need for physical movements of certificates and any risk from lack of simultaneous transfers of securities.
- Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing.
- Euroclear and Clearstream, Luxembourg each also deal with domestic securities markets in several countries through established depositary and custodial relationships. The respective systems of Euroclear and of Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective account holders may settle trades with each other.
- Account holders in both Euroclear and Clearstream, Luxembourg are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to both Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.



- An account holder's overall contractual relations with either Euroclear or Clearstream, Luxembourg are governed by the respective rules and operating procedures of Euroclear or Clearstream, Luxembourg and any applicable laws. Both Euroclear and Clearstream, Luxembourg act under such rules and operating procedures only on behalf of their respective account holders, and have no record of or relationship with persons holding through their respective account holders.

The Issuer understands that under existing industry practices, if any of the Issuer or the Trustee requests any action of owners of Book-Entry Interests or if an owner of a Book-Entry Interest desires to give instructions or take any action that a holder is entitled to give or take under the Trust Deed or the Security Deed, Euroclear or Clearstream, Luxembourg as the case may be, would authorise the Participants owning the relevant Book-Entry Interests to give instructions or take such action, and such Participants would authorise Indirect Participants to give or take such action or would otherwise act upon the instructions of such Indirect Participants.

### **Redemption**

In the event that any Global Note (or portion thereof) is redeemed, the Principal Paying Agent will deliver all amounts received by it in respect of the redemption of such Global Note to the Common Safekeeper and, upon final payment, will surrender such Global Note (or portion thereof) to or to the order of the Issuer for cancellation. The redemption price payable in connection with the redemption of Book-Entry Interests will be equal to the amount received by the Principal Paying Agent in connection with the redemption of the Note (or portion thereof) relating thereto. For any redemptions of a Note in part, selection of the relevant Book-Entry Interest relating thereto to be redeemed will be made by Euroclear or Clearstream, Luxembourg, as the case may be, on a pro rata basis (or on such basis as Euroclear or Clearstream, Luxembourg, as the case may be, deems fair and appropriate). Upon any redemption in part, the Principal Paying Agent will mark down the schedule to such Global Note by the principal amount so redeemed.

### **Cancellation**

Cancellation of any Note represented by a Global Note and required by the Conditions to be cancelled following its redemption will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant schedule thereto.

### **Transfers and Transfer Restrictions**

All transfers of Book-Entry Interests will be recorded in accordance with the book-entry systems maintained by Euroclear or Clearstream, Luxembourg, as applicable, pursuant to customary procedures established by each respective system and its Participants (see the section entitled "*General*" above).

Beneficial interests in the Global Notes may be held only through Euroclear or Clearstream, Luxembourg. The Global Notes will bear a legend substantially identical to that appearing under "*Transfer Restrictions and Investor Representations*", and neither the Global Notes nor any beneficial interest therein may be transferred except in compliance with the transfer restrictions set forth in the legend appearing in the Global Notes.

### **Action in Respect of the Global Notes and the Book-Entry Interests**

Not later than 10 days after receipt by the Issuer of any notice in respect of the Notes or any notice of solicitation of consents or requests for a waiver or other action by the holder of the Notes, the Issuer will deliver to Euroclear and Clearstream, Luxembourg a notice containing (a) such information as is contained in such notice, (b) a statement that at the close of business on a specified record date Euroclear and Clearstream, Luxembourg will be entitled to instruct the Issuer as to the consent, waiver or other action, if any, pertaining to the Book-Entry Interests or the Notes and (c) a statement as to the manner in which such instructions may

be given. Upon the written request of Euroclear or Clearstream, Luxembourg, as applicable, the Issuer shall endeavour insofar as practicable to take such action regarding the requested consent, waiver or other action in respect of the Book-Entry Interests or the Notes in accordance with any instructions set forth in such request. Euroclear or Clearstream, Luxembourg are expected to follow the procedures described under the section entitled “*General*” above, with respect to soliciting instructions from their respective Participants.

## **Notices**

In respect of the Class A Notes, so long as the Class A Notes are represented by the Global Note and the Global Note is held on behalf of Euroclear or Clearstream, Luxembourg, notices to the relevant Noteholders may be given by delivery of the relevant notice to the relevant clearing system for communication by it to entitled accountholders or by publishing the notice on a Relevant Screen and, so long as the Class A Notes are listed on the Stock Exchange, notices in respect of such Class A Notes shall also be published in any other way as the rules of the Stock Exchange require (see also Condition 21 (*Notices*)).

In respect of the Class Z VFN, notices to the Class Z VFN Holder will be sent by the Issuer to the fax number or email address of the Class Z VFN Holder notified to the Issuer from time to time in writing (see also Condition 21 (*Notices*)).

## **Meetings of Noteholders**

The holder of a Global Note will be deemed to be two persons for the purpose of forming a quorum at a meeting of Noteholders.

## **Written Resolution and Electronic Consent**

For so long as all the outstanding Class A Notes are represented by the Temporary Global Notes and/or the Permanent Global Notes and held within the Clearing Systems, then, in respect of any resolution proposed by the Issuer or the Trustee (i) where the terms of the proposed resolution have been notified to the Noteholders through the relevant Clearing Systems, each of the Issuer and the Trustee shall be entitled to rely upon approval of such resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant Clearing Systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. of the aggregate Principal Amount Outstanding of the relevant class or classes of Notes then outstanding (“**Electronic Consent**”) by the close of business on the relevant day and (ii) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution has been validly passed, each of the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by accountholders in the Clearing System with entitlements to such Global Note and/or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps (which may include requiring accountholders to block their holding in the relevant Clearing System) to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting or implementation of such consent or instruction. Any resolution passed in such manner shall be binding on all Noteholders of such class or classes and upon all Couponholders of such class or classes, even if the relevant consent or instruction proves to be defective.

As used in the foregoing paragraph, “**commercially reasonable evidence**” includes any certificate or other document and/or issued by the relevant Clearing System, and/or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or

other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's Creation Online system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

A Written Resolution and/or Electronic Consent shall take effect and will be binding on Noteholders and Couponholders (whether or not they participated in such Written Resolution and/or Electronic Consent) as if they were an Extraordinary Resolution.

An Electronic Consent or Written Resolution shall take effect as an Extraordinary Resolution.

### **Class Z VFN**

The Class Z VFN will be issued in dematerialised registered form and no certificate evidencing entitlement to the Class Z VFN will be issued. The Issuer will also maintain a register, to be kept on the Issuer's behalf by the Class Z VFN Registrar, in which the Class Z VFN will be registered in the name of the Class Z VFN Holder. Transfers of the Class Z VFN may be made only through the register maintained by the Issuer and are subject to the transfer restrictions set out in Condition 3.2 (*Title*).

## TERMS AND CONDITIONS OF THE NOTES

### 1 General

- 1.1 The Issuer has agreed to issue the Notes subject to and with the benefit of the terms of the Trust Deed.
- 1.2 The Agency Agreement records certain arrangements in relation to the payment of interest and principal in respect of the Notes.
- 1.3 Certain provisions of these Conditions are summaries of the Trust Documents and the Agency Agreement and are subject to their detailed provisions.
- 1.4 The Noteholders are bound by the terms of the Trust Documents and are deemed to have notice of all the provisions of the Transaction Documents.
- 1.5 Copies of the Transaction Documents (excluding any schedules containing personal information) are available for inspection by Noteholders during normal business hours at the registered office of the Issuer, the initial registered office of which is set out below.

### 2 Definitions

#### 2.1 Definitions

In these Conditions and where used elsewhere in this Prospectus, the following defined terms have the meanings set out below:

“**Account Details**” means the details of each of the Accounts which are set out in Schedule 8 (*Account Details*) of the Incorporated Terms Memorandum;

“**Accounts**” means, together or in combination, the Collection Account, the Transaction Account, the Swap Collateral Account(s) and any Additional Account, each an “**Account**”;

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

“**Additional Account**” means any further bank accounts opened by the Issuer with the Transaction Account Bank, other than for the purpose of holding Swap Collateral;

“**Additional Swap Collateral Account**” means any further Swap Collateral Accounts opened by the Issuer with the Transaction Account Bank;

“**Advance Date**” means the date that the relevant Further Advance is advanced by the Legal Title Holder to the Borrower;

“**Agency Agreement**” means the agreement so named dated on or about the Closing Date between the Issuer, the Agents and the Trustee;

“**Agent Bank**” means Citibank N.A., London Branch in its capacity as agent bank in accordance with the terms of the Agency Agreement, together with any successor agent bank appointed pursuant to the Agency Agreement from time to time;

“**Agents**” means the Agent Bank, the Paying Agents and the Class Z VFN Registrar and “**Agent**” means any one of them;

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

“**Asset Warranties**” means the asset warranties given by the Beneficial Title Seller to the Issuer in Schedule 1 (*Asset Warranties*) of the Mortgage Sale Agreement and “**Asset Warranty**” means any of them;

“**Asset Warranty Claim**” means any claim for a breach of Asset Warranty made by the Issuer against the Beneficial Title Seller under the terms of the Mortgage Sale Agreement;

“**Available Principal Funds**” means in relation to an Interest Payment Date, the amount calculated as at the related Calculation Date equal to the amount by which (a) exceeds (b) where:

- (a) is the aggregate of:
  - (i) all Principal Receipts (including any Principal Collections paid by the Beneficial Title Seller into the Transaction Account pursuant to the Mortgage Sale Agreement), or, in relation to a Determination Period, any Calculated Principal Funds, in each case, excluding an amount equal to any Reconciliation Amounts to be applied as Available Revenue Funds on that Interest Payment Date, received by the Issuer during the immediately preceding Calculation Period (including consideration paid by the Beneficial Title Seller in respect of the re-purchase of the Mortgage Loans and their Related Security (or any related cash payments) which relates to principal amounts due and receipt of realisation proceeds of the relevant Related Security);
  - (ii) the Revenue Reallocation Amount (if any) to be entered as a credit entry on the Principal Ledger on such Interest Payment Date;
  - (iii) (if applicable) the proceeds of the issue of the Notes (to the extent any such amounts stand to the credit of the Principal Ledger as at the relevant Calculation Date);
  - (iv) (upon the occurrence of an Optional Portfolio Purchase) all amounts standing to the credit of the General Reserve Fund to be recorded as a credit entry on the Principal Ledger on such Interest Payment Date; and
  - (v) in relation to a Determination Period, any Reconciliation Amounts deemed to be Available Principal Funds in accordance with Condition 7.11 (*Determinations and Reconciliation*),

plus any amounts which the Cash Manager may have credited to the Principal Ledger during that Calculation Period pursuant to Paragraphs 10.2.2 (*Deductions from Liquidity Ledger*) and 11.2.2 (*Deductions from Credit Ledger*) of Part 2 of Schedule 1 to the Cash Management Agreement; and

- (b) is the aggregate of any amounts which the Cash Manager may have debited to the Principal Ledger during the related Calculation Period pursuant to Paragraph 14 (*Payments from Principal Ledger on any Business Day*) of Part 3 of Schedule 1 to the Cash Management Agreement.

“**Available Redemption Funds**” means in relation to an Interest Payment Date, the amount calculated as at the related Calculation Date equal to the amount by which (a) exceeds (b) where:

- (a) is the aggregate of the Available Principal Funds for that Calculation Period; and
- (b) is the sum of Principal Reallocation Amounts to be recorded as a credit entry on the Revenue Ledger on such Interest Payment Date;

“**Available Revenue Funds**” means, in relation to a Calculation Period, the aggregate of:

- (a) Revenue Receipts (including any Revenue Collections paid by the Beneficial Title Seller into the Transaction Account pursuant to the Mortgage Sale Agreement) received during the immediately preceding Calculation Period, or, if in a Determination Period, Calculated Revenue Funds, in each case, excluding an amount equal to any Reconciliation Amounts to be applied as Available Principal Funds on that Interest Payment Date;
- (b) amounts received by the Issuer under the Interest Rate Swap Agreement (other than (i) any early termination amount received by the Issuer under the Interest Rate Swap Agreement to the extent it is to be applied in acquiring a replacement swap, (ii) Excess Swap Collateral, (iii) Swap Collateral, except to the extent that the value of such Swap Collateral has been applied, pursuant to the provisions of the Interest Rate Swap Agreement, to reduce the amount that would otherwise be payable by the Interest Rate Swap Provider to the Issuer on early termination of the Interest Rate Swap under the Interest Rate Swap Agreement and, to the extent so applied in reduction of the amount otherwise payable by the Interest Rate Swap Provider, such Swap Collateral is not to be applied in acquiring a replacement swap in which case such amounts will be included in Available Revenue Funds), (iv) any Replacement Swap Premium but only to the extent applied directly to pay any termination payment due and payable by the Issuer to the Interest Rate Swap Provider and (v) amounts in respect of Swap Tax Credits);
- (c) (prior to the occurrence of an Optional Portfolio Purchase) the Principal Reallocation Amount (if any) to be recorded as a credit entry on the Revenue Ledger on the Interest Payment Date following such Calculation Period;
- (d) (prior to the occurrence of an Optional Portfolio Purchase) General Reserve Drawings to be recorded as a credit entry on the Revenue Ledger on the Interest Payment Date following such Calculation Period;
- (e) (prior to the occurrence of an Optional Portfolio Purchase) Liquidity Reserve Drawings to be recorded as a credit entry on the Revenue Ledger on the Interest Payment Date following such Calculation Period;
- (f) (upon the redemption in full of the Class A Notes prior to the occurrence of an Optional Portfolio Purchase) all amounts standing to the credit of the General Reserve Fund;
- (g) any interest earned during such Calculation Period on amounts in the Transaction Account and credited to such account;
- (h) (upon the redemption in full of the Class A Notes) any amount transferred from the Principal Ledger in respect of Residual Principal Allocation Amounts; and
- (i) in relation to a Determination Period, any Reconciliation Amounts deemed to be Available Revenue Funds in accordance with Condition 7.11 (*Determinations and Reconciliation*),

plus any amounts which the Cash Manager may have credited to the Revenue Ledger during that Calculation Period pursuant to Paragraphs 10.2 (*Deductions from Liquidity Ledger*) and 11.2 (*Deductions from Credit Ledger*) of Part 2 of Schedule 1 to the Cash Management Agreement,

less any amounts which the Cash Manager may have debited to the Revenue Ledger during that Calculation Period pursuant to Paragraph 13 (*Payments from Revenue Ledger on any Business Day*) of Part 3 of Schedule 1 to the Cash Management Agreement;

“**Back-Up Cash Manager Facilitator**” means Structured Finance Management Limited in its capacity as back-up cash manager facilitator in accordance with the terms of the Cash Management Agreement;

“**Back-Up Servicer Facilitator**” means Structured Finance Management Limited in its capacity as back-up servicer facilitator in accordance with the terms of the Servicing Agreement;

“**Beneficial Title Seller**” means UK Mortgages Corporate Funding Designated Activity Company, a designated activity company incorporated under the laws of Ireland (registration number 567943), having its registered office at 5 George’s Dock, IFSC, Dublin 1, Ireland;

“**Beneficial Title Seller Power of Attorney**” means the power of attorney granted by the Beneficial Title Seller on or about the Closing Date in favour of the Issuer and the Trustee, substantially in the form set out in Part 2 (*Form of Beneficial Title Seller Power of Attorney*) of Schedule 3 of the Mortgage Sale Agreement;

“**Borrower**” means, in relation to a Mortgage Loan, the person or persons named as such in the relevant Mortgage Loan, Mortgage or Mortgage Conditions and to whom such Mortgage Loan is advanced together with any person or persons from time to time (including where applicable as guarantor or otherwise as surety) assuming the obligations of any borrower to repay such Mortgage Loan or any part of it;

“**Breach of Duty**” means, in relation to any person, gross negligence, wilful default or fraud by such person;

“**Business Day**” means a day (other than a Saturday or Sunday) on which banks are open for general business in London;

“**Buy to Let Loan**” means any Mortgage Loan which is not a Regulated Mortgage Contract and which is secured by non-owner occupied freehold or leasehold Properties;

“**Calculation Date**” means in relation to an Interest Payment Date, the first calendar day of each of February, May, August and November in each year (or, if such day is not a Business Day, the next Business Day), or, in the case of the first Calculation Date, 1 August 2018, and in relation to any Interest Payment Date, the “**related Calculation Date**” means, unless the context otherwise requires, the Calculation Date immediately preceding such Interest Payment Date;

“**Calculation Period**” means each three month period ending on the last calendar day of January, April, July and October in each year (or in respect of the first Calculation Period, the period from (but excluding) the Cut-Off Date to and including the last calendar day of July 2018) and, in relation to an Interest Payment Date, the “**related Calculation Period**” means, unless the context otherwise requires, the Calculation Period ending immediately prior to the related Calculation Date;

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

“**Cash Management Agreement**” means the agreement so named dated on or about the Closing Date between the Issuer, the Cash Manager and the Trustee;

“**Cash Manager**” means Citibank N.A., London Branch in its capacity as cash manager under the Cash Management Agreement or any successor Cash Manager appointed from time to time;

“**Cash Manager Determination Date**” means in relation to an Interest Payment Date, the 13<sup>th</sup> Business Day of February, May, August and November in each year;

“**Charged Property**” means all the property, rights and assets of the Issuer which is subject to the Security;

“**Class A Noteholders**” means the persons who for the time being are holders of the Class A Notes;

“**Class A Notes**” means the £317,500,000 Class A Mortgage Backed Floating Rate Notes due November 2055 issued or due to be issued by the Issuer on the Closing Date or, as the case may be, a specific number thereof, whether represented by Definitive Notes or Global Notes;

“**Class A Principal Deficiency Sub-Ledger**” means the sub-ledger of the Principal Deficiency Ledger applicable to the Class A Notes created in accordance with the Cash Management Agreement;

“**Class A Revenue Reallocation Amount**” means in relation to any Interest Payment Date, the amount determined as at the related Calculation Date in accordance with the provisions of the Cash Management Agreement, being the lesser of (a) the debit balance on the Class A Principal Deficiency Sub-Ledger as at such Calculation Date and (b) the amount of Available Revenue Funds (excluding any Principal Reallocation Amount and Liquidity Reserve Drawings) available to the Issuer in the Revenue Ledger as at such Calculation Date after payment of the amounts determined in accordance with items (a) to (f) of the Pre-Enforcement Revenue Payments Priorities;

“**Class Z Principal Deficiency Sub-Ledger**” means the sub-ledger of the Principal Deficiency Ledger applicable to the Class Z VFN created in accordance with the Cash Management Agreement;

“**Class Z Revenue Reallocation Amount**” means in relation to any Interest Payment Date, the amount determined as at the related Calculation Date in accordance with the provisions of the Cash Management Agreement, being the lesser of (a) the debit balance on the Class Z Principal Deficiency Sub-Ledger as at such Calculation Date and (b) the amount of Available Revenue Funds (excluding any Principal Reallocation Amount and Liquidity Reserve Drawings) available to the Issuer in the Revenue Ledger as at such Calculation Date after payment of the amounts determined in accordance with items (a) to (i) of the Pre-Enforcement Revenue Payments Priorities;

“**Class Z VFN**” means the £38,900,000 Class Z Variable Funded Note due November 2055 issued or due to be issued by the Issuer on the Closing Date;

“**Class Z VFN Holder**” means the holder of the Class Z VFN;

“**Class Z VFN Register**” means the register for the Class Z VFN;

“**Class Z VFN Registrar**” means Citibank N.A., London Branch in its capacity as Class Z variable funded note registrar in accordance with the terms of the Agency Agreement;

“**Clearing Systems**” means Euroclear Bank SA / NV and Clearstream Banking, *société anonyme*;

“**Closing Date**” means 28 June 2018 or such other date as the Issuer and the Joint Lead Managers may agree pursuant to the Subscription Agreement;

“**Code**” means the U.S. Internal Revenue Code of 1986, as amended.

“**Collection Account**” means the account to which the Borrowers pay amounts on the Mortgage Loans in the Mortgage Portfolio held by the Servicer at the Collection Account Bank;

“**Collection Account Bank**” means the bank at which the Servicer holds the Collection Account.

“**Common Reporting Standard**” means the common standard on reporting and due diligence for financial account information developed by the Organisation for Economic Co-operation and Development, bilateral and multilateral competent authority agreements, and treaties facilitating the implementation thereof, and any law implementing any such common standard, competent authority agreement, intergovernmental agreement, or treaty, in each case, as amended from time to time.

“**Conditions**” means the terms and conditions to be endorsed on the Notes in, or substantially in, the form set out in Schedule 5 (*Terms and Conditions of the Notes*) to the Trust Deed as any of the same



may from time to time be modified in accordance with the Trust Deed and any reference to a particular numbered Condition shall be construed accordingly;

“**Corporate Services Agreement**” means the agreement so named dated on or about the Closing Date between the Corporate Services Provider, the Share Trustee and the Issuer;

“**Corporate Services Provider**” means Structured Finance Management Limited in its capacity as corporate services provider in accordance with the terms of the Corporate Services Agreement or such other person or persons for the time being acting as corporate services provider to the Issuer under the Corporate Services Agreement;

“**Couponholders**” means the persons who for the time being are holders of the Coupons;

“**Coupons**” means the interest coupons related to the Definitive Notes in, or substantially in, the form set out in Part 2 of Schedule 3 to the Trust Deed and for the time being outstanding or, as the context may require, a specific number of such coupons;

“**Credit Ledger**” means the ledger in the books of the Issuer so named;

“**Credit Ledger Required Amount**” means an amount by which General Reserve Fund Target Amount exceeds the Liquidity Ledger Required Amount;

“**Current Balance**” means:

- (a) in relation to a Mortgage Loan, on any date, the aggregate balance of that Mortgage Loan at such date (but avoiding double counting) including:
  - (I) the original amount advanced to the relevant Borrower and any further amount (including any Further Advance) advanced on or before the given date to the relevant Borrower secured or intended to be secured by the related Mortgage;
  - (II) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been properly capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower’s consent and added to the amounts secured or intended to be secured by the related Mortgage; and
  - (III) any other amount (including, for the avoidance of doubt, accrued interest and arrears of interest) which is due or accrued (whether or not due) and which has not been paid by the relevant Borrower and has not been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent but which is secured or intended to be secured by the related Mortgage,

in each case, as at the end of the Business Day immediately preceding that given date less any repayment or payment of any of the foregoing made on or before the end of the Business Day immediately preceding that given date and excluding any retentions made but not released and any Further Advances committed to be made but not made by the end of the Business Day immediately preceding that given date; and

- (b) in relation to the Mortgage Portfolio and on any day, the aggregate of the Current Balances in respect of the Mortgage Loans contained in that Mortgage Portfolio,

“**Cut-Off Date**” means 31 May 2018;

“**DBRS**” means DBRS Limited or DBRS Ratings Limited;

“**Day Count Fraction**” means in respect of an Interest Period the actual number of days in such period divided by 365;

“**Deed Poll**” means the portfolio option deed poll dated on or about the Closing Date, executed by the Issuer, in favour of the Portfolio Option Holder, from time to time;

“**Deed of Consent**” means a deed whereby a mortgagee in relation to a Property agrees with the Legal Title Holder (or the Servicer on its behalf) to postpone its Security Interest over the Property so that the sums secured by it will rank for repayment after the sums secured by the relevant Mortgage;

“**Definitive Notes**” means any of the Class A Notes issued in definitive bearer form in, or substantially in, the form set out in Part 1 of Schedule 3 to the Trust Deed;

“**Directive on Administrative Cooperation**” means Council Directive 2011/16/EU on administrative cooperation in the field of taxation and any law implementing such Council Directive, as amended from time to time.

“**Electronic Consent**” means, for so long as all the outstanding Class A Notes are represented by Temporary Global Notes and/or Permanent Global Notes and held within the Clearing Systems, in respect of any resolution proposed by the Issuer or the Trustee, where the terms of the proposed resolution have been notified to the relevant class of Noteholders through the relevant Clearing Systems, approval of such resolution (on which the Issuer and Trustee may rely) proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant Clearing Systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. of the aggregate Principal Amount Outstanding of the relevant class of Notes then outstanding.

“**Eligible Investments**” means:

- (a) Sterling gilt-edged securities;
- (b) money market funds that meet the European Securities and Markets Authority (ESMA) Short-Term Money Market Fund definition, set out in Guideline reference 10-049 of the Committee for European Securities Regulators;
- (c) Sterling demand or time deposits and certificates of deposit; and
- (d) short-term debt obligations (including commercial paper),

provided that in all cases such investments will only be made such that there is no withholding or deduction for or on account of taxes applicable thereto and such investments: (i) (aa) have a maturity date of 90 days or less and mature on or before the next following Calculation Date or within 90 days, whichever is sooner, and are rated at least F1+ (short term) and/or AA- (long term) by Fitch and at least P-1 (short term) and A1 (long term) by Moody's (or, as applicable, AAmmf by Fitch and Aaa – mf by Moody's, in respect of money market funds) or (bb) have a maturity date of 30 days or less and mature on or before the next Calculation Date or within 30 days, whichever is the sooner, and are rated at least F1 (short term) and A (long term) by Fitch and at least P-1 (short term) and A2 (long term) by Moody's (or, as applicable, AAmmf by Fitch and Aaa–mf by Moody's, in respect of money market funds and (ii) may be broken or demanded by the Issuer (at no cost to the Issuer) on or before the next following Calculation Date or within 30 to 90 days, whichever is sooner, as specified in (i) above, save that where such investments would result in the recharacterisation of the Notes or any transaction under the Transaction Documents as a “re-securitisation” or a “synthetic securitisation” as defined in Articles 4(63) and 242(11), respectively, of Regulation (EU) No 575/2013 (as amended and/or supplemented from time to time), such investments shall not qualify as authorised investments.

“**Enforcement Notice**” means: a notice delivered by the Trustee to the Issuer in accordance with Condition 12 (*Events of Default*);

“**Event of Default**” means any one of the events specified in Condition 12 (*Events of Default*);

**“Excess Swap Collateral”** means, in respect of the Interest Rate Swap Agreement, an amount (which will be transferred directly to the Interest Rate Swap Provider in accordance with the Interest Rate Swap Agreement) (i) in the case of a termination resulting from the designation of an Early Termination Date under and as defined in the Interest Rate Swap Agreement, equal to the amount by which the value of the collateral (or the applicable part of any collateral) provided by the Interest Rate Swap Provider (including any interest and distributions in respect thereof) to the Issuer pursuant to the Interest Rate Swap Agreement and held by the Issuer at such time exceeds the Interest Rate Swap Provider’s liability under the Interest Rate Swap Agreement as determined on or as soon as reasonably practicable after the date of termination of such Interest Rate Swap Agreement (such liability shall be determined in accordance with the terms of the Interest Rate Swap Agreement except that for the purpose of this definition only the value of the collateral will not be applied as an unpaid amount owed by the Issuer to the Interest Rate Swap Provider); or (ii) in any other circumstance, which the Interest Rate Swap Provider is otherwise entitled to under the terms of the Interest Rate Swap Agreement including as a result of changes in the value of the collateral and/or the Interest Rate Swap;

**“Extraordinary Resolution”** means (i) a resolution passed at a Meeting of Noteholders duly convened and held in accordance with the Provisions for Meetings of Noteholders by a majority of not less than three quarters of the votes cast, (ii) a Written Resolution or (iii) an Electronic Consent;

**“FATCA”** means (i) sections 1471 through 1474 of the Code; (ii) any similar or successor legislation to sections 1471 to 1474 of the Code, (iii) any regulations or guidance pursuant to any of the foregoing; (iv) any official interpretations of any of the foregoing, (v) any intergovernmental agreement to facilitate the implementation of any of the foregoing (an “IGA”); (vi) any law implementing an IGA; or (vii) any agreement with the United States or any other jurisdiction or authority pursuant to the foregoing.

**“Final Discharge Date”** means the date on which the Trustee notifies the Issuer and the Secured Creditors that it is satisfied that all the Secured Amounts and/or all other monies and other liabilities due or owing by the Issuer have been paid or discharged in full;

**“Final Maturity Date”** means the Interest Payment Date falling in November 2055;

**“First Interest Payment Date”** means the Interest Payment Date falling in August 2018;

**“Fitch”** means Fitch Ratings Ltd or any successor to its rating business;

**“General Reserve Drawing”** means a drawing from the General Reserve Fund, which, for an Interest Payment Date, shall be (where the same is to be applied to meet a Revenue Shortfall in respect of such Interest Payment Date) the lower of (i) the amount standing to the credit of the Credit Ledger for that Interest Payment Date and, (ii) the amount required to eliminate such Revenue Shortfall for that Interest Payment Date;

**“General Reserve Fund”** means the credit balance from time to time of the Liquidity Ledger and the Credit Ledger which, on the Closing Date, will be an amount equal to the General Reserve Fund Target Amount initially funded from the proceeds of issue of the Class Z VFN and thereafter from Available Revenue Funds; the funds will firstly be credited into the Liquidity Ledger for the amount of Liquidity Ledger Required Amount and the remaining amount will be credited into the Credit Ledger;

**“General Reserve Fund Target Amount”** means 1.45 per cent. of the aggregate Principal Amount Outstanding of the Class A Notes as of the Closing Date, provided that after the redemption in full of the Class A Notes or the occurrence of an Optional Portfolio Purchase, the General Reserve Fund Target Amount is zero;

**“Global Notes”** means the Permanent Global Notes and the Temporary Global Notes;

“**holder**” means, in relation to a Class A Note, the bearer of that Note and in relation to the Class Z VFN, the registered holder of the Class Z VFN and the words “**holders**” and related expressions shall (where appropriate) be construed accordingly;

“**Incorporated Terms Memorandum**” means the document so named which is dated on or about the Closing Date and signed for the purpose of identification by each of the Transaction Parties;

“**Information Reporting Regime**” means the Common Reporting Standard, the Directive on Administrative Cooperation, and FATCA.

“**Insolvency Act**” means the Insolvency Act 1986;

“**Insolvency Event**” in respect of the Issuer means:

- (a) such company is unable or admits its inability to pay its debts as they fall due (after taking into account any grace period or permitted deferral), or suspends making payments on any of its debts; or
- (b) a moratorium is declared in respect of any indebtedness of such company; or
- (c) the commencement of negotiations with one or more creditors of such company with a view to rescheduling any indebtedness of such company other than in connection with any refinancing in the ordinary course of business; or
- (d) any corporate action, legal proceedings or other procedure or step is taken in relation to:
  - (i) the appointment of an Insolvency Official in relation to such company or in relation to the whole or any part of the undertaking or assets of such company except, in the case of the Issuer, the application to the court under paragraph 12 or the filing of notice of intention to appoint an administrator under paragraph 26 of Schedule B1 to the Insolvency Act by the Issuer or its directors, or the appointment of an administrative receiver by the Trustee following any such application or notice; or
  - (ii) an encumbrancer (excluding, in relation to the Issuer, the Trustee or any Receiver) taking possession of the whole or any part of the undertaking or assets of such company; or
  - (iii) the making of an arrangement, composition, or compromise (whether by way of voluntary arrangement, scheme of arrangement or otherwise) with any creditor of such company, a reorganisation of such company, a conveyance to or assignment for the creditors of such company generally or the making of an application to a court of competent jurisdiction for protection from the creditors of such company generally other than in connection with any refinancing in the ordinary course of business; or
  - (iv) any distress, diligence, execution, attachment or other process being levied or enforced or imposed upon or against the whole or any part of the undertaking or assets of such company (excluding, in relation to the Issuer, by the Trustee or any Receiver); or
  - (v) any procedure or step is taken, or any event occurs, analogous to those set out in (a) to (d) above, in any jurisdiction.

“**Insolvency Official**” means, in relation to a company, a liquidator, (except, in the case of the Issuer, a liquidator appointed for the purpose of a merger, reorganisation or amalgamation the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding) provisional liquidator, examiner, administrator, administrative receiver, receiver, receiver or manager, compulsory or interim manager, nominee, supervisor, trustee, conservator, guardian or other similar officer in respect of such company or in respect of any arrangement, compromise or composition with any creditors or any equivalent or analogous officer under the law of any jurisdiction;

“**Instrumentholders**” means the persons who for the time being are holders of the Instruments;

“**Instruments**” means the Class Z VFN, the Global Notes, the Definitive Notes and the Coupons and  
“**Instrument**” means any one of them;

“**Interest Amount**” means, in respect of a Note, the Note Interest calculated on the relevant Interest Determination Date;

“**Interest Determination Date**” means each Interest Payment Date or, in the case of the first Interest Period, the Closing Date, and, in relation to an Interest Period, the “**related Interest Determination Date**” means the Interest Determination Date which falls on the first day of such Interest Period;

“**Interest Payment Date**” means the 27<sup>th</sup> day of February, May, August and November in each year commencing on the First Interest Payment Date, provided that if any such day is not a Business Day, the Interest Payment Date shall be the immediately succeeding Business Day unless it would as a result fall into the next calendar month, in which case it will be brought forward to the immediately preceding Business Day;

“**Interest Period**” means each period from (and including) an Interest Payment Date (or in respect of the first Interest Period, from the Closing Date) to (but excluding) the next Interest Payment Date (or in respect of the first Interest Period, the First Interest Payment Date) and, in relation to an Interest Determination Date, the “**related Interest Period**” means the Interest Period in which such Interest Determination Date falls or, if such Interest Determination Date does not fall on an Interest Payment Date, the Interest Period next commencing after such Interest Determination Date;

“**Interest Rate Swap**” means the interest rate swap transaction pursuant to the Interest Rate Swap Agreement.

“**Interest Rate Swap Agreement**” means the ISDA Master Agreement, Schedule, Credit Support Annex and Confirmation each dated on or about the Closing Date between the Issuer and the Interest Rate Swap Provider.

“**Interest Rate Swap Provider**” means BNP Paribas.

“**Issuer**” means Malt Hill No.2 plc, a public limited company incorporated in England and Wales with registered number 11360421 as issuer of the Notes;

“**Issuer Covenants**” means the covenants of the Issuer set out in Schedule 6 (*Issuer Covenants*) to the Incorporated Terms Memorandum;

“**Issuer Jurisdiction**” means England and Wales or such other jurisdiction in which the Issuer or any Issuer substitute (as contemplated by Condition 20 (*Substitution of Issuer*)) is incorporated and/or subject to taxation;

“**Issuer Profit Amount**” means an amount retained by the Issuer and to be recognised in the accounts of the Issuer as profit for the relevant accounting year;

“**Joint Lead Managers**” means each of Merrill Lynch International (registered number 02312079) and J.P. Morgan Securities plc (registered number 02711006);

“**Legal Title Holder**” means Godiva Mortgages Limited (registered number 05830727), and on or after the Legal Title Transfer Date, the Replacement Legal Title Holder;

“**Legal Title Holder Power of Attorney**” means the power of attorney granted by the Legal Title Holder in favour of the Issuer and the Trustee substantially in the form in Part 1 (*Form of Legal Title Holder Power of Attorney*) of Schedule 4 of the Mortgage Sale Agreement;

“**Liabilities**” means, in respect of any person, any losses, damages, costs, charges, awards, claims, demands, expenses, judgments, actions, proceedings or other liabilities whatsoever including proper legal fees and any Taxes and penalties incurred by that person;

“**LIBOR**” means London Interbank Offered Rate;

“**Liquidity Ledger**” means the ledger in the books of the Issuer so named;

“**Liquidity Ledger Required Amount**” means 1.45 per cent. of the aggregate Principal Amount Outstanding of the Class A Notes on the relevant Calculation Date, or in respect of the period prior to the first Calculation Date, the Closing Date;

“**Liquidity Reserve Drawing**” means a drawing from the General Reserve Fund, which, for an Interest Payment Date, shall be (where the same is to be applied to meet a Revenue Shortfall in respect of such Interest Payment Date) the lower of (i) the amount standing to the credit of the Liquidity Ledger for that Interest Payment Date and, (ii) the amount required to eliminate such Revenue Shortfall for that Interest Payment Date;

“**Margin**” means:

- (a) in respect of the Class A Notes, 0.75 per cent. per annum; and
- (b) in respect of the Class Z VFN, 0.00 per cent. per annum;

“**Meeting**” means a meeting of Noteholders (whether originally convened or resumed following an adjournment);

“**Minimum Amount**” means one penny;

“**Minimum Denomination**” means, in relation to the Class A Notes, £100,000 and, for so long as the Clearing Systems so permit, any amount in excess thereof in integral multiples of £1,000;

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

“**Moody’s**” means Moody’s Investors Service Limited;

“**Mortgage**” means a charge by way of legal mortgage over a residential property and, in relation to a Mortgage Loan, means the mortgage or legal charge securing that Mortgage Loan including, in each case, all principal sums, interest, costs, charges, expenses and other moneys secured or intended to be secured by that mortgage or legal charge (together the “**Mortgages**”);

“**Mortgage Conditions**” means all the terms and conditions applicable to a Mortgage Loan, including without limitation those set out in the Legal Title Holder’s relevant printed mortgage conditions, as varied from time to time by any mortgage or product special conditions contained in the Mortgage Offer;

“**Mortgage Loan**” means any residential mortgage loan secured by a Mortgage and Related Security, in the Mortgage Portfolio originated by the Legal Title Holder and sold to the Issuer pursuant to the Mortgage Sale Agreement together with, where the context so requires, each Further Advance sold to the Issuer pursuant to the Mortgage Sale Agreement, and any alteration to a Mortgage Loan pursuant to a Product Switch but excluding (for the avoidance of doubt) each Mortgage Loan and its Related Security which is repurchased by the Beneficial Title Seller pursuant to the Mortgage Sale Agreement or otherwise sold by the Issuer and no longer beneficially owned by the Issuer;

“**Mortgage Portfolio**” means the portfolio of Mortgage Loans, the Mortgages, the Related Security and all rights, interest, benefit, income and payments sold to the Issuer by the Beneficial Title Seller on the Closing Date, as listed in Annexure 2 (*The Mortgage Portfolio*) to the Mortgage Sale Agreement, including any Further Advances but excluding (for the avoidance of doubt) any Mortgage Loan and its

Related Security which is repurchased by the Beneficial Title Seller pursuant to the Mortgage Sale Agreement, and no longer beneficially owned by the Issuer;

“**Mortgage Sale Agreement**” means the agreement so named dated on or about the Closing Date between the Issuer, the Beneficial Title Seller, the Legal Title Holder and the Trustee;

“**Most Senior Class**” means the Class A Notes whilst they remain outstanding and thereafter the Class Z VFN;

“**Note Interest**” means, in respect of a Note for any Interest Period the amount of interest determined in respect of such Note for such Interest Period by, (i) multiplying (a) the Principal Amount Outstanding of such Note on the Interest Payment Date coinciding with the related Interest Determination Date by (b) the Note Rate and (ii) multiplying (x) the amount so calculated by (y) the relevant Day Count Fraction and rounding the resultant figure to the nearest Minimum Amount;

“**Note Principal Payment**” means in respect of any Note on any Interest Payment Date, the principal amount redeemable in respect of such a Note, which shall be a proportion of the amount of Available Principal Funds required as at that Interest Payment Date pursuant to the Pre-Enforcement Principal Payments Priorities to be applied in redemption of the relevant 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 class of Notes rounded down to the nearest Minimum Amount;

“**Note Rate**” means, for each Interest Period, the Reference Rate determined as at the related Interest Determination Date plus for the period from (and including) the Closing Date to (and including) the Step-Up Date, the Margin and from (but excluding) the Step-Up Date, the Step-Up Margin, in each case for each respective class of Notes;

“**Noteholders**” means the Class A Noteholders and the Class Z VFN Holder or, where the context otherwise requires, the holders of Notes of a particular class or classes, as the case may be;

“**Notes**” means the Class A Notes and the Class Z VFN;

“**Notices Condition**” means Condition 21 (*Notices*);

“**Notices Details**” means, in relation to any party, the provisions set out in Schedule 7 (*Notices Details*) to the Incorporated Terms Memorandum;

“**Optional Portfolio Purchase**” means a purchase of all (but not part) of the Mortgage Loans and their Related Security by the Portfolio Option Holder;

“**Optional Portfolio Purchase Completion Date**” means the completion date of the Optional Portfolio Purchase;

“**Optional Redemption Date**” means the Interest Payment Date falling in May 2021 and each subsequent Interest Payment Date thereafter;

“**Originator**” means Godiva Mortgages Limited (registered number 05830727);

“**outstanding**” means all the Notes other than:

- (a) those which have been redeemed in full and cancelled in accordance with the Conditions;
- (b) those in respect of which the date for redemption, in accordance with the provisions of the Conditions, has occurred and for which the redemption monies (including all interest accrued thereon to such date for redemption) have been duly paid to the Trustee or the Principal Paying Agent in the manner provided for in the Agency Agreement (and, where appropriate, notice to that effect has been given to the Noteholders in accordance with

the Notices Condition) and remain available for payment in accordance with the Conditions;

- (c) those which have become void under the Conditions;
- (d) those mutilated or defaced Notes which have been surrendered or cancelled and those Notes which are alleged to have been lost, stolen or destroyed and in all cases in respect of which replacement Notes have been issued pursuant to the Conditions; and
- (e) any Temporary Global Notes to the extent that it shall have been exchanged for a Permanent Global Note of the same class or any Permanent Global Note to the extent that it shall have been exchanged for the related Definitive Notes pursuant to the provisions contained therein and the Conditions;

provided that for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of Noteholders and resolve by Extraordinary Resolution;
- (ii) the determination of how many and which Notes are for the time being outstanding for the purposes of Clause 19 (*Waiver*), Clause 20 (*Modifications*), Clause 23 (*Proceedings and Actions by the Trustee*), Clause 33 (*Appointment of Trustees*) and Clause 34 (*Notice of a New Trustee*) of the Trust Deed and Condition 12 (*Events of Default*), Condition 13 (*Enforcement*) and Condition 15 (*Meetings of Noteholders*) and the Provisions for Meetings of Noteholders; and
- (iii) any discretion, power or authority, whether contained in the Trust Deed or provided by law, which the Trustee is required to exercise in or by reference to the interests of the Noteholders or any of them,

those Notes (if any) which are for the time being held by or on behalf of or for the benefit of the Issuer, the Beneficial Title Seller, any holding company of any of them or any other subsidiary of either such holding company, in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain outstanding, except, in the case of the Beneficial Title Seller, any holding company of the Beneficial Title Seller or any other subsidiary of such holding company (the “**Relevant Persons**”) where all of the Notes of any class are held by or on behalf of or for the benefit of one or more Relevant Persons, in which case such class of Notes (the “**Relevant Class of Notes**”) shall be deemed to remain outstanding except that, if there is any other class of Notes ranking *pari passu* with, or junior to, the Relevant Class of Notes and one or more Relevant Persons are not the beneficial owners of all the Notes of such class, then the Relevant Class of Notes shall be deemed not to remain outstanding;

“**Paying Agents**” means the principal paying agent named in the Agency Agreement together with any successor or additional paying agents appointed from time to time in connection with the Notes under the Agency Agreement;

“**Payments Priorities**” means the Pre-Enforcement Payments Priorities and the Post-Enforcement Payments Priorities;

“**Permanent Global Note**” means the permanent global note representing any of the Class A Notes in, or substantially in, the form set out in Schedule 2 (*Form of Permanent Global Note*) of the Trust Deed;

“**Portfolio Option**” means the option granted to the Portfolio Option Holder documented in the Deed Poll;

“**Portfolio Option Holder**” means the Class Z VFN Holder;



“**Post-Enforcement Payments Priorities**” means the provisions relating to the order of priority of payments from the Transaction Account, set out in Clause 15 (*Post-Enforcement Payments Priorities*) of the Security Deed;

“**Potential Event of Default**” means any event which may become (with the passage of time, the giving of notice, the making of any determination or any combination thereof) an Event of Default;

“**Pre-Enforcement Payments Priorities**” means the Pre-Enforcement Principal Payments Priorities and the Pre-Enforcement Revenue Payments Priorities;

“**Pre-Enforcement Principal Payments Priorities**” means the provisions relating to the order of priority of payments from the Principal Ledger set out in Paragraph 16 (*Payments from Principal Ledger on an Interest Payment Date*) of Part 3 of Schedule 1 to the Cash Management Agreement;

“**Pre-Enforcement Revenue Payments Priorities**” means the provisions relating to the order of priority of payments from the Revenue Ledger set out in Paragraph 15 (*Payments from Revenue Ledger on an Interest Payment Date*) of Part 3 of Schedule 1 to the Cash Management Agreement;

“**Principal Amount Outstanding**” means, on any day:

- (a) in relation to a Note, the principal amount of that Note on the Closing Date less the aggregate amount of any principal payments in respect of that Note which have become due and payable (and have been paid) on or prior to that day; and
- (b) in relation to the Notes outstanding at any time, the aggregate of the amount in paragraph (a) above in respect of all Notes outstanding;

“**Principal Deficiency Ledger**” means the ledger in the books of the Issuer so named;

“**Principal Ledger**” means the ledger in the books of the Issuer so named;

“**Principal Paying Agent**” means Citibank N.A., London Branch in its capacity as principal paying agent in accordance with the terms of the Agency Agreement and any successor principal paying agent appointed pursuant to the provisions thereof;

“**Principal Reallocation Amount**” means, in relation to any Interest Payment Date, the aggregate amount determined as at the related Calculation Date, in accordance with the provisions of Paragraph 16 (*Payments from Principal Ledger on an Interest Payment Date*) of Part 3 of Schedule 1 to the Cash Management Agreement, as being the amount (if any) of Available Principal Funds (excluding any Revenue Reallocation Amount to be credited to the Principal Ledger on such Interest Payment Date) which are to be utilised by the Issuer to reduce or eliminate any Senior Revenue Shortfall on such Interest Payment Date after the making of any General Reserve Drawing or Liquidity Reserve Drawing on such Interest Payment Date;

“**Principal Receipts**” or “**Principal Receivables**” means, in relation to a Calculation Period, the amount calculated as at the related Calculation Date equal to the aggregate of (without double counting):

- (a) all amounts representing repayments under the Mortgage Loans and their Related Security (including overpayments, capitalised interest, costs, expenses and arrears), received or recovered in respect of the Mortgage Loans and their Related Security during such Calculation Period;
- (b) all Recoveries representing capital repayments under the Mortgage Loans (including capitalised interest, expenses and arrears) recovered upon enforcement of the Related Security during such Calculation Period;

- (c) any sums received or recovered in connection with an Asset Warranty Claim or breach of Asset Condition during such Calculation Period to the extent such sums are attributable to principal;
- (d) the net proceeds of the disposal by the Issuer of one or more Mortgage Loans during such Calculation Period to the extent such proceeds constitute principal; and
- (e) all insurance related proceeds received or recovered during such Calculation Period in respect of the Mortgage Loans in the Mortgage Portfolio and their Related Security to which the Issuer is beneficially entitled to the extent applied towards sums of the type referred to in paragraph (a) or (b) above;

“**Property**” means, in relation to a Mortgage Loan and its related Mortgage, the freehold, heritable or leasehold property charged as security for the repayment of such Mortgage Loan;

“**Prospectus**” means the prospectus dated on or about the Signing Date prepared in connection with the issue by the Issuer of the Notes;

“**Provisions for Meetings of Noteholders**” means the provisions contained in Schedule 6 (*Provisions for Meetings of Noteholders*) to the Trust Deed;

“**Prudent Mortgage Servicer**” means a reasonably prudent residential mortgage servicer who is servicing residential buy-to-let mortgage loans and their collateral security in respect of residential property in England and Wales and which have in all material respects the same or similar characteristics to the Mortgage Portfolio and are originated, administered and held to maturity to lending standards, lending criteria and procedures as ought to have been applied in relation to the Mortgage Portfolio or, if the relevant context relates to a specific Mortgage Loan, as ought to have been applied in relation to such Mortgage Loan;

“**Qualifying Noteholder**” means, in respect of the Class Z VFN;

- (a) a person which is beneficially entitled to interest in respect of the Class Z VFN and is:
  - (i) a company resident in the United Kingdom for United Kingdom tax purposes;
  - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which will bring into account payments of interest in respect of the Note in computing the chargeable profits (for the purposes of section 19 of the Corporation Tax Act 2009 (CTA 2009)) of that company; or
  - (iii) a partnership each member of which is:
    - (a) a company resident in the United Kingdom; or
    - (b) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which will bring into account in computing its chargeable profits (for the purposes of section 19 of the CTA 2009) the whole of any share of a payment of interest in respect of the Note that falls to it by reason of Part 17 of the CTA 2009; or
- (b) a person which falls within any of the other descriptions in section 935 or 936 of the Income Tax Act 2007 (ITA 2007) and satisfies any conditions set out therein in order for the interest to be an excepted payment for the purposes of section 930 ITA 2007; or
- (c) a Treaty Noteholder.

“**Rating Agencies**” means Fitch and Moody’s and “**Rating Agency**” means either of them;

“**Realisation**” means, in relation to any Charged Property, the deriving, to the fullest extent practicable, of proceeds from or in respect of such Charged Property including (without limitation) through sale or through performance by a Borrower in accordance with the provisions of the Transaction Documents;

“**Receivables**” means the Principal Receivables and the Revenue Receivables;

“**Receiver**” means any receiver, manager or administrative receiver appointed in respect of the Issuer by the Trustee in accordance with Clause 17.2 (*Appointment of a Receiver*) of the Security Deed;

“**Recoveries**” means any payments received in respect of a Mortgage Loan after the Servicer has completed the Enforcement Procedures (including enforcement of security) in respect of such Mortgage Loan;

“**Reference Banks**” means the principal London office of four major banks in the London interbank market selected by the Agent Bank (in consultation with the Issuer) at the relevant time;

“**Reference Rate**” means, on any Interest Determination Date the Sterling Reference Rate;

“**Regulated Activities Order**” means the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, as amended (S.I. 2001 No. 544);

“**Regulated Mortgage Contract**” has the meaning given to it in article 61(3)(a) of the Regulated Activities Order;

“**Related Security**” means, in relation to a Mortgage Loan, the security granted for the repayment of that Mortgage Loan by the relevant Borrower including the relevant Mortgage and all other matters applicable thereto acquired as part of the Mortgage Portfolio sold to the Issuer pursuant to the Mortgage Sale Agreement including (without limitation):

- (a) the benefit of all affidavits, consents, renunciations, guarantees, indemnities, waivers and postponements (including, without limitation, Deeds of Consent) from occupiers and other persons having an interest in or rights in connection with the relevant Property;
- (b) each right of action of the Beneficial Title Seller against any person (including, without limitation, any solicitor, licensed conveyancer, qualified conveyancer, valuer, registrar or registry or other person) in connection with any report, valuation, opinion, certificate or other statement of fact or opinion (including, without limitation, each Certificate of Title and Valuation Report) given or received in connection with all or part of that Mortgage Loan and its Related Security or affecting the decision of the Legal Title Holder (or the Servicer on its behalf) to make or offer to make all or part of the relevant Mortgage Loan; and
- (c) the benefit of (including, without limitation, the rights as the insured person under and as notations of interest on, and returns of premium and proceeds of claims under) insurance and assurance policies (including, the relevant Third Party Buildings Policies) deposited, charged, obtained, or held in connection with the relevant Mortgage Loan, Mortgage and/or Property and relevant Loan Files;

“**Relevant Date**” means, in respect of any payment in relation to the Notes, whichever is the later of:

- (a) the date on which the payment in question first becomes due; and
- (b) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders in accordance with the Notices Condition;

“**Relevant Period**” means in relation to an Interest Determination Date, the length in months of the related Interest Period;

“**Relevant Screen**” means a page of the Reuters service or of the Bloomberg service, or of any other medium for the electronic display of data as may be previously approved in writing by the Trustee and as has been notified to the Noteholders in accordance with the Notices Condition;

“**Replacement Interest Rate Swap Agreement**” means any hedging agreement entered into documenting the replacement interest rate swap entered into by the Issuer;

“**Replacement Legal Title Holder**” means the Beneficial Title Seller or a person designated by the Beneficial Title Seller, being a person to whom the legal title to the Mortgage Loans and the Related Security will be transferred on the Legal Title Transfer Date;

“**Replacement Swap Premium**” means an amount received by the Issuer from a replacement interest rate swap provider upon entry by the Issuer into a Replacement Interest Rate Swap Agreement with such replacement interest rate swap provider;

“**Representative Amount**” means an amount that is representative for a single transaction in the relevant market at the relevant time;

“**Reserved Matter**” means any proposal:

- (a) to change any date fixed for payment of principal or interest (including, for the avoidance of doubt, the Final Maturity Date) or any other amount in respect of the Notes, to change the amount of principal or interest or any other amount due on any date in respect of the Notes or to alter the method of calculating the amount of any payment in respect of the Notes on redemption or maturity (except any change made in accordance with Condition 16.5 (*Benchmark Rate Modification*) which will not be held to be a Reserved Matter);
- (b) (except in accordance with Condition 20 (*Substitution of Issuer*) and Clause 21 (*Substitution*) of the Trust Deed) to effect the exchange, conversion or substitution of the Notes for, or the conversion of such Notes into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed;
- (c) to change the currency in which amounts due in respect of the Notes are payable;
- (d) to release any Security, other than as expressly contemplated in the Transaction Documents;
- (e) to alter the Payments Priorities or any other amounts in respect of the Notes;
- (f) to change the quorum required at any Meeting or the majority required to pass an Extraordinary Resolution;
- (g) to restrict the transferability of any Note; or
- (h) to amend this definition;

“**Residual Principal Allocation Amount**” means in relation to an Interest Payment Date, the amount calculated as at the related Calculation Date equal to the amount by which the Available Redemption Funds exceed the aggregate Note Principal Payment in respect of the Notes;

“**Revenue Ledger**” means the ledger in the books of the Issuer so named;

“**Revenue Reallocation Amount**” means any of a Class A Revenue Reallocation Amount or a Class Z Revenue Reallocation Amount;

**“Revenue Receipts”** or **“Revenue Receivables”** means, in relation to a Calculation Period, the aggregate (without double counting) of:

- (a) all amounts representing interest, fees and charges received or recovered in respect of the Mortgage Loans and their Related Security during such Calculation Period;
- (b) any Recoveries received during such Calculation Period other than such as are referred to under paragraph (b) of the definition of “Principal Receipts”;
- (c) the net proceeds of disposal of any Mortgage Loan or the related Property or any amounts recovered from third parties received by the Issuer during such Calculation Period to the extent such proceeds are not attributable to principal;
- (d) all insurance related proceeds received or recovered during such Calculation Period in respect of the Mortgage Loans and their Related Security to which the Issuer is beneficially entitled to the extent applied towards sums of the type referred to in paragraph (a) or (b) above;
- (e) any sums received or recovered in connection with an Asset Warranty Claim or breach of Asset Condition during such Calculation Period to the extent such sums are not related to principal;
- (f) any amounts representing income from Eligible Investments credited to the Transaction Account during the immediately preceding Calculation Period to the extent such sums are not attributable to principal; and
- (g) any interest on the credit balance of the Collection Account from time to time and credited to the Collection Account and transferred to the Transaction Account during such Calculation Period;

**“Revenue Shortfall”** means, as at any Interest Payment Date, an amount equal to (a) minus (b) where:

- (a) is the amount of the Available Revenue Funds calculated in respect of the related Calculation Period, but:
  - (i) (for the purposes of calculating a General Reserve Drawing) without taking into account the amount of any Liquidity Reserve Drawing, General Reserve Drawing or Principal Reallocation Amount, to be recorded as a credit entry on the Revenue Ledger on such Interest Payment Date
  - (ii) (for the purposes of calculating a Liquidity Reserve Drawing) taking into account any General Reserve Drawing but without taking into account the amount of any Liquidity Reserve Drawing or Principal Reallocation Amount, to be recorded as a credit entry on the Revenue Ledger on such Interest Payment Date; and
  - (iii) (for the purposes of calculating a Principal Reallocation Amount) taking into account the amount of any Liquidity Reserve Drawing and General Reserve Drawing but without taking into account the amount of any Principal Reallocation Amount, to be recorded as a credit entry on the Revenue Ledger on such Interest Payment Date; and
- (b) is the aggregate of the amounts required by the Issuer to pay or to provide in full on such Interest Payment Date for such items:
  - (i) (for the purposes of calculating a General Reserve Drawing) items (a) to (h) of the Pre-Enforcement Revenue Payments Priorities;

- (ii) (for the purposes of calculating a Liquidity Reserve Drawing) items (a) to (f) of the Pre-Enforcement Revenue Payments Priorities; and
- (iii) (for the purposes of calculating a Principal Reallocation Amount) items (a) to (f) of the Pre-Enforcement Revenue Payments Priorities,

provided that no Revenue Shortfall will arise if the amount of (a) minus (b) is equal to or greater than zero;

“**Right of First Refusal**” means the Legal Title Holder’s right of first refusal pursuant to Clause 13.4 (*Further Assurance*) of the Mortgage Sale Agreement;

“**Rounded Arithmetic Mean**” means the arithmetic mean (rounded, if necessary, to the nearest 0.0001 per cent., 0.00005 per cent. being rounded upwards);

“**S&P**” means Standard & Poor’s Credit Market Services Europe Limited;

“**Screen**” means the display displaying the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over administration of that rate) as quoted on the Reuters page LIBOR01; or

- (a) such other page as may replace Reuters page LIBOR01 on that service for the purpose of displaying such information; or
- (b) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Trustee) as may replace such screen;

“**Secured Amounts**” means the aggregate of all monies and Liabilities which from time to time are or may become due, owing or payable by the Issuer to each, some or any of the Secured Creditors under the Notes or the Transaction Documents;

“**Secured Creditors**” means the Trustee in its own capacity and as trustee on behalf of those persons listed as entitled to payment in Clause 15 (pursuant to the *Post-Enforcement Payments Priorities*) of the Security Deed, and those other parties listed in the Post-Enforcement Payments Priorities;

“**Securitisation Regulation**” means Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017;

“**Security**” means the security created in favour of the Trustee pursuant to the Security Deed;

“**Security Deed**” means the deed so named dated on or about the Closing Date between the Issuer and the Trustee (including any security documents supplemental thereto);

“**Security Interest**” means any mortgage, sub-mortgage, charge, sub security, pledge, lien (other than a lien arising in the ordinary course of business or by operation of law), assignment or assignation by way of security or other encumbrance or security interest howsoever created or arising;

“**Senior Revenue Shortfall**” means, as at any Interest Payment Date, an amount equal to (a) minus (b) where:

- (a) is the Revenue Shortfall; and
- (b) is the aggregate of the General Reserve Drawing and Liquidity Reserve Drawing that has been applied to reduce the Revenue Shortfall,

provided that no Senior Revenue Shortfall will arise if the amount of (a) minus (b) is equal to or greater than zero, and the absolute value of any negative amount shall be used for the purposes of calculating a Principal Reallocation Amount for the relevant Interest Payment Date;

“**Servicer**” means Coventry Building Society in its capacity as servicer in accordance with the terms of the Servicing Agreement or any replacement servicer;

“**Servicing Agreement**” means the agreement so named dated on or about the Closing Date between, amongst others, the Issuer, the Servicer, the Cash Manager and the Trustee;

“**Share Trust Deed**” means the deed so named dated 20 June 2018 and executed by the Share Trustee;

“**Share Trustee**” means Intertrust Corporate Services Limited as share trustee of all the shares in Holdings or the trustee or trustees for the time being of the Share Trust Deed;

“**Signing Date**” means 27 June 2018 or such other date as the Issuer and the Joint Lead Managers may agree;

“**Specified Office**” means, in relation to any Agent:

- (a) the office specified against its name in the Notices Details; or
- (b) such other office as such Agent may specify in accordance with Clause 13.8 (*Changes in Specified Offices*) of the Agency Agreement;

“**SPV Criteria**” means the criteria established from time to time by the Rating Agencies for a single purpose company in the Issuer Jurisdiction;

“**Standard Documentation**” means the documentation listed in Annexure 1 (*Standard Documentation*) to the Mortgage Sale Agreement which have been used by the Originator from time to time in connection with its activities as lender and on which each Mortgage Loan and its Related Security comprised in the Mortgage Portfolio has been granted or is outstanding;

“**Step-Up Date**” means the first Optional Redemption Date;

“**Step-Up Margin**” means:

- (a) in respect of the Class A Notes, 1.125 per cent. per annum; and
- (b) in respect of the Class Z VFN, 0.00 per cent. per annum;

“**Sterling**” and “**£**” denote the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland;

“**Sterling Reference Rate**” means, on any Interest Determination Date, the rate determined by the Agent Bank by reference to the Sterling Screen Rate on such date or if, on such date, the Sterling Screen Rate is unavailable:

- (a) the Rounded Arithmetic Mean of the offered quotations as at or about 11:00 a.m. (London time) on that date of the Reference Banks to major banks for Sterling deposits for the Relevant Period in the London interbank market in the Representative Amount determined by the Agent Bank after request of the principal London office of each of the Reference Banks;
- (b) if, on such date, two or three only of the Reference Banks provide such quotations, the rate determined in accordance with paragraph (a) above on the basis of the quotations of those Reference Banks providing such quotations; or
- (c) if, on such date, one only or none of the Reference Banks provide such a quotation, the Sterling Reserve Reference Rate;

“**Sterling Reserve Reference Rate**” means on any Interest Determination Date:

- (a) the Rounded Arithmetic Mean of the rates at which deposits in Sterling are offered in the London interbank market at approximately 11:00 a.m. (London time) on the Interest

Determination Date by the principal London office of each of four major banks selected by the Agent Bank (in consultation with the Issuer) for Sterling loans for the Relevant Period in the Representative Amount to major European banks; or

- (b) if the Agent Bank certifies that it cannot determine such Rounded Arithmetic Mean as aforesaid, the Sterling Reference Rate in effect for the Interest Period ending on the Business Day immediately preceding the related Interest Determination Date;

**“Sterling Screen Rate”** means:

- (a) in relation to the first Interest Determination Date, the linear interpolation (by reference to the first Interest Period) of the offered quotation for Sterling deposits for a period of two months and for a period of three months;
- (b) for any other Interest Determination Dates, the offered quotations for Sterling deposits for the Relevant Period,

in each case, which appears on the Screen as at or about 11:00 a.m. (London time) on that date;

**“Stock Exchange”** means The Irish Stock Exchange plc trading as Euronext Dublin;

**“Subscription Agreement”** means the agreement so named dated on or about the Signing Date between, the Issuer, the Beneficial Title Seller and the Joint Lead Managers;

**“Substituted Obligor”** means a single purpose company incorporated in any jurisdiction that meets the SPV Criteria;

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

**“Swap Collateral Account”** means the account(s) (including cash and/or securities accounts) opened by the Issuer with one or more Swap Collateral Account Banks for the purposes of depositing any collateral to be posted by an Interest Rate Swap Provider;

**“Swap Collateral Account Bank”** means Citibank N.A., and any other bank with which the Issuer agrees to open any Swap Collateral Accounts;

**“Swap Tax Credits”** means any credit against, relief or remission for, repayment of tax received by the Issuer from the tax authorities of any jurisdiction relating to any deduction or withholding giving rise to an increased payment by the Interest Rate Swap Provider to the Issuer.

**“Tax”** shall be construed so as to include any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same, but excluding taxes on net income) imposed or levied by or on behalf of (or pursuant to any agreement with) any Tax Authority and **“Taxes”**, **“taxation”**, **“taxable”** and comparable expressions shall be construed accordingly;

**“Tax Authority”** means any government, state or municipality or any local, state, federal or other authority, body or official anywhere in the world exercising a fiscal, revenue, customs or excise function (including, without limitation, Her Majesty’s Revenue and Customs);

**“Tax Deduction”** means any deduction or withholding on account of Tax;

**“Temporary Global Note”** means the temporary global note representing any of the Class A Notes in, or substantially in, the form set out in Schedule 1 (*Form of Temporary Global Note*) of the Trust Deed;



“**Transaction Account**” means the sterling account so named specified in the Account Details or such other account or accounts as may, with the prior written consent of the Trustee, be designated by the Issuer as such account;

“**Transaction Account Agreement**” means (i) the agreement so named dated on or about the Closing Date between the Issuer, the Cash Manager, the Transaction Account Bank and the Trustee, relating to the Transaction Account, the sterling Swap Collateral Account opened on the Closing Date and specified in the Account Details and any Additional Account or Additional Swap Collateral Account; and (ii) any custody agreement to be entered into for the purpose of holding Swap Collateral in the form of securities.

“**Transaction Account Bank**” means Citibank, N.A., London Branch in its capacity as account bank in accordance with the terms of the Transaction Account Agreement or such other bank with which the Transaction Account is held;

“**Transaction Documents**” means the Subscription Agreement, the Agency Agreement, the Cash Management Agreement, the Corporate Services Agreement, the Deed Poll, the Mortgage Sale Agreement, the Security Deed, the Servicing Agreement, the Interest Rate Swap Agreement, the Beneficial Title Seller Power of Attorney, the Legal Title Holder Power of Attorney, the Transaction Account Agreement, the Trust Deed and any document designated as such by the Issuer and the Trustee;

“**Transaction Party**” means any person who is a party to a Transaction Document and “**Transaction Parties**” means some or all of them;

“**Treaty Noteholder**” means a person which:

- (a) is treated as a resident of a Treaty State for the purposes of the Treaty;
- (b) does not carry on a business in the United Kingdom through a permanent establishment with which that person's participation in the Note is effectively connected; and
- (c) fulfils any other conditions relating solely to it which must be fulfilled under the Treaty for residents of that Treaty State to obtain exemption from United Kingdom taxation on interest, subject to the completion of any necessary procedural formalities.

“**Treaty State**” means a jurisdiction having a double taxation agreement (a “**Treaty**”) with the United Kingdom which makes provision for full exemption from tax imposed by the United Kingdom on interest.

“**Trust Deed**” means the deed so named dated on or about the Closing Date between the Issuer and the Trustee;

“**Trust Documents**” means the Trust Deed and the Security Deed and (unless the context requires otherwise) includes any deed or other document executed in accordance with or pursuant to the provisions of the Trust Deed or (as applicable) the Security Deed and expressed to be supplemental to the Trust Deed or the Security Deed (as applicable);

“**Trustee**” means Citicorp Trustee Company Limited in its capacity as trustee under the Trust Deed;

“**VAT**” means:

- (a) any tax imposed in compliance with the council directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112) (including, in relation to the United Kingdom, value added tax imposed by VATA and legislation and regulations supplemental thereto); and

- (b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in (a), or elsewhere;

“**VATA**” means the Value Added Tax Act 1994; and

“**Written Resolution**” means a resolution in writing signed by or on behalf of holders of not less than 75 per cent. of the Principal Amount Outstanding of the relevant class of Notes for the time being outstanding, who for the time being are entitled to receive notice of a Meeting in accordance with the Provisions for the Meetings of Noteholders, whether contained in one document or several documents in the same form, each signed by or on behalf of one or more such holders of such Notes.

## 2.2 *Interpretation*

Any reference in the Conditions to:

“**continuing**”, in respect of an Event of Default, shall be construed as a reference to an Event of Default which has not been waived in writing in accordance with the terms of the Conditions or, as the case may be, the relevant Transaction Document or which has not been remedied;

a “**class**” shall be a reference to a class of the Notes being the Class A Notes, or the Class Z VFN and “**classes**” shall be construed accordingly;

“**including**” shall be construed as a reference to “**including without limitation**”, so that any list of items or matters appearing after the word “**including**” shall be deemed not to be an exhaustive list, but shall be deemed rather to be a representative list, of those items or matters forming a part of the category described prior to the word “including”;

“**indebtedness**” shall be construed so as to include any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;

a “**law**” shall be construed as any law (including common or customary law), statute, constitution, decree, judgment, treaty, regulation, directive, bye-law, order or any other legislative measure of any government, supranational, local government, statutory or regulatory body or court;

a “**person**” shall be construed as a reference to any person, firm, company, corporation, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) of two or more of the foregoing;

“**principal**” shall, where applicable, include premium;

“**reasonable**” or “**reasonably**” and similar expressions when used in any of the Transaction Documents relating to the Trustee and any exercise of power, opinion, determination or other similar matter shall be construed as meaning reasonable or reasonably (as the case may be) having regard to, and taking into account the interests of the Noteholders only, and “**acting reasonably**” means, in relation to the Trustee, if acting reasonably in the interests of the Noteholders;

“**redeem**” and “**pay**” shall each include both of the others and “**redeemed**”, “**redeemable**” and “**redemption**” and “**paid**”, “**payable**” and “**payment**” shall be construed accordingly;

a “**successor**” of any party shall be construed so as to include an assignee or successor in title of such party and any person who under the laws of the jurisdiction of incorporation or domicile of such party has assumed the rights and obligations of such party under any Transaction Document or to which, under such laws, such rights and obligations have been transferred; and

a reference to any person defined as a “**Transaction Party**” in the Conditions shall be construed so as to include its and any subsequent successors and permitted transferees in accordance with their

respective interests and, in relation to the Trustee, shall include any person for the time being acting as trustee or trustees pursuant to the Trust Documents.

### **2.3 *Transaction Documents and other agreements***

Any reference to any document defined as a Transaction Document or any other agreement or document shall be construed as a reference to such Transaction Document or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated, supplemented or replaced.

### **2.4 *Statutes and Treaties***

Any reference to a statute or treaty shall be construed as a reference to such statute or treaty as the same may have been, or may from time to time be, amended or, in the case of a statute, re-enacted.

### **2.5 *Schedules***

Any Schedule of, or Appendix to, a Transaction Document forms part of such Transaction Document and shall have the same force and effect as if the provisions of such Schedule or Appendix were set out in the body of such Transaction Document. Any reference to a Transaction Document shall include any such Schedule or Appendix.

### **2.6 *Headings***

Condition headings are for ease of reference only.

### **2.7 *Sections***

Except as otherwise specified in the Condition, reference in the Conditions to:

2.7.1 a “**Section**” shall be construed as a reference to a Section of such Transaction Document;

2.7.2 a “**Part**” shall be construed as a reference to a Part of such Transaction Document;

2.7.3 a “**Schedule**” shall be construed as a reference to a Schedule of such Transaction Document;

2.7.4 a “**Clause**” shall be construed as a reference to a Clause of a Part or Section (as applicable) of such Transaction Document; and

2.7.5 a “**Paragraph**” shall be construed as a reference to a Paragraph of a Schedule of such Transaction Document.

### **2.8 *Number***

In any Transaction Document, save where the context otherwise requires, words importing the singular number include the plural and vice versa.

## **3 Form, Denomination and Title**

### **3.1 *Form and Denomination***

The Class A Notes are in bearer form in the Minimum Denomination with Coupons attached at the time of issue.

The Class Z VFN is in dematerialised registered form.

### **3.2 *Title***

Title to the Global Notes, the Definitive Notes and the Coupons will pass by delivery. In respect of the Class A Notes, the holder of any Global Note, Definitive Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (including the making of any payment) whether or not any payment is overdue and regardless of any notice of ownership, trust or

any other interest therein, any writing thereon or any notice of any previous loss or theft thereof and no person shall be liable for so treating such holder.

Title to a Class Z VFN shall only pass by and upon registration of the transfer in the Class Z VFN Register provided that no transferee shall be registered as a new Class Z VFN Holder unless (i) the prior written consent of the Issuer and (for so long as any Class A Notes are outstanding) the Trustee has been obtained (and the Trustee shall give its consent to such a transfer if the same has been sanctioned by an Extraordinary Resolution of the Class A Noteholders) and (ii) such transferee has certified to, *inter alios*, the Class Z VFN Registrar and the Issuer that it is (A) a person falling within sub-paragraphs (a) to (e) of paragraph 3 of Schedule 2A to the Insolvency Act 1986, (B) independent of the Issuer within the meaning of regulation 2(1) of the Taxation of Securitisation Companies Regulations 2006 and (C) a Qualifying Noteholder.

## **4 Status and Ranking**

### **4.1 Status**

The Notes and the Coupons relating thereto constitute secured obligations of the Issuer.

### **4.2 Ranking**

Each class of Notes will at all times rank without preference or priority *pari passu* and rateably amongst themselves.

### **4.3 Sole Obligations**

The Notes and the Coupons are obligations solely of the Issuer and are not obligations of, or guaranteed by, any of the other Transaction Parties.

### **4.4 Priority of Interest Payments**

Payments of interest on the Class A Notes will at all times rank in priority to payments of interest on the Class Z VFN, in accordance with the Pre-Enforcement Revenue Payments Priorities.

### **4.5 Priority of Principal Payments**

Payments of principal on the Class A Notes will at all times rank in priority to payments of principal on the Class Z VFN, in accordance with the Pre-Enforcement Principal Payments Priorities.

### **4.6 Payments Priorities**

Prior to the delivery of an Enforcement Notice, the Issuer is required to apply Available Revenue Funds and Available Principal Funds in accordance with the Pre-Enforcement Payments Priorities and thereafter monies will be applied by the Trustee (or the Cash Manager on its behalf) in accordance with the Post-Enforcement Payments Priorities.

## **5 Security**

### **5.1 Security**

The Notes are secured by the Security.

### **5.2 Enforceability**

The Security will become enforceable upon the delivery by the Trustee of an Enforcement Notice in accordance with Condition 12 (*Events of Default*) and subject to the matters referred to in Condition 13 (*Enforcement*).

## **6 Issuer Covenants**

The Issuer makes the Issuer Covenants in favour of the Trustee, which, amongst other things, restrict the ability of the Issuer to create or incur any indebtedness (save as permitted in the Trust Deed), dispose of assets or change the nature of its business. So long as any Note remains outstanding, the Issuer shall comply with the Issuer Covenants.

## **7 Interest**

### **7.1 *Accrual of Interest***

Each Note bears interest on its Principal Amount Outstanding from the Closing Date.

### **7.2 *Cessation of Interest***

The Notes shall cease to bear interest from its due date for final redemption unless, upon due presentation, payment of the principal is improperly withheld or refused, in which case, it will continue to bear interest in accordance with this Condition (both before and after judgment) until whichever is the earlier of:

7.2.1 the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and

7.2.2 the day which is seven days after the Principal Paying Agent or the Trustee has notified the relevant Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

### **7.3 *Calculation Period of less than 1 year***

Whenever it is necessary to compute an amount of interest in respect of any Note for a period of less than a full year, such interest shall be calculated on the basis of the applicable Day Count Fraction.

### **7.4 *Interest Payments***

Interest on the Notes is payable in Sterling in arrear on each Interest Payment Date commencing on the First Interest Payment Date, in an amount equal to the Interest Amount in respect of such Note for the Interest Period ending on the day immediately preceding such Interest Payment Date.

### **7.5 *Calculation of Interest Amount***

Upon or as soon as practicable after each Interest Determination Date, the Issuer shall calculate (or shall cause the Agent Bank to calculate) the Interest Amount payable on the Notes for the related Interest Period.

### **7.6 *Notification of Note Rate, Interest Amount and Interest Payment Date***

As soon as practicable after each Interest Determination Date, the Agent Bank will cause:

7.6.1 the Note Rate for each class of Notes for the related Interest Period;

7.6.2 the Interest Amount for each class of Notes for the related Interest Period; and

7.6.3 the Interest Payment Date next following the related Interest Period;

to be notified to the Issuer, the Cash Manager, the Trustee, the Principal Paying Agent, the Class Z VFN Registrar and, for so long as the Class A Notes are listed on the Stock Exchange, the Stock Exchange.

### **7.7 *Publication of Note Rate, Interest Amount and Interest Payment Date***

As soon as practicable after receiving each notification of the Note Rates in respect of each class of Notes, the Interest Amount and the Interest Payment Date in accordance with Condition 7.6 (*Notification of Note Rate, Interest Amount and Interest Payment Date*) the Issuer will cause such Note

Rates for the Notes and the Interest Amounts for the Notes and the next following Interest Payment Date to be published by the Agent Bank in accordance with the Notices Condition.

#### **7.8 Amendments to Publications**

The Notes Rate and the Interest Amounts for each class of Notes and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the relevant Interest Period.

#### **7.9 Determination or Calculation by Trustee**

If neither the Issuer nor the Agent Bank (as applicable) at any time for any reason determines the Note Rates or the Interest Amounts for the Notes in accordance with this Condition, the Trustee (or an agent appointed by it) may but is not obliged to (but without any liability accruing to the Trustee as a result):

- 7.9.1 determine the Note Rates at such rates as, in its absolute discretion (having such regard as it shall think fit to the procedure described in this Condition), it shall deem fair and reasonable in all the circumstances; and/or
- 7.9.2 calculate the Interest Amounts in the manner specified in this Condition, and any such determination and/or calculation shall be deemed to have been made by the Agent Bank.

#### **7.10 Interest Accrual**

- 7.10.1 To the extent that funds available to the Issuer to pay interest on the Class Z VFN on an Interest Payment Date are insufficient to pay the full amount of such interest, payment of the shortfall in respect of the Class Z VFN (“**Deferred Interest**”) will not then fall due but will instead be deferred until the first Interest Payment Date thereafter on which funds are available to the Issuer (after allowing for the Issuer's liabilities of higher priority and subject to and in accordance with these Conditions) to fund the payment of such Deferred Interest to the extent of such available funds.
- 7.10.2 Such Deferred Interest will accrue interest (“**Additional Interest**”) at the rate of interest applicable from time to time to the Class Z VFN and such portion of interest (as determined by this Condition 7) and payment of any Additional Interest will also be deferred until the first Interest Payment Date thereafter on which funds are available (subject to and in accordance with these Conditions) to the Issuer to pay such Additional Interest to the extent of such available funds.
- 7.10.3 Payment of any amounts of Deferred Interest and Additional Interest shall not be deferred beyond the Final Maturity Date or beyond any earlier date on which the Class Z VFN falls to be redeemed in full in accordance with Condition 8 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*) and any such amount which has not then been paid in respect of the Class Z VFN shall thereupon become due and payable in full.

Each Note bears interest on its Principal Amount Outstanding from (and including) the Closing Date. Each Note (or, in the case of the redemption of part only of a Class A Note, that part only of such Class A Note) will cease to bear interest from and including the due date for redemption unless, upon due presentation in accordance with Condition 10 (*Payments*), payment of the principal in respect of the Note is improperly withheld or refused or default is otherwise made in respect of the payment, in which event interest shall continue to accrue as provided in the Trust Deed.

#### **7.11 Determinations and Reconciliation**

- 7.11.1 In the event that the Cash Manager does not receive any Servicer Report(s) which are due during a Calculation Period (the “**Determination Period**”), then the Cash Manager may use the Servicer Reports in respect of the three most recent Calculation Periods for which all relevant Servicer Reports are available (or, where there are not at least three such Calculation Periods,

any previous Calculation Periods for which all relevant Servicer Reports are available) for the purposes of calculating the amounts available to the Issuer to make payments, as set out in this Condition 7.11. If and when the Cash Manager ultimately receives all the Servicer Reports relating to the Determination Period, it will make the reconciliation calculations and reconciliation payments as set out in Condition 7.11.3. Any (i) calculations properly done on the basis of such estimates in accordance with Conditions 7.11.2 and/or 7.11.3; (ii) payments made under any of the Notes and Transaction Documents in accordance with such calculations; and (iii) reconciliation calculations and reconciliation payments made as a result of such reconciliation calculations, each in accordance with Condition 7.11.2 and/or 7.11.3, shall (in any case) be deemed to be done, in accordance with the provisions of the Transaction Documents and will in themselves not lead to an Event of Default and no liability will attach to the Cash Manager in connection with the exercise by it of its powers, duties and discretion for such purposes.

7.11.2 In respect of any Determination Period the Cash Manager shall:

- (a) determine the Interest Determination Ratio by reference to the three most recent Calculation Periods for which all Servicer Reports are available (or, where there are not at least three such Calculation Periods, any previous Calculation Periods for which all relevant Servicer Reports are available);
- (b) calculate the Revenue Receipts for such Determination Period as the product of (i) the Interest Determination Ratio and (ii) all collections received by the Issuer during such Determination Period (the “**Calculated Revenue Funds**”); and
- (c) calculate the Principal Receipts for such Determination Period as the product of (i) 1 minus the Interest Determination Ratio and (ii) all collections received by the Issuer during such Determination Period (the “**Calculated Principal Funds**”).

7.11.3 Following any Determination Period, upon receipt by the Cash Manager of the Servicer Reports in respect of such Determination Period, the Cash Manager shall reconcile the calculations made in accordance with Condition 7.11.2 to the actual collections set out in the Servicer Reports by allocating the Reconciliation Amount as follows:

- (a) If the Reconciliation Amount is a positive number, the Cash Manager shall apply an amount equal to the lesser of (i) the absolute value of the Reconciliation Amount and (ii) the amount standing to the credit of the Revenue Ledger, as Available Principal Funds (with a corresponding debit of the Revenue Ledger);
- (b) If the Reconciliation Amount is a negative number, the Cash Manager shall apply an amount equal to the lesser of (i) the absolute value of the Reconciliation Amount and (ii) the amount standing to the credit of the Principal Ledger, as Available Revenue Funds (with a corresponding debit of the Principal Ledger),

*provided that* the Cash Manager shall apply such Reconciliation Amount in determining Available Revenue Funds and Available Principal Funds for such Calculation Period in accordance with the terms of the Cash Management Agreement and the Cash Manager shall promptly notify the Issuer and the Trustee of such Reconciliation Amount.

7.11.4 In this Condition, the expression:

“**Interest Determination Ratio**” means (i) the aggregate Revenue Receipts calculated in the three preceding Servicer Reports divided by (ii) the aggregate of all Revenue Receipts and all Principal Receipts calculated in such Servicer Reports;

“**Reconciliation Amount**” means in respect of any Calculation Period, (i) the actual Principal Receipts as determined in accordance with the available Servicer Reports, less (ii) the Calculated Principal Funds in respect of such Calculation Period, plus (iii) any Reconciliation Amount not applied in previous Calculation Periods; and

“**Servicer Report**” means a report to be provided by the Servicer on or prior to the 10th Business Day of each calendar month and detailing the information relating to the Mortgage Portfolio necessary to produce the Monthly Investor Report.

## **8 Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation**

### **8.1 *Final Redemption***

Unless previously redeemed and cancelled as provided in this Condition 8, the Issuer shall redeem the Notes of each class at their Principal Amount Outstanding on the Final Maturity Date together with any accrued (and unpaid) interest up to (and including) the Final Maturity Date.

### **8.2 *Redemption by Optional Portfolio Purchase***

On the occurrence of the Optional Portfolio Purchase Completion Date, the consideration received by the Issuer will be applied in accordance with the Pre-Enforcement Payments Priorities on the immediately succeeding Interest Payment Date with the result that the Notes will be redeemed together with all accrued but unpaid interest thereon in full in accordance with this Condition 8.2.

The Issuer shall cause the exercise of the Portfolio Option to be notified to the Noteholders and the other Secured Creditors in accordance with the Notices Condition as soon as practicable after receipt of the notice to exercise the Portfolio Option by the Portfolio Option Holder.

### **8.3 *Mandatory Redemption in part***

On each Interest Payment Date prior to the delivery of an Enforcement Notice, the Issuer is required to apply Available Principal Funds in accordance with the Pre-Enforcement Principal Payments Priorities, which shall include the redemption of the Notes to the extent that there are such amounts available to do so in accordance with the Pre-Enforcement Principal Payments Priorities.

### **8.4 *Optional Redemption in whole of the Class A Notes***

The Issuer may redeem all (but not some only) of the Class A Notes in each class at their Principal Amount Outstanding on any Interest Payment Date when, on the related Calculation Date, the aggregate of the Principal Amount Outstanding of the outstanding Class A Notes is less than 10 per cent. of the Principal Amount Outstanding of all of the Class A Notes as at the Closing Date, subject to the following:

- 8.4.1 no Enforcement Notice has been delivered by the Trustee;
- 8.4.2 the Issuer has given not more than 60 nor less than 14 days' notice to (i) the Trustee; (ii) the Noteholders in accordance with the Notices Condition; and (iii) the Interest Rate Swap Provider of its intention to redeem all (but not some only) of the Class A Notes; and
- 8.4.3 prior to giving any such notice, the Issuer shall have provided to the Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds on the relevant Interest Payment Date, not subject to the interest of any other person, required to redeem the Class A Notes pursuant to this Condition and meet its payment obligations of a higher priority under the Pre-Enforcement Principal Payments Priorities.

### **8.5 *Optional Redemption of the Class A Notes on or after the Step-Up Date***

The Issuer may redeem all (but not some only) of the Class A Notes at their Principal Amount Outstanding on any Interest Payment Date on or after the Step-Up Date, subject to the following:



- 8.5.1 no Enforcement Notice has been delivered by the Trustee;
- 8.5.2 the Issuer has given not more than 60 nor less than 14 days' notice to (i) the Trustee; (ii) the Noteholders in accordance with the Notices Condition; and (iii) the Interest Rate Swap Provider of its intention to redeem all (but not some only) of the Class A Notes; and
- 8.5.3 prior to giving any such notice, the Issuer shall have provided to the Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds on the relevant Interest Payment Date, not subject to the interest of any other person, required to redeem the Class A Notes pursuant to this Condition and meet its payment obligations of a higher priority under the Pre-Enforcement Principal Payments Priorities.

#### **8.6 *Optional Redemption of the Class A Notes in whole for taxation reasons***

The Issuer may redeem all (but not some only) of the Class A Notes at their Principal Amount Outstanding, on any Interest Payment Date:

- 8.6.1 after the date on which, by virtue of a change in Tax law (or the application or official interpretation of Tax law), the Issuer (or the Paying Agents on the Issuer's behalf) is to make any payment in respect of the Notes and the Issuer (or the Paying Agents on the Issuer's behalf) would be required to make a Tax Deduction in respect of such relevant payment; or
- 8.6.2 after the date on which, by virtue of a change in the Tax law (or the application or official interpretation of Tax law), the Issuer would be subject to United Kingdom corporation tax in an accounting period on an amount which materially exceeds the aggregate Issuer Profit Amount retained during that accounting period;

subject to the following:

- 8.6.3 no Enforcement Notice has been delivered by the Trustee;
- 8.6.4 that the Issuer has given not more than 60 nor less than 14 days' notice to (i) the Trustee; (ii) the Noteholders in accordance with the Notices Condition; and (iii) the Interest Rate Swap Provider of its intention to redeem all (but not some only) of the Class A Notes; and
- 8.6.5 that prior to giving any such notice, the Issuer has provided to the Trustee:
  - (a) in the case of Conditions 8.6.1 and 8.6.2, a legal opinion (in form and substance satisfactory to the Trustee) from a firm of lawyers in the applicable jurisdiction (approved in writing by the Trustee), opining on the relevant change in Tax law; and
  - (b) in the case of Condition 8.6.1, a certificate signed by two directors of the Issuer to the effect that the obligation to make a Tax Deduction cannot be avoided; and
  - (c) in the case of Condition 8.6.2, a certificate signed by two directors of the Issuer to the effect that their liability to corporation tax in an accounting period would be in respect of an amount which materially exceeds the aggregate Issuer Profit Amount retained during that accounting period;
  - (d) in the case of Conditions 8.6.1 and 8.6.2 above, a certificate signed by two directors of the Issuer to the effect that it will have the funds on the relevant Interest Payment Date, not subject to the interest of any other person, required to redeem the Notes pursuant to this Condition and meet its payment obligations of a higher priority under the Pre-Enforcement Principal Payments Priorities.

#### **8.7 *Calculation of Note Principal Payment and Principal Amount Outstanding***

Not later than the Cash Manager Determination Date, the Issuer shall cause the Cash Manager to calculate (and the Cash Manager will calculate on behalf of the Issuer):

- 8.7.1 the aggregate of the Note Principal Payments due in relation to each Note on the Interest Payment Date immediately succeeding such Cash Manager Determination Date; and
- 8.7.2 the Principal Amount Outstanding of each Note on the Interest Payment Date immediately succeeding such Cash Manager Determination Date (after deducting any Note Principal Payment due to be made on that Interest Payment Date).

**8.8 *Calculations final and binding***

Each calculation by or on behalf of the Issuer of any Note Principal Payment or of the Principal Amount Outstanding of a Note shall in each case (in the absence of manifest error) be final and binding on all persons.

**8.9 *Trustee to determine amounts in case of Issuer default***

If the Issuer does not at any time for any reason calculate (or cause the Cash Manager to calculate) any Note Principal Payment due in relation to each Note or the Principal Amount Outstanding in relation to each Note in accordance with this Condition 8, such amounts may be calculated by the Trustee or an agent appointed by it (without any liability accruing to the Trustee as a result) in accordance with this Condition 8 (based on information supplied to it by the Issuer or the Cash Manager) and each such calculation shall be deemed to have been made by the Issuer.

**8.10 *Conclusiveness of certificates and legal opinions***

Any certificate and legal opinion given by or on behalf of the Issuer pursuant to Condition 8.4 (*Optional Redemption in whole of the Class A Notes*), Condition 8.5 (*Option Redemption of the Class A Notes on or after the Step-Up Date*) and Condition 8.6 (*Optional Redemption of the Class A Notes in whole for taxation reasons*) may be relied on by the Trustee without further investigation, without liability to any other person and shall be conclusive and binding on the Noteholders, the Trustee and on the other Secured Creditors.

**8.11 *Notice of Calculation***

The Issuer will cause each calculation of the aggregate of the Note Principal Payment due in relation to each Note or the Principal Amount Outstanding in relation to each Note to be notified immediately after calculation by the Cash Manager to the Trustee, the Agents and, for so long as the Class A Notes are listed on the Stock Exchange, the Stock Exchange and will immediately cause details of each such calculation of the Principal Amount Outstanding in relation to the Notes to be published in accordance with the Notices Condition by not later than two Business Days prior to each Interest Payment Date.

**8.12 *Notice of no Note Principal Payment***

If no Note Principal Payment is due to be made on the Notes on any Interest Payment Date, a notice to this effect will be given to the Noteholders in accordance with the Notices Condition by not later than two Business Days prior to such Interest Payment Date.

**8.13 *Notice irrevocable***

Any such notice as is referred to in Condition 8.4 (*Optional Redemption in whole of the Class A Notes*), Condition 8.5 (*Option Redemption of the Class A Notes on or after the Step-Up Date*) or Condition 8.6 (*Optional Redemption of the Class A Notes in whole for taxation reasons*) or Condition 8.11 (*Notice of Calculation*) shall be irrevocable and the Issuer shall be bound to redeem the Notes to which such notice relates at their Principal Amount Outstanding if effected pursuant to Condition 8.4 (*Optional Redemption in whole of the Class A Notes*), Condition 8.5 (*Option Redemption of the Class A Notes on or after the Step-Up Date*) or Condition 8.6 (*Optional Redemption of the Class A Notes in whole for taxation reasons*) and in an amount equal to the Note Principal

Payment in respect of each Note calculated in respect of the relevant Interest Payment Date if effected pursuant to Condition 8.3 (*Mandatory Redemption in part*).

#### **8.14 Cancellation of redeemed Notes**

All Notes redeemed in full will be cancelled forthwith by the Issuer together with all unmatured Coupons appertaining thereto or surrendered therewith, and no Global Notes, Definitive Notes or Coupons may be reissued or resold.

On each Interest Payment Date on which the Class Z VFN is redeemed pursuant to Condition 8.3 (*Mandatory Redemption in part*), the Class Z VFN Registrar shall cancel the Class Z VFN in an amount equal to such mandatory redemption, thereby reducing the nominal principal amount of the Class Z VFN by an amount equal to such mandatory redemption. The Class Z VFN will be cancelled when redeemed in full and may not be reissued or resold.

#### **8.15 Reference Banks and Agents**

The Issuer shall ensure that, so long as any of the Notes remain outstanding there shall at all times be an Agent Bank and a Principal Paying Agent. In the event of an Agent being unable or unwilling to continue to act as an Agent, the Issuer shall appoint such other person as may be previously approved in writing by the Trustee to act as such in its place. The Agent Bank and/or Principal Paying Agent may not resign until a successor agent bank is appointed in accordance with the Agency Agreement. Notice of any change in any of the Agents or in their Specified Offices shall promptly be given by the Issuer to the Noteholders in accordance with the Notices Condition.

### **9 Limited Recourse**

#### **9.1 If at any time following:**

##### **9.1.1 the occurrence of either:**

- (a) the Final Maturity Date or any earlier date upon which all of the Notes are due and payable; or
- (b) the service of an Enforcement Notice; and

##### **9.1.2 realisation of the Charged Property and application in full of any amounts available to pay amounts due and payable under the Notes in accordance with the applicable Payments Priorities,**

the proceeds of such Realisation are insufficient, after payment of all other claims ranking in priority in accordance with the applicable Payments Priorities, to pay in full all amounts then due and payable under the Notes then the amount remaining to be paid (after such application in full of the amounts first referred to in paragraph 9.1.2 above) under the Notes shall, on the day following such application in full of the amounts referred to in paragraph 9.1.2 above, cease to be due and payable by the Issuer.

### **10 Payments**

#### **10.1 Principal**

Payments of principal shall be made only against:

##### **10.1.1 (in the case of final redemption, provided that payment is made in full) presentation and surrender of the relevant Notes; and**

##### **10.1.2 in respect of any Note Principal Payment which becomes due on an Interest Payment Date, presentation and endorsement of the relevant Notes,**

at the Specified Office of any Paying Agent (in respect of the Class A Notes) or at the Specified Office of the Class Z VFN Registrar (in respect of the Class Z VFN) outside the United States by cheque drawn in Sterling, or by transfer to an account in Sterling maintained by the payee with a bank in London.

#### **10.2 Interest**

Payments of interest shall, subject to Condition 10.5 (*Payments on business days*), be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in Condition 10.1 (*Principal*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

In respect of the Class Z VFN, payments of interest shall be made to the person(s) shown on the Class Z VFN Register at the close of business on the business day before the due date for payment thereof in the manner described in Condition 10.1 (*Principal*).

#### **10.3 Payments subject to fiscal laws**

A payment will be subject in all cases to any applicable fiscal or other laws and regulations or other laws and regulations to which the Issuer agrees to be subject, and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or agreements.

#### **10.4 Unmatured Coupons Void**

On the due date for final redemption of any Note pursuant to Condition 8 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*) or Condition 12 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

#### **10.5 Payments on business days**

If any Note or Coupon is presented for payment on a day which is not a business day in the place of presentation, payment shall not be made on such day but on the next succeeding business day in such place and no further interest or other payment in respect of any such delay shall be due in respect of such Note or Coupon.

#### **10.6 Business Days**

In this Condition 10, “**business day**” means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to an account in Sterling.

#### **10.7 Other Interest**

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.

#### **10.8 Partial Payments**

If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse on such Note or Coupon a statement indicating the amount and date of such payment.

If a Paying Agent makes a partial payment in respect of the Class Z VFN, the Class Z VFN Registrar will, in respect of the Class Z VFN, annotate the Class Z VFN Register, indicating the amount and date of such payment.

### **10.9 *Notifications to be final***

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of these Conditions, whether by the Reference Banks (or any of them), the Cash Manager, the Paying Agents, the Agent Bank, the Class Z VFN Registrar or the Trustee shall (in the absence of any manifest error) be binding on the Issuer and all Noteholders and Couponholders and (in the absence of any Breach of Duty or manifest error) no liability to the Trustee, the Noteholders or the Couponholders shall attach to the Reference Banks, the Cash Manager, the Agents or the Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions under these Conditions.

## **11 Taxation**

### **11.1 *Payments free of Tax***

All payments of principal and interest in respect of the Notes or Coupons shall be made free and clear of, and without withholding or deduction for, any Taxes imposed, levied, collected, withheld or assessed, unless the Issuer, the Trustee or the Paying Agents (as the case may be) are required by law to make any Tax Deduction. In that event, the Issuer, the Trustee or the Paying Agents (as the case may be) shall make such payments after such Tax Deduction and shall account to the relevant authorities for the amount so withheld or deducted.

### **11.2 *No payment of additional amounts***

None of the Issuer, the Trustee or the Paying Agents will be obliged to pay any additional amounts to the Noteholders as a result of any such Tax Deduction.

### **11.3 *Taxing Jurisdiction***

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Issuer Jurisdiction, references in these Conditions to the Issuer Jurisdiction shall be construed as references to the Issuer Jurisdiction and/or such other jurisdiction.

### **11.4 *Tax Deduction not Event of Default***

Notwithstanding that the Trustee, the Issuer or the Paying Agents are required to make a Tax Deduction, making such deduction shall not constitute an Event of Default.

### **11.5 *Provision of Information***

Within 10 Business Days of a request by the Issuer (or its duly authorised agent or delegate), Noteholders and Couponholders shall supply to the Issuer such forms, documentation and other information relating to its status under any applicable Information Reporting Regime as the Issuer (or its duly authorised agent or delegate) reasonably requests for the purposes of the Issuer's compliance with such Information Reporting Regime and shall notify the Issuer reasonably promptly in the event that it becomes aware that any of the forms, documentation or other information provided by such Noteholder or Couponholder is (or becomes) inaccurate in any material respect; provided, however, that no Noteholder or Couponholder shall be required to provide any forms, documentation or other information pursuant to this Condition 11.5 to the extent that (a) any such form, documentation or other information (or the information required to be provided on such form or documentation) is not reasonably available to such Noteholder or Couponholder and cannot be obtained by such Noteholder or Couponholder using reasonable efforts or (b) doing so would or might in the reasonable opinion of such Noteholder or Couponholder constitute a breach of any applicable (i) law or regulation; (ii) fiduciary duty; or (iii) duty of confidentiality, and, in each case, such Noteholder or Couponholder promptly provides written notice to the Issuer stating that it is unable to comply with the Issuer's request and the reason for such inability to comply. The Issuer and its duly authorised agents and

delegates shall be permitted to disclose the forms, documentation and other information to any Tax Authority.

## **12 Events of Default**

### **12.1 Events of Default**

Subject to the other provisions of this Condition 12, each of the following events shall be treated as an “**Event of Default**”:

12.1.1 *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Most Senior Class of Notes within five days of the due date for payment of such principal or fails to pay any amount of interest in respect of the Most Senior Class of Notes within ten days of the due date for payment of such interest; or

12.1.2 *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes or under the Transaction Documents and such default (a) is, in the opinion of the Trustee, incapable of remedy or (b) being a default which is, in the opinion of the Trustee, capable of remedy, remains unremedied for 30 days or such longer period as the Trustee may agree after the Trustee has given written notice of such default to the Issuer; or

12.1.3 *Insolvency Event*: an Insolvency Event occurs in relation to the Issuer.

### **12.2 Delivery of Enforcement Notice**

If an Event of Default occurs and is continuing, the Trustee may at its discretion and shall:

12.2.1 if so requested in writing by the holders of at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of Notes then outstanding; or

12.2.2 if so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding,

deliver an Enforcement Notice to the Issuer with a copy to the Interest Rate Swap Provider.

### **12.3 Conditions to delivery of Enforcement Notice**

Notwithstanding Condition 12.2 (*Delivery of Enforcement Notice*) the Trustee shall not:

12.3.1 deliver an Enforcement Notice following the occurrence of any of the events mentioned in Condition 12.1.2 (*Breach of other obligations*), unless and until the Trustee shall have certified in writing that such event is in its opinion materially prejudicial to the interests of the holders of the Most Senior Class of Notes outstanding; and

12.3.2 be obliged to deliver an Enforcement Notice unless it shall have been indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

### **12.4 Consequences of delivery of Enforcement Notice**

Upon the delivery of an Enforcement Notice, the Notes shall become immediately due and payable without further action or formality at their Principal Amount Outstanding together with any accrued interest due but not paid.

## **13 Enforcement**

### **13.1 Proceedings**

At any time after the delivery of an Enforcement Notice the Trustee may at its discretion and without further notice, institute such proceedings or take any other action or step as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes and under the other Transaction Documents and/or enforce the Security, but it shall not be bound to do so unless:

13.1.1 so requested in writing by the holders of at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of Notes then outstanding; or

13.1.2 so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding,

and in any such case, only if it shall have been indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

### **13.2 Directions to the Trustee**

If the Trustee shall take any action, step or proceedings described in Condition 13.1 (*Proceedings*) it may take such action, step or proceedings without having regard to the effect of such action on individual Noteholders, Couponholders or any other Secured Creditor.

### **13.3 Restrictions on disposal of Issuer's assets**

If an Enforcement Notice has been delivered by the Trustee otherwise than by reason of non-payment of any amount due in respect of the Notes, the Trustee will not be entitled to dispose of the Charged Property or any part thereof unless either:

13.3.1 a sufficient amount (in the opinion of an investment bank or other financial adviser) would be realised to allow payment in full of all amounts owing to the holders of the Notes and the Coupons relating thereto after payment of all other claims ranking in priority to the Notes in accordance with the Post-Enforcement Payments Priorities; or

13.3.2 the Trustee is of the opinion, which shall be binding on the Noteholders and the other Secured Creditors, reached after considering at any time and from time to time the advice of an investment bank or other financial adviser selected by the Trustee (and if the Trustee is unable to obtain such advice having made reasonable efforts to do so this Condition 13.3.2 shall not apply), that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts due in respect of the Notes and the Coupons relating thereto after payment of all other claims ranking in priority to the Notes in accordance with the Post-Enforcement Payments Priorities;

provided that the Trustee shall not be bound to make the determinations contained in Condition 13.3.1 or 13.3.2 unless the Trustee shall have been indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

### **13.4 Third Party Rights**

No person shall have any right to enforce any Condition or any provision of the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

## **14 No action by Noteholders, Couponholders or any other Secured Creditor**

**14.1** Only the Trustee may pursue the remedies available under the general law or under the Trust Documents to enforce the Security or any other Transaction Document to which the Trustee is a party and no Noteholder, Couponholders or other Secured Creditor shall be entitled to proceed directly against the Issuer to enforce the Security or pursue remedies available under or enforce any Transaction Document to which the Trustee is a party. In particular, none of the Noteholders, Couponholders or any other Secured Creditor (nor any person on its or their behalf, other than the Trustee where appropriate) are entitled:

14.1.1 otherwise than as permitted by these Conditions, to direct the Trustee to enforce the Security or take any proceedings against the Issuer to enforce the Security or any other Transaction Document to which the Trustee is a party;

14.1.2 other than any steps taken by the Interest Rate Swap Provider to close-out the Interest Rate Swap following the occurrence of an Event of Default or Termination Event (each as defined in the Interest Rate Swap Agreement), to take or join any person in taking any steps against the Issuer for the purpose of obtaining payment of any amount due by the Issuer to such Noteholders, Couponholders or any other Secured Creditors; or

14.1.3 until the date falling two years after the Final Discharge Date, to initiate or join any person in initiating any Insolvency Event in relation to the Issuer; or

14.1.4 to take or join in the taking of any steps or proceedings which would result in the Payments Priorities not being observed.

## **15 Meetings of Noteholders**

### **15.1 *Convening***

The Trust Deed contains “Provisions for Meetings of Noteholders” for convening separate or combined meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed which modifications may be sanctioned by an Extraordinary Resolution.

### **15.2 *Separate and combined meetings***

The Trust Deed and the Security Deed provide that:

15.2.1 an Extraordinary Resolution which in the opinion of the Trustee affects the Notes of only one class shall be transacted at a separate meeting of the Noteholders of that class;

15.2.2 an Extraordinary Resolution which in the opinion of the Trustee affects the Noteholders of more than one class of Notes but does not give rise to an actual or potential conflict of interest between the Noteholders of one class of Notes and the holders of another class of Notes shall be transacted at a single meeting of the Noteholders of all such classes of Notes; and

15.2.3 an Extraordinary Resolution which in the opinion of the Trustee affects the Noteholders of more than one class and gives rise to any actual or potential conflict of interest between the Noteholders of one class of Notes and the Noteholders of any other class of Notes shall be transacted at separate meetings of the Noteholders of each such class.

### **15.3 *Request from Noteholders***

A meeting of Noteholders of a particular class may be convened by the Trustee or the Issuer at any time and must be convened by the Trustee (subject to its being indemnified and/or secured and/or prefunded to its satisfaction) upon the request in writing of Noteholders of a particular class holding



not less than 10 per cent. of the aggregate Principal Amount Outstanding of the outstanding Notes of that class.

#### **15.4 *Quorum***

The quorum at any meeting convened to vote on:

- 15.4.1 an Extraordinary Resolution, other than regarding a Reserved Matter, will be one or more persons holding or representing a majority of the Principal Amount Outstanding of the outstanding Notes in that class or classes or, at any adjourned meeting, one or more persons being or representing Noteholders of that class or those classes, whatever the Principal Amount Outstanding of the outstanding Notes so held or represented in such class or classes; and
- 15.4.2 an Extraordinary Resolution relating to a Reserved Matter (which must be proposed separately to each class of Noteholder) will be one or more persons holding or representing in the aggregate 75 per cent. of the Principal Amount Outstanding of the outstanding Notes in the relevant class or classes or, at any adjourned meeting, one or more persons holding or representing not less than in the aggregate 25 per cent. of the Principal Amount Outstanding of the outstanding Notes in the relevant class or classes, provided that, while all the outstanding Notes of a class are represented by a Temporary Global Note and/or Permanent Global Note, a single Voter appointed in relation thereto or being the holder of the Notes of such class thereby represented shall be deemed to be two Voters for the purpose of forming a quorum.

#### **15.5 *Relationship between classes***

In relation to each class of Notes:

- 15.5.1 no Extraordinary Resolution to approve a Reserved Matter of any one class of Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other classes of Notes (to the extent that there are outstanding Notes in each such other classes);
- 15.5.2 no Extraordinary Resolution to approve any matter other than a Reserved Matter of any class of Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other classes of Notes ranking senior to such class (to the extent that there are outstanding Notes ranking senior to such class) unless the Trustee considers that none of the holders of each of the other classes of Notes ranking senior to such class would be materially prejudiced by the absence of such sanction; and
- 15.5.3 any resolution passed at a Meeting of Noteholders of one or more classes of Notes duly convened and held in accordance with the Trust Deed shall be binding upon all Noteholders of such class or classes, whether or not present at such Meeting and whether or not voting and, except in the case of a meeting relating to a Reserved Matter, any resolution passed at a meeting of the holders of the Most Senior Class of Notes duly convened and held as aforesaid shall also be binding upon the holders of all the other classes of Notes.

#### **15.6 *Resolutions in writing and Electronic Consents***

A Written Resolution or Electronic Consent shall take effect as if it were an Extraordinary Resolution.

### **16 *Modification and Waiver***

#### **16.1 *Modification***

The Trustee may at any time and from time to time, without the consent or sanction of the Noteholders or any other Secured Creditors, concur with the Issuer and any other relevant parties in making:

- 16.1.1 (other than in respect of a Reserved Matter or any provisions of the Trust Documents referred to in the definition of Reserved Matter) any modification to these Conditions, the Trust

Documents, the Notes, any Instrument or the other Transaction Documents in relation to which its consent is required which, in the opinion of the Trustee, will not be materially prejudicial to the holders of the Most Senior Class of Notes; or

- 16.1.2 any modification to Trust Documents, the Notes, the Conditions, any Instrument or the other Transaction Documents in relation to which its consent is required, if, in the opinion of the Trustee, such modification is of a formal, minor or technical nature or is made to correct a manifest error,

provided that:

- (A) the prior written consent of the Interest Rate Swap Provider shall be required to modify or supplement any provision of the Transaction Documents or the Conditions if, in the commercially reasonable opinion of the Interest Rate Swap Provider, such modification or supplement would affect any of the following:
- (a) the Interest Rate Swap Provider's rights in relation to any security (howsoever described, and including as a result of changing the nature or the scope of, or releasing such security) granted by the Issuer in favour of the Trustee on behalf of the Secured Creditors;
  - (b) the definitions of Final Maturity Date, Available Revenue Funds, Swap Collateral Account, Interest Rate Swap Excluded Termination Amounts, Excess Swap Collateral, Swap Collateral, Replacement Swap Premium or Swap Tax Credits;
  - (c) the Pre-Enforcement Revenue Payments Priorities or the Post-Enforcement Payments Priorities;
  - (d) the provisions in the Transaction Documents or the Conditions setting out the method of calculation of amounts payable to the Interest Rate Swap Provider under the Pre-Enforcement Revenue Payments Priorities or the Post-Enforcement Payments Priorities and outside the Payments Priorities;
  - (e) any amendment to Condition 8 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*) or any additional redemption rights in respect of the Notes;
  - (f) Clause 20.1 (*Modification of Transaction Documents*) of the Trust Deed or this Condition 16.1 (*Modification*); or
  - (g) Clause 22 (*Protection of Interest Rate Swap Provider*) of the Security Deed,

and in each case the Issuer shall notify in writing to the Interest Rate Swap Provider, with a copy to the Trustee, of any proposed modification or supplement to any of the provisions of the Transaction Documents or the Conditions as soon as reasonably practicable but not less than 20 Business Days (inclusive) prior to such modification or supplement being effected, notwithstanding any other provision of the Transaction Documents or the Conditions. The Interest Rate Swap Provider may notify the Trustee and the Issuer in writing if it determines (acting in a commercially reasonable manner) that such modifications or supplement would affect any of the items listed in paragraphs (a) to (g) above and stating which proposed modification or supplement is so affected. If the Issuer and the Trustee do not receive any such notice within 20 Business Days (inclusive) of the Interest Rate Swap Provider having been notified of such proposed modification or supplement, the Interest Rate Swap Provider shall be deemed to have consented to each such modification or supplement. If the Interest Rate Swap Provider has not received notice in accordance with this paragraph, the proposed modification or supplement shall not be effective. If the Interest Rate Swap Provider has notified its consent

in writing to the Issuer and the Trustee in writing to any proposed modification or supplement such modification or supplement may proceed to become effective notwithstanding that less than 20 Business Days have elapsed since the relevant notice was received by the Interest Rate Swap Provider;

- (B) the prior written consent of the Servicer shall be required to modify or supplement any provision of the Transaction Documents or the Conditions if, in the commercially reasonable opinion of the Servicer, such modification or supplement would affect any of the following:
  - (a) the Servicer's rights under the Pre-Enforcement Revenue Payments Priorities or the Post-Enforcement Payments Priorities;
  - (b) Clause 20.1 (*Modification of Transaction Documents*) of the Trust Deed; or
  - (c) Condition 16.1 (*Modification*); and
- (C) the prior written consent of the Legal Title Holder shall be required to modify or supplement any provision of the Transaction Documents or the Conditions if, in the commercially reasonable opinion of the Legal Title Holder, such modification or supplement would affect any of the following:
  - (a) Clause 13.1 (*Further Assurance*) of the Mortgage Sale Agreement; or
  - (b) the Legal Title Holder's Right of First Refusal.

## **16.2 Waiver**

In addition, the Trustee may, at any time and from time to time at its sole discretion without the consent of the Noteholders or any other Secured Creditor concur with the Issuer or any other relevant parties in authorising or waiving any breach or proposed breach (other than any breach or proposed breach which relates to a Reserved Matter, any matter listed in paragraphs (A) to (C) of Condition 16.1 above or any provisions of the Trust Documents referred to in the definition of Reserved Matter) of any of the covenants or provisions contained in the Trust Documents, the Instruments or any of the other Transaction Documents (including an Event of Default or Potential Event of Default) if, in the opinion of the Trustee, the holders of the Most Senior Class of Notes will not be materially prejudiced by such authorisation or waiver.

## **16.3 Restriction on power to waive**

16.3.1 The Trustee shall not exercise any powers conferred upon it by Condition 16.1 (*Modification*) or Condition 16.2 (*Waiver*) in contravention of any express direction by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding or of a request or direction in writing made by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding, but so that no such direction or request shall affect any authorisation, waiver, modification or determination previously given or made.

16.3.2 The Trustee shall not authorise or waive any such proposed breach or breach relating to a Reserved Matter or any provisions of the Trust Documents referred to in the definition of Reserved Matter unless the holders of the outstanding Notes have, by Extraordinary Resolution, so authorised its exercise and shall not authorise or waive any such proposed breach or breach relating to any matter listed in paragraph (A) of Condition 16.1 above without the written consent of the Interest Rate Swap Provider.

## **16.4 Additional Right of Modification**

Notwithstanding the provisions of Condition 16.1 (*Modification*), the Trustee shall be obliged, without the consent or sanction of the Noteholders or any of the other Secured Creditors (subject to the receipt of consent from any of the Secured Creditors party to the Transaction Document being modified or who would need to be a party to a new, supplemental or additional agreement, or which, as a result of the relevant amendment, would be further contractually subordinated to any Secured Creditor other than would otherwise have been the case prior to such amendment), to concur with the Issuer and any other relevant parties in making any modification (other than in respect of a Reserved Matter, a matter listed in paragraphs (A) to (C) of Condition 16.1 above or any provisions of the Trust Documents referred to in the definition of Reserved Matter) to these Conditions or any other Transaction Documents to which it is a party or in relation to which it holds security or the Issuer entering into new, supplemental or additional documents that the Issuer considers necessary:

16.4.1 for the purpose of complying with, or implementing or reflecting, any change in the criteria of one or more of the Rating Agencies which may be applicable from time to time, provided that in relation to any amendment under this Condition 16.4 (*Additional Right of Modification*):

- (i) the Issuer certifies in writing to the Trustee that such modification is necessary to comply with such criteria, or as the case may be, is solely to implement and reflect such criteria; and
- (ii) in the case of any modification of a Transaction Document proposed by any of the Interest Rate Swap Provider, the Servicer and/or the Transaction Account Bank in order (x) to remain eligible to perform its role in such capacity in conformity with such criteria and/or (y) to avoid taking action which it would otherwise be required to take to enable it to continue performing such role:
  - (A) the Interest Rate Swap Provider, the Servicer and/or the Transaction Account Bank, as the case may be, certifies in writing to the Issuer and the Trustee that such modification is necessary for the purposes described in paragraph (ii)(x) and/or (y) (and in the case of a certification provided to the Issuer, the Issuer shall certify to the Trustee that it has received the same from the Servicer and/or the Transaction Account Bank, as the case may be);
  - (B) either:
    - (1) the Servicer and/or the Transaction Account Bank, as the case may be, obtains from each of the Rating Agencies written confirmation (or certifies in writing to the Issuer and the Trustee that it has been unable to obtain written confirmation, but has received oral confirmation from an appropriately authorised person at each of the Rating Agencies) that such modification would not result in a downgrade, withdrawal or suspension of the then current ratings assigned to the Class A Notes by such Rating Agency and would not result in any Rating Agency placing the Class A Notes on rating watch negative (or equivalent) and, if relevant, delivers a copy of each such confirmation to the Issuer and the Trustee; or
    - (2) the Issuer certifies in writing to the Trustee that the Rating Agencies have been informed of the proposed modification and none of the Rating Agencies has indicated that such modification would result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to the Class A Notes by such Rating Agency or (y) such Rating Agency placing the Class A Notes on rating watch negative (or equivalent);

- 16.4.2 in order to enable the Issuer to comply with any requirements which apply to it under EMIR, subject to receipt by the Trustee of a certificate issued by the Issuer certifying to the Trustee that the requested amendments are to be made solely for the purpose of enabling the Issuer to satisfy requirements which apply to it under EMIR and have been drafted solely to that effect;
- 16.4.3 for the purpose of complying with any changes in the requirements of Article 405 of the CRR, Article 17 of Directive 2011/61/EU (as amended), Article 51 of the AIFMR or Article 254 of the Solvency II Regulation, after the Closing Date, including as a result of the adoption of regulatory technical standards in relation to the CRR, the AIFMR, the Solvency II Regulation or any other risk retention legislation or regulations or official guidance in relation thereto, provided that the Issuer certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect;
- 16.4.4 for the purpose of enabling the Class A Notes to be (or to remain) listed on the Stock Exchange, provided that the Issuer certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect;
- 16.4.5 for the purposes of enabling the Issuer or any of the other Transaction Parties to comply with FATCA, provided that the Issuer or the relevant Transaction Party, as applicable, certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect; or
- 16.4.6 for the purpose of complying with any changes in the requirements of the CRA Regulation after the Closing Date, including as a result of the adoption of regulatory technical standards in relation to the CRA Regulation, or for the purpose of complying with the relevant requirements of the Securitisation Regulation in order to qualify as an STS securitisation (as defined in the Securitisation Regulation) or regulations or official guidance in relation thereto, provided that the Issuer certifies to the Trustee in writing that such modification is required solely for such purpose and has been drafted solely to such effect.

(the certificate to be provided by the Issuer, the Servicer (on behalf of the Issuer), the relevant Transaction Party, and/or the Transaction Account Bank, as the case may be, pursuant to paragraphs 16.4.1 to 16.4.6 above being a “**Modification Certificate**”), provided that:

1. at least 30 calendar days’ prior written notice of any such proposed modification has been given to the Trustee;
2. the Modification Certificate in relation to such modification shall be provided to the Trustee (and in respect of paragraphs 16.4.1(ii)(A) and/or 16.4.1(ii)(B)(1), to the Issuer) both at the time the Trustee is notified of the proposed modification and on the date that such modification takes effect;
3. the consent of each Secured Creditor which is party to the relevant Transaction Document or whose contractual subordination in any Payments Priorities is affected has been obtained;
4. (other than in the case of a modification pursuant to paragraph 16.4.2 above), either (i) the Issuer obtains from each of the Rating Agencies written confirmation (or certifies in the Modification Certificate that it has been unable to obtain written confirmation but has received oral confirmation from an appropriately authorised person at each of the Rating Agencies) that such modification would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of the Notes by such Rating Agency or (y) such Rating Agency placing the Class A Notes on rating watch negative (or equivalent); or (ii) the Issuer certifies in the Modification Certificate that it has

informed the Rating Agencies of the proposed modification and none of the Rating Agencies has indicated that such modification would result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of the Notes by such Rating Agency or (y) such Rating Agency placing the Class A Notes on rating watch negative (or equivalent);

5. (other than in the case of a modification pursuant to paragraph 16.4.2 above) the Issuer certifies in writing to the Trustee (which certification may be in the Modification Certificate) that the Issuer has provided at least 30 calendar days' notice to the Noteholders of each class of Notes of the proposed modification in accordance with Condition 21 (*Notices*) and by publication on Bloomberg on the "Company News" screen relating to the Notes, and Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding have not contacted the Trustee in writing (or, in the case of the Class A Notes, otherwise in accordance with the then current practice of any applicable clearing system through which such Class A Notes may be held) within such notification period notifying the Trustee that such Noteholders do not consent to the modification; and
6. if Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding have notified the Trustee in writing (or, in the case of the Class A Notes, otherwise in accordance with the then current practice of any applicable clearing system through which such Class A Notes may be held) within the notification period referred to above that they do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Noteholders of the Most Senior Class of Notes then outstanding is passed in favour of such modification in accordance with Condition 15 (*Meetings of Noteholders*). Notifications made other than through the applicable clearing systems must be accompanied by evidence to the Trustee's satisfaction (having regard to the prevailing market practices) of the relevant Noteholder's holding of the Notes.

16.4.7 Other than where specifically provided in this Condition 16.4 or any Transaction Document:

- (a) when implementing any modification pursuant to this Condition 16.4 (save to the extent the Trustee considers that the proposed modification would constitute a Reserved Matter or a matter set out in paragraphs (A) to (C) of Condition 16.1 above), the Trustee shall not consider the interests of the Noteholders, any other Secured Creditor or any other person and shall act and rely solely, and without further enquiry or Liability, on any certificate (including any Modification Certificates) or evidence provided to it by the Issuer or the relevant Transaction Party, as the case may be, pursuant to this Condition 16.4 and shall not be liable to the Noteholders, any other Secured Creditor or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person; and
- (b) the Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Trustee would have the effect of (i) exposing the Trustee to any Liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights or protection, of the Trustee in the Transaction Documents and/or these Conditions.

16.4.8 For the avoidance of doubt, nothing in this Condition 16.4 shall have the effect of waiving an Event of Default.

## 16.5 Benchmark Rate Modification

16.5.1 Notwithstanding the provisions of Condition 16 (*Modification and Waiver*), the Trustee shall be obliged, without any consent or sanction of the Noteholders or any of the other Secured Creditors, to concur with the Issuer in making any modification to these Conditions or any other Transaction Document to which it is a party or in relation to which it holds security or entering into any new, supplemental or additional documents that the Issuer considers necessary or advisable for the purpose of changing the benchmark rate from LIBOR in respect of the Notes (the “**Applicable Benchmark Rate**”) to an alternative benchmark rate (any such rate, an “**Alternative Benchmark Rate**”) and making such other amendments to these Conditions or any other Transaction Document as are necessary or advisable in the reasonable judgment of the Issuer to facilitate the changes envisaged pursuant to this Condition 16.5 (for the avoidance of doubt, this may include changing the benchmark rate referred to in any interest rate hedging agreement, for the purpose of aligning any such hedging agreement with the proposed Benchmark Rate Modification pursuant to Condition 16.5.1(xii)(D) below, or modifications to when the rate of interest applicable to any Class of Notes is calculated and/or notified to Noteholders or other such consequential modifications) (a “**Benchmark Rate Modification**”), **provided that** the Issuer certifies to the Trustee in writing that:

- (i) the Benchmark Rate Modification is being undertaken due to any one or more of the following:
  - (A) a material disruption to the Applicable Benchmark Rate, a material change in the methodology of calculating the Applicable Benchmark Rate or the Applicable Benchmark Rate ceasing to exist or be published, or the administrator of the Applicable Benchmark Rate having used a fallback methodology for calculating the Applicable Benchmark Rate for a period of at least 30 calendar days; or
  - (B) the insolvency or cessation of business of the administrator of the Applicable Benchmark Rate (in circumstances where no successor administrator has been appointed); or
  - (C) a public statement by the administrator of the Applicable Benchmark Rate that it will cease publishing the Applicable Benchmark Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Applicable Benchmark Rate) with effect from a date no later than 6 months after the proposed effective date of such Benchmark Rate Modification; or
  - (D) a public statement by the supervisor of the administrator of the Applicable Benchmark Rate that the Applicable Benchmark Rate has been or will be permanently or indefinitely discontinued or there will be a material change in the methodology of calculating the Applicable Benchmark Rate with effect from a date no later than 6 months after the proposed effective date of such Benchmark Rate Modification; or
  - (E) a public statement by the supervisor of the administrator of the Applicable Benchmark Rate that means the Applicable Benchmark Rate will be prohibited from being used or that its use is subject to restrictions or adverse consequences with effect from a date no later than 6 months after the proposed effective date of such Benchmark Rate Modification; or

- (F) a change in the generally accepted market practice in the publicly listed asset backed floating rate notes market to refer to a Benchmark Rate endorsed in a public statement by the Bank of England, the Financial Conduct Authority or the Prudential Regulation Authority or any relevant committee or other body established, sponsored or approved by any of the foregoing, including the Working Group on Sterling Risk-Free Reference Rates, despite the continued existence of the Applicable Benchmark Rate; or
  - (G) it having become unlawful and/or impossible and/or impracticable for any Paying Agent, Calculation Agent or the Cash Manager to calculate any payments due to be made to any Noteholder using the Applicable Benchmark Rate; or
  - (H) it being the reasonable expectation of the Issuer that any of the events specified in sub-paragraphs (A), (B) or (G) will occur or exist within six months of the proposed effective date of such Benchmark Rate Modification; or
  - (I) Benchmark Rate Modification is being proposed pursuant to Condition 16.5.4; and
- (ii) the Alternative Benchmark Rate is any one or more of the following:
- (A) a benchmark rate with an equivalent term to the Applicable Benchmark Rate as published, endorsed, approved or recognised as a replacement to the Applicable Benchmark Rate by the Bank of England, the Financial Conduct Authority or the Prudential Regulation Authority or any relevant committee or other body established, sponsored or approved by any of the foregoing, including the Working Group on Sterling Risk-Free Reference Rates (which, for the avoidance of doubt, may be an alternative Benchmark Rate together with a specified adjustment factor which may increase or decrease the relevant alternative Benchmark Rate); or
  - (B) a benchmark rate with an equivalent term utilised in a material number of publicly-listed new issues of asset backed floating rate notes denominated in sterling in the six months prior to the proposed effective date of such Benchmark Rate Modification; or
  - (C) such other benchmark rate as the Issuer reasonably determines, provided that this option may only be used if the Issuer certifies to the Trustee that, in the reasonable opinion of the Issuer neither Condition 16.5.1(ii)(A) nor Condition 16.5.1(ii)(B) are applicable and/or practicable in the context of the Transaction, and sets out the rationale in the Benchmark Rate Modification Certificate for choosing the proposed Alternative Benchmark Rate; and
- (iii) the same Alternative Benchmark Rate will be applied to all the Notes; and
- (iv) the details of and the rationale for any Note Rate Maintenance Adjustment proposed in accordance with Condition 16.5.1(xii)(F) are as set out in the Benchmark Rate Modification Noteholder Notice; and
- (v) the modifications proposed are required solely for the purpose of applying the Alternative Benchmark Rate and making consequential modifications to any Transaction Document which are, as reasonably determined by the Issuer necessary or advisable, and the modifications have been drafted solely to such effect; and
- (vi) the consent of each Secured Creditor which has a right to consent to such modification pursuant to the provisions of the Transaction Documents has been obtained (evidence of



which shall be provided by the Issuer to the Trustee with the Benchmark Rate Modification Certificate) and no other consents are required to be obtained in relation to the Benchmark Rate Modification; and

- (vii) the Beneficial Title Seller has agreed to pay, or to put the Issuer in funds to pay, all fees, costs and expenses (including legal fees and any initial or ongoing costs associated with the Benchmark Rate Modification) incurred by the Issuer and the Trustee or any other Transaction Party in connection with the Benchmark Rate Modification,

(the certificate to be provided by the Issuer a "**Benchmark Rate Modification Certificate**"), provided that:

- (viii) the Benchmark Rate Modification Certificate shall be provided to the Trustee in draft form not less than five Business Days prior to the date on which the Benchmark Rate Modification Certificate is sent to Noteholders; and
- (ix) the Benchmark Rate Modification Certificate shall be provided to the Trustee in final form not less than two Business Days prior to the date on which the Benchmark Rate Modification takes effect; and
- (x) a copy of the Benchmark Rate Modification Noteholder Notice provided to Noteholders pursuant to Condition 16.5.1(xii) shall be appended to the Benchmark Rate Modification Certificate,

and provided further that:

- (xi) either:
  - (A) the Issuer has obtained from each of the Rating Agencies written confirmation (or certifies in the Benchmark Rate Modification Certificate that it has been unable to obtain written confirmation, but has received oral confirmation from an appropriately authorised person at each of the Rating Agencies) that the proposed Benchmark Rate Modification would not result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to the Class A Notes by such Rating Agency or (y) such Rating Agency placing the Class A Notes on rating watch negative (or equivalent) and, if relevant, it has provided a copy of any written confirmation to the Trustee with the Benchmark Rate Modification Certificate; or
  - (B) the Issuer certifies in the Benchmark Rate Modification Certificate that it has given the Rating Agencies at least 10 Business Days prior written notice of the proposed modification and none of the Rating Agencies has indicated that such modification would result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to the Class A Notes by such Rating Agency or (y) such Rating Agency placing the Class A Notes on rating watch negative (or equivalent); and
- (xii) the Issuer has provided written notice of the proposed Benchmark Rate Modification to the Noteholders of the Notes, at least 40 calendar days' prior to the date on which it is proposed that the Benchmark Rate Modification would take effect, in accordance with Condition 21 (*Notices*) and by publication on Bloomberg on the "Company Filings" screen relating to the Notes (such notice, the "**Benchmark Rate Modification Noteholder Notice**") confirming the following:
  - (A) the period during which Noteholders of the Class A Notes on the date specified to be the Benchmark Rate Modification Record Date, which shall be five Business Days from the date of the Benchmark Rate Modification Noteholder Notice (the

“**Benchmark Rate Modification Record Date**”), may object to the proposed Benchmark Rate Modification (which notice period shall commence at least 40 calendar days prior to the date on which it is proposed that the Benchmark Rate Modification would take effect and continue for a period not less than 30 calendar days) and the method by which they may object; and

- (B) the sub-paragraph(s) of Condition 16.5.1(i) under which the Benchmark Rate Modification is being proposed; and
- (C) which Alternative Benchmark Rate is proposed to be adopted pursuant to Condition 16.5.1(ii), and, where Condition 16.5.1(ii)(C) is being applied, the rationale for choosing the proposed Alternative Benchmark Rate; and
- (D) details of any consequential modifications that the Issuer has agreed will be made to any hedging agreement to which it is a party for the purpose of aligning any such hedging agreement with the proposed Benchmark Rate Modification, if the proposed Benchmark Rate Modification takes effect. The Issuer shall use reasonable endeavours to agree modifications to each hedging agreement where commercially appropriate so that the transaction is hedged following the Benchmark Rate Modification to a similar extent as prior to the Benchmark Rate Modification and that such modifications shall take effect no later than 30 calendar days from the date on which the Benchmark Rate Modification takes effect. If (i) no modifications are proposed to be made to hedging agreements; and/or (ii) modifications will be made to hedging agreements but will not result in the Transaction being similarly hedged; and/or (iii) modifications to any hedging agreement would take effect later than 30 calendar days from the date on which the Benchmark Rate Modification takes effect, the Issuer shall set out in the Benchmark Rate Modification Noteholder Notice the rationale for this; and
- (E) details of any consequential modifications that the Issuer has agreed for margin maintenance purposes (for example, modifications to any standard variable rate (“SVR”) covenant or similar such covenant in relation to the interest rate(s) on the underlying portfolio of assets, to the extent that the SVR covenant or similar such covenant is linked to the Applicable Benchmark Rate, or modifications in respect of any margin reserve fund requirement) for the purpose of aligning any such rates with the proposed Benchmark Rate Modification, if the proposed Benchmark Rate Modification takes effect. The Issuer shall use reasonable endeavours to agree such modifications where commercially appropriate to maintain an equivalent level of protection as provided by any SVR covenant or margin reserve fund requirement prior to the proposed Benchmark Rate Modification and that such modifications shall take effect no later than 30 calendar days from the date on which the Benchmark Rate Modification takes effect. If (i) no such modifications are proposed to be made; and/or (ii) such modifications will be made but will not result in an equivalent level of protection; and/or (iii) such modifications would take effect later than 30 calendar days from the date on which the Benchmark Rate Modification takes effect, the Issuer shall set out in the Benchmark Rate Modification Noteholder Notice the rationale for this; and
- (F) details of the adjustment which the Issuer proposes to make (if any) to the margin payable on the Notes which are the subject of the Benchmark Rate Modification in order to, so far as reasonably and commercially practicable, preserve what would have been the expected rate of interest applicable to the Notes had no such

Benchmark Rate Modification been effected (the “**Note Rate Maintenance Adjustment**”), provided that:

1. in the event that the Bank of England, the Financial Conduct Authority or the Prudential Regulation Authority or any relevant committee or other body established, sponsored or approved by any of the foregoing, including the Working Group on Sterling Risk-Free Reference Rates has published, endorsed, approved or recognised a note rate maintenance adjustment mechanism which could be used in the context of a transition from the Applicable Benchmark Rate to the Alternative Benchmark Rate, then the Issuer shall propose that note rate maintenance adjustment mechanism as the Note Rate Maintenance Adjustment, or otherwise the Issuer shall set out in the Benchmark Rate Modification Noteholder Notice the rationale for concluding that this is not a commercial and reasonable approach in relation to the Notes and the proposed Benchmark Rate Modification; or
  2. in the event that it has become generally accepted market practice in the publicly listed asset backed floating rate notes market to use a particular note rate maintenance adjustment mechanism in the context of a transition from the Applicable Benchmark Rate to the Alternative Benchmark Rate, then the Issuer shall propose that note rate maintenance adjustment mechanism as the Note Rate Maintenance Adjustment, or otherwise the Issuer shall set out in the Benchmark Rate Modification Noteholder Notice the rationale for concluding that this is not a commercial and reasonable approach in relation to the Notes and the proposed Benchmark Rate Modification; or
  3. in the event that neither (1) nor (2) above apply, the Issuer shall use reasonable endeavours to propose an alternative Note Rate Maintenance Adjustment as reasonably determined by the Issuer and shall set out the rationale for the proposal or otherwise the Issuer shall set out in the Benchmark Rate Modification Noteholder Notice the rationale for concluding that this is not a commercial and reasonable approach in relation to the Notes and the proposed Benchmark Rate Modification; and
  4. if any Note Rate Maintenance Adjustment is proposed, the Note Rate Maintenance Adjustment applicable to the Class Z VFN shall be at least equal to that applicable to the Class A Notes. In circumstances where the Issuer proposes a lower Note Rate Maintenance Adjustment on the Class Z VFN than that which is proposed for the Class A Notes, Benchmark Rate Modification will not be made unless an Extraordinary Resolution is passed in favour of such modification in accordance with Condition 15 (*Meetings of Noteholders*) by the Noteholders of the Class Z VFN then outstanding; and
  5. for the avoidance of doubt, the Note Rate Maintenance Adjustment may effect an increase or a decrease to the Margin or may be set at zero; and
- (G) details of (i) other amendments which the Issuer proposes to make (if any) to these Conditions or any other Transaction Document and (ii) any new, supplemental or additional documents into which the Issuer proposes to enter to facilitate the changes envisaged pursuant to this Condition 16.5 (Benchmark Rate Modification); and
- (H) Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Class A Notes outstanding on the Benchmark Rate

Modification Record Date have not contacted the Trustee in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Class A Notes may be held) within such notification period notifying the Trustee that such Noteholders do not consent to the Benchmark Rate Modification.

If Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Class A Notes outstanding on the Benchmark Rate Modification Record Date have notified the Trustee in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Class A Notes may be held) within the notification period referred to above that they do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution is passed in favour of such modification in accordance with Condition 15 (*Meetings of Noteholders*) provided that (A) in circumstances where the Issuer proposes a lower Note Rate Maintenance Adjustment on the Class Z VFN than that which is proposed for the Class A Notes, such Extraordinary Resolution shall be passed by the Noteholders of the Class A Notes then outstanding and by the Noteholders of the Class Z VFN then outstanding, and (B) in other circumstances, such Extraordinary Resolution shall be passed by Noteholders of the Class A Notes then outstanding.

Objections made in writing other than through the applicable clearing system must be accompanied by evidence to the Trustee's satisfaction (having regard to prevailing market practices) of the relevant Noteholder's holding of the Notes on the Benchmark Rate Modification Record Date.

16.5.2 Other than where specifically provided in this Condition 16.5 (*Benchmark Rate Modification*) or any Transaction Document:

- (i) when implementing any modification pursuant to this Condition 16.5 (*Benchmark Rate Modification*), the Trustee shall not consider the interests of the Noteholders, any other Secured Creditor or any other person and shall act and rely solely and without further investigation, on any Benchmark Rate Modification Certificate or evidence provided to it by the Issuer or the relevant Transaction Party pursuant to this Condition 16.5 (*Benchmark Rate Modification*) and shall not be liable to the Noteholders, any other Secured Creditor or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person; and
- (ii) the Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Trustee would have the effect of (A) exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (B) increasing the obligations or duties, or decreasing the rights or protection, of the Trustee in the Transaction Documents and/or these Conditions.

16.5.3 Any Benchmark Rate Modification shall be binding on all Noteholders and shall be notified by the Issuer as soon as reasonably practicable to:

- (i) so long as any of the Class A Notes rated by the Rating Agencies remains outstanding, each Rating Agency;
- (ii) the Secured Creditors; and
- (iii) the Noteholders in accordance with Condition 21 (*Notices*).

16.5.4 Following the making of a Benchmark Rate Modification, if it becomes generally accepted market practice in the publicly listed asset backed floating rate notes market to use a

Benchmark Rate of interest which is different from the Alternative Benchmark Rate which had already been adopted by the Issuer in respect of the Notes pursuant to a Benchmark Rate Modification, the Issuer is entitled to propose a further Benchmark Rate Modification pursuant to this Condition 16.5 (*Benchmark Rate Modification*).

#### **16.6 Notification**

Unless the Trustee otherwise agrees, the Issuer shall cause any waiver or modification to be notified to the Noteholders and the other Secured Creditors in accordance with the Notices Condition and the Transaction Documents, as soon as practicable after it has been made.

#### **16.7 Binding Nature**

Any waiver or modification referred to in Condition 16.1 (*Modification*), Condition 16.2 (*Waiver*) or Condition 16.4 (*Additional Right of Modification*) or Condition 16.5 (*Benchmark Rate Modification*) shall be binding on the Instrumentholders and the other Secured Creditors.

### **17 Prescription**

#### **17.1 Principal**

Claims for principal in respect of Notes shall become void unless the relevant Notes are presented for payment and surrendered or (in the case of any Note Principal Payment which became due on an Interest Payment Date) endorsement within 10 years of the appropriate Relevant Date.

#### **17.2 Interest**

Claims for interest in respect of Notes shall become void unless the relevant Coupons are presented for payment and surrendered within five years of the appropriate Relevant Date.

### **18 Replacement of Global Notes, Definitive Notes and Coupons**

If any Global Note, Definitive Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, subject to all applicable laws and Stock Exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Global Notes, Definitive Notes and Coupons must be surrendered before replacements will be issued.

### **19 Trustee and Agents**

#### **19.1 Trustee's right to Indemnity**

Under the Transaction Documents, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid or reimbursed for any Liabilities incurred by it in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

#### **19.2 Trustee not responsible for loss or for monitoring**

The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of the Charged Property or any documents of title thereto being uninsured or inadequately insured or being held by or to the order of the Servicer or by any person on behalf of the Trustee. The Trustee shall not be responsible for monitoring the compliance by any of the other Transaction Parties with their obligations under the Transaction Documents.

### **19.3 *Regard to classes of Noteholders***

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will:

- 19.3.1 have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Noteholders or Couponholders as a result of such holders being domiciled or resident in, or otherwise connected in any way with, or subject to the jurisdiction of, a particular territory or taxing jurisdiction; and
- 19.3.2 have regard only to the holders of the Most Senior Class of Notes and will not have regard to the interests of the other Secured Creditors except to ensure the application of the Issuer's funds after the delivery of an Enforcement Notice in accordance with the Post-Enforcement Payments Priorities.

### **19.4 *Paying Agents solely agents of Issuer***

In acting under the Agency Agreement and in connection with the Notes, the Paying Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

### **19.5 *Initial Paying Agents***

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior written approval of the Trustee) to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or agent bank and additional or successor paying agents at any time, having given not less than 30 days' notice to such Agent.

### **19.6 *Maintenance of Agents***

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with the Notices Condition.

## **20 *Substitution of Issuer***

### **20.1 *Substitution of Issuer***

The Trustee may, without the consent of the Instrumentholders or any other Secured Creditor, subject to:

20.1.1 the consent of the Issuer; and

20.1.2 such further conditions as are specified in the Trust Deed,

agree to the substitution of a Substituted Obligor in place of the Issuer as the principal debtor in respect of the Transaction Documents, the Notes and the Secured Amounts.

### **20.2 *Notice of Substitution of Issuer***

Not later than 14 days after any substitution of the Issuer in accordance with this Condition 20, the Substituted Obligor shall cause notice of such substitution to be given to the Noteholders and the other Secured Creditors in accordance with the Notices Condition and the other relevant Transaction Documents.

### **20.3 *Change of Law***

In the case of a substitution pursuant to this Condition, the Trustee may in its absolute discretion agree, without the consent of the Noteholders or the other Secured Creditors to a change of the law governing the Notes or Coupons and/or any of the Transaction Documents provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the holders of the Most Senior Class of Notes, provided that the Issuer has notified the Rating Agencies.

#### **20.4 *No indemnity***

No Noteholder shall, in connection with any such substitution, be entitled to claim from the Issuer any indemnification or payment in respect of any tax consequence of any such substitution upon individual Noteholders.

### **21 Notices**

#### **21.1 *Valid Notices***

In respect of the Notes, any notice to Noteholders shall be validly given if such notice is:

##### 21.1.1

- (a) in respect of Class A Notes represented by Global Notes, sent to the Clearing Systems for delivery to their accountholders; or
- (b) published on the Relevant Screen; and

21.1.2 sent in such other manner as may be required by the Stock Exchange.

In respect of the Class Z VFN, notices to the Class Z VFN Holder will be sent by the Issuer to the fax number or email address of the Class Z VFN Holder notified to the Issuer from time to time in writing.

Any notices given to the Noteholders by the Issuer or the Trustee shall also be sent by the Issuer or the Trustee, as the case may be, concurrently to the Interest Rate Swap Provider.

#### **21.2 *Date of publication***

Any notices so published shall be deemed to have been given on the date on which it was so sent or, as the case may be, on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required or on the Relevant Screen.

#### **21.3 *Other Methods***

The Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the Class A Notes are then listed and provided that notice of such other method is given to the relevant Noteholders in such manner as the Trustee shall require.

#### **21.4 *Couponholders deemed to have notice***

The Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition 21.

### **22 Increasing the Principal Amount Outstanding of the Class Z VFN and adjusting the Maximum Class Z VFN Amount**

#### **22.1 *Class Z VFN***

- (a) If the Issuer receives a notice from the Legal Title Holder or the Servicer prior to the Class Z VFN Commitment Termination Date notifying the Issuer (i) that a Further Advance has been made, there are insufficient funds standing to the credit of the Principal Ledger to fund the purchase of the Further Advance and of the amount of the Further Advance Purchase Price and/or such shortfall which is insufficiently funded by amounts standing to the credit of the Principal Ledger, (ii) that amounts standing to the credit of the General Reserve Fund are less than the General Reserve Fund Target Amount and/or (iii) of any premiums payable in connection with the entry into a Replacement Interest Rate Swap Agreement, the Issuer shall notify (by serving a Notice of Increase) the holder of the Class Z VFN (the “**Class Z VFN Holder**”) requesting that such Class Z VFN Holder further fund the Class

Z VFN on the relevant Monthly Payment Date or other Business Day specified in the Notice of Increase in an amount equal to the lower of:

- (i)
    - (A) in respect of (i) above, the Further Advance Purchase Price less amounts standing to the credit of the Principal Ledger available to pay such Further Advance Purchase Price;
    - (B) in respect of (ii) above, the General Reserve Fund Target Amount less all amounts standing to the credit of the General Reserve Fund; or
    - (C) in respect of (iii) above, the amount of any premiums payable in connection with the entry into a Replacement Interest Rate Swap Agreement; and
  - (ii) the Maximum Class Z VFN Amount less the current Principal Amount Outstanding of the Class Z VFN (taking into account any predicted or forecast reductions to the Principal Amount Outstanding of the Class Z VFN on the following Interest Payment Date).
- (b) The Class Z VFN Holder, upon receipt of such a notice from the Issuer prior to the Class Z VFN Commitment Termination Date requesting that the relevant Class Z VFN Holder further fund the Class Z VFN, shall notify the Issuer that the relevant Class Z VFN Holder is prepared to make such further funding (the “**Further Class Z VFN Funding**”), provided the relevant Class Z VFN Holder shall not be obliged to make any such further funding unless and until such time as the Issuer has complied with the requirements of Condition 22.1(d) below.
- (c) The proceeds of the Further Class Z VFN Funding shall be applied by the Issuer to fund (i) the Further Advance Purchase Price, (ii) the General Reserve Fund up to and including an amount equal to the General Reserve Fund Target Amount and (iii) any premiums payable in connection with the entry into a Replacement Interest Rate Swap Agreement.
- (d) The Class Z VFN Holder shall advance the amount of such Further Class Z VFN Funding to the Issuer for value on the relevant Monthly Payment Date or other Business Day specified in the Notice of Increase, if the following conditions are satisfied:
- (i) not later than 2.00 p.m. four Business Days prior to the proposed date for the making of such Further Class Z VFN Funding (or such lesser time as may be agreed by the Class Z VFN Holder), the relevant Class Z VFN Holder has received from the Issuer a completed and irrevocable Notice of Increase therefor, receipt of which shall obligate the relevant Class Z VFN Holder to accept the amount of the Further Class Z VFN Funding therein requested on the date therein stated upon the terms and subject to the conditions contained therein;
  - (ii) as a result of the making of such Further Class Z VFN Funding, the aggregate amount of the Principal Amount Outstanding of the Class Z VFN immediately before the making of such Further Class Z VFN Funding (taking into account any predicted or forecast reductions to the Principal Amount Outstanding of the Class Z VFN on the following Interest Payment Date) plus such Further Class Z VFN Funding would not exceed the Maximum Class Z VFN Amount;
  - (iii) either:
    - (A) the Issuer confirms in the Notice of Increase that no Event of Default has occurred or will occur as a result of the Further Class Z VFN Funding; or
    - (B) the relevant Class Z VFN Holder agrees in writing (notwithstanding any matter mentioned at (i) above) to make such Further Class Z VFN Funding available; and
  - (iv) the proposed date of such Further Class Z VFN Funding falls on a Business Day prior to the Class Z VFN Commitment Termination Date.



In this Condition, the expression:

“**Notice of Increase**” means a notice, substantially in the form set out in the Trust Deed.

“**Maximum Class Z VFN Amount**” for the Class Z VFN shall be £150,000,000 or such other amount as may be agreed from time to time by the Issuer and the Class Z VFN Holder, and notified such amount to the Trustee.

## 23 Non-Responsive Rating Agency

- (a) In respect of the exercise of any power, duty, trust, authority or discretion as contemplated hereunder or in relation to the Notes and any of the Transaction Documents, the Trustee shall be entitled but not obliged to take into account (and may rely without further enquiry and without liability on) any written confirmation or affirmation (in any form acceptable to the Trustee) from the relevant Rating Agencies that the then current ratings of the Class A Notes will not be reduced, qualified, adversely affected or withdrawn thereby (a “**Rating Agency Confirmation**”).
- (b) If a Rating Agency Confirmation or other response by a Rating Agency is a condition to any action or step under any Transaction Document and a written request for such Rating Agency Confirmation or response is delivered to each Rating Agency by or on behalf of the Issuer (copied to the Trustee) and:
  - (i) (A) one Rating Agency (such Rating Agency, a “**Non-Responsive Rating Agency**”) indicates that it does not consider such Rating Agency Confirmation or response necessary in the circumstances or that it does not, as a matter of practice or policy provide such Rating Agency Confirmation or response or (B) within 30 days of delivery of such request, no Rating Agency Confirmation or response is received and/or such request elicits no statement by such Rating Agency that such Rating Agency Confirmation or response could not be given; and
  - (ii) one Rating Agency gives such Rating Agency Confirmation or response based on the same facts,

then such condition to receive a Rating Agency Confirmation or response from each Rating Agency shall be modified so that there shall be no requirement for the Rating Agency Confirmation or response from the Non-Responsive Rating Agency if the Issuer provides to the Trustee a certificate signed (upon which the Trustee can rely) by two directors certifying and confirming that the events in one of paragraphs (i)(A) or (B) and in the event of subparagraph (ii) above has occurred, the Issuer having sent a written request to each Rating Agency.

## 24 Governing Law and Jurisdiction

### 24.1 *Governing law*

The Trust Documents and the Notes and all non-contractual obligations arising from or connected with them are governed by and shall be construed in accordance with English law.

### 24.2 *Jurisdiction*

The Courts of England (the “**Courts**”) are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes, the Coupons and the Transaction Documents (including a dispute relating to non-contractual obligations or a dispute regarding the existence, validity or termination of any of the Notes, Coupons or the Transaction Documents or the consequences of their nullity) and accordingly any legal action or proceedings arising out of or in connection with the Notes, Coupons and/or the Transaction Documents may be brought in such Courts.

## **USE OF PROCEEDS**

The net proceeds from the issue of the Notes after deducting fees, expenses and commissions, if any, will equal £350,900,000 and will be used by the Issuer to pay the purchase price for the Mortgage Portfolio to the Beneficial Title Seller in accordance with the Mortgage Sale Agreement and to fund the General Reserve Fund.

## TAXATION

*In this summary references to “Notes” and “Noteholder” excludes the Class Z VFN and the Class Z VFN Holder. The Class Z VFN Holder is urged to consult its own tax advisers about the tax consequences under its circumstances of purchasing, holding and selling the Class Z VFN under the laws of the United Kingdom, its political subdivisions and any other jurisdiction in which the Class Z VFN Holder may be subject to tax.*

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes. It is based on current law and the practice of Her Majesty’s Revenue and Customs (“HMRC”), which may not be binding and may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

### **United Kingdom withholding tax**

The Notes issued by the Issuer which carry a right to interest will constitute “quoted Eurobonds” provided they are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007 or admitted to trading on a multilateral trading facility operated by an EEA-regulated recognised stock exchange in accordance with section 987 of the Income Tax Act 2007. Whilst the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

Securities will be “listed on a recognised stock exchange” for this purpose if they are admitted to trading on an exchange designated as a recognised stock exchange by an order made by the Commissioners for HMRC and either they are included in the United Kingdom official list (within the meaning of Part 6 of the Financial Services and Markets Act 2000) or they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange.

The Stock Exchange is a recognised stock exchange. The Issuer’s understanding of current HMRC practice is that securities which are officially listed and admitted to trading on the Main Securities Market of the Stock Exchange may be regarded as “listed on a recognised stock exchange” for these purposes.

In all cases falling outside the exemption described above, interest on the Notes may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available following a direction from HMRC pursuant to the provisions of any applicable double taxation treaty, or to any other exemption which may apply.

Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to “**interest**” above mean “interest” as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of “interest” or “principal” which may prevail under any other law.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of an issuer pursuant to Condition 20 (*Substitution of Issuer*) or otherwise and does not consider the tax consequences of any such substitution.

## FATCA WITHHOLDING

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

## SUBSCRIPTION AND SALE

Merrill Lynch International and J.P. Morgan Securities plc (the “**Joint Lead Managers**”) have, pursuant to a subscription agreement dated on or about the Closing Date amongst, *inter alios*, the Joint Lead Managers, the Beneficial Title Seller and the Issuer (the “**Subscription Agreement**”), agreed with the Issuer (subject to certain conditions) to subscribe and pay or procure the payment for the Class A Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A Notes. UK Mortgages Corporate Funding Designated Activity Company has, pursuant to the Subscription Agreement, agreed with the Issuer (subject to certain conditions) to subscribe and pay £38,900,000 of the Class Z VFN at the issue price of 100 per cent. of the aggregate principal amount of the Class Z VFN.

The Issuer and the Beneficial Title Seller have agreed in the Subscription Agreement to indemnify the Joint Lead Managers against certain liabilities in connection with the issue of the Class A Notes.

Other than admission of the Class A Notes to the Main Securities Market of the Stock Exchange, no action will be taken by the Issuer, the Arranger or the Beneficial Title Seller which would or is intended to permit a public offering of the Notes, or possession or distribution of this Prospectus or other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

This Prospectus does not constitute, and may not be used for the purpose of, an offer or a solicitation by anyone to subscribe for or purchase any of the Notes in or from any country or jurisdiction where such an offer or solicitation is not authorised or is unlawful.

Pursuant to the Subscription Agreement, the Beneficial Title Seller has covenanted that it will, *inter alia*, retain a material net economic interest of not less than 5 per cent. in the securitisation in accordance with Article 405 of the CRR, Article 51 of the AIFMR and Article 254 of the Solvency II Regulation (which in each case does not take into account any implementing rules of the CRD in a relevant jurisdiction). As at the Closing Date, such retention requirement will be satisfied by the Beneficial Title Seller holding the Class Z VFN. Any change to the manner in which such interest is held will be notified to the Noteholders.

### United States

The Notes have not been nor will be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except in keeping with the limitations described under “*Transfer Restrictions and Investor Representations*”. Accordingly, the Notes are being offered and sold by the Joint Lead Managers solely to non-U.S. persons in offshore transactions in reliance on Regulation S. The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

The Joint Lead Managers have agreed that, except as permitted by the Subscription Agreement, they will not offer or sell the Notes as part of its distribution or at any time or otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and, it will have sent to each affiliate or other person (if any) to which it sells Notes during such 40 day period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S. In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act. Offers and

sales of the Notes within the United States or to U.S. persons is further restricted as specified in “Transfer Restrictions and Investor Representations” below.

Except with the express written consent of the Beneficial Title Seller in the form of a U.S. Risk Retention Consent and where such sale falls within the exemption provided by Section 20 of the U.S. Risk Retention Rules, the Notes offered and sold by the Issuer may only be purchased by persons that are not Risk Retention U.S. Persons.

The Beneficial Title Seller, the Issuer and the Joint Lead Managers have agreed that none of the Joint Lead Managers or any person who controls it or any director, officer, employee, agent or affiliate of the Joint Lead Managers shall have any responsibility for determining the proper characterisation of potential investors for such restriction or for determining the availability of the exemption provided by Section 20 of the U.S. Risk Retention Rules, and none of the Joint Lead Managers or any person who controls it or any director, officer, employee, agent or affiliate of the Joint Lead Managers accepts any liability or responsibility whatsoever for any such determination.

### **United Kingdom**

Each Joint Lead Manager has represented to and agreed with the Issuer that:

- (a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated any invitation or inducement to engage in any activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### **Ireland**

Each Joint Lead Manager has represented and agreed with the Issuer that:

- (a) it will not underwrite the issue of, or place the Notes, otherwise than in conformity with the provisions of the Irish European Union (Markets in Financial Instruments) Regulations 2017 (as amended) ("**MiFID Regulations**"), including, without limitation, Regulation 5 (Requirement for authorisation (and certain provisions concerning MTFs and OTFs)) thereof, or any rules or codes of conduct issued in connection therewith and any other conditions, requirements or enactments imposed or approved by the Irish Central Bank (the "**Central Bank**") and the provisions of the Investor Compensation Act 1998 (as amended);
- (b) it will not underwrite the issue of, or place, or do anything in Ireland in respect of the Notes otherwise than in conformity with the provisions of the Irish Central Bank Acts 1942 – 2015 (as amended) and any codes of practice made under Section 117(1) of the Central Bank Act 1989 (as amended) or any regulations made pursuant to Part 8 of the Central Bank (Supervision and Enforcement) Act 2013 (as amended);
- (c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of the Notes otherwise than in conformity with the provisions of the Irish Prospectus (Directive 2003/71/EC) Regulations 2005 (as amended), the Irish Companies Act 2014 (as amended) (the "**Companies Act**") and any rules issued by the Central Bank under Section 1363 of the Companies Act; and
- (d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of the Notes, otherwise than in conformity with the provisions of Regulation (EU) No 596/2014 (as amended) of the European Parliament and of the Council of 16 April 2014 on market abuse, the European Union (Market Abuse)

Regulations 2016 and any rules issued by the Central Bank pursuant to Section 1370 of the Companies Act.

### **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Joint Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor 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), as permitted under the Prospectus Directive; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or the Joint Lead Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “**Prospectus Directive**” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State.

### **Prohibition of Sales to EEA Retail Investors**

Each of the Joint Lead Managers has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Prospectus in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
  - (ii) a customer within the meaning of **IMD**, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in the Prospectus Directive; and
- (b) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

### **General**

Each Joint Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in respect of the Notes in any country or jurisdiction except under



circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of the Notes by it will be made on the same terms.

## TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS

### Offers and Sales by the Joint Lead Managers

The Notes (including interests therein represented by a Global Note, a Definitive Note or a book-entry interest) have not been registered under the Securities Act or any state securities laws and are subject to U.S. tax law requirements, and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to such registration requirements and other requirements described herein. Accordingly, the Joint Lead Managers are offering and selling the Notes solely to non-U.S. persons in offshore transactions pursuant to Regulation S.

### Investor Representations and Restrictions on Resale Representations and restrictions applicable to all Notes

Each purchaser of the Notes (which term for the purposes of this section will be deemed to include any interests in the Notes, including Book-Entry Interests) by accepting delivery of this prospectus and the Notes will be deemed to have represented and agreed as follows:

- (a) the Notes have not been and will not be registered under the Securities Act and such Notes are being offered only in a transaction that does not require registration under the Securities Act and, if such purchaser decides to resell or otherwise transfer such Notes, then it agrees that it will offer, resell, pledge or transfer such Notes only (i) to a purchaser who is not a U.S. person (as defined in Regulation S) or an affiliate of the Issuer or a person acting on behalf of such an affiliate, and who is not acquiring the Notes for the account or benefit of a U.S. person and who is acquiring the Notes in an offshore transaction pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S, (ii) to or for the account or benefit of a U.S. person (as defined in Regulation S), if such person is acquiring the Notes in an offshore transaction pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S, or (iii) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States; provided that in no event under (ii) or (iii) above may Notes be transferred or resold to or for the account of a U.S. person until (A) at least 40 days after the Closing Date, and (B) such Notes are represented by a permanent global note; provided further that the agreement of such purchaser is subject to any requirement of law that the disposition of the purchaser's property shall at all times be and remain within its control;
- (b) unless the relevant legend set out below has been removed from the Notes such purchaser shall notify each transferee of Notes from it that (i) such Notes have not been registered under the Securities Act, (ii) the holder of such Notes is subject to the restrictions on the resale or other transfer thereof described in paragraph (a) above, (iii) such transferee shall be deemed to have represented that such transferee is acquiring the Notes in an offshore transaction and that such transfer is made pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S and (iv) such transferee shall be deemed to have agreed to notify its subsequent transferees as to the foregoing; and
- (c) the Issuer, the initial purchaser of the relevant Notes, and its affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

The Notes will bear a legend to the following effect:

“THIS GLOBAL NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE “**SECURITIES ACT**”). NEITHER THIS GLOBAL NOTE NOR ANY PORTION HEREOF MAY BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO ANY U.S. PERSON UNLESS AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE. ANY UNITED

STATES PERSON (AS DEFINED IN THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED) WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

*Purchasers of Notes are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such securities offered and sold.*

## GENERAL INFORMATION

### The Issuer

The Issuer was incorporated in England and Wales as a public company limited by shares under the Companies Act 2006 on 14 May 2018 with registered number 11360421. The registered office of the Issuer is at 35 Great St Helen's, London EC3A 6AP (telephone number +44 (0)20 7398 6300).

### Authorisation

The issue of the Notes was authorised by resolution of the board of directors of the Issuer passed on 25 June 2018.

### Listing of the Class A Notes

It is expected that admission of the Class A Notes to the Official List and trading on its regulated market will be granted on or about 27 June 2018 subject only to the issue of the Global Notes. The listing of the Class A Notes will be cancelled if the Global Notes are not issued. Transactions will normally be effected for settlement in sterling and for delivery on the third working day after the day of the transaction.

Maples and Calder is acting solely in its capacity as listing agent for the Issuer in connection with the Class A Notes and is not itself seeking admission of the Class A Notes to trading on the regulated market of the Irish Stock Exchange.

The total expenses in relation to admission to trading will be approximately €6,790.

The Class Z VFN will not be listed.

### Clearing and settlement

The Class A Notes have been accepted for clearing through Clearstream, Luxembourg and Euroclear under the following ISINs and common codes:

<b>Securities</b>	<b>ISIN</b>	<b>Common Code</b>
Class A Notes .....	XS1839667075	183966707

### Litigation

The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), since 14 May 2018 (being the date of incorporation of the Issuer) which may have, or have had in the recent past, significant effects upon the financial position or profitability of the Issuer (as the case may be).

### Accounts

No statutory or non-statutory accounts within the meaning of section 434 of the Companies Act 2006 in respect of any financial year of the Issuer have been prepared. So long as the Notes are admitted to trading on the regulated market, the most recently published audited annual accounts of the Issuer from time to time shall be available at the specified office of the Principal Paying Agent. The Issuer does not publish interim accounts.

The Issuer did not trade during the period from its date of incorporation on 14 May 2018 to the date of this Prospectus nor has it received any income nor did it incur any expense nor pay any dividends. Consequently no profit and loss account has been prepared. Since the date of its incorporation, the Issuer has not commenced operations.

### **Significant or Material Change**

Since the date of its incorporation, the Issuer has not entered into any contract or arrangement not being in the ordinary course of business other than the Transaction Documents and those related to its registration as a public company under the Companies Act 2006.

Since 14 May 2018 (being the date of incorporation of the Issuer), there has been no material adverse change in the financial position or prospects of the Issuer.

### **Reports**

The Issuer will, from the Closing Date until the earlier of redemption in full of the last outstanding Note or the Final Maturity Date, provide ongoing post issuance transaction information in the form of a Monthly Investor Report (which shall contain a glossary of the terms used in such report, whether by reference to this Prospectus or otherwise), which will include information on the loans and payments in arrears and which will be prepared by the Cash Manager and will be published by the Cash Manager on [www.sf.citidirect.com](http://www.sf.citidirect.com) in electronic form for investors, potential investors and firms that generally provide services to investors. The Issuer will also make available information in relation to each Mortgage Loan (including anonymised loan level data) and other statistical information regarding the securities to be admitted to trading, which will be accessible via the same website [www.sf.citidirect.com](http://www.sf.citidirect.com) in electronic form for investors, potential investors and firms that generally provide services to investors, subject to the terms and conditions set out therein. The content of these websites do not form part of this Prospectus and such reports are not incorporated by reference into this Prospectus.

In the first Monthly Investor Report, the Issuer will disclose the amount of the Notes which are either:

- (a) privately-placed with investors which are not the Beneficial Title Seller or entities affiliated with the Beneficial Title Seller (the “**Beneficial Title Seller’s Group**”);
- (b) retained by a member of the Beneficial Title Seller’s Group; and
- (c) publicly-placed with investors which are not in the Beneficial Title Seller’s Group, and

in relation to any amount initially retained by a member of the Beneficial Title Seller’s Group, but subsequently placed with investors which are not in the Beneficial Title Seller’s Group, it will (to the extent permissible) disclose such placement in the next Monthly Investor Report.

The Cash Manager’s website does not form part of the information provided for the purposes of this Prospectus and disclaimers may be posted with respect to the information posted thereon. Registration may be required for access to slouch website and persons wishing to access the website will be required to certify that they are entitled to access the information posted thereon.

### **Cash flow models and loan level data**

The Issuer will, from the Closing Date until the earlier of redemption in full of the last Note or the Final Maturity Date, make available a cash flow model to Noteholders, either directly or indirectly through one or more entities that provide cash flow models to investors generally.

The Issuer will, on or about the Closing Date until the earlier of redemption in full of the last Note of the Final Maturity Date, make available loan level data to investors and update such information on a regular basis.

### **Underlying Assets**

On the Closing Date the assets backing the issue of the Notes have characteristics that demonstrate capacity to produce funds to service payments due and payable on the Notes. However, regard should be had to the characteristics of the Mortgage Portfolio and the risks to which they (and the Issuer and the Notes) may be exposed. Prospective Noteholders should consider the detailed information set out elsewhere in this document, including without limitation under “*Risk Factors*” and “*Credit Enhancement and Liquidity Support*”.

### **Documents Available**

From the Closing Date until the earlier of redemption in full of the last outstanding Note of the Final Maturity Date, physical copies of the following documents (excluding any schedule containing personal information) may be inspected at the offices of the Issuer at 35 Great St Helen’s, London EC3A 6AP during usual business hours on any week day (excluding Saturdays, Sundays and public holidays) and will be available in such manner for so long as the Class A Notes are admitted to trading on the Main Securities Market of the Stock Exchange and the guidelines of the Stock Exchange so require:

- (a) Memorandum and Articles of Association of the Issuer;
- (b) this Prospectus;
- (c) prior to the Closing Date, drafts (subject to amendment) and after the Closing Date copies of the following documents:
  - (i) the Agency Agreement;
  - (ii) the Cash Management Agreement;
  - (iii) the Corporate Services Agreement;
  - (iv) the Deed Poll;
  - (v) the Mortgage Sale Agreement;
  - (vi) the Security Deed;
  - (vii) the Beneficial Title Seller Power of Attorney;
  - (viii) the Legal Title Holder Power of Attorney;
  - (ix) the Servicing Agreement;
  - (x) the Interest Rate Swap Agreement;
  - (xi) the Transaction Account Agreement; and
  - (xii) the Trust Deed.

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