

## IMPORTANT NOTICE

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

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR ISSUE, OR A SOLICITATION OF AN OFFER TO PURCHASE OR SUBSCRIBE FOR, ANY SECURITIES IN THE UNITED STATES OR IN ANY OTHER JURISDICTION WHERE IT WOULD BE UNLAWFUL TO DO SO. THE SECURITIES REFERRED TO IN THE PROSPECTUS HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND SUCH SECURITIES MAY NOT BE OFFERED, SOLD, DELIVERED, DISTRIBUTED OR TRANSFERRED, DIRECTLY OR INDIRECTLY, INTO OR WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSONS AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT ("**U.S. PERSONS**"). THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**"), AND AS SUCH HOLDERS OF THE SECURITIES REFERRED TO IN THE PROSPECTUS WILL NOT BE ENTITLED TO THE BENEFITS OF THE INVESTMENT COMPANY ACT. THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE UNITED STATES. 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 the Prospectus has been delivered to you on the basis that you are a person into whose possession the 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 the 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 managers or any affiliate of the managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the managers or such affiliate on behalf of the Issuer in such jurisdiction.

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

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer nor the other Transaction Parties or any person who controls any such person or any director, officer, employee or agent of any such person (or affiliate of any such person) accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Issuer or Lloyds Bank plc.

## MOLINEUX RMBS 2016-1 PLC

(incorporated in England and Wales with limited liability under registered number 10011093)

Notes	Initial Principal Amount	Issue Price	Interest Rate	Final Maturity Date	Call Option Date*	Ratings (Fitch / Moody's)
Class A1	£600,000,000	100%	1.40% above 1-Month Sterling LIBOR	18 March 2063	18 March 2026	AAAsf/ Aaa(sf)
Class A2	£1,209,600,000	100%	2.15% above 1-Month Sterling LIBOR	18 March 2063	18 March 2026	AAAsf/ Aaa(sf)
Class B	£127,600,000	100%	3.15% above 1-Month Sterling LIBOR	18 March 2063	18 March 2026	AAsf/ Aa1(sf)
Class C	£87,000,000	100%	4.15% above 1-Month Sterling LIBOR	18 March 2063	18 March 2026	Asf/Aa2(sf)
Class D	£75,400,000	100%	5.65% above 1-Month Sterling LIBOR	18 March 2063	18 March 2026	BBB-sf/ A1(sf)
Class Z	£220,400,000	100%	2.00% above 1-Month Sterling LIBOR	18 March 2063	18 March 2026	Not rated

\* Call Option may also be exercised on each Interest Payment Date following the Call Option Date. There will be no step-up margin if the relevant Call Option is not exercised.

<b>Issue Date</b>	The Issuer issued the Notes in the Classes set out above on 30 March 2016 (the " <b>Closing Date</b> ").
<b>Underlying Assets</b>	The Issuer will make payments on the Notes from, <i>inter alia</i> , a portfolio comprising first-charge residential Buy-to-Let Loans and Let-to-Buy Loans originated by Bank of Scotland under the "Birmingham Midshires" brand and secured over properties located in England, Wales and Scotland which were purchased by the Issuer on the Closing Date. In addition, subject to the satisfaction of certain criteria, the Issuer will from time to time after the Closing Date acquire additional Mortgage Loans which will form part of the Mortgage Portfolio. See the section entitled " <i>The Mortgage Portfolio</i> " for more information.
<b>Credit Enhancement and Liquidity Support</b>	<p>Excess Available Revenue Receipts.</p> <p>In respect of the Class A Notes, subordination of the Class B Notes, the Class C Notes, the Class D Notes and the Class Z Notes and, prior to the occurrence of a Principal Payments Trigger Event, payments of principal in respect of the Class A2 Notes will be subordinated to payments of principal in respect of the Class A1 Notes.</p> <p>In respect of the Class B Notes, subordination of the Class C Notes, the Class D Notes and the Class Z Notes.</p> <p>In respect of the Class C Notes, subordination of the Class D Notes and the Class Z Notes.</p> <p>In respect of the Class D Notes, subordination of the Class Z Notes.</p> <p>General Reserve Fund funded on the Closing Date in the amount of £46,400,000 comprising the Excess Amount and the Liquidity Amount and replenished from Available Revenue Receipts in accordance with the Pre Enforcement Revenue Payments Priorities and, in the case of the Liquidity Amount, from Available Principal Receipts in accordance with the Pre Enforcement Principal Payments Priorities.</p> <p>Interest on the Class B Notes, the C Notes and the Class D Notes will, in certain circumstances, not be supported by the General Reserve Fund. Interest on the Class Z Notes will not be supported by the General Reserve Fund.</p> <p>Available Principal Receipts applied to make up Further Revenue Shortfall (subject to certain</p>

	<p>conditions, as described below).</p> <p>Interest Rate Swap provided by the Interest Rate Swap Provider.</p> <p>Availability of guaranteed investment payment provided by the Account Bank in respect of collections standing to the credit of the GIC Account.</p> <p>See the section entitled "<i>Key Structural Features</i>" for more information.</p>
<b>Redemption Provisions</b>	<p>Information on any optional and mandatory redemption of the Notes is summarised in the section entitled "<i>Transaction Overview – Overview of the Terms and Conditions of the Notes</i>" and set out in full in Condition 9 (<i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i>).</p>
<b>Rating Agencies</b>	<p>As of the Closing Date ratings have been assigned to the Rated Notes (as defined below) by each of Moody's Investors Service Ltd. ("<b>Moody's</b>") and Fitch Ratings Ltd. ("<b>Fitch</b>" and together with Moody's, the "<b>Rating Agencies</b>"). As of the date of this prospectus (the "<b>Prospectus</b>"), each of the Rating Agencies is a credit rating agency established in the European Union (the "<b>EU</b>") and is registered under Regulation (EC) No 1060/2009 (as amended) (the "<b>CRA Regulation</b>"). As such, each of the Rating Agencies is included on the list of credit rating agencies published by the European Securities and Markets Authority ("<b>ESMA</b>") on its website.</p> <p>All references to Moody's and Fitch in this Prospectus are to the entities as defined in the above paragraph.</p>
<b>Ratings</b>	<p>Ratings have been assigned to the Class A1 Notes and the Class A2 Notes (together, the "<b>Class A Notes</b>"), the Class B Notes, the Class C Notes and the Class D Notes (together with the Class A Notes, the "<b>Rated Notes</b>") as set out above on the Closing Date. The ratings reflect the views of the Rating Agencies and are based on the Mortgage Portfolio and the structural features of the transaction. The ratings assigned by Fitch address the likelihood of full and timely payment to the holders of (i) the Class A Notes and the Class B Notes of interest due on each Interest Payment Date (as defined below) and (ii) the Rated Notes of principal on a date that is not later than the Final Maturity Date. The ratings assigned by Moody's address the expected loss to a Noteholder in proportion to the initial principal amount of the Class of Rated Notes held by the Noteholder by the Final Maturity Date. In Moody's opinion, the structure allows for timely payment of interest, and principal at par on the Final Maturity Date.</p> <p>The assignment of ratings to the Rated Notes is not a recommendation to invest in the Rated Notes or to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Any credit rating assigned to the Rated Notes may be revised, suspended or withdrawn at any time.</p> <p>The Class Z Notes have not been rated.</p>
<b>Listing</b>	<p>This Prospectus comprises a prospectus for the purpose of Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU, to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area (the "<b>Prospectus Directive</b>")). Application has been made to the Financial Conduct Authority (the "<b>FCA</b>") under Part 6 of the Financial Services and Markets Act 2000 (the "<b>FSMA</b>") for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom (the "<b>UK Listing Authority</b>"), for approval of this Prospectus as a prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of the Notes to be admitted to the official list of the UK Listing Authority (the "<b>Official List</b>") and to the London Stock Exchange plc (the "<b>London Stock Exchange</b>") for such Notes to be admitted to trading on the regulated market of the London Stock Exchange which is a "regulated market" for the purposes of Directive 2004/39/EC (the "<b>Markets in Financial Instruments Directive</b>") (the "<b>regulated market of the London Stock Exchange</b>"). References in this Prospectus to the Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the regulated market of the London Stock Exchange and have been admitted to the Official List.</p>
<b>Obligations</b>	<p>The Notes are obligations of the Issuer alone and will not be the obligations of, or guaranteed by, or be the responsibility of, any other entity. In particular, the Notes will not be obligations, or guaranteed by, or be the responsibility of any Transaction Party, other than the Issuer.</p>
<b>Retention</b>	<p>Bank of Scotland, in its capacity as originator, has undertaken to the Arranger and Lead Manager that it will retain, on an on-going basis, a material net economic interest in the</p>

<b>undertaking</b>	transaction which shall in any event not be less than 5 per cent., in accordance with Article 405 of Regulation (EU) No. 575/2013 (the " <b>Capital Requirements Regulation</b> " or " <b>CRR</b> "), Article 51 of Regulation (EU) No. 231/2013 (the " <b>AIFM Regulation</b> ") and Article 254 of Regulation (EU) 2015/35 (the " <b>Solvency II Regulation</b> ") (which in each case does not take into account any corresponding national measures). As at the Closing Date, such interest is comprised of an interest in the Class Z Notes and the loans advanced under the Subordinated Loan Agreement in its capacity as Subordinated Loan Provider, as required by Article 405(1)(d) of the CRR, Article 51(1)(d) of the AIFM Regulation and paragraph (2)(d) of Article 254 of the Solvency II Regulation. Any change to the manner in which such interest is held will be notified to investors. See " <i>Certain Regulatory Disclosures - Risk retention requirements</i> " for more information.
<b>Significant investor</b>	On the Closing Date, Bank of Scotland purchased all of the Notes.
<b>Definitions</b>	Please refer to the section entitled " <i>Glossary</i> " for definitions of defined terms.

**A "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.**

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered, sold, delivered, distributed or transferred, directly or indirectly, into or within the United States or to, or for the account or benefit of, any U.S. persons as defined in Regulation S under the Securities Act ("U.S. Persons"). No public offering of the Notes is being made in the United States. In connection with the transactions described herein, the Notes are being offered and sold only to a non-U.S. Person outside the United States in an "offshore transaction" in reliance on Regulation S. The Issuer has not been and will not be registered under the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act"), and as such holders of the Notes will not be entitled to the benefits of the Investment Company Act. The Notes bear restrictive legends and are subject to restrictions on transfer as described therein.

The date of this Prospectus is 29 April 2016.

**Arranger**



**Lead Manager**



## IMPORTANT NOTICE

**THE NOTES WILL BE OBLIGATIONS OF THE ISSUER ONLY. THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY PERSON OTHER THAN THE ISSUER IN PARTICULAR, THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY OF THE TRANSACTION PARTIES (OTHER THAN THE ISSUER) OR ANY COMPANY IN THE SAME GROUP OF COMPANIES AS ANY OF THE TRANSACTION PARTIES (OTHER THAN THE ISSUER). NO LIABILITY WHATSOEVER IN RESPECT OF ANY FAILURE BY THE ISSUER TO PAY ANY AMOUNT DUE UNDER THE NOTES SHALL BE ACCEPTED BY ANY OF THE TRANSACTION PARTIES (OTHER THAN THE ISSUER), OR ANY COMPANY IN THE SAME GROUP OF COMPANIES AS THE TRANSACTION PARTIES (OTHER THAN THE ISSUER).**

ANY PROSPECTIVE INVESTOR SHOULD REVIEW AND CONSIDER THE DISCUSSIONS UNDER "RISK FACTORS" BEGINNING ON PAGE 32 IN THIS PROSPECTUS BEFORE IT PURCHASES ANY NOTES.

THE DISTRIBUTION OF THIS PROSPECTUS AND THE OFFERING OF THE NOTES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. NO REPRESENTATION IS MADE BY ANY OF THE TRANSACTION PARTIES THAT THIS PROSPECTUS MAY BE LAWFULLY DISTRIBUTED, OR THAT THE NOTES MAY BE LAWFULLY OFFERED, IN COMPLIANCE WITH ANY APPLICABLE REGISTRATION OR OTHER REQUIREMENTS IN ANY SUCH JURISDICTION, OR PURSUANT TO AN EXEMPTION AVAILABLE THEREUNDER, AND NONE OF THEM ASSUMES ANY RESPONSIBILITY FOR FACILITATING ANY SUCH DISTRIBUTION OR OFFERING. IN PARTICULAR, SAVE FOR OBTAINING THE APPROVAL OF THIS PROSPECTUS AS A PROSPECTUS FOR THE PURPOSES OF THE PROSPECTUS DIRECTIVE BY THE UK LISTING AUTHORITY, NO ACTION HAS BEEN OR WILL BE TAKEN BY ANY OF THE TRANSACTION PARTIES WHICH WOULD PERMIT A PUBLIC OFFERING OF THE NOTES OR DISTRIBUTION OF THIS PROSPECTUS IN ANY JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED. ACCORDINGLY, THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, AND NEITHER THIS PROSPECTUS NOR ANY ADVERTISEMENT OR OTHER OFFERING MATERIAL MAY BE DISTRIBUTED OR PUBLISHED, IN ANY JURISDICTION, EXCEPT UNDER CIRCUMSTANCES THAT WILL RESULT IN COMPLIANCE WITH ANY APPLICABLE LAWS AND REGULATIONS. PERSONS INTO WHOSE POSSESSION THIS PROSPECTUS COMES ARE REQUIRED BY THE ISSUER, THE ARRANGER AND THE LEAD MANAGER TO INFORM THEMSELVES ABOUT AND TO OBSERVE ANY SUCH RESTRICTIONS.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, DELIVERED, DISTRIBUTED OR TRANSFERRED, DIRECTLY OR INDIRECTLY, INTO OR WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSONS. NO PUBLIC OFFERING OF THE NOTES IS BEING MADE IN THE UNITED STATES. THE NOTES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED HEREIN UNDER THE GLOBAL NOTES.

THE NOTES BEAR RESTRICTIVE LEGENDS AND ARE SUBJECT TO RESTRICTIONS ON TRANSFER AS DESCRIBED THEREIN. IN PARTICULAR, THE NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY OUTSIDE THE UNITED STATES IN AN "OFFSHORE TRANSACTION" PURSUANT TO REGULATION S TO A PERSON THAT THE TRANSFEROR AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS NOT A U.S. PERSON. BANK OF SCOTLAND AS THE INITIAL PURCHASER AND EACH SUBSEQUENT TRANSFEREE OF THE NOTES IS AND WILL BE DEEMED, BY ITS ACQUISITION OR HOLDING OF SUCH NOTES, TO HAVE MADE THE REPRESENTATIONS SET OUT IN SUCH NOTES AND THE TRUST DEED THAT ARE REQUIRED OF SUCH INITIAL PURCHASER AND ANY SUBSEQUENT TRANSFEREES. ANY RESALE OR OTHER TRANSFER, OR ATTEMPTED RESALE OR OTHER ATTEMPTED TRANSFER, OF NOTES WHICH IS NOT MADE IN COMPLIANCE WITH THE APPLICABLE TRANSFER RESTRICTIONS WILL BE VOID.

NONE OF THE ISSUER OR THE ARRANGER OR THE LEAD MANAGER MAKES ANY REPRESENTATION TO ANY PROSPECTIVE INVESTOR OR PURCHASER OF THE NOTES REGARDING THE LEGALITY OF INVESTMENT THEREIN BY SUCH PROSPECTIVE INVESTOR OR PURCHASER UNDER APPLICABLE LEGAL INVESTMENT OR SIMILAR LAWS OR REGULATIONS.

THE ISSUER ACCEPTS RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS PROSPECTUS AND DECLARES THAT TO THE BEST OF ITS KNOWLEDGE (HAVING TAKEN ALL REASONABLE CARE TO ENSURE SUCH IS THE CASE), THE INFORMATION IN THIS PROSPECTUS IS IN ACCORDANCE WITH THE FACTS AND CONTAINS NO OMISSION LIKELY TO AFFECT ITS IMPORT. ANY INFORMATION SOURCED FROM THIRD PARTIES CONTAINED IN THIS PROSPECTUS HAS BEEN ACCURATELY REPRODUCED (AND IS CLEARLY SOURCED WHERE IT APPEARS IN THIS PROSPECTUS) AND, AS FAR AS THE ISSUER IS AWARE AND IS ABLE TO ASCERTAIN FROM INFORMATION PUBLISHED BY THAT THIRD PARTY, NO FACTS HAVE BEEN OMITTED WHICH WOULD RENDER THE REPRODUCED INFORMATION INACCURATE OR MISLEADING.

NO PERSON IS AUTHORISED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFERING OR SALE OF THE NOTES OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY ANY OF THE TRANSACTION PARTIES OR ANY OF THEIR RESPECTIVE AFFILIATES OR ADVISERS. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE OR ALLOTMENT MADE IN CONNECTION WITH THE OFFERING OF THE NOTES SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION OR CONSTITUTE A REPRESENTATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER OR THE SELLER OR IN THE OTHER INFORMATION CONTAINED HEREIN SINCE THE DATE HEREOF. THE INFORMATION CONTAINED IN THIS PROSPECTUS WAS OBTAINED FROM THE ISSUER AND THE OTHER SOURCES IDENTIFIED HEREIN, BUT NO ASSURANCE CAN BE GIVEN BY THE TRUSTEE, THE ARRANGER OR THE LEAD MANAGER AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. NONE OF THE ARRANGER, THE LEAD MANAGER OR THE TRUSTEE HAS SEPARATELY VERIFIED THE INFORMATION CONTAINED HEREIN. ACCORDINGLY, NONE OF THE TRUSTEE, THE ARRANGER OR THE LEAD MANAGER MAKES ANY REPRESENTATION, EXPRESS OR IMPLIED, OR ACCEPTS ANY RESPONSIBILITY, WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF ANY OF THE INFORMATION IN THIS PROSPECTUS. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THIS OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE CONTENTS OF THIS PROSPECTUS SHOULD NOT BE CONSTRUED AS PROVIDING LEGAL, BUSINESS, ACCOUNTING OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN LEGAL, BUSINESS, ACCOUNTING AND TAX ADVISERS PRIOR TO MAKING A DECISION TO INVEST IN THE NOTES.

THE DELIVERY OF THIS PROSPECTUS AT ANY TIME DOES NOT IMPLY THAT THE INFORMATION HEREIN IS CORRECT AT ANY TIME SUBSEQUENT TO ITS DATE.

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF, OR AN INVITATION BY OR ON BEHALF OF, THE ISSUER, THE SELLER, THE ARRANGER, THE LEAD MANAGER OR ANY OF THEM TO SUBSCRIBE FOR OR PURCHASE ANY OF THE NOTES IN ANY JURISDICTION WHERE SUCH ACTION WOULD BE UNLAWFUL AND NEITHER THIS PROSPECTUS, NOR ANY PART THEREOF, MAY BE USED FOR OR IN CONNECTION WITH ANY OFFER TO, OR SOLICITATION BY, ANY PERSON IN ANY JURISDICTION OR IN ANY CIRCUMSTANCES IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORISED OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.

THIS PROSPECTUS IS PERSONAL TO THE OFFEREE WHO RECEIVED IT FROM THE ARRANGER OR THE LEAD MANAGER AND DOES NOT CONSTITUTE AN OFFER TO ANY OTHER PERSON TO PURCHASE ANY NOTES.

THE NOTES ARE BEING OFFERED ONLY TO A LIMITED NUMBER OF INVESTORS THAT ARE WILLING AND ABLE TO CONDUCT AN INDEPENDENT INVESTIGATION OF THE CHARACTERISTICS OF THE NOTES AND THE RISKS OF OWNERSHIP OF THE NOTES. IT IS EXPECTED THAT PROSPECTIVE INVESTORS INTERESTED IN PARTICIPATING IN THIS OFFERING WILL CONDUCT AN INDEPENDENT INVESTIGATION OF THE RISKS POSED BY AN INVESTMENT IN THE NOTES. REPRESENTATIVES OF THE LEAD MANAGER WILL BE AVAILABLE TO ANSWER QUESTIONS CONCERNING THE ISSUER AND THE NOTES AND WILL, UPON REQUEST, MAKE AVAILABLE SUCH OTHER INFORMATION AS INVESTORS MAY REASONABLY REQUEST. PROSPECTIVE PURCHASERS OF THE NOTES MUST BE ABLE TO HOLD THEIR INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

THIS PROSPECTUS IS NOT INTENDED TO FURNISH LEGAL, REGULATORY, FINANCIAL, TAX, ACCOUNTING, INVESTMENT OR OTHER ADVICE TO ANY PROSPECTIVE PURCHASER OF THE NOTES.

THIS PROSPECTUS SHOULD BE REVIEWED BY EACH PROSPECTIVE PURCHASER AND ITS LEGAL, REGULATORY, FINANCIAL, TAX, ACCOUNTING, INVESTMENT AND OTHER ADVISORS. PROSPECTIVE PURCHASERS WHOSE INVESTMENT AUTHORITY IS SUBJECT TO LEGAL RESTRICTIONS SHOULD CONSULT THEIR LEGAL ADVISORS TO DETERMINE WHETHER AND TO WHAT EXTENT THE NOTES CONSTITUTE LEGAL INVESTMENTS FOR THEM.

The Notes of each Class are represented by a Global Note in registered form for each Class of Notes. The Notes of each Class may also be issued in definitive registered form under certain limited circumstances.

The Issuer will maintain a register, to be kept by the Registrar, in which it has registered the Global Notes in the name of a nominee for the Common Depositary, as owner of the Global Note.

Transfers of all or any portion of the interests in the Global Note 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 Note ("**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.

In this Prospectus all references to "**Member State**" are references to a Member State of the European Economic Area, references to "**Pounds**", "**Sterling**", "**GBP**" and "**£**" are references to the lawful currency for the time being of the UK.

#### **Information regarding the policies and procedures of the Seller**

The Seller 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 the Seller 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 see the information set out under "*The Mortgage Portfolio – The Mortgage Loans – Characteristics of the Mortgage Loans – Lending Criteria*" and "*The Servicer*";
- (b) systems in place to administer and monitor the various credit-risk bearing portfolios and exposures, as to which we note that the Mortgage Portfolio will be serviced in line with the usual servicing procedures of the Seller and as to which see the information set out under "*The Servicing Agreement*";
- (c) diversification of credit portfolios taking into account the Seller's target market and overall credit strategy, as to which, in relation to the Initial Portfolio, see the information set out under "*Characteristics of the Mortgage Loans*"; and
- (d) policies and procedures in relation to risk mitigation techniques, as to which see the information set out under "*The Servicing Agreement*" and "*The Mortgage Portfolio – The Mortgage Loans – Characteristics of the Mortgage Loans – Lending Criteria*".

#### **Forward-looking statements**

Some of the statements contained or incorporated by reference in this Prospectus consist of forward-looking statements relating to future economic performance or projections and other financial items. These statements can typically be identified by the use of forward-looking terminology, such as the words "believes", "expects", "may", "intends", "should" or "anticipates" or the negative or other variations of those terms. These statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results and performance of the Notes, Lloyds Banking Group, including Bank of Scotland, the Birmingham Midshires brand or the UK residential mortgage industry to differ materially from any future results or performance expressed or implied in the forward-looking statements. These risks, uncertainties and other factors include, among others general economic and business conditions in the United Kingdom, currency exchange and interest rate fluctuations, government, statutory, regulatory or administrative initiatives affecting Lloyds Banking Group, including Bank of Scotland or the business carried on by it under the Birmingham Midshires brand, changes in business strategy, lending practices or customer relationships and other factors that may be referred to in this Prospectus. Some of the most significant of these risks, uncertainties and other factors are discussed in the this Prospectus under the section entitled "*Risk*

*factors*", and investors are encouraged to carefully consider those factors prior to making an investment decision in relation to the Notes.

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

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

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

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

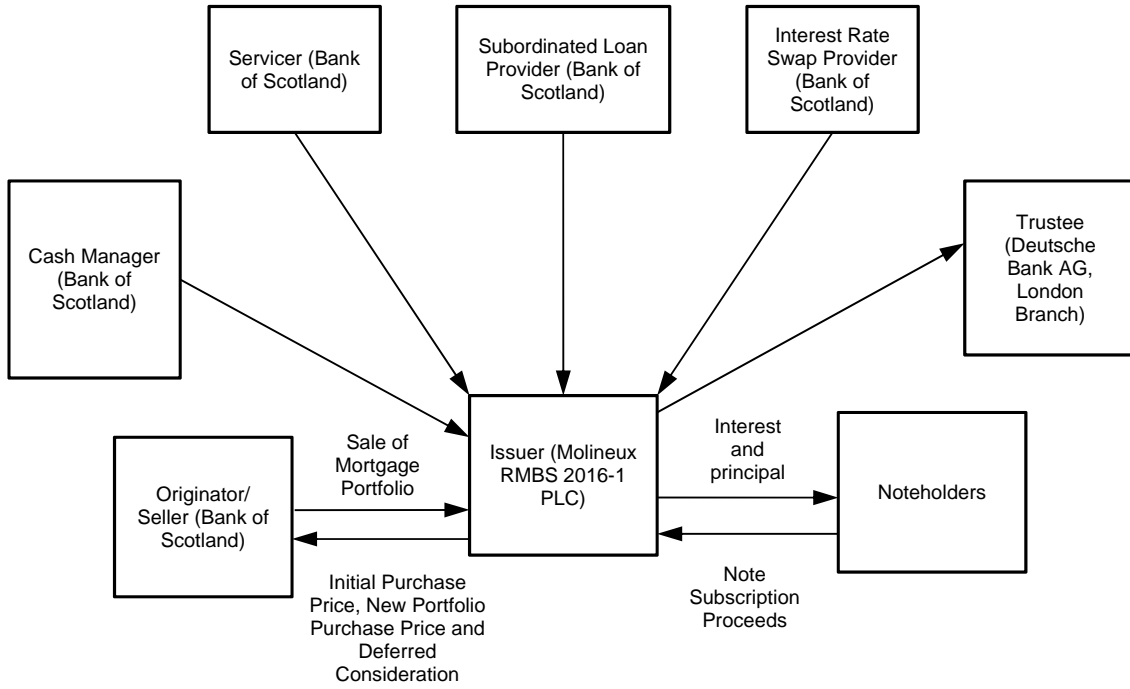


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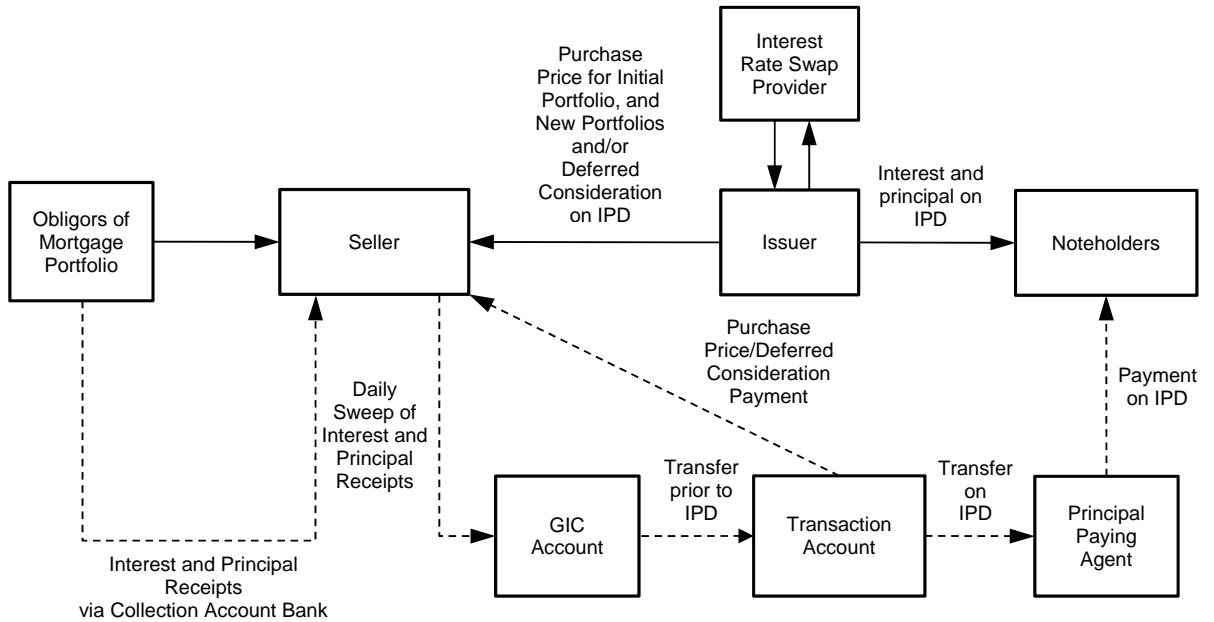
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**DIAGRAMMATIC OVERVIEW**

**DIAGRAMMATIC OVERVIEW OF THE TRANSACTION**

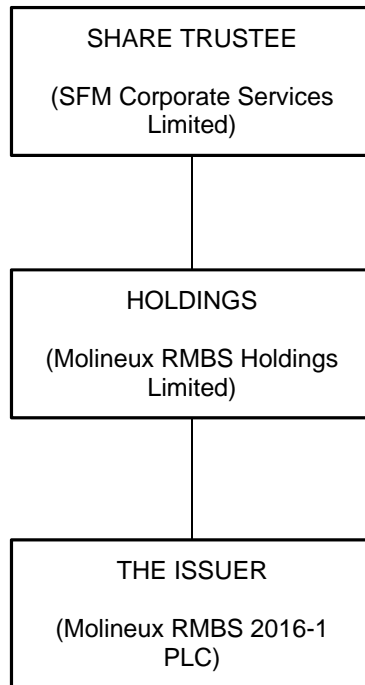


**DIAGRAMMATIC OVERVIEW OF ON-GOING CASH FLOWS**



—————> contractual obligations  
 - - - - - cashflows

## OWNERSHIP STRUCTURE DIAGRAM



The entire issued share capital of the Issuer is beneficially owned by Holdings.

The entire issued share capital of Holdings is held on trust by the Share Trustee under the terms of a discretionary trust, the benefit of which is expressed to be for discretionary purposes.

None of the Issuer, Holdings or the Share Trustee are owned, controlled, managed, directed or instructed, whether directly or indirectly, by the Seller or any member of the Lloyds Banking Group.

## TRANSACTION OVERVIEW

The information set out below is an overview of various aspect of the transaction. This overview is a summary of the main aspects of the transaction and should be read in conjunction with, and is qualified in its entirety by references to, the detailed information presented elsewhere in this Prospectus.

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

### TRANSACTION PARTIES ON THE CLOSING DATE

<b><u>Party</u></b>	<b><u>Name</u></b>	<b><u>Address</u></b>	<b><u>Document under which appointed/Further information</u></b>
<b>Issuer</b>	Molineux RMBS 2016-1 plc	35 Great St. Helen's, London EC3A 6AP	See section entitled " <i>Issuer</i> " for further information.
<b>Holdings</b>	Molineux RMBS Holdings Limited	35 Great St. Helen's, London EC3A 6AP	See section entitled " <i>Holdings</i> " for further information.
<b>Seller</b>	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ	See section entitled " <i>Bank of Scotland</i> " for further information.
<b>Servicer</b>	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ	Servicing Agreement by the Issuer and the Seller. See the section entitled " <i>The Servicer – The Servicing Agreement</i> " for further information.
<b>Cash Manager</b>	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ	Cash Management Agreement by the Issuer and the Trustee. See the section entitled " <i>Key Structural Features</i> " for further information.
<b>Subordinated Loan Provider</b>	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ	Subordinated Loan Agreement. See the section entitled " <i>Key Structural Features</i> " for further information.
<b>Interest Rate Swap Provider</b>	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ	Interest Rate Swap Agreement. See the section entitled " <i>Key Structural Features – The Interest Rate Swap Agreement</i> " for further information.
<b>Account Bank</b>	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ	Account Bank Agreement by the Issuer.
<b>Trustee</b>	Deutsche Bank AG, London Branch	Winchester House, 1 Great Winchester Street, London EC2N 2DB	Trust Deed. See the Conditions for further information.

<b><u>Party</u></b>	<b><u>Name</u></b>	<b><u>Address</u></b>	<b><u>Document under which appointed/Further information</u></b>
<b>Principal Paying Agent</b>	Deutsche Bank AG, London Branch	Winchester House, 1 Great Winchester Street, London EC2N 2DB	Agency Agreement by the Issuer.
<b>Agent Bank</b>	Deutsche Bank AG, London Branch	Winchester House, 1 Great Winchester Street, London EC2N 2DB	Agency Agreement by the Issuer.
<b>Registrar</b>	Deutsche Bank Luxembourg S.A.	2 boulevard Konrad Adenauer, L-1115 Luxembourg, Luxembourg	Agency Agreement by the Issuer.
<b>Corporate Services Provider</b>	Structured Finance Management Limited	35 Great St. Helen's, London EC3A 6AP	Corporate Services Agreement by the Issuer and Holdings. See the section entitled " <i>Issuer</i> " and " <i>Holdings</i> " for further information.
<b>Collection Account Bank</b>	Barclays Bank PLC	Queen's Square, Wolverhampton, WV1 IDS	N/A
<b>Arranger</b>	Lloyds Bank plc	25 Gresham Street, London EC2V 7HN	See the section entitled " <i>Subscription and Sale</i> " for further information.
<b>Lead Manager</b>	Lloyds Bank plc	25 Gresham Street, London EC2V 7HN	See the section entitled " <i>Subscription and Sale</i> " for further information.
<b>Share Trustee</b>	SFM Corporate Services Limited	35 Great St. Helen's, London EC3A 6AP	Share Trust Deed

## FULL CAPITAL STRUCTURE OF THE NOTES

	<b>Class A1</b>	<b>Class A2</b>	<b>Class B</b>	<b>Class C</b>	<b>Class D</b>	<b>Class Z</b>
<b>Currency</b>	£	£	£	£	£	£
<b>Initial Principal Amount</b>	600,000,000	1,209,600,000	127,600,000	87,000,000	75,400,000	220,400,000
<b>Credit Enhancement Features</b>	<i>Excess Available Revenue Receipts, Excess Amount of the General Reserve Fund, Subordination of the Class B Notes, the Class C Notes, the Class D Notes and the Class Z Notes</i>	<i>Excess Available Revenue Receipts, Excess Amount of the General Reserve Fund, Subordination of the Class B Notes, the Class D Notes and the Class Z Notes</i>	<i>Excess Available Revenue Receipts, Excess Amount of the General Reserve Fund, Subordination of the Class C Notes, the Class D Notes and the Class Z Notes</i>	<i>Excess Available Revenue Receipts, Excess Amount of the General Reserve Fund, Subordination of the Class D Notes and the Class Z Notes</i>	<i>Excess Available Revenue Receipts, Excess Amount of the General Reserve Fund, Subordination of the Class Z Notes</i>	<i>Excess Available Revenue Receipts</i>
<b>Liquidity Support Features</b>	<i>Liquidity Amount of the General Reserve Fund, Available Principal Receipts applied to make up Further Revenue Shortfall</i>	<i>Liquidity Amount of the General Reserve Fund, Available Principal Receipts applied to make up Further Revenue Shortfall</i>	<i>Liquidity Amount of the General Reserve Fund, Available Principal Receipts applied to make up Further Revenue Shortfall</i>	<i>Liquidity Amount of the General Reserve Fund, Available Principal Receipts applied to make up Further Revenue Shortfall</i>	<i>Liquidity Amount of the General Reserve Fund, Available Principal Receipts applied to make up Further Revenue Shortfall</i>	-
<b>Issue Price</b>	100%	100%	100%	100%	100%	100%
<b>Interest Rate</b>	<i>1-Month Sterling LIBOR + Margin (interpolation of 1 Month Sterling LIBOR and 2 month Sterling LIBOR in respect of the First Interest Payment Date)</i>	<i>1-Month Sterling LIBOR + Margin (interpolation of 1 Month Sterling LIBOR and 2 month Sterling LIBOR in respect of the First Interest Payment Date)</i>	<i>1-Month Sterling LIBOR + Margin (interpolation of 1 Month Sterling LIBOR and 2 month Sterling LIBOR in respect of the First Interest Payment Date)</i>	<i>1-Month Sterling LIBOR + Margin (interpolation of 1 Month Sterling LIBOR and 2 month Sterling LIBOR in respect of the First Interest Payment Date)</i>	<i>1-Month Sterling LIBOR + Margin (interpolation of 1 Month Sterling LIBOR and 2 month Sterling LIBOR in respect of the First Interest Payment Date)</i>	<i>1-Month Sterling LIBOR + Margin (interpolation of 1 Month Sterling LIBOR and 2 month Sterling LIBOR in respect of the First Interest Payment Date)</i>
<b>Margin</b>	1.40% per annum	2.15% per annum	3.15% per annum	4.15% per annum	5.65% per annum	2.00% per annum
<b>Interest Accrual Method</b>	ACT/365					

	<b>Class A1</b>	<b>Class A2</b>	<b>Class B</b>	<b>Class C</b>	<b>Class D</b>	<b>Class Z</b>
<b>Interest Determination Date</b>		Interest Determination Date means each Interest Payment Date or, in the case of the first Interest Period, the Closing Date				
<b>Interest Payment Dates</b>		Interest will be payable monthly in arrear on the Interest Payment Date falling on or around the 18 <sup>th</sup> day of each month, commencing on the First Interest Payment Date				
<b>Business Day Convention</b>		Following				
<b>First Interest Payment Date</b>		18 May 2016				
<b>First Interest Period</b>		The period from the Closing Date to 18 May 2016				
<b>Call Option Date</b>		In respect of the Rated Notes, the Interest Payment Date falling in March 2026 and on each Interest Payment Date thereafter				
<b>Pre Enforcement redemption profile</b>		Pass through redemption on each Interest Payment Date to the extent of Available Principal Receipts subject to and in accordance with the relevant Payments Priorities. If the Call Option is exercised on the relevant Call Option Date, such Class of Notes will be redeemed in full on such date. Please refer to Condition 9 ( <i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i> )				
<b>Post Enforcement Redemption Profile</b>		Pass through redemption in accordance with the Post Enforcement Payments Priorities. Please refer to Condition 9 ( <i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i> )				
<b>Other Early Redemption in Full Events</b>		Tax/clean up call. Please refer to Condition 9 ( <i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i> )				
<b>Final Maturity Date</b>		Interest Payment Date falling in March 2063				
<b>Form of the Notes</b>		Registered Notes				
<b>Application for Listing</b>		London				
<b>ISIN</b>	XS1379584227	XS1379585034	XS1379585380	XS1379586198	XS1379586602	XS1379586784
<b>Common Code</b>	137958422	137958503	137958538	137958619	137958660	137958678
<b>Clearance/ Settlement</b>		Euroclear/ Clearstream, Luxembourg				
<b>Minimum Denomination</b>		£100,000				
<b>Selling Restriction</b>		Regulation S only				
<b>Commission</b>		nil				
<b>Ratings (Fitch/ Moody's)</b>	AAAsf/Aaa(sf)	AAAsf/Aaa(sf)	AAsf/Aa1(sf)	Asf/Aa2(sf)	BBB-sf/A1(sf)	Not Rated

As of the date of this Prospectus, each of the Rating Agencies is a credit rating agency established in the EU and is registered under the CRA Regulation. As such each of the Rating Agencies is included on the list of credit rating agencies published by ESMA on its website (at [www.esma.europa.eu/page/list-registered-and-certified-CRAs](http://www.esma.europa.eu/page/list-registered-and-certified-CRAs)).



## OVERVIEW OF THE TERMS AND CONDITIONS OF THE NOTES

See the section entitled "Terms and Conditions of the Notes" for further information in respect of the terms of the Notes.

### **Ranking of Payments of Interest:**

Payments of interest on the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class Z Notes will be made in Sequential Order. Payments of interest on the Class Z Notes rank behind payments made to replenish the General Reserve Fund.

The Notes within each Class rank *pro rata* and *pari passu* among themselves at all times in respect of payments of interest.

### **Ranking of Payments of Principal:**

Payments of principal on the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class Z Notes will be made in Sequential Order.

Payments of principal on the Class A Notes, amongst themselves, will be made in Sequential Order, other than following the occurrence of a Principal Payments Trigger Event, whereupon payments of principal on the Class A Notes, amongst themselves, will be made *pro rata* and *pari passu*.

For a more detailed overview of the Payments Priorities, see the sections entitled "*Transaction Overview – Overview of Credit Structure and Cashflow – Overview of Payments Priorities*" or "*Key Structural Features*".

### **Security:**

The Notes are secured and share the same Security together with other Secured Amounts of the Issuer in accordance with the Deed of Charge as described in further detail in Condition 6 (*Security*). The security granted by the Issuer includes:

- (a) a first fixed charge over the benefit of the Issuer in the Mortgage Loans (other than the Scottish Loans) and their Related Security comprised in the Mortgage Portfolio;
- (b) a first fixed charge (which is likely to take effect as a floating charge) over the benefit of each Authorised Investment;
- (c) a first fixed charge (which is likely to take effect as a floating charge) over all of the Issuer's rights in respect of any amount standing from time to time to the credit of the Issuer Accounts (other than the Swap Collateral Account), together with all interest paid or payable in relation to those amounts and all debts represented by those amounts;
- (d) assignment by way of security of the benefit under each relevant Transaction Document;
- (e) a Scottish assignation in security of the Issuer's interest in the Scottish Loans and their Related Security (comprising the Issuer's beneficial interest under the trusts declared by the Seller pursuant to the Scottish Declarations of Trust); and
- (f) a floating charge with full title guarantee over the Issuer's whole undertaking and all of its property, assets and rights whatsoever other than those subject to a fixed charge or assignment by way of security (but excepting from the

foregoing exclusion all of the Issuer's undertaking, property, assets and rights situated in Scotland or the rights to which are governed by Scots law, all of which are charged by way of floating charge) and other than the Swap Collateral Account, any property held in the Swap Collateral Account and any amounts which are due to be credited to the Swap Collateral Account prior to them being so credited.

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.

The interest rate applicable to each Class of Notes is described in the sections entitled "*Transaction Overview – Full Capital Structure of the Notes*" and Condition 8 (*Interest*).

**Interest payable on the Notes:**

Interest due and payable on each Class of Notes (other than the Most Senior Class of Notes) may be deferred in accordance with Condition 8.11 (*Interest Accrual*) ("**Deferred Interest**").

**Additional Interest:**

Deferred Interest will also accrue interest in accordance with Condition 8.11 (*Interest Accrual*) and such additional interest may also be deferred under Condition 8.11(b).

**Withholding Tax:**

None of the Issuer, the Trustee or any Agent will be obliged to gross-up the Noteholders if there is any withholding or deduction for or on account of taxes from any payments made to the Noteholders.

**Redemption:**

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

- (a) mandatory redemption in whole on the Final Maturity Date, as fully set out in Condition 9.1 (*Final Redemption*),
- (b) mandatory redemption in part on any Interest Payment Date prior to the delivery of an Enforcement Notice subject to availability of Available Principal Receipts, as fully set out in Condition 9.2 (*Mandatory Redemption in part*);
- (c) optional redemption exercisable by the Issuer in whole where the Principal Amount Outstanding of all the Notes is less than 20 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date, as fully set out in Condition 9.3(a) (*Optional Redemption in whole*);
- (d) optional redemption exercisable by the Issuer in respect of all of the Notes of each Class on any Interest Payment Date from and including the Call Option Date as fully set out in Condition 9.3(b) (*Optional Redemption in whole*); and
- (e) optional redemption exercisable by the Issuer in respect of all of the Notes of each Class for tax reasons, as fully set out in Condition 9.4 (*Optional Redemption in whole for taxation reasons*).

Subject to the Issuer having sufficient funds available for this purpose, each Note redeemed will be redeemed in an amount equal to the Principal Amount Outstanding of the relevant Note together with accrued (and unpaid) interest on the Principal Amount Outstanding of the relevant Note up to (but excluding) the date of

redemption.

**Events of Default:**

As fully set out in Condition 13 (*Events of Default*), which broadly include:

- (a) non-payment by the Issuer of principal in respect of the Notes within 7 days following the due date or non-payment by the Issuer of interest in respect of the Notes within 15 days following the due date (provided that, for the avoidance of doubt, a deferral of interest in accordance with the Conditions shall not constitute a default in the payment of such interest);
- (b) breach of contractual obligations by the Issuer under the Transaction Documents (provided that an Enforcement Notice in respect of such Event of Default may not be delivered unless such event is materially prejudicial to the interests of the holders of the Most Senior Class of Notes);
- (c) Insolvency Event of the Issuer; or
- (d) it is unlawful for the Issuer to perform or comply with its obligations.

**Limited Recourse:**

All the Notes are ultimately limited recourse obligations of the Issuer and, if the Issuer has insufficient funds to pay amounts in full, amounts outstanding will cease to be due and payable as described in more detail in Condition 10 (*Limited Recourse*).

**Governing Law:**

English law.

## OVERVIEW OF RIGHTS OF NOTEHOLDERS

*The below is an overview of the rights of the Noteholders. 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 not less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes then outstanding of the relevant Class are entitled to request the Trustee to hold a Meeting, subject to the Trustee being indemnified to its satisfaction. Noteholders of each Class are also entitled to participate in a Meeting convened by the Issuer or Trustee to consider any matter affecting their interests.

However, so long as no Event of Default has occurred and is continuing, the Noteholders are not entitled to instruct or direct the Issuer to take any action, either directly or through the Trustee, without consent of the Issuer and, if applicable, certain other transaction parties, unless the Issuer has an obligation to take such action under the relevant Transaction Documents in which case the Trustee may only seek to enforce such obligation.

**Following an Event of Default:** If an Event of Default occurs and is continuing, the holders of the Most Senior Class of the Notes may, if they hold at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of the Notes then outstanding or if they pass an Extraordinary Resolution, direct the Trustee to give an Enforcement Notice to the Issuer pursuant to which each Class of the Notes shall become immediately due and repayable at its respective Principal Amount Outstanding together with any accrued interest, subject to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction.

<b>Noteholders Meeting provisions:</b>	Notice period:	21 clear days for the initial meeting	10 clear days for the adjourned meeting
	Quorum for Extraordinary Resolution:	One or more persons holding or representing a majority of the Principal Amount Outstanding of the relevant class or classes of Notes for the initial meeting, (other than Reserved Matter (which must be proposed separately to each class of Noteholders), which requires one or more persons holding or representing in aggregate not less than 75 per cent. of the Principal Amount Outstanding of the relevant class or classes of Notes)	At an adjourned meeting, one or more persons being or representing Noteholders of that class or those classes, whatever the Principal Amount of the Notes then outstanding held or represented by them (other than Reserved Matter, which requires one or more persons holding or representing not less than in aggregate 33 <sup>1</sup> / <sub>3</sub> per cent. of the Principal Amount Outstanding of the Notes then outstanding of the relevant class or

classes of Notes).

Required majority for Extraordinary Resolution: Not less than 75 per cent. of votes cast

Written Resolution Not less than 90 per cent. of the holders of the Notes of the relevant Class of Notes for the time being outstanding. A Written Resolution has the same effect as an Extraordinary Resolution.

**Reserved Matters:** Reserved Matters include changes to payments (timing, method of calculation, reduction in amounts due and currency), to effect the exchange, conversion or substitution of the Notes, changes to Payments Priorities and changes to quorum and majority requirements and amendments to the definition of Reserved Matters.

**Relationship between Classes of Noteholders:** Subject to the provisions in respect of Reserved Matter, an Extraordinary Resolution of Noteholders of the Most Senior Class of Notes shall be binding on all other Classes and would override any resolutions to the contrary of the Classes ranking behind such Class.

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

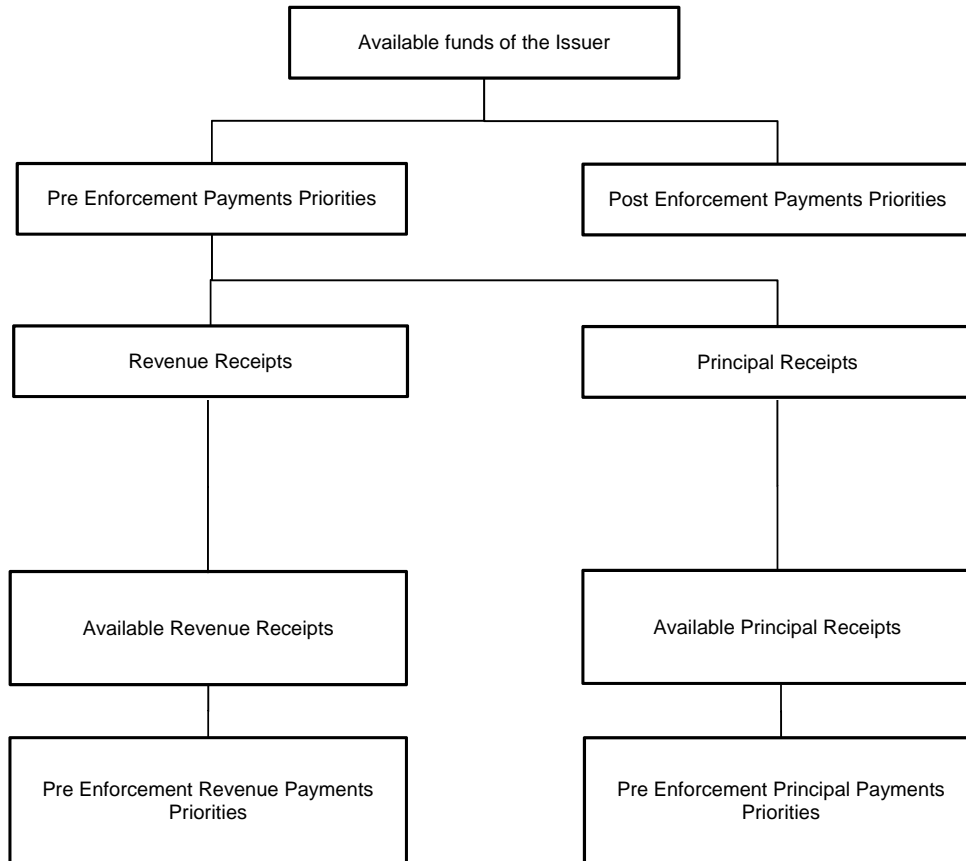
**Bank of Scotland as Noteholder:** For so long as any Notes are held by Bank of Scotland, it will be entitled to all of the rights to which the holders of such Notes are entitled (including, without limitation, voting rights).

**Relationship between Noteholders and other Secured Creditors:** So long as any Notes are outstanding, the Trustee will have regard to the interests of both the Noteholders and the other Secured Creditors, but if in the Trustee's sole opinion there is a conflict between their interests, it will have regard solely to the interests of the Noteholders.

**Provision of Information to the Noteholders:** For so long as the Notes remain outstanding, the Cash Manager on behalf of the Issuer will publish the monthly investor report (the "**Monthly Investor Report**") and the Servicer will publish a quarterly loan level data report using the Bank of England Loan Level Data Reporting Template (the "**Quarterly Report**") detailing, *inter alia*, certain aggregated loan data in relation to the Mortgage Portfolio. The Issuer shall make available or procure on demand, from the Closing Date until the date the last Note is redeemed in full, a cash flow model (the "**Cash Flow Model**") to investors. These will be made available to eligible market participants. Information regarding how to access the information is available via the website specified in the Monthly Investor Report ([www.lloydsbankinggroup.com/investors/debt-investors/securitisation/](http://www.lloydsbankinggroup.com/investors/debt-investors/securitisation/)). The website specified in the Monthly Investor Report and the contents thereof do not form part of this Prospectus.

## OVERVIEW OF CREDIT STRUCTURE AND CASHFLOW

See the sections entitled "Key Structural Features" for further information in respect of the credit structure and cash flow of the transaction



### Available Funds of the Issuer:

The Issuer has Available Revenue Receipts and Available Principal Receipts for the purposes of making interest payments and principal payments in respect of the Notes and paying amounts due and payable to other parties under the Transaction Documents in accordance with the relevant Payments Priorities.

Available Revenue Receipts include the following:

- (a) the Net Revenue received by the Issuer during the immediately preceding Calculation Period;
- (b) interest payable to the Issuer on the Issuer Accounts (other than the Swap Collateral Account (including distributions on any Swap Collateral)) and income from any Authorised Investments in each case received during the immediately preceding Calculation Period;
- (c) amounts received by the Issuer under the Interest Rate Swap Agreement (other than Swap Collateral, Replacement Swap Premium, early termination payments from the Interest Rate Swap Provider, Swap Collateral Negative Interest and Tax Credits, as set out in full in the section entitled "Key Structural Features – Cashflows and Cash Management" below);
- (d) other net income of the Issuer received during the immediately

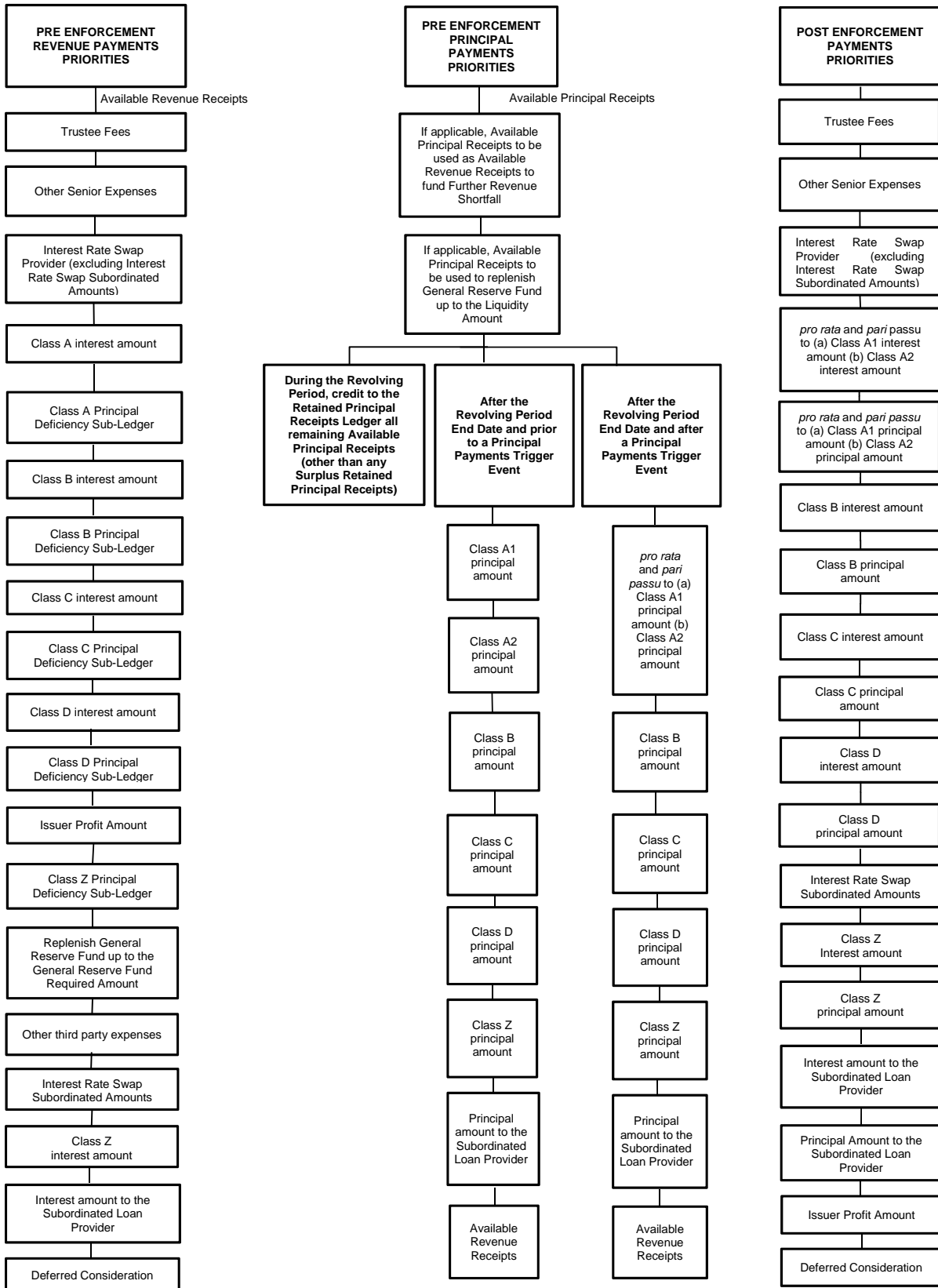
preceding Calculation Period (other than any Principal Receipts, Early Repayment Charges and Third Party Amounts);

- (e) any amounts available (prior to a Principal Payments Trigger Event) pursuant to item (k) or (after a Principal Payments Trigger Event) item (j) of the Pre Enforcement Principal Payments Priorities;
- (f) any Excess Amounts applied from the General Reserve Fund to make up a Revenue Shortfall (**provided that** such amounts shall not be used to pay, in each case, interest on the Class B Notes, Class C Notes or the Class D Notes if the sum of the debit balance on the Principal Deficiency Ledger exceeds the aggregate of: (i) 50 per cent. of the outstanding balance of such Class of Notes; and (ii) the outstanding balance of all Classes of Notes ranking junior to such Class of Notes);
- (g) any Available Principal Receipts applied to make up a Further Revenue Shortfall (**provided that** such amounts shall not be used to pay interest, in each case, on the Class B Notes, Class C Notes or the Class D Notes if the sum of the debit balance on the Principal Deficiency Ledger exceeds the aggregate of: (i) 50 per cent. of the outstanding balance of such Class of Notes; and (ii) the outstanding balance of all Classes of Notes ranking junior to such Class of Notes).
- (h) any Liquidity Amounts applied from the General Reserve Fund to make up a Remaining Revenue Shortfall (**provided that** such amounts shall not be used to pay, in each case, interest on the Class B Notes, the Class C Notes or the Class D Notes if the sum of the debit balance on the Principal Deficiency Ledger together with any Liquidity Amount to be applied to pay items in the Pre Enforcement Revenue Payments Priorities ranking *pari passu* with or in priority to payments of interest on such Class of Notes exceeds the aggregate of: (i) 50 per cent. of the outstanding balance of such Class of Notes; and (ii) the outstanding balance of all Classes of Notes ranking junior to such Class of Notes);

Available Principal Receipts include:

- (a) Principal Receipts received by the Issuer during the immediately preceding Calculation Period (including the principal element of consideration paid by the Seller in respect of the repurchase of the Mortgage Loans and their Related Security and recoveries received by the Issuer in relation to the enforcement of the relevant Mortgage Loan);
  - (b) any Available Revenue Receipts to be applied in reducing the debit balance on the Principal Deficiency Ledger;
  - (c) any amounts released from the General Reserve Fund when the General Reserve Fund Required Amount is reduced to zero; and
  - (d) during the Revolving Period, amounts standing to the credit of the Retained Principal Receipts Ledger,
- less*
- (e) prior to the repurchase by the Seller of any Further Advance, any amounts to be used to pay the related Further Advance Purchase Price to the Seller.

# OVERVIEW OF PAYMENTS PRIORITIES





**Key Structural Features:**

The credit enhancement and liquidity support features of the transaction include the following:

- (a) availability of the General Reserve Fund, initially funded by the Subordinated Loan on the Closing Date in the amount of £46,400,000 (the "**General Reserve Fund Required Amount**") and replenished on each Interest Payment Date up to the General Reserve Fund Required Amount from Available Revenue Receipts in accordance with the Pre Enforcement Revenue Payments Priorities and, in the case of the Liquidity Amount from Available Principal Receipts in accordance with the Pre Enforcement Principal Payments Priorities. Amounts standing to the credit of the General Reserve Fund will be applied as follows: (a) the "**Excess Amount**" (being an amount equal to the balance of the General Reserve Fund less the Liquidity Amount) may be used by the Issuer to make up any Revenue Shortfall; and (b) the "**Liquidity Amount**" (being an amount equal to 2 per cent. of the then current outstanding amount of the Class A Notes and, if the debit balance of the Principal Deficiency Ledger does not exceed certain limits (as described further in the section entitled "*Overview of Credit Structure and Cashflow – Principal Deficiency Ledgers*"), the then current outstanding balance of the Class B Notes and/or the Class C Notes and/or the Class D Notes (to the extent of available funds)) to fund any Remaining Revenue Shortfall;
- (b) availability of Available Principal Receipts to make up any Further Revenue Shortfall after the application of amounts credited to the General Reserve Fund. See the section entitled "*Further Revenue Shortfall*" below for limitations on the availability of the use of the Available Principal Receipts for such purpose;
- (c) availability of investment income provided by the Account Bank in respect of collections deposited in the GIC Account;
- (d) availability of the Interest Rate Swap provided by the Interest Rate Swap Provider to hedge against the possible variance between the fixed interest rates payable in respect of the Fixed Rate Loans (excluding Arrears Fixed Rate Loans) and the LIBOR based interest payable in respect of the Notes;
- (e) a Principal Deficiency Sub-Ledger established for each Class of Notes to record the notional principal losses corresponding to each Class of Notes in reverse sequential order. Available Revenue Receipts will be applied in accordance with the Pre Enforcement Revenue Payments Priorities to make up the relevant principal deficiencies in Sequential Order (see the section entitled "*Overview of Credit Structure and Cashflow – Principal Deficiency Ledgers*" for further details); and
- (f) during the life of the Notes, Available Revenue Receipts are expected to be sufficient to pay the interest amounts payable in respect of all the Classes of Notes and senior costs and expenses of the transaction and to retain the Issuer Profit Amount. Any excess Available Revenue Receipts will be applied on each Interest Payment Date as Deferred Consideration. However, the Issuer has limited resources available to it, see the section entitled "*Risk Factors*".

See the section entitled "*Key Structural Features – Credit Enhancement and Liquidity Support*" for further information.

**Revenue Shortfall:**

If Available Revenue Receipts on any Interest Payment Date are insufficient to pay or provide for the amounts referred to in items (a) to (m) of the Pre Enforcement Payments Priorities (such insufficiency, a "**Revenue Shortfall**"), the Issuer shall pay or provide for that Revenue Shortfall by the application from the General

Reserve Fund of amounts standing to the credit of the General Reserve up to the Excess Amount **provided that** such amounts shall not be used to pay interest, in each case, on the Class B Notes, the Class C Notes or the Class D Notes if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger exceeds the aggregate of: (i) 50 per cent. of the outstanding balance of such Class of Notes; and (ii) the outstanding balance of all Classes of Notes ranking junior to such Class of Notes.

**Further Revenue Shortfall:**

If Available Revenue Receipts on any Interest Payment Date following the application of any Excess Amount are insufficient to pay or provide for all amounts in items (a) to (e), (f), (h) and (j) of the Pre Enforcement Revenue Payments Priorities on such Interest Payment Date (such insufficiency, a "**Further Revenue Shortfall**"), the Issuer shall pay or provide for that Further Revenue Shortfall by the application of Available Principal Receipts **provided that** such amounts shall not be used to pay interest, in each case, on the Class B Notes, the Class C Notes or the Class D Notes if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger exceeds the aggregate of: (i) 50 per cent. of the outstanding balance of such class of Notes; and (ii) the outstanding balance of all Classes of Notes ranking junior to such Class of Notes.

**Remaining Revenue Shortfall:**

If Available Revenue Receipts following the application of any Excess Amount and Available Principal Receipts on any Interest Payment Date are insufficient to pay or provide for all amounts in items (a) to (d), (f), (h) and (j) of the Pre Enforcement Revenue Payments Priorities (such insufficiency, the "**Remaining Revenue Shortfall**"), the Issuer shall pay or provide for that Remaining Revenue Shortfall by the application from the General Reserve Fund of amounts standing to the credit of the General Reserve up to the Liquidity Amount **provided that** such amounts shall not be used to pay interest, in each case, on the Class B Notes, the Class C Notes or the Class D Notes if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger together with any Liquidity Amount to be applied to pay items in the Pre Enforcement Revenue Payments Priorities ranking *pari passu* with or in priority to payments of interest on such Class of Notes exceeds the aggregate of: (i) 50 per cent. of the outstanding balance of such Class of Notes; and (ii) the outstanding balance of all classes of Notes ranking junior to such Class of Notes.

**Principal Deficiency Ledgers:**

The Class A Principal Deficiency Sub-Ledger, the Class B Principal Deficiency Sub-Ledger, the Class C Principal Deficiency Sub-Ledger, the Class D Principal Deficiency Sub-Ledger and the Class Z Principal Deficiency Ledger will be established to record as a debit any Principal Losses allocable to the Notes and/or the use of any Available Principal Receipts to (i) fund a Further Revenue Shortfall or (ii) to credit the General Reserve Fund up to the Liquidity Amount.

Available Revenue Receipts will be credited to the sub-ledgers of the Principal Deficiency Ledger on each Interest Payment Date to reduce the debit balance of the Principal Deficiency Ledger in accordance with the relevant Payments Priorities.

Principal Losses and/or the amount of Available Principal Receipts and/or monies applied to (i) fund a Further Revenue Shortfall or (ii) credit the General Reserve Fund up to the Liquidity Amount will be allocated to the Notes and recorded as a debit to the Principal Deficiency Ledger as follows:

- (a) *firstly*, to the Class Z Principal Deficiency Sub-Ledger up to

- a maximum of the Principal Amount Outstanding of the Class Z Notes;
- (b) *secondly*, to the Class D Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class D Notes;
  - (c) *thirdly*, to the Class C Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class C Notes;
  - (d) *fourthly*, to the Class B Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class B Notes; and
  - (e) *fifthly*, to the Class A Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class A Notes.

**Issuer Accounts and Cash Management:**

Revenue Receipts and Principal Receipts in respect of the Mortgage Loans are received by the Seller in the Collection Account. Interest payments and principal repayments are collected from the Borrowers throughout each month. The Servicer is responsible for collecting payments by Borrowers into the Collection Account and ensuring the same are transferred into the GIC Account on a regular basis but, in any event, in the case of payments by direct debits, no later than the next Business Day after they are deposited in the Collection Account or in the case of payments not made by direct debit, no later than the next Business Day after receipt by the Servicer or Seller (except in relation to payments by standing order, which are transferred by close of business on the second Business Day following receipt by the Servicer). On or prior to each Interest Payment Date, amounts will be transferred by the Cash Manager from the GIC Account to the Transaction Account to be applied in accordance with the relevant Payments Priorities.

On the Closing Date, the Seller declared a trust (the "**Collection Account Declaration of Trust**") in favour of the Issuer over amounts credited to the Collection Account to the extent that such amounts relate to the Mortgage Loans in the Mortgage Portfolio.

## THE MORTGAGE PORTFOLIO

See the sections entitled "The Mortgage Portfolio – Sale of the Mortgage Portfolio under the Mortgage Sale Agreement", "The Mortgage Portfolio – Statistical Information on the Initial Portfolio" and "The Servicer" for further information in respect of the sale of the Mortgage Portfolio.

**Sale of Mortgage Portfolio:** Pursuant to the Mortgage Sale Agreement, the Seller sold its interest in the Initial Portfolio to the Issuer on the Closing Date and may on any Business Day during the Revolving Period sell additional portfolios of Mortgage Loans and their Related Security (each a "**New Portfolio**") to the Issuer.

A "**New Portfolio Sale Date**" shall be any Business Day during the Revolving Period on which the Seller sells a New Portfolio to the Issuer.

The Mortgage Portfolio, comprising the Initial Portfolio and each New Portfolio, will consist of the Mortgage Loans, the Related Security and all monies derived therefrom from time to time.

Each of the English Loans and its Related Security is governed by English law and each of the Scottish Loans and its Related Security is governed by Scots Law.

**Features of Mortgage Loans in the Initial Portfolio:**

The following is a summary of certain features of the mortgage loans as at 12 February 2016 (the "**Reference Date**") from which the Mortgage Loans in the Initial Portfolio were purchased on the Closing Date. Investors should refer to, and carefully consider, further details in respect of the Mortgage Loans set out in "*The Mortgage Portfolio – Statistical Information on the Initial Portfolio*".

Each Mortgage Loan is and will be secured by first priority charges over freehold and leasehold properties in England or Wales or, as the case may be, first ranking standard securities over heritable or long lease properties in Scotland.

Type of Borrower	89.53% Buy-to-Let 10.47% Let-to-Buy
Type of Mortgage	Repayment Loans or Interest-only Loans or a combination of both
Self-Certified Loans	N/A
Fast-track Loans	N/A
Number of Mortgage Loans	17,692

	<u>Weighted Average</u>	<u>Minimum</u>	<u>Maximum</u>
Outstanding Current Balance (£)	£130,480.53 (average only)	£10,178.04	£499,120.55
LTV Ratio at origination (%)	66.25%	6.80%	75.00%

LTV Ratio at Current Balance (%)	61.94%	6.14%	83.54%
Seasoning (months)	10.29	7.46	13.34
Remaining Term (years)	19.14	3.08	39.33

See the section entitled "*The Mortgage Portfolio – Statistical Information on the Initial Portfolio*" for further information and for an explanation of the terms and figures used in the tables above.

**Consideration:**

The consideration payable by the Issuer to the Seller in respect of the sale of the Mortgage Portfolio shall be equal to the aggregate of:

- (a) the Initial Purchase Price equal to the Current Balance of the Mortgage Loans in the Initial Portfolio at the open of business on the Closing Date and all Arrears of Interest and Accrued Interest relating thereto;
- (b) the New Portfolio Purchase Price equal to the Current Balance of the Mortgage Loans in any New Portfolio on the relevant New Portfolio Sale Date and all Accrued Interest relating thereto;
- (c) the Further Advance Purchase Price in relation to any Further Advance purchased by the Issuer which will be payable on the Further Advance Payment Date; and
- (d) Deferred Consideration payable in accordance with the Mortgage Sale Agreement.

See the section entitled "*The Mortgage Portfolio – Sale of the Mortgage Portfolio under the Mortgage Sale Agreement*" for further information.

**Representations and Warranties:**

The Seller (a) has made the Seller Asset Warranties to the Issuer and the Trustee on the Closing Date in respect of the Mortgage Loans in the Initial Portfolio and (b) will make the Seller Asset Warranties to the Issuer and the Trustee on each New Portfolio Sale Date in respect of the Mortgage Loans in such New Portfolio.

The Seller Asset Warranties include the following warranties in respect of each Mortgage Loan:

- (a) first ranking security in respect of properties located in England, Wales or Scotland;
- (b) Mortgage Loans are Buy-to-Let or Let-to-Buy Loans;
- (c) maximum outstanding principal amount of £500,000;
- (d) at least two Monthly Payments having been made;
- (e) each Mortgage Loan made no earlier than 1 January 2014 and no later than the Revolving Period End Date;
- (f) final maturity date of each Mortgage Loan no later than 30 June 2061;
- (g) no Fixed Rate Loan has a fixed rate period that is longer than 5 years from the relevant Transfer Date;

- (h) no Flexible Loans; and
- (i) no account has an amount of arrears of interest or principal during the 12 months preceding the relevant Transfer Date equal to or greater than the amount of a Monthly Payment.

See the section entitled "*The Mortgage Portfolio – Sale of the Mortgage Portfolio under the Mortgage Sale Agreement – Representations and Warranties*" for further information.

**Eligibility Criteria:**

All of the Mortgage Loans in the Mortgage Portfolio will be subject to the following Eligibility Criteria:

- (a) the Borrower in respect of each relevant Mortgage Loan has not filed for bankruptcy, entered into an individual voluntary arrangement nor (in Scotland) has granted a trust deed for his or her creditors or been sequestrated or been subject to any analogous procedure in any other jurisdiction within 6 years prior to the date he executed such Mortgage Loan;
- (b) each Mortgage Loan has a positive Current Balance as at the relevant Transfer Date;
- (c) the interest coverage ratio on the basis of the estimated rental revenue as set out in the relevant Valuation Report for each relevant Mortgage Loan is not lower than 125 per cent. of the Current Balance based on an interest rate of no less than 4.99 per cent. as at the date that such Mortgage Loan was entered into;
- (d) the Product Period for Fixed Rate Loans is no longer than five years; and
- (e) each Mortgage Loan has an original LTV of less than or equal to 80 per cent.

The Seller has made a representation that the Mortgage Loans comply with the Eligibility Criteria on the Closing Date in respect of the Mortgage Loans in the Initial Portfolio and will make such representation on each New Portfolio Sale Date in respect of the Mortgage Loans in each such New Portfolio.

**Further Advances:**

A Borrower may request, or the Seller or the Servicer (on behalf of the Seller) may from time to time offer, a Further Advance under a Mortgage Loan. The Seller or the Servicer (on behalf of the Seller) will be solely responsible for offering, documenting and funding any Further Advance and upon making any Further Advance, the Servicer will promptly notify the Cash Manager. Any Further Advance made to a Borrower will be purchased by the Issuer on the relevant Further Advance Date (as set out in "*The Mortgage Portfolio – The Mortgage Loans – Characteristics of the Mortgage Loans – Further Advances*").

The consideration payable by the Issuer to the Seller for the purchase of a Further Advance is the Further Advance Purchase Price and is payable on the Further Advance Payment Date. The payment of the Further Advance Purchase Price will be satisfied by the Seller retaining for its own account an amount of principal receipts received in respect of the Mortgage Portfolio on such Further Advance Payment Date equal to the relevant Further Advance Purchase Price.

In the event that there are insufficient principal receipts received by the Seller on the Further Advance Payment Date to fund the payment of a Further Advance Purchase Price, the Issuer will not be required to make a payment of the Further Advance Purchase Price

and will deliver a Mortgage Loan Reassignment Notice to the Seller. The Seller will repurchase the Mortgage Loan and the Related Security to which such Further Advance relates from the Issuer on the Business Day on which the relevant Mortgage Loan Reassignment Notice is received.

The Seller shall, within 20 Business Days of the Cash Manager being notified of such Further Advance, offer to repurchase any Mortgage Loans (together with any Related Security) in respect of which any Further Advances have been made from the Issuer for a price equal to the then Current Balance of such Mortgage Loan plus all Arrears of Interest and Accrued Interest relating thereto.

**Product Switches:**

From time to time, a Borrower may request or the Servicer may send an offer of a variation of the financial terms and conditions of a Mortgage Loan which, if accepted, would constitute a Product Switch.

The Seller shall, within 20 Business Days of the Cash Manager being notified of such Product Switch, offer to repurchase any Mortgage Loans (together with any Related Security) in respect of which any Product Switches have been made from the Issuer for a price equal to the then Current Balance of such Mortgage Loan plus all Arrears of Interest and Accrued Interest relating thereto.

**Repurchase of the Mortgage Loans:**

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

- (a) upon a material breach of the Seller Asset Warranties (which are either not capable of remedy or if the Seller failed to remedy the relevant breach within 20 Business Days of the Seller being notified (or, if earlier, within 20 Business Days of becoming aware of the breach)), within 20 Business Days of the Cash Manager being notified of such breach;
- (b) following the making of a Product Switch or a Further Advance, within 20 Business Days of the Cash Manager being notified of such Further Advance or Product Switch; and
- (c) if the Seller has not received sufficient principal receipts in respect of the Mortgage Loans to fund the Further Advance Purchase Price (as more fully described above in the section entitled "*Further Advances*"), on the Business Day on which the relevant Mortgage Loan Reassignment Notice is received.

The Seller may repurchase the relevant Mortgage Loans and their Related Security in the following circumstances:

- (a) if the Issuer exercises its clean up call option where the Principal Amount Outstanding of all the Notes is less than 20 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date (see the section entitled "*Transaction Overview – Overview of the Terms and Conditions of the Notes – Redemption*" and Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*)); or
- (b) if the Issuer exercises a general call option (see the section entitled "*Transaction Overview – Overview of the Terms and Conditions of the Notes – Redemption*" and Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*)).

**Consideration for repurchase:**

The consideration payable by the Seller in respect of the repurchase of the Mortgage Loans shall be equal to the Current Balance of the Mortgage Loans to be repurchased as at the date of the completion of the repurchase and all Arrears of Interest and Accrued Interest relating thereto.

**Perfection Events:**

See "*Perfection Events*" in the section entitled "*Transaction Overview – Triggers Table – Non-Rating Triggers Table*".

Legal title to the Mortgage Loans will not be vested in the Issuer until certain perfection events occur under the terms of the Mortgage Sale Agreement. Prior to the completion of the transfer of the legal title to the Mortgage Loans, the Issuer will be subject to certain risks as set out in the section entitled "*Risk Factors – The Mortgages – Seller to initially retain legal title to the Mortgage Loans and risks relating to set-off*".

**Delegation by Servicer:**

The Servicer may, in some circumstances, delegate or sub-contract some or all of its responsibilities and obligations under the Servicing Agreement. However, the Servicer remains liable at all times for servicing the Mortgage Loans and for the acts or omissions of any delegate or sub-contractor. See the section entitled "*The Servicer – The Servicing Agreement – Right of delegation by the Servicer*" for further information.



**TRIGGERS TABLES**  
**Rating Triggers Table**

Transaction Party	Required Ratings	Contractual requirements if the rating triggers are breached include the following:
Interest Rate Swap Provider	<p><i>(without further action required by the Interest Rate Swap Provider)</i></p> <p><b>Moody's</b></p> <p>(a) long-term, unsecured and unsubordinated debt rating or counterparty risk assessment by Moody's of at least "A3"</p> <p>(b) long-term, unsecured and unsubordinated debt rating or counterparty risk assessment from Moody's of at least "Baa1"</p> <p><b>Fitch</b></p> <p>(a) long-term issuer default rating of at least "A" (or its equivalent) from Fitch and short-term issuer default rating of at least "F1" (or its equivalent) by Fitch ("<b>Initial Fitch Rating</b>")</p>	<p><b>Moody's</b></p> <p>(a) If both the long-term, unsecured and unsubordinated debt rating by Moody's of the Interest Rate Swap Provider and any guarantor and the counterparty risk assessment from Moody's of the Interest Rate Swap Provider and any guarantor are below "A3" and the Interest Rate Swap Provider has not obtained, if relevant, a rating agency confirmation from Moody's or the terms of such rating agency confirmation are subsequently breached, the Interest Rate Swap Provider is obliged under the Interest Rate Swap Agreement to post collateral to the Issuer as set out in the Interest Rate Swap Agreement.</p> <p>(b) If the Interest Rate Swap Provider fails to perform its obligation to post collateral under (a) above, subject to a 30 day grace period following the relevant downgrade, the Issuer shall have the right to terminate the Interest Rate Swap or if the Interest Rate Swap Provider does post collateral but both the long-term, unsecured and unsubordinated debt rating by Moody's of the Interest Rate Swap Provider and any guarantor and the counterparty risk assessment from Moody's of the Interest Rate Swap Provider and any guarantor are below "Baa1" then the Interest Rate Swap Provider shall use commercially reasonable efforts to either (i) procure a guarantee of its obligations under the Interest Rate Swap Agreement from a guarantor with a suitable rating or (ii) transfer its rights and</p>

Transaction Party	Required Ratings	Contractual requirements if the rating triggers are breached include the following:
		<p>obligations to an eligible replacement, and if the Interest Rate Swap Provider fails to do so, subject to a 30 day grace period following the relevant downgrade, then the Issuer may have the right to terminate the Interest Rate Swap subject to the terms of the Interest Rate Swap Agreement.</p>
		<p><b>Fitch</b></p> <p>(a) In the event that neither the Interest Rate Swap Provider nor any guarantor has the Initial Fitch Rating, the Interest Rate Swap Provider is obliged to make reasonable efforts to take one of the following actions in accordance with the terms of the Interest Rate Swap Agreement:</p> <ul style="list-style-type: none"> <li>(i) post collateral, within 14 days of the occurrence of the event described under (a); or</li> <li>(ii) transfer its rights and obligations under the Interest Rate Swap Agreement to a suitably rated or guaranteed replacement third party, within 30 days of the occurrence of the event described under (a); or</li> <li>(iii) procure a suitably rated co-obligor or guarantor in respect of the obligations of the Interest Rate Swap Provider, within 30 days of the occurrence of the event described under (a); or</li> <li>(iv) take such other action (or inaction) as will result in the rating of the most</li> </ul>

Transaction Party	Required Ratings	Contractual requirements if the rating triggers are breached include the following:
		<p>senior notes by Fitch following the taking of such action (or inaction) being maintained at, or restored to, the level at which it was immediately prior to the loss of the Initial Fitch Rating.</p> <p>(b) If the Interest Rate Swap Provider fails to take at least one of the measures described in (a) above, subject to a 30 day grace period following the relevant downgrade, the Issuer shall have the right to terminate the Interest Rate Swap.</p>
Account Bank	<p>(a) long-term, unsecured, unguaranteed and unsubordinated debt obligation rating of at least A3 by Moody's and A by Fitch,</p> <p>(b) short-term, unsecured, unguaranteed and unsubordinated debt obligation rating of at least F1 by Fitch, or</p> <p>(c) such other lower rating which the Cash Manager certifies to the Trustee in writing (i) is consistent with the then current rating methodology of such relevant Rating Agency in order to support the then rating of the Most Senior Class of Notes, or (ii) with respect to which it has received a Ratings Confirmation,</p> <p>(the "<b>Minimum Rating</b>").</p>	The Issuer shall (with the prior written approval of the Trustee) revoke the appointment of the Account Bank, provided that such revocation will not take effect until an appropriate successor has been appointed or the Account Bank may be required to take such other action as may be required to ensure that the then current rating of the Rated Notes is not and would not be adversely affected.
Servicer	Long-term issuer default rating ceases to be rated at least BBB- by Fitch or long-term unsecured, unguaranteed and unsubordinated debt obligations and counterparty risk assessment cease to be rated at least Baa3 by Moody's, or such other ratings that are consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of	The Issuer and the Seller will use their reasonable endeavours to appoint a Back-Up Servicer with a long term issuer default rating of at least BBB- by Fitch and long term unsecured unguaranteed and unsubordinated debt obligations ratings or counterparty risk assessment of at least Baa3 by Moody's, or such other ratings that are consistent with the then published criteria of the relevant Rating Agency as being the minimum

Transaction Party	Required Ratings	Contractual requirements if the rating triggers are breached include the following:
	the Most Senior Class of Notes.	ratings that are required to support the then rating of the Most Senior Class of Notes within 30 Business Days of the default. See further the section entitled " <i>The Servicing Agreement – Back-Up Servicer</i> ".

#### Non-Rating Triggers Table

Nature of Trigger	Description of Trigger	Contractual requirements upon the occurrence of the following triggers
Principal Payments Trigger Event	<p>The occurrence of any of the following:</p> <p>(a) there is a debit balance on the Class D Principal Deficiency Sub-Ledger; or</p> <p>(b) the delivery of an Enforcement Notice.</p> <p>Principal Payments Trigger Events are not curable.</p>	Payments of principal on the Class A Notes, amongst themselves, will be made <i>pro rata</i> and <i>pari passu</i> .
Revolving Period Termination Events	<p>The occurrence of any of the following events:</p> <p>(a) an Event of Default;</p> <p>(b) an Insolvency Event of the Seller;</p> <p>(c) a debit entry is made on the Class Z Principal Deficiency Sub-Ledger, that is in excess of 1 per cent. of the aggregate Principal Amount Outstanding of all Notes that has not been cured on the next following Interest Payment Date;</p> <p>(d) the amount standing to the credit of the General Reserve Fund is less than the Liquidity Amount;</p> <p>(e) the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio on any date which are then in arrear for 3 months or more is greater than or equal to 5 per cent. of the aggregate Current Balance of all Mortgage Loans in the Mortgage Portfolio; and</p> <p>(f) the amount standing to the</p>	<p>Available Principal Receipts will be applied in accordance with the following priority of payments on an Interest Payment Date:</p> <p>(a) <i>first</i>, to fund any Further Revenue Shortfall on such Interest Payment Date, subject to the limits or conditions on the purposes for which the Available Principal Receipts may be so utilised (such amounts to be applied as Available Revenue Receipts on such Interest Payment Date);</p> <p>(b) <i>second</i>, to credit the General Reserve Fund up to the Liquidity Amount;</p> <p><b>Prior to a Principal Payments Trigger Event:</b></p> <p>(c) <i>third</i>, in redeeming the Class A1 Notes until the Principal Amount Outstanding thereof has been reduced to zero;</p> <p>(d) <i>fourth</i>, in redeeming the Class A2 Notes until the Principal Amount Outstanding thereof has been reduced to zero;</p> <p>(e) <i>fifth</i>, in redeeming the Class B</p>

Nature of Trigger	Description of Trigger	Contractual requirements upon the occurrence of the following triggers
	<p>credit of the Retained Principal Receipts Ledger on such date exceeds 5 per cent. of the aggregate of the Current Balance of all Mortgage Loans in the Mortgage Portfolio on such date.</p> <p>Revolving Period Termination Events are not curable.</p>	<p>Notes until the Principal Amount Outstanding thereof has been reduced to zero;</p> <p>(f) <i>sixth</i>, in redeeming the Class C Notes until the Principal Amount Outstanding thereof has been reduced to zero;</p> <p>(g) <i>seventh</i>, in redeeming the Class D Notes until the Principal Amount Outstanding thereof has been reduced to zero;</p> <p>(h) <i>eighth</i>, in redeeming the Class Z Notes until the Principal Amount Outstanding thereof has been reduced to zero; and</p> <p>(i) <i>ninth</i>, in or towards payment of principal due and payable to the Subordinated Loan Provider;</p> <p>(j) <i>tenth</i>, the excess (if any) to be applied as Available Revenue Receipts.</p> <p><b>After a Principal Payments Trigger Event:</b></p> <p>(c) <i>third</i>, in redeeming pro rata and pari passu according to the respective amounts due:</p> <p>(i) the Class A1 Notes until the Principal Amount Outstanding thereof has been reduced to zero; and</p> <p>(ii) the Class A2 Notes until the Principal Amount Outstanding thereof has been reduced to zero;</p> <p>(d) <i>fourth</i>, in redeeming the Class B Notes until the Principal Amount Outstanding thereof has been reduced to zero;</p> <p>(e) <i>fifth</i>, in redeeming the Class C Notes until the Principal Amount Outstanding thereof has been reduced to zero;</p> <p>(f) <i>sixth</i>, in redeeming the Class D Notes until the Principal Amount Outstanding thereof has been reduced to zero;</p> <p>(g) <i>seventh</i>, in redeeming the</p>

Nature of Trigger	Description of Trigger	Contractual requirements upon the occurrence of the following triggers
		<p>Class Z Notes until the Principal Amount Outstanding thereof has been reduced to zero;</p> <p>(h) <i>eighth</i>, in or towards payment of principal due and payable to the Subordinated Loan Provider; and</p> <p>(i) <i>ninth</i>, the excess (if any) to be applied as Available Revenue Receipts.</p>
<p>Perfection Events</p> <p>See the section entitled "<i>The Mortgage Portfolio – Sale of the Mortgage Portfolio under the Mortgage Sale Agreement – Perfection Events</i>" for further information.</p>	<p>The occurrence of any of the following:</p> <p>(a) perfection is required by an order of a court or regulatory authority; or</p> <p>(b) it being rendered necessary by law to take action to perfect legal title to the Mortgages; or</p> <p>(c) the Security being in jeopardy; or</p> <p>(d) the Seller requesting perfection; or</p> <p>(e) Insolvency Event of the Seller.</p>	<p>Borrowers will be notified of the sale to the Issuer and legal title to the Mortgage Portfolio will be transferred to the Issuer.</p>
<p>Cash Manager Events</p>	<p>The occurrence of any of the following:</p> <p>(a) default in payment of amount due and unremedied for 5 Business Days after the earlier of the Cash Manager becoming aware of such default and the receipt of written notice from the Issuer or the Trustee requiring the default to be remedied;</p> <p>(b) material non-compliance with other covenants or obligations and unremedied for 20 Business Days after the earlier of the Cash Manager becoming aware of such default and the receipt of written notice from the Issuer or the Trustee requiring the default to be remedied;</p> <p>(c) it is or will be unlawful for the Cash Manager to perform or comply with any of its obligations under the Cash Management Agreement; or</p>	<p>The Issuer and/or the Trustee may terminate the appointment of the Cash Manager.</p>

Nature of Trigger	Description of Trigger	Contractual requirements upon the occurrence of the following triggers
	(d) Insolvency Event of the Cash Manager.	
<p>Servicer Termination Events</p> <p>See the section entitled "<i>The Servicer – The Servicing Agreement</i>" for further information.</p>	<p>The occurrence of any of the following:</p> <p>(a) default in payment of amount due and unremedied for 5 Business Days after the earlier of the Servicer becoming aware of such default and the receipt of written notice from the Issuer, the Seller and/or the Trustee requiring the default to be remedied;</p> <p>(b) material non-compliance with other covenants or obligations and unremedied for 20 Business Days after the earlier of the Servicer becoming aware of such default and the receipt of written notice from the Issuer, the Seller and/or the Trustee requiring the default to be remedied;</p> <p>(c) Insolvency Event of the Servicer;</p> <p>(d) the Issuer is of the opinion, after due consideration and acting reasonably that the appointment of the Servicer should be terminated;</p> <p>(e) the Servicer (or any sub-contractor or delegate of the Servicer appointed by the Servicer to perform the relevant Services) does not have any FSMA authorisation which it is required to have in order to enable it to perform the Services; or</p> <p>(f) the Issuer is carrying on a regulated activity in the United Kingdom in breach of section 19 of FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised.</p>	<p>In respect of items (a) to (d), the Issuer or (after the delivery of an Enforcement Notice) the Trustee may terminate the appointment of the Servicer. The Issuer then shall (or the Trustee upon failure of the Issuer to do so may) use its reasonable endeavours to appoint an appropriate substitute Servicer.</p> <p>In respect of items (e) and (f), the appointment of the Servicer will, unless the Servicer, the Trustee and the Issuer agree otherwise in writing, terminate with immediate effect.</p>

## FEES

Type of Fee	Amount of Fee	Priority in Cashflows	Frequency
Servicing fees	0.05 per cent. each year (inclusive of VAT, if any) of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio.	Ahead of all outstanding Notes	Monthly in arrear on each Interest Payment Date
Cash Manager fees	0.025 per cent. each year (inclusive of VAT, if any) on the Principal Amount Outstanding of the Notes.	Ahead of all outstanding Notes	Monthly in arrear on each Interest Payment Date
Other fees and expenses of the Issuer	Estimated at £50,000 per annum in total (exclusive of VAT)	Ahead of all outstanding Notes	Monthly in arrear on each Interest Payment Date
Expenses related to the admission to trading	£7,370 (exclusive of any applicable VAT)	N/A	On or prior to the Listing Date



## RISK FACTORS

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

### Credit Structure

#### *Notes obligations of Issuer only*

The Notes will be obligations solely of the Issuer and will not be the responsibility of, or guaranteed by, any of the Transaction Parties (other than the Issuer) and no person other than the Issuer will accept any liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes.

#### *Limited source of funds*

The ability of the Issuer to meet its obligations to pay principal and interest on the Notes and its operating and administrative expenses and payment of the purchase price for new Mortgage Loans during the Revolving Period will be dependent solely on receipts from the Mortgage Loans in the Mortgage Portfolio which are designated as Available Revenue Receipts and Available Principal Receipts, interest earned on the Issuer Accounts (other than the Swap Collateral Account), income from any Authorised Investments, amounts standing to the credit of the General Reserve Fund, and certain receipts under the Interest Rate Swap Agreement (in respect of Fixed Rate Loans which are not Arrears Fixed Rate Loans). Other than the foregoing, the Issuer is not expected to have any other funds available to it to meet its obligations under the Notes and/or any other payment obligation ranking in priority to, or *pari passu* with, the Notes under the applicable 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. The Issuer will have no recourse to the Seller, save as provided in the Mortgage Sale Agreement (see further the section entitled "*The Mortgage Portfolio – Sale of the Mortgage Portfolio under the Mortgage Sale Agreement*"). Moreover, the proceeds of the enforcement of the Security for the Notes may be insufficient to pay all interest and principal due on the Notes.

#### *Limited recourse*

The Notes will be limited recourse obligations of the Issuer. Other than the receipts from the Mortgage Loans in the Mortgage Portfolio (and other sources of funds stated above under "*Limited source of funds*") which are available to be applied in or towards making payments on the Notes and amounts ranking *pari passu* or in priority thereto in accordance with the Payments Priorities, the Issuer is not expected to have any other funds available to it to meet its obligations under the Notes. If at any time following:

- (a) the occurrence of either:
  - (i) the Final Maturity Date or any earlier date upon which all of the Notes of each Class are due and payable; or
  - (ii) the service of an Enforcement Notice; and
- (b) 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 the same have been allocated as Available Principal Receipts, Available Revenue Receipts or as amounts to be applied in accordance with the Post Enforcement Payments Priorities and payment of all claims ranking in priority to the Notes in accordance with the applicable Payments Priorities, to pay in full all amounts then due and payable under any Class of Notes then the amount remaining to be paid (after such application in full of the amounts first referred to in (b) above) under such Class of Notes (and any Class of Notes junior to that Class of Notes) shall, on the day following such application in full of the amounts referred to in (b) above, cease to be due and payable by the Issuer. "**Realisation**" is defined in Condition 10 (*Limited Recourse*) of the Notes. For the avoidance of doubt, the Seller has an economic interest in the Mortgage Portfolio and prior to an Event of Default is entitled to payments of Deferred Consideration out of Available Revenue Receipts and such amounts may therefore not be available to the Issuer to make payments to the Noteholders as described more fully in the section entitled "*Key Structural Features - Cashflows and Cash Management*".

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

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 any Class of Notes, (excluding, for the

avoidance of doubt, the Most Senior Class of Notes), after having paid or provided for items of higher priority in the Pre Enforcement Payments Priorities, then that amount shall not be due and payable and the Issuer will be entitled under Condition 8.11 (*Interest Accrual*) of the Notes to defer payment of that amount (to the extent of the insufficiency) until the following Interest Payment Date 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, the deferral of interest shall continue until the Final Maturity Date or such earlier date as the Notes are redeemed in full or the date on which amounts cease to be payable by the Issuer following application of funds in accordance with the Post Enforcement Payments Priorities.

#### *Credit risk*

The Issuer is subject to the risk of default in payment by the Borrowers and the failure by the Servicer, on behalf of the Issuer, to realise or recover sufficient funds under the arrears and default procedures in respect of the relevant Mortgage Loans 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 which are described in the section entitled "*Key Structural Features – Credit Enhancement and Liquidity Support*".

#### *Liquidity risk*

The Issuer is subject to the risk of insufficiency of funds on any Interest Payment Date as a result of payments being made late by Borrowers or other counterparties after the end of the relevant Calculation Period. This risk may adversely affect the Issuer's ability to make payments on the Notes but is mitigated to some extent by the provision of liquidity from alternative sources as described in the section entitled "*Key Structural Features – Credit Enhancement and Liquidity Support*".

#### *Subordination of the Class B Notes, the Class C Notes, the Class D Notes and the Class Z Notes*

The Class B Notes are subordinated in right of payment of interest and principal to the Class A Notes; the Class C Notes are subordinated in right of payment of interest and principal to the Class A Notes and the Class B Notes; the Class D Notes are subordinated in right of payment of interest and principal to the Class A Notes, the Class B Notes and the Class C Notes and the Class Z Notes are subordinated in right of payment of interest and principal to the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes, as set out in "*Key Structural Features*".

Further, Available Revenue Receipts will be applied to credit the Class Z Principal Deficiency Sub-Ledger to eliminate any debit thereon and to credit the General Reserve Fund prior to payment of interest on the Class Z Notes.

There is no assurance that these subordination provisions will protect the holders of the Class A Notes, the Class B Notes, the Class C Notes or the Class D Notes from all risk of loss.

#### *Time subordination of the Class A Notes*

Payments of principal on the Class A Notes, amongst themselves, will be made in Sequential Order, until the occurrence of a Principal Payments Trigger Event, whereupon payments of principal on the Class A Notes, amongst themselves, will be made *pro rata* and *pari passu*.

#### *Revenue and Principal Deficiency*

If, on any Interest Payment Date, there are Revenue Shortfalls, Further Revenue Shortfalls or Remaining Revenue Shortfalls, then the Issuer (or the Cash Manager on its behalf) may apply:

- (a) Excess Amounts from the General Reserve Fund to make up a Revenue Shortfall (provided that such amounts shall not be used to pay interest on the Class B Notes, Class C Notes or the Class D Notes if the sum of the debit balance on the Principal Deficiency Ledger exceeds the aggregate of: (i) 50 per cent. of the outstanding balance of such Class of Notes; and (ii) the outstanding balance of all Classes of Notes ranking junior to such Class of Notes);
- (b) Available Principal Receipts to make up a Further Revenue Shortfall (provided that such amounts shall not be used to pay interest on the Class B Notes, Class C Notes or the Class D Notes if the sum of the debit balance on the Principal Deficiency Ledger exceeds the aggregate of: (i) 50 per cent. of the outstanding balance of such Class of Notes; and (ii) the outstanding balance of all Classes of Notes ranking junior to such Class of Notes); and
- (c) Liquidity Amounts from the General Reserve Fund to make up a Remaining Revenue Shortfall (provided that such amounts shall not be used to pay interest on the Class B Notes, the Class C Notes or the Class D Notes if the sum of the debit balance on the Principal Deficiency Ledger

together with any Liquidity Amount to be applied to pay items in the Pre Enforcement Revenue Payments Priorities ranking *pari passu* with or in priority to payments of interest on such Class of Notes exceeds the aggregate of: (i) 50 per cent. of the outstanding balance of such Class of Notes; and (ii) the outstanding balance of all Classes of Notes ranking junior to such Class of Notes).

Losses of principal on the Mortgage Portfolio will be recorded (a) first, to the Class Z Principal Deficiency Sub-Ledger until the balance of the Class Principal Deficiency Sub-Ledger is equal to the Principal Amount Outstanding of the Class Z Notes; (b) second, to the Class D Principal Deficiency Sub-Ledger until the balance of the Class D Principal Deficiency Sub-Ledger is equal to the Principal Amount Outstanding of the Class D Notes; (c) third, to the Class C Principal Deficiency Sub-Ledger until the balance of the Class C Principal Deficiency Sub-Ledger is equal to the Principal Amount Outstanding of the Class C Notes; (d) fourth, to the Class B Principal Deficiency Sub-Ledger until the balance of the Class B Principal Deficiency Sub-Ledger is equal to the Principal Amount Outstanding of the Class B Notes; and (e) fifth, to the Class A Principal Deficiency Sub-Ledger until the balance of the Class A Principal Deficiency Sub-Ledger is equal to the Principal Amount Outstanding of the Class A Notes.

It is expected that during the course of the life of the Notes, principal deficiencies will be recouped from Available Revenue Receipts and/or amounts standing to the credit of the General Reserve Fund representing Excess Amounts. Available Revenue Receipts and amounts standing to the credit of the General Reserve Fund representing Excess Amounts will be applied for such purpose after meeting prior ranking obligations as set out under the relevant Payments Priorities.

If there are insufficient funds available as a result of such income or principal deficiencies, then one or more of the following consequences may ensue:

- (a) the interest and other net income of the Issuer may not be sufficient, after making the payments to be made in priority thereto, to pay, in full or at all, interest due on the Notes; and
- (b) there may be insufficient funds to repay the Notes on or prior to the Final Maturity Date of such Class of Notes unless the other net income of the Issuer is sufficient, after making other payments to be made in priority thereto, to reduce to nil the balance on the Class A Principal Deficiency Sub-Ledger, Class B Principal Deficiency Sub-Ledger, Class C Principal Deficiency Sub-Ledger, Class D Principal Deficiency Sub-Ledger and Class Z Principal Deficiency Sub-Ledger.

#### *Interest rate risk*

The Issuer is subject to:

- (a) the risk of the contractual interest rates on the Mortgage Loans (including Mortgage Loans with variable rates of interest linked to the Bank of England base rate) being lower than that required by the Issuer in order to meet its commitments under the Notes and its other obligations, which risk is, in respect of the Fixed Rate Loans, mitigated but not eliminated (including, without limitation, because payments under the Interest Rate Swap will be made by reference to the Fixed Rate Loans which are not Arrears Fixed Rate Loans) by the Interest Rate Swap; and
- (b) 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 which risk is mitigated by (i) the GIC Account which pays a guaranteed rate of interest on funds standing to the credit thereof, (ii) the General Reserve Fund and (iii) (for so long as the Mortgage Loans are fully performing) the availability of excess Available Revenue Receipts, each of which is available to meet payments of interest due under the Notes and the other expenses of the Issuer.

#### *Interest Rate Swap termination payments*

If the Interest Rate Swap terminates, the Issuer may be obliged to pay a termination payment to the Interest Rate Swap Provider. The amount of such termination payment will be based on the market value of the Interest Rate Swap as determined by market quotations for transactions equivalent to those entered into under the Interest Rate Swap Agreement (or loss if such market quotations cannot be obtained). There can be no assurance that the Issuer will have sufficient funds available to make any termination payment under the Interest Rate Swap Agreement or that the Issuer will have sufficient funds to make subsequent payments to the Noteholders in respect of the relevant class of Notes.

Except where the Interest Rate Swap Provider has caused the Interest Rate Swap Agreement to terminate by its own default (pursuant to which an Interest Rate Swap Subordinated Amount may be due), any termination payment in respect of the Interest Rate Swap Agreement due by the Issuer to the Interest Rate Swap Provider will rank in priority to payments due on the Class A Notes. Therefore, if the Issuer is obliged to make a termination payment to the Interest Rate Swap Provider or to pay any other additional amount as

a result of the termination of the Interest Rate Swap Agreement, this will reduce the amount of funds which the Issuer has available to make payments on the Notes of any class.

If the Interest Rate Swap Agreement terminates, no assurance can be given as to the ability of the Issuer to enter into one or more replacement transactions. If no replacement transaction is entered into, the Issuer will be exposed to the differential between the contractual interest rates on the Mortgage Loans and the interest rates payable under the Notes.

#### *Yield and prepayment considerations*

The yield to maturity of the Notes of each Class will depend on, *inter alia*, the amount and timing of payment of principal and interest on the Loans and the price paid by the Noteholders. This yield to maturity may be adversely affected by, amongst other things, a higher or lower than anticipated rate of prepayments on the Mortgage Loans. Prepayments on the Mortgage Loans may result from refinancings, sales of properties by Borrowers voluntarily or as a result of enforcement proceedings under the relevant Mortgage Loans, as well as the receipt of proceeds under any insurance policies. In addition, the repurchase of Mortgage Loans required to be made under the Mortgage Sale Agreement because, for example, a Mortgage Loan does not comply with the relevant warranties, will have the same effect as a prepayment of such Mortgage Loans. The rate of prepayment of Mortgage Loans is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing products, the competitiveness of replacement products, the impact of whether a Mortgage Loan imposes an early repayment charge on a Borrower, the end of any incentive periods which a particular Borrower may currently have the benefit of, as well as local and regional economic conditions. Generally, when market interest rates increase, borrowers are either less likely to prepay their mortgage loans or will choose to refinance them, while, conversely, when market interest rates decrease, borrowers are either likely to prepay their mortgage loans or will not opt to refinance them. Because these and other relevant factors are not within the control of the Issuer, no assurance can be given as to the level of prepayments that the Mortgage Portfolio will experience.

Payments and prepayments of principal on the Mortgage Loans will be applied, prior to delivery of an Enforcement Notice, (i) during the Revolving Period, to purchase New Portfolios pursuant to the Mortgage Sale Agreement before any such principal amounts are used to redeem the Class A1 Notes, the Class A2 Notes, the Class B Notes, the Class C Notes, the Class D Notes or the Class Z Notes, and (ii) following the Revolving Period End Date, to redeem the Class A1 Notes, the Class A2 Notes, the Class B Notes, the Class C Notes and the Class D Notes and the Class Z Notes on a pass-through basis on each Interest Payment Date in accordance with the Pre Enforcement Principal Payments Priorities. See "*Cashflows and Cash Management*" below.

The termination of the Revolving Period may therefore adversely affect the yield to maturity on the Notes.

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

#### *Limited secondary market for Mortgage Loans*

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

None of the Notes have been, or will be, registered under the Securities Act or any other applicable securities laws and they are subject to certain restrictions on the resale and other transfer thereof as set out under "*Subscription and Sale*" and "*Transfer and Transfer Restrictions*".

Any investor in the Notes must therefore be prepared to hold its Notes until the Final Maturity Date.

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

Concerns relating to credit risk (including that of sovereigns and of those entities which have exposure to sovereigns) persist, in particular with respect to current economic, monetary and political conditions in the Eurozone. If such conditions further deteriorate (including as may be demonstrated by any relevant credit rating agency action, any default or restructuring of indebtedness by one or more states or institutions and/or

any exit(s) by any member state(s) from the EU 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 Seller, the Servicer, the Account bank, and/or the Interest Rate Swap Provider) and/or any Borrower in respect of the Mortgage Loans. Given the current uncertainty and the range of possible outcomes, no assurance can be given as to the impact of any of the matters described above and, in particular, no assurance can be given that such matters would not adversely affect the rights of the Noteholders, the market value of the Notes, the UK housing market, the existence of a secondary market for the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes.

*Lowering or withdrawal of ratings assigned to the Rated Notes*

The ratings assigned by Moody's and Fitch to the Rated Notes address the likelihood of full and timely payment to Noteholders of the Rated Notes of all payments of interest on each interest payment date under that Class of Notes in accordance with the terms of the Transaction Documents and the applicable Conditions. The ratings also address the likelihood of "ultimate" payment of principal by the Final Maturity Date of each Class of Rated Notes. The ratings of the Rated Notes assigned on the Closing Date are set out on the cover of this Prospectus.

A credit rating is not a recommendation to buy, sell or hold securities and any rating agency may lower, qualify, suspend or withdraw its rating if, in the sole judgment of the rating agency, the credit quality of such class has declined or is in question or other circumstances. If any rating assigned to any Class of Rated Notes then outstanding is lowered, qualified, suspended or withdrawn, the market value of such Class of Rated Notes may be reduced.

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

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

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

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

The Rating Agencies may be requested by (and certain Transaction Documents require) the Issuer to confirm that certain actions proposed to be taken by the Issuer and the Trustee will not have an adverse effect on the then current rating of the Notes (a "**Ratings Confirmation**").

A Ratings 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 Notes does not, for example, confirm that such action (i) is permitted by the terms of the Transaction Documents or (ii) is in the best interests of, or not prejudicial to, the Noteholders. While 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 relevant class of Notes would not be adversely affected, the above does not impose or extend any actual or contingent liability on the Rating Agencies to the Secured Creditors (including the Noteholders), the Issuer, the Trustee or any other person or create any legal relationship between the Rating Agencies and the Secured Creditors (including the Noteholders), the Issuer, the Trustee or any other person whether by way of contract or otherwise.

Any such Ratings Confirmation may or may not be given at the sole discretion of each Rating Agency. It should be noted that, depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that a Rating Agency cannot provide a Ratings Confirmation in the time available or at all, and the Rating Agency will not be responsible for the consequences thereof. A Ratings Confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time and in the context of cumulative changes to the transaction of which the Notes form part since the Closing Date. A Ratings 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.

Fitch has indicated that it will no longer provide Ratings Confirmations as a matter of policy. However, in such circumstances the Seller as the Servicer may, alternatively, confirm in writing to the Trustee (upon

which certificate the Trustee will be entitled to rely without further investigation) that it has notified Fitch of the proposed action and Fitch has not raised any objections thereto. In the absence of a Ratings Confirmation from Fitch, the Issuer or the Trustee may not be able to establish in advance whether or not a proposed action taken in accordance with the provisions of the Transaction Documents (and specifically the relevant modification and waiver provisions) will ultimately adversely affect Fitch's then current ratings of the Rated Notes. Accordingly, no assurance can be given that action taken in accordance with the provisions of the Transaction Documents will not adversely affect Fitch's then current ratings of the Rated Notes.

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

#### *Conflict between Noteholders*

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

If, in the Trustee's opinion, there is a conflict between the interests of: (a) (i) the Class A Noteholders and (ii) the Class B Noteholders, the Class C Noteholders, the Class D Noteholders and/or the Class Z Noteholders, the Trustee shall give priority to the interests of the Class A Noteholders whose interests shall prevail; (b) (i) the Class B Noteholders and (ii) the Class C Noteholders, the Class D Noteholders and/or the Class Z Noteholders, the Trustee shall (subject to (a) or if there are no Class A Notes outstanding) give priority to the interests of the Class B Noteholders whose interests shall prevail; (c) (i) the Class C Noteholders and (ii) the Class D Noteholders and/or the Class Z Noteholders, the Trustee shall (subject to (a) and (b) or if there are no Class A Notes and Class B Notes outstanding) give priority to the interests of the Class C Noteholders whose interests shall prevail; and (d) (i) the Class D Noteholders and (ii) the Class Z Noteholders, the Trustee shall (subject to (a), (b) and (c) or if there are no Class A Notes, Class B Notes and Class C Notes outstanding), give priority to the interests of the Class D Noteholders whose interests shall prevail.

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

So long as any of the Notes are outstanding, the Trustee will have regard to the interests of both the Noteholders and the other Secured Creditors, but if in the Trustee's sole opinion there is a conflict between their respective interests, it will have regard solely to the interests of the Noteholders, subject to the provisions of the Trust Deed and the Conditions.

#### *Meetings of Noteholders, modification and waiver*

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

The Trust Deed provides that, without the consent or sanction of the Noteholders or any of the other Secured Creditors, the Trustee may:

- (a) concur with the Issuer and any other relevant parties in making:
  - (i) any modification to the Conditions, the Trust Documents (other than in respect of a Reserved Matter or any provision of the Trust Documents referred to in the definition of a Reserved Matter), the Notes or the other Transaction Documents 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 then outstanding; or
  - (ii) any modification to the Conditions, the Trust Documents, the Notes or the other Transaction Documents, if, in the opinion of the Trustee, such modification (i) is of a formal, minor or technical nature, (ii) is made to correct a manifest error or (iii) is necessary or desirable to reflect the then current rating criteria of any Rating Agency provided that in respect of (iii) a certificate from the Servicer (on behalf of the Issuer) is provided to the Trustee certifying that in its opinion such modification is necessary and desirable to reflect the then current rating criteria of any Rating Agency;
- (b) authorise or waive, on such terms and conditions (if any) as it may decide, any proposed breach or breach of any of the covenants or provisions contained in the Trust Documents, the Notes or any other of the Transaction Documents, if in the Trustee's opinion, the interests of the holders of the Most Senior Class of Notes then outstanding will not be materially prejudiced thereby; or

- (c) determine, on such terms and subject to such conditions (if any) as the Trustee may decide, that any Event of Default or Potential Event of Default shall not be treated as such, if in the Trustee's opinion, the interests of the holders of the Most Senior Class of Notes then outstanding will not be materially prejudiced thereby;

provided always that the Trustee shall not exercise any powers under paragraphs (b) or (c) in contravention of any express direction given by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding or 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 no such direction or request shall affect (a) any authorisation, waiver or determination previously given or made or (b) shall authorise or waive any proposed breach or breach relating to a Reserved Matter unless the holders of each Class of Notes have, by Extraordinary Resolution, so authorised its exercise).

Notwithstanding the above, the Trustee shall be obliged, without any consent or sanction of the Noteholders, or, any of the other Secured Creditors but, subject to the receipt of consent from any of the Secured Creditors party to the Transaction Document being modified or whose ranking in any Payments Priorities is affected, to concur with the Issuer in making any modification (other than in respect of a 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 or other relevant party considers necessary to (a) comply with any obligations which apply to it under EMIR, (b) comply with, or implement or reflect, any change in the criteria of one or more of the Rating Agencies, (c) comply with any changes in the EU risk retention requirements, (d) list (or maintain the listing of) the Rated Notes on the London Stock Exchange, (e) comply with FATCA, (f) comply with any changes to the CRR, (g) comply with any changes to the CRA Regulation, (in each case, as further described in Condition 17 (*Modification and Waiver*) of the Notes, subject, in each case, to certain certification and ratings requirements, including that the Issuer certifies in writing to the Trustee that (1) the Issuer has provided at least 30 days' notice to the Noteholders of each Class of the proposed modification in accordance with Condition 22 (*Notices*) of the Notes and by publication on Bloomberg on the "Company News" screen relating to the Notes and (2) Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes have not contacted the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held) within such notification period notifying the Issuer that such Noteholders do not consent to the modification.

If Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes (or, in relation to the Class A Notes, either the Class A1 Notes or the Class A2 Notes) have notified the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held) within the notification period referred to above that they do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Noteholders of the Most Senior Class of Notes (or, in relation to the Class A Notes, either the Class A1 Notes or the Class A2 Notes) then outstanding is passed in favour of such modification in accordance with Condition 17 (*Modification and Waiver*) of the Notes.

Objections made in writing other than through the applicable clearing system must be accompanied by evidence to the Issuer's satisfaction (having regard to prevailing market practices) of the relevant Noteholder's holding of the Notes.

The Trustee may also, without the consent of any of the Noteholders or other Secured Creditors, concur with the Issuer in substituting in place of the Issuer a Substituted Obligor as the principal debtor in respect of the Transaction Documents provided that certain conditions as set out in the Trust Deed are satisfied.

There can be no assurance that the effect of a modification to or the waiver of any breach under the Transaction Documents will not adversely affect the interests of the holders of one or more or all Classes of Notes.

#### ***Bank of Scotland as Noteholder***

Bank of Scotland is the initial purchaser of the Notes and may dispose of or retain in its discretion the whole or the majority of the Notes (although any disposals will be subject to its retention requirements as set out in "*Certain Regulatory Disclosures*"). For so long as any Notes are held by Bank of Scotland, it will be entitled to all of the rights to which the holders of such Notes are entitled (including, without limitation, voting rights). Bank of Scotland's interests, with respect to the holding of such Notes, may be different from that of other Noteholders to the extent there are other Noteholders. So long as Bank of Scotland continues to hold any Notes, in the exercise of the rights to which it is entitled under the Notes, it will be in its interests to minimise any adverse impact or potential adverse impact on itself and its affiliates. Such interests of Bank of Scotland may conflict with the interests of other Noteholders.

## ***The Mortgages***

*Seller to initially retain legal title to the Mortgage Loans and risks relating to set-off*

The sale by the Seller to the Issuer of the English Loans and their Related Security (until legal title is conveyed) takes effect in equity only. The sale by the Seller to the Issuer of the Scottish Loans and their Related Security has been given effect by a Scottish Declaration of Trust by the Seller in favour of the Issuer by which the beneficial interest in such Scottish Loans and their Related Security has been transferred to the Issuer. In each case, this means that the Issuer has not acquired legal title and, in the case of registered land in England or Wales, will not be registered as proprietor and legal owner of the Mortgage at the Land Registry or Central Land Charges Registry, or in the case of land in Scotland, will not be registered or recorded as heritable creditor at Registers of Scotland, until certain trigger events occur under the terms of the Mortgage Sale Agreement (see "*The Mortgage Portfolio – Sale of the Mortgage Portfolio under the Mortgage Sale Agreement*", below).

The Issuer has not and will not be able to (prior to the occurrence of the trigger events referred to above) apply to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the English Mortgages and their Related Security or take any steps to complete or perfect its title to the Scottish Mortgages and their Related Security.

There are certain consequences under English and Scots law of the Issuer not obtaining legal title to the Mortgage Loans and their Related Security or the Properties secured thereby:

- (a) a *bona fide* purchaser from the Seller for value of any of such Mortgage Loans and their Related Security without notice of any of the interests of the Issuer might obtain a good title free of any such interest. If this occurred, then the Issuer would not have good title to the affected Mortgage Loan and its Related Security, and it would not be entitled to payments by a Borrower in respect of that Mortgage Loan. However, the risk of third party claims obtaining priority to the interests of the Issuer in this way would be likely to be limited to circumstances arising from a breach by the Seller of its contractual obligations or fraud, negligence or mistake on the part of the Seller or the Issuer or their respective personnel or agents and as at the relevant Transfer Date, the Seller will have represented and warranted to the Issuer that it is has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits agreed to be sold and/or assigned by the Seller to the Issuer under the Mortgage Sale Agreement;
- (b) although as between the Seller and the Issuer under the Mortgage Sale Agreement, the Seller has agreed that it will not vary any of the terms of the Mortgage Loans or their Related Security except that it may in its capacity as Servicer vary certain terms in the circumstances as set out in the Servicing Agreement, as between any Borrower and the Issuer, if the Seller were to modify the terms of the Mortgage Loans and their Related Security the revised terms would apply and the Issuer would only have recourse against the Seller for breach of contract or breach of trust;
- (c) prior to the insolvency of the Seller, unless notice of the assignment or assignation (as appropriate) was given to a Borrower who is a creditor of the Seller in the context of the Mortgage Loans and their Related Security, equitable or independent set-off rights may accrue in favour of the Borrower against his or her obligation to make payments to the Seller under the relevant Mortgage Loan. These rights may result in the Issuer receiving reduced payments on the Mortgage Loans. The transfer of the benefit of any Mortgage Loans to the Issuer will continue to be subject to any prior rights the Borrower may become entitled to after the transfer. Where notice of the assignment or assignation (as appropriate) is given to the Borrower, however, some rights of set-off may not arise after the date notice is given;
- (d) once notice has been given to the Borrowers of the assignment or assignation (as appropriate) of the Mortgage Loans and their Related Security to the Issuer, independent set-off rights which a Borrower has against the Seller (such as, for example, set-off rights associated with Borrowers holding deposits with the Seller) will crystallise and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under "transaction set-off" (which are set-off claims arising out of a transaction connected with the Mortgage Loan) will not be affected by that notice and will continue to exist; and
- (e) until notice of the assignment or assignation (as appropriate) is given to Borrowers, the Issuer would not be able to enforce any Borrower's obligations under a Mortgage Loan or Related Security itself but would have to join the Seller as a party to any legal proceedings. Borrowers will also have the right to redeem their Mortgages by repaying the relevant Mortgage Loan directly to the Seller. However, pursuant to the Mortgage Sale Agreement and Collection Account Declaration of Trust, the



Seller holds any money repaid to it in respect of relevant Mortgage Loans to the order of the Issuer. However, for so long as the Issuer does not have legal title, the Seller undertakes, if required so to do by the Issuer or the Trustee, to participate or join in any legal proceedings to the extent necessary to protect preserve and enforce the Seller's and/or the Issuer's and/or the Trustee's title to or interest in any Mortgage Loan or its Related Security (provided that it is reimbursed by the Issuer in accordance with the Payments Priorities for the reasonable legal expenses and costs of such proceedings).

If any of the risks described above were to occur then the realisable value of the Mortgage Portfolio or any part thereof and payments under the Notes may be adversely affected. Under the Mortgage Sale Agreement, the Seller will grant to the Issuer and the Trustee a power of attorney to give them the power to do acts or things which they consider necessary, proper or expedient to perfect the transfer of legal title to the Mortgage Loans and their Related Security after the occurrence of a Perfection Event.

### ***Servicing and Third Party Risk***

#### *Issuer reliance on other third parties and third party credit risk*

The Issuer is also party to contracts with a number of other third parties who have agreed to perform services in relation to the Notes. In particular, but without limitation, the Interest Rate Swap Provider has agreed to provide hedging to the Issuer, the Corporate Services Provider has agreed to provide certain corporate services to the Issuer, the Account Bank has agreed to provide the GIC Account, the Transaction Account and the Swap Collateral Account to the Issuer, the Servicer has agreed to service the Mortgage Portfolio, the Cash Manager has agreed to provide cash management services and the Paying Agents, the Registrar, and the Agent Bank have all agreed to provide services with respect to the Notes. In the event that any of the above parties were to fail to perform their obligations under the respective agreements to which they are a party (including as a result of insolvency of such third party), payments on the Notes may be adversely affected.

The Issuer will enter into the Interest Rate Swap and investors should be aware that, pursuant to EMIR, the Issuer is subject to certain regulatory requirements including, but not limited to, various compliance requirements for non-cleared "over-the-counter" derivative transactions such as the Interest Rate Swap (known as the 'risk mitigation techniques') and the requirement to report derivative transactions to a trade repository or to the European Securities and Markets Authority ("**ESMA**") which may result in future amendments by the Issuer to the Transaction Documents (see the risk factor above entitled "*Meetings of Noteholders, modification and waiver*"), in particular where Noteholder consent will not be required for such amendments. In addition, such regulatory requirements may give rise to additional costs and expenses for the Issuer which would be payable prior to making payments on the Notes and, to the extent not adhered to, result in the Issuer being in breach of such regulatory requirements.

The Issuer will delegate its obligations under EMIR to report derivative transactions to a trade repository or to ESMA and comply with the portfolio reconciliation and dispute resolution "risk mitigation technique" requirements set out in EMIR. If any such delegate fails to carry out such above mentioned roles on behalf of the Issuer, the Issuer will be in breach of its regulatory obligations, unless the Issuer undertakes such obligations itself or arranges for another third party to do so on its behalf. However, Article 12(3) of EMIR provides that any infringement of the rules under Title II of EMIR "shall not affect the validity of an OTC derivative contract or the possibility for the parties to enforce the provisions of an OTC derivative contract". Consequently any failure by the Issuer to so comply should not make the Interest Rate Swap Agreement invalid or unenforceable, but rather may lead to a fine being imposed on the Issuer.

#### *The Servicer*

Bank of Scotland has been appointed by the Issuer as Servicer to service the Mortgage Loans. Any failure or delay in collection of payments on the relevant Mortgage Loans and/or calculation of the payments to be made by the Issuer on an Interest Payment Date resulting from the Servicer failing to perform the administration services in accordance with the terms of the Servicing Agreement may cause a disruption in the administration of the Mortgage Loans and/or the payments required to be made by the Issuer on an Interest Payment Date that could ultimately adversely affect payments of interest and principal on the Notes.

If the Servicer's long-term issuer default rating ceases to be rated at least BBB- by Fitch or long-term unsecured, unguaranteed and unsubordinated debt obligations and counterparty risk assessment cease to be rated at least Baa3 by Moody's, or such other ratings that are consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Notes, the Issuer and the Seller will use their reasonable endeavours to appoint a back-up servicer with at least those ratings by Fitch and Moody's within 30 Business Days of the default.

If the Servicer breaches the terms of the Servicing Agreement (or certain other Servicer Termination Events occur), then (prior to the delivery of an Enforcement Notice and with the prior written consent of the Trustee) the Issuer or (after delivery of an Enforcement Notice) the Trustee will be entitled to terminate the appointment of the Servicer in accordance with the terms of the Servicing Agreement. If the Servicer (or any sub-contractor or delegate of the Servicer appointed by the Servicer to perform the relevant Services) does not have any FSMA authorisation which it is required to have in order to enable it to perform the Services or the Issuer is carrying on a regulated activity in the United Kingdom in breach of section 19 of FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised, the appointment of the Servicer will terminate with immediate effect, unless the Servicer, the Trustee and the Issuer agree otherwise in writing. The Servicer may resign with 12 months' notice to the Issuer and the Trustee provided that certain conditions as set out in the Servicing Agreement are satisfied. In circumstances where a back-up servicer has not been appointed, the Issuer shall (or the Trustee may, upon the failure of the Issuer to do so) use its reasonable endeavours to appoint a substitute servicer in its place whose appointment is approved by the Trustee and in accordance with the Servicing Agreement.

There can be no assurance that a back-up servicer or substitute servicer with sufficient experience of servicing the Mortgage Loans would be found who would be willing, able and authorised to service the Mortgage Loans on the terms of the Servicing Agreement, which could delay collection of payments on the Mortgage Loans and ultimately could adversely affect payments on the Notes. The ability of a substitute servicer to fully perform the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect payments on the Mortgage Loans and hence the Issuer's ability to make payments when due on the Notes. The collection of payments on the Mortgage Loans and/or calculation of the payments to be made by the Issuer on an Interest Payment Date could be disrupted during the transitional period in which the performance of the administration services in respect of the Mortgage Loans is transferred to the substitute servicer.

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

*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 will 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 its discretion and without notice, institute such proceedings or take such other steps or action as it thinks fit to enforce and/or to exercise its rights under the Trust Deed in respect of the Notes of each class (including these Conditions), the Deed of Charge or under the other Transaction Documents and from the date on which the Security becomes enforceable, the Trustee may institute proceedings against the Issuer or any other Transaction Party and take such action as it may think fit to enforce all or any part of the Security. However, the Trustee shall not be bound to take such action unless: (a) so requested in writing by the holders of at least 25 per cent, of the Principal Amount Outstanding of the Most Senior Class of outstanding Notes; or (b) so directed by an Extraordinary Resolution of the Noteholders of the Most Senior Class of outstanding Notes, 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.

*Change of counterparties*

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

These criteria include requirements in relation to the ratings ascribed to such party by Fitch and Moody's (see the section above entitled "*Triggers Tables*" for a full description). If the party concerned (or if applicable its guarantor) ceases to satisfy the applicable criteria, including the ratings criteria detailed above, then the rights and obligations of that party (including the right or obligation to receive monies on behalf of the Issuer) may be required to be transferred to another entity which does satisfy the applicable criteria. No assurance can be given that a replacement entity satisfying the applicable criteria would be appointed in such

circumstances. Further, in these circumstances, the terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the relevant Transaction Document and the cost to the Issuer may therefore increase. This may reduce amounts available to the Issuer to make payments of interest on the Notes.

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

The applicable rating criteria may also change over time, which could have an impact on the ratings of the Notes.

### ***The Mortgage Portfolio***

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

Borrowers may default on their obligations under the Mortgage Loans. Defaults may occur for a variety of reasons. The Mortgage Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies and the condition of the private residential rental market in England and Wales and Scotland and in particular, the condition of the private rental market within the various regional areas in England and Wales and Scotland where the relevant Properties are located.

In addition to factors affecting the private rental market, other factors in Borrowers' personal or financial circumstances may also affect their ability to repay the Mortgage Loans, such as unemployment, loss of earnings, illness, divorce and other similar factors. In addition, the ability of a Borrower to sell a property given as security for a Mortgage Loan at a price sufficient to repay the amounts outstanding under that Mortgage Loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time.

If a Borrower fails to repay its Mortgage Loan and the related Mortgaged Property is repossessed, the likelihood of there being a net loss on disposal of the Mortgaged Property is increased by a higher loan to value ratio.

In order to enforce a power of sale in respect of a Mortgaged Property, the relevant mortgagee or (in Scotland) heritable creditor (which may be the Seller or the Issuer upon perfection of the transfer of the title to the Mortgage Loans) must first obtain possession of the relevant property. Possession is usually obtained by way of a court order or decree although this can be a lengthy and costly process and will involve the mortgagee or heritable creditor assuming certain risks. If obtaining possession of properties in such circumstances is lengthy or costly, the Issuer's ability to make payments on the Notes may be reduced. The Issuer's ability to make such payment may be reduced further if the mortgagee's method for obtaining possession of properties permitted by law is restricted in the future. See the section entitled "*Risk Factors – Certain Regulatory Considerations – Consultation Paper on the power of sale and residential property and Home Owner and Debtor Protection (Scotland) Act 2010*" below.

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 will be introduced progressively over a period of four years from 6 April 2017. In addition, from 1 April 2016, the rate of stamp duty land tax ("**SDLT**") on purchases of additional residential properties (above £40,000) in England, Wales and Northern Ireland, including buy-to-let properties, has increased. SDLT in respect of such additional residential properties is 3 percentage points above the existing SDLT rates. The Seller grants mortgage loans on the basis of expected rental income in respect of the relevant property. In addition, Borrowers have a range of strategies available to mitigate the impact of such income tax relief changes. These may include increasing rents at the end of a tenancy agreement, (subject to the market rates applicable to rental properties in the specific location of the property), transferring borrowings to a limited company, applying for a lower cost product, reducing the value of their loan, or ultimately selling the property.

On 28 January 2016, the Scottish Government announced similar plans in respect of land and buildings transaction tax and equivalent residential properties in Scotland. The proposed plans took effect from 1 April 2016.

There can be no assurance that the above tax changes will not adversely affect the ability of individual Borrowers of Mortgage Loans to meet their obligation under those Mortgage Loans or the market for buy-to-let properties, thereby ultimately impacting the Issuer's ability to make payments on the Notes.

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

As the Mortgage Loans are secured over properties which are required to be let by relevant Borrowers, the condition of the rental market will influence the ability of the Borrowers to find tenants and the amount of rental income which may be achieved by the relevant Borrower in any letting.

There can be no guarantee that each such property will be the subject of an existing tenancy when the relevant Mortgage Loan is acquired by the Issuer or that each property will be tenanted throughout the life of the Mortgage Loan, that the rental income achievable from the tenancies of the relevant property will be sufficient to provide the Borrower with sufficient income to meet the Borrower's obligations in respect of the Mortgage Loan during the life of the Mortgage Loan, that the tenancies will be on market terms, that a tenant will always be able to pay their rent, and that a Borrower will always respect the terms of such tenancy relating to the maintenance of the relevant Property.

However, the obligations of a Borrower to make payments under a Mortgage Loan are without regard to whether the relevant Property is let and without regard to the amount of rent received from the relevant tenant.

Upon enforcement of a Mortgage Loan in respect of a Property which is the subject of an existing tenancy, the Servicer may not be able to obtain vacant possession of the Property, in which case the Servicer will only be able to sell the Property as an investment property with one or more sitting tenants. This may affect the amount which the Servicer could realise upon enforcement of the Mortgage Loan and a sale of the Property. However, enforcement procedures in relation to such Mortgages (other than Scottish Mortgages) include appointing a receiver of rent, in which case such a receiver must collect any rents payable in respect of the Property and apply them accordingly in payment of any interest and arrears accruing under the Mortgage Loan. For further information, see "*The Servicer – Servicing of the Mortgage Loans – Arrears and default procedures*" below.

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

Further, although interest rates are currently at a historical low, this may change in the future and an increase in interest rates may adversely affect Borrowers' ability to pay interest or repay principal on their Mortgage Loans. Borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, will be exposed to increased monthly payments if the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). This increase in Borrowers' monthly payments, which (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, may result in higher delinquency rates and losses in the future.

Borrowers seeking to avoid increased monthly payments (caused by, for example, the expiry of an initial fixed rate or low introductory rate, or a rise in the related mortgage interest rates) by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. Any decline in house prices may also leave borrowers with insufficient equity in their investment property to permit them to refinance.

These events, alone or in combination, may contribute to higher delinquency rates and losses on the Mortgage Portfolio, which in turn may affect the ability of the Issuer to make payments of interest and principal on the Notes.

#### *Declining property values*

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

Investors should be aware that, other than the valuation of properties undertaken as at origination or revaluation of certain properties for the purposes of making Further Advances or where a customer has applied for a Product Switch, no revaluation of any property has been undertaken by the Seller, the Issuer, the Servicer, the Trustee or any other person for the purposes of the transactions described in this document.

#### *Geographic Concentration Risks*

Mortgage Loans in the Mortgage Portfolio may also be subject to geographic concentration risks. To the extent that specific geographic regions within the United Kingdom have experienced or may experience in the future weaker regional economic conditions and housing markets than other regions in the United Kingdom, a concentration of the Mortgage Loans in such a region may be expected to exacerbate the risks relating to the Mortgage Loans described in this section. Certain geographic regions within the United Kingdom rely on different types of industries. Any downturn in a local economy or particular industry may adversely affect the regional employment levels and consequently the repayment ability of the borrowers in that region or the region that relies most heavily on that industry. Any natural disasters in a particular region may reduce the value of affected Properties. This may result in a loss being incurred upon sale of the Property. These circumstances could affect receipts on the Mortgage Loans and ultimately result in losses on the Notes. For an overview of the geographical distribution of the Mortgage Loans as at the Reference Date, see the section entitled "*Statistical Information on the Initial Portfolio – Geographical Spread*".

#### *Additional Mortgage Loans*

During the Revolving Period, any Mortgage Loan in a New Portfolio is required as at the date of its acquisition by the Issuer to comply with the representations and warranties specified in the Mortgage Sale Agreement. There can be no certainty that all additional Mortgage Loans acquired by the Issuer will have similar proportions or similar concentration characteristics as set out in the tables in the section entitled "*Statistical Information on the Initial Portfolio*" below in relation to the Mortgage Loans constituting the Initial Portfolio.

#### *Interest Only Loans*

Each Mortgage Loan in the Mortgage Portfolio may be repayable either on a capital repayment basis or an interest-only basis (see the section entitled "*The Mortgage Portfolio – The Mortgage Loans – Characteristics of the Mortgage Loans – Repayment Terms*").

The ability of such a Borrower to repay an Interest-only Loan at maturity depends on such Borrower's ability to sell the property in excess of the amount owing under the Mortgage Loans, to refinance the property or obtain funds from another source such as pension policies, PEPs, ISA 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 of the Borrower, tax laws and general economic conditions at the time. If a Borrower cannot repay an Interest-only Loan and a Principal Loss occurs, this may affect repayments on the Notes. Neither the Issuer, the Trustee, the Seller nor the Servicer has verified that the Borrower has any such other source of funds and none of them has obtained security over the Borrower's right in respect of any such other source of funds.

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

#### *Buildings insurance*

The practice of the Seller in relation to buildings insurance is described under the section entitled "*The Mortgage Portfolio – The Mortgage Loans – Insurance policies*" below. No assurance can be given that the Issuer will always receive the benefit of any claims made under any applicable buildings insurance contracts or that the amounts received in respect of a successful claim will be sufficient to reinstate the affected Mortgaged Property. This could adversely affect the Issuer's ability to redeem the Notes.

#### *Redemption of Scottish Mortgages*

Under Section 11 of the Land Tenure Reform (Scotland) Act 1974 the grantor of any standard security has an absolute right, on giving appropriate notice, to redeem that standard security once it has subsisted for a period of 20 years subject only to the payment of certain sums specified in Section 11 of that Act. These specified sums consist essentially of the principal monies advanced by the lender and expenses incurred by the lender in relation to that standard security and interest.

### *No independent investigations; reliance on warranties in relation to the Mortgage Loans*

The Seller will give certain warranties to each of the Issuer and the Trustee regarding the Mortgage Loans and their Related Security sold to the Issuer on the Closing Date and on each New Portfolio Sale Date. See the section entitled "*The Mortgage Portfolio – Sale of the Mortgage Portfolio under the Mortgage Sale Agreement – Representations and Warranties*" below for a summary of these.

Neither the Trustee, the Arranger, the Lead Manager nor the Issuer has undertaken, or will undertake, any investigations, searches or other actions of any nature whatsoever in respect of any Mortgage Loan or its Related Security in the Mortgage Portfolio and each relies instead on the warranties given in the Mortgage Sale Agreement by the Seller. In addition, no other transaction parties, including the Lead Manager and the Arranger, have independently verified the warranties. The primary remedy of the Issuer against the Seller if any of the Seller Asset Warranties made by the Seller is materially breached or proves to be materially untrue as at the date given shall be to require the Seller to repurchase any relevant Mortgage Loan and its Related Security. There can be no assurance that the Seller will have the financial resources to honour such obligations under the Mortgage Sale Agreement. This may affect the quality of the Mortgage Loans and their Related Security in the Mortgage Portfolio and accordingly the ability of the Issuer to make payments due on the Notes.

The Seller makes a representation pursuant to the Mortgage Sale Agreement that to the best of its knowledge, none of the terms in any Mortgage Loan or in its Related Security is not binding by virtue of its being unfair within the meaning of UTCCR or Consumer Rights Act 2015. As described above, if this is materially breached or proves to be materially untrue as at the date given, the Seller shall repurchase or procure the repurchase of the relevant Mortgage Loan and its Related Security.

### **Certain Regulatory Considerations**

#### *Financial Services and Markets Act 2000*

The Financial Services and Markets Act 2000 (as amended) ("**FSMA**") regulates financial services in the United Kingdom. The FSMA states that no person may carry on a regulated activity by way of business in the United Kingdom, or purport to do so, unless he is an authorised person or an exempt person. Regulation of residential mortgage business under the FSMA came into force on 31 October 2004 (the "**Mortgage Regulation Date**").

On 1 April 2013, following amendments made to the FSMA by the Financial Services Act 2012 many functions of the Financial Services Authority were transferred to the Financial Conduct Authority (the "**FCA**") and the Prudential Regulation Authority (the "**PRA**"). Under the new structure the FCA has taken over, amongst other things, the Financial Services Authority's responsibility for the authorisation and supervision of persons carrying on specified regulated mortgage-related activities under the FSMA. The PRA is responsible for the prudential supervision of deposit takers, insurers and a small number of significant investment firms. Depending on the scope of a firm's authorisation and permissions, firms involved in the residential mortgage market may be regulated by both authorities (in which case they will be known as dual-regulated firms) or by the FCA only. Firms authorised by the Financial Services Authority prior to 1 April 2013 had their authorisations transferred to the relevant authorities and did not need to apply for new authorisations.

The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (as amended) (the "**Regulated Activities Order**") provides that after the Mortgage Regulation Date the following four activities will be regulated activities under the FSMA: (a) entering into as lender, (b) in certain circumstances administering, (c) arranging, and (d) advising on a regulated mortgage contract. Agreeing to carry on any of these activities will also be a regulated activity.

A contract is a "**regulated mortgage contract**" for the purposes of the Regulated Activities Order if it is originated after the Mortgage Regulation Date, or originated prior to the Mortgage Regulation Date but varied after the Mortgage Regulation Date such that a new contract is entered into, and at the time it is entered into, (i) the contract is one under which the lender provides credit to an individual or to trustees, (ii) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage or charge on land (other than timeshare accommodation) in the United Kingdom and (iii) at least 40 per cent, of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

Non-compliance with certain provisions of the FSMA may require a lender to seek a court order to enforce a regulated mortgage.

The Regulated Activities Order sets out certain exclusions to these provisions. Among other things, these exclusions state that a person who is not an authorised person does not carry on the regulated activity of

administering a regulated mortgage contract where he (i) arranges for another person, being an authorised person with permission to carry on an activity of that kind, to administer the contract or (ii) administers the contract himself during a period of not more than one month beginning with the day on which any such arrangement comes to an end.

The Issuer is not expected to be an authorised person under the FSMA. However, in the event that a Mortgage Loan is varied, such that a new contract is entered into and that contract constitutes a regulated mortgage contract, then the arrangement of, advice on, administration of and entering into of such variation would need to be carried out by an appropriately authorised entity. As a result, the Servicing Agreement contains an undertaking on the part of the Servicer to the effect that, to the extent that the services which it has agreed in the Servicing Agreement to perform require the Servicer to obtain any authorisation, licence, approval or consent under the FSMA, the Servicer shall delegate or subcontract the performance of such services to either: (i) a holding company or subsidiary of the Seller which has the necessary FSMA authorisation which will use reasonable endeavours to keep in force any such FSMA authorisation; or (ii) a third party which has the necessary FSMA authorisation. The Servicing Agreement provides that the Servicer will procure that the Issuer obtains any authorisation or permission under the FSMA if required. It also contains an obligation that the Servicer and the Seller may not make an offer to a Borrower for a Further Advance or a Product Switch if it would result in the Issuer arranging or advising in respect of, administering (servicing) or entering into a regulated mortgage contract or agreeing to carry on any of these activities, if the Issuer would be required to do so. The Servicing Agreement also provides that the appointment of the Servicer will, unless the Issuer and the Trustee agree otherwise, be terminated with immediate effect if at any time that the Servicer (or any permitted delegate thereof) does not have any authorisation under the FSMA which it is required to have in order to perform the services which it has agreed to perform in the Servicing Agreement or the Issuer is carrying on a regulated activity in circumstances where the Issuer is itself not so authorised with the requisite permission. Any regulated activities carried on by an entity without the appropriate authorisation or permission under the FSMA would be a breach of the general prohibition on conducting unauthorised regulated activities in Section 19 FSMA and is a criminal offence. In addition to criminal offences the FCA may take civil action against a firm which breaches Section 19 FSMA with, potentially, the imposition of unlimited fines. Therefore, to the extent that the Issuer, Servicer or a Seller group company does not ensure that it acts with the necessary FSMA authorisation, there is a risk that such action will result in criminal or civil sanctions against the relevant entity.

A borrower who is a private person may be entitled to claim damages for loss suffered as a result of any contravention by an FCA authorised person of a rule made under the FSMA. These rules include the Mortgages and Home Finance: Conduct of Business sourcebook on regulated mortgage contracts, and from 1 April 2014 includes the Consumer Credit sourcebook which transposed certain requirements and guidance previously made under the Consumer Credit Act 1974 (described below). The borrower may set-off the amount of the claim for such contravention against the amount owing by the borrower under the credit agreement or any other credit agreement he has taken with the authorised person. Any such set-off may adversely affect the Issuer's ability to make payments in full when due on the Notes.

#### *Product intervention rules*

The FCA has the power to render unenforceable contracts made in contravention of its product intervention rules. The FCA has the power to make product intervention rules under section 137D of the FSMA, prohibiting authorised persons from taking a number of actions, including entering into specified contracts with any person or with a specified person. The FCA is normally obliged to consult the public and prepare a cost-benefit analysis before making any rules but there is an exemption to this requirement, which allows the FCA to make temporary product intervention rules ("**TPIRs**") without consultation, if it considers that it is necessary or expedient to do so. TPIRs are intended to offer protection to consumers in the short term whilst either the FCA or the industry develop more permanent solutions and, in any event, are limited to a maximum duration of 12 months. In relation to agreements entered into in breach of a product intervention rule (including a TPIR), the FCA's rules may provide (i) for the relevant agreement or obligation to be unenforceable; (ii) for the recovery of any money or other property paid or transferred under the agreement; or (iii) for the payment of compensation for any loss sustained under the relevant agreement or obligation.

In March 2013 the FCA published a policy statement "*The FCA's use of temporary product intervention rules*" that applies from 1 April 2013 addressing when and how the FCA will consider making TPIRs. The FCA will consider making TPIRs where it identifies a risk of consumer detriment arising from a product or practice and will make the rules if it deems prompt action is necessary to reduce or prevent that detriment. In particular, the FCA will consider factors such as the potential scale of detriment in the market and potential scale of detriment to individual customers, whether particular groups of customers (especially vulnerable customer groups) are more likely to suffer detriment and whether the use of TPIRs will have any unintended consequences.

### *Proposed changes to United Kingdom and EU mortgage regulation*

There can be no assurance that the developments described below, in respect of the changing regulatory regime, will not have an effect on the mortgage market in the United Kingdom generally or specifically in relation to the Seller, the Issuer and/or the Servicer. Any such action or developments, in particular, but not limited to, the cost of compliance, may have a material adverse effect on the Seller, the Issuer and/or the Servicer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments on the Notes.

#### *FCA mortgage market review*

Further to the FCA's mortgage market review, the FCA implemented amendments to its Mortgages and Home Finance: Conduct of Business Sourcebook ("**MCOB**"). Key changes include a requirement for lenders to undertake affordability assessments at origination (including verifying income in all cases) and undertake stress tests to ensure mortgages remain affordable when interest rates increase. For interest-only mortgages, lenders must check that borrowers have a credible plan to repay the capital at the end of the loan. There are also changes to disclosure requirements (the initial disclosure document is replaced with a requirement for firms to disclose key messages to customers), arrears management and the sales process. The FCA started to track firms' progress towards implementation of the mortgage market review from the second quarter of 2013, and mortgages entered into on or after 26 April 2014 must comply with these new rules. These rules also apply to an existing Mortgage Loan if (i) it is varied so as to increase the principal amount outstanding under the relevant Mortgage Loan (e.g. by way of further advance) on or after 26 April 2014; and (ii) MCOB applies to the Mortgage Loan generally as a regulated mortgage contract (as to which see "*Financial Services and Markets Act 2000*" above). To the extent that further advances are made which constitute new loans, or a loan is varied and in so doing a new loan is created under the new terms and such loans are regulated mortgage contracts, then these new rules would apply. To the extent that the new rules do apply to any of the Mortgage Loans, failure to comply with these rules may entitle a Borrower to claim damages for loss suffered or set-off the amount of the claim against the amount owing under the Mortgage Loan. Any such claim or set-off may adversely affect the Issuer's ability to make payment on the Notes. Any further changes to MCOB arising from the FCA's mortgage market review, or to MCOB or FSMA arising from HM Treasury's proposals to change mortgage regulation or changes in the regulatory structure, may adversely affect the Mortgage Loans, the Seller, the Issuer, the Servicer and, where applicable, their respective businesses and operations.

#### *EU directive on credit agreements relating to residential property*

Directive 2014/17/EU (the "**Mortgage Credit Directive**") was published in the Official Journal on 28 February 2014 and entered into force on 21 March 2014. Member States were required to implement the directive into national law by 21 March 2016.

The Mortgage Credit Directive aims to create an EU-wide mortgage credit market with a high level of consumer protection and it applies to: (a) credit agreements secured by a mortgage or comparable security commonly used in a Member State on residential immovable property, or secured by a right relating to residential immovable property; (b) credit agreements, the purpose of which is to purchase or retain rights in land or in an existing or proposed residential building; and (c) extends the Consumer Credit Directive (2008/48/EC) to unsecured credit agreements, the purpose of which is to renovate residential immovable property involving a total amount of credit above €75,000. The Mortgage Credit Directive does not apply to certain equity release credit agreements to be repaid from the sale proceeds of an immovable property, or to certain credit granted by an employer to its employees. Furthermore, the Mortgage Credit Directive does not appear to distinguish the status of buy-to-let loans from owner-occupied loans, or the status of first and second charge mortgages.

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

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 Credit Directive in respect of buy-to-let mortgages. The UK government has established a framework for "consumer buy-to-let" mortgages ("**CBTL**") via the Mortgage Credit Directive Order 2015 (the MCD Order 2015) which was made on 25 March 2015. In parallel, the FCA consulted on the implementation of this new framework prior to publishing its final rules and guidance in the Mortgage Credit Directive Instrument 2015 on 25 March 2015. The legislation came into full force on 21 March 2016, creating a new distinction between buy-to-let activity involving consumers and consumers



acting by way of business. The legislation provides that firms do not need to apply the government's appropriate framework for buy-to-let mortgages where a borrower is acting wholly or predominantly for the purposes of a business. The UK Treasury has stated that they would expect CBTL activity to represent a small proportion of total buy-to-let transactions. That said, it is still too early to tell what effect the implementation of the Mortgage Credit Directive into UK law would have on the Seller, the Issuer and/or the Servicer and their respective businesses and operations.

Any further changes to MCOB arising from the FCA's mortgage market review, or to MCOB or the FSMA arising from HM Treasury's proposals to change mortgage regulation or changes in the regulatory structure, may adversely affect the Mortgage Loans, the Seller, the Issuer, the Servicer and their respective businesses and operations.

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

In the United Kingdom, the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the "**1999 Regulations**", together with (in so far as applicable) the Unfair Terms in Consumer Contracts Regulations 1994, the "**UTCCR**"), apply to agreements made on or after 1 July 1995 and before 1 October 2015. The UTCCR provide that:

- (a) a consumer may challenge a standard term in an agreement on the basis that it is "unfair" within the UTCCR and therefore not binding on the consumer (although the agreement itself continues to bind the parties if it is capable of continuing in existence without the unfair term); and
- (b) the lead enforcement body and any qualifying body for the UTCCR (such as the FCA) may seek to enjoin (or in Scotland interdict) a business from relying on unfair terms.

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

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

The lead enforcement body for the UTCCR was the OFT before 1 April 2014, and is the Competition and Markets Authority (the "**CMA**") from 1 April 2014. The qualifying body in relation to regulated mortgage contracts and mortgage loans originated by lenders authorised under FSMA, was the FSA before 1 April 2013, and is the FCA from 1 April 2013. The lead enforcement body was and is responsible for enforcing the UTCCR in relation to other mortgage loans. In February 2000, the OFT issued a guidance note on what the OFT considered to be fair terms and unfair terms for interest variation in mortgage contracts. Where the interest variation term does not provide for precise and immediate tracking of an external rate outside the lender's control, and if the borrower is locked in, for example by an early repayment charge that is considered to be a penalty, the term was likely to be regarded by the OFT as unfair under the UTCCR unless the lender: (a) notified the affected borrower in writing at least 30 days before the rate change; and (b) permitted the affected borrower to repay the whole loan during the next three months after the rate change, without paying the early repayment charge. The OFT withdrew the guidance note from its website, but the guidance note may remain as a factor that the FCA and CMA may take into account.

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 and regulated under the FSMA in relation to products and services within the regulatory scope of the FSMA. This statement provided that, for locked-in borrowers, (i.e. where the borrower is required to give advance notice or to pay a cost or to give up a benefit in order to withdraw from the contract), a 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 the context of the OFT's investigation into credit card default charges, the OFT in April 2006 publicly announced that the principles the OFT considers in assessing the fairness of credit card default charges shall be applied (or are likely to be applied) also to analogous default charges in other agreements, including those for mortgages. The principles are in essence that terms imposing default fees should not have the object of raising more in revenue than is reasonably expected to be necessary to recover certain limited administrative costs incurred as a result of a borrower's default. In January 2007, the previous regulator, the

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

In August 2007, the Unfair Contract Terms Regulatory Guide (previously in the FSA Handbook and now in the FCA Handbook and titled The Unfair Contracts and Consumer Notices Regulatory Guide) came into force. This guide is designed to explain the FCA's policy on how it would use its powers under the 1999 Regulations. In January 2012, the previous regulator, 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 this 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 has been removed from the FCA's website because they no longer reflect the FCA's current view on unfair contract terms pending new guidance on the Consumer Rights Act 2015 and in light of wider legal developments. The FCA does include on its website a page on Unfair Contracts on which it gives some indicators of when a contract will be unfair but notes that these will depend upon details of the contract as a whole. The FCA has not indicated how it considers the material it has removed to be inconsistent with its current views. The FCA has stated that it does not currently intend to publish guidance on unfair contract terms and has encouraged firms to read the guidance provided by the CMA (published on 31 July 2015). The CMA guidance is intended to apply to all businesses, including those in the financial sector, which use contract terms and notices with consumers. However, even with changes in regulatory structure in the United Kingdom that came into effect on 1 April 2013, the guidance issued by the FSA previously remains the most specific guidance on this topic.

In March 2013, the Law Commission and the Scottish Law Commission (together, the "**Commissions**") published advice to the UK Government on reforming the law on unfair contract terms. The Commissions recommended, among other things, that no assessment of fairness shall be made of a term which specifies the main subject matter of the contract, or of a price term, provided that the term in question is transparent and prominent. The Commissions also recommended that the UTCCR should expressly provide that, in proceedings brought by a consumer, the court is required to consider the fairness of a term, even if the consumer has not raised the issue, where the court has available to it the legal and factual elements necessary for that task. Such reforms are included in the Consumer Rights Act 2015 which came into force in October 2015.

Whilst the CMA and FCA have powers to enforce the UTCCR, it would be for a court to determine their proper interpretation. The extremely broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any Mortgage Loans which have been made or may be made to borrowers covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans. 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 to Noteholders on the Notes.

The guidance issued by the FSA (and as of 1 April 2013, the FCA) and the OFT has changed over time and it is possible that it may change in the future. No assurance can be given that any such changes in guidance on the 1999 Regulations, or reform of the 1999 Regulations, will not have a material adverse effect on the Seller, the Servicer and the Issuer and their respective businesses and operations. This may ultimately adversely affect the ability of the Issuer to make payments in full on the Notes when due.

#### *Consumer Rights Act 2015*

The main provisions of the Consumer Rights Act 2015 ("**CRA**") came into force on 1 October 2015. The CRA significantly reforms and consolidates consumer law in the UK. The CRA involves the creation of a single regime out of the Unfair Contract Terms Act 1977 (which essentially deals with attempts to limit liability for breach of contract) and the UTCCR. The CRA has revoked the UTCCR and introduced a new regime for

dealing with unfair contractual terms as set out below in respect of agreements made on or after 1 October 2015.

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

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

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

Where a term of a consumer contract is "unfair" it will not bind the consumer. However, the remainder of the contract, will, so far as practicable, continue to have effect in every other respect. Where a term in a consumer contract is 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 Unfair Contract and Consumer Notices 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 published guidance on the unfair terms provisions in the CRA on 31 July 2015. This new regime does not seem to be significantly different from the regime under the UTCCR. However, this area of law is rapidly developing and 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 Seller, the Servicer, the Issuer and their respective businesses and operations. There can be no assurance that any such changes (including changes in regulators' responsibilities) will not affect the Mortgage Loans.

#### *Consumer Credit Act 1974*

In the United Kingdom, the OFT was historically responsible for the issue of licences under and the enforcement of the Consumer Credit Act 1974 ("**CCA**"), related consumer credit regulations and other consumer protection legislation. However, in April 2014, the regulation of the consumer credit market transferred from the OFT to the FCA.

Consumer credit is regulated by the FCA under FSMA. A consumer credit agreement is governed by the CCA and consumer credit activity is regulated by the FCA where: (a) the borrower is or includes an individual, a partnership of up to three people or an unincorporated body which is not made up of corporates or partnerships; (b) if the credit agreement was made before the financial limit was removed (as described below), the amount of "credit" as defined in the CCA does not exceed the financial limit, which is £25,000 for credit agreements made on or after 1 May 1998, or lower amounts for credit agreements made before that date; and (c) the credit agreement is not an exempt agreement under the CCA (for example, a regulated mortgage contract under the FSMA is an exempt agreement under the CCA and subject instead to the rules and guidance in the FCA's Mortgages and Home Finance Conduct of Business Sourcebook).

Like the OFT licensing regime before it, the provision of consumer credit by a person can only be undertaken under the FCA regime where such a person is appropriately authorised by the FCA. Article 60B of the amended Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 provides that the activity of entering into a regulated credit agreement as lender or exercising or having the right to exercise the lender's rights and duties under the credit agreement requires FCA authorisation. However, section 55 of

the Financial Services and Markets Act 2000 (Exemption Order) 2001 includes an exemption which exempts from authorisation under FSMA persons who acquire rights under a regulated credit agreements (consumer credit loans) but do not actually make any such loans, provided that the person servicing or administering the loan is authorised by the FCA. The effect of this is that the Issuer will not require authorisation as the Servicer will be authorised by the FCA instead. However, any new extension of credit, whether through further advances or entirely new credit agreements, would be considered the extension of credit under Article 60B of the Regulated Activities Order unless another relevant exemption were to apply (in this regard, see below as to the general treatment of "buy to let" credit agreements).

Prior to 6 April 2008, the requirements of the CCA generally only applied to agreements with individuals for loans not exceeding £25,000 and which were not otherwise exempt. The financial limit for CCA regulation has now been removed for credit agreements made on or after 6 April 2008, except in respect of "buy to let" credit agreements entered into between 6 April 2008 and 31 October 2008 and any agreement which varies or supplements an existing agreement made before 6 April 2008 for the provision of credit exceeding £25,000, which either does not itself provide for further advancement of credit or is itself an exempt agreement under the CCA.

In general, "buy to let" credit agreements entered into on or after 31 October 2008 are typically treated as being exempt agreements under the CCA. This is due to the enactment of the Legislative Reform (Consumer Credit) Order 2008 ("**LRO**") that came into force on 31 October 2008. Article 3 of the LRO inserted a new Section 16C into the CCA, which exempts investment properties (i.e. buy-to-let properties) from most CCA regulation. This exemption applies to properties for which at the time the agreement is entered into any sums due under it are secured by a land mortgage and where less than 40 per cent, of the land is used, or is intended to be used, as or in connection with a dwelling by the borrower or a person connected to the borrower (including beneficiaries of a trust). This exemption has been replicated in Article 60D of the Regulated Activities Order for credit agreements entered into on or after 1 April 2014 (see "*Changes to consumer credit regulation*" above). Mortgages relating to credit agreements entered into on or after 31 October 2008 and 1 April 2014 which satisfy the conditions set out under CCA Section 16(C) and Article 60D of the Regulated Activities Order respectively are likely to be treated as exempt agreements under the CCA and FSMA but there is a risk if such conditions are not satisfied that such Mortgage Loans will be treated as regulated mortgage contracts under the FSMA or regulated credit agreements under the CCA.

A court order under Section 126 of the CCA is necessary to enforce a land mortgage securing a regulated credit agreement, or securing a regulated mortgage contract or a buy to let loan that would, apart from the relevant exemption, be a regulated credit agreement.

Certain Mortgage Loans may be regulated credit agreements within the meaning of the CCA. Non-compliance with certain provisions of the CCA may render a regulated credit agreement totally unenforceable or unenforceable without a court order or an order of the appropriate regulator, or may render the borrower not liable to pay interest or charges in relation to the period of non-compliance, which may adversely affect the ability of the Issuer to make payments in full on the Notes when due.

#### *Unfair credit relationships*

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. The CCA 2006 contains a number of provisions which may affect the Mortgage Loans. In particular the CCA 2006 contains a power for a court to alter the terms of a credit agreement where it considers that the relationship between the creditor and the debtor arising out of the agreement is "unfair" because of one or more of the following:

- (a) any of the terms of the agreement or of any related agreement;
- (b) the way in which the creditor exercised or enforced any of his rights under the agreement or any related agreement; and
- (c) any other thing done (or not done) by, or on behalf of, the creditor (either before or after the making of the agreement or any related agreement).

In this context "credit agreement" includes all agreements which would otherwise be exempt agreements under the CCA (other than regulated mortgage contracts under the terms of the FSMA regime). The provisions have the scope to be applied with full retrospective effect. An order made by the court where a creditor-debtor relationship is found to be "unfair" may, among other things, order a creditor, and any assignee such as the Issuer, to repay sums already paid by the debtor, reduce the amount of future payments or otherwise alter the terms of the credit or related agreement. The sections relating to the "unfair relationship test" came into force on 6 April 2007. Credit agreements entered into after 6 April 2007 will be subject to the unfair relationship test. Credit agreements which were entered into prior to 6 April 2007 and

which will continue in force after 6 April 2008 were subject to the extortionate credit bargain test until 6 April 2007. Thereafter, such credit agreements became subject to the unfair relationship test. Credit agreements which were in force prior to 6 April 2007 and which expired prior to 6 April 2008 continued to be subject to the extortionate credit bargain test.

#### *Financial Services (Distance Marketing) Regulations 2004*

The Financial Services (Distance Marketing) Regulations 2004 (the "**DMR**") apply to, among other things, credit agreements entered into from 31 October 2004 by a "consumer" within the meaning of the DMR by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator or intermediary and the borrower). A regulated mortgage contract under the FSMA, if originated by a UK lender from an establishment in the UK, is not cancellable under the DMR but is subject to pre-contract disclosure requirements under the FCA rules. Other credit agreements secured by a legal mortgage on land are cancellable under the DMR if the borrower does not receive the prescribed disclosures at the prescribed time, and in that case the borrower may send notice of cancellation generally at any time before the end of the 14th day after the day on which he receives the last of the prescribed disclosures.

If the borrower cancels the credit agreement under the DMR, he is liable to repay the principal, and he is liable to pay interest and any other charges for credit only if certain conditions are satisfied, and the security is treated as never having had effect for the cancelled agreement. If a significant portion of the Mortgage Loans are characterised as being cancellable under the DMR, then this may adversely affect the Issuer's ability to make payments in full when due on the Notes.

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

In 2010 the Scottish Parliament passed the Home Owner and Debtor Protection (Scotland) Act 2010 (the "**HODPA**"), Part 1 of which came into effect on 30 September 2010 and contains provisions imposing additional requirements on heritable creditors (the Scottish equivalent to mortgagees) in relation to the enforcement of standard securities over residential property in Scotland. The HODPA amends the sections of the Conveyancing and Feudal Reform (Scotland) Act 1970 which previously permitted a heritable creditor to proceed to sell the secured property where the formal notice "calling up" the standard security had expired without challenge (or where a challenge had been made but not upheld). In terms of the HODPA, the heritable creditor will now have to obtain a court order to exercise its power of sale (in addition to initiating the enforcement process by the service of the two month "calling up" notice) unless the borrower has surrendered the property voluntarily. In addition, the HODPA requires the heritable creditor, in applying for a court order, to demonstrate that it has taken various preliminary steps to attempt to resolve the borrower's position, as well as imposing further procedural requirements. This may restrict the ability of the Seller (or, if it has taken legal title, the Issuer) as heritable creditor of the Scottish Mortgages to exercise its power of sale and this could affect the Issuer's ability to make payments on the Notes.

#### *Land Registration Reform in Scotland*

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

At present, title to a residential property that is recorded in the General Register of Sasines will usually only require to be moved to the Land Register of Scotland (a process known as "first registration") when that property is sold or if the owner decides voluntarily to commence first registration. However, the 2012 Act sets out additional circumstances which, when the relevant provisions are brought into effect, will trigger first registration of properties recorded in the General Register of Sasines, including (i) the recording of a standard security or (ii) the recording of an assignment of a standard security (which would extend to any assignation granted by the Seller in favour of the Issuer in respect of Scottish Mortgages in the Mortgage Portfolio recorded in the General Register of Sasines, pursuant to the terms of the Mortgage Sale Agreement following a Perfection Event (a "**Scottish Sasine Transfer**").

The relevant provisions of the 2012 Act relating to the recording of standard securities came into force on 1 April 2016 (the "**Commencement Date**"). Only standard securities created over properties recorded in the General Register of Sasines after the Commencement Date will be affected.

Following the Commencement Date, if a Perfection Event occurs in accordance with the Mortgage Sale Agreement, giving rise to a legal title transfer of the Mortgage Loans from the Seller to the Issuer, the Issuer is required to grant the Scottish Sub-Securities under the Deed of Charge. If any of the underlying titles in relation to the Scottish Mortgages are recorded in the General Register of Sasines, the grant of a Scottish Sub-Security could trigger first registration in the Land Register of Scotland. This could potentially cause higher legal costs and increase the period of time required to complete the registration process.

The Registers of Scotland published a report on the consultation on 15 February 2015 stating that for the time being, other deeds such as assignments of standard securities (including Scottish Sasine Transfers) will continue to be accepted in the General Register of Sasines indefinitely although the Registers of Scotland have reserved the right to consult further on this issue in the future.

If the General Register of Sasines becomes closed to assignments of standard securities under the same provisions at any time subsequent to the Closing Date then this would also have an impact on the registration of Scottish Sasine Transfers executed following a Perfection Event with the probability of higher legal costs and a longer period required to complete registration than would currently be the case.

#### *Financial Ombudsman Service*

Under the FSMA, the Financial Ombudsman Service (the "**Ombudsman**") is required to make decisions on (among other things) complaints relating to activities and transactions under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all circumstances of the case, taking into account (among other things) law and guidance. Complaints brought before the Ombudsman for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Ombudsman. The Ombudsman may make a money award to a borrower, which may adversely affect the value at which loans could be realised and accordingly the ability of the Issuer to make payments in full when due on the Notes.

#### *Mortgage repossession*

A pre-action protocol for mortgage repossession cases in England and Wales came into force on 19 November 2008, and sets out the steps that judges will expect any lender to take before starting a claim. The protocol applies to arrears on all residential mortgages, including where the property is let by the relevant borrower to a tenant. Under the protocol, the lender must consider whether to postpone the start of a possession claim where the borrower has made a genuine complaint to the Financial Ombudsman Service about the potential possession claim. The Mortgage Repossessions (Protection of Tenants etc) Act 2010 came into force on 1 October 2010, and gives courts in England and Wales the same power to postpone and suspend repossession for up to two months on application by an unauthorised tenant (i.e. a tenant in possession without the lender's consent) as generally exists on application by an authorised tenant. This Act and protocol may have adverse effects in markets experiencing above average levels of repossession claims. Delays in the initiation of responsive action in respect of the Mortgages may result in lower recoveries and a lower repayment rate on the Notes.

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

The Unfair Commercial Practices Directive ("**UCP**"), which took effect on 11 May 2005, seeks to regulate unfair commercial practices across the EU by establishing rules for the protection of consumers. Generally, the UCP applies full harmonisation, which means that member states of the European Union may not impose more stringent provisions in the fields to which full harmonisation applies. By way of exception, this Directive permits member states of the European Union to impose more stringent provisions in the fields of financial services and immovable property, such as mortgage loans.

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

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

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

No assurance can be given that the CPUTRs will not adversely affect the ability of the Issuer to make payments on the Notes. Furthermore, the Consumer Protection (Amendment) Regulations 2014 came into force on 1 October 2014. The legislation gives consumers a direct right of action including a right to unwind

agreements within 90 days of entering into the contract if a misleading or aggressive practice under the CPUTR was a significant factor in the consumer's decision to enter into the contract. The amendments to CPUTR also extend the regime so that it covers misleading and aggressive demands for payment. The legislation applies to demands for payment for restricted-use credit (where the credit must be used to finance a particular transaction) where the misleading or aggressive commercial practice:

- (a) began before 1 October 2014 and continues after that date - however, a consumer will only be able to exercise his new direct rights of action if a contract is entered into, or payments are made, after the date the legislation comes into force; and
- (b) occurs on or after 1 October 2014.

*Implementation of and/or changes to the Basel III framework may affect the capital requirements and/or the liquidity associated with a holding of the Notes for certain investors*

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 new requirements intended to reinforce capital standards (with heightened requirements for global systemically important banks) and to establish a leverage ratio "backstop" for financial institutions and certain minimum liquidity standards (referred to as the "**Liquidity Coverage Ratio**" and the "**Net Stable Funding Ratio**").

The Basel III reform package has been implemented in the European Economic Area (the "**EEA**") through the CRR and an associated directive (the recast Capital Requirements Directive (the "**CRD**") (together, "**CRD IV**"), which was published in the Official Journal of the European Union on 27 June 2013. The regulation establishes a single set of harmonised prudential rules which apply directly to all credit institutions in the EEA, with the directive containing less prescriptive provisions which are required to be transposed into national law. Full implementation began from 1 January 2014, with particular elements being phased in over a period of time, to be largely fully effective by 2019 and some minor transitional provisions provide for phase-in until 2024. The European Commission intends the Liquidity Coverage Ratio to apply to EU regulated credit institutions from 1 October 2015 with full implementation by January 2019, and for the Net Stable Funding Ratio to become a binding standard from 1 January 2018.

As CRD IV allows certain national discretions, the final rules and the timetable for their implementation in each jurisdiction may be subject to national variation. The Basel Committee has also published certain proposed revisions to the securitisation framework, including changes to the approaches to calculating risk weights and a new risk weight floor of 15 per cent.

The changes under CRD IV and Basel III as described above may have an impact on the capital requirements in respect of the Notes and/or on incentives to hold the Notes for investors that are subject to requirements that follow the relevant framework and, as a result, may affect the liquidity and/or value of the Notes.

In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Notes and as to the consequences to and effect on them of any changes to the Basel framework (including the changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

*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. In particular, please see the section entitled "*Certain Regulatory Disclosures*". Investors in the Notes are responsible for analysing their own regulatory position and none of the Issuer, the Lead Manager, the Arranger, the Seller, or any party to a Transaction Document makes any representation to any prospective investor or purchaser of the Notes regarding the regulatory capital treatment of their investment in the Notes on the Closing Date or at any time in the future.

In particular, investors should be aware of the EU risk retention and due diligence requirements which currently apply, or are expected to apply in the future, in respect of various types of EU regulated investors including credit institutions, authorised alternative investment fund managers, investment firms, insurance and reinsurance undertakings and UCITS funds. Amongst other things, such requirements restrict a relevant investor from investing in asset-backed securities unless (i) that investor is able to demonstrate that it has undertaken certain due diligence in respect of various matters including its note position, the underlying

assets and (in the case of certain types of investors) the relevant sponsor or originator and (ii) the originator, sponsor or original lender in respect of the relevant securitisation has explicitly disclosed to the investor that it will retain, on an on-going basis, a net economic interest of not less than 5 per cent, in respect of certain specified credit risk tranches or asset exposures. Failure to comply with one or more of the requirements may result in various penalties including, in the case of those investors subject to regulatory capital requirements, the imposition of a penal capital charge on the notes acquired by the relevant investor.

Aspects of the requirements and what is or will be required to demonstrate compliance to national regulators remain unclear. 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 European Commission has published legislative proposals for two new regulations related to securitisation. Amongst other things, the proposals include provisions intended to implement the revised securitisation framework developed by the Basel Committee and provisions intended to harmonise and replace the risk retention and due diligence requirements (including the corresponding guidance provided through technical standards) applicable to certain EU regulated investors. There are material differences between the legislative proposals and the current requirements. It is not clear whether, and in what form, the legislative proposals (and any corresponding technical standards) will be adopted. In addition, the compliance position under any adopted revised requirements of transactions entered into prior to adoption, and of activities undertaken by a party (including an investor) in respect of such transactions, is uncertain.

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. With respect to the commitment of Bank of Scotland to retain a material net economic interest in the securitisation and with respect to the information to be made available by the Issuer, please see the statements set out in the section of this Prospectus headed "*Certain Regulatory Disclosures*". Relevant investors are required to independently assess and determine the sufficiency of the information described above for the purposes of complying with any relevant requirements and none of the Issuer, the Seller, the Bank of Scotland, the Lead Manager, the Arranger, the Trustee or any other party to the Transaction Documents makes any representation that the information described above is sufficient in all circumstances for such purposes.

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.

#### *CRA Regulation*

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 the CRA Regulation. The CRA Regulation requires, 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, the CRA Regulation requires certain additional disclosure of information to be made in respect of structured finance transactions. The scope, extent and manner in which such disclosure should be made is detailed in the Commission Delegated Regulation 2015/13 on disclosure requirements for structured finance instruments that was published in the Official Journal on 6 January 2015. This Delegated Regulation contains technical standards specifying, the information that issuers, originators and sponsors must publish to comply with the CRA Regulation, the frequency with which this information should be updated and a standardised disclosure template for the disclosure of this information. The Delegated Regulation will apply from 1 January 2017 to structured finance instruments issued after the entry into force of the Delegated Regulation on 26 January 2015. Structured finance instruments issued after the entry into force of the Delegated Regulation but before the date from which it applies will only be subject to the disclosure requirements if they are still outstanding on 1 January 2017.

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

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



the Servicer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full when due on the Notes.

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

The Issuer will enter into the Deed of Charge pursuant to which it will grant the Security in respect of certain of its obligations, including its obligations under the Notes. If certain insolvency proceedings are commenced in respect of the Issuer, the ability to realise the Security may be delayed and/or the value of the Security impaired.

The Insolvency Act 1986 (the "**Insolvency Act**") allows for the appointment of an administrative receiver in relation to certain transactions in the capital markets. Although there is as yet no case law on how these provisions will be interpreted, it should be applicable to the floating charge created by the Issuer and assigned by way of security to the Trustee. However, as this is partly a question of fact, were it not to be possible to appoint an administrative receiver in respect of the Issuer, the Issuer would be subject to administration if it became insolvent.

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

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

#### *Fixed charges may take effect under English law as floating charges*

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the Issuer (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 Charged Property (although it should be noted that there is no equivalent concept of recharacterisation of fixed security as floating charges under Scots law). If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Trustee in respect of the floating charge assets.

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

#### *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. However, section 176ZA of the Insolvency Act, which came into force on 6 April 2008, effectively reversed by statute the House of Lords' decision in *Re Leyland Daf*. As a result, it is now the case that the costs and expenses of a liquidation 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 the approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to rules 4.218A to 4.218E of the Insolvency Rules 1986. In general, the reversal of *Re Leyland Daf* applies in respect of all liquidations commenced on or after 6 April

2008. Therefore, floating charge realisations upon the enforcement of the floating charge security to be granted by the Issuer would be reduced by the amount of all, or a significant proportion, of any liquidation expenses.

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

The UK Banking Act 2009 (the "**Banking Act**") includes provision for a special resolution regime pursuant to which specified UK authorities have power to apply certain tools (by way of instrument or order) to deal with the failure (or likely failure) of a UK bank or building society. Such tools are available for use in respect of the institution itself or, where the temporary public ownership stabilisation option is to be used, the institution's holding company. The relevant transaction entities for these purposes include the Account Bank, the Interest Rate Swap Provider, the Cash Manager, the Servicer, the Seller and the Subordinated Loan Provider. In addition, pursuant to amendments made to the Banking Act by the Banking Act 2009 (Banking Group Companies) Order 2014 (which came into force on 1 August 2014), provision has been made for certain tools to be used in respect of a wider range of UK entities, including investment firms and certain banking group companies. While the UK authorities provided an exclusion for certain securitisation companies from being banking group companies, aspects of the relief are unclear meaning that no assurance can be provided that the Noteholders will not be adversely affected by an action taken under the relevant amended provisions. That said, it should be noted that the UK Government indicated in the context of a previous consultation that it intended to "exclude entities that facilitate capital market arrangements", which should include the Issuer.

Amendments have also been made to the Banking Act under the Financial Services (Banking Reform) Act 2013 (as brought into force by The Financial Services (Banking Reform) Act 2013 (Commencement No. 7) Order 2014 on 31 December 2014) to introduce a new bail-in tool, which tool permits the Bank of England in certain circumstances to cancel or modify contracts for the purposes of reducing or deferring liabilities of relevant entities (including UK banks, banking group companies and building societies) and/or to convert liabilities of such entities into different forms.

This regime has also been amended to ensure that it is compliant with the EU's Bank Recovery and Resolution Directive (2014/59/EU) (the "**BRRD**"). The BRRD was published in the Official Journal of the EU on 12 June 2014 and came into force on 2 July 2014. Amongst other things, the BRRD provides for the introduction of a package of minimum early intervention and resolution-related tools and powers for relevant authorities (including a bail-in tool) and for special rules for cross-border groups. The BRRD has been implemented in the UK via the Bank Recovery and Resolution Order 2014, which came into force on 1 January 2015.

There can be no assurance that the Noteholders will not be adversely affected by the amendments and/or any action taken under the new bail-in tool. Accordingly, it is not yet possible to assess the full impact of the UK bail-in tool on a relevant entity and there can be no assurance that it will not materially and adversely affect the relevant entity's operating results, financial position and prospects.

The tools currently available under the Banking Act include share and property transfer powers (including powers for partial property transfers), certain ancillary powers (including powers to modify certain contractual arrangements in certain circumstances) and special insolvency procedures which may be commenced by the UK authorities. It is possible that these extended tools could be used prior to the point at which an application for insolvency proceedings with respect to a relevant entity could be made. In general, there is considerable uncertainty about the scope of the powers afforded to UK authorities under the Banking Act and how the UK authorities may choose to exercise them. Further, UK authorities have a wide discretion in exercising their powers under the special resolution regime, including modifying or setting aside any Act of Parliament by order of HM Treasury to facilitate its Banking Act objectives.

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

#### *Legal considerations may restrict certain investments*

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial

institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

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

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

#### *Withholding Tax under the Notes*

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

#### *U.S. Foreign Account Tax Compliance Act Withholding*

In certain circumstances payments made on or with respect to the Notes after 31 December 2018 may be subject to U.S. withholding tax under Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (commonly referred to as "**FATCA**").

Whilst the Notes are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose their custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Notes are discharged once it has paid the Common Depositary and the Issuer has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries.

#### *EU financial transaction tax*

On 14 February 2013, the European Commission issued proposals, including a draft Directive (the "**Commission's Proposal**") for a financial transaction tax ("**FTT**") to be adopted in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**Participating Member States**"). If the Commission's Proposal was adopted, the FTT would be a tax primarily on "financial institutions" (which would include the Issuer) in relation to "financial transactions" (which would include the conclusion or modification of derivative contracts and the purchase and sale of financial instruments).

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal, the FTT could apply, in certain circumstances, to persons both within and outside of the Participating Member States. Generally, it would apply where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, "established" in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the financial transaction is issued in a Participating Member State.

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

The FTT proposal remains subject to negotiation between the Participating Member States and the scope of any such tax is uncertain. It may therefore be altered prior to any implementation and additional EU member states may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

#### *Exposure to UK political developments*

In December 2015, the EU Referendum Act received Royal Assent, which confirmed that a referendum on the UK's membership of the EU would take place within a set timeline. It has since been confirmed that the date of such referendum will be 23 June 2016. The outcome of such a referendum is not known and there is considerable uncertainty as to the impact of either a "yes" or a "no" vote on the general economic condition in the UK and the UK housing market. As such, no assurance can be given as to the impact of the decision reached in the referendum and in particular, no assurance can be given that such decision will not adversely affect the market value of the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes.

On 23 March 2016, the Scotland Act 2016 received Royal Assent and passed into UK law. The Scotland Act 2016, amongst other things, passes control of income tax to the Scottish Parliament by giving it the power to raise or lower the rate of income tax and thresholds for non-dividend and non-savings income of Scottish residents. Whilst the majority of the provisions are not expected to have an adverse impact on the Scottish economy or on mortgage origination in Scotland, increased powers for the Scottish Parliament to control income tax could mean that borrowers in Scotland are subject to a different rate of income tax from borrowers in the same income bracket in England, Wales and Northern Ireland, which may affect some Borrowers' ability to pay amounts when due on the Mortgage Loans originated in Scotland, and which, in turn, may adversely affect payments by the Issuer on the Notes.

#### *Book-Entry Interests*

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

A nominee for the Common Depositary will be considered the registered holder of the Notes as shown in the records of Euroclear or Clearstream, Luxembourg and will be the sole legal Noteholder of the Global Note under the Trust Deed while the Notes are represented by the Global Note. 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.

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

procedures to be implemented by Euroclear and Clearstream, Luxembourg under such circumstances will be adequate to ensure the timely exercise of remedies under the Trust Deed.

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

The lack of Notes in physical form could also make it difficult for a Noteholder to pledge such Notes if Notes in physical form are required by the party demanding the pledge and hinder the ability of the Noteholder to 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 effected in accordance with, and subject to, certain transfer restrictions and certification requirements and in accordance with the rules and regulations of any applicable clearing system.

#### *Change of law*

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

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

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

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

- (a) certain aspects of Lloyds Banking Group's businesses may be determined by the relevant authorities, the Ombudsman or the courts not to have been conducted in accordance with applicable laws or regulations, or, in the case of the Ombudsman, with what is fair and reasonable in the Ombudsman's opinion;
- (b) the possibility of alleged mis-selling of financial products or the mishandling of complaints related to the sale of such products by or attributed to a member of Lloyds Banking Group, resulting in disciplinary action or requirements to amend sales processes, withdraw products, or provide restitution to affected customers, all of which may require additional provisions;
- (c) the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the press and politicians; the FCA in particular continues to drive focus on conduct of business activities through its supervision activity;

- (d) contractual obligations may either not be enforceable as intended or may be enforced in an adverse way;
- (e) Lloyds Banking Group entities may be liable for damages to third parties (including customers) harmed by the conduct of their business; and
- (f) the risk of regulatory proceedings, and/or private litigation, arising out of regulatory investigations or otherwise (brought by individuals or groups of plaintiffs) in the UK and other jurisdictions.

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

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

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

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

In August 2014, the Northern Ireland High Court handed down judgment in favour of the borrowers in relation to three residential mortgage test cases, concerning certain aspects of the Group's practice with respect to the recalculation of contractual monthly instalments of customers in arrears. The Group is reviewing the issues raised by the judgment and will respond as appropriate to any investigations or proceedings that may in due course be instigated as a result of these issues.

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

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

Companies within Lloyds Banking Group are responsible for contributing to compensation schemes such as the UK Financial Services Compensation Scheme (the "FSCS") in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers. Going forward, further provisions in respect of these costs are likely to be necessary. The ultimate cost to the industry, which will

also include the cost of any compensation payments made by the FSCS and, if necessary, the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain but may be significant and may have a material adverse effect on the results of operations and financial condition of Lloyds Banking Group entities performing their roles under the transaction.

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

#### *Pensions Act 2004*

Under the Pensions Act 2004 a person that is "connected with" or an "associate" of an employer under an occupational pension scheme, can be subject to either a contribution notice or a financial support direction. The Issuer may be treated as connected to one or more employers under an occupational pension scheme which is within the Lloyds Banking Group. A contribution notice could be served on the Issuer if connected to one or more employers under an occupational pension scheme which is within the Lloyds Banking Group and it were party to an act, or a deliberate failure to act, which either (a) has caused a material detriment to the pension scheme (whether or not intentionally) or (b) the main purpose or one of the main purposes of which was either (i) to prevent the recovery of the whole or any part of a debt which was, or might become, due from the employer under Section 75 of the Pensions Act 1995 or (ii) otherwise than in good faith, to prevent such a debt becoming due, to compromise or otherwise settle such a debt, or to reduce the amount of such a debt which would otherwise become due.

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

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

#### **US Legal Considerations**

##### *Volcker Rule*

Section 13 of the Bank Holding Company Act of 1956, as amended, and Regulation VV (12 C.F.R. Section 248) promulgated thereunder by the Board of Governors of the Federal Reserve System (such statutory provision together with such implementing regulations, the "**Volcker Rule**") generally prohibit "banking entities" (which term is broadly defined to include any U.S. bank or savings association whose deposits are insured by the Federal Deposit Insurance Corporation, any company that controls any such bank or savings association, any foreign bank treated as a bank holding company for purposes of Section 8 of the International Banking Act of 1978, as amended, and any affiliate or subsidiary of any of the foregoing entities) from (i) engaging in proprietary trading as defined in the Volcker Rule, (ii) acquiring or retaining an ownership interest in or sponsoring a "covered fund" and (iii) entering into certain relationships with such funds. The Volcker Rule became effective on 21 July 2012, and final regulations implementing the Volcker Rule were adopted on 10 December 2013 and became effective on 1 April 2014. Conformance with the Volcker Rule and its implementing regulations was required by 21 July 2015 (subject to the possibility of up to two one-year extensions). Under the Volcker Rule, unless otherwise jointly determined otherwise by specified federal regulators, a "covered fund" does not include an issuer that may rely on an exclusion or exemption from the definition of an "investment company" under the Investment Company Act other than those contained in Sections 3(c)(1) and 3(c)(7) of the Investment Company Act.

Any prospective investor in the Notes, including a U.S. or foreign bank or a subsidiary or other affiliate thereof, should consult its own legal advisors regarding such matters and other effects of the Volcker Rule.

## CERTAIN REGULATORY DISCLOSURES

### Capital Requirements Regulation

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

### Risk retention requirements

The Seller, in its capacity as originator, will retain a material net economic interest of not less than 5 per cent. in the securitisation in accordance with the text of each of Article 405 of Regulation (EU) No 575/2013 (the "**Capital Requirements Regulation**"), Article 51 of Regulation (EU) No 231/2013 (the "**AIFM Regulation**") and Article 254 of Regulation (EU) 2015/35 (the "**Solvency II Regulation**") (which, in each case, does not take into account any corresponding national measures). As at the Closing Date, such interest comprised the Class Z Note and the loan advanced under the Subordinated Loan Agreement, which constitutes an interest in the first loss tranche as required by the text of each of Article 405 of the Capital Requirements Regulation, Article 51 of the AIFM Regulation and Article 254 of the Solvency II Regulation. Any change to the manner in which such interest is held will be notified to Noteholders in accordance with the applicable Conditions.

As to the information made available to prospective investors by the Issuer, reference is made to the information set out herein and forming part of this Prospectus and to the Monthly Investor Reports and the Quarterly Reports. In such Monthly Investor Reports and Quarterly Reports, relevant information with regard to the Loans will be disclosed publicly together with an overview of the retention and/or any changes in the method of retention of the material net economic interest by the Seller. Further information in respect of individual loan level data is available to eligible market participants. Information regarding how to access the information is available via the website specified on the Monthly Investor Report ([www.lloydsbankinggroup.com/investors/debt-investors/securitisation/](http://www.lloydsbankinggroup.com/investors/debt-investors/securitisation/)). None of the Monthly Investor Reports, the Quarterly Reports or the contents of the website specified in the Monthly Investor Report form part of this Prospectus.

### Investors to assess compliance

Each prospective investor is required to independently assess and determine the sufficiency of the information described above and in this Prospectus generally for the purposes of complying with each of Part Five of the Capital Requirements Regulation (including Article 405), Solvency II (including Article 254(2) and any regulatory technical standards, implementing technical standards and any other implementing provisions in their jurisdiction), and Section Five of Chapter III of the AIFM Regulation (including Article 51) and any corresponding national measures which may be relevant and none of the Issuer, the Arranger, the Lead Manager or any other Transaction Party makes any representation that the information described above or in this Prospectus is sufficient in all circumstances for such purposes. Investors who are uncertain as to the requirements which apply to them in respect of their jurisdiction should seek guidance from their regulator.



## WEIGHTED AVERAGE LIFE OF THE NOTES

The average lives of the Notes cannot be stated, as the actual rate of repayment of the Mortgage Loans and a number of other relevant factors are unknown. However, calculations of the possible average lives of the Notes can be made based on certain assumptions. The assumptions used to calculate the possible average lives of the Notes in the following table include that:

- (a) the Issuer exercises each applicable Call Option on the relevant Call Option Date, in the first scenario, or the Issuer does not exercise each applicable Call Option on the relevant Call Option Date, in the second scenario;
- (b) no Security has been enforced;
- (c) the Seller is not in breach of the terms of the Mortgage Sale Agreement;
- (d) the Mortgage Loans are assumed to amortise in accordance with the assumed prepayment rate of between 0 per cent. and 40 per cent. per annum (for the avoidance of doubt, excluding scheduled payments) indicated in the table below;
- (e) there is no debit balance on the Principal Deficiency Ledger;
- (f) the assets of the Issuer are not sold except as may be necessary to enable the Issuer to realise sufficient funds to exercise its option to redeem the Notes where it exercises the relevant Call Option;
- (g) no Enforcement Notice has been served on the Issuer and no Event of Default has occurred;
- (h) the Mortgages continue to be fully performing;
- (i) there will be no Product Switches or Further Advances in relation to the Mortgage Portfolio;
- (j) the Mortgage Portfolio composition will not change between the Reference Date and the Revolving Period End Date;
- (k) no Principal Payment will be made on the Notes during the Revolving Period ending on the Interest Payment Date falling on March 2021;
- (l) no Revolving Period Termination Event occurs;
- (m) no Principal Payment Trigger Event occurs; and
- (n) the benchmark interest rate applicable to the Mortgage Portfolio remains flat at the following value Bank of England base rate: 0.50 per cent.

### Estimated weighted average life of the Notes

<b>Assuming the Issuer exercises each applicable Call Option on the relevant Call Option Date</b>						
	Possible Average Life of Class A1 Notes (years)	Possible Average Life of Class A2 Notes (years)	Possible Average Life of Class B Notes (years)	Possible Average Life of Class C Notes (years)	Possible Average Life of Class D Notes (years)	Possible Average Life of Class Z Notes (years)
0%	9.74	9.97	9.97	9.97	9.97	9.97
5%	7.54	9.97	9.97	9.97	9.97	9.97
10%	6.31	9.61	9.97	9.97	9.97	9.97
20%	5.64	8.31	9.97	9.97	9.97	9.97
30%	5.41	7.20	9.57	9.97	9.97	9.97
40%	5.29	6.54	8.22	8.76	9.28	9.93
<b>Assuming the Issuer does not exercise each applicable Call Option on the relevant Call Option Date</b>						
0%	14.00	24.53	29.13	29.22	29.28	32.02
5%	7.54	16.03	24.05	25.33	27.94	29.82

10%	6.31	11.74	18.13	19.62	21.46	26.23
20%	5.64	8.45	12.11	13.24	14.25	18.49
30%	5.41	7.20	9.57	10.31	11.05	14.04
40%	5.29	6.54	8.22	8.76	9.28	11.46

Assumptions (a) – (n) relate to circumstances which are not predictable. No assurance can be given that the Issuer will be in a position to redeem the relevant Notes on the applicable Call Option Date. If the Issuer does not so exercise a Call Option to redeem the applicable Notes, then the average lives of then outstanding Notes would be extended.

The average life of the Notes are subject to factors largely outside the control of the Issuer and consequently no assurance can be given that the assumptions and estimates above will prove in any way to be realistic. They must therefore be viewed with considerable caution. For more information in relation to the risks involved in the use of the average lives estimated above, see the section entitled "*Risk Factors – Credit Structure – Yield and prepayment considerations*".

### **USE OF PROCEEDS**

The gross proceeds from the issue of the Notes were £2,320,000,000.

The Issuer used the gross proceeds of the Notes principally to pay the Initial Purchase Price payable by the Issuer for the Initial Portfolio acquired from the Seller on the Closing Date.

## ISSUER

The Issuer was incorporated in England and Wales on 17 February 2016 (registered number 10011093) and is a public limited company under the Companies Act 2006 (as amended). The registered office of the Issuer is at 35 Great St. Helen's, London EC3A 6AP, United Kingdom. The telephone number of the Issuer's registered office is +44 (0)20 7398 6300.

The issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, 49,999 shares of which are partly paid to £0.25 each and 1 of which is fully paid and all of which are beneficially owned by Holdings (see the section entitled "*Holdings*" below).

The Issuer was established as a special purpose vehicle for the purposes of issuing the Notes. The Issuer has no subsidiaries. The Seller does not own directly or indirectly any of the share capital of Holdings or the Issuer.

Other than its registration as a public company under the Companies Act 2006 (as amended), the issue of the Notes and entry into Transaction Documents referred to in this Prospectus to which it is a party (together with any matters which are incidental or ancillary to the foregoing), the Issuer has not engaged in any other activities since its incorporation. The Issuer has no loan capital, borrowings or material contingent liabilities (including guarantees) as at the date of this Prospectus. The Issuer has no employees.

As at the date of this Prospectus, no statutory accounts have been prepared or delivered to the Registrar of Companies on behalf of the Issuer. The accounting reference date of the Issuer is 31 December and the first statutory accounts of the Issuer will be drawn up to 31 December 2016.

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

### Directors

The following table sets out the directors of the Issuer and their respective business addresses and occupations.

<u>Name</u>	<u>Business address</u>	<u>Business Occupation</u>
SFM Directors Limited	35 Great St. Helen's, London EC3A 6AP	Corporate Director
SFM Directors (No.2) Limited	35 Great St. Helen's, London EC3A 6AP	Corporate Director
Ian Stewart	1 Lovell Park Road, Leeds LS1 1NS	Chartered Accountant

The directors of each of SFM Directors Limited and SFM Directors (No.2) Limited and their principal activities are as follows:

<u>Name</u>	<u>Business address</u>	<u>Principal activities/business occupation</u>
Helena Whitaker	35 Great St. Helen's, London EC3A 6AP	Director
Claudia Wallace	35 Great St. Helen's, London EC3A 6AP	Director
Debra Parsall	35 Great St. Helen's, London EC3A 6AP	Director
Vinoy Nursiah	35 Great St. Helen's, London EC3A 6AP	Director
J-P Nowacki	35 Great St. Helen's, London EC3A 6AP	Director

<b>Name</b>	<b>Business address</b>	<b>Principal activities/business occupation</b>
Robert Berry	35 Great St. Helen's, London EC3A 6AP	Director
Susan Abrahams	35 Great St. Helen's, London EC3A 6AP	Director

The business address of each of the directors of Structured Finance Management Limited, the Corporate Services Provider, is 35 Great St. Helen's, London EC3A 6AP, United Kingdom.

## HOLDINGS

Holdings was incorporated in England and Wales on 17 February 2016 (registered number 10011043) as a private limited company under the Companies Act 2006 (as amended). The registered office of Holdings is 35 Great St. Helen's, London EC3A 6AP. The telephone number of Holdings' registered office is +44 (0)20 7398 6300.

The issued share capital of Holdings comprises one ordinary share of £1.

The entire beneficial interest in the share of Holdings is beneficially owned by SFM Corporate Services Limited (the "**Share Trustee**") on a discretionary trust, the benefit of which is expressed to be for discretionary purposes.

Holdings holds the entire beneficial interest in the issued share capital of the Issuer.

The Seller does not own directly or indirectly any of the share capital of Holdings and neither the Seller nor any company connected with the Seller can direct the Share Trustee and none of such companies has any control, direct or indirect, over Holdings or the Issuer.

Holdings has not engaged in any other activities since its incorporation other than those incidental to the authorising of the transaction documents to which it is or will be a party and other matters which are incidental to those activities. Holdings has no employees.

### Directors

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

<u>Name</u>	<u>Business address</u>	<u>Business Occupation</u>
SFM Directors Limited	35 Great St. Helen's, London EC3 A 6AP	Corporate Director
SFM Directors (No.2) Limited	35 Great St. Helen's, London EC3A 6AP	Corporate Director
Ian Stewart	1 Lovell Park Road, Leeds LS1 1NS	Chartered Accountant

The directors of SFM Directors Limited and SFM Directors (No.2) Limited and their respective occupations are:

<u>Name</u>	<u>Business address</u>	<u>Principal activities/business occupation</u>
Helena Whitaker	35 Great St. Helen's, London EC3 A 6AP	Director
Claudia Wallace	35 Great St. Helen's, London EC3 A 6AP	Director
Debra Parsall	35 Great St. Helen's, London EC3 A 6AP	Director
Vinoy Nursiah	35 Great St. Helen's, London EC3 A 6AP	Director
J-P Nowacki	35 Great St. Helen's, London EC3 A 6AP	Director
Robert Berry	35 Great St. Helen's, London EC3 A 6AP	Director
Susan Abrahams	35 Great St. Helen's, London EC3 A 6AP	Director

The accounting reference date of Holdings is 31 December.

## **BANK OF SCOTLAND**

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

### **Overview**

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

### **Regulatory Matters**

In the course of its business, Lloyds Banking Group is engaged in discussions with the FCA, the PRA or other regulators in relation to a range of matters. However, the ultimate impact on Lloyds Banking Group of these discussions can only be known at the conclusion of such discussions.

### **Availability of Public Information**

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

## THE TRUSTEE, AGENT BANK AND PRINCIPAL PAYING AGENT

The information in this section has been provided by Deutsche Bank AG, London Branch.

Deutsche Bank AG, London Branch has been appointed as the Trustee pursuant to the Trust Deed and as Agent Bank and Principal Paying Agent pursuant to the Agency Agreement and acts in such capacities through its office at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom.

Deutsche Bank Aktiengesellschaft ("**Deutsche Bank**" or the "**Bank**") originated from the reunification of Norddeutsche Bank Aktiengesellschaft, Hamburg, Rheinisch-Westfälische Bank Aktiengesellschaft, Duesseldorf and Süddeutsche Bank Aktiengesellschaft, Munich; pursuant to the Law on the Regional Scope of Credit Institutions, these had been disincorporated in 1952 from Deutsche Bank which was founded in 1870. The merger and the name were entered in the Commercial Register of the District Court Frankfurt am Main on 2 May 1957. Deutsche Bank is a banking institution and a stock corporation incorporated under the laws of Germany under registration number HRB 30 000. The Bank has its registered office in Frankfurt am Main, Germany. It maintains its head office at Taunusanlage 12, 60325 Frankfurt am Main and branch offices in Germany and abroad including in London, New York, Sydney, Tokyo and an Asia-Pacific Head Office in Singapore which serve as hubs for its operations in the respective regions.

The Bank is the parent company of a group consisting of banks, capital market companies, fund management companies, a real estate finance company, instalment financing companies, research and consultancy companies and other domestic and foreign companies (the "**Deutsche Bank Group**").

"**Deutsche Bank AG London**" is the London branch of Deutsche Bank AG. On 12 January 1973, Deutsche Bank AG filed in the United Kingdom the documents required pursuant to section 407 of the Companies Act 1948 to establish a place of business within Great Britain. On 14 January 1993, Deutsche Bank registered under Schedule 21A to the Companies Act 1985 as having established a branch (Registration No. BR000005) in England and Wales. Deutsche Bank AG London is an authorised person for the purposes of section 19 of the Financial Services and Markets Act 2000. In the United Kingdom, it conducts wholesale banking business and through its Private Wealth Management division, it provides holistic wealth management advice and integrated financial solutions for wealthy individuals, their families and selected institutions.

As of 30 September 2015, Deutsche Bank's subscribed capital amounted to €3,530,939,215.36 consisting of 1,379,273,131 ordinary shares without par value. The shares are fully paid up and in registered form. The shares are listed for trading and official quotation on all German Stock Exchanges. They are also listed on the New York Stock Exchange.

As of 30 September 2015, Deutsche Bank Group had total assets of €1,719,374 million, total liabilities of €1,650,495 million, and total equity of Euro 68,879 million on the basis of International Financial Reporting Standards (unaudited).

Deutsche Bank's long-term senior debt has been assigned a rating of BBB+ (outlook stable) by Standard & Poor's, A- (outlook stable) by Fitch Ratings and A (outlook stable) by DBRS Ratings and its long-term deposits have been assigned a rating of A2 (outlook negative) by Moody's Investors Service.

The delivery of this Prospectus shall not create any implication that there has been no change in the affairs of Deutsche Bank since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to such date.



## **THE CORPORATE SERVICES PROVIDER**

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

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

The Corporate Services Provider is entitled to terminate its appointment under the Corporate Services Agreement on 90 days' prior 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 service 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 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

### THE MORTGAGE LOANS

#### Introduction

The following is a description of some of the characteristics of the Mortgage Loans in the Mortgage Portfolio originated by the Seller including details of loan types, the underwriting process, lending criteria and selected statistical information.

The Seller selected the Mortgage Loans comprising the Initial Portfolio on the Closing Date and will select Mortgage Loans comprising New Portfolios from time to time using an internally developed system containing defined data on each of the qualifying loans in the Seller's overall portfolio of loans available for selection. This system allows the setting of exclusion criteria among others corresponding to relevant Seller Asset Warranties that the Seller made or will make in the Mortgage Sale Agreement in relation to the Mortgage Loans (see the section entitled "*Sale of the Mortgage Portfolio under the Mortgage Sale Agreement – Representations and Warranties*" below). Once the criteria are determined, the system identifies all loans owned by the Seller that are consistent with the criteria. From this subset, mortgage loans are then selected at random up to the target balance for the Initial Portfolio and the New Portfolios. The selected pool of Mortgage Loans identified for the Initial Portfolio were then monitored so that they continued to comply with the relevant criteria on the Closing Date. No Mortgage Loan will be delinquent or non-performing at the time it is sold to the Issuer.

The Seller reserves the right to amend its Lending Criteria and to sell to the Issuer new Mortgage Loans which are based on mortgage terms which may be different from those upon which Mortgage Loans forming the Initial Portfolio are based. Those new Mortgage Loans may include loans which may or may not have some or all of the characteristics described here and which are currently being offered to borrowers, but may also include mortgage loans with other characteristics that are not currently being offered to Borrowers or that have not yet been developed. All new Mortgage Loans are required to comply with the Seller Asset Warranties pursuant to the Mortgage Sale Agreement on the applicable New Portfolio Sale Date that such Mortgage Loans are sold to the Issuer. The material warranties in the Mortgage Sale Agreement given as at the Closing Date and to be given on each New Portfolio Sale Date are described further in the section entitled "*Sale of the Mortgage Portfolio under the Mortgage Sale Agreement*" below.

#### Characteristics of the Mortgage Loans

##### **Repayment terms**

Mortgage Loans are typically repayable on one of the following bases:

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

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

For Interest-only Loans, the principal is repaid in a lump sum at the maturity of the Mortgage Loan. For Buy-to-Let Loans and Let-to-Buy Loans, sale of the property is an acceptable repayment mechanism.

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

##### **Payment methods**

All payments on the loans must be made in sterling and the majority of the payments on the loans are made by a direct debit ("**DDR**") instruction through the UK direct debit system from another bank or building society account. A valid DDR instruction must be in place prior to completion.

### **Product Range**

The Mortgage Portfolio will consist of Mortgage Loans categorised by the Seller as being Buy-to-Let Loans (loans backed by first ranking security, for the purchase or re-mortgage of property for letting purposes) and Let-to-Buy Loans (loans backed by first ranking security where the borrower retains its existing property and lets it out to tenants and uses the proceeds of the mortgage loan to purchase a new property).

Some Mortgage Loans are portable during the initial product incentive period, meaning that the Borrower has a right, subject to meeting the Seller's lending policy at the time, to retain the terms of the Mortgage Loan when the Borrower sells one property and purchases another. The relevant applicable lending policy is that of the Seller, rather than that of its successors and assigns to the Mortgage Loan. When a Mortgage Loan is "ported", the original Mortgage Loan is repaid and terms of the Mortgage Loan are carried over to a new account set up in the name of the Borrower and the Mortgage Loan will be treated as a redemption within the Mortgage Portfolio.

### **Interest payments and interest rate setting**

The Seller currently offers the following mortgage products and is able to combine these to suit the requirements of the Borrower:

- (a) **"Fixed Rate Loans"**, which are subject to a fixed rate of interest; and
- (b) **"Tracker Rate Loans"**, which are subject to a variable interest rate which will be set at a fixed margin above, below or the same as the base rate set by the Bank of England (each a **"Lifetime Tracker Rate"**) or a variable margin above, below or the same as the base rate set by the Bank of England (the **"Initial Tracker Rate"**).

The rates in respect of the Fixed Rate Loans and the Tracker Rate Loans which have Initial Tracker Rates are offered for a predetermined period, usually between one and five years, at the commencement of the Mortgage Loan (the **"Product Period"**). At the end of the Product Period the rate of interest charged will either (a) change to another interest rate type for a predetermined period; or (b) revert to a Lifetime Tracker Rate. In certain instances, Early Repayment Charges are payable by the Borrower if the Mortgage Loan is redeemed before the expiry of the applicable Product Period or partly repaid by an amount equal to more than 10 per cent. of the outstanding principal amount in any 12-month rolling period (typically in relation to fixed rate mortgage loans). See the section entitled *"The Mortgage Portfolio – The Mortgage Loans – Characteristics of the Mortgage Loans – Early Repayment Charges"* below.

Mortgage Loans may combine one or more of the features listed in this section. Other customer incentives may be offered with the relevant mortgage product including free valuations and payment of legal fees. The ability to make Overpayments is also available to most Borrowers. Payment Holidays may be available to Borrowers under limited circumstances as part of arrears management. See the sections entitled *"The Mortgage Portfolio – the Mortgage Loans – Overpayments"* and *"The Servicer – Servicing of the Mortgage Loans – Arrears and default procedures – Payment holidays and Underpayments"* below.

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

### **Early Repayment Charges**

Principal prepayments may be made in whole or in part at any time during the term of a Mortgage Loan unless the relevant offer letter states otherwise. A prepayment of the whole of the outstanding balance of a Mortgage Loan discharges the Mortgage Loan and the related Mortgage in question but must be made together with all outstanding charges, arrears of interest and accrued interest thereon.

Currently, any lump sum capital prepayment made in respect of a Mortgage Loan is credited after repayment of any outstanding charges, arrears of interest and accrued interest thereon to reduce the outstanding balance of the relevant Mortgage Loan. Once a lump sum capital prepayment is made, a new monthly interest payment/repayment will be calculated based on the reduced outstanding balance.

Early Repayment Charges may be charged to a Borrower making a lump sum prepayment. However, the Seller can exercise its discretion not to charge such fees in certain circumstances, for example, where the Borrower is refinancing the existing Mortgage Loan shortly before the end of the Product Period with a new mortgage loan originated by the Seller. Where a Borrower moves to a new property and enters into a new Mortgage Loan with the Seller for the same amount within 6 months of repayment of the existing Mortgage Loan, the Seller will refund such charges and fees in full.

The Seller currently permits Borrowers to repay up to 10 per cent. of the amount outstanding on a Mortgage Loan in addition to scheduled repayments in any twelve month rolling period without having to pay an Early Repayment Charges, although the Seller may change this policy at any time.

The Issuer has agreed to repay to the Seller any Early Repayment Charges received in respect of the Mortgage Loans, so any sums received will be for the Seller's account and not for the account of the Issuer and therefore will not form part of Available Revenue Receipts.

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

### ***Overpayments***

Borrowers may either increase their regular Monthly Payments above the normal Monthly Payment then applicable or make lump sum payments at any time.

Any Overpayments will be treated as prepayments of principal in respect of the Mortgage Loans. If Borrowers make an Overpayment, the balance on their mortgage account will be reduced. The Seller will charge interest on the reduced balance, which in turn reduces the amount of interest the Borrower must pay.

### ***Further advances***

All Further Advances will be funded solely by the Seller.

The consideration payable by the Issuer to the Seller for the purchase of a Further Advance is the Further Advance Purchase Price and is payable on the Further Advance Payment Date. The payment of the Further Advance Purchase Price is satisfied by the Seller retaining for its own account an amount of principal receipts received in respect of the Mortgage Portfolio in an amount equal to the applicable Further Advance Purchase Price on such Further Advance Payment Date.

In the event that there are insufficient principal receipts received by the Seller on the Further Advance Payment Date to fund the payment of a Further Advance Purchase Price, the Issuer will not be required to make a payment of the Further Advance Purchase Price, and the Issuer will instead deliver a Mortgage Loan Reassignment Notice to the Seller. The Seller will repurchase the Mortgage Loan and its Related Security to which such Further Advance relates from the Issuer on the Business Day on which the Mortgage Loan Reassignment Notice is received.

The Seller shall, within 20 Business Days of the Cash Manager being notified of such Further Advance, offer to repurchase any Mortgage Loans (together with any Related Security) in respect of which any Further Advances have been made from the Issuer for a price equal to the then Current Balance of such Mortgage Loan plus all Arrears of Interest and Accrued Interest relating thereto.

### ***Product switches***

From time to time, a Borrower may request or the Servicer may send an offer of a variation of the financial terms and conditions of a Mortgage Loan which, if accepted, would constitute a Product Switch.

The Seller shall, within 20 Business Days of the Cash Manager being notified of such Product Switch, offer to repurchase any Mortgage Loans (together with any Related Security) in respect of which any Product Switches have been made from the Issuer for a price equal to the then Current Balance of such Mortgage Loan plus all Arrears of Interest and Accrued Interest relating thereto.

### ***Origination channels***

The Seller currently derives its mortgage-lending business primarily through intermediaries with a small volume through direct channels.

The Seller can provide customers with an agreement in principle to lend almost immediately upon application at point of sale through its bespoke on-line application system.

### ***Underwriting***

The Seller uses an automated system whereby the majority of mortgage loans are underwritten at the point of sale and do not make use of the traditional system of full evaluation by an underwriter. Those mortgage loan applications qualifying for point-of-sale underwriting remain subject to the Seller's underwriting policies, lending criteria and internal procedures for compliance with government regulations, such as those concerning money laundering.

Mortgage loan applications which do not qualify under point-of-sale underwriting are referred to a mortgage underwriting team to carry out a further independent review of such applications. These underwriters are

experienced specialists in mortgage lending and make decisions on such mortgage loan applications based on the lending mandates they hold from the Seller and the risk assessment to the Seller.

All mortgage loan underwriting decisions, whether completed at the point of sale or in a servicing centre, are subject to internal monitoring by the Seller in order to ensure the Seller's procedures and policies regarding underwriting are being followed by the relevant staff.

### ***Lending criteria***

Each Mortgage Loan in the Mortgage Portfolio was and will be originated in accordance with the Seller's Lending Criteria for Buy-to-Let Loans and Let-to-Buy Loans applicable at the time the Mortgage Loan was offered, which include some or all of the criteria set out in this section. Some of the factors currently used in making a lending decision are as set out below.

#### ***(a) Type of property***

Properties may be either freehold or the Scottish equivalent or leasehold. In the case of leasehold properties, the Seller will normally require the lease to have an unexpired term of a minimum of 70 years from the date of the mortgage term, although this can be reduced to 10 years at the end of the mortgage term under certain circumstances. The property must be used solely for residential purposes (with extremely limited case-by-case exceptions) and must be in sound structural condition and repair or be capable of being put into such state. House boats, mobile homes and any property on which buildings insurance cannot be arranged are not acceptable. All persons who are to be legal owners of the property on completion must be borrowers under the mortgage.

All properties have been valued by a valuer approved by the Seller or, where appropriate, according to a methodology which would meet the standards of a Reasonable, Prudent Mortgage Lender and which has been approved by the Seller. Valuations are made at the date of origination of the loan and if a Further Advance is made, an additional valuation will be obtained as at the date of the Further Advance.

The minimum acceptable property value or purchase price (whichever is the lower) is currently £40,000. Buy-to-Let Loans and Let-to-Buy Loans are available to UK residents only.

All lettings must be on assured shorthold tenancies (or, in Scotland, short assured tenancies) or to a company on a corporate let and certain types of properties are not considered. The maximum term of the applicable assured shorthold tenancy, short assured tenancy or corporate let is 12 months. This can be renewed without the consent of the Seller. Multiple lets are not acceptable, with a maximum of five tenants being allowed. For the avoidance of doubt, children are not included in the maximum number of tenants. All tenants must be party to the same tenancy agreement. Holiday lets and tenants who are asylum seekers, have the benefit of diplomatic immunity or are claiming housing benefit, rent rebate or rent allowance are not acceptable. If the property is in Scotland, the landlord must (save in certain circumstances) register with the relevant local authority.

#### ***(b) Valuation***

A physical valuation is obtained by a MRICS or FRICS qualified surveyor chosen from the panel of the Seller's approved valuation firms. A valuation report must be no more than 6 months old at the time of completion.

Confirmation of anticipated rental income will be provided by the valuer as part of the valuation.

#### ***(c) Term of loan***

The longest remaining term of a loan in the Initial Portfolio is 39.33 years.

The current maximum term is 40 years and the minimum term is 5 years for all loans, subject to the maximum age limits. A repayment period for a new further advance that would extend beyond the term of the original advance may also be accepted at the Seller's discretion, subject to the following:

- (i) the consent of any subsequent lender or guarantor to the Further Advance;
- (ii) the Seller may in its discretion extend the period of the original advance, provided that, in the case of all leasehold properties, not less than 30 years (or 10 years in certain circumstances) of the lease must be left unexpired at the end of the term of the mortgage; and
- (iii) the approval of the valuers is required where the valuer has previously recommended a term which is shorter than the maximum loan terms referred to above.

If the customer requests to increase the term of the existing loan, the total term from the start date of the account must not exceed 40 years.

(d) *Age of applicant*

All borrowers must be aged 25 or over with a maximum age of 75 years at the end of the mortgage term.

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

The maximum original LTV ratio of Mortgage Loans in the Initial Portfolio is 75 per cent.

Currently, all lending for Buy-to-Let Loans and Let-to-Buy Loans is based on a maximum of 75 per cent. of the lower of purchase price or valuation.

(f) *Status of applicant(s)*

The maximum aggregate loan amount under a mortgage account is determined by the rental income requirements such that the monthly rental income can be greater than or equal to 125 per cent. (the interest coverage ratio) of the monthly mortgage payment, calculated on an interest only basis using a stressed interest rate of 4.99 per cent. or 5.49 per cent. depending on the original LTV (or, for selected products, the actual product rate if higher). Confirmation of the expected rental income will be provided by the valuer as part of the standard valuation at the time of the application. The stressed interest rate may vary over time and historically, the Seller has advanced mortgage loans using a stressed interest rate of 5 per cent. for all LTVs. However, for mortgage loans to be eligible for inclusion in the Mortgage Portfolio, the minimum interest coverage ratio is 125 per cent. using a stressed interest of at least 4.99 per cent. at the time of underwriting. A borrower can borrow up to £1 million for an individual buy-to-let property. However, for mortgage loans to be eligible for inclusion in the Mortgage Portfolio, the maximum loan amount is £500,000 for an individual buy-to-let property. A current limit of £2 million applies to all buy-to-let borrowing across the Retail Division of the Lloyds Banking Group, across a maximum of 3 buy-to-let properties. Buy-to-Let Loans and Let-to-Buy Loans are not available to first time buyers. At least one of the borrowers must currently own property in the United Kingdom.

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

The Seller may exercise discretion within its Lending Criteria in applying those factors that are used to determine the maximum amount of the mortgage loan(s). Accordingly, these parameters may vary for some mortgage loans. The Seller may take the following into account when exercising discretion: credit score result, existing customer relationship, percentage of LTV and quality of security (such as type of property, repairs, location or saleability).

(g) *Credit history*

(i) Credit search

A credit search is carried out in respect of all applicants. Applications may be declined where an adverse credit history (for example, county court judgment, Scottish court decree for payment, default or bankruptcy notice) is revealed or the score does not meet the required risk/reward trade-off.

(ii) Bank statements

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

(h) *Scorecard*

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

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

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

(i) *Changes to the underwriting policies and the lending criteria*

The Seller's underwriting policies and Lending Criteria are subject to change within the Seller's sole discretion.

## **Insurance policies**

### *Insurance on the property*

A borrower is required to insure the mortgaged property with buildings insurance. The insurance may be purchased through the Seller or, alternatively, the borrower or landlord (in the case of a leasehold property) may arrange for the buildings insurance independently. In either case, the borrower must ensure that the buildings insurance payments are kept up to date.

If the borrower does not insure the property, or insures but not in accordance with the applicable Mortgage Conditions, the Seller may, upon becoming aware of the same, insure the property itself, in which case the Seller may determine who the insurer will be, what will be covered by the policy, the amount of the sum insured and any excess. The borrower will be responsible for the payment of insurance premiums. The Seller retains the right to settle all insurance claims on reasonable terms without the borrower's consent. The Seller's current policy is that in most cases where it becomes aware that a property is not insured, it will not arrange insurance cover except where the property is in possession. See the section entitled "*The Mortgage Portfolio – The Mortgage Loans – Insurance Policies – Properties in possession cover*" below.

### *Properties in possession cover*

When a mortgaged property is taken into possession by the Seller and buildings insurance has been arranged through the Seller, Legal and General Insurance Limited takes the necessary actions to ensure that the appropriate insurance cover is provided on the mortgaged property. The Seller may claim under this policy for any damage occurring to the mortgaged property while in the Seller's possession.

When a mortgaged property is taken into possession by the Seller and the borrower had arranged their own insurance, Legal and General Insurance Limited will take the necessary actions (within current risk appetite) to ensure that the appropriate insurance is provided.

To the extent that any proceeds are received by the Servicer under such policy in respect of Mortgage Loans in the Mortgage Portfolio, the Servicer has agreed to pay these to the Issuer. The Seller, acting in its capacity as Servicer, will make claims in accordance with the Seller's policy and transfer proceeds relating to the Mortgage Loans to the Issuer.

### *Title insurance*

There will be no Mortgage Loans in the Mortgage Portfolio for which the underlying mortgages have the benefit of a title insurance policy.

## **Material Legal Aspects of the Loans**

The following is a summary of the material legal aspects of English and Scottish residential property loans and mortgages. It is not an exhaustive analysis of the relevant law. Each of the English Loans is governed by English law and each of the Scottish Loans is governed by Scots law.

### **English loans**

#### *General*

As at the Reference Date, 94.83 per cent. of the Loans comprised in the Provisional Portfolio are secured by an English law governed Mortgage.

Each English Loan is secured by a Mortgage which is governed by English law and has a first ranking priority over all other mortgages secured on the Mortgaged Property and over all unsecured creditors of the relevant Borrower. Borrowers may create a subsequent mortgage or other secured interest over the relevant Mortgage Property without the consent of the Seller, though such other Mortgage or interest will rank below the Seller's Mortgage in priority.

### *Nature of property as security*

There are two forms of title to land in England and Wales: registered and unregistered. Both systems of title can include both freehold and leasehold land.

### *Registered title*

Title to registered land is registered at the Land Registry. Each parcel of land is given a unique title number. Prior to 13 October 2003 title to the land was established by a land certificate or (in the case of land which is subject to a mortgage or charge) charge certificate containing official copies of the entries on the register relating to that land, however, pursuant to the Land Registration Act 2002 which came into force on 13 October 2003 the provision of land certificates and charge certificates has now been abolished. Title to land and any mortgage is now established by reference to entries on the Land Register, which is held electronically so that no paper title document is issued.

There are four classes of registered title although generally only two of these (absolute and good leasehold) will be acceptable as good for mortgage purposes. A person registered with title absolute owns the land free from all interests other than those entered on the register and certain "overriding" interests (in the case of good leasehold title, ownership is also subject to any matters affecting freehold or leasehold title out of which the land is granted).

Title information documents provided by the Land Registry will reveal the present owner of the land, together with any legal charges and other interests affecting the land. However, the Land Registration Act 2002 provides that some interests in the land will bind the land even though they are not capable of registration at the Land Registry such as unregistered interests which override first registration and unregistered interests which override registered dispositions. The title information documents will also contain a plan indicating the location of the land. However, these plans may not be conclusive as to matters such as the precise location of boundaries.

### *Unregistered title*

Since November 1997 all land in England and Wales has been subject to compulsory registration on the happening of any of a number of trigger events, which include the granting of a first legal mortgage. This means that, in the case of all mortgages granted since November 1997, the title to the property and the mortgage itself must (if not already done so) be registered.

### *Taking security over land*

Where land is registered, a mortgagee must register its mortgage at the Land Registry in order to secure priority over any subsequent mortgagee. Prior to registration, the mortgage will take effect only as an equitable mortgage or charge. Priority of mortgages over registered land is governed by the date of registration of the mortgage rather than date of creation. However, a prospective mortgagee is able to obtain a priority period within which to register his mortgage by undertaking an official search which will afford a priority of approximately six weeks. If the mortgagee submits a proper application for registration during this period, its interest will take priority over any other mortgage application for registration which is received by the Land Registry during this period.

The absence of registration will risk loss of priority if a subsequent mortgage is registered, and will create difficulties in enforcing security in that it is usually necessary for registration to be effected in order to convey good title to a third party buyer. However, where a subsequent mortgagee gives notice of a further charge over the same property to a prior mortgagee, the priority of the prior mortgagee only extends to amounts advanced at or before the time such notice is received, unless the prior mortgagee is under a legal obligation to make further advances.

### *The Seller as mortgagee*

The sale of the English Loans by the Seller to the Issuer will take effect in equity only. The Issuer will not apply to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the mortgages. The consequences of this are explained in "*Risk Factors – The Mortgages – Seller to initially retain legal title to the Mortgage Loans and risks relating to set-off*" above.



### *Enforcement of Mortgages*

If a Borrower defaults under an English Loan, the English law Mortgage Conditions provide that all monies under the English Loan will become immediately due and payable. The Seller or its successors or assigns would then be entitled to recover all outstanding principal, interest and fees under the covenant of the Borrower contained in the English law Mortgage Conditions to pay or repay those amounts. In addition, the Seller or its successors or assigns may enforce its English law Mortgage in relation to the defaulted Loan. Enforcement may occur in a number of ways, including the following:

- (a) the mortgagee may enter into possession of the property. If it does so, it does so in its own right and not as agent of the mortgagor, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property;
- (b) the mortgagee may lease the property to third parties;
- (c) the mortgagee may foreclose on the property. Under foreclosure procedures, the mortgagor's title to the property is extinguished so that the mortgagee becomes the owner of the property. The remedy is, because of procedural constraints, rarely used; and
- (d) the mortgagee may sell the property, subject to various duties to ensure that the mortgagee exercises proper care in relation to the sale. This power of sale arises under the Law of Property Act 1925. The purchaser of a property sold pursuant to a mortgagee's power of sale becomes the owner of the property.

A court order under section 126 of the CCA is necessary to enforce a land mortgage in certain circumstances as described under "*Risk factors – Certain Regulatory Considerations – Consumer Credit Act 1974*" above.

### **Scottish Loans**

#### *General*

As at the Reference Date, 5.17 per cent. of the Loans comprised in the Provisional Portfolio are secured by a Scots law governed Mortgage.

A standard security is the only means of creating a fixed charge over heritable or long leasehold property in Scotland. Its form must comply with the requirements of the Conveyancing and Feudal Reform (Scotland) Act 1970 (the "**1970 Act**"). The standard security is granted by the grantor, who is usually the borrower and home-owner, over their property and is granted in favour of the heritable creditor who is usually the lender. Each Scottish Loan in relation to a Mortgaged Property located in Scotland will be secured by a standard security which has a first ranking priority over all other standard securities secured on the property and over all unsecured creditors of the borrower. If a Borrower of such a Scottish Loan (a "**Scottish Borrower**") creates a subsequent standard security over the relevant Mortgaged Property in favour of a third party, upon intimation of that subsequent standard security to the Seller (in its capacity as trustee for the Issuer pursuant to the relevant Scottish Declaration of Trust granted by the Seller in favour of the Issuer), the prior ranking of the Seller's standard security would be restricted to security for advances made prior to such intimation, plus advances made subsequent to such intimation which the Seller is obliged to advance under the terms of the relevant Scottish Loan, plus interest and expenses in respect thereof.

The 1970 Act automatically imports a statutory set of standard conditions into all standard securities, although the majority of these may be varied by agreement between the parties. The main provisions of the standard statutory conditions which cannot be varied by agreement relate to enforcement and in particular the notice and other procedures that require to be carried out as a preliminary to the exercise of the heritable creditor's rights on a default by the Borrower.

#### *Nature of Property as Security*

While title to all land in Scotland is registered there are currently two possible forms of registration, namely the Land Register of Scotland and General Register of Sasines. Both systems of registration can include both heritable (the Scottish equivalent to freehold) and long leasehold land.

### *Land Register of Scotland*

This system of registration was established by the Land Registration (Scotland) Act 1979 (as amended and replaced by the 2012 Act on 8 December 2014) and now applies to the whole of Scotland. Any sale of land (including a long leasehold interest in land) the title to which has not been registered in the Land Register or the occurrence of certain other events in relation thereto, including with effect from 1 April 2016, the granting of a standard security, will trigger its registration in the Land Register, when it is given a unique title number. Title to the land and the existence of a standard security over it are established by the entries on the Land Register relating to that land. Prior to 22 January 2007, the holder of the title received a land certificate containing official copies of the relevant entries on the Land Register. Similarly, the holder of any standard security over the land in question received a charge certificate containing official copies of the entries relating to that security. However, under the terms of the Automated Registration of Title to Land (Electronic Communications) (Scotland) Order 2006 and the Land Registration (Scotland) Rules 2006, with effect from 22 January 2007 such land and charge certificates were only issued to the relevant title or security holder if so requested at the time of the relevant registration and were otherwise only available in electronic form. Under the 2012 Act, land and charge certificates are no longer issued, but a person is able to apply for an extract of the title sheet for any property, being an official copy of the relevant entries on the Land Register. A person registered in the Land Register owns the land free from all interests other than those entered on the Register, those classified as overriding interests and any other interests implied by law.

The relevant Land Register entries and where issued land certificate (whether in paper or electronic form) will reveal the present owners of the land, together with any standard securities and other interests (other than certain overriding interests and certain interests implied by law) affecting the land. They will also contain a plan indicating the location and extent of the land. This plan is not in all circumstances conclusive as to the extent of the land, and under the 2012 Act, there is a statutory duty upon the keeper of the Land Register of Scotland to rectify any manifest inaccuracy of which he or she becomes aware.

### *General Register of Sasines*

Title to all land in Scotland where no event has yet occurred to trigger registration in the Land Register of Scotland is recorded in the General Register of Sasines. Title to such land is proved by establishing a chain of documentary evidence of title going back at least ten years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However, other rights (including standard securities) would have to be recorded in the Sasine Register in order to be effective against a subsequent purchaser of the land.

### *Taking Security Over Land*

A heritable creditor must register its standard security in the Land Register of Scotland or the General Register of Sasines (as applicable) in order to perfect its security and secure priority over any subsequent standard security. Until such registration occurs, a standard security will not be effective against a subsequent purchaser or the heritable creditor under another standard security over the property. Priority of standard securities is (subject to express agreement to the contrary between the security holders) governed by the date of registration rather than the date of execution.

### *The Seller as Heritable Creditor*

The sale of the Scottish Loans by the Seller to the Issuer will be given effect by the Scottish Declaration of Trust by which the beneficial interest in the Scottish Loans is held in trust by the Seller for the benefit of the Issuer. Such beneficial interest (as opposed to the legal title) cannot be registered with the Registers of Scotland. The consequences of this are explained in the section "*Risk Factors – The Mortgages – Seller to initially retain legal title to the Mortgage Loans and risks relating to set-off*".

### *Enforcement of Scottish Mortgages*

If a Borrower defaults under a Scottish Loan, the Scottish Loan mortgage conditions provide that all monies under the loan will become immediately due and payable. The Seller or its successors or assignees would then be entitled to recover all outstanding principal, interest and fees under the obligation of the borrower contained in the Scottish mortgage conditions to pay or repay those amounts. In addition, the Seller or its

successors or assignees may enforce its standard security in relation to the defaulted loan. Enforcement may occur in a number of ways, including the following (all of which arise under the 1970 Act):

- (a) The heritable creditor may enter into possession of the property. If it does so, it does so in its own right and not as agent of the borrower, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property;
- (b) The heritable creditor may grant a lease over the property of up to seven years (or longer with the courts' permission) to third parties;
- (c) The heritable creditor may sell the property, subject to various duties to ensure that the sale price is the best that can reasonably be obtained. The purchaser of the property sold pursuant to a heritable creditor's power of sale becomes the owner of the property;
- (d) The heritable creditor may, in the event that a sale cannot be achieved, foreclose on the property. Under foreclosure procedures the borrower's title to the property is extinguished so that the heritable creditor becomes the owner of the property. The remedy is however rarely used.

In contrast to the position in England and Wales, the heritable creditor has no power to appoint a receiver under the standard security.

There is a requirement for a court order to enforce a standard security securing a loan to the extent that the credit agreement is regulated by the CCA or treated as such or, on and from 31 October 2004, is a Regulated Mortgage Contract that would otherwise be regulated by the CCA or treated as such. See further "*Risk Factors – Certain Regulatory Considerations*".

## SALE OF THE MORTGAGE PORTFOLIO UNDER THE MORTGAGE SALE AGREEMENT

The following section contains a summary of the material terms of the Mortgage Sale Agreement and is subject to the provisions of the Mortgage Sale Agreement.

### *The Mortgage Portfolio*

Under the Mortgage Sale Agreement, the Issuer will pay the consideration to the Seller in respect of the sale of the Mortgage Portfolio, which shall be equal to the aggregate of:

- (a) the "**Initial Purchase Price**" (which was paid on the Closing Date), being an amount equal to the Current Balance of the Mortgage Loans in the Initial Portfolio at the open of business on the Closing Date and all Arrears of Interest and Accrued Interest relating thereto;
- (b) the "**New Portfolio Purchase Price**" (which will be payable on any New Portfolio Sale Date on which the Issuer acquires a New Portfolio from the Seller), being an amount equal to the Current Balance of the Mortgage Loans in such New Portfolio on the relevant New Portfolio Sale Date and all Accrued Interest relating thereto;
- (c) the Further Advance Purchase Price in relation to any Further Advance purchased by the Issuer which will be payable on the Further Advance Payment Date; and
- (d) an obligation of the Issuer to pay, after the Closing Date and in accordance with the Payments Priorities, the Deferred Consideration in respect of the sale to the Issuer of the Mortgage Portfolio.

The terms "**sale**", "**sell**" and "**sold**" when used in the Mortgage Sale Agreement and the other Transaction Documents in connection with the Mortgage Loans and their Related Security are construed to include: (i) an equitable assignment of the English Loans and Related Security to the Issuer; and (ii) in relation to the Scottish Loans, the creation of a trust over the Scottish Loans and Related Security by the Seller in favour of the Issuer pursuant to the Scottish Declaration of Trust.

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

### *New Portfolios*

On any New Portfolio Sale Date during the Revolving Period, the Seller may sell new mortgage loans together with the related security for such new mortgage loans to the Issuer, if the Cash Manager ascertains (on behalf of the Issuer) that there are sufficient funds standing to the credit of the Retained Principal Receipts Ledger. Each new Mortgage Loan and its Related Security and all monies derived therefrom from time to time are referred to as a New Portfolio. The Mortgage Loans and the Related Security and all monies derived therefrom from time to time are referred to herein as the Mortgage Portfolio.

The Seller (or the Servicer on behalf of the Seller) shall notify the Issuer on each New Portfolio Sale Date of the New Portfolio Purchase Price due and payable by the Issuer in respect of each New Portfolio to be sold to the Issuer on such New Portfolio Sale Date.

The Issuer shall pay to the Seller the New Portfolio Purchase Price on any relevant New Portfolio Sale Date by using amounts standing to the credit of the Retained Principal Receipts Ledger.

The sale of new Mortgage Loans and their Related Security to the Issuer will in all cases be subject to the following conditions as at the relevant New Portfolio Sale Date:

- (a) following the addition of the new Mortgage Loans to the Mortgage Portfolio, the weighted average Current LTV Ratio of all Mortgage Loans in the Mortgage Portfolio will not exceed 70 per cent.;
- (b) following the addition of the new Mortgage Loans to the Mortgage Portfolio, the weighted average interest rate applicable to all the Mortgage Loans in the Mortgage Portfolio after taking into account the Interest Rate Swap is not less than One Month LIBOR plus 2.25 per cent.;
- (c) following the addition of the new Mortgage Loans to the Mortgage Portfolio, the aggregate of the outstanding Current Balance of any Mortgage Loan in the Mortgage Portfolio with an Original LTV ratio of more than 75 per cent. will not exceed 5 per cent. of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio on such New Portfolio Sale Date;
- (d) following the addition of the new Mortgage Loans to the Mortgage Portfolio, the aggregate outstanding Current Balance of Mortgage Loans whose related properties are in a single Geographic Region is not greater than 40 per cent. of the aggregate Current Balance of the Mortgage Loans in the Portfolio on such New Portfolio Sale Date;

- (e) the documents required to be delivered to the Mortgage Sale Agreement in connection with the sale and purchase of such New Portfolio are delivered to the Issuer; and
- (f) no Revolving Period Termination Event has occurred or will occur as a result of the sale and purchase of such New Portfolio,

(items (a) to (f) above, collectively, the "**New Portfolio Conditions**").

If, on any New Portfolio Sale Date, the Seller is unable to offer sufficient new mortgage loans that satisfy the terms of the Mortgage Sale Agreement to the Issuer so as to enable the Issuer to use all of the amounts standing to the credit of the Retained Principal Receipts Ledger, then the Issuer shall be entitled to retain amounts standing to the credit of the Retained Principal Receipts Ledger for a period of up to 18 months. Amounts standing to the credit of the Retained Principal Receipts Ledger will be applied by the Cash Manager to purchase New Portfolios on a "first-in, first-out" basis.

#### *Title to the Mortgages, registration and notifications*

The English Loans in the Mortgage Portfolio were sold to the Issuer by way of equitable assignment on the Closing Date and will be sold to the Issuer on each New Portfolio Sale Date on which the Issuer acquires New Portfolios from the Seller. The Scottish Loans in the Mortgage Portfolio were sold to the Issuer by way of declaration of trust under which the beneficial interest in such Scottish Loans was transferred to the Issuer on the Closing Date and will be transferred to the Issuer on each New Portfolio Sale Date. Legal title to the Mortgage Loans and Related Security remains with the Seller until legal assignments or assignments (as appropriate) are delivered by the Seller to the Issuer and registered or recorded in the relevant property register and notice of the sale is given by the Seller to the Borrowers. Legal assignment or assignment (as appropriate) of the Mortgage Loans and the Related Security (including, where appropriate, their registration or recording in the relevant property register) to the Issuer will be deferred and will only take place in the limited circumstances described under "*Perfection Events*" below. See the section entitled "*Risk Factors – The Mortgages – Seller to Initially Retain Legal Title to the Mortgage Loan and Risks relating to Set-Off*" above.

#### *Perfection Events*

Legal assignment or assignment (as applicable) of the Mortgage Loans and their Related Security to the Issuer (including, where applicable, their registration or recording in the relevant property register) will be completed on the 20<sup>th</sup> Business Day after the earliest to occur of any of, amongst other things:

- (a) the Seller being required to perfect the Issuer's legal title to the Mortgage Loans, or procure any of the perfection acts referred to in the Mortgage Sale Agreement, by an order of a court of competent jurisdiction or by a regulatory authority of which the Seller is a member or any organisation whose members comprise (but are not necessarily limited to) mortgage lenders and with whose instructions it is customary for the Seller to comply;
- (b) the Trustee certifying that, in its opinion, the Charged Property or any material part thereof is/are in jeopardy and that the perfection acts are necessary in order materially to reduce such jeopardy;
- (c) the Seller calling for perfection by serving notice in writing on the Issuer and the Trustee;
- (d) the occurrence of an Insolvency Event in respect of the Seller; or
- (e) it becoming necessary by law to take action to perfect legal title to the Mortgage Loans,

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

Pending completion of the transfer, the right of the Issuer to exercise the powers of the legal owner of the Mortgages will be secured by an irrevocable power of attorney granted by the Seller in favour of the Issuer and the Trustee.

To the extent not held at the relevant land registry electronically, the title deeds and customer files relating to the Mortgage Loans are currently held by or to the order of the Seller or by solicitors or licensed conveyancers acting for the Seller in connection with the creation of the Mortgage Loans and their Related Security. The Seller has undertaken that all the title deeds and customer files relating to the Mortgage Loans which are at any time in its possession or under its control or held to its order will be held to the order of the Issuer or as the Issuer directs.

#### *Representations and Warranties*

Neither the Issuer nor the Trustee has made or has caused to be made on its behalf any enquiries, searches or investigations in respect of the Mortgage Loans and their Related Security. Instead, each has relied and will rely entirely on the Seller Asset Warranties contained in the Incorporated Terms Memorandum in relation

to each Mortgage Loan and given by the Seller on the Closing Date and each applicable New Portfolio Sale Date in respect of New Portfolios acquired by the Issuer on such date. The Seller Asset Warranties include the following representations and warranties:

- (a) each Mortgage Loan was originated by the Seller in pounds sterling;
- (b) each Mortgage Loan in the Mortgage Portfolio was made no earlier than 1 January 2014 and no later than the Revolving Period End Date;
- (c) the final maturity date of each Mortgage Loan is no later than 30 June 2061;
- (d) no Mortgage Loan has or will have an outstanding principal balance of more than £500,000;
- (e) each Mortgage Loan in the Initial Portfolio had a maximum LTV Ratio of 75 per cent. at the point of application;
- (f) each Mortgage Loan is a Buy-to-Let Loan or a Let-to-Buy Loan;
- (g) prior to the making of each advance under a Mortgage Loan, the then current Lending Criteria and all preconditions to the making of any Mortgage Loan were satisfied in all material respects subject only to exceptions made on a case by case basis as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- (h) other than with respect to Monthly Payments, no Borrower is or has, since the date of the relevant Mortgage, been in material breach of any obligation owed in respect of the relevant Mortgage Loan or under the Related Security and accordingly no steps have been taken by the Seller to enforce any Related Security;
- (i) the total amount of arrears of interest or principal, together with any fees, commissions and premiums payable at the same time as that of an interest payment or principal repayment on any Mortgage Loan has not been during the 12 months immediately preceding the Closing Date or applicable New Portfolio Sale Date, equal to or more than the amount of the Monthly Payment then due;
- (j) all of the Borrowers are individuals and were aged 18 years or older at the date of execution of the relevant Mortgage;
- (k) no Mortgage Loan is a Flexible Loan;
- (l) no Fixed Rate Loan has a fixed rate period that is longer than 5 years from the relevant Transfer Date;
- (m) no Mortgage Loan is subject to any retention drawings;
- (n) no Mortgage Loan has been made to a Borrower who is an employee of the Seller;
- (o) at least two Monthly Payments have been made in respect of each Mortgage Loan;
- (p) the whole of the Current Balance on each Mortgage Loan and any Arrears of Interest and all Accrued Interest is secured by a Mortgage;
- (q) each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage or (in the case of Scottish Mortgages) first ranking standard security over the relevant Property, subject only in certain appropriate cases to applications for registration or recording at the Land Registry or Registers of Scotland which, if required, has been made or is pending and in relation to such cases the Seller is not aware of any caution, notice, inhibition or any other matter that would prevent such registration or recording;
- (r) each Mortgage Loan and its Related Security was executed substantially on the terms of the Standard Documentation without any material variation thereto;
- (s) all of the Properties are in England, Wales or Scotland;
- (t) not more than 12 months (or a longer period (including in the case of an intra-group remortgage) as may be acceptable to a Reasonable, Prudent Mortgage Lender) prior to the grant of each Mortgage, the Seller received a Valuation Report on the relevant Property (or another form of report concerning the valuation of the relevant Property as would be acceptable to a Reasonable, Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- (u) the benefit of all Valuation Reports, any other valuation report referred to in this section (if any) and certificates of title can be validly assigned to the Issuer without obtaining the consent of the relevant valuer, solicitor, licensed conveyancer;

- (v) prior to the taking of each Mortgage (other than a remortgage), the Seller (a) 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 Seller in accordance with the instructions which the Seller issued to the relevant solicitor or licensed conveyancer as are set out in (i) the CML's Lenders' Handbook for England & Wales in relation to English Mortgages or (ii) the CML's Lenders' Handbook for Scotland in relation to Scottish Mortgages, or other comparable or successor instructions and/or guidelines as may for the time being be in place, subject only to those variations as would be acceptable to a Reasonable, Prudent Mortgage Lender and (b) received a certificate of title from such solicitor or licensed conveyancer relating to such Property, the contents of which would have been acceptable to a Reasonable, Prudent Mortgage Lender at that time;
- (w) each Mortgaged Property is insured under (a) a buildings insurance policy arranged by the Borrower in accordance with the relevant Mortgage Conditions, (b) a Seller introduced building insurance policy, (c) a buildings insurance policy arranged by the relevant landlord or (d) the properties in possession cover;
- (x) the Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits agreed to be sold and/or assigned by the Seller to the Issuer under the Mortgage Sale Agreement;
- (y) so far as the Seller is aware, no bankruptcy order or (in Scotland) award of sequestration, has been made against any Borrower and no Borrower has applied for an individual voluntary arrangement or (in Scotland) has granted a trust deed for his or her creditors, in the period 6 years immediately prior to the point of origination of the relevant Mortgage Loan;
- (z) so far as the Seller is aware, none of Borrowers of the Mortgage Loans forming part of the Mortgage Portfolio have had a county court judgment (or the Scottish equivalent) made against them in the period of 6 years immediately prior to the point of origination of the relevant Mortgage Loan or are currently defending county court proceedings;
- (aa) each Mortgage Loan and its Related Security is valid, binding and enforceable in accordance with its terms and is non-cancellable except in relation to any term in any loan or in its related security, in each case, which is not binding by virtue of the UTCCR or CRA 2015, in each case, as amended, extended or re-enacted from time to time;
- (bb) to the best of the Seller's knowledge, none of the terms in any Mortgage Loan or in its Related Security is not binding by virtue of its being unfair within the meaning of the UTCCR or CRA 2015, in each case, as amended, extended or re-enacted from time to time;
- (cc) the Seller has, since the making of each Mortgage Loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all transactions, payments, receipts, proceedings and notices relating to such Mortgage Loan;
- (dd) there are no authorisations, permissions, approvals, licences or consents required as appropriate for the Seller to enter into or to perform the obligations under the Mortgage Sale Agreement or to make the Mortgage Sale Agreement legal, valid, binding and enforceable;
- (ee) no Mortgage Loan is a "home purchase plan" as defined in the FCA Handbook;
- (ff) the land secured under any Mortgage Loan was not and was not intended to be occupied by the Borrower or any of his or her relatives at the time that the Mortgage Loan was entered into;
- (gg) where there is only one Borrower, such Borrower currently already owns property in the United Kingdom and where there is more than one Borrower, at least one of the Borrowers currently owns property in the United Kingdom;
- (hh) the interest rate used for the purpose of calculating the interest coverage ratio is at least equal to 4.99 per cent. or the product rate, whichever is higher; and
- (ii) all Mortgage Loans comply with the Eligibility Criteria.

#### *Eligibility Criteria*

All of the Mortgage Loans in the Mortgage Portfolio will be subject to Eligibility Criteria. The Seller makes a representation that the Mortgage Loans comply with the Eligibility Criteria on the Closing Date in respect of the Mortgage Loans in the Initial Portfolio and on each New Portfolio Sale Date in respect of the Mortgage Loans in such New Portfolio. The Eligibility Criteria are, in relation to any Mortgage Loan, the following criteria:

- (a) the Borrower in respect of such Mortgage Loan has not filed for bankruptcy, entered into an individual voluntary arrangement nor (in Scotland) has granted a trust deed for his or her creditors or been sequestrated or been subject to any analogous procedure in any other jurisdiction within 6 years prior to the date he executed such Mortgage Loan;
- (b) such Mortgage Loan has a positive Current Balance as at the relevant Transfer Date;
- (c) the interest coverage ratio on the basis of the estimated rental revenue as set out in the relevant Valuation Report for each such Mortgage Loan is not lower than 125 per cent. of the Current Balance based on an interest rate of no less than 4.99 per cent. as at the date that such Mortgage Loan was entered into;
- (d) the Product Period for such Mortgage Loan, if it is a Fixed Rate Loan, is no longer than five years; and
- (e) such Mortgage Loan has an Original LTV of less than or equal to 80 per cent.

*Repurchase by the Seller*

The Seller will be required to repurchase any Mortgage Loan sold pursuant to the Mortgage Sale Agreement:

- (a) upon a material breach of any Seller Asset Warranties (which are either not capable of remedy or if the Seller failed to remedy the relevant breach within 20 Business Days of the Seller being notified (or, if earlier, within 20 Business Days of becoming aware of the breach)), within 20 Business Days of the Cash Manager being notified of such breach;
- (b) following the making of a Product Switch or a Further Advance, within 20 Business Days of the Cash Manager being notified of such Further Advance or Product Switch; and
- (c) if the Seller has received insufficient principal receipts in respect of the Mortgage Loans in the Mortgage Portfolio to fund the Further Advance Purchase Price (as more fully described above in the section entitled "*The Mortgage Portfolio – The Mortgage Loans – Characteristics of the Mortgage Loans – Further Advances*" above), on the Business Day on which the relevant Mortgage Loan Reassignment Notice is received.

*Governing Law*

The Mortgage Sale Agreement and all non-contractual obligations arising out or in connection with the Mortgage Sale Agreement are governed by English law, other than certain aspects of it specific to the law of Scotland, which are governed by, and shall be construed in accordance with, Scots law.



## STATISTICAL INFORMATION ON THE INITIAL PORTFOLIO

The statistical and other information contained in this Prospectus has largely been compiled by reference to mortgage loans in the portfolio (the "**Reference Date Portfolio**") from which the Initial Portfolio was selected as at 12 February 2016 (the "**Reference Date**"). The Reference Date Portfolio consisted of 17,962 mortgage loans originated by Bank of Scotland under the "Birmingham Midshires Brand" between 2 January 2015 to 30 June 2015 and secured over properties located in England, Wales and Scotland. The aggregate Current Balance of the mortgage loans in the Reference Date Portfolio as at the Reference Date was £2,343,691,358.15. Columns may not add up to 100 per cent, due to rounding. A mortgage loan would have been removed from the Mortgage Portfolio if in the period from (and including) the Reference Date up to (but excluding) the Closing Date such mortgage loan is repaid in full or if such mortgage loan did not comply with the Seller Asset Warranties on the Closing Date or if the aggregate current balance of the mortgage loans as at the Closing Date exceeded the aggregate of the Principal Amount Outstanding of the Notes on the Closing Date. Except as otherwise indicated, these tables have been prepared using the Current Balance as at the Reference Date, which includes all principal and accrued interest for the mortgage loans.

### Outstanding Current Balances

The following table shows the range of Current Balances (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the Reference Date.

Range of outstanding current balances		Aggregate outstanding current balance	% of total	Number of mortgage accounts	% of total
From	To				
£0.00	£49,999.99	£83,950,405.85	3.58%	2,091	11.64%
£50,000.00	£99,999.99	£478,733,086.20	20.43%	6,429	35.79%
£100,000.00	£149,999.99	£486,992,458.56	20.78%	4,007	22.31%
£150,000.00	£199,999.99	£385,835,943.77	16.46%	2,243	12.49%
£200,000.00	£249,999.99	£281,973,927.31	12.03%	1,259	7.01%
£250,000.00	£299,999.99	£241,082,399.91	10.29%	886	4.93%
£300,000.00	£349,999.99	£158,715,304.44	6.77%	495	2.76%
£350,000.00	£399,999.99	£95,117,083.35	4.06%	256	1.43%
£400,000.00	£449,999.99	£68,942,794.28	2.94%	164	0.91%
£450,000.00	£499,999.99	£62,347,954.48	2.66%	132	0.73%
<b>Totals</b>		<b>£2,343,691,358.15</b>	<b>100.00%</b>	<b>17,962</b>	<b>100.00%</b>
Largest balance		£499,120.55			
Average balance		£130,480.53			
Smallest balance		£10,178.04			

## LTV ratios at origination

The following table shows the range of LTV ratios, which express the outstanding balance of the aggregate mortgage loans in a mortgage account (excluding capitalised interest, capitalised lending charges, insurance fees, booking fees and valuation fees) as at the date of the mortgage loan origination divided by the value of the relevant mortgaged property at the same date. The Seller has not revalued any of the mortgaged properties since the date of the origination of the related mortgage loan other than where an additional lending has been applied for or advanced on an account or a product holding on an account has been amended since origination, in which case the original valuation may have been updated with a more recent valuation. Where this is the case, this revised valuation has been used in formulating this data.

Range of LTV ratios at origination		Aggregate outstanding current balance	% of total	Number of mortgage accounts	
From	To				% of total
0%	<25%	£12,887,218.78	0.55%	186	1.04%
25%	<50%	£171,023,440.76	7.30%	1,434	7.98%
50%	<55%	£153,264,031.41	6.54%	1,042	5.80%
55%	<60%	£198,661,241.80	8.48%	1,241	6.91%
60%	<65%	£330,789,402.49	14.11%	2,162	12.04%
65%	<70%	£224,150,503.81	9.56%	1,470	8.18%
70%	<75%	£415,838,525.26	17.74%	2,965	16.51%
75%	<80%	£837,076,993.84	35.72%	7,462	41.54%
<b>Totals</b>		<b>£2,343,691,358.15</b>	<b>100.00%</b>	<b>17,962</b>	<b>100.00%</b>
Highest LTV		75.00%			
Weighted average LTV		66.25%			
Lowest LTV		6.80%			

## LTV ratios at Current Balance

The following table shows the range of LTV ratios, which express the current balance of the aggregate of mortgage loans (including capitalised interest, capitalised product fees, insurance fees, booking fees and valuation fees) as at the Reference Date divided by the indexed valuation of the relevant mortgaged property at the same date. The Seller has not revalued any of the mortgaged properties since the date of origination of the related loan other than, for certain loans, where an additional lending or certain Product Switch has been applied for or granted since origination, in which case the original valuation may have been updated with a more recent valuation. Where this is the case, the revised valuation has been used in formulating this data.

Range of LTV ratios at current balance		Aggregate outstanding current balance	% of total	Number of mortgage accounts	
From	To				% of total
0%	<25%	£17,777,654.92	1.38%	247	0.76%
25%	<50%	£294,357,221.24	11.82%	2,124	12.56%
50%	<55%	£262,343,755.67	8.43%	1,514	11.19%
55%	<60%	£290,602,790.69	10.74%	1,929	12.40%
60%	<65%	£338,477,601.54	11.63%	2,089	14.44%
65%	<70%	£604,477,273.34	24.89%	4,471	25.79%
70%	<75%	£420,287,592.68	22.98%	4,127	17.93%
75%	<80%	£104,524,936.63	7.36%	1,322	4.46%
80%	<85%	£10,842,531.44	0.77%	139	0.46%
85%	<100%	£0.00	0.00%	-	0.00%
Greater than or equal to 100%		£0.00	£0.00%	-	-
<b>Totals</b>		<b>£2,343,691,358.15</b>	<b>100.00%</b>	<b>17,962</b>	<b>100.00%</b>
Highest LTV		83.54%			
Weighted average LTV		61.94%			
Lowest LTV		6.14%			

## Geographical spread

The following table shows the distribution of the relevant mortgaged properties throughout England, Wales and Scotland as at the Reference Date. No such properties are situated outside England, Wales or Scotland.

The Seller's lending criteria and current credit scoring tests do not taken into account the geographical location of the property securing a loan.

Regions	Aggregate outstanding current balance		Number of mortgage accounts	
		% of total		% of total
East.....	£75,326,079.24	3.21%	661	3.68%
Greater London.....	£601,229,624.35	25.65%	2,294	12.77%
Midlands .....	£219,321,422.66	9.36%	2,535	14.11%
North .....	£153,763,046.04	6.56%	2,107	11.73%
North West.....	£129,400,837.77	5.52%	1,630	9.07%
Scotland .....	£121,113,062.27	5.17%	1,534	8.54%
South East .....	£775,245,395.83	33.08%	4,735	26.36%
South Wales & West.....	£263,168,653.52	11.23%	2,431	13.53%
Unidentified.....	£5,123,236.47	0.22%	35	0.19%
<b>Totals .....</b>	<b>£2,343,691,358.15</b>	<b>100.00%</b>	<b>17,962</b>	<b>100.00%</b>

### Seasoning of mortgage loans

The following table shows the number of months since the date of origination of the mortgage loan as at the Reference Date.

	Age of loans in months		Aggregate outstanding current balance		Number of mortgage accounts	
	From	To		% of total		% of total
	0	<6	£0.00	0.00%	-	0.00%
	6	<12	£1,806,483,466.86	77.08%	13,786	76.75%
	12	<18	£537,207,891.29	22.92%	4,176	23.25%
<b>Totals</b>			<b>£2,343,691,358.15</b>	<b>100.00%</b>	<b>17,962</b>	<b>100.00%</b>
Maximum seasoning				13.34		
Weighted average seasoning				10.29		
Minimum seasoning				7.46		

### Years to maturity of mortgage loans

The following table shows the number of remaining years of the term of the mortgage loans as at the Reference Date.

	Years to maturity		Aggregate outstanding current balance		Number of mortgage accounts	
	From	To		% of total		% of total
	0	<5	£24,235,837.22	1.03%	193	1.07%
	5	<10	£241,267,241.34	10.29%	1,993	11.10%
	10	<15	£392,578,640.62	16.75%	3,298	18.36%
	15	<20	£586,496,813.15	25.02%	4,686	26.09%
	20	<25	£962,876,881.90	41.08%	6,756	37.61%
	25	<30	£94,525,177.87	4.03%	726	4.04%
	30	<35	£37,578,761.10	1.60%	277	1.54%
	35	<40	£4,132,004.95	0.18%	33	0.18%
<b>Totals</b>			<b>£2,343,691,358.15</b>	<b>100.00%</b>	<b>17,962</b>	<b>100.00%</b>
Maximum remaining term	39.33					
Weighted average remaining term	19.14					
Minimum remaining term	3.08					

## Purpose of mortgage loans

The following table shows whether the purpose of the mortgage loans on origination was to finance the purchase of a new property or to remortgage a property already owned by the borrower.

	Aggregate outstanding current balance	% of total	Number of mortgage accounts	% of total
<b>Use of proceeds</b>				
Purchase.....	£1,019,900,150.95	43.52%	8,937	49.76%
Remortgage.....	£1,323,791,207.20	56.48%	9,025	50.24%
<b>Totals</b> .....	<b>£2,343,691,358.15</b>	<b>100.00%</b>	<b>17,962</b>	<b>100.00%</b>

## Property type

The following table shows the types of property to which the mortgage loans relate.

	Aggregate outstanding current balance	% of total	Number of properties	% of total
<b>Property type</b>				
Detached .....	£253,378,847.94	10.81%	1,486	8.27%
Semi-Detached.....	£430,257,576.35	18.36%	3,436	19.13%
Terraced .....	£770,975,900.73	32.90%	6,773	37.71%
Other (including flats and maisonettes) .....	£889,079,033.13	37.93%	6,267	34.89%
<b>Totals</b> .....	<b>£2,343,691,358.15</b>	<b>100.00%</b>	<b>17,962</b>	<b>100.00%</b>

## Repayment terms

The following table shows the repayment terms for the mortgage loans as at the Reference Date.

	Aggregate outstanding current balance	% of total	Number of mortgage accounts	% of total
<b>Repayment method</b>				
Interest only .....	£2,069,420,047.26	88.30%	14,889	82.89%
Repayment .....	£274,271,310.89	11.70%	3,073	17.11%
<b>Totals</b> .....	<b>£2,343,691,358.15</b>	<b>100.00%</b>	<b>17,962</b>	<b>100.00%</b>

## Interest Rate Type

	Aggregate outstanding current balance	% of total	Number of mortgage accounts	% of total
<b>Type of loan</b>				
Fixed rate loans	£2,172,250,012.30	92.68%	16,728	93.13%
Tracker rate loans	£171,441,345.85	7.32%	1,234	6.87%
<b>Totals</b>	<b>£2,343,691,358.15</b>	<b>100.00%</b>	<b>17,962</b>	<b>100.00%</b>

## Distribution of Fixed Rate Loans

As at the Reference Date, approximately 92.68 per cent. of the mortgage loans in the portfolio were Fixed Rate Loans.

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

Fixed Rate Loans remain at the relevant fixed rate for a period of time as specified in the Offer Conditions, after which they move to a Lifetime Tracker Rate or some other rate as specified in the Offer Conditions.

**Fixed rate %**

<b>Rate</b>	<b>Aggregate outstanding current balance</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
0.00% - 1.99% .....	£0.00	0.00%	-	0.00%
2.00% - 2.99% .....	£540,113,841.21	24.86%	3,795	22.69%
3.00% - 3.99% .....	£1,518,796,505.01	69.92%	12,015	71.83%
4.00% - 4.99% .....	£112,537,639.24	5.18%	911	5.45%
>=5.00% .....	£802,026.84	0.04%	7	0.04%
<b>Totals</b>	<b>£2,172,250,012.30</b>	<b>100.00%</b>	<b>16,728</b>	<b>100.00%</b>

<b>Year in which fixed rate period ends</b>	<b>Aggregate outstanding current balance</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
2016 .....	£398,444,209.68	18.34%	3,075	18.38%
2017 .....	£1,651,942,737.63	76.05%	12,822	76.65%
2018 .....	£19,541,018.44	0.90%	137	0.82%
2019 .....	£29,650,491.25	1.36%	190	1.14%
2020 .....	£72,671,555.30	3.35%	504	3.01%
<b>Totals</b>	<b>£2,172,250,012.30</b>	<b>100.00%</b>	<b>16,728</b>	<b>100.00%</b>

## CHARACTERISTICS OF THE UNITED KINGDOM RESIDENTIAL MORTGAGE MARKET

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

Set out in the following tables are certain characteristics of the United Kingdom mortgage market. These tables relate to the characteristics of the mortgage market as a whole; the Mortgage Portfolio is however only comprised of Buy-to-Let Loans and Let-to-Buy Loans.

### Annual PPR Rates

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

Quarter	Industry PPR Rate for the quarter (%)	12-month rolling average (%)	Quarter	Industry PPR Rate for the quarter (%)	12-month rolling Average (%)
December 1998	15.00%	14.24%	September 2007	25.48%	24.74%
March 1999	12.32%	14.41%	December 2007	23.55%	24.42%
June 1999	15.96%	14.85%	March 2008	19.56%	23.36%
September 1999	17.55%	15.21%	June 2008	20.88%	22.37%
December 1999	16.47%	15.57%	September 2008	20.15%	21.03%
March 2000	13.62%	15.90%	December 2008	15.33%	18.98%
June 2000	15.31%	15.73%	March 2009	12.91%	17.32%
September 2000	15.97%	15.34%	June 2009	11.39%	14.95%
December 2000	15.67%	15.14%	September 2009	12.77%	13.10%
March 2001	15.38%	15.58%	December 2009	11.99%	12.27%
June 2001	18.23%	16.31%	March 2010	9.97%	11.53%
September 2001	20.25%	17.39%	June 2010	11.01%	11.44%
December 2001	20.06%	18.48%	September 2010	11.76%	11.18%
March 2002	18.75%	19.32%	December 2010	11.39%	11.03%
June 2002	21.10%	20.04%	March 2011	10.40%	11.14%
September 2002	23.63%	20.89%	June 2011	11.00%	11.14%
December 2002	22.89%	21.59%	September 2011	12.37%	11.29%
March 2003	21.24%	22.22%	December 2011	11.86%	11.41%
June 2003	22.43%	22.55%	March 2012	10.97%	11.55%
September 2003	24.03%	22.65%	June 2012	11.27%	11.62%
December 2003	24.87%	23.14%	September 2012	11.53%	11.41%
March 2004	21.22%	23.14%	December 2012	11.82%	11.40%
June 2004	22.93%	23.26%	March 2013	11.38%	11.50%
September 2004	24.27%	23.32%	June 2013	13.00%	11.93%
December 2004	20.85%	22.32%	September 2013	14.67%	12.72%
March 2005	17.96%	21.50%	December 2013	14.94%	13.50%
June 2005	21.32%	21.10%	March 2014	13.53%	14.03%
September 2005	24.29%	21.10%	June 2014	14.21%	14.34%
December 2005	24.61%	22.04%	September 2014	15.16%	14.46%
March 2006	22.27%	23.12%	December 2014	14.24%	14.28%
June 2006	23.37%	23.64%	March 2015	13.01%	14.15%
September 2006	24.95%	23.80%	June 2015	13.99%	14.10%
December 2006	24.87%	23.87%	September 2015	15.19%	14.11%
March 2007	23.80%	24.25%	December 2015	15.45%	14.41%
June 2007	24.84%	24.61%			

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

## Repossession Rate

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

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

Source: Council of Mortgage Lenders

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

## House Price Index

UK residential property prices, as measured by the Nationwide House Price Index and Halifax House Price Index (collectively the "**Housing Indices**"), have generally outperformed the UK Retail Price Index over the past 25 years. (Nationwide is a UK building society and Halifax is a division of Bank of Scotland plc which is part of the Lloyds Banking Group.)

The UK housing market has been through various economic cycles in the recent past, with large year-to-year increases in the Housing Indices occurring in the late 1980s and large decreases occurring in the early 1990s and from mid 2007 to late 2009. Prices then remained broadly stable until 2013 and have increased again over recent quarters.

Year	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
1988	106.9	4.9%	-	-	184.8	23.3%
1989	115.2	7.8%	-	-	223.1	20.8%
1990	126.1	9.5%	-	-	223.2	0.0%
1991	133.5	5.9%	107.1	-	220.5	-1.2%
1992	138.5	3.7%	103.0	-3.8%	208.1	-5.6%
1993	140.7	1.6%	102.1	-0.8%	202.1	-2.9%
1994	144.1	2.4%	103.5	1.3%	203.1	0.5%
1995	149.1	3.5%	102.3	-1.2%	199.6	-1.7%
1996	152.7	2.4%	106.3	4.0%	208.6	4.5%
1997	157.5	3.1%	117.9	10.9%	221.7	6.3%
1998	162.9	3.4%	129.8	10.1%	233.7	5.4%
1999	165.4	1.5%	141.7	9.2%	250.5	7.2%
2000	170.3	3.0%	160.0	12.9%	275.1	9.8%
2001	173.3	1.8%	177.0	10.6%	298.6	8.5%
2002	176.2	1.7%	211.8	19.7%	350.6	17.4%
2003	181.3	2.9%	253.0	19.5%	429.1	22.4%
2004	186.7	3.0%	296.3	17.1%	507.6	18.3%
2005	192.0	2.8%	311.4	5.1%	536.6	5.7%
2006	198.1	3.2%	331.4	6.4%	581.3	8.3%
2007	206.6	4.3%	361.7	9.1%	635.9	9.4%

Year	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
2008	214.8	4.0%	337.4	-6.7%	585.9	-7.9%
2009	213.7	-0.5%	312.4	-7.4%	524.6	-10.5%
2010	223.6	4.6%	330.6	5.8%	539.6	2.9%
2011	235.2	5.2%	329.9	-0.2%	525.4	-2.6%
2012	242.7	3.2%	327.1	-0.8%	522.1	-0.6%
2013	250.1	3.0%	337.4	3.1%	547.0	4.8%
2014	256.0	2.4%	370.3	9.7%	593.5	8.5%
2015	258.5	1.0%	386.6	4.4%	648.4	9.2%

Source: Office for National Statistics, Nationwide Building Society and Lloyds Banking Group plc.

### Quarterly House Price Index

Regions	Retail Price Index		Nationwide House Price Index (SA)*		Halifax House Price Index (SA)*	
	Index	% annual change	Index	% annual change	Index	% annual change
March 2007	203.0	4.5%	353.9	9.5%	623.5	11.3%
June 2007	206.3	4.4%	360.1	10.2%	639.4	11.2%
September 2007	207.1	3.9%	365.1	9.3%	646.5	11.1%
December 2007	209.8	4.2%	367.7	6.9%	638.8	5.4%
March 2008	211.1	4.0%	361.9	2.2%	630.0	1.0%
June 2008	215.3	4.4%	345.7	-4.0%	597.6	-6.5%
September 2008	217.4	5.0%	327.5	-10.3%	564.0	-12.8%
December 2008	215.5	2.7%	313.4	-14.7%	534.6	-16.3%
March 2009	210.9	-0.1%	302.4	-16.5%	517.7	-17.8%
June 2009	212.6	-1.3%	305.0	-11.7%	510.6	-14.6%
September 2009	214.4	-1.4%	317.3	-3.0%	523.6	-7.2%
December 2009	216.9	0.6%	324.0	3.4%	540.4	1.1%
March 2010	219.3	4.0%	329.3	8.8%	543.6	5.0%
June 2010	223.5	5.1%	333.8	9.5%	543.6	6.5%
September 2010	224.5	4.7%	331.5	4.5%	537.2	2.6%
December 2010	227.0	4.7%	325.9	0.5%	531.7	-1.6%
March 2011	230.9	5.3%	328.3	-0.3%	527.3	-3.0%
June 2011	234.9	5.1%	329.7	-1.2%	524.5	-3.5%
September 2011	236.2	5.2%	330.1	-0.5%	525.2	-2.2%
December 2011	238.6	5.1%	329.7	1.1%	524.0	-1.5%
March 2012	239.6	3.8%	328.9	0.2%	523.2	-0.8%
June 2012	242.2	3.1%	326.0	-1.1%	520.8	-0.7%
September 2012	243.1	2.9%	324.9	-1.6%	519.1	-1.2%
December 2012	246.0	3.1%	326.0	-1.1%	522.9	-0.2%
March 2013	247.4	3.3%	329.3	0.2%	529.0	1.1%
June 2013	249.7	3.1%	330.6	1.4%	540.5	3.8%
September 2013	250.9	3.2%	339.1	4.3%	551.0	6.1%
December 2013	252.5	2.6%	349.1	7.1%	562.7	7.6%
March 2014	253.9	2.6%	359.5	9.2%	575.2	8.7%
June 2014	256.0	2.5%	368.7	11.5%	587.2	8.6%
September 2014	256.9	2.4%	374.7	10.5%	604.3	9.7%
December 2014	257.4	1.9%	378.1	8.3%	607.2	7.9%
March 2015	256.4	1.0%	380.5	5.9%	622.5	8.2%
June 2015	258.5	1.0%	384.0	4.1%	643.2	9.5%
September 2015	259.3	0.9%	388.5	3.7%	654.9	8.4%
December 2015	260.0	1.0%	394.2	4.3%	665.3	9.6%



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Source: Office for National Statistics, Nationwide Building Society and Lloyds Banking Group plc.

\* Seasonally adjusted

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

$$(X-Y)/Y$$

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

### House Price to Earnings Ratio

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

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

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Source: Office for National Statistics

### Regional House Price to Earnings Ratio

House prices and incomes vary throughout England, Wales and Scotland. The table below summarises the average house price and the average income of borrowers for each region for the year ended December 2014 in order to produce a house price to earnings ratio for each region.

Regions	Average earnings (£ per annum)	House Price (£)	House Price to earnings ratio
North	£46,608	£163,820	3.51
North West	£50,003	£185,026	3.70
Yorkshire & Humberside	£48,259	£182,146	3.77
East Midlands	£48,105	£187,812	3.90
West Midlands	£49,773	£202,274	4.06
East Anglia	£52,886	£230,529	4.36
London	£90,261	£469,546	5.20
South East	£66,819	£324,093	4.85
South West	£52,971	£243,528	4.60
Wales	£46,679	£177,771	3.81
Scotland	£53,257	£190,992	3.59

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*Source: Office for National Statistics*

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

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

## THE SERVICER

### THE SERVICER

Under the Servicing Agreement, Bank of Scotland was appointed as the Servicer of the Mortgage Loans on the Closing Date. The day-to-day servicing of the Mortgage Loans is performed by the Servicer in accordance with the Servicing Agreement through the Servicer's retail branches, telephone and customer service centres. For basic information on the organisation and history of the Servicer, see the section entitled "*Bank of Scotland*".

### SERVICING OF THE MORTGAGE LOANS

Servicing responsibilities and procedures include responding to customer enquiries, monitoring compliance with and servicing the loan features and facilities applicable to the Mortgage Loans and management of Mortgage Loans in arrears. See the section entitled "*The Servicing Agreement*".

Pursuant to the Mortgage Conditions, Borrowers must pay the Monthly Payment on or before each Monthly Payment Date. Interest accrues in accordance with the Mortgage Conditions and is collected from Borrowers monthly.

In the case of Fixed Rate Loans or Tracker Rate Loans with an Initial Tracker Rate, the Borrower will continue to pay interest at the relevant rate until the relevant period ends in accordance with the Borrower's Mortgage Conditions. After that period ends, and unless the Servicer sends an offer of and the Borrower accepts another option with an incentive (which would result in a Product Switch and the Seller is required to repurchase such Mortgage Loan), interest will be payable at a Lifetime Tracker Rate.

The Servicer will take all steps necessary under the Mortgage Terms to notify Borrowers of any change in the interest rates applicable to the Mortgage Loans, whether due to a change in the Bank of England base rate or any variable margin or as a consequence of any provisions of those Mortgage Terms.

Payments of interest and principal on Repayment Loans are payable monthly in arrear. Payments of interest on Interest-only Loans are paid in the month that they are due. The Servicer is responsible for collecting payments by Borrowers into the Collection Account and ensuring that the same are transferred into the GIC Account on a regular basis but, in any event, in the case of payments by direct debits, no later than the next Business Day after they are deposited in the Collection Account or in the case of payments not made by direct debit, no later than the next Business Day after receipt by the Servicer or Seller (except in relation to payments by standing order, which are transferred by close of business on the second Business Day following receipt by the Servicer). All amounts which are paid to the Collection Account will be held on trust by the Seller for the Issuer by way of the Collection Account Declaration of Trust until they are transferred to the GIC Account. Payments from Borrowers are generally made by direct debits from a suitable bank or building society account, although in some circumstances Borrowers pay by cash, cheque or standing order.

The Servicer initially credits the GIC Account with the full amount of the Borrowers' Monthly Payments. However, direct debits may be returned unpaid up to three days after the due date for payment and, under the Direct Debit Indemnity Scheme, a Borrower may make a claim at any time to their bank for a refund of direct debit payments. In such cases, the Servicer is permitted to reclaim from the GIC Account the corresponding amounts previously credited. In these circumstances, the usual arrears procedures described in section entitled "*The Servicer – Servicing of the Mortgage Loans – Arrears and default procedures*" below will be taken.

### Changes to policies and procedures

The Seller reviews and updates its policies and procedures in relation to the servicing of the Mortgage Loans from time to time. Some of these changes are market-driven. See the section entitled "*Risk factors – Certain Regulatory Considerations*". Other changes are driven by the Seller reviewing its procedures and amending them to reflect current trading conditions.

### Arrears and default procedures

#### *Payment holidays and Underpayments*

Borrowers do not have the right to Payment Holidays or Underpayments under the Mortgage Conditions. In certain limited circumstances where the Borrower will not be receiving any rent and savings are used to cover repairs to the property, the Seller may exercise its discretion in providing Payment Holidays or permitting Underpayments in respect of Borrowers with short-term financial difficulties. Payments deferred under the Payment Holiday programme are aggregated and added to the Current Balance of the Mortgage and must be repaid over the remaining life of the Mortgage Loan, unless the Seller and the Borrower specifically agree to amend the terms of the Mortgage Loan.

### *The Servicer's Arrears and default procedures*

The Servicer will regularly provide the Issuer with written details of Mortgage Loans that are in arrears. A Mortgage Loan is identified as being in arrears where an amount equal to or greater than a full month's contractual payment is past its due date (other than Underpayments). In general, the Servicer attempts to collect all payments due under or in connection with the Mortgage Loans, having regard to the circumstances of the Borrower and principles of treating customers fairly in each case. Mortgage collection is conducted through payment collection departments located primarily in Chester. The Servicer will work constructively with the Borrower to agree a course of action. Collections and recovery interventions will be commensurate with the rate of deterioration and the Borrower's willingness to address the arrears as well as risk of default. Only as a last resort, where all reasonable efforts have been applied in reaching an agreement with the Borrower over the method of repaying the arrears, is legal action considered.

The Servicer uses an automated collections system to collect and/or negotiate with the Borrower through letter and/or telephone contact. The Servicer's system tracks arrears and advances and calculates when an amount is in arrears. When arrears are first reported and are equal to or greater than £50 overdue (based on due date), the Borrower is contacted and asked for payment of the arrears. An automated process exists in which the Borrower is contacted through a series of letters and/or phone contacts with specific manual intervention at a certain stage commensurate with risk. Where manual intervention is required, the Servicer's personnel will decide on the next appropriate course of action based on parameters set within a relevant policy. Where no contact has been made or no agreement has been reached, this could result in telephone contact via a dialler and/or the use of an external agent in an attempt to reach a solution with the Borrower. The Servicer's employees responsible for settling arrears are trained in all collection and negotiation techniques.

Where it is considered appropriate, the Servicer may vary the terms of a Mortgage Loan, in order to assist a Borrower in financial difficulties, with the primary aim being to rehabilitate the Borrower and recover the situation. Such variations include:

- (a) extensions to the term of the Mortgage Loan; and
- (b) transferring the Mortgage Loan to a mortgage product with a lower interest rate.

Also, where considered appropriate, the Servicer may enter into arrangements with the Borrower regarding the arrears, including:

- (a) arrangements to make each Monthly Payment as it falls due plus an additional amount to pay the arrears over a period of time;
- (b) arrangements to make each Monthly Payment as it falls due;
- (c) arrangements to pay only a portion of each Monthly Payment as it falls due; and
- (d) a deferment for an agreed period of time of all payments, including interest and principal or parts of any of them.

Any arrangements may be varied from time to time at the discretion of the Servicer, the primary aim being to rehabilitate the Borrower and recover the situation.

The Servicer may also agree to capitalise arrears where the Borrower has shown an ability to maintain the monthly payment for a specified period.

Where an English Loan is at least two months in arrears, a receiver-of-rent may be appointed under the 1925 Law of Property Act. This arrangement keeps the tenant in the property and may eventually result in the landlord's mortgage getting back on track as the rent received is applied directly to the Mortgage.

Once legal proceedings have commenced, the Servicer or the Servicer's solicitor may send further letters to the Borrower encouraging the Borrower to enter into discussions to pay the arrears and may still enter into an arrangement with a Borrower at any time prior to a court hearing. If a court order is made for payment and the Borrower subsequently defaults in making the payment, then the Servicer may take action as it considers appropriate, including entering into a further arrangement with the Borrower. If the Servicer applies to the court for an order for possession, the court has discretion as to whether it will grant the order.

After possession, the Servicer may take action as it considers appropriate, including to:

- (a) secure, maintain or protect the property and put it into a suitable condition for sale;
- (b) create (other than in Scotland) any estate or interest in the property, including a leasehold; and
- (c) dispose of the property (in whole or in part) or of any interest in the property, by auction, private sale or otherwise, for a price it considers is the best price reasonably obtainable.

The Servicer has discretion as to the timing of any of these actions, including whether to postpone the action for any period of time. The Servicer may also carry out works on the property as it considers appropriate to maintain the market value of the property.

The Servicer has discretion, set within a relevant policy, to deviate from these procedures. In particular, the Servicer may deviate from these procedures where a Borrower is designated as a vulnerable customer. This is the case for both sole and joint Borrowers.

It should also be noted that the lender's ability to exercise its power of sale in respect of the property is dependent upon mandatory legal restrictions as to notice requirements. In addition, there may be factors outside the control of the lender, such as whether the Borrower contests the sale and the market conditions at the time of sale, that may affect the length of time between the decision of the lender to exercise its power of sale and final completion of the sale.

It should also be noted that, in relation to Scottish mortgages, the Mortgage Rights (Scotland) Act 2001 confers upon the court a discretion (upon application by the borrower or other specified persons) to suspend the exercise of the lender's statutory enforcement remedies for such period and to such extent as the court considers reasonable, having regard, among other factors, to the nature of the default, the applicant's ability to remedy it and the availability of alternative accommodation.

Also see the section entitled "*Risk Factors – Certain Regulatory Considerations – Consultation Paper on the power of sale and residential property and Home Owner and Debtor Protection (Scotland) Act 2010*" above.

The net proceeds of sale of the property are applied against the sums owed by the Borrower to the extent necessary to discharge the mortgage including any accumulated fees, expenses of the Servicer and interest. Where the funds arising from application of these default procedures are insufficient to pay all amounts owing in respect of a Mortgage Loan, the funds are applied first in paying interest and costs and second in paying principal. The Servicer may then institute recovery proceedings against the Borrower. If after the sale of the Mortgaged Property and redemption of the Mortgage there are remaining funds, those funds will be distributed by the acting solicitor to the next entitled parties. Where the customer cannot be traced, or where there is a dispute regarding entitlement to the funds, the surplus will be paid into the court (or held safe with the bank if the shortfall amount is small/uneconomical to pay into the court) until a valid claim is made for them.

These arrears and security enforcement procedures may change over time as a result of a change in the Servicer's business practices or legislative and regulatory changes.

## THE SERVICING AGREEMENT

The following section contains a summary of the material terms of the Servicing Agreement and is subject to the provisions of the Servicing Agreement.

### Introduction

On the Closing Date, Bank of Scotland was appointed by the Issuer and the Seller under the Servicing Agreement to be their agent to service the Mortgage Loans and their Related Security. The Trustee consented to such appointment.

The Servicer is required to administer the Mortgage Loans in the following manner:

- (a) in accordance with the Servicing Agreement; and
- (b) as if the Mortgage Loans and Mortgages had not been sold to the Issuer but remained with the Seller, and in accordance with the Seller's procedures and administration and enforcement policies as they apply to those Mortgage Loans from time to time.

The Servicer's actions in servicing the Mortgage Loans in accordance with its procedures are binding on the Issuer. The Servicer may, in some circumstances, delegate or sub-contract some or all of its responsibilities and obligations under the Servicing Agreement. However, the Servicer remains liable at all times for servicing the Mortgage Loans and for the acts or omissions of any delegate or sub-contractor.

### Powers

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

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

### Undertakings by the Servicer

The Servicer has undertaken to, among other things, do the following:

- (a) maintain approvals, authorisations, permissions, consents, and licences required in order to perform its obligations under the Servicing Agreement;
- (b) notify Borrowers when required of any change in interest rates;
- (c) notify Borrowers of any change in their Monthly Payments;
- (d) keep records and accounts on behalf of the Issuer in relation to the Mortgage Loans and their Related Security;
- (e) keep records for all taxation purposes and VAT;
- (f) keep the customer files and title deeds relating to the Mortgage Loans in safe custody and maintain records necessary to enforce each Mortgage;
- (g) provide the Seller, the Issuer (and their respective auditors), the Trustee and any other person nominated by the Issuer with access to the title deeds and other records relating to the administration of the Mortgage Loans and Mortgages;
- (h) make available, on a monthly basis, a report containing information about the Mortgage Loans;
- (i) assist the Cash Manager in the preparation of monthly reports;
- (j) provide the Rating Agencies such information relating to its mortgage business and financial condition as the Rating Agencies may reasonably request in connection with the ratings of the Notes, provided that such request does not adversely interfere with the Servicer's day-to-day provision of services under the Servicing Agreement, and, in particular, to facilitate an annual review if required by the Rating Agencies of the Mortgage Portfolio;
- (k) act as collection agent for the Issuer under the direct debiting scheme;

- (l) take all reasonable steps, in accordance with the usual procedures undertaken by a Reasonable, Prudent Mortgage Lender, to recover all sums due to the Issuer, including instituting proceedings and enforcing any relevant Mortgage Loan or Mortgage; and
- (m) enforce any Mortgage Loan which is in default in accordance with its enforcement procedures or, if these are inapplicable, with the usual procedures undertaken by a Reasonable, Prudent Mortgage Lender on behalf of the Issuer.

### **Compensation of the Servicer**

The Servicer receives a fee for servicing the Mortgage Loans. The Issuer will pay to the Servicer a servicing fee (inclusive of VAT, if any) of 0.05 per cent. per annum on the Current Balance of all the Mortgage Loans in the Mortgage Portfolio as at the open of business of the immediately preceding Calculation Date. The fee is payable in arrear on each Interest Payment Date only to the extent that the Issuer has sufficient funds to pay it in accordance with the Payments Priorities. Any unpaid balance will be carried forward until the next Interest Payment Date.

### **Removal or resignation of the Servicer**

The Issuer (with the consent of the Trustee) or (after delivery of an Enforcement Notice) the Trustee may, upon written notice to the Servicer, terminate the Servicer's rights and obligations immediately if, among other things, any of the following events occurs:

- (a) the Servicer defaults in the payment of any amount due and fails to remedy that default for a period of five Business Days after the earlier of becoming aware of the default and receipt of written notice from the Issuer, the Seller and/or the Trustee requiring the default to be remedied;
- (b) the Servicer fails to comply with any of its other covenants or obligations under the Servicing Agreement which, in the reasonable opinion of the Trustee, is or may be materially prejudicial to the interests of the Noteholders and does not remedy that failure within 20 Business Days after the earlier of becoming aware of the failure and receipt of written notice from the Issuer, the Seller and/or the Trustee requiring the default to be remedied;
- (c) an Insolvency Event of the Servicer; or
- (d) the Issuer is of the opinion, after due consideration and acting reasonably, that the appointment of the Servicer should be terminated.

If (i) the Servicer (or any sub-contractor or delegate of the Servicer appointed by the Servicer to perform the relevant Services) does not have any FSMA authorisation which it is required to have in order to enable it to perform the Services or (ii) the Issuer is carrying on a regulated activity in the United Kingdom in breach of section 19 of FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised, the appointment of the Servicer will, unless the Servicer, the Trustee and the Issuer agree otherwise in writing, terminate with immediate effect.

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

The substitute servicer is required to have experience of administering mortgages in England, Wales and Scotland, to enter into a servicing agreement with the Issuer and the Trustee substantially on the same terms as the relevant provisions of the Servicing Agreement and be qualified to act as such under FSMA and CCA and any other applicable legislation. It is a further condition precedent to the resignation of the Servicer that the current ratings of the Notes are not reduced, withdrawn or qualified as a result of the resignation, unless the relevant classes of Noteholders otherwise agree by an Extraordinary Resolution.

If the appointment of the Servicer is terminated, the Servicer must deliver the title deeds and customer files relating to the Mortgage Loans 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.

No provision has been made in the Servicing Agreement or otherwise for any costs and expenses associated with the transfer of servicing to a substitute servicer, and such costs and expenses will be borne by the Issuer. The servicing fee payable to a substitute servicer will be agreed with that substitute servicer prior to its appointment.

### **Back-Up Servicer**

If the Servicer's long-term issuer default rating ceases to be rated at least BBB- by Fitch or long-term unsecured, unguaranteed and unsubordinated debt obligations and counterparty risk assessment cease to

be rated at least Baa3 by Moody's, or such other ratings that are consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Notes, the Issuer and the Seller will use their reasonable endeavours to appoint a back-up servicer (the "**Back-Up Servicer**") with a long term issuer default rating of at least BBB- by Fitch and long term unsecured unguaranteed and unsubordinated debt obligations ratings or counterparty risk assessment of at least Baa3 by Moody's, or such other ratings that are consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Notes within 30 Business Days of the default. The Issuer will inform the Rating Agencies of the identity and appointment of a Back-Up Servicer. Such Back-Up Servicer shall, if possible, have experience of servicing mortgage loans secured on residential properties in England, Wales and Scotland and enter into an agreement with the Issuer and the Trustee substantially on the terms of the Servicing Agreement, and at fees which are, in the opinion of the Issuer and the Seller, consistent with those payable generally at the relevant time for the provision of standby property loan administration services, which agreement shall provide that the Back-Up Servicer act as substitute servicer upon the termination of the appointment of the Servicer (the "**Back-Up Servicing Agreement**"). References in the Transaction Documents to the Servicer will, following the appointment of a Back-Up Servicer, be deemed to be references to the Servicer and/or the Back-Up Servicer, as appropriate.

### **Substitute Servicer**

In circumstances where a Back-Up Servicer has not been appointed, the Issuer shall (or the Trustee may, upon failure of the Issuer to do so) use its reasonable endeavours to appoint a substitute servicer in accordance with the Servicing Agreement. The substitute servicer must be approved in writing by the Trustee prior to its appointment. Such substitute or successor shall enter into an agreement with the Issuer and the Trustee substantially on the terms of the Servicing Agreement, and for fees which are consistent with those payable generally at the relevant time for the provision of mortgage loan services.

### **Right of delegation by the Servicer**

The Servicer may sub-contract or delegate the performance of its duties (or any of them) under the Servicing Agreement, provided that it meets particular conditions, including that:

- (a) the Issuer and the Trustee consent to the proposed sub-contracting or delegation;
- (b) notification has been given to each of the Rating Agencies;
- (c) where the arrangements involve the custody or control of any customer files and/or title deeds relating to the Mortgage Loans, the sub-contractor or delegate will provide a written acknowledgement that those customer files and/or title deeds will be held to the order of the Issuer or, after delivery of an Enforcement Notice, the Trustee;
- (d) where the arrangements involve the receipt by the sub-contractor or delegate of monies belonging to the Issuer which are to be paid to the Issuer, the sub-contractor or delegate will execute a declaration that any such monies are held on trust for the Issuer and will be paid forthwith to the Issuer in accordance with the terms of the Servicing Agreement and any other applicable Transaction Document;
- (e) the sub-contractor or delegate has executed a written waiver of any security interest arising in connection with the delegated services;
- (f) the Seller, the Issuer and the Trustee have no liability for any costs, charges or expenses in relation to the proposed sub-contracting or delegation; and
- (g) the sub-contractor or delegate has confirmed to the Servicer, the Issuer and the Trustee that it has, and shall maintain, all requisite consents, authorisations, approvals, licences, and orders, including without limitation all authorisations under the FSMA, to enable it to fulfil its obligations under or in connection with any such arrangement.

The consent of the Issuer and the Trustee referred to here (among certain other conditions) will not be required in respect of any delegation to a wholly owned subsidiary of Bank of Scotland or Lloyds Bank plc from time to time or to persons such as receivers, lawyers or other relevant professionals.

If the Servicer sub-contracts or delegates the performance of its duties, it will nevertheless remain responsible for the performance of all of its obligations under the Servicing Agreement.

### **Liability of the Servicer**

The Servicer will indemnify each of the Issuer and the Trustee against all losses, liabilities, claims, expenses or damages incurred as a result of gross negligence or wilful default by the Servicer in carrying out its



functions under the Servicing Agreement or any other Transaction Document or as a result of a breach of the terms of the Servicing Agreement or other Transaction Documents in relation to such functions.

**Governing law**

The Servicing Agreement and any non-contractual obligations arising out of or in connection with the Servicing Agreement is governed by, and shall be construed in accordance with, English law, provided that any terms of the Servicing Agreement particular to Scots law will be construed in accordance with the laws of Scotland.

## KEY STRUCTURAL FEATURES

### 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) availability of the General Reserve Fund;
- (b) availability of Available Principal Receipts to make up any Further Revenue Shortfall after the application of amounts credited to certain amounts within the General Reserve Fund, as further described below to provide, in certain circumstances, credit enhancement and/or liquidity support;
- (c) subordination of payments of interest and principal on junior Classes of Notes and the deferral of interest payments where the Issuer has insufficient funds to pay such amounts (excluding in relation to the Most Senior Class of Notes);
- (d) availability of investment income provided by the Account Bank in respect of collections deposited in the GIC Account;
- (e) availability of the Interest Rate Swap provided by the Interest Rate Swap Provider to hedge against the possible variance between the fixed interest rates payable in respect of the Fixed Rate Loans (excluding Arrears Fixed Rate Loans) and the LIBOR based interest payable in respect of the Notes;
- (f) a Subordinated Loan provided by the Subordinated Loan Provider to fund the General Reserve Fund established on the Closing Date and repayment of the Subordinated Loan is subordinated to payments on the Notes;
- (g) a Principal Deficiency Sub-Ledger established for each Class of Notes to record the notional principal losses corresponding to each Class of Notes in reverse sequential order. Available Revenue Receipts will be applied in accordance with the Pre Enforcement Revenue Payments Priorities to make up the relevant principal deficiencies in Sequential Order; and
- (h) during the life of the Notes, Available Revenue Receipts are expected to be sufficient to pay the interest amounts payable in respect of all the Classes of Notes and senior costs and expenses of the transaction and to retain the Issuer Profit Amount. Any excess Available Revenue Receipts will be applied on each Interest Payment Date as Deferred Consideration.

Each of these factors is considered in more detail below.

### ***Credit Support provided by Available Revenue Receipts***

It is anticipated that, during the life of the Notes, the interest payable by Borrowers on the Mortgage Loans will be sufficient so that the Available Revenue Receipts will cover the amounts payable under items (a) to (m) (inclusive) of the Pre Enforcement Revenue Payments Priorities. The actual amount of any excess at the bottom of the Pre Enforcement Revenue Payments Priorities which is to be applied as Deferred Consideration will vary during the life of the Notes. Two of the key factors determining such variation are the interest rates applicable to the Mortgage Loans in the Mortgage Portfolio (as to which, see the section entitled "*Key Structural Features – Credit Enhancement and Liquidity Support – Interest Risk for the Notes*" below) and the performance of the Mortgage Portfolio.

An amount equal to Available Revenue Receipts may be applied (after making payments or provisions ranking higher in the Pre Enforcement Revenue Payments Priorities) on each Interest Payment Date in accordance with the Pre Enforcement Revenue Payments Priorities, towards reducing any debit balance to the Principal Deficiency Ledger which may arise from Principal Losses on the Mortgage Portfolio and from using Available Principal Receipts to make up any Further Revenue Shortfall.

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

### ***Liquidity support***

On each Calculation Date, the Cash Manager will calculate whether there will be a Revenue Shortfall, Further Revenue Shortfall or Remaining Revenue Shortfall on the following Interest Payment Date.

Where there will be a Revenue Shortfall, then the Cash Manager shall pay or provide for that Revenue Shortfall by the application from the General Reserve Fund of amounts standing to the credit of the General Reserve Fund up to the Excess Amount **provided that** such amounts shall not be used to pay interest on

the Class B Notes, the Class C Notes or the Class D Notes if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger exceeds the aggregate of: (i) 50 per cent. of the outstanding balance of such Class of Notes; and (ii) the outstanding balance of all Classes of Notes ranking junior to such Class of Notes.

Where there will be a Further Revenue Shortfall, then the Cash Manager shall pay or provide for that Further Revenue Shortfall by the application of Available Principal Receipts in accordance with the Pre Enforcement Principal Payments Priorities **provided that** such amounts shall not be used to pay interest on the Class B Notes, the Class C Notes or the Class D Notes if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger exceeds the aggregate of: (i) 50 per cent. of the outstanding balance of such class of Notes; and (ii) the outstanding balance of all Classes of Notes ranking junior to such Class of Notes.

Where there will be a Remaining Revenue Shortfall, then the Cash Manager shall pay or provide for that Remaining Revenue Shortfall by the application from the General Reserve Fund of amounts standing to the credit of the General Reserve Fund up to the Liquidity Amount **provided that** such amounts shall not be used to pay interest on the Class B Notes, the Class C Notes or the Class D Notes if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger together with any Liquidity Amount to be applied to pay items in the Pre Enforcement Revenue Payments Priorities ranking *pari passu* with or in priority to payments of interest on such Class of Notes exceeds the aggregate of: (i) 50 per cent. of the outstanding balance of such Class of Notes; and (ii) the outstanding balance of all classes of Notes ranking junior to such Class of Notes.

The Principal Deficiency Ledger will be debited on each Interest Payment Date by an amount equal to the amount of any Available Principal Receipts used to make up and Further Revenue Shortfall or to fund the Liquidity Amount.

For more information about the General Reserve Fund and the application of Available Principal Receipts or Seller Principal, see the section entitled "*Key Structural Features – Cashflows and Cash Management*".

#### *Subordination of the junior Classes of Notes and deferral of payments on the Notes*

Payments of interest on the Notes will be paid in Sequential Order (so that payments on the Class Z Notes, the Class D Notes, the Class C Notes and the Class B Notes will be subordinated to payments on the Class A Notes, payments on the Class Z Notes, the Class D Notes, the Class C Notes will be subordinated to payments on the Class B Notes, payments on the Class Z Notes, the Class D Notes will be subordinated to payments on the Class C Notes and payments on the Class Z Notes will be subordinated to the Class D Notes) in accordance with the relevant Payments Priorities. Further, Available Revenue Receipts will be applied to credit the applicable Principal Deficiency Sub-Ledgers to eliminate any debit thereon and to credit the General Reserve Fund prior to payment of interest on the Class Z Notes.

Payments of principal on the Notes will be made in Sequential Order except that, following the occurrence of a Principal Payments Trigger Event, payments of principal on the Class A Notes will, amongst themselves, rank *pro rata* and *pari passu*; at all other times, payments of principal on the Class A Notes will be made in Sequential Order (so that principal payments will be made *first*, to the Class A1 Notes and *second*, to the Class A2 Notes) in accordance with the relevant Payments Priorities.

Any shortfall in payments of interest on any Class of Notes (excluding the Most Senior Class of Notes) will be deferred until the next Interest Payment Date and this will not constitute an Event of Default. On the next Interest Payment Date, the amount of interest scheduled to be paid on a Class of Notes will be increased to take account of any deferral of such amounts of interest for such Class of Notes. On the next Interest Payment Date, interest shall also be payable on any Deferred Interest for such Class of Notes. The deferral process will continue until the Final Maturity Date of the Notes, at which point, all such deferred amounts (including interest thereon) will become due and payable. However, if there is insufficient money available to the Issuer to pay interest on any Class of Notes, then the relevant Noteholders may not receive all interest amounts.

It is not intended that any surplus will be accumulated in the Issuer, other than, for the avoidance of doubt, the Issuer Profit Amount, the amounts standing to the credit of the General Reserve Fund and the Swap Collateral Account (if applicable).

#### ***Principal Losses are allocated in the Principal Deficiency Ledger***

On each Calculation Date, the Cash Manager will determine the amount of Principal Losses on the Mortgage Portfolio which are allocable to the Notes.

A Principal Deficiency Ledger, comprising five sub-ledgers (one relating to each Class of Notes), was established on the Closing Date in order to record any Principal Losses and the application of Available

Principal Receipts to (i) fund a Further Revenue Shortfall or (ii) to credit the General Reserve Fund up to the Liquidity Amount.

Losses or debits recorded on the Class A Principal Deficiency Sub-Ledger shall be recorded in respect of the Class A1 Notes and the Class A2 Notes on a *pro rata* and *pari passu* basis. Losses or debits recorded on the Class B Principal Deficiency Sub-Ledger shall be recorded in respect of the Class B Notes. Losses or debits recorded on the Class C Principal Deficiency Sub-Ledger shall be recorded in respect of the Class C Notes. Losses or debits recorded on the Class D Principal Deficiency Sub-Ledger shall be recorded in respect of the Class D Notes. Losses or debits recorded on the Class Z Principal Deficiency Sub-Ledger shall be recorded in respect of the Class Z Notes.

The Principal Losses and the amount of any Available Principal Receipts and/or monies applied to (i) fund a Further Revenue Shortfall or (ii) credit the General Reserve Fund up to the Liquidity Amount will be recorded as a debit to the Principal Deficiency Ledger as follows:

- (a) firstly, to the Class Z Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class Z Notes;
- (b) secondly, to the Class D Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class D Notes;
- (c) thirdly, to the Class C Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class C Notes;
- (d) fourthly, to the Class B Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class B Notes; and
- (e) fifthly, to the Class A Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class A Notes.

Amounts to be credited to the Principal Deficiency Ledger shall be credited to the extent of Available Revenue Receipts available for such purpose on each Interest Payment Date in accordance with the Pre Enforcement Revenue Payments Priorities as follows:

- (a) firstly, to the Class A Principal Deficiency Sub-Ledger to reduce the debit balance to zero;
- (b) secondly, to the Class B Principal Deficiency Sub-Ledger to reduce the debit balance to zero;
- (c) thirdly, to the Class C Principal Deficiency Sub-Ledger to reduce the debit balance to zero;
- (d) fourthly, to the Class D Principal Deficiency Sub-Ledger to reduce the debit balance to zero; and
- (e) fifthly, to the Class Z Principal Deficiency Sub-Ledger to reduce the debit balance to zero.

Available Revenue Receipts allocated as described above will be applied in or towards redemption of the relevant Class of Notes as Available Principal Receipts in accordance with the applicable Payments Priorities.

### **GIC Account**

All monies held by the Issuer will be deposited in the GIC Account in the first instance. The GIC Account is maintained with the Account Bank. This account is subject to a guaranteed investment contract, under which, the Account Bank has agreed to pay a variable rate of interest on sums in the GIC Account of 0.25 per cent. per annum below LIBOR for one-month Sterling deposits. The Account Bank is required to satisfy certain criteria in order to continue to receive deposits in the GIC Account. The criteria include a requirement that (i) the long-term, unsecured, unguaranteed and unsubordinated debt obligation rating of the Account Bank is at least A3 by Moody's and A by Fitch and (ii) the short-term, unsecured, unguaranteed and unsubordinated debt obligation rating of the Account Bank is at least F1 by Fitch, or, in each case, such other lower rating which the Cash Manager certifies to the Trustee in writing (i) is consistent with the then current rating methodology of such relevant Rating Agency in order to support the then rating of the Most Senior Class of Notes, or (ii) with respect to which it has received a Ratings Confirmation. If the Account Bank ceases to satisfy these criteria, then the Issuer shall (with the prior written approval of the Trustee) revoke the appointment of the Account Bank, provided that such revocation will not take effect until an appropriate successor has been appointed or the Account Bank may be required to take such other action as may be required to ensure that the then current rating of the Rated Notes is not and would not be adversely affected.

### **Subordinated Loan**

The Issuer entered into the Subordinated Loan Agreement with the Subordinated Loan Provider on the Closing Date. Pursuant to this agreement, the Subordinated Loan Provider agreed to make available to the

Issuer the Subordinated Loan on the Closing Date. The Subordinated Loan is a subordinate ranking loan which was used by the Issuer to fund the General Reserve Fund on the Closing Date (the "**General Reserve Fund Advance**"). The amount of the Subordinated Loan on the Closing Date was £46,400,000.

The Subordinated Loan will bear interest until repaid at a rate of LIBOR for one-month Sterling deposits plus 2.0 per cent. per annum. Any unpaid interest will not fall due but will instead be due and payable on the next following Interest Payment Date on which sufficient funds are available to pay the unpaid amount and pending such payment, will itself bear interest. Interest in respect of the Subordinated Loan will be payable by the Issuer on each Interest Payment Date. The Issuer will repay the General Reserve Fund Advance in full on the Final Maturity Date, or on such other date on which the Notes are redeemed in full to the extent that it has Available Revenue Receipts (in respect of interest on the General Reserve Fund Advance) and Available Principal Receipts (in respect of principal) to make such payment in accordance with the relevant Payments Priorities.

### **Interest Risk for the Notes**

Interest payable by Borrowers under the Mortgage Loans will be determined by reference to certain fixed and variable rates of interest, which will be determined on a different basis from the floating interest payable by the Issuer on the Notes. In order to hedge against the variance between the fixed rates of interest and the floating interest payable on the Notes, the Issuer will enter into an Interest Rate Swap. The Interest Rate Swap will constitute a transaction pursuant to a 1992 ISDA Master Agreement to be entered into (together with a Schedule and Credit Support Annex thereto) between the Issuer and the Interest Rate Swap Provider.

### **The Interest Rate Swap Agreement**

Under the Interest Rate Swap Agreement, on each Interest Payment Date:

- (a) the Issuer will pay to the Interest Rate Swap Provider the amount (if any) by which the product of the average daily aggregate Current Balance of the Fixed Rate Loans in the preceding Calculation Period (excluding Arrears Fixed Rate Loans), the weighted average interest rate applicable to those Mortgage Loans in that Calculation Period and the number of days in the applicable Calculation Period divided by 365 exceeds the amount calculated under (b) below; and
- (b) the Interest Rate Swap Provider will pay to the Issuer the amount (if any) by which the product of the average daily aggregate Current Balance of the Fixed Rate Loans in the preceding Calculation Period (excluding Arrears Fixed Rate Loans), LIBOR in respect of that Interest Period plus a spread of 2.50% and the number of days in the applicable Calculation Period divided by 365 exceeds the amount calculated under (a) above.

### **Ratings Downgrade**

If, at any time following the Closing Date, the short term or long-term issuer default rating (in respect of ratings by Fitch) or both the long-term, unsecured and unsubordinated rating and the counterparty risk assessment (in respect of any ratings by Moody's) of both the Interest Rate Swap Provider and any guarantor thereof are downgraded by the relevant Rating Agency below the required ratings specified in the Interest Rate Swap Agreement, the Interest Rate Swap Provider will be required to take certain remedial measures, which may include providing collateral for its obligations, arranging for its obligations to be transferred to an entity with the ratings required by the relevant Rating Agency, or procuring another entity with rating(s) required by the relevant Rating Agency to become co-obligor or guarantor in respect of its obligations, or taking such other action as it may agree with the relevant Rating Agency. A failure by the Interest Rate Swap Provider to take such steps within the periods specified in the Interest Rate Swap Agreement will allow the Issuer to terminate the Interest Rate Swap Agreement.

Any Swap Collateral transferred to the Issuer by the Interest Rate Swap Provider as a consequence of such remedial action will be held in the Swap Collateral Account. See the section entitled "*Cashflows and Cash Management – Application of Amounts in Respect of Swap Collateral and Replacement Swap Premium and Tax Credits*" for a full description of the treatment of such Swap Collateral and the Swap Collateral Account.

### **Termination of the Interest Rate Swap Agreement**

The Interest Rate Swap Agreement may be terminated in, *inter alia*, the following circumstances (each, a "**Swap Early Termination Event**"):

- (a) if there is a failure by the other party to pay any amounts due and payable in accordance with the terms of the Interest Rate Swap which failure is not remedied within three Business Days;
- (b) service by the Trustee of an Enforcement Notice;

- (c) upon the occurrence of an insolvency of the Interest Rate Swap Provider, or the merger of the Interest Rate Swap Provider without an assumption of its obligations under the Interest Rate Swap or which results in the imposition of taxes on payments made under the Interest Rate Swap Agreement;
- (d) if the Interest Rate Swap Provider is downgraded and fails to comply with the requirements of the ratings downgrade provision contained in the Interest Rate Swap Agreement and described above in the section entitled "*Key Structural Features – The Interest Rate Swap Agreement – Ratings Downgrade*";
- (e) upon the occurrence of a Tax Event with respect to the Interest Rate Swap Provider or an Illegality (each as defined in the Interest Rate Swap Agreement);
- (f) upon the occurrence of certain Bankruptcy events (as defined in the Interest Rate Swap Agreement) in respect of the Issuer;
- (g) If any amendment, modification or supplement is made without the prior written consent of the Interest Rate Swap Provider to (A) the Payments Priorities such that the Issuer's obligations to the Interest Rate Swap Provider are further contractually subordinated to the Issuer's obligations to any other Secured Creditor, (B) any other provision of the Transaction Documents that has the effect of amending, modifying or supplementing the provisions referred to and having effect described in (A) above, or (C) any of the Transaction Documents which results in the Interest Rate Swap Provider ceasing to be a Secured Creditor;
- (h) If any of the Transaction Documents (1) are amended, modified or supplemented without the Interest Rate Swap Provider's prior written consent, where such amendment, modification or supplement could have an adverse effect on the interests of or place additional obligations on the Interest Rate Swap Provider under the Transaction Documents or (2) become void or unenforceable and the rights or interests of the Interest Rate Swap Provider are prejudiced as a consequence thereof; and
- (i) if (A) the representations which the Issuer has given to the Interest Rate Swap Provider in the Interest Rate Swap Agreement in respect of its' status under EMIR proves to have been incorrect or misleading in any material respect, (B) the Issuer fails to immediately notify the Interest Rate Swap Provider if it has become subject to the clearing obligation under EMIR or (C) the Interest Rate Swap Provider gives notice that the Interest Rate Swap Agreement is required to be amended in accordance with the requirements of EMIR (or any similar or associated regulation) and the Interest Rate Swap Agreement is not amended within the time periods specified in the Interest Rate Swap Agreement.

Upon the occurrence of a Swap Early Termination Event and termination of the Interest Rate Swap either the Issuer or the Interest Rate Swap Provider may be liable to make a termination payment to the other. This termination payment will be calculated and made in sterling. The amount of any termination payment will be based on the market value of the terminated Interest Rate Swap based on market quotations of the cost of entering into a replacement Interest Rate Swap with the same terms and conditions that would have the effect of preserving the respective full payment obligations of the parties (or based upon loss in the event that market quotation cannot be determined). Any such termination payment could be substantial.

Except where the Interest Rate Swap Provider has caused the Interest Rate Swap Agreement to terminate by its own default (pursuant to which an Interest Rate Swap Subordinated Amount may be due), any termination payment in respect of the Interest Rate Swap Agreement due by the Issuer to the Interest Rate Swap Provider will rank in priority to payments due on the Class A Notes.

If a replacement interest rate swap is entered into, the Issuer will apply any termination payment it receives from the Interest Rate Swap Provider in respect of the termination of the Interest Rate Swap to purchase that replacement interest rate swap (as described below). To the extent that the Issuer receives a Replacement Swap Premium, such payment shall first be paid to the Interest Rate Swap Provider in respect of any termination payment due under the terminated Interest Rate Swap. Any such termination payment or Replacement Swap Premium, as applicable, shall be credited to the Swap Collateral Account and shall be paid direct to the Interest Rate Swap Provider or replacement Interest Rate Swap Provider (as applicable).

In the event that the Interest Rate Swap is terminated prior to its scheduled termination, and prior to the service of an Enforcement Notice or the redemption in full of all outstanding Notes, the Issuer (or the Cash Manager on its behalf) shall use its reasonable efforts to enter into a replacement Interest Rate Swap. Such replacement Interest Rate Swap shall be entered into with a replacement Interest Rate Swap Provider that has (or, if applicable its guarantor, has) the appropriate ratings and on substantially similar terms to the terminated Interest Rate Swap.

***Taxation***

The Issuer is not obliged under the Interest Rate Swap Agreement to gross up payments made by it if withholding taxes are imposed on payments made under the Interest Rate Swap Agreement.

The Interest Rate Swap Provider is obliged to gross up payments made by it to the Issuer if withholding taxes are imposed on payments made by it to the Issuer under the Interest Rate Swap Agreement (other than with respect to withholding arising from FATCA). The imposition of such withholding taxes on payments made by the Interest Rate Swap Provider under the Interest Rate Swap Agreement will constitute a Tax Event (as defined in the Interest Rate Swap Agreement) and will give the Interest Rate Swap Provider a right to terminate the Interest Rate Swap Agreement subject to the terms thereof. If the Issuer subsequently receives any Tax Credit in respect of any deduction or withholding which has given rise to an increased payment by the Interest Rate Swap Provider to the Issuer under the Interest Rate Swap Agreement, such Tax Credit will not form part of the Available Revenue Receipts and will be credited to the Swap Collateral Account and the Issuer shall pay the cash benefit of that Tax Credit (determined in accordance with the Interest Rate Swap Agreement) directly to the Interest Rate Swap Provider.

***Governing Law***

The Interest Rate Swap Agreement and any non-contractual obligations arising out of or in relation to the Interest Rate Swap Agreement will be governed by English law.

## CASHFLOWS AND CASH MANAGEMENT

### Application of Revenue Receipts prior to service of an Enforcement Notice

On each Calculation Date prior to the service of an Enforcement Notice, the Cash Manager will calculate the amount of Revenue Receipts, Net Revenue and Available Revenue Receipts, each as defined below for the then current Calculation Period. An amount equal to the Available Revenue Receipts for the related Calculation Period will be applied by the Cash Manager on the next following Interest Payment Date in accordance with the Pre Enforcement Revenue Payments Priorities. Following the service on an Enforcement Notice, all Revenue Receipts and other monies of the Issuer will be applied in accordance with the Post Enforcement Payments Priorities.

### Definition of Net Revenue and Revenue Receipts

"**Net Revenue**" means, for each Interest Payment Date, the aggregate Revenue Receipts collected in respect of the relevant Calculation Period less Early Repayment Charges which are paid directly by the Cash Manager on behalf of the Issuer to the Seller in accordance with the Cash Management Agreement and less the amounts collected during the relevant Calculation Period which properly belong to third parties such as (but not limited to):

- (a) payments of certain insurance premia where such cash amounts have been paid by the relevant Borrower and form part of Revenue Receipts;
- (b) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup such amount itself from its customer's account; and
- (c) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service to that Borrower or the Seller,

(items (a), (b) and (c) above being collectively referred to as "**Third Party Amounts**").

"**Revenue Receipts**" means payments representing:

- (a) payments of interest on the Mortgage Loans (including Arrears of Interest and Accrued Interest but excluding Capitalised Arrears) and fees due from time to time under the Mortgage Loans;
- (b) recoveries of interest and outstanding fees (excluding Capitalised Arrears, if any) from defaulting Borrowers under Mortgage Loans being enforced;
- (c) recoveries of interest and outstanding fees (excluding Capitalised Arrears, if any) and/or principal from defaulting Borrowers under Mortgage Loans in respect of which enforcement procedures have been completed;
- (d) the proceeds of the repurchase of any Mortgage Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement to the extent such proceeds are attributable to Accrued Interest, Arrears of Interest and other interest amounts in respect of the Mortgage Loans (excluding, for the avoidance of doubt, Capitalised Arrears) as at relevant Transfer Date; and
- (e) any Early Repayment Charges which have been paid by the Borrower in respect of the Mortgage Loans.

### Definition of Available Revenue Receipts

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

- (a) the Net Revenue received by the Issuer during the immediately preceding Calculation Period;
- (b) interest payable to the Issuer on the Issuer Accounts (other than the Swap Collateral Account (including distributions on any Swap Collateral)) and income from any Authorised Investments in each case received during the immediately preceding Calculation Period;
- (c) all amounts received by the Issuer under or in connection with the Interest Rate Swap Agreement or a replacement thereof (other than (1) Swap Collateral, (2) any Replacement Swap Premium, (3) any early termination payment received by the Issuer from the Interest Rate Swap Provider on termination of the Interest Rate Swap which is to be used, if applicable, to purchase a replacement Interest Rate Swap, (4) Swap Collateral Negative Interest and (5) Tax Credits received by the Issuer under the Interest Rate Swap) on or before such Interest Payment Date;
- (d) other net income of the Issuer received during the immediately preceding Calculation Period (other than any Principal Receipts, Early Repayment Charges and Third Party Amounts);



- (e) any amounts available (prior to a Principal Payments Trigger Event) pursuant to item (k) or (after a Principal Payments Trigger Event) item (j) of the Pre Enforcement Principal Payments Priorities;

*plus*

- (f) if a Revenue Shortfall occurs (as a result of the aggregate of items (a) to (e) above being insufficient to pay or provide for items (a) to (m) of the Pre Enforcement Revenue Payments Priorities), amounts standing to the credit of the General Reserve Fund up to the Excess Amount to the extent necessary to pay or provide for such Revenue Shortfall, provided that such amounts shall not be used, in each case, to pay interest on the Class B Notes, the Class C Notes or the Class D Notes (as applicable), if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger exceeds the aggregate of: (i) 50 per cent. of the Principal Amount Outstanding of such Class of Notes; and (ii) the Principal Amount Outstanding of all Classes of Notes ranking junior to such Class of Notes;

*plus*

- (g) if a Further Revenue Shortfall occurs (as a result of the aggregate of items (a) to (f) above being insufficient to pay or provide for items (a) to (d), (f), (h) and (j) of the Pre Enforcement Revenue Payments Priorities), Available Principal Receipts which are available pursuant to item (a) of the Pre Enforcement Principal Payments Priorities to the extent necessary to pay or provide for such Further Revenue Shortfall, provided that such amounts shall not be used to pay interest on the Class B Notes, the Class C Notes or the Class D Notes (as applicable) if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger exceeds the aggregate of: (i) 50 per cent. of the Principal Amount Outstanding of such class of Notes; and (ii) the Principal Amount Outstanding of all Classes of Notes ranking junior to such Class of Notes; and

*plus*

- (h) if a Remaining Revenue Shortfall occurs (as a result of the aggregate of items (a) to (g) above being insufficient to pay or provide for items ((a) to (d), (f), (h) and (j) of the Pre Enforcement Revenue Payments Priorities), amounts standing to the credit of the General Reserve Fund up to the Liquidity Amount to the extent necessary to pay or provide for such Remaining Revenue Shortfall provided that such amounts shall not be used, in each case, to pay interest on the Class B Notes, the Class C Notes or the Class D Notes (as applicable) if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger, together with any Liquidity Amount to be applied to pay items in the Pre Enforcement Revenue Payments Priorities ranking *pari passu* with or in priority to payments of interest on such Class of Notes, exceeds the aggregate of: (i) 50 per cent. of the Principal Amount Outstanding of such Class of Notes; and (ii) the Principal Amount Outstanding of all classes of Notes ranking junior to such Class of Notes.

#### **General Reserve Fund and General Reserve Ledger**

On the Closing Date, the Issuer established the General Reserve Fund to provide credit enhancement and liquidity support for the Notes. The General Reserve Fund was funded up to the General Reserve Fund Required Amount on the Closing Date from the Subordinated Loan and, following the Closing Date, will be replenished up to the General Reserve Fund Required Amount from Available Revenue Receipts on each Interest Payment Date to the extent required in accordance with the provisions of the Pre Enforcement Revenue Payments Priorities. If after the application of Available Revenue Receipts there is less than the Liquidity Amount standing to the credit of the General Reserve Fund then Available Principal Receipts will be used to make up such shortfall in accordance with the Pre Enforcement Principal Payments Priorities.

The General Reserve Fund will be deposited in the GIC Account (with a corresponding credit being made to the General Reserve Ledger). The Issuer (or the Cash Manager on its behalf) may invest the amounts standing to the credit of the GIC Account in Authorised Investments, subject to certain conditions as set out in the Cash Management Agreement, including (without limitation) that amounts standing to the General Reserve Ledger up to the Liquidity Amount must not be invested in Authorised Investments corresponding to limb (a) of the definition of Authorised Investments.

Prior to the service of an Enforcement Notice, monies standing to the credit of the General Reserve Fund will be applied on each Interest Payment Date as follows: (a) the Excess Amount may be used by the Issuer to make up any Revenue Shortfall; and (b) the Liquidity Amount may be used by the Issuer to fund any Remaining Revenue Shortfall.

Prior to service of an Enforcement Notice, to the extent that monies in the General Reserve Fund representing Excess Amounts and Available Principal Receipts are insufficient to make up the Further Revenue Shortfall on any Interest Payment Date, monies in the General Reserve Fund representing Liquidity Amounts as at the end of the immediately preceding Calculation Period will be applied on such

Interest Payment Date to make up such Remaining Revenue Shortfall subject to the conditions set out below.

Monies in the General Reserve Fund representing Liquidity Amounts may be used by the Issuer to make up any Remaining Revenue Shortfall **provided that** such amounts shall not be used to pay interest on the Class B Notes, the Class C Notes or the Class D Notes if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger together with any Liquidity Amount to be applied to pay items in the Pre Enforcement Revenue Payments Priorities ranking *pari passu* with or in priority to payments of interest on such Class of Notes exceeds the aggregate of: (i) 50 per cent. of the outstanding balance of such Class of Notes; and (ii) the outstanding balance of all classes of Notes ranking junior to such Class of Notes.

The amount of any Available Principal Receipts applied to fund the Liquidity Amount will be recorded by the Issuer (or the Cash Manager on its behalf) with a corresponding debit in the Principal Deficiency Ledger.

On any Interest Payment Date on which the Notes are fully repaid or provided for, the General Reserve Fund Required Amount will be reduced to zero and any amounts held in the General Reserve Fund will form part of Available Principal Receipts and will be applied in accordance with the Pre Enforcement Principal Payments Priorities.

Following service of an Enforcement Notice, monies standing to the credit of the General Reserve Fund will be applied in accordance with the Post Enforcement Payments Priorities.

#### **Application of Available Principal Receipts to fund Further Revenue Shortfall**

Prior to service of an Enforcement Notice, to the extent that the Excess Amount is insufficient to make up the Revenue Shortfall on any Interest Payment Date and results in a Further Revenue Shortfall, an amount equal to Available Principal Receipts may be applied on such Interest Payment Date to make up such Further Revenue Shortfall in accordance with the Pre Enforcement Principal Payments Priorities (**provided that** such amounts shall not be used to pay interest on the Class B Notes, the Class C Notes or the Class D Notes if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger exceeds the aggregate of: (i) 50 per cent. of the outstanding balance of such class of Notes; and (ii) the outstanding balance of all Classes of Notes ranking junior to such Class of Notes).

If an amount equal to Available Principal Receipts is applied to fund a Further Revenue Shortfall on any Interest Payment Date, the Issuer (or the Cash Manager on its behalf) will make a corresponding debit in the Principal Deficiency Ledger.

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

On any date on which the Notes are repaid or provided for in full, the Issuer (or the Cash Manager on its behalf) may apply all amounts standing to the credit of any Issuer Account (including the General Reserve Fund but excluding the Swap Collateral Account) of the Issuer to repay any liabilities of the Issuer and to discharge all other amounts required to be paid by the Issuer in accordance with the relevant Payments Priorities.

#### **Application of Available Revenue Receipts prior to the service of an Enforcement Notice**

On each Interest Payment Date prior to the service of an Enforcement Notice, the Cash Manager, on behalf of the Issuer, shall apply or provide for the application of an amount equal to the Available Revenue Receipts in the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full) (the "**Pre Enforcement Revenue Payments Priorities**"):

- (a) *first*, in or towards payment of any remuneration, fees, costs, charges, liabilities, expenses and all other amounts then due or to become due and payable in the immediately succeeding Interest Period to the Trustee and any Appointee under the provisions of the Trust Deed and the other Transaction Documents together with (if payable) VAT thereon as provided therein
- (b) *second*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Agent Bank, the Registrar and the Paying Agents and any fees, costs, charges, liabilities and expenses then due or to become due and payable in the immediately succeeding Interest Period to them under the provisions of the Agency Agreement, together with (if payable) VAT thereon as provided therein
  - (ii) any amounts then due and payable to the Corporate Services Provider and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Corporate Services Provider in the immediately succeeding Interest Period under the

- provisions of the Corporate Services Agreement, together with (if payable) VAT thereon as provided therein;
- (iii) any amounts then due and payable to the Account Bank and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Account Bank, as applicable, in the immediately succeeding Interest Period under the provisions of the Account Bank Agreement, together with (if applicable) VAT thereon as provided therein;
  - (iv) any amounts then due and payable to the Servicer and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the immediately succeeding Interest Period under the provisions of the Servicing Agreement and/or, if appointed, any amounts due and payable to the Back-Up Servicer and any fees, costs, charges, liabilities and expense then due or to become due and payable to the Back-Up Servicer in the immediately succeeding Interest Period under the provisions of the Back-Up Servicing Agreement, together with VAT (if payable) thereon as provided therein;
  - (v) any amounts then due and payable to the Cash Manager and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding Interest Period under the provisions of the Cash Management Agreement, together with VAT (if payable) thereon as provided therein; and
  - (vi) any amounts required to pay or discharge any liability of the Issuer for corporation tax on any income or chargeable gain of the Issuer (but only to the extent not capable of being satisfied out of amounts retained by the Issuer under item (l) below);
- (c) *third*, in or towards payment of any amounts due to the Interest Rate Swap Provider in respect of the Interest Rate Swap Agreement (other than any Interest Rate Swap Subordinated Amounts which are due and payable under item (p) below);
  - (d) *fourth*, in or towards payment *pro rata* and *pari passu* of interest due and payable on:
    - (i) the Class A1 Notes; and
    - (ii) the Class A2 Notes;
  - (e) *fifth*, to credit the Class A Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon (such amounts to be applied as Available Principal Receipts);
  - (f) *sixth*, in or towards payment of interest due and payable on the Class B Notes (including any Deferred Interest and Additional Interest);
  - (g) *seventh*, to credit the Class B Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon (such amounts to be applied as Available Principal Receipts);
  - (h) *eighth*, in or towards payment of interest due and payable on the Class C Notes (including any Deferred Interest and Additional Interest);
  - (i) *ninth*, to credit the Class C Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon (such amounts to be applied as Available Principal Receipts);
  - (j) *tenth*, in or towards payment of interest due and payable on the Class D Notes (including any Deferred Interest and Additional Interest);
  - (k) *eleventh*, to credit the Class D Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon (such amounts to be applied as Available Principal Receipts);
  - (l) *twelfth*, in or towards payment to the Issuer of an amount equal to £1,400 on each Interest Payment Date up to and including the Interest Payment Date falling in June 2017 and £100 on each Interest Payment Date thereafter in each case to be credited to the GIC Account and to be retained by the Issuer as profit in respect of the business of the Issuer;
  - (m) *thirteenth*, to credit the Class Z Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon (such amounts to be applied as Available Principal Receipts);
  - (n) *fourteenth*, on any Interest Payment Date other than on the final Interest Payment Date, to credit the General Reserve Fund up to the General Reserve Fund Required Amount;
  - (o) *fifteenth*, in or towards payment of any amounts due and payable by the Issuer to third parties and incurred without breach by the Issuer of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and any amounts necessary to provide for any such amounts expected to become due and payable by the Issuer in the immediately succeeding Interest Period and any amounts required to pay or discharge any liability of the Issuer for

corporation tax of the Issuer (but only to the extent not being capable of being satisfied out of amounts retained by the Issuer under item (b) above);

- (p) *sixteenth*, in or towards payment, in accordance with the terms of the Interest Rate Swap Agreement, to the Interest Rate Swap Provider, of any Interest Rate Swap Subordinated Amount;
- (q) *seventeenth*, in or towards payment of interest due and payable on the Class Z Notes (including any Deferred Interest and Additional Interest);
- (r) *eighteenth*, in or towards payment of interest due and payable to the Subordinated Loan Provider under the Subordinated Loan Agreement; and
- (s) *nineteenth*, the excess (if any) to be paid to the Seller as Deferred Consideration.

#### **Payments of Third Party Amounts and Early Repayment Charges**

Both pre and post service of an Enforcement Notice, Third Party Amounts and Early Repayment Charges may be withdrawn by the Cash Manager on a daily basis from the Issuer Accounts (other than the Swap Collateral Account) to make payment to the persons entitled thereto except where such payments have already been provided for elsewhere. The Issuer will hold Early Repayment Charges on trust for the Seller pursuant to the terms of the Mortgage Sale Agreement and will hold the Third Party Amounts on trust for the parties entitled to payment of such amounts pursuant to the Mortgage Sale Agreement.

#### **Application of Principal Receipts prior to service of an Enforcement Notice**

On each Calculation Date prior to the service of an Enforcement Notice, the Cash Manager will calculate the amount of Available Principal Receipts (as defined below) for the then current Calculation Period. An amount equal to the Available Principal Receipts for the related Calculation Period will be applied by the Cash Manager on the next following Interest Payment Date in accordance with the Pre Enforcement Principal Payments Priorities. Following the service on an Enforcement Notice, all Principal Receipts will be applied in accordance with the Post Enforcement Payments Priorities.

#### **Definition of Principal Receipts, Available Principal Receipts and Seller Principal**

"**Principal Receipts**" means payments received by the Issuer representing

- (a) any payment in respect of principal received in respect of any Mortgage Loan (including Capitalised Arrears but excluding Accrued Interest and Arrears of Interest);
- (b) recoveries of principal from defaulting Borrowers on enforcement of such Mortgage Loan (including the proceeds of sale of the relevant property);
- (c) any payment pursuant to any insurance policy in respect of a Mortgaged Property in connection with a Mortgage Loan in the Mortgage Portfolio;
- (d) recoveries of principal on redemption (including partial redemption) of such Mortgage Loan;
- (e) proceeds of the repurchase of any Mortgage Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement; and
- (f) any other payments received which are not classified as Revenue Receipts.

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

- (a) Principal Receipts received by the Issuer during the immediately preceding Calculation Period (including the principal element of consideration paid by the Seller in respect of the repurchase of the Mortgage Loans and their Related Security and recoveries received by the Issuer in relation to the enforcement of the relevant Mortgage Loan);
- (b) any Available Revenue Receipts to be applied in reducing the debit balance on the Principal Deficiency Ledger;
- (c) any amounts released from the General Reserve Fund when the General Reserve Fund Required Amount is reduced to zero; and
- (d) during the Revolving Period, any amounts standing to the credit of the Retained Principal Receipts Ledger on such Interest Payment Date;

less

- (e) prior to the repurchase by the Seller of any Further Advance, any amounts to be used to pay the related Further Advance Purchase Price to the Seller.

### *Retained Principal Receipts Ledger*

The Cash Manager maintains a ledger pursuant to the Cash Management Agreement called the "**Retained Principal Receipts Ledger**".

On any New Portfolio Sale Date during the Revolving Period, all Available Principal Receipts available to the Issuer after the payment of the items (a) and (b) of the Pre Enforcement Principal Payments Priorities on that Interest Payment Date, will be credited to the Retained Principal Receipts Ledger and used to purchase New Portfolios from the Seller on any New Portfolio Sale Date on a "first-in, first-out" basis. To the extent that there are amounts standing to the credit of the Retained Principal Receipts Ledger on an Interest Payment Date which have not been used to pay the applicable New Portfolio Purchase Price for New Portfolios acquired during the preceding Interest Period, such amounts will form part of the Available Principal Receipts and will be applied in accordance with the Pre Enforcement Principal Payments Priorities on the next following Interest Payment Date. To the extent that any amounts standing to the credit of the Retained Principal Receipts Ledger have been retained in the Retained Principal Receipts Ledger for longer than 18 months or exceed 5 per cent. of the aggregate Current Balance of all Mortgage Loans in the Mortgage Portfolio at the end of the previous Calculation Period (such excess or residual amounts being the "**Surplus Retained Principal Receipts**"), such Surplus Retained Principal Receipts will not be credited to the Retained Principal Receipts Ledger and will be applied in accordance with the Pre Enforcement Principal Payments Priorities (see further below).

### **Application of an amount equal to Available Principal Receipts prior to the service of an Enforcement Notice**

Prior to the service of an Enforcement Notice, the Cash Manager, on behalf of the Issuer, will, pursuant to the terms of the Cash Management Agreement, apply an amount equal to Available Principal Receipts (if any) on each Interest Payment Date in the following order of priority (the "**Pre Enforcement Principal Payments Priorities**") (in each case only if and to the extent that payments or provisions of higher priority have been paid in full):

- (a) *first*, to fund any Further Revenue Shortfall on such Interest Payment Date, subject to the limits or conditions on the purposes for which the Available Principal Receipts may be so utilised, as described more fully above (such amounts to be applied as Available Revenue Receipts on such Interest Payment Date)
- (b) *second*, if the amount standing to the credit of the General Reserve Fund is less than the Liquidity Amount, to credit the General Reserve Fund up to the Liquidity Amount;
- (c) *third*, during the Revolving Period, to credit the Retained Principal Receipts Ledger in an amount equal to all remaining Available Principal Receipts (other than any Surplus Retained Principal Receipts);

### **Prior to a Principal Payments Trigger Event:**

- (d) *fourth*, in redeeming the Class A1 Notes until the Principal Amount Outstanding thereof has been reduced to zero;
- (e) *fifth*, in redeeming the Class A2 Notes until the Principal Amount Outstanding thereof has been reduced to zero
- (f) *sixth*, in redeeming the Class B Notes until the Principal Amount Outstanding thereof has been reduced to zero;
- (g) *seventh*, in redeeming the Class C Notes until the Principal Amount Outstanding thereof has been reduced to zero;
- (h) *eighth*, in redeeming the Class D Notes until the Principal Amount Outstanding thereof has been reduced to zero;
- (i) *ninth*, in redeeming the Class Z Notes until the Principal Amount Outstanding thereof has been reduced to zero; and
- (j) *tenth*, in or towards payment of principal due and payable to the Subordinated Loan Provider;
- (k) *eleventh*, the excess (if any) to be applied as Available Revenue Receipts.

### **After a Principal Payments Trigger Event:**

- (d) *fourth*, in redeeming *pro rata* and *pari passu* according to the respective amounts due:

- (i) the Class A1 Notes until the Principal Amount Outstanding thereof has been reduced to zero; and
- (ii) the Class A2 Notes until the Principal Amount Outstanding thereof has been reduced to zero;
- (e) *fifth*, in redeeming the Class B Notes until the Principal Amount Outstanding thereof has been reduced to zero;
- (f) *sixth*, in redeeming the Class C Notes until the Principal Amount Outstanding thereof has been reduced to zero
- (g) *seventh*, in redeeming the Class D Notes until the Principal Amount Outstanding thereof has been reduced to zero
- (h) *eighth*, in redeeming the Class Z Notes until the Principal Amount Outstanding thereof has been reduced to zero; and
- (i) *ninth*, in or towards payment of principal due and payable to the Subordinated Loan Provider;
- (j) *tenth*, the excess (if any) to be applied as Available Revenue Receipts.

#### **Post Enforcement Payments Priorities**

After an Enforcement Notice is delivered by the Trustee, Revenue Receipts, Principal Receipts, amounts standing to the credit of the Issuer Accounts (other than the Swap Collateral Account) and other monies received by the Issuer (other than (i) Swap Collateral standing to the credit of or to be credited to the Swap Collateral Account and any interest or distributions paid thereon; (ii) any early termination amount received by the Issuer under the Interest Rate Swap Agreement to the extent used to purchase any replacement interest rate swap; (iii) any amount received by the Issuer by way of a Replacement Swap Premium paid by any replacement interest rate swap provider which shall be applied by the Issuer to pay to the outgoing Interest Rate Swap Provider any termination payment under the Interest Rate Swap Agreement being replaced; (iv) Swap Collateral Negative Interest; and (v) Tax Credits) will be held by the Trustee upon trust to be applied in payment, in the amounts required, in the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full) (the "**Post Enforcement Payments Priorities**" and, together with the Pre Enforcement Revenue Payments Priorities and the Pre Enforcement Principal Payments Priorities, the "**Payments Priorities**"):

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

- (v) any amounts then due and payable to the Cash Manager and any fees, costs, charges, liabilities and expenses then due and payable to the Cash Manager under the provisions of the Cash Management Agreement, together with (if payable) VAT thereon as provided therein; and
- (vi) any amounts required to pay or discharge any liability of the Issuer for corporation tax on any income or chargeable gain of the Issuer (but only to the extent not capable of being satisfied out of amounts retained by the Issuer under item (m) below);
- (c) *third*, in or towards satisfaction of any amounts due to the Interest Rate Swap Provider in respect of the Interest Rate Swap Agreement (other than any Interest Rate Swap Subordinated Amounts which are due and payable under item (i) below);
- (d) *fourth*, to pay *pro rata* and *pari passu* according to the respective outstanding amounts thereof interest due and payable on the Class A1 Notes and the Class A2 Notes;
- (e) *fifth*, to pay or in or towards redeeming, *pro rata* and *pari passu*: principal due and payable on the Class A1 Notes and the Class A2 Notes until the Principal Amount Outstanding thereof has been reduced to zero;
- (f) *sixth*, to pay, first, interest due and payable on the Class B Notes (including any Deferred Interest and Additional Interest) and, second, principal due and payable on the Class B Notes until the Principal Amount Outstanding thereof has been reduced to zero;
- (g) *seventh*, to pay, first, interest due and payable on the Class C Notes (including any Deferred Interest and Additional Interest) and, second, principal due and payable on the Class C Notes until the Principal Amount Outstanding thereof has been reduced to zero;
- (h) *eighth*, to pay, first, interest due and payable on the Class D Notes (including any Deferred Interest and Additional Interest) and, second, principal due and payable on the Class D Notes until the Principal Amount Outstanding thereof has been reduced to zero;
- (i) *ninth*, to pay in accordance with the terms of the Interest Rate Swap Agreement, to the Interest Rate Swap Provider any Interest Rate Swap Subordinated Amount;
- (j) *tenth*, to pay, first, interest due and payable on the Class Z Notes (including any Deferred Interest and Additional Interest) and, second, principal due and payable on the Class Z Notes until the Principal Amount Outstanding thereof has been reduced to zero;
- (k) *eleventh*, to pay amounts of interest due and payable to the Subordinated Loan Provider under the Subordinated Loan Agreement;
- (l) *twelfth*, to pay amounts of principal due and payable to the Subordinated Loan Provider under the Subordinated Loan Agreement; and
- (m) *thirteenth*, in or towards payment to the Issuer of an amount equal to £1,400 on each Interest Payment Date up to and including the Interest Payment Date falling in June 2017 and £100 on each Interest Payment Date thereafter in each case to be credited to the GIC Account and to be retained by the Issuer as profit in respect of the business of the Issuer; and
- (n) *fourteenth*, to pay Deferred Consideration due and payable to the Seller.

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

The Swap Collateral Account will not be subject to the Security granted by the Issuer and will be operated by the Cash Manager pursuant to the terms of the Cash Management Agreement and the Account Bank Agreement. Amounts received by the Issuer in respect of Swap Collateral, Tax Credits, Replacement Swap Premium, termination payments received by the Issuer on termination of the Interest Rate Swap which are to be applied (if applicable) to purchase a replacement Interest Rate Swap and all interest and other distributions received on any Swap Collateral held in the Swap Collateral Account, together with any Swap Collateral Negative Interest, shall be credited by the Cash Manager to the Swap Collateral Account. Such amounts shall be applied in accordance with the terms of the Cash Management Agreement by the Cash Manager on behalf of the Issuer (and, in each case, shall not be applied in accordance with the Payments Priorities) as follows:

- (a) any Swap Collateral Return Payment will be returned directly to the Interest Rate Swap Provider on each date on which such Swap Collateral Return Payment is due to be returned under the Interest Rate Swap Agreement (including, without limitation, on termination of the Interest Rate Swap);

- (b) on early termination of the Interest Rate Swap Agreement, any Swap Collateral which is not a Swap Collateral Return Payment shall be 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 Agreement and shall be used (if applicable) in the purchase of a replacement Interest Rate Swap, or if not so used, transferred to the GIC Account;
- (c) any Replacement Swap Premium received by the Issuer from a replacement interest rate swap provider shall be paid directly to the outgoing Interest Rate Swap Provider towards payment of the termination payment due and payable by the Issuer to the outgoing Interest Rate Swap Provider;
- (d) any early termination amount received by the Issuer on termination of the Interest Rate Swap shall be applied (if applicable) to purchase a replacement Interest Rate Swap;
- (e) any Tax Credits received by the Issuer shall be paid direct to the Interest Rate Swap Provider;
- (f) all interest and other distributions received on any Swap Collateral held in the Swap Collateral Account will be returned directly to the Interest Rate Swap Provider on each date on which such interest or distribution is due to be returned under the Interest Rate Swap Agreement; and
- (g) any Swap Collateral Negative Interest shall be added to and form part of the balance of the Swap Collateral in the Swap Collateral Account.



## DESCRIPTION OF THE NOTES IN GLOBAL FORM

### General

The Notes of each Class, as at the Closing Date, are represented by a Global Note. All capitalised terms not defined in this paragraph shall be as defined in the Conditions of the Notes.

The Global Note has been deposited on the Closing Date with a Common Depositary.

The Global Note has been registered in the name of the nominee for the Common Depositary for both Euroclear and Clearstream, Luxembourg. The Registrar maintains a register in which it has registered the nominee for the Common Depositary as the owner of the Global Note.

Upon confirmation by the Common Depositary that it had custody of the Global Note, Euroclear or Clearstream, Luxembourg, as the case may be, recorded the beneficial interests in the Global Note (the "**Book-Entry Interests**") attributable thereto.

Book-Entry Interests in respect of the Global Note will be recorded in denominations of £100,000 and for so long as Euroclear and Clearstream, Luxembourg so permit, any amount in excess thereof in integral multiples of £1,000 respectively (an Authorised Denomination). Ownership of Book-Entry Interests is limited to persons that have accounts with Euroclear or Clearstream, Luxembourg ("**Participants**") or persons that hold interests in the Book-Entry Interests through Participants ("**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 shall 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 Arranger. Ownership of Book-Entry Interests will be shown on, and transfers of Book-Entry Interests or the interests therein will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg (with respect to the interests of their Participants) and on the records of Participants or Indirect Participants (with respect to the interests of Indirect Participants). The laws of some jurisdictions or other applicable rules may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may therefore impair the ability to own, transfer or pledge Book-Entry Interests.

So long as a nominee for the Common Depositary is the registered holder of the Global Note underlying the Book-Entry Interests, the nominee for the Common Depositary will be considered the sole Noteholder of the Global Note for all purposes under the Trust Deed. Except as set out under "*Issuance of Definitive Notes*", below, Participants or Indirect Participants will not be entitled to have Notes registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive registered form and will not be considered the holders thereof under the Trust Deed. Accordingly, each person holding a Book-Entry Interest must rely on the rules and procedures of Euroclear or Clearstream, Luxembourg, as the case may be, and Indirect Participants must rely on the procedures of the Participants or Indirect Participants through which such person owns its interest in the relevant Book-Entry Interests, to exercise any rights and obligations of a holder of Notes under the Trust Deed. See the section entitled "*Action in Respect of the Global Note and the Book-Entry Interests*", below.

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

In the case of the Global Note, unless and until Book-Entry Interests are exchanged for Definitive Notes, the Global Note held by the Common Depositary may not be transferred except as a whole by the Common Depositary to a successor of the Common Depositary.

Purchasers of Book-Entry Interests in the Global Note will hold Book-Entry Interests in the Global Note relating thereto. Investors may hold their Book-Entry Interests in respect of the Global Note directly through Euroclear or Clearstream, Luxembourg (in accordance with the provisions set out under "*Transfers and*

*Transfer Restrictions*", below), if they are account holders in such systems, or indirectly through organisations which are account holders in such systems. Euroclear and Clearstream, Luxembourg will hold Book-Entry Interests in the Global Note on behalf of their account holders through securities accounts in the respective account holders' names on Euroclear's and Clearstream, Luxembourg's respective book-entry registration and transfer systems.

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

### **Payments on the Global Note**

Payment of principal and interest on, and any other amount due in respect of, the Global Note will be made in Sterling by or to the order of Deutsche Bank AG, London Branch, as the Principal Paying Agent, on behalf of the Issuer to the order of the Common Depositary or its nominee as the registered holder thereof with respect to the Global Notes. Each holder of Book-Entry Interests must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of any amounts paid by or on behalf of the Issuer to the order of the Common Depositary or their nominees in respect of those Book-Entry Interests. All such payments will be distributed without deduction or withholding for or on account of any taxes, duties, assessments or other governmental charges of whatever nature except as may be required by law. If any such deduction or withholding is required to be made, then neither the Issuer, the Paying Agents nor any other person will be obliged to pay additional amounts in respect thereof.

In accordance with the rules and procedures for the time being of Euroclear or, as the case may be, Clearstream, Luxembourg, after receipt of any payment from the Principal Paying Agent to the order of the Common Depositary, the respective systems will promptly credit their Participants' accounts with payments in amounts proportionate to their respective ownership of Book-Entry Interests as shown in the records of Euroclear or Clearstream, Luxembourg. On each record date (the "**Record Date**") Euroclear and Clearstream, Luxembourg will determine the identity of the Noteholders for the purposes of making payments to the Noteholders. The Record Date, in respect of the Notes shall be as at the close of the Business Day prior to the relevant Interest Payment Date. The Issuer expects that payments by Participants to owners of interests in Book-Entry Interests held through such Participants or Indirect Participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants or Indirect Participants. None of the Issuer, any agent of the Issuer, the Arranger, the Trustee, the Paying Agents, the Agent Bank or the Registrar 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 each provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg each also deal with domestic securities markets in several countries through established depositary and custodial relationships. The respective systems of Euroclear and of Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective account holders may settle trades with each other.

Account holders in both Euroclear and Clearstream, Luxembourg are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to both Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

An account holder's overall contractual relations with either Euroclear or Clearstream, Luxembourg are governed by the respective rules and operating procedures of Euroclear or Clearstream, Luxembourg and

any applicable laws. Both Euroclear and Clearstream, Luxembourg act under such rules and operating procedures only on behalf of their respective account holders, and have no record of or relationship with persons holding through their respective account holders.

The Issuer understands that under existing industry practices, if any of the Issuer 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 Deed of Charge, Euroclear or Clearstream, Luxembourg as the case may be, would authorise the Participants owning the relevant Book-Entry Interests to give instructions or take such action, and such Participants would authorise Indirect Participants to give or take such action or would otherwise act upon the instructions of such Indirect Participants.

### **Redemption**

In the event that the Global Note (or portion thereof) is redeemed, the Principal Paying Agent will deliver all amounts received by it in respect of the redemption of such Global Note to the order of the Common Depositary and, upon final payment, will surrender such Global Note (or portion thereof) to or to the order of the Principal Paying Agent for cancellation. Appropriate entries will be made in the Register. The redemption price payable in connection with the redemption of Book-Entry Interests will be equal to the amount received by the Principal Paying Agent in connection with the redemption of the Global Note (or portion thereof) relating thereto. For any redemptions of the Global Note in part, selection of the relevant Book-Entry Interest relating thereto to be redeemed will be made by Euroclear or Clearstream, Luxembourg, as the case may be, in accordance with the rules and procedures of Euroclear or Clearstream, Luxembourg, as the case may be. 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 Notes 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 in the relevant schedule thereto and may not be reissued or resold.

### **Transfers and Transfer Restrictions**

All transfers of Book-Entry Interests will be recorded in accordance with the book-entry systems maintained by Euroclear or Clearstream, Luxembourg, as applicable, pursuant to customary procedures established by each respective system and its Participants. See "*General*", above.

Beneficial interests in the Global Notes may be held only through Euroclear or Clearstream, Luxembourg. The Global Notes will bear a legend substantially identical to that appearing in the Global Notes, and neither the Global Notes nor any beneficial interest therein may be transferred except in compliance with the transfer restrictions set out in the legend appearing in the Global Notes.

### **Issuance of Definitive Notes**

Holders of Book-Entry Interests in the Global Note will be entitled to receive Definitive Notes in registered form in exchange for their respective holdings of Book-Entry Interests if (a) Euroclear or Clearstream, Luxembourg are 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 so cease business and no alternative clearing system satisfactory to the Trustee is available or (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive registered form and a certificate to such effect signed by an authorised director of the Issuer is delivered to the Trustee.

Any Definitive Notes issued in exchange for Book-Entry Interests in the Global Note will be registered by the Registrar in such name or names as the Issuer shall instruct the Principal Paying Agent based on the instructions of Euroclear or Clearstream, Luxembourg, as the case may be. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, Luxembourg from their Participants with respect to ownership of the relevant Book-Entry Interests. Holders of Definitive Notes issued in exchange for Book-Entry Interests in the Global Note will not be entitled to exchange such Definitive Note for Book-Entry Interests in such Global Note. Any Notes issued in definitive form will be

issued in registered form only within 30 days of the occurrence of the relevant event (but not earlier than the Exchange Date) and will be subject to the provisions set out under "*Transfers and Transfer Restrictions*" above and provided that no transfer shall be registered for a period of 15 days immediately preceding any due date for payment in respect of the Note or, as the case may be, the due date for redemption. Definitive Notes will not be issued in a denomination that is not an integral multiple of the minimum authorised denomination.

#### **Action in Respect of the Global Note and the Book-Entry Interests**

Not later than 10 days after receipt by the Issuer of any notices in respect of the Global Note or any notice of solicitation of consents or requests for a waiver or other action by the holder of the Global Note, the Issuer will deliver to Euroclear and Clearstream, Luxembourg a notice containing (a) such information as is contained in such notice, (b) a statement that at the close of business on a specified record date Euroclear and Clearstream, Luxembourg will be entitled to instruct the Issuer as to the consent, waiver or other action, if any, pertaining to the Book-Entry Interests or the Global Note and (c) a statement as to the manner in which such instructions may be given. Upon the written request of Euroclear or Clearstream, Luxembourg, as applicable, the Issuer shall endeavour insofar as practicable to take such action regarding the requested consent, waiver or other action in respect of the Book-Entry Interests or the Global Note in accordance with any instructions set out in such request. Euroclear or Clearstream, Luxembourg are expected to follow the procedures described under "*General*" above, with respect to soliciting instructions from their respective Participants. The Registrar will not exercise any discretion in the granting of consents or waivers or the taking of any other action in respect of the Book-Entry Interests or the Global Note.

#### **Reports**

The Issuer will send to Euroclear and Clearstream, Luxembourg a copy of any notices, reports and other communications received relating to the Issuer, the Global Note or the Book-Entry Interests. In addition, notices regarding the Notes will either (a) be published in the Financial Times or, if such newspaper shall cease to be published or timely publication therein shall not be practicable, in such English language newspaper or newspapers as the Trustee shall approve having a general circulation in Europe, (b) be published on the Relevant Screen or (c) prior to the issue of any Definitive Notes and so long as the Global Notes are held on behalf of Euroclear and/or Clearstream, Luxembourg, be delivered to Euroclear and/or Clearstream, Luxembourg for communication to Noteholders. See also Condition 22 (*Notices*) of the Notes.

## TERMS AND CONDITIONS OF THE NOTES

*The following are the terms and conditions of the Notes in the form in which they will be set out in the Trust Deed (subject to completion and amendment). If the Notes were to be represented by Definitive Notes, the Conditions set out on the reverse of each of such Definitive Notes would be as follows. While the Notes are represented by Global Notes, they will be governed by the same terms and conditions except to the extent that such terms and conditions are appropriate only to securities in definitive form or are expressly varied by the terms of such Global Notes. These terms and conditions are subject to the detailed provisions of the Trust Documents and the other Transaction Documents (as defined below).*

### 1. General

- 1.1 The £600,000,000 Class A1 Mortgage Backed Floating Rate Notes due 2063 (the "**Class A1 Notes**"), the £1,209,600,000 Class A2 Mortgage Backed Floating Rate Notes due 2063 (the "**Class A2 Notes**") and, together with the Class A1 Notes, the "**Class A Notes**"), the £127,600,000 Class B Mortgage Backed Floating Rate Notes due 2063 (the "**Class B Notes**"), the £87,000,000 Class C Mortgage Backed Floating Rate Notes due 2063 (the "**Class C Notes**"), the £75,400,000 Class D Mortgage Backed Floating Rate Notes due 2063 (the "**Class D Notes**") and the £220,400,000 Class Z Mortgage Backed Floating Rate Notes due 2063 (the "**Class Z Notes**") and, together with the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes, the "**Notes**") have been issued by Molineux RMBS 2016-1 plc (registered number 10011093) (the "**Issuer**") on the Closing Date.
- 1.2 The Issuer has agreed to issue the Notes subject to and with the benefit of the terms of the Trust Deed and the Agency Agreement. The security for the Notes is created pursuant to, and on the terms set out in, the Deed of Charge.
- 1.3 The Agency Agreement records certain arrangements in relation to the payment of interest and principal in respect of the Notes.
- 1.4 Certain provisions of these Conditions are summaries of the Trust Documents and the Agency Agreement and are subject to their detailed provisions.
- 1.5 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.
- 1.6 Copies of the Transaction Documents are available for inspection by Noteholders during normal business hours at the Specified Office of the Principal Paying Agent, the initial Specified Office of which is set out below.

### 2. Definitions

- 2.1 In these Conditions the following defined terms have the meanings set out below:

"**Account Bank**" means Bank of Scotland acting in such capacity;

"**Account Bank Agreement**" means the agreement so named dated on or about the Closing Date between the Issuer, the Cash Manager, the Account Bank and the Trustee;

"**Accrued Interest**" means as at any date (the "**determination date**") on or after the Closing Date and in relation to any Mortgage Loan, interest on such Mortgage Loan (not being interest which is currently payable on the determination date) which has accrued (but is not yet due and payable) from and including the Monthly Payment Date immediately prior to the determination date to and including the determination date;

"**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 Deutsche Bank AG, London Branch in its capacity as agent bank pursuant to the Agency Agreement;

"**Agents**" means the Agent Bank, the Registrar, the Principal Paying Agent and the Paying Agents and "**Agent**" means any one of them;

"**AIFMR**" means Regulation (EU) No. 231/2013;

"**Arrears of Interest**" means, in respect of a given date, interest, principal (if applicable) and expenses which are due and payable and remain unpaid on that date;

**"Authorised Investments"** means:

- (a) 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, and indicated within the prospectus that they are defined as such (provided, for the avoidance of doubt, that any such fund must hold an Aaa-mf money market fund rating from Moody's), or money market funds that hold Aaa-mf money market fund ratings from Moody's, respectively, and, if rated by Fitch, an AAAmf money market fund rating from Fitch provided that in either case, any such fund does not itself invest in securitised products;
- (b) sterling gilt-edged securities; and
- (c) sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper),

provided that in the case of paragraphs (a), (b) and (c) above, such investments have a maturity date of 30 days or less and mature on or before the next following Interest Payment Date for the Notes, provided further that with respect to securities and deposit investments specified under items (b) and (c) above, with respect to investments with a maturity date of less than 30 days, the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) has (A) "Issuer Default Ratings" of at least F1 short-term or A long-term by Fitch, and (B) short-term unsecured, unguaranteed and unsubordinated debt obligations of at least P-1 by Moody's or long-term unsecured, unguaranteed and unsubordinated debt obligations of at least A2 by Moody's and provided further that in all cases such investments do not, nor could they, consist, in whole or in part, actually or potentially, of tranches of other asset-backed securities, credit-linked notes, swaps or other derivatives instruments or synthetic securities;

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

- (a) Principal Receipts received by the Issuer during the immediately preceding Calculation Period (including the principal element of consideration paid by the Seller in respect of the repurchase of the Mortgage Loans and their Related Security and recoveries received by the Issuer in relation to the enforcement of the relevant Mortgage Loan);
- (b) any Available Revenue Receipts to be applied in reducing the debit balance on the Principal Deficiency Ledger;
- (c) any amounts released from the General Reserve Fund when the General Reserve Fund Required Amount is reduced to zero; and
- (d) during the Revolving Period, any amounts standing to the credit of the Retained Principal Receipts Ledger on such Interest Payment Date;

*less*

- (e) prior to the repurchase by the Seller of any Further Advance, any amounts to be used to pay the related Further Advance Purchase Price to the Seller;

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

- (a) the Net Revenue received by the Issuer during the immediately preceding Calculation Period;
- (b) interest payable to the Issuer on the Issuer Accounts (other than the Swap Collateral Account (including distributions on any Swap Collateral)) and income from any Authorised Investments in each case received during the immediately preceding Calculation Period;
- (c) all amounts received by the Issuer under or in connection with the Interest Rate Swap Agreement or a replacement thereof (other than (1) Swap Collateral, (2) any Replacement Swap Premium, (3) any early termination payment received by the Issuer from the Interest Rate Swap Provider on termination of the Interest Rate Swap which is to be used, if applicable, to purchase a replacement Interest Rate Swap, (4) Swap Collateral Negative Interest and (5) Tax Credits received by the Issuer under the Interest Rate Swap) on or before such Interest Payment Date;

(d) other net income of the Issuer received during the immediately preceding Calculation Period (other than any Principal Receipts, Early Repayment Charges and Third Party Amounts);

(e) any amounts available (prior to a Principal Payments Trigger Event) pursuant to item (k) or (after a Principal Payments Trigger Event) item (j) of the Pre Enforcement Principal Payments Priorities;

*plus*

(f) if a Revenue Shortfall occurs (as a result of the aggregate of items (a) to (e) above being insufficient to pay or provide for items (a) to (m) of the Pre Enforcement Revenue Payments Priorities), amounts standing to the credit of the General Reserve Fund up to the Excess Amount to the extent necessary to pay or provide for such Revenue Shortfall, provided that such amounts shall not be used, in each case, to pay interest on the Class B Notes, the Class C Notes or the Class D Notes (as applicable), if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger exceeds the aggregate of: (i) 50 per cent. of the Principal Amount Outstanding of such Class of Notes; and (ii) the Principal Amount Outstanding of all Classes of Notes ranking junior to such Class of Notes;

*plus*

(g) if a Further Revenue Shortfall occurs (as a result of the aggregate of items (a) to (f) above being insufficient to pay or provide for items (a) to (d), (f), (h) and (j) of the Pre Enforcement Revenue Payments Priorities), Available Principal Receipts which are available pursuant to item (a) of the Pre Enforcement Principal Payments Priorities to the extent necessary to pay or provide for such Further Revenue Shortfall, provided that such amounts shall not be used to pay interest on the Class B Notes, the Class C Notes or the Class D Notes (as applicable) if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger exceeds the aggregate of: (i) 50 per cent. of the Principal Amount Outstanding of such class of Notes; and (ii) the Principal Amount Outstanding of all Classes of Notes ranking junior to such Class of Notes; and

*plus*

(h) if a Remaining Revenue Shortfall occurs (as a result of the aggregate of items (a) to (g) above being insufficient to pay or provide for items ((a) to (d), (f), (h) and (j) of the Pre Enforcement Revenue Payments Priorities), amounts standing to the credit of the General Reserve Fund up to the Liquidity Amount to the extent necessary to pay or provide for such Remaining Revenue Shortfall provided that such amounts shall not be used, in each case, to pay interest on the Class B Notes, the Class C Notes or the Class D Notes (as applicable) if and to the extent that the sum of the debit balance on the Principal Deficiency Ledger, together with any Liquidity Amount to be applied to pay items in the Pre Enforcement Revenue Payments Priorities ranking pari passu with or in priority to payments of interest on such Class of Notes, exceeds the aggregate of: (i) 50 per cent. of the Principal Amount Outstanding of such Class of Notes; and (ii) the Principal Amount Outstanding of all classes of Notes ranking junior to such Class of Notes;

**"Bank of Scotland"** means Bank of Scotland plc (registered number SC327000), incorporated under the laws of Scotland and registered as a public company under the Companies Act 1985 whose registered office is at The Mound, Edinburgh, EH1 1YZ;

**"Borrower"** means, in relation to a Mortgage Loan, the individual or individuals specified as such in the relevant Mortgage Terms together with the individual or individuals (if any) from time to time assuming an obligation to repay such Mortgage Loan or any part of it;

**"Breach of Duty"** means in relation to any person a wilful default, fraud, gross negligence or (other than with respect to the Trustee and the Agents) material breach of any agreement by such person;

**"Business Day"** means a day on which commercial banks and foreign exchange markets settle payments in London;

**"Calculation Date"** means the first day of a month (other than in respect of the first Calculation Date, which shall fall on 1 May 2016). A Calculation Date shall relate to an Interest Payment Date (and be the **"related Calculation Date"** in respect of such Interest Payment Date) where such Calculation Date immediately precedes such Interest Payment Date;

**"Calculation Period"** means each period from, and including, a Calculation Date (or in respect of the first Calculation Period, from the Closing Date) to, but excluding, the next (or first) Calculation

Date. A Calculation Period shall relate to an Interest Period (and be the "**relevant Calculation Period**" in respect of such Interest Period) where such Calculation Period runs to (but excluding) the Calculation Date which relates to the Interest Payment Date which falls immediately following the end of such Interest Period;

"**Call Option Date**" means the Interest Payment Date falling in March 2026 in respect of the Rated Notes and each subsequent Interest Payment Date if any of the Rated Notes are still outstanding on such Interest Payment Date;

"**Capitalised Arrears**" means in relation to any Mortgage Loan as at any date (the "**determination date**") the amount (if any) at such date of any Arrears of Interest in respect of which, at the determination date, each of the following conditions has been satisfied: (a) the Seller (or the Servicer on its behalf) has, by arrangement with the relevant Borrower, agreed to capitalise such Arrears of Interest; and (b) such Arrears of Interest have been capitalised and added, in the accounts of the Seller (or, as applicable, the Servicer), to the Current Balance in respect of such Mortgage Loan;

"**Cash Management Agreement**" means the cash management agreement so named entered into on or about the Closing Date between the Cash Manager, the Issuer, the Trustee and the Seller;

"**Cash Manager**" means Bank of Scotland in its capacity as cash manager or the successor Cash Manager appointed in accordance with the terms of the Cash Management Agreement;

"**Certificate of Title**" means a solicitor's or licensed conveyancer's report or certificate of title obtained by or on behalf of the Seller in respect of each Mortgaged Property substantially in the form of the pro-forma set out in the Standard Documentation;

"**Charged Property**" means all the property 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 Principal Deficiency Sub-Ledger**" means the sub-ledger of the Principal Deficiency Ledger relating to the Class A Notes;

"**Class B Noteholders**" means the persons who for the time being are holders of the Class B Notes;

"**Class B Principal Deficiency Sub-Ledger**" means the sub-ledger of the Principal Deficiency Ledger relating to the Class B Notes;

"**Class C Noteholders**" means the persons who for the time being are holders of the Class C Notes;

"**Class C Principal Deficiency Sub-Ledger**" means the sub-ledger of the Principal Deficiency Ledger relating to the Class C Notes;

"**Class D Noteholders**" means the persons who for the time being are holders of the Class D Notes;

"**Class D Principal Deficiency Sub-Ledger**" means the sub-ledger of the Principal Deficiency Ledger relating to the Class D Notes;

"**Class Z Noteholders**" means the persons who for the time being are holders of the Class Z Notes;

"**Class Z Principal Deficiency Sub-Ledger**" means the sub-ledger of the Principal Deficiency Ledger relating to the Class Z Notes;

"**Clearstream, Luxembourg**" means Clearstream Banking, *société anonyme*;

"**Closing Date**" means 30 March 2016, or such other date as the Issuer and the Lead Manager may agree;

"**Collection Account Declaration of Trust**" means the collection account declaration of trust signed by Bank of Scotland on 27 August 2010 and as amended and restated;

"**Conditions**" means, in relation to the Notes, the terms and conditions to be endorsed on the Notes in, or substantially in, the form set out in Schedule 3 (*Terms and Conditions*) of 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, Holdings, the Issuer, the Seller and the Trustee;

"**Corporate Services Provider**" means Structured Finance Management Limited (registered number 3853947), private limited company incorporated under the laws of England and Wales, whose registered office is at 35 Great St. Helen's, London EC3A 6AP or such other person or persons for



the time being acting as corporate services provider to the Issuer and Holdings under the Corporate Services Agreement;

"**CRA Regulation**" means the Credit Rating Agency Regulation (EC) No 1060/2009 (as amended);

"**Credit Support Annex**" means the credit support annex which forms part of the Interest Rate Swap Agreement;

"**CRR**" means Regulation (EU) No. 575/2013;

"**Current Balance**" means, in respect of a Mortgage Loan on any date (the "**determination date**"), the aggregate principal balance of the Mortgage Loan on such date which shall comprise the following (without double counting): (i) the Initial Advance, (ii) each Further Advance, (iii) Capitalised Arrears and (iv) any increase in the principal amount as a result of the Borrower taking Payment Holidays in each case relating to such Mortgage Loan less any prepayment, repayment or payment of the foregoing made on or prior to the determination date;

"**Day Count Fraction**" means, in respect of an Interest Period, the actual number of days in such period divided by 365;

"**Deed of Charge**" means the deed so named dated on or about the Closing Date between the Issuer and the Trustee;

"**Deed of Consent**" means a deed whereby a person in or intended to be in occupation of a Property situated in England and Wales agrees with the Seller to postpone his or her interest (if any) in the Property so that it ranks after the interest created by the relevant Mortgage;

"**Deed of Postponement**" means a deed or agreement whereby a mortgagee of or the heritable creditor in relation to a Property agrees with the Seller to postpone its mortgage or standard security (as applicable) over the Property so that the sums secured by it will rank for repayment after the sums secured by the relevant Mortgage;

"**Deferred Consideration**" means the deferred consideration payable by the Issuer to the Seller in accordance with the terms of the Mortgage Sale Agreement;

"**Definitive Notes**" has the meaning ascribed to it in Condition 3.3;

"**Early Repayment Charges**" means any charges (other than a Redemption Fee) which a Borrower is required to pay in the event that the Borrower repays all or any part of the relevant Mortgage Loan before a specified date in the Mortgage Conditions or he or she is in default or his or her Mortgage Loan becomes repayable for any other mandatory reason;

"**EMIR**" means the Regulation (EU) 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories dated 4 July 2012 (including, without limitation, any associated regulatory technical standards, implementing technical standards and advice, guidance or recommendations from relevant supervisory regulators);

"**Enforcement Notice**" means a notice issued by the Trustee to the Issuer declaring the Notes to be due and repayable pursuant to Condition 13 (*Events of Default*);

"**Euroclear**" means Euroclear Bank SA/NV, and any successor to such business;

"**Event of Default**" means any one of the events specified in Condition 13 (*Events of Default*);

"**Excess Amount**" means on any date (the "**determination date**"), the amount standing to the credit of the General Reserve Fund less the Liquidity Amount on such determination date;

"**Exchange Date**" means the first day following the expiry of forty days after the Closing Date;

"**Extraordinary Resolution**" means (a) a resolution passed at a Meeting 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 or (b) a Written Resolution;

"**FATCA**" means Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986;

"**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 have been paid or discharged in full;

"**Final Maturity Date**" means the Interest Payment Date falling in March 2063;

"**First Interest Payment Date**" means 18 May 2016;

"**Fitch**" means Fitch Ratings Limited or any successor to its rating business;

**"Further Advance"** means, in relation to a Mortgage Loan, any advance of further money following a request from an existing Borrower following the making of the Initial Advance which is secured by the same Mortgage as the Initial Advance where the Seller has a discretion as to whether to accept that request, 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 principal amount of the relevant Further Advance;

**"Further Revenue Shortfall"** means, where amounts available under items (a) to (f) inclusive of the Available Revenue Receipts on any Interest Payment Date are insufficient to pay or provide for all amounts in items (a) to (e), (f), (h) and (j) of the Pre Enforcement Revenue Payments Priorities on such Interest Payment Date, an amount equal to such insufficiency;

**"General Reserve Fund"** means the reserve fund established on the Closing Date which will be initially funded by the Subordinated Loan Provider up to the General Reserve Fund Required Amount and which will subsequently be funded from Available Revenue Receipts and Available Principal Receipts in accordance with the Pre Enforcement Payments Priorities;

**"General Reserve Fund Required Amount"** means an amount equal to 2 per cent. of the Principal Amount Outstanding of the Notes on the Closing Date and zero on any date the Notes are fully repaid or provided for;

**"GIC Account"** means the account in the name of the Issuer held at the Account Bank, or such additional or replacement bank account at the Account Bank and/or other banks as may for the time being be in place with the prior consent of the Trustee and designated as such;

**"Global Notes"** has the meaning ascribed to it in Condition 3.2;

**"holder"** means the registered holder of a Note and the words **"holders"** and related expressions shall (where appropriate) be construed accordingly;

**"Holdings"** means Molineux RMBS Holdings Limited (registered number 10011043), a private limited company incorporated under the laws of England and Wales, whose registered office is at 35 Great St. Helen's, London EC3A 6AP;

**"Incorporated Terms Memorandum"** means the memorandum so named dated on or about the Closing Date and signed for the purpose of identification by each of the Transaction Parties;

**"Initial Advance"** means, in relation to a Mortgage Loan, the original principal amount advanced to the relevant Borrower including the amount of any retention advanced to the relevant Borrower after completion of the Mortgage;

**"Initial Portfolio"** means the portfolio of Mortgage Loans the details of which are set out in Part A of the Appendix to the Mortgage Sale Agreement together with their Related Security and are sold to the Issuer by the Seller on the Closing Date;

**"Insolvency Act"** means the Insolvency Act 1986;

**"Insolvency Event"** in respect of a company 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) the value of the assets of such company is less than the amount of its liabilities, taking into account its contingent and prospective liabilities; or
- (c) the company takes steps with a view to obtaining a moratorium in respect of any of its indebtedness or a moratorium is declared in respect of any of its indebtedness; or
- (d) 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
- (e) 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, execution, diligence, 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
- (f) an order being made or an effective resolution being passed for the winding-up of the company except, in the case of the Issuer, a winding-up for the purposes of or pursuant to an amalgamation, restructuring or merger the terms of which have been previously approved by the Trustee in writing or by Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding;
  - (g) any procedure or step is taken, or any event occurs, analogous to those set out in (a) to (f) 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 outstanding Notes) provisional liquidator, 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;

**"Insolvency Proceedings"** means the winding-up, dissolution or administration (whether by court action or otherwise) of a company or corporation and shall be construed so as to include any equivalent or analogous proceedings under the law of the jurisdiction in which such company or corporation is incorporated or of any jurisdiction in which such company or corporation carries on business including the seeking of liquidation, winding-up, reorganisation, dissolution, administration (whether by court action or otherwise), arrangement, adjustment, protection or relief of debtors;

**"Interest Amount"** means in respect of a Note for any Interest Period the amount of interest calculated on the related Interest Determination Date in respect of such Note for such Interest Period by:

- (a) multiplying the Principal Amount Outstanding of such Note on the Interest Payment Date coinciding with such Interest Determination Date by the relevant Note Rate; and
- (b) then multiplying the amount so calculated in paragraph (a) by the relevant Day Count Fraction and rounding the resultant figure to the nearest Minimum Amount;

**"Interest Determination Date"** means each Interest Payment Date or, in the case of the first Interest Period, the Closing Date;

**"Interest Payment Date"** means the 18<sup>th</sup> day of each month 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;

**"Interest Period"** means the period from (and including) an Interest Payment Date (except in the case of the first Interest Period, where it shall be the period from (and including) the Closing Date to (but excluding) the next (or first) Interest Payment Date;

**"Interest Rate Swap"** means the interest rate swap entered into pursuant to the Interest Rate Swap Agreement;

**"Interest Rate Swap Agreement"** means the agreement in the form of a 1992 ISDA Master Agreement (including a schedule thereto, a credit support annex and one or more confirmations thereunder) dated on or about the Closing Date between the Issuer and the Interest Rate Swap Provider;

**"Interest Rate Swap Provider"** means Bank of Scotland in its capacity as Interest Rate Swap provider pursuant to the Interest Rate Swap Agreement, and any successor thereto in such capacity;

**"Issuer Accounts"** means the GIC Account, the Transaction Account and the Swap Collateral Account and any additional or replacement bank accounts held in the name of the Issuer from time to time with the prior written consent of the Trustee;

**"Issuer Covenants"** means the covenants of the Issuer set out in Schedule 7 (*Issuer Covenants*) of the Incorporated Terms Memorandum;

**"Issuer Jurisdiction"** means England and Wales (and the United Kingdom, for tax purposes) or such other jurisdiction in which the Issuer or any Issuer substitute (as contemplated by Condition 21 (*Substitution of Issuer*)) is incorporated and/or subject to taxation;

**"Issuer Profit Amount"** means an amount equal to £1,400 on each Interest Payment Date up to and including the Interest Payment Date falling in June 2017 and £100 on each Interest Payment Date thereafter, in each case, to be credited to the GIC Account and to be retained by the Issuer as profit in respect of the business of the Issuer;

**"Lead Manager"** means Lloyds Bank plc;

**"Lending Criteria"** means the criteria contained in Schedule 4 (*Lending Criteria*) to the Mortgage Sale Agreement or such other criteria as would be acceptable to a Reasonable, Prudent Mortgage Lender;

**"Liabilities"** means, in respect of any person, any losses, damages, costs, charges, awards, claims, demands, expenses, judgments, actions, proceedings or other liabilities whatsoever including, without limitation properly incurred legal fees and expenses and any Taxes and penalties incurred by that person;

**"Liquidity Amount"** means, on each relevant Interest Payment Date on which any Class of Rated Notes remains outstanding, an amount equal to 2 per cent. of the aggregate of:

- (a) the Principal Amount Outstanding of the Class A Notes;
- (b) the Principal Amount Outstanding of the Class B Notes, only if and to the extent that the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, does not exceed the aggregate of: (i) 50 per cent. of the Principal Amount Outstanding of the Class B Notes; and (ii) the aggregate of the Principal Amount Outstanding of the Class C Notes, the Class D Notes and the Class Z Notes;
- (c) the Principal Amount Outstanding of the Class C Notes, only if and to the extent that the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, does not exceed the aggregate of: (i) 50 per cent. of the Principal Amount Outstanding of the Class C Notes; and (ii) the aggregate of the Principal Amount Outstanding of the Class D Notes and the Class Z Notes; and
- (d) the Principal Amount Outstanding of the Class D Notes, only if and to the extent that the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, does not exceed the aggregate of: (i) 50 per cent. of the Principal Amount Outstanding of the Class D Notes; and (ii) the aggregate of the Principal Liability Outstanding of the Class Z Notes;

**"Listing Date"** means the date between the Closing Date and the First Interest Payment Date on which the Notes will be admitted to the official list of the Financial Conduct Authority and will be admitted to trading on the regulated market of the Stock Exchange;

**"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 Seller and 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;

"**Meeting**" means a meeting of Noteholders of any class or classes (whether originally convened or resumed following an adjournment);

"**MHA Documentation**" means an affidavit, declaration, consent or renunciation granted in terms of the Matrimonial Homes (Family Protection) (Scotland) Act 1981 or (as applicable) the Civil Partnership Act 2004 in connection with a Scottish Mortgage or the Property secured thereby;

"**Minimum Amount**" means one penny;

"**Minimum Denomination**" means in respect of the Notes represented by the Global Notes and (if issued) the Definitive Notes £100,000 and, for so long as Euroclear and Clearstream, Luxembourg so permit, any amount in excess thereof in integral multiples of £1,000;

"**Monthly Payment Date**" means the date on which interest (and principal in relation to a repayment mortgage) is due to be paid by a Borrower on a Mortgage Loan or, if any such day is not Business Day, the next following Business Day;

"**Moody's**" means Moody's Investors Service Limited and includes any successor to its rating business;

"**Mortgage**" means in respect of any Mortgage Loan, each first fixed charge by way of legal mortgage (or, in the case of a Scottish Mortgage, the first ranking standard security in Scotland) which is sold by the Seller to the Issuer pursuant to the Mortgage Sale Agreement which secures the repayment of the relevant Mortgage Loan including the Mortgage Conditions applicable to it, and, together, the "**Mortgages**";

"**Mortgage Conditions**" means the terms and conditions applicable to a Mortgage Loan, as contained in the Seller's "Mortgage Conditions booklet for England and Wales or Scotland" applicable from time to time;

"**Mortgage Loan**" means each residential mortgage loan, secured by a mortgage and Related Security, sold to the Issuer on the Closing Date or a New Portfolio Sale Date (including, following the transfer to the Issuer of any Further Advance made by the Seller in respect of such Mortgage Loan, such Further Advance) but excluding (for the avoidance of doubt) each Mortgage Loan and its Related Security which is repurchased by the Seller pursuant to the Mortgage Sale Agreement or no longer beneficially owned by the Issuer;

"**Mortgage Portfolio**" means the Initial Portfolio and any New Portfolio sold by the Seller to the Issuer other than any Mortgage Loan which has been redeemed or repaid in full or which, following the enforcement of its Related Security and application of the proceeds thereof, has been written off by the Servicer;

"**Mortgage Sale Agreement**" means the mortgage sale agreement so named dated on or about the Closing Date between the Seller, the Issuer, the Trustee and the Servicer;

"**Mortgage Terms**" means all the terms and conditions applicable to a Mortgage Loan, including without limitation the applicable Mortgage Conditions and Offer Conditions;

"**Mortgaged Property**" means a freehold, heritable, leasehold (or, in Scotland, a property held under a long lease) or commonhold property which is subject to a Mortgage and together, the "**Mortgaged Properties**";

"**Most Senior Class**" means the Class A Notes whilst they remain outstanding and thereafter the Class B Notes whilst they remain outstanding and thereafter the Class C Notes whilst they remain outstanding and thereafter the Class D Notes whilst they remain outstanding and thereafter the Class Z Notes while they remain outstanding;

"**Net Revenue**" means, for each Interest Payment Date, the aggregate Revenue Receipts collected in respect of the relevant Calculation Period less Early Repayment Charges which are paid directly by the Cash Manager on behalf of the Issuer to the Seller in accordance with the Cash Management Agreement and less the amounts collected during the relevant Calculation Period which properly belong to third parties such as (but not limited to) Third Party Amounts;

"**New Portfolio**" means a portfolio of Mortgage Loans the details of which are set out in the schedule to the related New Portfolio Notice and their Related Security which are sold by the Seller to the Issuer on a New Portfolio Sale Date;

"**New Portfolio Notice**" means the notice to be delivered by the Issuer to the Seller substantially in the form set out in Schedule 6 (*New Portfolio Notice*) of the Mortgage Sale Agreement;

"**New Portfolio Sale Date**" means any Business Day during the Revolving Period;

**"Note Principal Payment"** means, on any Interest Payment Date:

- (a) in the case of each Class A1 Note, an amount equal to the lesser of the amount of Available Principal Receipts to be applied in or towards redeeming the Class A1 Notes in accordance with the Pre Enforcement Principal Payments Priorities and the Principal Amount Outstanding of the Class A1 Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class A1 Notes;
- (b) in the case of each Class A2 Note, an amount equal to the lesser of the Available Principal Receipts to be applied in or towards redeeming the Class A2 Notes in accordance with the Pre Enforcement Principal Payments Priorities and the Principal Amount Outstanding of the Class A2 Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class A2 Notes;
- (c) in the case of each Class B Note, an amount equal to the lesser of the Available Principal Receipts to be applied in or towards redeeming the Class B Notes in accordance with the Pre Enforcement Principal Payments Priorities and the Principal Amount Outstanding of the Class B Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class B Notes;
- (d) in the case of each Class C Note, an amount equal to the lesser of the Available Principal Receipts to be applied in or towards redeeming the Class C Notes in accordance with the Pre Enforcement Principal Payments Priorities and the Principal Amount Outstanding of the Class C Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class C Notes;
- (e) in the case of each Class D Note, an amount equal to the lesser of the Available Principal Receipts to be applied in or towards redeeming the Class D Notes in accordance with the Pre Enforcement Principal Payments Priorities and the Principal Amount Outstanding of the Class D Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class D Notes; and
- (f) in the case of each Class Z Note, an amount equal to the lesser of the Available Principal Receipts to be applied in or towards redeeming the Class Z Notes in accordance with the Pre Enforcement Principal Payments Priorities and the Principal Amount Outstanding of the Class Z Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class Z Notes,

in any such case rounded down to the nearest multiple of the Minimum Denomination;

**"Note Purchase Agreement"** means the note purchase agreement so named dated on or about the Closing Date between, *inter alios*, the Issuer, the Seller and the Lead Manager;

**"Note Rate"** for each Interest Period means, in respect of each Class of Notes, the Reference Rate determined as at the related Interest Determination Date plus the Relevant Margin in respect of such Class;

**"Noteholders"** means the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class Z Noteholders or, where the context otherwise requires, the holders of Notes of a particular Class or Classes (including the Class A1 Notes and the Class A2 Notes);

**"Notes"** means the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class Z Notes and **"Note"** means any of them whether represented by a Definitive Note or the Global Note;

**"Notices Condition"** means Condition 22 (*Notices*);

**"Notices Details"** means the provisions set out in Schedule 9 (*Notice Details*) of the Incorporated Terms Memorandum;

**"Obligations"** means all of the obligations of the Issuer created by or arising under the Notes and the Transaction Documents;

**"Offer Conditions"** means the terms and conditions applicable to a specified Mortgage Loan as set out in the relevant offer letter to the Borrower;

**"outstanding"** means, in relation to the Notes, 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 been surrendered for cancellation as provided in Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*) and notice of the cancellation of which has been given to the Trustee;
- (d) those which have become void under the Conditions;
- (e) 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
- (f) any Global Note, to the extent that it shall have been exchanged for the related Definitive Notes pursuant to the provisions contained therein and the Conditions;

**"Paying Agents"** means the paying agents 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;

**"Payment Holiday"** means the period of time that a Borrower under a Mortgage Loan refrains from making payments of interest and principal on his Mortgage Loan as expressly permitted by the terms of the Borrower's Mortgage Loan;

**"Payments Priorities"** means the Pre Enforcement Payments Priorities and the Post Enforcement Payments Priorities;

**"Post Enforcement Payments Priorities"** means the provisions relating to the order of priority of payments, set out in Clause 15.1 (*Post Enforcement Payments Priorities*) of the Deed of Charge;

**"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 Revenue Payments Priorities and the Pre Enforcement Principal Payments Priorities;

**"Pre Enforcement Principal Payments Priorities"** means the provisions relating to the order of priority of payments set out in Part B (*Pre Enforcement Principal Payments Priorities*) of Schedule 4 (*Payments Priorities*) to the Cash Management Agreement;

**"Pre Enforcement Revenue Payments Priorities"** means the provisions relating to the order of priority of payments set out in Part A (*Pre Enforcement Revenue Payments Priorities*) of Schedule 4 (*Payments Priorities*) to the Cash Management Agreement;

**"Principal Amount Outstanding"** means, on any day:

- (a) in respect of the Class A1 Notes on any date shall be their original principal amount of £600,000,000 less the aggregate amount of all principal payments in respect of such Class A1 Notes which have been made on or prior to that date since the Closing Date;
- (b) in respect of the Class A2 Notes, on any date shall be their original principal amount of £1,209,600,000 less the aggregate amount of all principal payments in respect of such Class A2 Notes which have been made on or prior to that date since the Closing Date;
- (c) in respect of the Class B Notes, on any date shall be their original principal amount of £127,600,000 less the aggregate amount of all principal payments in respect of such Class B Notes which have been made on or prior to that date since the Closing Date;
- (d) in respect of the Class C Notes, on any date shall be their original principal amount of £87,000,000 less the aggregate amount of all principal payments in respect of such Class C Notes which have been made on or prior to that date since the Closing Date;
- (e) in respect of the Class D Notes, on any date shall be their original principal amount of £75,400,000 less the aggregate amount of all principal payments in respect of such Class D Notes which have been made on or prior to that date since the Closing Date; and

- (f) in respect of the Class Z Notes, on any date shall be their original principal amount of £220,400,000 less the aggregate amount of all principal payments in respect of such Class Z Notes which have been made on or prior to that date since the Closing Date;

**"Principal Deficiency Ledger"** means the Principal Deficiency Ledger comprising the Class A Principal Deficiency Sub-Ledger, the Class B Principal Deficiency Sub-Ledger, the Class C Principal Deficiency Sub-Ledger, the Class D Principal Deficiency Sub-Ledger and the Class Z Principal Deficiency Sub-Ledger maintained by the Cash Manager on behalf of the Issuer which records on it all deficiencies arising from Principal Losses allocated to the Notes and Available Principal Receipts used to pay a Further Revenue Shortfall or to credit the General Reserve Fund up to the Liquidity Amount;

**"Principal Losses"** means any "principal" losses arising in relation to a Mortgage Loan in the Mortgage Portfolio which causes a shortfall in the amount available to pay principal on the Notes;

**"Principal Paying Agent"** means Deutsche Bank AG, London Branch in its capacity as principal paying agent in accordance with the terms of the Agency Agreement;

**"Principal Payments Trigger Event"** means the occurrence of any of the following events (which, for the avoidance of doubt, are not curable events):

- (a) there is a debit balance on the Class D Principal Deficiency Sub-Ledger on any Interest Payment Date; or
- (b) the delivery of an Enforcement Notice;

**"Principal Receipts"** means payments received by the Issuer representing:

- (a) any payment in respect of principal received in respect of any Mortgage Loan (including Capitalised Arrears but excluding Accrued Interest and Arrears of Interest);
- (b) recoveries of principal from defaulting Borrowers on enforcement of such Mortgage Loan (including the proceeds of sale of the relevant property);
- (c) any payment pursuant to any insurance policy in respect of a Mortgaged Property in connection with a Mortgage Loan in the Mortgage Portfolio;
- (d) recoveries of principal on redemption (including partial redemption) of such Mortgage Loan;
- (e) proceeds of the repurchase of any Mortgage Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement; and
- (f) any other payments received which are not classified as Revenue Receipts;

**"Property"** means a freehold, heritable or leasehold property (or, in Scotland, a property held under a long lease) which is subject to a Mortgage;

**"Prospectus"** means the prospectus of the Issuer to be published on the Listing Date in relation to the Notes;

**"Prospectus Directive"** means EU Directive 2003/71/EC;

**"Provisions for Meetings of Noteholders"** means the provisions contained in Schedule 4 (*Provisions for Meetings of Noteholders*) to the Trust Deed;

**"Rated Notes"** means the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes;

**"Rating Agencies"** means Fitch and Moody's and **"Rating Agency"** means either one of them;

**"Ratings Confirmation"** means confirmation from any Rating Agency that any action, determination or exercise of discretion proposed to be taken by the Issuer and/or the Trustee will not have an adverse effect on the then current rating of the Notes;

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

**"Receiver"** means any receiver, manager, receiver or 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 Deed of Charge;

**"Record Date"** has the meaning as defined in Condition 11.2 (*Record Date*);



**"Redemption Fee"** means the standard redemption fee charged to the Borrower by the Seller where the Borrower makes a repayment of the full outstanding principal of a Mortgage Loan;

**"Reference Banks"** means HSBC Bank plc, Barclays Bank PLC, Lloyds Bank plc, The Royal Bank of Scotland plc and Santander UK plc and **"Reference Bank"** means any one of them;

**"Reference Rate"** means, on any Interest Determination Date, the floating rate determined by the Agent Bank by reference to the Screen Rate on such date or if, on such date, the 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 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 Reserve Reference Rate;

**"Register"** means the register on which the names and addresses of the holders of the Notes and the particulars of the Notes shall be entered and kept by the Issuer at the Specified Office of the Registrar;

**"Registrar"** means the party responsible for the registration of the Notes, which at the Closing Date is Deutsche Bank Luxembourg S.A. acting in such capacity pursuant to the Agency Agreement;

**"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 any 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, Deeds of Postponement and MHA Documentation) from occupiers and other persons having an interest in or rights in connection with the relevant Property;
- (b) each right of action of the Seller against any person (including, without limitation, any solicitor, licensed 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 any Mortgage Loan and its Related Security or affecting the decision of the Seller 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 deposited, charged, obtained, or held in connection with the relevant Mortgage Loan, Mortgage and/or Property and Loan Files;

**"Relevant Margin"** means:

- (a) for the Class A1 Notes, 1.40 per cent, per annum;
- (b) for the Class A2 Notes, 2.15 per cent per annum;
- (c) for the Class B Notes, 3.15 per cent, per annum;
- (d) for the Class C Notes, 4.15 per cent, per annum;
- (e) for the Class D Notes, 5.65 per cent, per annum; and
- (f) for the Class Z Notes, 2.00 per cent, per annum;

**"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 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;

**"Remaining Revenue Shortfall"** means, where amounts available under items (a) to (g) inclusive of the Available Revenue Receipts on any Interest Payment Date, are insufficient to pay or provide for all amounts in items (a) to (d), (f), (h) and (j) of the Pre Enforcement Revenue Payments Priorities, an amount equal to such insufficiency;

**"Replacement Swap Premium"** means any 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 a terminated Interest Rate Swap;

**"Representative Amount"** means an amount that is representative for a single transaction in the relevant market at the relevant time;

**"Required Paying Agent"** means any Paying Agent (which may be the Principal Paying Agent) which is the sole remaining Paying Agent with its Specified Office in any city where a stock exchange on which the Notes are listed requires there to be a Paying Agent;

**"Reserved Matter"** means any proposal to:

- (a) change any date fixed for payment of principal or interest in respect of the Notes of any class, to change the amount of principal or interest due on any date in respect of the Notes of any class or to alter the method of calculating the amount of any payment in respect of the Notes of any class;
- (b) (except in accordance with Condition 21 (*Substitution of Issuer*) and Clause 21 (*Substitution*) of the Trust Deed) effect the exchange, conversion or substitution of the Notes of any class 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 and/or for cash;
- (c) change the currency in which amounts due in respect of the Notes of any class are payable;
- (d) alter the priority of payment of interest or principal in respect of the Notes;
- (e) change the quorum required at any Meeting or the majority required to pass an Extraordinary Resolution; or
- (f) amend this definition;

**"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 its absolute discretion 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 Reference Rate in effect for the Interest Period ending on the Business Day immediately preceding the relevant Interest Determination Date;

**"Retained Principal Receipts Ledger"** means the ledger so named and maintained by the Cash Manager pursuant to the Cash Management Agreement;

**"Revenue Receipts"** means payments representing:

- (a) payments of interest on the Mortgage Loans (including Arrears of Interest and Accrued Interest but excluding Capitalised Arrears) and fees due from time to time under the Mortgage Loans;
- (b) recoveries of interest and outstanding fees (excluding Capitalised Arrears, if any) from defaulting Borrowers under Mortgage Loans being enforced;
- (c) recoveries of interest and outstanding fees (excluding Capitalised Arrears, if any) and/or principal from defaulting Borrowers under Mortgage Loans in respect of which enforcement procedures have been completed;
- (d) the proceeds of the repurchase of any Mortgage Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement to the extent such proceeds are attributable to Accrued Interest, Arrears of Interest and other interest amounts in respect of the Mortgage Loans (excluding, for the avoidance of doubt, Capitalised Arrears) as at relevant Transfer Date; and

- (e) any Early Repayment Charges which have been paid by the Borrower in respect of the Mortgage Loans;

**"Revenue Shortfall"** means, where amounts available under (a) to (e) of the Available Revenue Receipts on any Interest Payment Date are insufficient to pay or provide for the amounts referred to in items (a) to (m) of the Pre Enforcement Payments Priorities, an amount equal to such insufficiency;

**"Revolving Period"** means the period from (and including) the Closing Date to (but excluding) the Revolving Period End Date;

**"Revolving Period End Date"** means the earlier to occur of (i) the Interest Payment Date falling in March 2021, and (ii) the occurrence of a Revolving Period Termination Event;

**"Revolving Period Termination Event"** means the occurrence of any one of the following events (which, for the avoidance of doubt, are not curable events):

- (a) an Event of Default;
- (b) an Insolvency Event of the Seller;
- (c) a debit entry is made on the Class Z Principal Deficiency Sub-Ledger, that is in excess of 1 per cent. of the aggregate Principal Amount Outstanding of all Notes that has not been cured on the next following Interest Payment Date;
- (d) the amount standing to the credit of the General Reserve Fund is less than the Liquidity Amount;
- (e) the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio on any date which are then in arrear for 3 months or more is greater than or equal to 5 per cent. of the aggregate Current Balance of all Mortgage Loans in the Mortgage Portfolio; and
- (f) the amount standing to the credit of the Retained Principal Receipts Ledger on such date exceeds 5 per cent. of the aggregate of the Current Balance of all Mortgage Loans in the Mortgage Portfolio on such date.

**"Rounded Arithmetic Mean"** means the arithmetic mean (rounded, if necessary, to the nearest 0.0001 per cent.);

**"Sasine Transfer"** means, in relation to Properties situated in Scotland title to which is, or is required to be, recorded in the General Register of Sasines, each assignment of the relevant Scottish Loans and their related Scottish Mortgages substantially in the form set out in Schedule 9 (*Forms of Scottish Transfer-Sasine Register*) to the Mortgage Sale Agreement with such modifications as may be required from time to time;

**"Scottish Declaration of Trust"** means a declaration of trust governed by Scots law and entered into between the Seller and the Issuer pursuant to the Mortgage Sale Agreement substantially in the form set out in Schedule 10 (*Form of Scottish Declaration of Trust*) to the Mortgage Sale Agreement;

**"Scottish Loan"** means a Mortgage Loan secured by a Scottish Mortgage;

**"Scottish Mortgage"** means a Mortgage over a property located in Scotland;

**"Scottish Sub-Security"** means any Standard Security or assignment in security granted by the Issuer in favour of the Trustee pursuant to Clause 4.3 (*Scottish Sub-securities*) of the Deed of Charge;

**"Scottish Transfers"** means each Sasine Transfer and each SLR Transfer;

**"Scottish Trust"** means a trust declared by the Seller pursuant to each Scottish Declaration of Trust;

**"Scottish Trust Interest"** means the Issuer's whole right, title and interest present and future in and to the relevant Scottish Trust Property and in and to the relevant Scottish Declaration of Trust;

**"Scottish Trust Property"** has the meaning given to it in the relevant Scottish Declaration of Trust;

**"Scottish Trust Security"** means each assignment in security granted by the Issuer to the Trustee pursuant to Clause 4.2 of the Deed of Charge substantially in the form set out in Schedule 2 (*Form of Scottish Trust Security*) to the Deed of Charge;

**"Screen"** means, in relation to Sterling, Reuters Screen LIBOR01; or

- (a) such other page as may replace Reuters Screen 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;

**"Screen Rate"** means the arithmetic mean of offered quotations for one-month Sterling deposits (other than in respect of the first Interest Period, which shall be determined by reference to a linear interpolation of one-month and two-month Sterling deposits), each in the London inter-bank market displayed on the Reuters Screen LIBOR01 (or such other page as may replace that page on that service) or, if that service ceases to display the information, such other screen service as may be determined by the Issuer, with the approval of the Trustee (rounded upwards, if necessary, to five decimal places);

**"Secured Amounts"** means any and all moneys and Liabilities which from time to time are or may become due, owing or payable by the Issuer to each, some or any of the Secured Creditors under the Notes or the Transaction Documents;

**"Secured Creditors"** means the Trustee (in its own capacity and as trustee on behalf of the following creditors of the Issuer), the Corporate Services Provider, the Account Bank, the Servicer, the Cash Manager, the Seller, the Noteholders, any receiver appointed by the Trustee, the Agent Bank, the Paying Agents, the Registrar, the Interest Rate Swap Provider and the Subordinated Loan Provider;

**"Security"** means the security granted by the Issuer to the Trustee under and pursuant to the Deed of Charge in favour of the Secured Creditors;

**"Seller"** means Bank of Scotland acting in its capacity as the seller of the Mortgage Loans and their Related Security to the Issuer pursuant to the Mortgage Sale Agreement;

**"Seller Security Power of Attorney"** means the power of attorney executed by the Seller, substantially in the form scheduled to the Mortgage Sale Agreement;

**"Servicer"** means Bank of Scotland or such other person as may from time to time be appointed as servicer of the relevant Mortgage Loans in the Mortgage Portfolio pursuant to the Servicing Agreement;

**"Servicing Agreement"** means the agreement so named dated on or about the Closing Date between the Issuer, the Cash Manager, the Seller and the Trustee;

**"Share Trust Deed"** means the declaration of trust dated 3 March 2016 pursuant to which the Share Trustee holds the beneficial interest in the share of Holdings on trust for discretionary purposes;

**"Share Trustee"** means SFM Corporate Services Limited (registered number 3920255), a company incorporated under the laws of England and Wales, whose principal office is at 35 Great St. Helen's, London EC3 A 6AP;

**"SLR Transfer"** means, in relation to Properties situated in Scotland title to which is registered or is in the course of being registered in the Land Register of Scotland, each assignation of the relevant Scottish Loans and their related Scottish Mortgages in the relevant form set out in Schedule 8 (*Forms of Scottish Transfer-Land Register*) to the Mortgage Sale Agreement with such modifications as may be required from time to time;

**"Solvency II Regulation"** means Regulation (EU) 2015/35;

**"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;

**"Sterling"** and **"£"** denote the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland;

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

**"Stock Exchange"** means London Stock Exchange plc;

**"Subordinated Loan Agreement"** means the subordinated loan agreement so named dated on or about the Closing Date between the Issuer, the Subordinated Loan Provider and the Trustee;

**"Subordinated Loan Provider"** means Bank of Scotland in its capacity as subordinated loan provider pursuant to the Subordinated Loan Agreement;

**"Substituted Obligor"** means a single purpose company incorporated in any jurisdiction that meets the SPV Criteria;

**"Swap Collateral"** means any cash or securities transferred by the Interest Rate Swap Provider to the Issuer on any date pursuant to the terms of the Credit Support Annex to the Interest Rate Swap Agreement (excluding any Swap Collateral Negative Interest);

**"Swap Collateral Account"** means the account in the name of the Issuer held at the Account Bank or such additional or replacement bank account at the Account Bank and/or other banks as may for the time being be in place with the prior consent of the Trustee and designated as such;

**"Swap Collateral Negative Interest"** means the amount of any interest which is due from the Interest Rate Swap Provider to the Issuer in respect of any negative rate of interest due in respect of Swap Collateral in the form of cash;

**"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 any Tax Authority in the Issuer Jurisdiction 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, HM Revenue and Customs);

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

**"Tax Deduction"** means any deduction or withholding on account of Tax;

**"Third Party Amounts"** means:

- (a) payments of certain insurance premia where such cash amounts have been paid by the relevant Borrower and form part of Revenue Receipts;
- (b) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup such amount itself from its customer's account; and
- (c) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service to that Borrower or the Seller;

**"Transaction Account"** means the account in the name of the Issuer held at the Account Bank, or such additional or replacement bank account at the Account Bank and/or other banks as may for the time being be in place with the prior consent of the Trustee and designated as such;

**"Transaction Documents"** means the Agency Agreement, Account Bank Agreement, Interest Rate Swap Agreement, Cash Management Agreement, Corporate Services Agreement, Deed of Charge (and any documents entered into pursuant to the Deed of Charge, including, without limitation, each Scottish Trust Security and each Scottish Sub-Security), Incorporated Terms Memorandum, Mortgage Sale Agreement, Note Purchase Agreement, Servicing Agreement, each Scottish Declaration of Trust, the Share Trust Deed, Subordinated Loan Agreement, the Notes, the Trust Deed (including the Conditions), the Collection Account Declaration of Trust and such other related documents which are referred to in the terms of the above documents or which relate to the issue of the Notes or are designated as a "Transaction Document";

**"Transaction Party"** means any person who is a party to a Transaction Document and **"Transaction Parties"** means some or all of them;

**"Transfer Date"** means, (i) with respect to Mortgage Loans in the Initial Portfolio, the Closing Date, (ii) with respect to the Mortgage Loans in any New Portfolio, the relevant New Portfolio Sale Date on which such Mortgage Loans are sold to the Issuer and (iii) any other date on which the Seller repurchases the Mortgage Loans, in each case pursuant to the Mortgage Sale Agreement;

"**Trust Deed**" means the deed so named (including the Conditions and the Notes) dated on or about the Closing Date between the Issuer and the Trustee constituting the Notes and any document expressed to be supplemental to the Trust Deed;

"**Trust Documents**" means the Trust Deed and the Deed of Charge and (unless the context requires otherwise) includes any deed or other document executed in accordance with the provisions of the Trust Deed or (as applicable) the Deed of Charge and expressed to be supplemental to the Trust Deed or the Deed of Charge (as applicable);

"**Trustee**" means Deutsche Bank AG, London Branch, acting through its principal office at Winchester House, 1 Great Winchester Street, London EC2N 2DB and acting in its capacity as Trustee under the terms of the Trust Documents, or such other person as may from time to time be appointed as Trustee (or co-trustee) pursuant to the Trust Documents;

"**Valuation Report**" means the valuation report or reports for mortgage purposes, in the form of one of the pro forma contained in the Standard Documentation, obtained by the Seller from a valuer in respect of each Mortgaged Property or a valuation report in respect of a valuation made using a methodology which would be acceptable to a Reasonable, Prudent Mortgage Lender and which has been approved by the relevant officers of the Seller, in accordance with the Seller's Lending Criteria, and which includes a confirmation of the anticipated rental income from the property;

"**VAT**" means value added tax imposed by VATA and legislation and regulations supplemental thereto and includes any other tax of a similar fiscal nature whether imposed in the United Kingdom (instead of or in addition to value added tax) or elsewhere from time to time;

"**VATA**" means the Value Added Tax Act 1994; and

"**Written Resolution**" means a resolution in writing signed by or on behalf of not less than 90% of the holders of Notes of the relevant Class for the time being outstanding who for the time being are entitled to receive notice of a Meeting in accordance with the Provisions for 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 the Notes.

2.2 **Interpretation:** Any reference in the Conditions to:

"**continuing**", in respect of an Event of Default or a Potential Event of Default, shall be construed as a reference to an Event of Default or a Potential Event of Default, as the case may be, which has not been waived in accordance with the terms of the Conditions or, as the case may be, the relevant Transaction Document and in respect of a Potential Event of Default, one which has not been remedied within the relevant grace period or waived in accordance with the terms of the Conditions or, as the case may be, the relevant Transaction Document;

a "**class**" or "**Class**" shall be a reference to a class of the Notes being each or any of the Class A1 Notes, the Class A2 Notes, the Class B Notes, the Class C Notes, the Class D Notes or the Class Z Notes, as the context may require, and "**classes**" shall be construed accordingly;

"**day**" or "**days**" shall be a reference to a calendar day or calendar days (as applicable);

"**Euroclear**" and/or "**Clearstream, Luxembourg**" shall, wherever the context so admits, be deemed to include reference to any additional or alternative clearing system approved by the Issuer and the Trustee in relation to the Notes;

"**holder**" means the registered holder of a Note and the words "**holders**" and related expressions shall (where appropriate) 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, judgement, 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;

"repay", "redeem" and "pay" shall each include both of the others and "repaid", "repayable" and "repayment", "redeemed", "redeemable" and "redemption" and "paid", "payable" and "payment" shall be construed accordingly;

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

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.

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, regulation, directive or treaty shall be construed as a reference to such statute, regulation, directive 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 a:

- (a) a "**Section**" shall be construed as a reference to a Section of such Transaction Document;
- (b) a "**Part**" shall be construed as a reference to a Part of such Transaction Document;
- (c) a "**Schedule**" shall be construed as a reference to a Schedule of such Transaction Document;
- (d) a "**Clause**" shall be construed as a reference to a Clause of a Part or Section (as applicable) of such Transaction Document; and
- (e) 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 and Denomination

3.1 The Notes are in fully registered form and serially numbered in the Minimum Denomination for the Notes. Notes in registered form are issued without coupons attached. The expression "**Notes**" means and includes co-ownership under a permanent global note and the expression "**Noteholder**" shall mean and include any person entitled to co-ownership and further benefit under a permanent global note.

3.2 The Principal Amount Outstanding of the Notes of each Class initially offered and sold outside the United States to non U.S. persons pursuant to Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended, (the "**Securities Act**") is represented by one or more global notes in fully registered form (the "**Global Note**") without coupons attached.

3.3 Definitive registered Notes in an aggregate principal amount equal to the Principal Amount Outstanding of the Global Note (the "**Definitive Notes**") will be issued in registered form and serially numbered in the circumstances referred to in Condition 3.4 below. Definitive Notes, if issued, will be issued in the Minimum Denomination for the Notes.

3.4 If, while any Notes are represented by a Global Note:

- (a) in the case of a Global Note held in Euroclear or Clearstream, Luxembourg, Euroclear or Clearstream, Luxembourg 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 so cease business and no alternative clearing system satisfactory to the Trustee is available; or

- (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive registered form and a certificate to such effect signed by an authorised director of the Issuer is delivered to the Trustee,

the Issuer will issue Definitive Notes to Noteholders whose accounts with the relevant clearing systems are credited with interests in that Global Note in exchange for those interests within 30 days of the relevant event but not earlier than the Exchange Date. The Global Note will not be exchangeable for Definitive Notes in any other circumstances.

#### **4. Title**

- 4.1 The person registered in the Register as the holder of any Note will (to the fullest extent permitted by applicable law) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments), as the absolute owner of such Note regardless of any notice of ownership, theft or loss, of any trust or other interest therein or of any writing thereon or, if more than one person, the first named of such persons who will be treated as the absolute owner of such Note.
- 4.2 The Issuer shall cause to be kept at the Specified Office of the Registrar, the Register on which shall be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and of all transfers and redemptions of the Notes.
- 4.3 No transfer of a Note will be valid unless and until entered on the Register.
- 4.4 Transfers and exchanges of beneficial interests in the Global Note and any Definitive Notes and entries on the Register relating thereto will be made subject to any restrictions on transfers set out on such Notes and the detailed regulations concerning transfers of such Notes contained in the Agency Agreement, the Trust Deed and the legend appearing on the face of the Notes. In no event will the transfer of a beneficial interest in a Global Note or the transfer of a Definitive Note be made absent compliance with the regulations referred to above, and any purported transfer in violation of such regulations shall be void *ab initio* and will not be honoured by the Issuer or the Trustee. The regulations referred to above may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be sent by the Principal Paying Agent in the U.K. or the Registrar to any holder of a Note who so requests and will be available upon request at the Specified Office of the Registrar or the Principal Paying Agent.
- 4.5 A Definitive Note may be transferred in whole or in part upon the surrender of the relevant Definitive Note, together with the form of transfer endorsed on it duly completed and executed, at the Specified Office of the Registrar or the Principal Paying Agent. In the case of a transfer of part only of a Definitive Note, a new Definitive Note in respect of the balance remaining will be issued to the transferor by or by order of the Registrar.
- 4.6 Each new Definitive Note to be issued upon transfer of Definitive Notes will, within five Business Days of receipt of such request for transfer, be available for delivery at the Specified Office of the Registrar or the Principal Paying Agent stipulated in the request for transfer, or be mailed at the risk of the holder entitled to the Definitive Note to such address as may be specified in such request.
- 4.7 Registration of Definitive Notes on transfer will be effected without charge by or on behalf of the Issuer or the Registrar, but upon payment of (or the giving of such indemnity as the Registrar may require in respect of) any tax or other governmental charges which may be imposed in relation to it.
- 4.8 No holder of a Definitive Note may require the transfer of such Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on such Note.

#### **5. Status and Ranking**

- 5.1 **Status:** The Notes of each class constitute direct, secured and unconditional obligations of the Issuer.



- 5.2 **Ranking:** The Class A1 Notes will at all times rank without preference or priority *pari passu* amongst themselves. The Class A2 Notes will at all times rank without preference or priority *pari passu* amongst themselves. The Class B Notes will at all times rank without preference or priority *pari passu* amongst themselves. The Class C Notes will at all times rank without preference or priority *pari passu* amongst themselves. The Class D Notes will at all times rank without preference or priority *pari passu* amongst themselves. The Class Z Notes will at all times rank without preference or priority *pari passu* amongst themselves.
- 5.3 **Sole Obligations:** The Notes are obligations solely of the Issuer and are not obligations of, or guaranteed by, any of the other Transaction Parties.
- 5.4 **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 B Notes, the Class C Notes, the Class D Notes and the Class Z Notes; payments of interest on the Class B Notes will at all times rank in priority to payments of interest on the Class C Notes, the Class D Notes and the Class Z Notes; payments of interest on the Class C Notes will at all times rank in priority to payments of interest on the Class D Notes and the Class Z Notes; payments of interest on the Class D Notes will at all times rank in priority to payments of interest on the Class Z Notes, in each case in accordance with the Pre Enforcement Revenue Payments Priorities and the Post Enforcement Payments Priorities. Payments of interest on the Class A1 Notes and the Class A2 Notes will rank *pari passu* and *pro rata*.
- 5.5 **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 B Notes, the Class C Notes, the Class D Notes and the Class Z Notes; payments of principal on the Class B Notes will at all times rank in priority to payments of principal on the Class C Notes, the Class D Notes and the Class Z Notes; payments of principal on the Class C Notes will at all times rank in priority to payments of principal on the Class D Notes and the Class Z Notes; payments of principal on the Class D Notes will at all times rank in priority to payments of principal on the Class Z Notes, in each case in accordance with the Pre Enforcement Principal Payments Priorities and the Post Enforcement Payments Priorities.
- Payments of principal on the Class A1 Notes will rank in priority to payments of principal on the Class A2 Notes unless a Principal Payments Trigger Event has occurred, in which case, payments of principal on the Class A1 Notes and the Class A2 Notes will rank *pari passu* and *pro rata*.
- 5.6 **Payments Priorities:** Prior to the delivery of an Enforcement Notice, the Issuer is required to apply an amount equal to the Available Revenue Receipts and an amount equal to the Available Principal Receipts in accordance with the Pre Enforcement Revenue Payments Priorities and the Pre Enforcement Principal Payments Priorities, respectively and, thereafter, in accordance with the Post Enforcement Payments Priorities.
6. **Security**
- 6.1 **Security:** The Notes are secured by the Security.
- 6.2 **Enforceability:** The Security will become enforceable upon the delivery by the Trustee of an Enforcement Notice in accordance with Condition 13 (*Events of Default*) and subject to the matters referred to in Condition 14 (*Enforcement*).
7. **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, without the prior written consent of the Trustee. So long as any Note remains outstanding, the Issuer shall comply with the Issuer Covenants.
8. **Interest**
- 8.1 **Accrual of Interest:** Each Note bears interest on its Principal Amount Outstanding from (and including) the Closing Date.
- 8.2 **Cessation of Interest:** Each Note (or, in the case of the redemption of part only of a Note, that part only of such Note) shall cease to bear interest from its due date for redemption unless, upon due presentation, payment of the principal is improperly withheld or refused or default is otherwise made in respect of the payment, 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:

- (a) 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
  - (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders of the relevant class (in accordance with Condition 22 (*Notices*)) that the full amount payable is available for collection by the Noteholder, provided that on due presentation payment is in fact made.
- 8.3 **Interest Payments:** Interest on each Note is payable in arrear on the First Interest Payment Date, and thereafter monthly in arrear on each 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.
- 8.4 **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 each Note for the related Interest Period.
- 8.5 **Determination of Note Rate, Interest Amount, and Interest Payment Date**
- (a) The Agent Bank will, on each Interest Determination Date, determine:
    - (i) the Note Rate for each Class for the related Interest Period;
    - (ii) the Interest Amount for each Class for the related Interest Period; and
    - (iii) the Interest Payment Date next following the related Interest Period;and notify the Issuer, the Servicer, the Cash Manager, the Trustee, the Registrar, the Interest Rate Swap Provider and the Paying Agents and, for so long as the Notes are listed on the Stock Exchange, the Stock Exchange.

- (b) The Note Rate will be determined on the basis of the following provisions:
- (i) the Agent Bank will determine the Reference Rate as at or about 11.00 a.m. (London time) on the Interest Determination Date (as defined below) in question. If the Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks for one-month Sterling deposits (or, in respect of the first Interest Period for the Notes, the linear interpolation of LIBOR for one-month and two-month deposits in Sterling) in the London interbank market as at or about 11.00 a.m. (London time) on the relevant Interest Determination Date. The Note Rate for the relevant Interest Period shall be the aggregate of (A) the Relevant Margin and (B) the Reference Rate (or, if the Reference Rate is unavailable, the arithmetic mean of such offered quotations for one-month Sterling deposits (rounded upwards, if necessary, to five decimal places)); and
  - (ii) if, on any Interest Determination Date, the Screen Rate is unavailable and only two or three of the Reference Banks provide offered quotations, the Note Rate for the relevant Interest Period shall be determined in accordance with the provisions of subparagraph (A) above on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, only one or none of the Reference Banks provides the Agent Bank with such an offered quotation, the Agent Bank shall forthwith consult with the Issuer for the purposes of agreeing two banks (or, where one only of the Reference Banks provided such a quotation, one additional bank) to provide such a quotation or quotations to the Agent Bank and the Note Rate for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does or do not provide such a quotation or quotations, then the Note Rate for the relevant Interest Period shall be the Note Rate in effect for the last preceding Interest Period to which subparagraph (i)(A) shall have applied but taking account of any change in the Relevant Margin;
- (c) There will be no maximum Note Rate.
- 8.6 **Publication of Note Rate, Interest Amount and Interest Payment Date:** As soon as practicable after receiving each notification of the Note Rate, the Interest Amount and the Interest Payment Date in accordance with Condition 8.5 (*Determination of Note Rate, Interest Amount, and Interest Payment Date*) and in any event no later than the second Business Day thereafter, the Issuer will cause such Note Rate and Interest Amount for each class and the next following Interest Payment Date to be published in accordance with the Notices Condition.
- 8.7 **Amendments to Publications:** The Note Rate, Interest Amount for each class 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.
- 8.8 **Determination or Calculation by Trustee:** If the Agent Bank does not at any time for any reason determine the Note Rate or the Interest Amount for each class in accordance with this Condition 8 (*Interest*), the Trustee may (but without, in the absence of fraud, any liability accruing to the Trustee as a result):
- (a) determine the Note Rate for each Class of Notes at such rate 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
  - (b) calculate the Interest Amount for each Class of Notes 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. In each case the Trustee may, at the expense of the Issuer, employ an expert to make the determination or calculation and any such determination shall be deemed to have been made by the Agent Bank.
- 8.9 **Notifications to be final:** All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 8

(*Interest*), whether by the Reference Banks (or any of them), the Paying Agents, the Registrar, the Agent Bank or the Trustee shall (in the absence of any Breach of Duty, or manifest error) be binding on the Issuer and all Noteholders and (in the absence of any Breach of Duty or manifest error) no liability to the Noteholders shall attach to the Reference Banks, the Agents, the Registrar or the Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions under this Condition 8 (*Interest*).

8.10 **Reference Banks and Agent Bank:** The Issuer shall ensure that, so long as any of the Notes remain outstanding there shall at all times be four Reference Banks, an Agent Bank, a Paying Agent and a Principal Paying Agent. In the event of any of the Reference Banks being unable or unwilling to continue to act as a Reference Bank or an Agent being unable or unwilling to continue to act as an Agent, the Issuer shall appoint such other bank as may be previously approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign until a successor approved in writing by the Trustee is appointed by the Issuer. Notice of any change in any of the Reference Banks or Agents or in their Specified Offices shall promptly be given by the Issuer to the Noteholders in accordance with the Notices Condition.

8.11 **Interest Accrual:**

(a) To the extent that funds available to the Issuer to pay interest on the Notes of any Class other than the Most Senior Class of Notes on an Interest Payment Date are insufficient to pay the full amount of such interest, payment of the shortfall in respect of such Class of Notes ("**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.

(b) Such Deferred Interest will accrue interest ("**Additional Interest**") at the rate of interest applicable from time to time in respect of such Notes and payment of any Additional Interest will also be deferred until the first Interest Payment Date thereafter on which funds are available (subject to Condition 8 (*Interest*) and in accordance with these Conditions) to the Issuer to pay such Additional Interest to the extent of such available funds.

(c) 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 each Class of Notes falls to be redeemed in full in accordance with Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*) and any such amount which has not then been paid in respect of the relevant Class of Notes shall thereupon become due and payable in full.

9. **Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation**

9.1 **Final Redemption:** Unless previously redeemed and cancelled as provided in this Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*), the Issuer shall redeem the Notes of each class at their Principal Amount Outstanding together with any accrued (and unpaid) interest) on the Final Maturity Date.

9.2 **Mandatory Redemption in part:** On each Interest Payment Date prior to the delivery of an Enforcement Notice, the Issuer is required to apply an amount equal to Available Principal Receipts which are available for such purposes in accordance with the Pre Enforcement Principal Payments Priorities in and towards redemption of the Notes.

9.3 **Optional Redemption in whole:** The Issuer may redeem all (but not some only) of the Notes of each class at their Principal Amount Outstanding together with any accrued (and unpaid) interest on any Interest Payment Date:

(a) when, on the related Calculation Date, the aggregate of the Principal Amount Outstanding of the outstanding Notes is less than 20 per cent. of the Principal Amount Outstanding of all of the Notes as at the Closing Date; or

(b) from and including the Call Option Date;

subject to the following:

(c) no Enforcement Notice has been delivered by the Trustee prior to such Interest Payment Date;

- (d) the Issuer has given not more than 20 nor less than 10 days' notice to the Trustee and the Noteholders in accordance with the Notices Condition of its intention to redeem all (but not some only) of the Notes of each class; and
- (e) prior to giving any such notice, the Issuer shall have provided to the Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds on the relevant Interest Payment Date, not subject to the interest of any other person, required to redeem the Notes pursuant to this Condition and meet its payment obligations of a higher priority under the Pre Enforcement Payments Priorities.

9.4 **Optional Redemption in whole for taxation reasons:** The Issuer may redeem all (but not some only) of the Notes of each class at their Principal Amount Outstanding together with any accrued (and unpaid) interest on any Interest Payment Date after the date on which, by virtue of a change in Tax law (or the application or official interpretation of Tax law):

- (a) the Issuer is to make any payment in respect of the Notes or the Interest Rate Swap Provider is to make any payments in respect of the Interest Rate Swap Agreement and the Issuer or the Interest Rate Swap Provider, as the case may be, would be required to make a Tax Deduction in respect of such relevant payment; or
- (b) 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 account period;

subject to the following:

- (c) no Enforcement Notice has been delivered by the Trustee prior to such Interest Payment Date;
- (d) that the Issuer has given not more than 20 nor less than 10 days' notice to the Trustee and the Noteholders in accordance with the Notices Condition of its intention to redeem all (but not some only) of the Notes of each Class; and
- (e) that prior to giving any such notice, the Issuer (or in respect to Condition 9.4(a), the Interest Rate Swap Provider) has provided to the Trustee:
  - (i) a legal opinion (in form and substance satisfactory to the Trustee) from a firm of lawyers in the applicable jurisdiction (approved in writing by the Trustee), opining on the relevant change in Tax law and confirming that the circumstance set out in either paragraph (a) or (b) above is applicable;
  - (ii) if relevant, a certificate signed by the Issuer or, as the case may be, the Interest Rate Swap Provider, to the effect that the obligation to make a Tax Deduction cannot be avoided; and
  - (iii) a certificate signed by 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 Payments Priorities.

9.5 **Calculation of Note Principal Payment, Principal Amount Outstanding and Pool Factor:** On each Calculation Date, the Issuer shall calculate (or cause the Agent Bank to calculate):

- (a) the aggregate of any Note Principal Payment due in relation to each class on the Interest Payment Date immediately succeeding such Calculation Date;
- (b) the Principal Amount Outstanding of each Note of each class on the Interest Payment Date immediately succeeding such Calculation Date (after deducting any Note Principal Payment due to be made on that Interest Payment Date in relation to such class); and
- (c) the fraction expressed as a decimal to the sixth point (the "**Pool Factor**"), of which the numerator is the Principal Amount Outstanding of a Note of that Class (as referred to in Condition 9.5(b) above) and the denominator is £100,000,

and notify the Trustee, the Paying Agents, the Agents and, for so long as the Notes are listed on the Stock Exchange, the Stock Exchange thereof in accordance with Condition 9.9 (*Notice of Calculation*).

9.6 **Calculations final and binding:** Each calculation by or on behalf of the Issuer of any Note Principal Payment, the Principal Amount Outstanding of a Note of each class and the Pool Factor shall in each case (in the absence of any Breach of Duty) be final and binding on all persons.

- 9.7 **Trustee to determine amounts in case of Issuer default:** If the Issuer does not at any time for any reason calculate (or cause the Agent Bank to calculate) any Note Principal Payment, the Principal Amount Outstanding in relation to each Note of each class or the Pool Factor in accordance with this Condition, such amounts may be calculated by the Trustee (without, in the absence of fraud, any liability accruing to the Trustee as a result) in accordance with this Condition (based on information supplied to it by the Issuer, the Cash Manager or the Servicer) and each such calculation shall be deemed to have been made by the Issuer.
- 9.8 **Conclusiveness of certificates and legal opinions:** Any certificate and legal opinion given by or on behalf of the Issuer or, as the case may be, the Interest Rate Swap Provider pursuant to Condition 9.3 (*Optional Redemption in whole*) and Condition 9.4 (*Optional Redemption in whole for taxation reasons*) may be relied on by the Trustee without further investigation and shall be conclusive and binding on the Noteholders and on the other Secured Creditors.
- 9.9 **Notice of Calculation:** The Issuer will cause each calculation of a Note Principal Payment, Principal Amount Outstanding in relation to each Note of each class and the Pool Factor to be notified immediately after calculation to the Trustee, the Agents and, for so long as the Notes are listed on the Stock Exchange, the Stock Exchange and will, as soon as practicable after their determination but in any event not later than two Business Days prior to each Interest Payment Date, cause details of each calculation of a Note Principal Payment, Principal Amount Outstanding in relation to each Note of each class and the Pool Factor to be published in accordance with the Notices Condition.
- 9.10 **Notice irrevocable:** Any such notice as is referred to in Condition 9.3 (*Optional Redemption in whole*) or Condition 9.4 (*Optional Redemption in whole for taxation reasons*) or Condition 9.9 (*Notice of Calculation*) shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Notes to which such notice relates at their Principal Amount Outstanding if effected pursuant to Condition 9.3 (*Optional Redemption in whole*) or Condition 9.4 (*Optional Redemption in whole for taxation reasons*).
- 9.11 **Cancellation of redeemed Notes:** All Notes redeemed in full will be cancelled forthwith by the Issuer and may not be reissued or resold.

## 10. Limited Recourse

10.1 If at any time following:

- (a) the occurrence of either:
- (i) the Final Maturity Date or any earlier date upon which all of the Notes of each Class are due and payable; or
  - (ii) the service of an Enforcement Notice; and
- (b) 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 the same have been allocated as Available Principal Receipts, Available Revenue Receipts or as amounts to be applied in accordance with the Post Enforcement Payments Priorities and payment of all claims ranking in priority to the Notes in accordance with the applicable Payments Priorities (including for the avoidance of doubt, amounts due and payable to the Seller as Deferred Consideration), to pay in full all amounts then due and payable under any Class of Notes then the amount remaining to be paid (after such application in full of the amounts first referred to in (b) above) under such Class of Notes (and any Class of Notes junior to that Class of Notes) shall, on the day following such application in full of the amounts referred to in (b) above, cease to be due and payable by the Issuer.

For the purposes of this Condition 10, "**Realisation**" means, in relation to any Charged Property, the deriving, to the fullest extent practicable, (in accordance with the provisions of the Transaction Documents) of proceeds from or in respect of such Charged Property including (without limitation) through sale or through performance by an obligor.

## 11. Payments

- 11.1 **Principal and interest:** Payments of principal and interest shall be made by transfer to an account in Sterling, maintained by the payee with a bank in London and (and in the case of final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Notes at the Specified Office of any Paying Agent in accordance with the terms of the Agency Agreement.

- 11.2 **Record date:** Each payment in respect of a Note will be made to the person shown as the Noteholder in the Register at the opening of business in the place of the Registrar's Specified Office as at the close of the Business Day before the due date for such payment (the "**Record Date**"). The person shown in the Register at the opening of business on the relevant Record Date in respect of a Note shall be the only person entitled to receive payments in respect of Notes represented by such Note and the Issuer will be discharged by payment to, or to the order of, such person in respect of each amount so paid.
- 11.3 **Payments subject to fiscal laws:** All payments in respect of the Notes are subject in each case to any applicable fiscal or other laws and regulations. No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- 11.4 **Partial Payments:** If a Principal Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note.
- 11.5 **Payments on Business Days:** If the due date for payment of any amount in respect of any Note is not a Business Day, then the holder shall not be entitled to payment until the next succeeding Business Day and no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Note.

## 12. Taxation

- 12.1 **Payments free of Tax:** All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for or on account of any Taxes imposed, levied, collected, withheld or assessed by the Issuer Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, unless the Issuer or the Paying Agents (as the case may be) are required by law to make any Tax Deduction. In that event, the Issuer 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.
- 12.2 **No payment of additional amounts:** Neither the Issuer nor the Paying Agents will be obliged to pay any additional amounts to the Noteholders as a result of any such Tax Deduction.

## 13. Events of Default

- 13.1 **Events of Default:** Each of the following events shall be an "**Event of Default**":
- (a) **Non-payment:** the Issuer fails to pay any amount of principal in respect of the Notes within seven days following the due date for payment of such principal or fails to pay any amount of interest in respect of the Notes within 15 days following the due date for payment of such interest (provided that, for the avoidance of doubt, a deferral of interest in accordance with Condition 8.11 (*Interest Accrual*) shall not constitute a default in the payment of such interest for the purposes of this Condition 13 (*Events of Default*)); or
  - (b) **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, the Issuer Covenants, the Trust Deed, the Deed of Charge or any of the other Transaction Documents and such default (a) is, in the opinion of the Trustee, incapable of remedy or (b) is, in the opinion of the Trustee, capable of remedy, but remains unremedied for 20 days or such longer period as the Trustee may agree after the Trustee has given written notice of such default to the Issuer; or
  - (c) **Insolvency Event:** an Insolvency Event occurs in relation to the Issuer; or
  - (d) **Unlawfulness:** it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Trust Documents or any of the other Transaction Documents.
- 13.2 **Delivery of Enforcement Notice:** Subject to Condition 13.3 (*Conditions to delivery of Enforcement Notice*), if an Event of Default occurs and is continuing, the Trustee may at its discretion and shall:
- (a) 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 outstanding Notes; or
  - (b) if so directed by an Extraordinary Resolution of the holders of the Most Senior Class of outstanding Notes;
- deliver an Enforcement Notice to the Issuer.

- 13.3 **Conditions to delivery of Enforcement Notice:** Notwithstanding Condition 13.2 (*Delivery of Enforcement Notice*) the Trustee shall not be obliged to deliver an Enforcement Notice unless:
- (a) in the case of the occurrence of any of the events mentioned in Condition 13.1(b) (*Breach of other obligations*), the Trustee shall have certified in writing that the happening of such event is in its opinion materially prejudicial to the interests of the Noteholders of the Most Senior Class of Notes; and
  - (b) 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.

- 13.4 **Consequences of delivery of Enforcement Notice:** Upon the delivery of an Enforcement Notice, the Notes of each class shall become immediately due and payable, without further action or formality, at their Principal Amount Outstanding together with any accrued (and unpaid) interest.

#### 14. Enforcement

- 14.1 **Proceedings:** The Trustee may, at its discretion and without notice, institute such proceedings or take such other steps or action as it thinks fit to enforce and/or to exercise its rights under the Trust Deed in respect of the Notes of each class (including these Conditions), the Deed of Charge or under the other Transaction Documents, but it shall not be bound to do so unless:
- (a) so requested in writing by the holders of at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of outstanding Notes; or
  - (b) so directed by an Extraordinary Resolution of the Noteholders of the Most Senior Class of outstanding Notes;

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.

- 14.2 **Directions to the Trustee:** If the Trustee shall take any action described in Condition 14.1 (*Proceedings*) it may take such action without having regard to the effect of such action on individual Noteholders or any other Secured Creditor, provided that so long as any of the Most Senior Class of Notes are outstanding, the Trustee shall not, and shall not be bound to, act at the request or direction of the Noteholders of any other class of Notes unless:
- (a) to do so would not, in its opinion, be materially prejudicial to the interests of the Noteholders of the classes of Notes ranking senior to such other class; or
  - (b) (if the Trustee is not of that opinion) such action is sanctioned by an Extraordinary Resolution of the Noteholders of the Notes of each Class ranking senior to such other class;

and in 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 in so doing.

- 14.3 **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:
- (a) a sufficient amount would be realised to allow payment in full of all amounts owing to the Noteholders of each class after payment of all other claims ranking in priority to the Notes in accordance with the Post Enforcement Payments Priorities; or
  - (b) the Trustee has received advice which shall be binding on the Noteholders and the other Secured Creditors from an investment bank or other financial adviser selected by the Trustee, (and if the Trustee is unable to obtain such advice having made efforts to do so this Condition 14.3(b) 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 actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts due in respect of the Notes of each class after payment of all other claims ranking in priority to the Notes in accordance with the Post Enforcement Payments Priorities and the resulting shortfall would be greater than the shortfall arising upon disposal of the Charged Property; and
  - (c) the Trustee shall not be bound to seek the advice referred to in Condition 14.3(b) 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.

- 14.4 **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.

**15. No action by Noteholders or any other Secured Creditor**

- 15.1 Only the Trustee may pursue the remedies available under the general law or under the Transaction Documents and/or enforce the Security and no Noteholder or other Secured Creditor shall be entitled to proceed directly against the Issuer in respect of the Trust Documents or to enforce the Security. In particular, none of the Noteholders or any other Secured Creditor (nor any person on its or their behalf, other than the Trustee where appropriate) are entitled:

- (a) 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;
- (b) 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 or any other Secured Creditors; or
- (c) until the date falling two years after the Final Discharge Date, to initiate or join any person in initiating any Insolvency Proceeding in relation to the Issuer; or
- (d) to take or join in the taking of any steps or proceedings which would result in the Payments Priorities not being observed.

**16. Meetings of Noteholders**

- 16.1 **Convening:** The Trust Deed contains "*Provisions for Meetings of Noteholders*" for convening separate or combined meetings of Noteholders of any class to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed, which modification may be made if sanctioned by an Extraordinary Resolution.

- 16.2 **Separate and combined meetings:** The Trust Deed provides that, except in the case of an Extraordinary Resolution relating to a Reserved Matter (which must be proposed separately to each Class of Noteholders) and subject to Condition 16.5 (*Relationship between Classes*):

- (a) 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;
- (b) 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 either at separate meetings of the Noteholders of each such class or at a single meeting of the Noteholders of all such classes of Notes as the Trustee shall determine in its absolute discretion; and
- (c) an Extraordinary Resolution which in the opinion of the Trustee affects the Noteholders of more than one class of Notes 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 and the provisions of Schedule 4 (*Provisions for Meetings of Noteholders*) of the Trust Deed shall apply *mutatis mutandis*.

- 16.3 **Request from Noteholders:** A meeting of Noteholders 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 pre-funded to its satisfaction) upon the request in writing of a class or classes of Noteholders holding not less than ten per cent. of the aggregate Principal Amount Outstanding of the Notes then outstanding. However, so long as no Event of Default has occurred and is continuing, the Noteholders are not entitled to instruct or direct the Issuer to take any action, either directly or indirectly through the Trustee, without consent of the Issuer and, if applicable, certain other transaction parties pursuant to any relevant Transaction Documents, unless the Issuer has an obligation to take such action under the relevant Transaction Documents.

- 16.4 **Quorum:** The quorum at any meeting convened to vote on:

- (a) an Extraordinary Resolution, other than regarding a Reserved Matter, relating to a meeting of a particular class or classes of the Notes will be one or more persons holding or representing a majority of the aggregate Principal Amount Outstanding of the Notes then

outstanding Notes in that class or those classes or, at any adjourned meeting, one or more persons being or representing Noteholders of that class or those classes, whatever the aggregate Principal Amount Outstanding of the Notes then outstanding so held or represented in such class or classes; and

- (b) an Extraordinary Resolution relating to a Reserved Matter (which must be proposed separately to each class of Noteholders) will be one or more persons holding or representing not less than in the aggregate 75 per cent. of the aggregate Principal Amount Outstanding of the Notes then outstanding in the relevant class or, at any adjourned meeting, one or more persons holding or representing not less than in the aggregate 33 1/3 per cent. of the aggregate Principal Amount Outstanding of the Notes then outstanding in the relevant class.

#### 16.5 **Relationship between Classes:**

In relation to each class of Notes:

- (a) no Extraordinary Resolution involving a Reserved Matter that is passed by the holders of 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 then outstanding;
- (b) 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 Notes outstanding ranking senior to such class) unless the Trustee considers that the holders of each of the other classes of Notes ranking senior to such class would not be materially prejudiced by the implementation of such first mentioned Extraordinary Resolution; and
- (c) 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 meetings 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.

16.6 **Resolutions in writing:** A Written Resolution shall take effect as if it were an Extraordinary Resolution.

#### 17. **Modification and Waiver**

17.1 **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:

- (a) any modification to these Conditions, the Trust Documents (other than in respect of a Reserved Matter or any provisions of the Trust Documents referred to in the definition of a Reserved Matter), the Notes 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 interest of the holders of the Most Senior Class of Notes then outstanding; or
- (b) any modification to these Conditions, the Trust Documents or the other Transaction Documents in relation to which its consent is required, if, in the opinion of the Trustee, such modification is (i) of a formal, minor or technical nature, (ii) is made to correct a manifest error or (iii) is necessary or desirable to reflect the then current rating criteria of any Rating Agency provided that in respect of (iii), a certificate from the Servicer (on behalf of the Issuer) is provided to the Trustee certifying that in its opinion such modifications are necessary or desirable to reflect the then current rating criteria of any Rating Agency.

17.2 **Additional right of modification:** Notwithstanding the provisions of Condition 17.1 (*Modification*), the Trustee shall be obliged, without any consent or sanction of the Noteholders, or any of the other Secured Creditors, but subject to the receipt of consent from any of the Secured Creditors party to the Transaction Document being modified or whose ranking in any Payments Priorities is affected, to concur with the Issuer in making any modification (other than in respect of a 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 or other party identified below (in each case) considers necessary:

- (a) in order to enable (a) the Issuer to comply with any obligations which apply to it under EMIR, subject to receipt by the Trustee of a certificate issued by (i) the Issuer signed by two directors of the Issuer or (ii) the Cash Manager on behalf of the Issuer certifying to the Trustee the requested modifications are to be made solely for the purpose of enabling the Issuer to satisfy such obligations under EMIR and have been drafted solely to that effect or (b) the Interest Rate Swap Provider in order for it to comply with any New Regulatory Requirements (as defined in the Interest Rate Swap Agreement), provided that the Trustee has received confirmation from the Interest Rate Swap Provider that it is seeking to implement changes it considers appropriate for it to comply with the New Regulatory Requirements;
- (b) 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 17.2(b):
- (i) except where (b)(iii) below applies, the Issuer or the Cash Manager on behalf of 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; or
  - (ii) except where (b)(iii) below applies, in the case of any modification to a Transaction Document proposed by any of the Cash Manager, the Seller, the Servicer, the Account Bank and/or the Interest Rate Swap Provider (for the purposes of this Condition 17.2 only, each a "**Relevant Party**") 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 (including, without limitation, posting collateral or advancing funds):
    - (1) the Relevant Party certifies in writing to the Issuer and the Trustee that such modification is necessary for the purposes described in paragraph (b)(ii)(x) and/or (y) above;
    - (2) either:
      - (A) the Issuer or Cash Manager (on behalf of the Issuer) obtains from each of the Rating Agencies a Ratings Confirmation and, if relevant, delivers a copy of each such confirmation to the Issuer and the Trustee; or
      - (B) the Issuer or the Cash Manager on behalf of 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 Rated Notes by such Rating Agency or (y) such Rating Agency placing the Rated Notes on rating watch negative (or equivalent); and
    - (3) the Relevant Party pays all costs and expenses (including legal fees) incurred by the Issuer and the Trustee or any other Transaction Party in connection with such modification; or
  - (iii) in respect of any amendment to the Interest Rate Swap Agreement proposed by the Interest Rate Swap Provider: (i) the Interest Rate Swap Provider has given written notice to the Issuer and the Trustee that the Fitch Criteria or the Moody's Criteria (each as defined in the Interest Rate Swap Agreement) have been updated (the "**New Rating Criteria**"); (ii) the Interest Rate Swap Provider has notified such proposed amendments to Moody's and Fitch and (where applicable) received a rating agency confirmation from Moody's in relation to such amendments; (iii) the Seller has provided confirmation of its approval of such amendments; and (iv) the Interest Rate Swap Provider has provided a certification to the Trustee that the Interest Rate Swap Provider is only seeking to implement the New Rating Criteria;
- (c) 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) or Article 51 of 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, AIFMR or 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;

- (d) for the purpose of listing (or maintaining the listing of) the Rated Notes on the London 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;
- (e) 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;
- (f) for the purposes of enabling the Issuer or any of the other Transaction Parties to comply with the Commission Delegated Regulation supplementing Regulation (EU) 575/2013 with regard to the liquidity coverage requirement for Credit Institutions of 10 October 2014 (or, if different, the equivalent provisions in such approved version of such Commission Delegated Regulation supplementing Regulation (EU) 575/2013), 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; or
- (g) 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 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 (i) the Issuer, (ii) the Cash Manager on behalf of the Issuer, and/or (iii) the Relevant Party, as the case may be, pursuant to Condition 17.2(a) to 17.2(g) being a "**Modification Certificate**"), provided that, other than in the case of a modification pursuant to 17.2(a)(ii) or 17.2(b)(iii) above:

- (i) at least 30 calendar days' prior written notice of any such proposed modification has been given to the Trustee;
- (ii) the Modification Certificate in relation to such modification shall be provided to the Trustee both at the time the Trustee is notified of the proposed modification and on the date that such modification takes effect; and
- (iii) the consent of each Secured Creditor which is party to the relevant Transaction Document or whose ranking in any Payments Priorities is affected has been obtained;

and provided further that, other than in the case of a modification pursuant to Condition 17.2(a) or (b)(iii) above:

- (iv) other than in the case of a modification pursuant to Condition 17.2(b)(ii) either:
  - (1) the Issuer or Cash Manager (on behalf of the Issuer) obtains from each of the Rating Agencies a Ratings Confirmation; or
  - (2) the Issuer or the Cash Manager on behalf of 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 Rated Notes by such Rating Agency or (y) such Rating Agency placing the Rated Notes on rating watch negative (or equivalent); and
- (v) the Issuer certifies in writing to the Trustee that (1) the Issuer has provided at least 30 days' notice to the Noteholders of each Class of the proposed modification in accordance with the Notices Condition and by publication on Bloomberg on the "Company News" screen relating to the Notes and (2) Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes (or, in relation to the Class A Notes, either the Class A1 Notes or the Class A2 Notes) have not contacted the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system

through which such Notes may be held) within such notification period notifying the Issuer that such Noteholders do not consent to the modification.

If Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes (or, in relation to the Class A Notes, either the Class A1 Notes or the Class A2 Notes) have notified the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held) within the notification period referred to above that they do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Noteholders of the Most Senior Class of Notes is passed in favour of such modification in accordance with this Condition 17 (*Modification and Waiver*).

Objections made in writing other than through the applicable clearing system must be accompanied by evidence to the Issuer's satisfaction (having regard to prevailing market practices) of the relevant Noteholder's holding of the Notes.

17.3 **Waiver:** The Trustee may at any time and from time to time in its sole discretion, without prejudice to its rights in respect of any subsequent breach, condition, event or act, from time to time and at any time, but only if and in so far as in its opinion the interests of the holders of the Most Senior Class of Notes then outstanding shall not be materially prejudiced thereby:

- (a) authorise or waive, on such terms and subject to such conditions (if any) as it may decide, any proposed breach or breach of any of the covenants or provisions contained in the Trust Documents, the Notes or any other of the Transaction Documents; or
- (b) determine that any Event of Default or Potential Event of Default shall not be treated as such for the purposes of the Trust Documents, the Notes or any of the other Transaction Documents

without any consent or sanction of the Noteholders or any other Secured Creditor.

17.4 **Restriction on power to waive:** The Trustee shall not exercise any powers conferred upon it by Condition 17.3 (*Waiver*) in contravention of any express direction by an Extraordinary Resolution of the holders of the Most Senior Class of Notes (or, in relation to the Class A Notes, either the Class A1 Notes or the Class A2 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 (or, in relation to the Class A Notes, either the Class A1 Notes or the Class A2 Notes) then outstanding, but so that no such direction or request shall affect (a) any authorisation, waiver or determination previously given or made or (b) shall authorise or waive any such proposed breach or breach relating to a Reserved Matter unless the holders of each Class of Notes have, by Extraordinary Resolution, so authorised its exercise.

17.5 **Notification:** Unless the Trustee otherwise agrees, the Issuer shall cause any such authorisation, waiver, modification 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 after it has been made.

17.6 **Binding Nature:** Any authorisation, waiver, determination or modification referred to in Condition 17.1 (*Modification*), Condition 17.2 (*Additional right of modification*) or Condition 17.3 (*Waiver*) shall be binding on the Noteholders and the other Secured Creditors.

## 18. Prescription

18.1 **Principal:** Claims for principal in respect of Notes shall become void where application for payment is made more than ten years after the due date therefor.

18.2 **Interest:** Claims for interest in respect of Notes, shall become void where application for payment is made more than five years after the due date therefor.

## 19. Replacement of Notes

If any Note 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 Notes must be surrendered before replacements will be issued.

## 20. Trustee and Agents

- 20.1 **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.
- 20.2 **Trustee not responsible for loss or for monitoring:** The Trustee is 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.
- 20.3 **Regard to classes of Noteholders:** In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will:
- (a) have regard to the interests of each class of Noteholders as a class and will not be responsible for any consequence for individual Noteholders, including, without limitation, 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
  - (b) in the event of a conflict of interests of holders of different classes have regard only to the holders of the Most Senior Class of outstanding Notes, save in respect of a Reserved Matter, and will not have regard to any lower ranking class of Notes nor to the interests of the other Secured Creditors.
- 20.4 **Agents solely agents of Issuer:** In acting under the Agency Agreement and in connection with the Notes, the Paying Agents, Agent Bank and Registrar 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.
- 20.5 **Initial Agents:** 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, registrar or agent bank and additional or successor paying agents at any time, having given not less than 30 days' notice to such Agent.

## 21. Substitution of Issuer

- 21.1 **Substitution of Issuer:** The Trustee may, without the consent of the Noteholders or any other Secured Creditor and subject to the request of the Issuer and to 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 Trust Documents, the Notes and the Secured Amounts.
- 21.2 **Notice of Substitution of Issuer:** Not later than 14 days after any substitution of the Issuer in accordance with this Condition, 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.
- 21.3 **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 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 outstanding Notes.
- 21.4 **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.

## 22. Notices

- 22.1 **Valid Notices:** Any notice to Noteholders shall be validly given if such notice is either:
- (a) published in the Financial Times or, if such newspaper shall cease to be published or timely publication therein shall not be practicable, in such English language newspaper or newspapers as the Trustee shall approve having a general circulation in Europe; or
  - (b) published on the Relevant Screen; and

- (c) prior to the issue of any Definitive Notes and so long as the Global Notes are held on behalf of Euroclear and/or Clearstream, Luxembourg upon delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to Noteholders.

22.2 **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 or on the applicable date of delivery of the relevant notice to Euroclear and Clearstream, Luxembourg (as applicable).

22.3 **Other Methods:** The Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or to a class or category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the Stock Exchange on which the 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.

### 23. Governing Law and Jurisdiction

23.1 **Governing law:** The Transaction 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 other than any Scottish Declaration of Trust, any Scottish Trust Security, any Scottish Sub-Security, or any Scottish Transfer and certain provisions of the Transaction Documents particular to the law of Scotland (which are governed by, and shall be construed in accordance with, Scots law).

23.2 **Jurisdiction:** The Courts of England are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes and the Transaction Documents (other than any Scottish Declaration of Trust, any Scottish Trust Security, any Scottish Sub-Security, or any Scottish Transfer) (including a dispute relating to non-contractual obligations or a dispute regarding the existence, validity or termination of any of the Notes or the Transaction Documents or the consequences of their nullity) and accordingly any legal action or proceedings arising out of or in connection with the Notes and/or the Transaction Documents (other than any Scottish Declaration of Trust, any Scottish Trust Security, any Scottish Sub-Security, or any Scottish Transfer) may be brought in such Courts. The Issuer has in each of the Transaction Documents (other than the Scottish Declaration of Trust, any Scottish Trust Security, any Scottish Sub-Security, or any Scottish Transfer) irrevocably submitted to the jurisdiction of such Courts.

## TAX TREATMENT ON THE NOTES

*The following is a summary of the Issuer's understanding of current United Kingdom law and published HM Revenue & Customs ("HMRC") practice (which may not be binding on HMRC) relating only to United Kingdom withholding tax treatment of payments of interest in respect of the Notes and to certain information reporting requirements in respect of the Notes. It does not necessarily apply where the income is deemed for tax purposes to be the income of any other person. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. It relates only to the position of persons who hold their Notes as investments (regardless of whether the Noteholder also carries on a trade, profession or other vocation through a permanent establishment, branch or agency to which the Notes are attributable) and who are the absolute beneficial owners of their Notes. Certain classes of persons such as dealers, certain professional investors, or persons connected with the Issuer may be subject to special rules and this summary does not apply to such Noteholders. References to "interest" refer to interest as that term is understood for United Kingdom tax purposes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Each prospective Noteholder is urged to consult its own tax advisers about the tax consequences under its circumstances of purchasing, holding and selling the Notes under the laws of the United Kingdom, its political subdivisions and any other jurisdiction in which the prospective Noteholder may be subject to tax.*

### **Payment of Interest on the Notes**

Payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax provided that the Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for such purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the FSMA) by the United Kingdom Listing Authority and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes are and remain so listed, interest on the Notes will be payable without withholding or deduction for or on account of United Kingdom tax.

Interest on the Notes may also be paid without withholding or deduction for or on account of United Kingdom tax where interest on the Note is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Note is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest; provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to any available exemptions and reliefs, including an exemption for certain payments of interest to which a company within the charge to United Kingdom corporation tax is beneficially entitled. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

### **United Kingdom Stamp Duty and SDRT**

As at the date hereof, provided that the Notes do not carry and will not at any time carry (i) a right to interest the amount of which exceeds a reasonable commercial return on the nominal amount of the capital, or (ii) a right on repayment to an amount which exceeds the nominal amount of the capital and is not reasonably comparable with what is generally repayable (in respect of a similar nominal amount of capital) under the terms of issue of loan capital listed in the Official List of the UK Listing Authority, no United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Notes or on a transfer of, or agreement to transfer, full legal and beneficial ownership of any Note.

### **Information Reporting Requirements**

HMRC has powers to obtain information and documents relating to the Notes, including in relation to issues of and other transactions in the Notes, interest, payments treated as interest and other payments derived from the Notes. This may include details of the beneficial owners of the Notes, of the persons for whom the Notes are held, of the persons to whom payments derived from the Notes are or may be paid and information in connection with transactions relating to the Notes. Information may be obtained from a range of persons including persons who effect or are a party to such transactions on behalf of others, registrars and administrators of such transactions, the registered holders of the Notes, persons who make, receive or



are entitled to receive payments derived from the Notes and persons by or through whom interest and payments treated as interest are paid or credited.

Information relating to the Notes may also be required to be provided automatically to HMRC by "financial institutions" under regulations made under section 222 of the Finance Act 2013, which implement the requirements of various automatic information exchange programmes, including the U.S. Foreign Account Tax Compliance Act (commonly referred to as "**FATCA**"), Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended), the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014, and arrangements between the United Kingdom and its overseas territories and crown dependencies.

In certain circumstances the information which HMRC has obtained using these powers may be exchanged with tax authorities in other jurisdictions.

## SUBSCRIPTION AND SALE

The Bank of Scotland (as "**Note Purchaser**") has, pursuant to a note purchase agreement dated 29 March 2016 between the Arranger, Lead Manager, the Seller, the Note Purchaser and the Issuer (the "**Note Purchase Agreement**"), agreed with the Issuer (subject to certain conditions) to subscribe and pay for 100 per cent. of the aggregate principal amount each Class of Notes as at the Closing Date.

The Issuer has agreed to indemnify the Note Purchaser, the Arranger and the Lead Manager against certain liabilities and the Seller has agreed to pay certain costs and expenses in connection with the issue of the Notes.

Other than admission of the Notes to the Official List and the admission to trading on the London Stock Exchange's Regulated Market, no action has been taken by the Issuer, the Lead Manager or the Bank of Scotland, which would or has been intended to permit a public offering of the Notes, or possession or distribution of this Prospectus or other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

This Prospectus does not constitute, and may not be used for the purpose of, an offer or a solicitation by anyone to subscribe for or purchase any of the Notes in or from any country or jurisdiction where such an offer or solicitation is not authorised or is unlawful.

### United Kingdom

The Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

Each of the Lead Manager and Bank of Scotland has acknowledged that, save for having obtained the approval of the Prospectus as a prospectus in accordance with Part 6 of FSMA, having applied for the admission of the Notes to the Official List and admission to trading on the London Stock Exchange, no further action has been or will be taken in any jurisdiction by the Lead Manager or Bank of Scotland that would, or is intended to, permit a public offering of the Notes, or possession or distribution of the Prospectus or any other offering material in relation to the Notes, in any country or jurisdiction where such further action for that purpose is required.

### United States

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, delivered, distributed or transferred, directly or indirectly, into or within the United States or to, or for the account or benefit of, U.S. Persons. No public offering of the Notes is being made in the United States. In connection with the transactions described herein, the Notes are being offered and sold only to a non-U.S. Person outside the United States in an "offshore transaction" in reliance on Regulation S.

The Issuer has not been and will not be registered under the Investment Company Act and as such holders of the Notes will not be entitled to the benefits of the Investment Company Act.

The Notes bear restrictive legends and are subject to restrictions on transfer as described therein. In particular, the Notes may be offered, sold, pledged or otherwise transferred only outside the United States in an "offshore transaction" pursuant to Regulation S to a person that the transferor and any person acting on its behalf reasonably believe is not a U.S. Person.

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.

**General**

Each of the Lead Manager and Bank of Scotland has undertaken that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in respect of the Notes in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

## LISTING AND GENERAL INFORMATION

- (a) It is expected that the admission of the Notes to the Official List and the admission of the Notes to trading on the regulated market of the London Stock Exchange will be granted on or around 29 April 2016. Prior to listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in Sterling for delivery on the third working day after the date of the transaction.
- (b) The Issuer is not and 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 17 February 2016 (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.
- (c) The auditors of the Issuer are PriceWaterhouse Coopers LLP. PriceWaterhouse Coopers LLP is a member of the Institute of Chartered Accountants in England and Wales. No statutory or non-statutory accounts within the meaning of Section 434 and 435 of the Companies Act 2006 (as amended) in respect of any financial year of the Issuer have been prepared. So long as the Notes are admitted to trading on the regulated market of the London Stock Exchange, the most recently published audited annual accounts of the Issuer from time to time shall be available at the specified office of the Principal Paying Agent in London. The Issuer does not publish interim accounts.
- (d) For so long as the Notes are admitted to the Official List and to trading on the regulated market of the London Stock Exchange, the Issuer shall maintain a Paying Agent in the United Kingdom.
- (e) Since the date of its incorporation, other than as permitted or contemplated by the Transaction Documents and the transactions pursuant to such Transaction Documents, the Issuer has not entered into any contracts or arrangements not being in the ordinary course of business.
- (f) Since 17 February 2016 (being the date of incorporation of the Issuer), there has been (a) no material adverse change in the financial position or prospects of the Issuer and (b) other than the issue of the Notes, no significant change in the financial or trading position of the Issuer.
- (g) The issue of the Notes was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 23 March 2016.
- (h) The following Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following ISIN and Common Code:

<b><u>Class of Notes</u></b>	<b><u>ISIN</u></b>	<b><u>Common Code</u></b>
Class A1 Notes	XS1379584227	137958422
Class A2 Notes	XS1379585034	137958503
Class B Notes	XS1379585380	137958538
Class C Notes	XS1379586198	137958619
Class D Notes	XS1379586602	137958660
Class Z Notes	XS1379586784	137958678

- (i) For so long as this Prospectus is in effect, copies of the Memorandum and Articles of Association of each of the Issuer and Holdings, together with all of the Transaction Documents (other than the Note Purchase Agreement) may be inspected at the registered office of the Principal Paying Agent during usual business hours, on any weekday (public holidays excepted);
- (j) Other than the Monthly Investor Report and the Quarterly Report, the Issuer does not intend to provide post-issuance transaction information regarding the Notes or the Mortgage Loans. Each Monthly Investor Report shall contain a glossary of terms used in such report. Such reports may be obtained from the registered office of Bank of Scotland and will be made available to eligible market participants. Information regarding how to access the information is available via the website specified on the Monthly Investor Report ([www.lloydsbankinggroup.com/investors/debt-investors/securitisation/](http://www.lloydsbankinggroup.com/investors/debt-investors/securitisation/)). The website specified on the Monthly Investor Report and the contents thereof do not form part of this Prospectus.
- (k) The Issuer confirms that the Mortgage Loans backing the issue of the Notes have characteristics that demonstrate capacity to produce funds to service any payments due and

payable on the Notes. However, investors are advised that this confirmation is based on the information available to the Issuer at the date of this Prospectus and may be affected by the future performance of such assets backing the issue of the Notes. Consequently investors are advised to review carefully any disclosure in the Prospectus together with any amendments or supplements thereto.

- (l) The estimated total expenses related to the admission to trading of the Notes will be £7,370 (exclusive of VAT).

## GLOSSARY OF DEFINED TERMS

"1970 Act"	means the Conveyancing and Feudal Reform (Scotland) Act 1970;
"1999 Regulations"	has the meaning given to such term on page 48;
"2012 Act"	has the meaning given to such term on page 52;
"Account Bank"	means Bank of Scotland acting in such capacity;
"Account Bank Agreement"	means the agreement so named dated on or about the Closing Date between the Issuer, the Cash Manager, the Account Bank and the Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time);
"Accrued Interest"	means, as at any date (the " <b>determination date</b> ") on or after the Closing Date and in relation to any Mortgage Loan, interest on such Mortgage Loan (not being interest which is currently payable on the determination date) which has accrued (but is not yet due and payable) from and including the Monthly Payment Date immediately prior to the determination date to and including the determination date;
"Additional Interest"	has the meaning given to this term in Condition 8.11(b) of the Notes;
"Agency Agreement"	means the agreement so named dated on or about the Closing Date between the Issuer, the Agents and the Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time);
"Agents"	means the Agent Bank, Registrar and the Paying Agents and " <b>Agent</b> " means any one of them;
"Agent Bank"	means Deutsche Bank AG, London Branch in its capacity as agent bank pursuant to the Agency Agreement;
"AIFM Regulation"	means Regulation (EU) No. 231/2013;
"AIFMD"	means the Alternative Investment Fund Managers Directive;
"Appointee"	means any delegate, agent, nominee, custodian, attorney or manager appointed by the Trustee pursuant to the provisions of the Trust Documents;
"Arranger"	means, in relation to the Notes, Lloyds Bank plc in its capacity as the arranger;
"Arrears Fixed Rate Loans"	means in relation to any Calculation Period, any Fixed Rate Loans where the relevant Borrower is 6 months or more in arrears with interest (or, in respect of a Repayment Loan, interest or principal) payments in respect of such Mortgage Loan (other than Capitalised Arrears);
"Arrears of Interest"	means, in respect of a given date, interest, principal (if applicable) and expenses which are due and payable and remain unpaid on that date;
"Authorised Investments"	means:

	<p>(a) money market funds that meet the European Securities and Markets Authority ("<b>ESMA</b>") Short-Term Money Market Fund definition, set out in Guideline reference 10-049 of the Committee for European Securities Regulators, and indicated within the prospectus that they are defined as such (provided, for the avoidance of doubt, that any such fund must hold an Aaa-mf money market fund rating from Moody's), or money market funds that hold Aaa-mf money market fund ratings from Moody's, respectively, and, if rated by Fitch, an AAAMf money market fund rating from Fitch provided that in either case, any such fund does not itself invest in securitised products;</p> <p>(b) sterling gilt-edged securities; and</p> <p>(c) sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper).</p> <p>provided that in the case of paragraphs (a), (b) and (c) above, such investments have a maturity date of 30 days or less and mature on or before the next following Interest Payment Date for the Notes, provided further that with respect to securities and deposit investments specified under items (b) and (c) above, with respect to investments with a maturity date of less than 30 days, the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) has (A) "Issuer Default Ratings" of at least F1 short-term or A long-term by Fitch, and (B) short-term unsecured, unguaranteed and unsubordinated debt obligations of at least P-1 by Moody's or long-term unsecured, unguaranteed and unsubordinated debt obligations of at least A2 by Moody's and provided further that in all cases such investments do not, nor could they, consist, in whole or in part, actually or potentially, of tranches of other asset-backed securities, credit-linked notes, swaps or other derivatives instruments or synthetic securities;</p>
<b>"Available Principal Receipts"</b>	has the meaning given to such term on page 115;
<b>"Available Revenue Receipts"</b>	has the meaning given to such term on page 111;
<b>"Back-Up Servicer"</b>	means any back-up servicer appointed pursuant to the Back-Up Servicing Agreement;
<b>"Back-Up Servicing Agreement"</b>	means any back-up servicing agreement to be entered into by, amongst others, the Issuer and the Back-Up Servicer;
<b>"Bank of Scotland"</b>	means Bank of Scotland plc (registered number SC327000) incorporated under the laws of Scotland and registered as a public company under the Companies Act 1985 whose registered office is at The Mound, Edinburgh, EH1 1YZ;
<b>"Banking Act"</b>	means the Banking Act 2009;
<b>"Basel III"</b>	has the meaning given to such term on page 54;
<b>"Basel Committee"</b>	has the meaning given to such term on page 54;
<b>"Book-Entry Interests"</b>	means the beneficial interests in the Global Notes recorded by Euroclear and Clearstream, Luxembourg;

"Borrower"	means, in relation to a Mortgage Loan, the individual or individuals specified as such in the relevant Mortgage Terms together with the individual or individuals (if any) from time to time assuming an obligation to repay such Mortgage Loan or any part of it;
"Breach of Duty"	means in relation to any person, a wilful default, fraud, gross negligence or (other than with respect to the Trustee and the Agents) material breach of any agreement by such person;
"BRRD"	has the meaning given to such term on page 57;
"Business Day"	means a day on which commercial banks and foreign exchange markets settle payments in London;
"Buy-to-Let Loans"	means Mortgage Loans taken out by Borrowers in relation to the purchase or re-mortgage of properties for letting purposes;
"Calculation Date"	means the first day of a month (other than in respect of the first Calculation Date, which shall fall on 1 May 2016). A Calculation Date shall relate to an Interest Payment Date (and be the " <b>related Calculation Date</b> " or " <b>relevant Calculation Date</b> " in respect of such Interest Payment Date) where such Calculation Date immediately precedes such Interest Payment Date;
"Calculation Period"	means each period from, and including, a Calculation Date (or in respect of the first Calculation Period, from the Closing Date) to, but excluding, the next (or first) Calculation Date. A Calculation Period shall relate to an Interest Period (and be the " <b>related Calculation Period</b> " or " <b>relevant Calculation Period</b> " in respect of such Interest Period) where such Calculation Period runs to (but excluding) the Calculation Date which relates to the Interest Payment Date which falls immediately following the end of such Interest Period;
"Call Option"	means the option of the Issuer to redeem all (but not some only) of the Notes on any Call Option Date in accordance with Condition 9.3(b) ( <i>Optional Redemption in Whole</i> );
"Call Option Date"	means the Interest Payment Date falling in March 2026 in respect of the Rated Notes and each subsequent Interest Payment Date if any of the Rated Notes are still outstanding on such Interest Payment Date;
"Capital Requirements Regulation" or "CRR"	means Regulation (EU) No. 575/2013;
"Capitalised Arrears"	means in relation to any Mortgage Loan as at any date (the " <b>determination date</b> ") the amount (if any) at such date of any Arrears of Interest in respect of which, at the determination date, each of the following conditions has been satisfied: (a) the Seller (or the Servicer on its behalf) has, by arrangement with the relevant Borrower, agreed to capitalise such arrears of interest; and (b) such Arrears of Interest have been capitalised and added, in the accounts of the Seller (or, as applicable, the Servicer), to the Current Balance in respect of such Mortgage Loan;
"Cash Flow Model"	has the meaning given to it on page 12;



<b>"Cash Management Agreement"</b>	means the cash management agreement so named entered into on or about the Closing Date between the Cash Manager, the Issuer, the Trustee and the Seller (as the same may be amended, restated, supplemented, replaced and/or novated from time to time);
<b>"Cash Manager"</b>	means Bank of Scotland in its capacity as cash manager or the successor Cash Manager appointed in accordance with the terms of the Cash Management Agreement;
<b>"CCA"</b>	has the meaning given to such term on page 50;
<b>"CCA 2006"</b>	has the meaning given to such term on page 51;
<b>"Charged Property"</b>	means all the property of the Issuer which is subject to the Security;
<b>"Class" or "class"</b>	means, in relation to the Notes, each or any of the Class A1 Notes, the Class A2 Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class Z Notes, as the context may require;
<b>"Class A Noteholders"</b>	means the persons who for the time being are holders of the Class A Notes;
<b>"Class A Notes"</b>	means the Class A1 Notes and the Class A2 Notes;
<b>"Class A Principal Deficiency Sub-Ledger"</b>	means the sub-ledger of the Principal Deficiency Ledger relating to the Class A Notes;
<b>"Class A1 Notes"</b>	means the £600,000,000 Class A1 asset backed floating rate notes due 2063;
<b>"Class A2 Notes"</b>	means the £1,209,600,000 Class A2 asset backed floating rate notes due 2063;
<b>"Class B Noteholders"</b>	means the persons who for the time being are holders of the Class B Notes;
<b>"Class B Notes"</b>	means the £127,600,000 Class B asset backed floating rate notes due 2063;
<b>"Class B Principal Deficiency Sub-Ledger"</b>	means the sub-ledger of the Principal Deficiency Ledger relating to the Class B Notes;
<b>"Class C Noteholders"</b>	means the persons who for the time being are holders of the Class C Notes;
<b>"Class C Notes"</b>	means the £87,000,000 Class C asset backed floating rate notes due 2063;
<b>"Class C Principal Deficiency Sub-Ledger"</b>	means the sub-ledger of the Principal Deficiency Ledger relating to the Class C Notes;
<b>"Class D Noteholders"</b>	means the persons who for the time being are holders of the Class D Notes;
<b>"Class D Notes"</b>	means the £75,400,000 Class D asset backed floating rate notes due 2063;
<b>"Class D Principal Deficiency"</b>	means the sub-ledger of the Principal Deficiency Ledger relating

<b>Sub-Ledger"</b>	to the Class D Notes;
<b>"Class Z Noteholders"</b>	means the persons who for the time being are holders of the Class Z Notes;
<b>"Class Z Notes"</b>	means the £220,400,000 Class Z asset backed floating rate notes due 2063;
<b>"Class Z Principal Deficiency Sub-Ledger"</b>	means the sub-ledger of the Principal Deficiency Ledger relating to the Class Z Notes;
<b>"Clearstream, Luxembourg"</b>	means Clearstream Banking, <i>société anonyme</i> ;
<b>"Closing Date"</b>	means 30 March 2016;
<b>"CMA"</b>	Has the meaning given to such term on page 48;
<b>"Collection Account"</b>	means an account in the name of the Seller held with the Collection Account Bank;
<b>"Collection Account Bank"</b>	means Barclays Bank PLC acting in such capacity or any successor;
<b>"Collection Account Declaration of Trust"</b>	means the collection account declaration of trust signed by Bank of Scotland on 27 August 2010 and as amended and restated;
<b>"Commencement Date"</b>	has the meaning given to such term on page 52;
<b>"Commission's Proposal"</b>	has the meaning given to such term on page 58;
<b>"Common Depository"</b>	means the common depository for Euroclear and Clearstream, Luxembourg;
<b>"Conditions"</b>	means, in relation to the Notes, the terms and conditions to be endorsed on the Notes in, or substantially in, the form set out in Schedule 3 ( <i>Terms and Conditions</i> ) of 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;
<b>"Corporate Services Agreement"</b>	means the agreement so named dated on or about the Closing Date between the Corporate Services Provider, the Share Trustee, Holdings, the Issuer, the Seller and the Trustee;
<b>"Corporate Services Provider"</b>	means Structured Finance Management Limited (registered number 3853947), private limited company incorporated under the laws of England and Wales, whose registered office is at 35 Great St. Helen's, London EC3A 6AP or such other person or persons for the time being acting as corporate services provider to the Issuer and Holdings under the Corporate Services Agreement;
<b>"CPUTR"</b>	has the meaning given to such term on page 53;
<b>"CRA"</b>	has the meaning given to such term on page 49;
<b>"CRA 2015"</b>	means the Consumer Rights Act 2015;
<b>"CRA Regulation"</b>	means the Credit Rating Agency Regulation (EC) No 1060/2009 (as amended);

"CRD"	means Directives 2006/48/EC and 2006/49/EC, referred to as the Capital Requirements Directive;
"CRD IV"	has the meaning given to such term on page 54;
"Credit Support Annex"	means the credit support annex which forms part of the Interest Rate Swap Agreement;
"CRR"	has the meaning given to such term on page 128;
"Current Balance"	means, in respect of a Mortgage Loan on any date (the " <b>determination date</b> "), the aggregate principal balance of the Mortgage Loan on such date which shall comprise the following (without double counting): (i) the Initial Advance, (ii) each Further Advance, (iii) Capitalised Arrears and (iv) any increase in the principal amount as a result of the Borrower taking Payment Holidays in each case relating to such Mortgage Loan less any prepayment, repayment or payment of the foregoing made on or prior to the determination date;
"Day Count Fraction"	means, in respect of an Interest Period, the actual number of days in such period divided by 365;
"DDR"	means a direct debit instruction;
"Deed of Charge"	means the deed so named dated on or about the Closing Date between the Issuer and the Trustee;
"Deferred Consideration"	means the deferred consideration payable by the Issuer to the Seller in accordance with the terms of the Mortgage Sale Agreement;
"Deferred Interest"	has the meaning given to such term in Condition 8.11(a) of the Notes;
"Definitive Notes"	means any definitive note representing any of the Notes in, or substantially in the form set out in, the Trust Deed;
"DMR"	has the meaning given to such term on page 52;
"Early Repayment Charges"	means any charges (other than a Redemption Fee) which a Borrower is required to pay in the event that the Borrower repays all or any part of the relevant Mortgage Loan before a specified date in the Mortgage Conditions or he or she is in default or his or her Mortgage Loan becomes repayable for any other mandatory reason;
"EEA"	has the meaning given to such term on page 54;
"Eligibility Criteria"	means, in relation to any Mortgage Loan, the following criteria: <ul style="list-style-type: none"> <li>(a) the Borrower in respect of such Mortgage Loan has not filed for bankruptcy, entered into an individual voluntary arrangement nor (in Scotland) has granted a trust deed for his or her creditors or been sequestrated or been subject to any analogous procedure in any other jurisdiction within 6 years prior to the date he executed such Mortgage Loan;</li> <li>(b) such Mortgage Loan has a positive Current Balance as at the relevant Transfer Date;</li> <li>(c) the interest coverage ratio on the basis of the estimated</li> </ul>

	<p>rental revenue as set out in the relevant Valuation Report for each such Mortgage Loan is not lower than 125 per cent. of the Current Balance based on an interest rate of no less than 4.99 per cent. as at the date that such Mortgage Loan was entered into;</p> <p>(d) the Product Period for such Mortgage Loan, if it is a Fixed Rate Loan, is no longer than five years; and</p> <p>(e) such Mortgage Loan has an Original LTV of less than or equal to 80 per cent.;</p>
"EMIR"	means Regulation (EU) 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories dated 4 July 2012 (including, without limitation, any associated regulatory technical standards, implementing technical standards and advice, guidance or recommendations from relevant supervisory regulators);
"Enforcement Notice"	means a notice issued by the Trustee to the Issuer declaring the Notes to be due and repayable pursuant to Condition 13 ( <i>Events of Default</i> );
"English Loan"	means a Mortgage Loan secured by an English Mortgage;
"English Mortgage"	means a Mortgage over a property in England or Wales;
"ESMA"	has the meaning given to such term on page 40;
"EU"	means the European Union;
"Euroclear"	means Euroclear Bank SA/NV and any successor to such business;
"Event of Default"	means any one of the events specified in Condition 22 ( <i>Events of Default</i> ) of the Notes;
"Excess Amount"	has the meaning given to such term on page 16;
"Exchange Date"	means the first day following the expiry of forty days after the Closing Date;
"Extraordinary Resolution"	means (a) a resolution passed at a Meeting 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 or (b) a Written Resolution;
"FATCA"	has the meaning given to such term on page 58;
"FCA" or "Financial Conduct Authority"	means the UK Financial Conduct Authority, known before 1 April 2013 as the UK Financial Services Authority, and any successor regulatory authority to the FCA;
"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 have been paid or discharged in full;
"Final Maturity Date"	means the Interest Payment Date falling in March 2063;
"First Interest Payment Date"	means 18 May 2016;
"Fitch"	means Fitch Ratings Limited or any successor to its rating

	business;
<b>"Fixed Rate Loans"</b>	means those Mortgage Loans to the extent that and for such period that their Mortgage Terms provide that the interest rate does not vary and is fixed by the Seller;
<b>"Flexible Loan"</b>	means a type of Mortgage Loan product that typically incorporates features that give the Borrower options to, among other things, make further drawings on the loan account and/or to overpay or underpay interest and principal in a given month;
<b>"FSCS"</b>	means the Financial Services Compensation Scheme;
<b>"FSMA"</b>	means the Financial Services and Markets Act 2000;
<b>"FTT"</b>	has the meaning given to such term on page 58;
<b>"Further Advance"</b>	means, in relation to a Mortgage Loan, any advance of further money following a request from an existing Borrower following the making of the Initial Advance which is secured by the same Mortgage as the Initial Advance where the Seller has a discretion as to whether to accept that request, 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;
<b>"Further Advance Date"</b>	means the date that the relevant Further Advance is made to the relevant Borrower by the Seller;
<b>"Further Advance Payment Date"</b>	means the Business Day following the Further Advance Date for such Further Advance;
<b>"Further Advance Purchase Price"</b>	means an amount equal to the principal amount of the relevant Further Advance;
<b>"Further Revenue Shortfall"</b>	has the meaning given to such term on page 17;
<b>"GBP"</b>	has the meaning given to such term on page vi;
<b>"Geographic Region"</b>	means each of the following regions of the United Kingdom: East of England, Greater London, Midlands, North, North West, Scotland, South East, South West and Wales;
<b>"General Reserve Fund"</b>	means the reserve fund established on the Closing Date which will be initially funded by the Subordinated Loan Provider up to the General Reserve Fund Required Amount and which will subsequently be funded from Available Revenue Receipts and Available Principal Receipts in accordance with the Pre Enforcement Payments Priorities;
<b>"General Reserve Fund Advance"</b>	means the advance under the Subordinated Loan Agreement in an amount of £46,400,000 for the purpose of funding the General Reserve Fund up to the General Reserve Fund Required Amount on the Closing Date;
<b>"General Reserve Fund Required Amount"</b>	has the meaning given to it on page 16;
<b>"GIC Account"</b>	means the account in the name of the Issuer held at the Account Bank, or such additional or replacement bank account at the Account Bank and/or other banks as may for the time being be in place with the prior consent of the Trustee and designated as

	such;
<b>"Global Notes"</b>	means the Notes of each Class represented on issue by a global note in registered form for each such Class of Notes;
<b>"HMRC"</b>	means HM Revenue and Customs;
<b>"HODPA"</b>	has the meaning given to such term on page 52;
<b>"holder"</b>	means the registered holder of a Note and the words <b>"holders"</b> and related expressions shall (where appropriate) be construed accordingly;
<b>"Holdings"</b>	means Molineux RMBS Holdings Limited (registered number 10011043), a private limited company incorporated under the laws of England and Wales, whose registered office is at 35 Great St. Helen's, London EC3A 6AP;
<b>"Housing Indices"</b>	has the meaning given to it on page 94;
<b>"In arrear"</b>	means, in respect of a Mortgage Loan, that one or more Monthly Payments in respect of such Mortgage Loan have become due and remain unpaid (either in whole or in part) by a Borrower;
<b>"Incorporated Terms Memorandum"</b>	means the memorandum so named dated on or about the Closing Date and signed for the purpose of identification by each of the Transaction Parties;
<b>"Industry PPR"</b>	has the meaning given to it on page 93;
<b>"Initial Advance"</b>	means, in relation to a Mortgage Loan, the original principal amount advanced to the relevant Borrower including the amount of any retention advanced to the relevant Borrower after completion of the Mortgage;
<b>"Initial Fitch Rating"</b>	has the meaning given to such term on page 24;
<b>"Initial Portfolio"</b>	means the portfolio of Mortgage Loans sold to the Issuer by the Seller on the Closing Date;
<b>"Initial Purchase Price"</b>	means the sum of £2,320,000,000, being an amount equal to the Current Balance of the Mortgage Loans in the Initial Portfolio at the open of business on the Closing Date and all Arrears of Interest and Accrued Interest relating thereto;
<b>"Initial Tracker Rate"</b>	has the meaning given to it on page 74;
<b>"Insolvency Act"</b>	means the Insolvency Act 1986;
<b>"Insolvency Event"</b>	in respect of a company means: <ul style="list-style-type: none"> <li>(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</li> <li>(b) the value of the assets of such company is less than the amount of its liabilities, taking into account its contingent and prospective liabilities; or</li> <li>(c) the company takes steps with a view to obtaining a moratorium in respect of any of its indebtedness or a moratorium is declared in respect of any of its</li> </ul>

	<p>indebtedness; or</p> <p>(d) 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</p> <p>(e) any corporate action, legal proceedings or other procedure or step is taken in relation to:</p> <p>(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</p> <p>(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</p> <p>(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</p> <p>(iv) any distress, execution, diligence, 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</p> <p>(f) an order being made or an effective resolution being passed for the winding-up of the company except, in the case of the Issuer, a winding-up for the purposes of or pursuant to an amalgamation, restructuring or merger the terms of which have been previously approved by the Trustee in writing or by Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding;</p> <p>(g) any procedure or step is taken, or any event occurs, analogous to those set out in (a) to (f) above, in any jurisdiction;</p>
<p><b>"Insolvency Official"</b></p>	<p>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</p>

	an Extraordinary Resolution of the holders of the Most Senior Class of outstanding Notes) provisional liquidator, 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;
<b>"Interest Amount"</b>	means in respect of a Note for any Interest Period the amount of interest calculated on the related Interest Determination Date in respect of such Note for such Interest Period by: (a) multiplying the Principal Amount Outstanding of such Note on the Interest Payment Date coinciding with such Interest Determination Date by the relevant Note Rate; and (b) then multiplying the amount so calculated in paragraph (a) by the relevant Day Count Fraction and rounding the resultant figure to the nearest Minimum Amount;
<b>"Interest Determination Date"</b>	means each Interest Payment Date or, in the case of the first Interest Period, the Closing Date;
<b>"Interest Payment Date"</b>	means the 18 <sup>th</sup> day of each month 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;
<b>"Interest Period"</b>	means the period from (and including) an Interest Payment Date (except in the case of the first Interest Period, where it shall be the period from (and including) the Closing Date) to (but excluding) the next (or first) Interest Payment Date;
<b>"Interest Rate Swap"</b>	means the interest rate swap entered into pursuant to the Interest Rate Swap Agreement;
<b>"Interest Rate Swap Agreement"</b>	means the agreement in the form of a 1992 ISDA Master Agreement (including a schedule thereto, a credit support annex and one or more confirmations thereunder) dated on or about the Closing Date between the Issuer and the Interest Rate Swap Provider;
<b>"Interest Rate Swap Provider"</b>	means Bank of Scotland in its capacity as Interest Rate Swap provider pursuant to the Interest Rate Swap Agreement, and any successor thereto in such capacity;
<b>"Interest Rate Swap Subordinated Amount"</b>	means any termination payment due to the Interest Rate Swap Provider which arises due to an event of default under the Interest Rate Swap Agreement where the Interest Rate Swap Provider is the defaulting party;
<b>"Interest-only Loan"</b>	means a Mortgage Loan whereby the Borrower makes Monthly Payments of interest but not of principal so that, when the Mortgage Loan matures, the entire principal amount of the Mortgage Loan is still outstanding and is payable in one lump sum;
<b>"Investment Company Act"</b>	has the meaning given to such term on page iii;
<b>"Issuer"</b>	means Molineux RMBS 2016-1 plc (registered number



	10011093), a public limited company incorporated under the laws of England and Wales, whose registered office is at 35 Great St. Helen's, London EC3A 6AP;
"Issuer Accounts"	means the GIC Account, the Transaction Account and the Swap Collateral Account and any additional or replacement bank accounts held in the name of the Issuer from time to time with the prior written consent of the Trustee;
"Issuer Covenants"	means the covenants of the Issuer set out in Schedule 7 ( <i>Issuer Covenants</i> ) of the Incorporated Terms Memorandum;
"Issuer Jurisdiction"	means England and Wales (and the United Kingdom, for tax purposes) or such other jurisdiction in which the Issuer or any Issuer substitute (as contemplated by Condition 21 ( <i>Substitution of Issuer</i> )) is incorporated and/or subject to taxation;
"Issuer Profit Amount"	means an amount equal to £1,400 on each Interest Payment Date up to and including the Interest Payment Date falling in June 2017 and £100 on each Interest Payment Date thereafter, in each case, to be credited to the GIC Account and to be retained by the Issuer as profit in respect of the business of the Issuer;
"Lead Manager"	means Lloyds Bank plc;
"Lending Criteria"	means the criteria contained in the Mortgage Sale Agreement or such other criteria as would be acceptable to a Reasonable, Prudent Mortgage Lender;
"Let-to-Buy Loans"	means Mortgage Loans taken out by Borrowers who rent out their current main home before or at the same time as buying a new property;
"Liabilities"	means, in respect of any person, any losses, damages, costs, charges, awards, claims, demands, expenses, judgments, actions, proceedings or other liabilities whatsoever including, without limitation properly incurred legal fees and expenses and any Taxes and penalties incurred by that person;
"LIBOR"	means London Interbank Offered Rate;
"Lifetime Tracker Rate"	has the meaning given to such term on page 74;
"Liquidity Amount"	means, on each relevant Interest Payment Date on which any Class of Rated Notes remains outstanding, an amount equal to 2 per cent. of the aggregate of: <ul style="list-style-type: none"> <li>(a) the Principal Amount Outstanding of the Class A Notes;</li> <li>(b) the Principal Amount Outstanding of the Class B Notes, only if and to the extent that the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, does not exceed the aggregate of: (i) 50 per cent. of the Principal Amount Outstanding of the Class B Notes; and (ii) the aggregate of the Principal Amount Outstanding of the Class C Notes, the Class D Notes and the Class Z Notes;</li> <li>(c) the Principal Amount Outstanding of the Class C Notes, only if and to the extent that the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, does not exceed the aggregate of: (i) 50</li> </ul>

	<p>per cent. of the Principal Amount Outstanding of the Class C Notes; and (ii) the aggregate of the Principal Amount Outstanding of the Class D Notes and the Class Z Notes; and</p> <p>(d) the Principal Amount Outstanding of the Class D Notes, only if and to the extent that the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, does not exceed the aggregate of: (i) 50 per cent. of the Principal Amount Outstanding of the Class D Notes; and (ii) the aggregate of the Principal Liability Outstanding of the Class Z Notes;</p>
<b>"Listing Date"</b>	means the date between the Closing Date and the First Interest Payment Date on which the Notes will be admitted to the official list of the Financial Conduct Authority and will be admitted to trading on the regulated market of the Stock Exchange;
<b>"Liquidity Coverage Ratio"</b>	has the meaning given to such term on page 54;
<b>"Lloyds Banking Group" or "Group"</b>	have the meaning given to such terms on page 70;
<b>"London Stock Exchange"</b>	means the London Stock Exchange plc;
<b>"LTV", "LTV Ratio" or "loan-to-value ratio"</b>	means the ratio (expressed as a percentage) of the outstanding balance of a Mortgage Loan to the value of the relevant Mortgaged Property;
<b>"Markets in Financial Instruments Directive"</b>	means the EU Directive 2004/39/EC, as amended;
<b>"MCOB"</b>	has the meaning given to it on page 47;
<b>"Meeting"</b>	means a meeting of Noteholders of any class or classes (whether originally convened or resumed following an adjournment);
<b>"Member State"</b>	has the meaning given to such term on page vi;
<b>"Minimum Amount"</b>	means one penny;
<b>"Minimum Denomination"</b>	means in respect of the Notes represented by the Global Notes and (if issued) the Definitive Notes £100,000 and, for so long as Euroclear and Clearstream, Luxembourg so permit, any amount in excess thereof in integral multiples of £1,000;
<b>"Minimum Rating"</b>	has the meaning given to such term on page 26;
<b>"Monthly Investor Report"</b>	has the meaning given to such term on page 12;
<b>"Monthly Payment"</b>	means the amount which the relevant Mortgage Terms require a Borrower to pay on each Monthly Payment Date in respect of that Borrower's Mortgage Loan;
<b>"Monthly Payment Date"</b>	means the date on which interest (and principal in relation to a repayment mortgage) is due to be paid by a Borrower on a Mortgage Loan or, if any such day is not Business Day, the next following Business Day;
<b>"Moody's"</b>	means Moody's Investors Service Limited and includes any successor to its rating business;

<b>"Mortgage"</b>	means in respect of any Mortgage Loan, each first fixed charge by way of legal mortgage (or, in the case of a Scottish Mortgage, the first ranking standard security in Scotland) which is sold by the Seller to the Issuer pursuant to the Mortgage Sale Agreement which secures the repayment of the relevant Mortgage Loan including the Mortgage Conditions applicable to it, and, together, the <b>"Mortgages"</b> ;
<b>"Mortgage Conditions"</b>	means the terms and conditions applicable to a Mortgage Loan, as contained in the Seller's "Mortgage Conditions booklet for England and Wales or Scotland" applicable from time to time;
<b>"Mortgage Credit Directive"</b>	has the meaning given to it on page 47;
<b>"Mortgage Loan Reassignment Notice"</b>	means a notice substantially in the form set out in the Mortgage Sale Agreement;
<b>"Mortgage Loans"</b>	means each residential mortgage loan, secured by a mortgage and Related Security, sold to the Issuer on the Closing Date or a New Portfolio Sale Date (including, following the transfer to the Issuer of any Further Advance made by the Seller in respect of such Mortgage Loan, such Further Advance) but excluding (for the avoidance of doubt) each Mortgage Loan and its Related Security which is repurchased by the Seller pursuant to the Mortgage Sale Agreement or no longer beneficially owned by the Issuer;
<b>"Mortgage Portfolio"</b>	means the Initial Portfolio and any New Portfolio sold by the Seller to the Issuer other than any Mortgage Loan which has been redeemed or repaid in full or which, following the enforcement of its Related Security and application of the proceeds thereof, has been written off by the Servicer;
<b>"Mortgage Regulation Date"</b>	means 31 October 2004;
<b>"Mortgage Sale Agreement"</b>	means the mortgage sale agreement so named dated on or about the Closing Date between the Seller, the Issuer, the Trustee and the Servicer;
<b>"Mortgage Terms"</b>	means all the terms and conditions applicable to a Mortgage Loan, including without limitation the applicable Mortgage Conditions and Offer Conditions;
<b>"Mortgaged Property"</b>	means a freehold, heritable, leasehold (or, in Scotland, a property held under a long lease) or commonhold property which is subject to a Mortgage and together, the <b>"Mortgaged Properties"</b> ;
<b>"Most Senior Class"</b>	means, the Class A Notes whilst they remain outstanding and thereafter the Class B Notes whilst they remain outstanding and thereafter the Class C Notes whilst they remain outstanding and thereafter the Class D Notes whilst they remain outstanding and thereafter the Class Z Notes while they remain outstanding;
<b>"Net Revenue"</b>	means, for each Interest Payment Date, the aggregate Revenue Receipts collected in respect of the relevant Calculation Period less Early Repayment Charges which are paid directly by the Cash Manager on behalf of the Issuer to the Seller in accordance with the Cash Management Agreement and less the amounts collected during the relevant Calculation Period which properly belong to third parties such as (but not limited to) Third Party

	Amounts
"Net Stable Funding Ratio"	has the meaning given to it on page 54;
"New Portfolio"	means a portfolio of Mortgage Loans the details of which are set out in the Schedule to the related New Portfolio Notice and their Related Security which are sold by the Seller to the Issuer on a New Portfolio Sale Date;
"New Portfolio Conditions"	has the meaning given to it on page 84;
"New Portfolio Notice"	means the notice to be delivered by the Issuer to the Seller substantially in the form set out in the Mortgage Sale Agreement;
"New Portfolio Purchase Price"	has the meaning given to it on page 83;
"New Portfolio Sale Date"	has the meaning given to it on page 19;
"Note Principal Payment"	<p>means, on any Interest Payment Date:</p> <p>(a) in the case of each Class A1 Note, an amount equal to the lesser of the amount of Available Principal Receipts to be applied in or towards redeeming the Class A1 Notes in accordance with the Pre Enforcement Principal Payments Priorities and the Principal Amount Outstanding of the Class A1 Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class A1 Notes;</p> <p>(b) in the case of each Class A2 Note, an amount equal to the lesser of the Available Principal Receipts to be applied in or towards redeeming the Class A2 Notes in accordance with the Pre Enforcement Principal Payments Priorities and the Principal Amount Outstanding of the Class A2 Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class A2 Notes;</p> <p>(c) in the case of each Class B Note, an amount equal to the lesser of the Available Principal Receipts to be applied in or towards redeeming the Class B Notes in accordance with the Pre Enforcement Principal Payments Priorities and the Principal Amount Outstanding of the Class B Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class B Notes;</p> <p>(d) in the case of each Class C Note, an amount equal to the lesser of the Available Principal Receipts to be applied in or towards redeeming the Class C Notes in accordance with the Pre Enforcement Principal Payments Priorities and the Principal Amount Outstanding of the Class C Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class C Notes;</p> <p>(e) in the case of each Class D Note, an amount equal to the lesser of the Available Principal Receipts to be applied in or towards redeeming the Class D Notes in accordance with the Pre Enforcement Principal Payments Priorities and the Principal Amount Outstanding of the Class D Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class D</p>

	<p>Notes; and</p> <p>(f) in the case of each Class Z Note, an amount equal to the lesser of the Available Principal Receipts to be applied in or towards redeeming the Class Z Notes in accordance with the Pre Enforcement Principal Payments Priorities and the Principal Amount Outstanding of the Class Z Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class Z Notes,</p> <p>in any such case rounded down to the nearest multiple of the Minimum Denomination;</p>
<b>"Note Purchase Agreement"</b>	means the note purchase agreement so named dated on or about the Closing Date between, <i>inter alios</i> , the Issuer, the Seller and the Lead Manager;
<b>"Note Rate"</b>	for each Interest Period means, in respect of each Class of Notes, the Reference Rate determined as at the related Interest Determination Date plus the Relevant Margin in respect of such Class;
<b>"Noteholders"</b>	means the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders and the Class Z Noteholders or, where the context otherwise requires, the holders of Notes of a particular Class or Classes (including the Class A1 Notes and the Class A2 Notes);
<b>"Notes"</b>	means the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class Z Notes and <b>"Note"</b> means any of them whether represented by a Definitive Note or the Global Note;
<b>"Notices Condition"</b>	means Condition 22 ( <i>Notices</i> );
<b>"Notices Details"</b>	means the provisions set out in Schedule 9 ( <i>Notice Details</i> ) of the Incorporated Terms Memorandum;
<b>"Obligations"</b>	means all of the obligations of the Issuer created by or arising under the Notes and the Transaction Documents;
<b>"Offer Conditions"</b>	means the terms and conditions applicable to a specified Mortgage Loan as set out in the relevant offer letter to the Borrower;
<b>"Official List"</b>	means the official list of the UK Listing Authority;
<b>"OFT"</b>	means the Office of Fair Trading in the United Kingdom;
<b>"Ombudsman"</b>	means the Financial Ombudsman Service;
<b>"One Month LIBOR"</b>	means the London Interbank Offered Rate for one-month Sterling deposits as displayed on Reuters Screen page LIBOR01;
<b>"Outstanding"</b>	see the term defined in Terms and Conditions of the Notes;
<b>"Overpayment"</b>	means a payment by a Borrower in an amount greater than the Monthly Payment then due on the Mortgage Loan;
<b>"Paying Agents"</b>	means the paying agents 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;
"Payment Holiday"	means the period of time that a Borrower under a Mortgage Loan refrains from making payments of interest and principal on his Mortgage Loan as expressly permitted by the terms of the Borrower's Mortgage Loan;
"Payments Priorities"	means the Pre Enforcement Payments Priorities and the Post Enforcement Payments Priorities;
"Perfection Event"	<p>(a) the Seller being required to perfect the Issuer's legal title to the Mortgage Loans (or procure that certain perfection acts referred to in the Mortgage Sale Agreement) by an order of a court of competent jurisdiction or by a regulatory authority of which the Seller is a member or any organisation whose members comprise (but are not necessarily limited to) mortgage lenders and with whose instructions it is customary for the Seller to comply;</p> <p>(b) the Trustee certifying that, in its opinion, the Charged Property or any material part thereof is/are in jeopardy and that the doing of certain perfection acts referred to in the Mortgage Sale Agreement is necessary in order materially to reduce such jeopardy;</p> <p>(c) the Seller calling for perfection by serving notice in writing to that effect on the Issuer and the Trustee;</p> <p>(d) the occurrence of an Insolvency Event of the Seller; or</p> <p>(e) it becoming necessary by law to take action to perfect legal title to the Mortgage Loans,</p> <p>(each of the events set out in paragraphs (a) to (e) inclusive being a "<b>Perfection Event</b>");</p>
"Pool Factor"	has the meaning given to it on page 148;
"Post Enforcement Payments Priorities"	has the meaning given to this term as set out in the section entitled " <i>Cashflows and Cash Management – Post Enforcement Payments Priorities</i> ";
"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;
"PRA"	has the meaning given to it on page 45;
"Pre Enforcement Payments Priorities"	means the Pre Enforcement Revenue Payments Priorities and the Pre Enforcement Principal Payments Priorities;
"Pre Enforcement Principal Payments Priorities"	has the meaning given to this term as set out in the section entitled " <i>Cashflows and Cash Management – Application of an amount equal to Available Principal Receipts prior to the service of an Enforcement Notice</i> ";
"Pre Enforcement Revenue Payments Priorities"	has the meaning given to this term as set out in the section entitled " <i>Cashflows and Cash Management – Application of Available Revenue Receipts prior to the service of an Enforcement Notice</i> ";

<b>"Principal Amount Outstanding"</b>	<p>means, on any day:</p> <p>(a) in respect of the Class A1 Notes on any date shall be their original principal amount of £600,000,000 less the aggregate amount of all principal payments in respect of such Class A1 Notes which have been made on or prior to that date since the Closing Date;</p> <p>(b) in respect of the Class A2 Notes, on any date shall be their original principal amount of £1,209,600,000 less the aggregate amount of all principal payments in respect of such Class A2 Notes which have been made on or prior to that date since the Closing Date;</p> <p>(c) in respect of the Class B Notes, on any date shall be their original principal amount of £127,600,000 less the aggregate amount of all principal payments in respect of such Class B Notes which have been made on or prior to that date since the Closing Date;</p> <p>(d) in respect of the Class C Notes, on any date shall be their original principal amount of £87,000,000 less the aggregate amount of all principal payments in respect of such Class C Notes which have been made on or prior to that date since the Closing Date;</p> <p>(e) in respect of the Class D Notes, on any date shall be their original principal amount of £75,400,000 less the aggregate amount of all principal payments in respect of such Class D Notes which have been made on or prior to that date since the Closing Date; and</p> <p>(f) in respect of the Class Z Notes, on any date shall be their original principal amount of £220,400,000 less the aggregate amount of all principal payments in respect of such Class Z Notes which have been made on or prior to that date since the Closing Date;</p>
<b>"Principal Deficiency Ledger"</b>	<p>means the Principal Deficiency Ledger comprising the Class A Principal Deficiency Sub-Ledger, the Class B Principal Deficiency Sub-Ledger, the Class C Principal Deficiency Sub-Ledger, the Class D Principal Deficiency Sub-Ledger and the Class Z Principal Deficiency Sub-Ledger maintained by the Cash Manager on behalf of the Issuer which records on it all deficiencies arising from Principal Losses allocated to the Notes and Available Principal Receipts used to pay a Further Revenue Shortfall or to credit the General Reserve Fund up to the Liquidity Amount;</p>
<b>"Principal Ledger"</b>	<p>means the ledger in the books of the Issuer so named and maintained by the Cash Manager on behalf of the Issuer;</p>
<b>"Principal Losses"</b>	<p>means any "principal" losses arising in relation to a Mortgage Loan in the Mortgage Portfolio which causes a shortfall in the amount available to pay principal on the Notes;</p>
<b>"Principal Paying Agent"</b>	<p>means Deutsche Bank AG, London Branch in its capacity as principal paying agent in accordance with the terms of the Agency Agreement;</p>
<b>"Principal Payments Trigger Event"</b>	<p>means the occurrence of any of the following events (which, for the avoidance of doubt, are not curable events):</p> <p>(a) there is a debit balance on the Class D Principal</p>

	<p>Deficiency Sub-Ledger on any Interest Payment Date; or</p> <p>(b) the delivery of an Enforcement Notice;</p>
<b>"Principal Receipts"</b>	<p>means payments received by the Issuer representing:</p> <p>(a) any payment in respect of principal received in respect of any Mortgage Loan (including Capitalised Arrears but excluding Accrued Interest and Arrears of Interest);</p> <p>(b) recoveries of principal from defaulting Borrowers on enforcement of such Mortgage Loan (including the proceeds of sale of the relevant property);</p> <p>(c) any payment pursuant to any insurance policy in respect of a Mortgaged Property in connection with a Mortgage Loan in the Mortgage Portfolio;</p> <p>(d) recoveries of principal on redemption (including partial redemption) of such Mortgage Loan;</p> <p>(e) proceeds of the repurchase of any Mortgage Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement; and</p> <p>(f) any other payments received which are not classified as Revenue Receipts;</p>
<b>"Product Period"</b>	<p>means the period, usually between one and five years, during which the rates in respect of the Fixed Rate Loans and the Initial Tracker Rate in respect of the Tracker Rate Loans is offered;</p>
<b>"Product Switch"</b>	<p>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 unless the maturity date would be extended to a date later than two years before the Final Maturity Date of the Notes; (c) imposed by statute; (d) of the rate of interest payable in respect of the Mortgage Loan where that rate is offered to the Borrowers of more than 10 per cent. by the Current Balance of the Mortgage Loans in the Mortgage Portfolio in any 3 month period; and (e) in the frequency with which the interest payable in respect of the Mortgage Loan is charged;</p>
<b>"Property"</b>	<p>means a freehold, heritable or leasehold property (or, in Scotland, a property held under a long lease) which is subject to a Mortgage;</p>
<b>"Prospectus"</b>	<p>means this prospectus of the Issuer for the purposes of the Prospectus Directive;</p>
<b>"Prospectus Directive"</b>	<p>means EU Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU, to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area);</p>
<b>"Provisions for Meetings of Noteholders"</b>	<p>has the meaning defined in the Terms and Conditions</p>
<b>"Quarterly Report"</b>	<p>has the meaning given to it on page 12;</p>
<b>"Rated Note" or "Rated Notes"</b>	<p>means the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes;</p>



"Rating"	means the rating of each class of Notes given by each of the Rating Agencies and " <b>Ratings</b> " means all of such Ratings;
"Rating Agencies"	means Fitch and Moody's and " <b>Rating Agency</b> " means either one of them;
"Ratings Confirmation"	means confirmation from any Rating Agency that any action, determination or exercise of discretion proposed to be taken by the Issuer and/or the Trustee will not have an adverse effect on the then current rating of the Notes;
"Realisation"	has the meaning given to it on page 149;
"Reasonable, Prudent Mortgage Lender"	means a reasonably prudent residential mortgage lender lending to borrowers in England, Wales and Scotland who generally satisfy the lending criteria of traditional sources of residential mortgage capital;
"Receiver"	means any receiver, manager, receiver or manager or administrative receiver appointed in respect of the Issuer by the Trustee in accordance with the Deed of Charge;
"Record Date"	has the meaning as defined in Condition 11.2 ( <i>Record Date</i> );
"Redemption Fee"	means the standard redemption fee charged to the Borrower by the Seller where the Borrower makes a repayment of the full outstanding principal of a Mortgage Loan;
"Reference Banks"	means HSBC Bank plc, Barclays Bank PLC, Lloyds Bank plc, The Royal Bank of Scotland plc and Santander UK plc and " <b>Reference Bank</b> " means any one of them;
"Reference Date"	has the meaning given to it on page 88;
"Reference Date Portfolio"	has the meaning given to it on page 88;
"Reference Rate"	means, on any Interest Determination Date, the floating rate determined by the Agent Bank by reference to the Screen Rate on such date or if, on such date, the Screen Rate is unavailable: <ul style="list-style-type: none"> <li>(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 each of the Reference Banks;</li> <li>(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</li> <li>(c) if, on such date, one only or none of the Reference Banks provide such a quotation, the Reserve Reference Rate;</li> </ul>
"Register"	means the register on which the names and addresses of the holders of the Notes and the particulars of the Notes shall be entered and kept by the Issuer at the Specified Office of the Registrar;

<b>"Registrar"</b>	means the party responsible for the registration of the Notes, which at the Closing Date is Deutsche Bank Luxembourg S.A. acting in such capacity pursuant to the Agency Agreement;
<b>"Regulated Market"</b>	means a regulated market for the purposes of the Markets in Financial Instruments Directive;
<b>"Regulation S" or "Reg S"</b>	means Regulation S under the Securities Act;
<b>"Regulated Mortgage Contract"</b>	means an agreement under FSMA where, 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 legal mortgage or first ranking standard security on land (other than timeshare accommodation) in the UK and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust or by a related person;
<b>"Related Security"</b>	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 any Mortgage Portfolio sold to the Issuer pursuant to the Mortgage Sale Agreement (and as described more fully in the Mortgage Sale Agreement);
<b>"Relevant Date"</b>	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;
<b>"Relevant Margin"</b>	means: (a) for the Class A1 Notes, 1.40 per cent, per annum; (b) for the Class A2 Notes, 2.15 per cent per annum; (c) for the Class B Notes, 3.15 per cent, per annum; (d) for the Class C Notes, 4.15 per cent, per annum; (e) for the Class D Notes, 5.65 per cent, per annum; and (f) for the Class Z Notes, 2.00 per cent, per annum;
<b>"Relevant Period"</b>	means, in relation to an Interest Determination Date, the length in months of the related Interest Period;
<b>"Relevant Screen"</b>	means a page of the Reuters service or of the Bloomberg service, or of any other medium for the 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;
<b>"Remaining Revenue Shortfall"</b>	has the meaning given to such term on page 17;
<b>"Repayment Loan"</b>	means a Mortgage Loan whereby 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;
<b>"Replacement Swap Premium"</b>	means any 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 a terminated Interest Rate Swap;
<b>"Representative Amount"</b>	means an amount that is representative for a single transaction in the relevant market at the relevant time;
<b>"Required Paying Agent"</b>	means any Paying Agent (which may be the Principal Paying Agent) which is the sole remaining Paying Agent with its Specified Office in any city where a stock exchange on which the Notes are listed requires there to be a Paying Agent;
<b>"Reserve Reference Rate"</b>	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 its absolute discretion 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 Reference Rate in effect for the Interest Period ending on the Business Day immediately preceding the relevant Interest Determination Date;
<b>"Reserved Matter"</b>	means any proposal to: (a) change any date fixed for payment of principal or interest in respect of the Notes of any class, to change the amount of principal or interest due on any date in respect of the Notes of any class or to alter the method of calculating the amount of any payment in respect of the Notes of any class; (b) (except in accordance with Condition 21 ( <i>Substitution of Issuer</i> ) and Clause 21 ( <i>Substitution</i> ) of the Trust Deed) effect the exchange, conversion or substitution of the Notes of any class 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 and/or for cash; (c) change the currency in which amounts due in respect of the Notes of any class are payable; (d) alter the priority of payment of interest or principal in respect of the Notes; (e) change the quorum required at any Meeting or the majority required to pass an Extraordinary Resolution; or (f) amend this definition;
<b>"Retained Principal Receipts Ledger"</b>	has the meaning given to it on page 116;

<b>"Revenue Ledger"</b>	means the ledger in the books of the Issuer so named and maintained by the Cash Manager on behalf of the Issuer;
<b>"Revenue Receipts"</b>	has the meaning given to such term on page 111;
<b>"Revenue Shortfall"</b>	has the meaning given to such term on page 16;
<b>"Revolving Period"</b>	means the period from (and including) the Closing Date to (but excluding) the Revolving Period End Date;
<b>"Revolving Period End Date"</b>	means the earlier to occur of (i) the Interest Payment Date falling in March 2021, and (ii) the occurrence of a Revolving Period Termination Event;
<b>"Revolving Period Termination Event"</b>	means the occurrence of any one of the following events (which, for the avoidance of doubt, are not curable events): <ul style="list-style-type: none"> <li>(a) an Event of Default;</li> <li>(b) an Insolvency Event of the Seller;</li> <li>(c) a debit entry is made on the Class Z Principal Deficiency Sub-Ledger, that is in excess of 1 per cent. of the aggregate Principal Amount Outstanding of all Notes that has not been cured on the next following Interest Payment Date;</li> <li>(d) the amount standing to the credit of the General Reserve Fund is less than the Liquidity Amount;</li> <li>(e) the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio on any date which are then in arrear for 3 months or more is greater than or equal to 5 per cent. of the aggregate Current Balance of all Mortgage Loans in the Mortgage Portfolio; and</li> <li>(f) the amount standing to the credit of the Retained Principal Receipts Ledger on such date exceeds 5 per cent. of the aggregate of the Current Balance of all Mortgage Loans in the Mortgage Portfolio on such date.</li> </ul>
<b>"Rounded Arithmetic Mean"</b>	means the arithmetic mean (rounded, if necessary, to the nearest 0.0001 per cent.);
<b>"Scottish Borrower"</b>	has the meaning given to it on page 80;
<b>"Scottish Declaration of Trust"</b>	means a declaration of trust governed by Scots law and entered into between the Seller and the Issuer pursuant to the Mortgage Sale Agreement;
<b>"Scottish Loan"</b>	means a Mortgage Loan secured by a Scottish Mortgage;
<b>"Scottish Mortgage"</b>	means a Mortgage over a property located in Scotland;
<b>"Scottish Sub-Security"</b>	means any Standard Security or assignation in security granted by the Issuer in favour of the Trustee pursuant to the Deed of Charge;
<b>"Scottish Transfer"</b>	means each Sasine Transfer and each SLR Transfer;
<b>"Scottish Trust Security"</b>	means each assignation in security granted by the Issuer to the Trustee pursuant to the Deed of Charge substantially in the form set out in the Deed of Charge;

<b>"Screen"</b>	means, in relation to Sterling, Reuters Screen LIBOR01; or (a) such other page as may replace Reuters Screen 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;
<b>"Screen Rate"</b>	means the arithmetic mean of offered quotations for one-month Sterling deposits (other than in respect of the first Interest Period, which shall be determined by reference to a linear interpolation of one-month and two-month Sterling deposits), each in the London inter-bank market displayed on the Reuters Screen LIBOR01 (or such other page as may replace that page on that service) or, if that service ceases to display the information, such other screen service as may be determined by the Issuer, with the approval of the Trustee (rounded upwards, if necessary, to five decimal places);
<b>"Secured Amounts"</b>	means any and all moneys and Liabilities which from time to time are or may become due, owing or payable by the Issuer to each, some or any of the Secured Creditors under the Notes or the Transaction Documents;
<b>"Secured Creditors"</b>	means the Trustee (in its own capacity and as trustee on behalf of the following creditors of the Issuer), the Corporate Services Provider, the Account Bank, the Servicer, the Cash Manager, the Seller, the Noteholders, any receiver appointed by the Trustee, the Agent Bank, the Paying Agents, the Registrar, the Interest Rate Swap Provider and the Subordinated Loan Provider;
<b>"Securities Act"</b>	means the United States Securities Act of 1933, as amended;
<b>"Security"</b>	means the security granted by the Issuer to the Trustee under and pursuant to the Deed of Charge in favour of the Secured Creditors;
<b>"Seller"</b>	means Bank of Scotland acting in its capacity as the seller of the Mortgage Loans and their Related Security to the Issuer pursuant to the Mortgage Sale Agreement;
<b>"Seller Asset Warranties"</b>	means the representations and warranties in respect of the Mortgage Loans as set out in the Incorporated Terms Memorandum and given by the Seller;
<b>"Seller Security Power of Attorney"</b>	means the power of attorney executed by the Seller substantially in the form scheduled to the Mortgage Sale Agreement;
<b>"Senior Expenses"</b>	means senior expenses of the Issuer which rank in priority to the Class A Notes in the Payments Priorities;
<b>"Sequential Order"</b>	means the following order: (a) in respect of payments to be made to the Class A Notes themselves: firstly, to the Class A1 Notes and, secondly, to the Class A2 Notes; (b) in respect of payments to be made to the Class A Notes, Class B Notes, Class C Notes, Class D Notes and Class Z Notes: firstly, to the Class A Notes, secondly, to the

	Class B Notes, thirdly, to the Class C Notes, fourthly, to the Class D Notes and, fifthly, to the Class Z Notes;
<b>"Servicer"</b>	means Bank of Scotland or such other person as may from time to time be appointed as servicer of the relevant Mortgage Loans in the Mortgage Portfolio pursuant to the Servicing Agreement;
<b>"Servicer Termination Event"</b>	<p>means any of the following events:</p> <p>(a) default is made by the Servicer in the payment on the due date of any payment due and payable by it under the Servicing Agreement and such default continues unremedied for a period of five Business Days after the earlier of the Servicer becoming aware of such default and receipt by the Servicer of written notice from the Issuer, the Seller and/or the Trustee requiring the same to be remedied;</p> <p>(b) default is made by the Servicer in the performance or observance of any of its other covenants and obligations under the Servicing Agreement, which in the opinion of the Trustee is or may be materially prejudicial to the interests of the Noteholders of any Class (which determinations shall be conclusive and binding on all other Secured Creditors), and such default continues unremedied for a period of 20 Business Days after the earlier of the Servicer becoming aware of such default and the receipt of written notice from the Issuer, the Seller and/or the Trustee requiring such default to be remedied, provided however that where the relevant default occurs as a result of a default by any person to whom the Servicer has sub-contracted or delegated part of its obligations hereunder, such default shall not constitute a Servicer Termination Event if, within such period of ten Business Days of receipt of notice of such default from the Issuer and/or the Trustee, the Servicer terminates the relevant sub-contracting or delegation arrangements and takes such steps as the Trustee may in its absolute discretion specify to remedy such default or to indemnify the Issuer and the Trustee to their satisfaction against the consequences of such default;</p> <p>(c) the occurrence of an Insolvency Event in relation to the Servicer;</p> <p>(d) the Issuer is of the opinion, after due consideration and acting reasonably, that the appointment of the Servicer should be terminated;</p> <p>(e) the Servicer (or any sub-contractor or delegate of the Servicer appointed by the Servicer to perform the relevant Services) does not have any FSMA authorisation which it is required to have in order to enable it to perform the Services; or</p> <p>(f) the Issuer is carrying on a regulated activity in the United Kingdom in breach of section 19 of FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised;</p>
<b>"Servicing Agreement"</b>	means the agreement so named dated on or about the Closing Date between the Issuer, the Cash Manager, the Seller and the Trustee;

"Share Trust Deed"	means the declaration of trust dated 3 March 2016 pursuant to which the Share Trustee holds the beneficial interest in the share of Holdings on trust for discretionary purposes;
"Share Trustee"	means SFM Corporate Services Limited (registered number 3920255), a company incorporated under the laws of England and Wales, whose principal office is at 35 Great St. Helen's, London EC3A 6AP;
"Solvency II Regulation"	has the meaning given to it on page 139;
"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 ( <i>Changes in Specified Offices</i> ) 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 standard documentation, a list of which is set out in the Mortgage Sale Agreement, or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender;
"Standard Security" or "standard security"	"Standard Security" or "standard security" means a standard security as defined in Part II of the Conveyancing and Feudal Reform (Scotland) Act 1970;
"Stock Exchange"	means the London Stock Exchange plc;
"Subordinated Loan Agreement"	means the subordinated loan agreement so named dated on or about the Closing Date between the Issuer, the Subordinated Loan Provider and the Trustee;
"Subordinated Loan Provider"	means Bank of Scotland in its capacity as subordinated loan provider pursuant to the Subordinated Loan Agreement;
"Substituted Obligor"	means a single purpose company incorporated in any jurisdiction that meets the SPV Criteria;
"Surplus Retained Principal Receipts"	means on any date (the " <b>determination date</b> "), the amounts standing to the credit of the Retained Principal Receipts Ledger on such determination date which: (a) have been retained in the Retained Principal Receipts Ledger for longer than 18 months; or (b) exceed 5 per cent. of the aggregate Current Balance of all Mortgage Loans in the Mortgage Portfolio at the end of the Calculation Period prior to such determination date;
"Swap Collateral"	means any cash or securities transferred by the Interest Rate Swap Provider to the Issuer on any date pursuant to the terms of the Credit Support Annex to the Interest Rate Swap Agreement (excluding any Swap Collateral Negative Interest);
"Swap Collateral Account"	means the account in the name of the Issuer held at the Account

	Bank or such additional or replacement bank account at the Account Bank and/or other banks as may for the time being be in place with the prior consent of the Trustee and designated as such;
<b>"Swap Collateral Negative Interest"</b>	means the amount of any interest which is due from the Interest Rate Swap Provider to the Issuer in respect of any negative rate of interest due in respect of Swap Collateral in the form of cash;
<b>"Swap Collateral Return Payment"</b>	means any amount of cash or securities required to be transferred to the Interest Rate Swap Provider in accordance with the applicable Credit Support Annex;
<b>"Swap Early Termination Event"</b>	has the meaning given to it on page 108;
<b>"Tax"</b>	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 any Tax Authority in the Issuer Jurisdiction and <b>"Taxes"</b> , <b>"taxation"</b> , <b>"taxable"</b> and comparable expressions shall be construed accordingly;
<b>"Tax Authority"</b>	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, HM Revenue and Customs);
<b>"Tax Credits"</b>	means the cash benefit determined under the Interest Rate Swap Agreement obtained by the Issuer in respect of any credit, allowance, set-off or repayment received by the Issuer in respect of tax from the tax authorities of any jurisdiction relating to any deduction or withholding giving rise to an increased payment by the Interest Rate Swap Provider to the Issuer;
<b>"Tax Deduction"</b>	means any deduction or withholding on account of Tax;
<b>"Third Party Amounts"</b>	means: <ul style="list-style-type: none"> <li>(a) payments of certain insurance premia where such cash amounts have been paid by the relevant Borrower and form part of Revenue Receipts;</li> <li>(b) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup such amount itself from its customer's account; and</li> <li>(c) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service to that Borrower or the Seller;</li> </ul>
<b>"TPIRs"</b>	has the meaning given to it on page 46;
<b>"Tracker Rate Loans"</b>	means loans which are subject to a variable interest rate which will be set at a fixed margin above, below or the same as the base rate set by the Bank of England or a variable margin above, below or the same as the base rate set by the Bank of England;
<b>"Transaction Account"</b>	means the account in the name of the Issuer held at the Account Bank, or such additional or replacement bank account at the



	Account Bank and/or other banks as may for the time being be in place with the prior consent of the Trustee and designated as such;
<b>"Transaction Documents"</b>	means the Agency Agreement, Account Bank Agreement, Cash Management Agreement, Interest Rate Swap Agreement, Corporate Services Agreement, Deed of Charge (and any documents entered into pursuant to the Deed of Charge, including, without limitation, each Scottish Trust Security and each Scottish Sub-Security), Incorporated Terms Memorandum, Mortgage Sale Agreement, Note Purchase Agreement, Servicing Agreement, each Scottish Declaration of Trust, the Share Trust Deed, Subordinated Loan Agreement, the Notes, the Trust Deed (including the Conditions), the Collection Account Declaration of Trust and such other related documents which are referred to in the terms of the above documents or which relate to the issue of the Notes or are designated as a <b>"Transaction Document"</b> ;
<b>"Transaction Party"</b>	means any person who is a party to a Transaction Document and <b>"Transaction Parties"</b> means some or all of them;
<b>"Transfer Date"</b>	means, (i) with respect to Mortgage Loans in the Initial Portfolio, the Closing Date, (ii) with respect to the Mortgage Loans in any New Portfolio, the relevant New Portfolio Sale Date on which such Mortgage Loans are sold to the Issuer and (iii) any other date on which the Seller repurchases the Mortgage Loans, in each case pursuant to the Mortgage Sale Agreement;
<b>"Trust Deed"</b>	means the deed so named (including the Conditions and the Notes) dated on or about the Closing Date between the Issuer and the Trustee constituting the Notes and any document expressed to be supplemental to the Trust Deed;
<b>"Trust Documents"</b>	means the Trust Deed and the Deed of Charge and (unless the context requires otherwise) includes any deed or other document executed in accordance with the provisions of the Trust Deed or (as applicable) the Deed of Charge and expressed to be supplemental to the Trust Deed or the Deed of Charge (as applicable);
<b>"Trustee"</b>	means Deutsche Bank AG, London Branch, acting through its principal office at Winchester House, 1 Great Winchester Street, London EC2N 2DB and acting in its capacity as Trustee under the terms of the Trust Documents, or such other person as may from time to time be appointed as Trustee (or co-trustee) pursuant to the Trust Documents;
<b>"U.S. Persons"</b>	means U.S. Persons as defined in Regulation S under the Securities Act;
<b>"UCP"</b>	has the meaning given to it on page 53;
<b>"UK Listing Authority" or "UKLA"</b>	means the Financial Conduct Authority as referred to as the United Kingdom Listing Authority when it is exercising its powers under Part 6 of FSMA;
<b>"Underpayment"</b>	means a payment by a Borrower in an amount less than the Monthly Payment then due on the Mortgage Loan, being a sum not exceeding the aggregate of any previous Overpayment;
<b>"United Kingdom" or "UK"</b>	means the United Kingdom of Great Britain and Northern Ireland;

<b>"UTCCR"</b>	means the Unfair Terms in Consumer Contracts Regulations 1999, as amended;
<b>"Valuation Report"</b>	means the valuation report or reports for mortgage purposes, in the form of one of the pro forma contained in the Standard Documentation, obtained by the Seller from a valuer in respect of each Mortgaged Property or a valuation report in respect of a valuation made using a methodology which would be acceptable to a Reasonable, Prudent Mortgage Lender and which has been approved by the relevant officers of the Seller, in accordance with the Seller's Lending Criteria, and which includes a confirmation of the anticipated rental income from the property;
<b>"VAT"</b>	means value added tax imposed by VATA and legislation and regulations supplemental thereto and includes any other tax of a similar fiscal nature whether imposed in the United Kingdom (instead of or in addition to value added tax) or elsewhere from time to time;
<b>"VATA"</b>	means the Value Added Tax Act 1994;
<b>"Volcker Rule"</b>	has the meaning given to it on page 62;
<b>"Written Resolution"</b>	means a resolution in writing signed by or on behalf of not less than 90 per cent. of the holders of Notes of the relevant Class for the time being outstanding who for the time being are entitled to receive notice of a Meeting in accordance with the Provisions for 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 the Notes.

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